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LIQUID HOLDINGS GROUP, INC.

FORM 10-Q
(Quarterly Report)

Filed 11/14/14 for the Period Ending 09/30/14

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CIK	0001562594
Symbol	LIQDQ
SIC Code	7372 - Services-Prepackaged Software
Industry	Software
Sector	Technology
Fiscal Year	12/31

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from to

Commission File Number 001-36024

LIQUID HOLDINGS GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**46-3252142** (I.R.S. Employer Identification No.)
800 Third Avenue, 38 th Floor **New York, NY** (Address of principal executive offices)	**10022** (Zip Code)

(212) 293-1836
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) 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 November 11, 2014, there were 60,332,375 shares of the Registrant's common stock outstanding.

LIQUID HOLDINGS GROUP, INC. AND SUBSIDIARIES

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LIQUID HOLDINGS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 30,054,109	$ 8,473,847
Notes receivable from related parties	244,930	-
Accounts receivable, net of allowance for doubtful accounts of $39,137 and $5,814	1,492,630	425,196
Prepaid expenses and other current assets	289,233	388,612
Total current assets	32,080,902	9,287,655
Property and equipment, net	1,322,738	867,758
Other assets:		
Notes receivable from related parties	414,015	-
Due from related parties	80,000	659,030
Deposits	631,595	540,653
Other intangible assets, net of amortization of $15,139,060 and $9,976,790	6,326,583	11,505,853
Goodwill	13,182,256	13,182,936
Total other assets	20,634,449	25,888,472
TOTAL ASSETS	$ 54,038,089	$ 36,043,885
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,412,319	$ 3,503,590
Deferred income	-	4,350
Total current liabilities	1,412,319	3,507,940
Long-term liabilities:		
Deferred rent	267,344	20,536
Total liabilities	1,679,663	3,528,476
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $0.0001 par value, 10,000,000 shares authorized; none issued or outstanding	-	-
Common stock, $0.0001 par value, 200,000,000 shares authorized; 60,275,619 and 24,486,388 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively)	6,027	2,448
Additional paid-in capital	160,741,011	118,510,671
Accumulated deficit	(107,372,985)	(84,857,911)
Treasury stock, at cost, 121,674 shares at September 30, 2014 and December 31, 2013	(1,029,078)	(1,029,078)
Accumulated other comprehensive income (loss)	13,451	(110,721)
Total stockholders’ equity	52,358,426	32,515,409
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 54,038,089	$ 36,043,885

See accompanying notes to condensed consolidated financial statements.

LIQUID HOLDINGS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2014	**September 30, 2013**	**September 30, 2014**	**September 30, 2013**
Revenues:				
Software services	$ 1,485,007	$ 732,388	$ 4,308,876	$ 2,016,159
Brokerage activities	-	-	-	1,872,647
	1,485,007	732,388	4,308,876	3,888,806
Cost of revenues (exclusive of items shown separately below):				
Software services	729,620	398,121	1,932,083	993,697
Brokerage activities	-	-	-	1,248,192
	729,620	398,121	1,932,083	2,241,889
Gross profit	755,387	334,267	2,376,793	1,646,917
Operating expenses:				
Compensation	3,427,804	6,065,772	9,353,828	14,928,963
Consulting fees	288,607	221,333	959,816	12,182,417
Depreciation and amortization	1,804,994	1,823,084	5,375,979	5,472,329
Professional fees	768,754	1,259,884	2,024,456	2,262,022
Rent	430,049	319,390	1,296,266	926,711
Computer related and software development	1,384,270	608,175	3,822,565	1,639,335
Other	574,404	497,240	1,914,678	1,621,821
Total operating expenses	8,678,882	10,794,878	24,747,588	39,033,598
Loss from operations	(7,923,495)	(10,460,611)	(22,370,795)	(37,386,681)
Non-operating income (expense):				
Unrealized gain on contingent consideration payable	-	44,129	-	-
Loss on settlement of contingent consideration payable	-	(649,688)	-	(649,688)
Interest and other, net	(144,520)	126,909	(144,279)	136,398
Total non-operating income (expense)	(144,520)	(478,650)	(144,279)	(513,290)
Loss before income taxes	(8,068,015)	(10,939,261)	(22,515,074)	(37,899,971)
Income tax expense	-	1,309,903	-	1,125,697
Net loss	(8,068,015)	(12,249,164)	(22,515,074)	(39,025,668)
Other comprehensive income (loss):				
Foreign currency translation	51,383	(88,312)	124,172	(71,394)
Total comprehensive loss	$ (8,016,632)	$ (12,337,476)	$ (22,390,902)	$ (39,097,062)
Basic and diluted loss per share	$ (0.13)	$ (0.52)	$ (0.53)	$ (1.82)
Weighted average number of common shares outstanding during the period - basic and diluted	60,087,464	23,533,756	42,540,998	21,470,866
Supplemental Information to the Condensed Consolidated Statements of Operations and Comprehensive Loss				
Software services revenues from related parties	$ 916,057	$ 604,682	$ 2,841,916	$ 1,690,735
Software services cost of revenues to related parties	$ 18,593	$ 87,268	$ 18,593	$ 248,808
Share-based compensation included in compensation	$ 1,059,878	$ 1,902,154	$ 2,761,167	$ 7,430,087
Share-based compensation included in consulting fees	$ -	$ -	$ -	$ 11,649,693

See accompanying notes to condensed consolidated financial statements.

LIQUID HOLDINGS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Treasury	
	Shares	Amount	Capital	Deficit	Income (Loss)	Stock	Total
Balance at December 31, 2013	24,486,388	$ 2,448	$ 118,510,671	$ (84,857,911)	$ (110,721)	$ (1,029,078)	$ 32,515,409
Issuance of common shares upon public offering, net of underwriting discount	34,945,000	3,494	40,620,068	-	-	-	40,623,562
Direct costs of public offering	-	-	(1,150,810)	-	-	-	(1,150,810)
Issuance of common shares upon vesting of restricted stock units	844,231	84	(84)	-	-	-	-
Share-based compensation	-	-	2,761,167	-	-	-	2,761,167
Foreign currency translation	-	-	-	-	124,172	-	124,172
Net loss	-	-	-	(22,515,074)	-	-	(22,515,074)
Balance at September 30, 2014 (Unaudited)	60,275,619	$ 6,027	$ 160,741,011	$ (107,372,985)	$ 13,451	$ (1,029,078)	$ 52,358,426

See accompanying notes to condensed consolidated financial statements.

LIQUID HOLDINGS GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	September 30, 2014	**September 30, 2013**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (22,515,074)	$ (39,025,668)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on settlement of contingent consideration payable	-	649,688
Depreciation and amortization expense	5,375,979	5,472,329
Share-based compensation	2,761,167	7,430,087
Share-based payments for consulting services	-	11,649,693
Other	360,144	47,740
Deferred taxes	-	1,125,697
Changes in operating assets and liabilities:		
Accounts receivable	(1,163,090)	(184,664)
Deferred offering costs	-	3,476,427
Prepaid expense and other current assets	99,379	138,145
Due from related parties	(79,915)	(300,000)
Deposits	(90,942)	(129,724)
Accounts payable and accrued expenses	(2,091,271)	264,478
Due to related parties	-	(17,943)
Other current liabilities	(4,350)	(366)
NET CASH USED IN OPERATING ACTIVITIES	(17,347,973)	(9,404,081)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(649,232)	(189,042)
Repayment of note from related party - QuantX Management, LLP	-	2,250,000
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(649,232)	2,060,958
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from public offering of common stock, net of underwriting discount	40,623,562	26,017,625
Direct costs of public offering	(1,150,810)	(8,729,737)
Proceeds from revolving promissory note	1,000,000	-
Repayment of revolving promissory note	(1,000,000)	-
Purchase of treasury stock	-	(1,029,078)
Proceeds from sales of common shares, net of offering costs	-	3,300,000
Proceeds from loans from related parties	-	750,000
Repayment of loans from related parties	-	(750,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	39,472,752	19,558,810
Effect of exchange rate changes on cash and cash equivalents	104,715	(58,750)
NET INCREASE IN CASH AND CASH EQUIVALENTS	21,580,262	12,156,937
CASH AND CASH EQUIVALENTS - Beginning of period	8,473,847	1,380,078
CASH AND CASH EQUIVALENTS - End of period	$ 30,054,109	$ 13,537,015
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 14,331	$ 3,611
Income taxes paid	$ -	$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Settlement of contingent consideration on Fundsolve acquisition	$ -	$ 2,210,688

See accompanying notes to condensed consolidated financial statements.

(1) Organization

Organization

Liquid Holdings Group, Inc. (the "Company") provides a next-generation proprietary cloud-based trading and portfolio management solution that seamlessly integrates order and execution management with real-time risk management, reporting, shadow accounting and managed services in a single platform for the financial services community. The Company was originally formed on January 17, 2012 as a Delaware limited liability company under the name Liquid Holdings Group, LLC with the intention of being the holding company to acquire and own a group of companies and ultimately pursue an initial public offering ("IPO") in the United States. The Company commenced operations on April 24, 2012, the date the founders signed the Company's operating agreement and agreed to contribute certain entities owned or controlled by them to the Company. On July 24, 2013, the Company reorganized as a Delaware corporation and changed its name to Liquid Holdings Group, Inc. On July 26, 2013, the Company's common stock began trading on the NASDAQ Global Market under the ticker symbol "LIQD."

On May 20, 2014, the Company completed a follow-on public offering in which 32,000,000 shares of its common stock were sold at a public offering price of $1.25 per share. On May 27, 2014, the underwriters for this offering purchased an additional 2,945,000 shares of the Company's common stock at $1.25 per share pursuant to a partial exercise of their over-allotment option. The Company received net proceeds from this offering of approximately $39.5 million after deducting underwriting discounts and commissions of approximately $3.1 million and offering related expenses of approximately $1.1 million.

The Company's consolidated subsidiaries are:

- Liquid Futures, LLC ("Futures") – until February 12, 2014
- Liquid Trading Institutional LLP ("Institutional")
- Liquid Partners, LLC – formerly known as Centurion Capital Group, LLC and Centurion Trading Partners, LLC ("Partners")
- Fundsolve Ltd. ("Fundsolve")
- LHG Technology Services Ltd.
- Liquid Prime Holdings, LLC ("LPH") – under which Liquid Prime Services, Inc. ("LPS") is consolidated
- Liquid Technology Services, LLC ("LTS") – formerly known as Green Mountain Analytics, LLC ("GMA")
- LTI, LLC ("LTI")

On February 6, 2014, LPS and Futures entered into an Agreement and Plan of Merger to consolidate LPS and Futures into a single entity, with LPS remaining as the surviving entity. Regulatory approval was granted and the merger was effective February 12, 2014. The Company is exploring alternatives for LPS that may include the sale or closure of this entity as it is no longer needed to carry out the Company's business plans.

The Company has taken steps to place both Fundsolve and Institutional into liquidation as they are no longer needed to carry out the Company's business. Effective October 24, 2014, the Financial Conduct Authority ("FCA") granted Institutional's request to withdraw its status as an authorized entity with the FCA.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP"). All material intercompany accounts and transactions have been eliminated in consolidation.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to Rule 10-01 of Regulation S-X. Management believes that the accompanying unaudited condensed consolidated financial statements include all normal and recurring adjustments considered necessary for the fair presentation of the results of the interim periods presented. Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for any subsequent period.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission ("SEC") on March 31, 2014 (the "2013 Form 10-K").

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets, liabilities, revenues and expenses. These significant estimates and assumptions include estimates of fair value of goodwill and intangibles with indefinite lives for purposes of impairment testing, estimates of useful lives of assets, estimates of impairment of long-lived assets, estimates of fair values of share-based payment arrangements and estimates of valuation allowances related to deferred tax assets. Due to the inherent uncertainty involved with estimates, actual results may differ.

Recently Issued Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* , which changes the definition of a discontinued operation to include only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The new guidance is effective for annual and interim periods beginning after December 15, 2014. The impact on the Company of adopting the new guidance will depend on the nature, terms and size of business disposals completed after the effective date.

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* , which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* , to reduce diversity in the timing and content of going concern disclosures. This ASU clarifies management's responsibility to evaluate and provide related disclosures if there are any conditions or events, as a whole, that raise substantial doubt about the entity's ability to continue as a going concern for one year after the date the financial statements are issued. The amendments will become effective for the Company's annual and interim reporting periods beginning January 1, 2017. The Company is evaluating the impact on its consolidated financial statements, however, the Company does not expect that the adoption of this standard will have a material impact on its consolidated financial statements.

(3) Fair Value Measurements

Fair Value Hierarchy

The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- **Level 1 Inputs:** Unadjusted quoted prices for identical assets or liabilities in active markets accessible to the Company at the measurement date.

- **Level 2 Inputs:** Other than quoted prices included in Level 1, inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

- **Level 3 Inputs:** Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Determination of Fair Value

The categorization of an asset or liability within the fair value hierarchy is based on the inputs described above and does not necessarily correspond to the Company's management's perceived risk of that asset or liability. Moreover, the methods used by management may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments and nonfinancial assets and liabilities could result in a different fair value measurement at the reporting date. Descriptions of the valuation methodologies, including the valuation techniques and the key input(s) used in the fair measurements for assets and liabilities on a recurring and nonrecurring basis are itemized below.

Intangible Assets

Intangible assets and long-lived assets held and used are measured at fair value in accordance with ASC Subtopic 360-10, *Property, Plant, and Equipment—Overall* , if a step 2 test is required. To estimate the fair value of long-lived assets held and used, the income, market, and cost approaches to value are considered. The selected approach(es) is (are) based on the specific attributes of the long-lived asset. Property, plant, and equipment is typically valued using a cost approach, while intangible assets are usually valued with an income approach. Although Level 1 and 2 inputs may be available for certain inputs to the valuation approach, reliance on Level 3 inputs is generally required and the fair value measurements are, therefore, considered Level 3 measurements. Unobservable inputs usually consist of discount rates, customer attrition rates, growth rates, royalty rates, contributory asset charges and profitability assumptions.

Goodwill

Goodwill is tested annually for impairment each July in accordance with ASC Topic 350 —*Intangibles-Goodwill and Other* . Step 1 entails a comparison of the fair value of the recoverable amount of each reporting unit to its carrying amount. An income approach is used to derive the fair value of the Company's reporting units. Under the income approach, fair value is determined based on the present value of estimated future cash flows, discounted at an appropriate risk-adjusted rate. Although Level 1 and 2 inputs may be available for certain inputs to the valuation approach, reliance on Level 3 inputs is generally required and the fair value measurements are, therefore, considered Level 3 measurements. Unobservable inputs include discount rates, growth rates and prospective financial information.

Recurring and Non-Recurring Fair Value Measurements

The Company had no recurring or non-recurring fair value measurements at September 30, 2014.

Transfers between Levels 1, 2 and 3

There were no transfers of financial assets or liabilities between Level 1 and Level 2, or between Level 2 and Level 3, during the nine months ended September 30, 2014 and year ended December 31, 2013.

Financial Assets and Financial Liabilities not Measured at Fair Value

The following table summarizes the carrying amount and estimated fair value of the Company's financial assets that are not measured at fair value either on a recurring or nonrecurring basis:

(Unaudited)		**Estimated Fair Value**			
September 30, 2014	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 30,054,109	$30,054,109	$ -	$ -	$30,054,109
Notes receivable from related parties	$ 658,945	$ -	$ -	$ 384,918	$ 384,918

		Estimated Fair Value			
December 31, 2013	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 8,473,847	$8,473,847	$ -	$ -	$8,473,847

The following is a description of the principal valuation methods used by the Company for those financial assets that are not measured at fair value either on a recurring or non-recurring basis:

Cash and Cash Equivalents

The carrying amount of cash and cash equivalents approximates fair value.

Note Receivable from Related Parties

In estimating the fair value of the notes receivable from related parties, the Company used a discounted cash flow model. Fair value is estimated by discounting the anticipated cash flows from the loans, assuming future prepayments and using market interest rates for new loans with comparable credit risk.

(4) Goodwill and Other Intangible Assets

Acquired Intangible Assets

		(Unaudited) September 30, 2014				**December 31, 2013**		
	Amortization period	**Gross Carrying Amount**	**Impairment Loss**	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Amortizable Intangible Assets:								
Software and trading platform	3 years	$ 19,374,098	$ -	$ (13,582,338)	$ 5,791,760	$ 19,374,098	$ (8,735,318)	$ 10,638,780
Customer relationships	3 years	1,261,000	-	(910,722)	350,278	1,261,000	(595,472)	665,528
Non-compete agreements	Life of agreement, 24 months	646,000	-	(646,000)	-	646,000	(646,000)	-
Total		$ 21,281,098	$ -	$ (15,139,060)	$ 6,142,038	$ 21,281,098	$ (9,976,790)	$ 11,304,308
Indefinite-Lived Intangible Assets:								
Broker licenses	N/A	$ 163,000	$ (17,000)	$ -	$ 146,000	$ 163,000	$ -	$ 163,000
Patents pending	N/A	36,545	-	-	36,545	36,545	-	36,545
Trade names	N/A	2,000	-	-	2,000	2,000	-	2,000
Total		$ 201,545	$ (17,000)	$ -	$ 184,545	$ 201,545	$ -	$ 201,545

Total amortization expense for intangible assets was $1,724,624 and $5,181,236 for the three and nine months ended September 30, 2014, respectively, and $1,808,618 and $5,406,604 for the three and nine months ended September 30, 2013, respectively. In connection with the Company's decision to liquidate Institutional, an impairment loss of $17,000 was recognized during the current quarter and is included in *Other operating expenses* in the accompanying condensed consolidated statements of operations and comprehensive loss.

As of September 30, 2014, the future estimated amortization expense related to amortizable intangible assets is expected to be as follows:

Remainder of 2014	$ 1,716,563
2015	4,425,475
	$ 6,142,038

Goodwill

The Company performs its annual goodwill impairment test each July 31, or whenever events or changes in circumstances exist that would more likely than not reduce the fair value of goodwill below its carrying value. The Company is currently in the process of performing this test for July 31, 2014 and based on certain factors, which includes the market capitalization of the Company's stock at July 31, 2014 and its capital raise in a public offering in May 2014, its preliminary assessment indicates that there is no impairment of goodwill as of July 31, 2014.

During the period from July 31, 2014 through the date of this filing, the Company's stock price continued to decline and it was determined that an interim evaluation of goodwill for impairment would be required. As such, the Company will also perform a goodwill impairment test during the fourth quarter of 2014 and when completed, a determination may be made that some or all of the carrying value of goodwill is impaired.

The changes in the carrying amount of goodwill are as follows:

	(Unaudited) Nine Months Ended September 30, 2014	Year Ended December 31, 2013
Balances - beginning of period:		
Gross goodwill	$ 14,647,588	$ 14,647,588
Accumlated impairment losses	(1,464,652)	(1,464,652)
Net goodwill - beginning of period	13,182,936	13,182,936
Goodwill acquired during the period	-	-
Impairment loss	(680)	-
Balances - end of period:		
Gross goodwill	14,647,588	14,647,588
Accumulated impairment losses	(1,465,332)	(1,464,652)
Net goodwill - end of period	$ 13,182,256	$ 13,182,936

In connection with the Company's decision to liquidate Institutional, an impairment loss of $680 was recognized during the current quarter and is included in *Other operating expenses* in the accompanying condensed consolidated statements of operations and comprehensive loss.

(5) Certain Relationships and Related Party Transactions

Amounts recognized from transactions with related parties are disclosed below. Receivables from related parties included in the accompanying condensed consolidated balance sheets are presented in the following table:

	(Unaudited) September 30, 2014	December 31, 2013
Accounts receivable from QuantX	$ 1,107,688	$ 349,530
Note receivable from QuantX	$ 236,665	$ -
Note receivable from Ferdinand Capital	112,962	-
Note receivable from stockholder	300,000	-
Interest receivable on above notes	9,318	-
Total notes receivable from related parties	$ 658,945	$ -
Due from QuantX	$ 80,000	$ 243,030
Due from Ferdinand Capital	-	116,000
Due from stockholder	-	300,000
Total due from related parties	$ 80,000	$ 659,030
Total Related Party Receivables	$ 1,846,633	$ 1,008,560

Accounts Receivable from QuantX

Accounts receivable from QuantX represents the balance due from QuantX Management, LLP (collectively with its affiliates, "QuantX") for the sale of our software services. QuantX is a related party as a result of certain past or present relationships with Brian Ferdinand (one of the founders of the Company) and Douglas J. Von Allmen (a holder of more than 5% of the Company's common stock). QuantX is the Company's largest customer and the receivable due from them accounted for 74% and 82% of our total net accounts receivable at September 30, 2014 and December 31, 2013, respectively. Subsequent to the balance sheet date, the Company received a total of $390,125 from, or on behalf of, QuantX towards their outstanding accounts receivable balance. Software services revenue earned from QuantX accounted for 61% and 65% of the Company's total software services revenue during the three- and nine-months ended September 30, 2014, respectively.

While QuantX represents a substantial percentage of our revenues and outstanding accounts receivable, they have historically settled their accounts with the Company in full. However, QuantX's business results are highly tied to the performance of their investment managers and the amount of capital under management. This can cause QuantX's revenues and cash flows, at times, to be quite variable. As a result, their payments to the Company can also be quite variable in amounts and timing. As QuantX's results are highly tied to their performance in the marketplace, there can be no assurance that future payments to the Company will be made on a timely basis or in full.

Note Receivable from QuantX

During 2012, the Company provided payments to GMA on behalf of QuantX in relation to the development of LiquidView ®, a software tool which forms a component of the Company's technology platform. In addition, Partners received payments from QuantX to facilitate the payment of operating expenses. LTI also advanced funds to QuantX for various expenses prior to being acquired by the Company. These payments net to a total of $243,030, and are included in *Due from related parties* in the accompanying condensed consolidated balance sheets at December 31, 2013.

On March 15, 2014, this receivable was converted to a three-year term note with QuantX in the principal amount of $243,030. The note bears interest at the rate of 4% per annum, with monthly payments of principal and interest totaling $7,175. The note is payable in full on March 15, 2017. QuantX made its first scheduled payment of $7,175 in May 2014 and have not made any subsequent payments on this note.

Note Receivable from Ferdinand Capital

LTI advanced $116,000 to Ferdinand Capital during 2011. This amount is included in *Due from related parties* in the accompanying condensed consolidated balance sheets at December 31, 2013. Ferdinand Capital is an entity owned by one of the founders of the Company.

On March 15, 2014, this receivable was converted to a one-year term note with Ferdinand Capital in the principal amount of $116,000. The note bore interest at the rate of 4% per annum, with monthly payments of principal and interest totaling $9,877 and was payable in full on March 15, 2015. On June 15, 2014, this note was amended and restated to a three-year term note that is payable in full on June 15, 2017. The note, at the same principal amount of $116,000 and interest rate per annum of 4%, has monthly payments of principal and interest totaling $3,425. The first payment, which was due on July 15, 2014, was paid along with $1,170 of interest that was accrued under the original terms of the note. Subsequent to the balance sheet date, an additional $4,000 was paid on this note.

Pursuant to an amended and restated consulting agreement between the Company and an entity controlled by Mr. Ferdinand, the Company has the right to offset the consulting payments as repayment on the Ferdinand Capital note (see Note 11).

Note Receivable from Stockholder

A security deposit for office space that was leased by one of the entities acquired by the Company was inadvertently refunded to a stockholder of the Company who was also a principal of the acquired entity. The security deposit should have been refunded to the Company and, as such, a receivable of $300,000 was recorded in *Due from related parties* in the accompanying condensed consolidated balance sheets at December 31, 2013.

On March 27, 2014, this receivable was converted to a five-year term note, effective April 1, 2014, with the stockholder in the principal amount of $300,000. The note bears interest at the rate of 3% per annum, with monthly payments of principal and interest totaling $5,390. The note is payable in full on April 1, 2019. As of the balance sheet date, no payments have been made on this note.

Due from QuantX

In accordance with a legal settlement (see *Legal Matters* section of Note 6), QuantX was required to pay $130,000 as their part of the settlement. At September 30, 2014, QuantX did not make its scheduled payments and, as such, the Company, being jointly and severally liable, made these scheduled payments totaling $80,000 on QuantX's behalf. This amount was recorded in *Due from related parties* in the accompanying condensed consolidated balance sheets at September 30, 2014 and was repaid by QuantX on October 1, 2014.

Revolving Promissory Notes

On February 26, 2014, the Company executed a Revolving Promissory Note with each of its two then-largest stockholders, Brian Ferdinand and Douglas J. Von Allmen (each, a "Note" and, collectively, the "Notes"). Under each Note, the Company was able to borrow, and the lender had committed to lend, up to a principal amount of $3,750,000 on a revolving basis ($7,500,000 in the aggregate under the Notes), with interest payable quarterly on any amounts borrowed at a rate of 4% per annum. Any amounts borrowed under the Notes were repayable at maturity on April 30, 2015 and were optionally repayable at any time without the payment of any premium or penalty. The Company was obligated to pay a commitment fee on any undrawn amounts at a rate per annum equal to 0.50%, payable quarterly. The Notes contained certain customary covenants, including covenants relating to the Company's ability to incur indebtedness and make restricted payments, and provided for certain customary events of default. The commitments under the Notes could be terminated by the Company at any time. On May 2, 2014, the Company borrowed $1,000,000 under the Note with Mr. Von Allmen for working capital and general corporate purposes. On May 20, 2014, the Company repaid the $1,000,000 it borrowed from Mr. Von Allmen along with $1,972 of interest. Also on May 20, 2014, the Company formally terminated the commitments under the Notes with Mr. Von Allmen and Mr. Ferdinand and paid them $4,017 and $4,263, respectively, of commitment fees in accordance with the terms of the Notes.

Personal Guaranty Agreement

On March 6, 2014, Mr. Von Allmen executed a Personal Guaranty Agreement (the "Personal Guaranty") with the Company whereby Mr. Von Allmen guaranteed the funding of loans pursuant to the $3,750,000 Note entered into between Brian Ferdinand and the Company (see above). If Mr. Ferdinand failed to pay any amount when due, Mr. Von Allmen agreed to promptly pay the unpaid amount to the Company based on the terms and conditions of the Note. As consideration for the Personal Guaranty, the Company agreed to pay Mr. Von Allmen a fee equal to 0.50% per annum on the guaranteed amount of $3,750,000. On May 20, 2014, the Company formally terminated the Personal Guaranty and paid Mr. Von Allmen $3,853 as consideration.

Consulting Agreement with Founder

On April 18, 2014, Brian Ferdinand tendered his resignation as Vice Chairman and a member of the Board of Directors of the Company as well as his position as Head of Corporate Strategy. Mr. Ferdinand's resignation was not due to any disagreement with the Company, the Board or the Company's management.

In connection with Mr. Ferdinand's resignation, the Company entered into a two-year consulting agreement (the "Consulting Agreement") with Ferdinand Trading, LLC, an entity controlled by Mr. Ferdinand. Pursuant to the Consulting Agreement, Mr. Ferdinand will be assisting with business development efforts; developing strategy for product development, marketing, partnerships and mergers and acquisitions; and providing support to the sales and marketing team, including client introduction. On October 16, 2014, Mr. Ferdinand and the Company agreed to an amendment and restatement of the Consulting Agreement (see Note 11). The Consulting Agreement provides for, among other things, an annual fee of $450,000, payable in quarterly increments, for such services. The Company has also agreed to reimburse Mr. Ferdinand for his health insurance premiums for up to eighteen months. The Company paid and expensed $112,500 and $187,500 during the three and nine months ended September 30, 2014, respectively, for the Consulting Agreement.

(6) Commitments and Contingencies

Legal Matters

The Company may periodically be involved in litigation and various legal matters, including proceedings relating to regulatory matters. Such matters are subject to many uncertainties and outcomes that are not predictable.

The Company had previously reported that it was a defendant in an action filed on July 23, 2013 in the Supreme Court of The State of New York by two individuals (the "OTC Parties") who were involved in the establishment and operation of the over-the-counter brokerage operations of LPS and Futures, which ceased operating on June 1, 2013. Also named as defendants were LPH and Brian Ferdinand, the Company's former Vice Chairman and Head of Corporate Strategy (together with the Company, the "Liquid Defendants"). On July 3, 2014, a motion by the Liquid Defendants to dismiss the complaint was granted and the action was dismissed, without prejudice.

The Company had previously reported that it received a letter from counsel for a former employee claiming that the Company and certain other parties, including related parties, were responsible for paying the former employee stock compensation in the amount of $500,000 in consideration for services provided to Partners (then known as Centurion Capital Group, LLC). This matter was settled for $380,000, effective July 23, 2014, with the Company agreeing to pay $150,000 as its part of the settlement and QuantX and D&L Partners, LP (an entity controlled by Douglas J. Von Allmen) agreeing to pay $130,000 and $100,000, respectively, as their part of the settlement in accordance with an agreed upon payment schedule. At September 30, 2014, QuantX did not make its scheduled payments and, as such, the Company, being jointly and severally liable, made these scheduled payments totaling $80,000 on QuantX's behalf. This amount was recorded as a receivable at September 30, 2014 and is in *Due from related parties* in the accompanying condensed consolidated balance sheets at September 30, 2014. On October 1, 2014, QuantX repaid the $80,000 to the Company.

The Company had previously reported that it was a defendant, along with Brian Ferdinand and QuantX (collectively, the "Liquid Defendants"), in an action filed on July 24, 2014 by Unqua Holdings, Inc. and its chairman/president Daniel Harley. On October 16, 2014, the Liquid Defendants filed a motion to dismiss the complaint against all of the defendants on a number of grounds. Unqua and Harley have not yet responded to the motion. The Company continues to believe that this lawsuit is without merit and that the Company has valid defenses against it. The Company intends to defend itself vigorously in this matter.

The Company is not currently subject to any other pending or, to its knowledge, threatened legal proceedings that it expects could have a material impact on its condensed consolidated financial statements.

Lease Commitments

The Company has entered into lease agreements with third parties for certain office space and equipment, which expire at various dates through December 2023. Rent expense totaled $430,049 and $1,296,266 for the three and nine months ended September 30, 2014, respectively, and $319,390 and $926,711 for the three and nine months ended September 30, 2013, respectively. These amounts are recorded as *Rent* in the accompanying condensed consolidated statements of operations and comprehensive loss.

The Company recognizes rent expense for escalation clauses, rent holidays, leasehold improvement incentives and other concessions using the straight-line method over the minimum lease term.

At September 30, 2014, minimum future rental commitments under non-cancellable operating leases are as follows:

Remainder of 2014	$ 352,340
2015	1,434,738
2016	1,472,552
2017	1,512,622
2018	1,552,887
Thereafter	6,114,596
Total	$ 12,439,735

On August 12, 2013, the Company, entered into a lease agreement (the “Lease”), effective December 6, 2013, for approximately 13,200 rentable square feet of office space located in New York. The Company is using a portion of the leased premises as its new corporate headquarters (the “HQ Space”), replacing the Company’s previous headquarters in the same building, and the remainder (the “BD Space”) as offices for LPS, the Company’s broker dealer subsidiary. The initial base rent under the Lease is $85,364 per month, increasing at 3% per annum. In addition to the base rent, the Company is responsible for certain costs and charges identified in the Lease, including certain utility expenses, real estate taxes, insurance and operating costs. The term of the Lease for the HQ Space and the BD Space will end ten and six years after the effective date of the Lease, respectively.

On October 1, 2013, the Company entered into a four-month sublease agreement (the “Sublease”) at a monthly rate of $23,247 for approximately 7,200 square feet of office space in Hoboken, New Jersey to be used for certain back-office operations. The Sublease included a transfer to the Company of the existing equipment located in the space and an agreement to allow the sublessor to use a portion of the space not being used by the Company for up to nine months. The Sublease was entered into with an entity that the Company’s Chief Executive Officer and General Counsel have an interest in, and they are members of that entity’s board of directors. In March 2014, the Company entered into a new, five-year lease (the “Hoboken Lease”) for the same space with an effective commencement date of February 1, 2014. The initial base rent under the Hoboken Lease is $23,550 per month increasing to $24,153 per month on August 1, 2016. In addition to the base rent, the Company is responsible for certain costs and charges identified in the Hoboken Lease, including certain utility expenses, real estate taxes, insurance and operating costs. As long as the Company had no instances of default under the terms of the Hoboken Lease, the lease provided for base rent to be waived for the period from February 1, 2014 to June 30, 2014. There were no instances of default through June 30, 2014 and, as such, the base rent for this period was waived.

(7) Share-Based Compensation

On April 5, 2013, the Company’s Board of Directors approved the 2012 Amended and Restated Stock Incentive Plan (“2012 Amended Incentive Plan”). Subject to adjustment for certain dilutive or related events, the maximum number of shares that may be issued under this amended plan shall not exceed the number of shares equal to 15% of the total number of common shares of the Company outstanding as of April 5, 2013.

The Company currently intends to use authorized and unissued shares to satisfy share award exercises.

At September 30, 2014, there were 529,254 additional shares available for the Company to grant under the 2012 Amended Incentive Plan. On November 13, 2014, NQSOs totaling 305,000 were granted under the 2012 Amended Incentive Plan and 1,000,000 NQSOs were granted on terms substantially similar to those of the 2012 Amended Incentive Plan (see Note 11).

Restricted Stock Units

The Company recognizes compensation expense on restricted stock units ("RSUs") based on the grant date fair value per share over the applicable vesting period. The Company determines the fair value of RSUs granted based on the closing market price of the shares underlying the awards on the grant date. Prior to the Company's IPO, fair value was determined with consideration given to valuation analyses performed by an unrelated third party valuation specialist retrospectively, utilizing a market approach based on third party purchases of the Company's shares.

The following table summarizes the activity of non-vested RSUs granted under the 2012 Amended Incentive Plan:

	(Unaudited)			
	Nine Months Ended September 30, 2014		Year Ended December 31, 2013	
Non-vested shares	**Shares**	**Weighted Average Grant Date Fair Value**	**Shares**	**Weighted Average Grant Date Fair Value**
Balance at beginning of period	1,231,754	$ 7.77	760,033	$ 7.54
Granted	858,857	1.16	1,077,560	7.82
Vested	(703,495)	7.46	(605,839)	7.57
Cancelled / Forfeited	(269,348)	7.53	-	-
Balance at end of period	1,117,768	$ 2.95	1,231,754	$ 7.77

At September 30, 2014, there was $2,546,735 of total unrecognized compensation costs related to non-vested RSUs granted under the 2012 Amended Incentive Plan. This cost is expected to be recognized during 2014 through 2017. The total fair value of shares vested during the three and nine months ended September 30, 2014 was $1,718,417 and $5,244,671, respectively.

Non-Qualified Stock Options

The Company recognizes compensation expense on non-qualified stock options ("NQSOs") based on the grant date fair value per share over the applicable vesting period. The Company determines the fair value of NQSOs granted using the Black-Scholes valuation model measured at the grant date.

The Black-Scholes fair value of each NQSO grant was calculated using the following assumptions:

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	(Unaudited)	
	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
Dividend yield	0%	0%
Expected volatility	86%	50%
Risk-free interest rate	1.96%	1.70%
Expected term (years)	6.0	6.0

The following table summarizes the activity of NQSOs granted under the 2012 Amended Incentive Plan:

	(Unaudited) Nine Months Ended September 30, 2014		Year Ended December 31, 2013	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance at beginning of period	420,505	$ 9.00	-	$ -
Granted	30,000	4.64	420,505	9.00
Exercised	-	-	-	-
Forfeited	(70,096)	9.00	-	-
Balance at end of period	380,409	$ 8.66	420,505	$ 9.00
Exercisable at end of period	223,063	$ 9.00	12,798	$ 9.00
Remaining weighted average contractual life of exercisable options (years)		3.4		9.6
Aggregate intrinsic value		$ -		$ -

At September 30, 2014, there was $302,450 of total unrecognized compensation costs related to NQSOs granted under the 2012 Amended Incentive Plan. This cost is expected to be recognized during 2014 through 2016. The total fair value of shares vested during the three and nine months ended September 30, 2014 was $263,213 and $624,698, respectively.

(8) Income Taxes

The Company is subject to federal, New York State, New York City and other state tax jurisdictions. The Company's initial corporate tax returns were filed for the year ended December 31, 2013.

As discussed in Note 1, on July 24, 2013 the Company reorganized as a Delaware corporation from a limited liability company in connection with its IPO. The change in tax status required the Company to revalue its deferred tax assets and liabilities at current corporate federal and state income tax rates. Prior to July 24, 2013, the Company, as a limited liability company, was treated as a partnership for federal and state income tax purposes. Accordingly, no provision had been made for Federal and state income taxes during this period, since all items of income or loss were required to be reported on the income tax returns of the members, who were responsible for any taxes thereon. The Company was, however, subject to the New York City Unincorporated Business Tax of 4%.

The difference between the statutory tax rate of 35% and the effective tax rate of 0% at September 30, 2014 is due to the establishment of a full valuation allowance against the Company's deferred tax assets.

As of September 30, 2014, the Company recorded deferred tax assets of approximately $12.7 million offset by a full valuation allowance of $12.7 million. This represents an increase in the valuation allowance of approximately $9.1 million for the nine months ended September 30, 2014.

The Company does not have any current income taxes payable or receivable and there have been no cash payments for income taxes.

Management believes there are no tax positions requiring recognition or disclosure under ASC Topic 740-10— *Accounting for Uncertainty in Income Taxes* .

(9) Computation of Loss per Share

Basic loss per share is computed by dividing net loss by the weighted average number of shares outstanding during the period. Diluted loss per share is computed using the same method as basic loss per share, however, the computation reflects the potential dilution that would occur if outstanding in-the-money share awards were exercised and converted into common shares.

	(Unaudited)			
	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net loss	$ (8,068,015)	$ (12,249,164)	$ (22,515,074)	$ (39,025,668)
Loss applicable to common shares	$ (8,068,015)	$ (12,249,164)	$ (22,515,074)	$ (39,025,668)
Weighted average common shares outstanding	60,087,464	23,533,756	42,540,998	21,470,866
Basic and diluted loss per common share	$ (0.13)	$ (0.52)	$ (0.53)	$ (1.82)

The calculation of diluted loss per share excludes the effect of all unvested RSUs and outstanding NQSOs because they were determined to be anti-dilutive and, therefore, diluted loss per share is the same as basic loss per share.

(10) Net Capital Requirements

Effective February 12, 2014, regulatory approval was granted for a merger between LPS and Futures, with LPS remaining as the surviving entity (see Note 1).

Institutional must maintain regulatory net capital of at least €50,000 in accordance with FCA regulations. LPS is required to maintain a net capital of at least $100,000. In the aggregate, the Company was required to maintain at least approximately $163,000 in net capital across all jurisdictions. Dividends or withdrawals of capital cannot be made if capital is needed to comply with regulatory minimum capital requirements.

Net capital balances and the amounts in excess of required net capital at September 30, 2014 and December 31, 2013 are as follows:

	(Unaudited) September 30, 2014		December 31, 2013	
	Net Capital	Excess Net Capital	Net Capital	Excess Net Capital
Futures	$ -	$ -	$ 84,771	$ 39,771
Institutional	$ 215,979	$ 152,554	$ 204,451	$ 135,621
LPS	$ 141,264	$ 41,264	$ 291,791	$ 191,791

(11) Subsequent Events

In connection with a settlement by Mr. Ferdinand of a litigated dispute with a financial institution, he requested that the Company release a portion of the shares covered by a lock-up agreement that he and certain entities controlled by him (collectively, the “Ferdinand Entities”) had delivered in favor of the Company (the “Lock-up Agreement”), a copy of which was filed as exhibit 99.2 to the Company’s Current Report on Form 8-K filed on April 22, 2014 (the “April 22 8-K”).

In consideration of the release by the Company of an aggregate of 1,271,000 shares of its Common Stock from the Lock-up Agreement (including 771,000 shares previously released), the Company and the Ferdinand Entities entered into an amendment of the Lock-up Agreement as of October 16, 2014 (the “Amendment”) to provide that the duration of the Lock-up Agreement will be extended by a period of three months with respect to one-half of the total shares held by Mr. Ferdinand and the Ferdinand Entities as of April 17, 2015 (the unamended expiration date of the Lock-up Agreement). As a result of the amendment and after giving effect to the release of the aforementioned 1,271,000 shares, the Lock-up Agreement will expire with respect to 2,230,435 shares on April 17, 2015 and with respect to an additional 2,230,436 shares on July 17, 2015. In addition to the extension of the initial lock-up period, the Amendment also provides, among other things, for selling restrictions on the sale of 375,000 shares released from the Lock-up Agreement; for Mr. Ferdinand to cause Ferdinand Capital LLC, an entity controlled by Mr. Ferdinand, to make an early repayment to the Company of an outstanding $116,000 note payable to the Company, which note payable was scheduled to mature in 2017 (the “Term Note”); and for a release from Mr. Ferdinand and the Ferdinand Entities of any claims that they might have against the Company arising out of the Lock-up Agreement.

In further consideration for the release, Mr. Ferdinand agreed to an amendment and restatement of the Consulting Agreement, dated as of April 21, 2014, between the Company and Ferdinand Trading, LLC (the "Amended & Restated Consulting Agreement"). (A copy of the Consulting Agreement was filed as exhibit 99.1 to the April 8-K). The Amended & Restated Consulting Agreement provides for, among other things, a right of set-off in connection with the repayment of the Term Note; quarterly payment of the fees due thereunder; and compliance by Mr. Ferdinand and the Ferdinand Entities with additional Company policies during the remaining term of the Amended & Restated Consulting Agreement.

The above description of the material terms of the Amended & Restated Consulting Agreement and the Amendment does not purport to be complete and is qualified in its entirety by reference to Exhibits 10.1 and 10.2, respectively.

Grant of NQSOs

On November 13, 2014, the Human Resources and Compensation Committee of the Company's Board of Directors approved the grant of 1,305,000 NQSOs to certain employees of the Company. Of this total award, 305,000 NQSOs will be granted under the 2012 Amended Incentive Plan. The remaining 1,000,000 NQSOs are being granted to Peter R. Kent in connection with his hiring as the Company's Chief Financial Officer. Mr. Kent's NQSOs will be granted on terms substantially similar to those of the 2012 Amended Incentive Plan. All of the NQSOs will vest equally over three years and will have an exercise price of $1.50 per share. The above description of the material terms of the grant of NQSOs to Mr. Kent does not purport to be complete and is qualified in its entirety by reference to Exhibit 10.4.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. Statements that are not historical facts, including statements about the Company's beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words "will," "may," "could," "would," "should," "believe," "expect," "anticipate," "plan," "estimate," "target," "project," "intend," "continue," "potential" and similar expressions. These statements include, among others, statements regarding our expected business outlook, anticipated financial and operating results, expected financing needs, our business strategy and means to implement the strategy, our business plans and objectives, future innovation, the amount and timing of investments by us in our business and capital expenditures, the likelihood of our success in expanding our business, industry trends, financing plans, budgets, working capital needs and sources of liquidity.

Forward-looking statements are not guarantees of performance. These statements are based on our beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for and our ability to market our products and services, the expansion of product offerings through new applications or geographically, the timing and cost of investments by us in our business and planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve known and unknown risks and uncertainties, which could cause actual results that differ materially from those contained in any forward-looking statement. Many of these factors are beyond our ability to control or predict. Such factors include, but are not limited to, the following:

- market acceptance and performance of our products and services;
- our ability to obtain the capital necessary to expand our operations and invest in new products and services;
- general economic conditions in the markets where we operate;
- industry competition;
- competition from firms with greater financial, technical and marketing resources than us and related competitive pressures;
- failure to protect or enforce our intellectual property rights in our proprietary technology;
- intellectual property claims and challenges;
- defects and errors in our products or services;
- growth and maintenance of our customer base and customer contacts;
- changes in our relationship with QuantX or with customers sourced through QuantX;
- credit quality and payment history of our customers;
- changes in the market demand for our products and services;
- our ability to keep up with rapid technological change;
- system failures and disruptions;

- non-performance of third-party vendors;
- the loss of key executives and failure to recruit and retain qualified personnel;
- the risks associated with the expansion of our business;
- our possible inability to integrate any businesses we acquire;
- compliance with laws and regulations, including those relating to the securities industry;
- cancellation or breach of customer contracts;
- our ability to fulfill, or to generate revenues by fulfilling, customer contracts; and
- other factors discussed or referenced in the sections titled “Risk Factors” in our filings with the SEC, including without limitation our 2013 Form 10-K and this Quarterly Report on Form 10-Q.

Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the SEC, we are under no obligation to publicly update or revise any forward-looking statements. You should not place undue reliance on our forward-looking statements. You should be aware that the occurrence of any of the events discussed or referenced above or in the sections titled “Risk Factors” in our 2013 Form 10-K and this Quarterly Report on Form 10-Q could harm our business, prospects, results of operations, liquidity and financial condition. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results or performance.

The following discussion is provided as a supplement to, and should be read in conjunction with, the accompanying unaudited condensed consolidated financial statements and notes in this Quarterly Report on Form 10-Q and in our audited consolidated financial statements for the year ended December 31, 2013 included in our 2013 Form 10-K.

References in this discussion and analysis to “we,” “us,” “our” and the “Company” refer to Liquid Holdings Group, Inc. and its consolidated subsidiaries.

Overview

Liquid Holdings Group, Inc. provides a cloud-based operating system for fund managers that seamlessly integrates workflows across order, execution and real-time risk management with investor reporting and shadow NAV in a single platform. Our platform is backed by co-sourced, end-of-day processes and powered by our proprietary cloud which, together, reduce the need for client-side operations and IT personnel. Our current and prospective customers include small to mid-sized hedge funds, multi-manager hedge fund platforms, separately managed accounts, proprietary trading firms, family offices and financial institutions.

We deliver our technology efficiently, quickly and securely as a SaaS (Software-as-a-Service) solution that provides our customers with a customizable and rapidly deployable platform. We believe that our platform’s comprehensive capabilities and integrated real-time approach provides a distinctive offering that creates efficiencies for our customers by reducing both the number of service provider relationships the customer needs to maintain and the level of IT personnel necessary to support and integrate those multiple applications.

Our platform offers the following features and capabilities:

- **A Single, Real-Time Consolidated Portfolio View** . We offer a single trade, order and position management solution for multiple asset classes such as equities, options, futures, fixed income securities and FX. Our customers can aggregate positions, exposures and risk metrics across all of their portfolios and asset classes on a single screen in real-time. With our platform there is no need to purchase or integrate several external programs to consolidate performance, profit and loss, risk management, shadow NAV and reporting functions across asset classes;

- **Real-Time Portfolio and Risk Analysis** . Our platform's architecture enables our customers to perform highly complex computations of risk and project probabilistic scenarios using data feeds in real-time. This allows our customers to quantify the probability of portfolio risk based on variables that they input to simulate a macro or micro event based on historical market events. It also enables users to calculate theoretical values instantly for over a dozen historic market events and crashes to simulate portfolio performance in times of market volatility. Our platform automatically routes trade data to our risk management system for real-time analysis. We believe most of our competitors offer this type of analysis only on an end-of-day or as-requested basis;

- **Real-Time Shadow Accounting and Reporting Management, Fee Management, and Transaction Cost Analysis** . Our shadow accounting and reporting database was designed to reconcile a vast number of trades and their associated fees and transaction costs, giving traders and managers a clear and concise view of their portfolio accounting, including exchange/ECN fees, "soft dollar" arrangements, and brokerage and accounting adjustments in real-time. Our flexible and scalable architecture allows traders, operations personnel and senior management to view customized reports on an individual, group or enterprise wide basis;

- **Broker, Execution and Clearing Firm Agnostic** . We provide our customers with the independence to select their preferred broker execution venues and clearing relationships. Our technology is able to connect our customers seamlessly to multiple prime brokers and over 100 liquidity destinations, including broker-dealers, private alternative trading systems/platforms, or dark pools, and other electronic communication networks, or ECNs. We do not monetize, sell or take the opposing side of our customers' order flow, nor do we act as a market maker. Our technology allows our customers to be "broker neutral" in their choice of where a trade is executed, how the trade is sent to the market and which broker executes and clears the trade. We have established connectivity with some of the most recognized prime brokers and banking platforms in the world, offering our customers the ability to access these relationships for capital introduction and execution services globally; and

- **Managed Services** . We provide managed services support for all customers which includes comprehensive trade reconciliation, corporate actions and dividend processing as well as start of day/end of day file processing and delivery between third parties and their clients as part of our overall solution. We believe that these services reduce our customers' need to hire operations staff.

We have branded our trading platform as LiquidTrade SM , our risk metrics platform as LiquidMetrics ® and our shadow accounting platform as LiquidView ® , together constituting the Liquid platform.

Key Operating Metrics

In addition to metrics based upon U.S. generally accepted accounting principles ("U.S. GAAP") that we regularly monitor, we also monitor the following metrics to evaluate our business, measure our performance, identify trends affecting our business and make strategic decisions:

Key Operating Metric	As of September 30, 2013	As of December 31, 2013	As of March 31, 2014	As of June 30, 2014	As of September 30, 2014
Contracts - Contributing to Current Revenue					
Number of Customers	27	48	76	97	95
Number of Units	455	517	629	679	670
Number of Units - QuantX [(1)]	378	421	419	407	401
Contracts - Expected to Contribute to Future Revenue [(2)]					
Number of Customers	21	29	43	33	34
Number of Units	110	139	133	106	111
Number of Units - QuantX [(1)]	13	14	1	1	0
Contracts - Total					
Number of Customers	48	77	119	130	129
Number of Units	565	656	762	785	781
Number of Units - QuantX [(1)]	391	435	420	408	401
Annual Contract Value (in millions)	$ 3.158	$ 4.520	$ 5.230	$ 5.450	$ 5.046

(1) Represents units, included in "Number of Units," that are being used by QuantX, a related party as a result of certain past or present relationships with the founders of the Company and certain persons who may be deemed to be affiliates of the Company, or paid for by QuantX on behalf of their own customers.

(2) Represents contracts that have been signed but are not yet generating revenue because our product has not yet been deployed to the customer.

Number of Customers. We believe that our ability to expand our customer base is an indicator of our market penetration and the growth of our business as we continue to invest in our direct sales and marketing teams.

Number of Units. Since our customers generally pay fees based on the number of units of our platform being used within their organizations, we believe the total number of units is an indicator of the growth of the business. Each unit represents an individual element of the Liquid platform such as LiquidTrade ℠, LiquidMetrics ® or LiquidView ®.

Annual Contract Value ("ACV"). ACV represents, as of the end of any quarter for which ACV is reported, the estimated contract value of subscription payments payable to us during the next twelve months (or, in the case of subscription contracts where the remaining contract term is less than twelve months, the remaining value of such contracts) pursuant to subscription contracts existing at the end of the quarter for which ACV is reported, including contracts pursuant to which we are currently generating no revenue because our product has not yet been deployed to the customer.

ACV is not a financial measure calculated and presented in accordance with U.S GAAP and should not be considered as an alternative to revenue or any other financial measures so calculated. Management uses this information as a basis for planning and forecasting core business activity for future periods and believes it is a helpful indicator of potential future revenue. However, we caution investors that our presentation of this measure may not be comparable to similar measures as disclosed by other issuers, because other companies may calculate these measures differently. Additionally, our actual revenue may be lower or higher than ACV. See "Cautionary Note About Forward-Looking Statements" above.

Factors Affecting Our Performance

The Pace of Financial Services Innovation. The financial services industry has faced substantial pressure to innovate over the last decade. Following the implementation of decimalization in financial market pricing in 2001, new technologies were needed to accommodate the need to execute, value and evaluate risk for securities trading. Today, the industry innovates rapidly as technology adapts to the demands of both regulatory changes and changes in investor preferences. We believe our products and services compete favorably, and that our flexible architecture will allow us to innovate and scale new product releases quickly. However, we may not be able to keep up with evolving industry standards and changing trading systems, practices and techniques. Continued demand for advanced technology resources in the financial services industry is important to future demand for our products.

Revenue Growth. We believe the key driver to improve our financial performance will be revenue growth. We believe demand for our products will increase as key industry trends drive innovation. We plan to add resources in an effort to gain market share and increase revenue from existing and new customers. While revenue growth may fail to increase or may decline for a number of reasons, including significant competition and lack of market acceptance of our technology and platform, we seek to generate revenue growth from, among other things, the execution of new customer contracts as we increasingly penetrate the marketplace. Our ability to achieve sufficient revenue to generate net income and to fully fund operations will require continued significant near-term investments in technology development, sales, marketing and customer support personnel. We expect these investments to negatively impact current net income and cash balances, but also to set the framework for improving financial performance in the near-and long-term as we scale up our business.

The hedge fund industry has continued to grow and stabilize since the market correction of 2008. Current forecasts indicate continued growth through 2014 and 2015, with continued new fund start-ups and spinoffs. Institutional investors look to enhance and diversify their investment portfolios, through alternative asset managers and emerging mandates from large investors, in order to continue to show health and growth. Emerging hedge funds, those with assets under management of $50 million to $500 million, with three- year track records are investing in technology to manage increased activity and required regulatory and operational oversight. This market segment, once penetrated, could have a positive impact to our future revenues. Additionally, the focus and emphasis on risk analytics as a mission critical application, and market acceptance of LiquidMetrics ® as an award-winning, best of breed risk system, could have a significant impact to our revenues along with the broad acceptance of LiquidMetrics ® as a compelling risk tool for sell side and managed accounts. Traditional registered investment advisors and high net worth investment manager segments are also looking to offer alternative investments and can benefit from the Liquid platform. The ability to advertise hedge funds may generate more interest than is currently anticipated and would further drive focus on technology for investor reporting distribution.

Potential negative impacts could come in the form of unexpected market corrections that dramatically reduce available asset flows into hedge funds, as well as closure of hedge funds or decline in the opening of new hedge funds. Additionally, a retraction of the broad adoption of “cloud deployment” would require us to modify our distribution method and could slow growth.

Delivery of New Product Releases. Customer demands in the financial services industry are becoming increasingly complex. If we fail to accurately predict customers’ changing needs and emerging technology trends, our business could be negatively affected. It is important for us to have a robust development pipeline and to deliver new releases on time and within budget. We believe our flexible platform allows us the ability to develop and deliver customized solutions for particular customer needs. Members of our core technology development team have worked together for over a decade, first at Web Quote SRL, then at GMA, now known as Liquid Technology Services, LLC, from 2002 until we acquired GMA in 2012. As a result, we are able to develop new modules in a flexible and continuous manner. We believe the maintenance of our core development team’s continuity and its ability to produce new product versions on time is important to the future growth of our company.

Organizational Resources. While we intend to increase personnel, funding and capital expenditures devoted to our sales force and the research and development of new and advanced technologies, if we fail to hire additional necessary personnel or to improve our key business applications, processes and IT infrastructure, we may not be able to achieve or manage our expected growth. These plans will require a significant investment in managerial talent, human resources, information systems, processes and controls to ensure maintenance of efficient and economic operations. These investments are critical to our ability to increase revenue, to generate net income and to fully fund operations.

International Expansion. Our future growth will depend, in part, on our ability to continue to increase sales of our platform internationally. Historically, a significant portion of our revenues and billings have been generated from outside the United States, with the substantial portion of this revenue coming from QuantX, our largest customer and a related party as a result of certain past or present relationships with our founders and certain persons who may be deemed to be affiliates of the Company. We intend to pursue new customers internationally which may increase operating expenses in the near term and may not result in revenues until future periods, if at all. International expansion may also increase the risk associated with our business.

Financial Overview

Revenues

Our revenues consist of the following:

Software services . We market our software to end-users and to institutional customers through our direct sales force and through our strategic partner relationships. End user customer revenue is generated through subscription fees. Institutional revenue is generated through subscription fees, integration and customization fees and hosting and gateway fees. In addition, on December 1, 2013, we started charging customers for market data services. Market data is trade-related data for a financial instrument reported by a trading venue, such as a stock exchange, which allows traders and investors to know the latest price and see historical trends for that financial instrument. We are not charging a profit on market data, but rather we are passing on the cost we incur from the market data provider, which has contracted with us to provide such data, to the customer. These pass-through charges for market data services are included in our software services revenues. We generally commence recognizing software services revenue at the time the software is made available to the customer, provided all other revenue recognition criteria have been met. To date, the majority of our software services revenue has been attributable to related parties, including QuantX. We expect our software services revenue to increase in absolute dollars as we continue to add new hedge funds, other asset managers and financial institutions to our customer base.

Brokerage activities. Until June 1, 2013, we generated a portion of our revenue through commissions generated by brokers executing transactions on behalf of our customers and by the mark-up generated by brokers executing transactions on a riskless principal basis. On June 1, 2013, we ceased over-the-counter brokerage operations by LPS and Futures. Effective February 12, 2014, we received regulatory approval to consolidate LPS and Futures, with LPS remaining as the surviving entity. The Company is exploring alternatives for LPS that may include the sale or closure of this entity as it is no longer needed to carry out our business plans.

Cost of Revenues

Our cost of revenues in connection with software services includes all direct costs to distribute and support our software, including data center and support personnel, salaries and benefits. These costs also include market data fees we incur on behalf of our customers and pass on to them. We expect that our cost of revenues will increase in the future as we grow our business, add new customers and increase services to existing customers, and need to support the implementation, hosting and support of those new customers and increased services. We also expect that our cost of revenues as a percentage of total revenues could fluctuate from period to period depending on the growth of our business and any associated costs relating to the delivery of services, and the timing of significant expenditures. We intend to continue to invest additional resources in expanding the delivery capability of our software and other services. The timing of these additional expenses could affect our cost of revenues, both in terms of absolute dollars and as a percentage of total revenues, in any particular quarterly or annual period.

Our cost of revenues associated with brokerage activities included payments to brokers who received a percentage of commissions generated by brokers executing transactions on behalf of customers and the mark-up generated by brokers executing transactions on a riskless principal basis. Regulatory fees were also included in cost of revenues associated with brokerage activities.

Operating Expenses

Compensation . Compensation expense consists of wages and benefits for our employees as well as share-based compensation. Wages and benefits are expensed in the period in which they are earned. Share-based compensation is measured at fair value on the grant date of each award, based on the estimated number of awards that are expected to vest, resulting in a charge to operations over the requisite service period. For awards with graded vesting, we recognize share-based compensation on a straight-line basis over the service period for each separately vesting portion of the award. We expect total compensation expense to decrease in 2014 because a significant portion of this expense in 2013 was for share-based compensation awarded to our founders and our board members as consideration for agreeing to serve on our board, and other transactions in our equity prior to or in connection with our initial public offering ("IPO"), which closed on July 31, 2013.

Consulting fees . Consulting fees consist of services we are currently outsourcing such as market research, investor/public relations and human resources functions. Consulting fees also include the fees we pay to Brian Ferdinand pursuant to his Consulting Agreement with us (see Note 5 to the accompanying condensed consolidated financial statements). Consulting fees are expensed in the period in which they are incurred. The majority of our consulting fees, from inception to our IPO, were for share-based compensation relating to equity transactions with consultants, in which the consideration paid to the consultants was below the fair value of the equity they received. The amount by which the consideration is below fair market value is considered share-based compensation. In addition, the sale of our stock to strategic partners and consultants at below fair value also resulted in charges to share-based compensation.

Professional fees . Professional fees consist primarily of legal, accounting and tax services. Professional fees are expensed in the period in which they are incurred. The majority of our professional fees from inception to date have been for legal fees related to the start up of our business as well as certain litigation we have been a part of as disclosed in the notes to the accompanying unaudited condensed consolidated financial statements. We anticipate that we will continue to incur professional fees as we grow our business. Whereas certain legal fees pertaining to the start up of our business will cease, other costs such as audit fees, recorded prior to our IPO as a deferred offering cost, will continue and be recorded in professional fees on our condensed consolidated statements of operations and comprehensive loss. As noted in Item 1A. Risk Factors in our 2013 Form 10-K under " *The requirements of being a public company places significant demands on our resources and management's attention,* " compliance with the rules and regulations applicable to public companies is increasing our legal and financial compliance costs.

Computer related and software development . Computer related and software development costs consist primarily of research & development costs. Research & development costs are expensed in the period in which they are incurred. Research & development costs include product management, product development, quality assurance and technology operations all with the goal of continuously refining and enhancing our automated and integrated, real-time systems for trading, risk management, accounting, reporting and administration.

Other . Other expenses consist primarily of travel, entertainment and marketing costs. These costs are expensed in the period in which they are incurred. We anticipate that we will continue to incur these costs due to our efforts to increase and broaden our customer base. In addition, since becoming a public company, our insurance costs have been a significant factor in our other expenses.

Income Taxes

On July 24, 2013, the Company reorganized as a Delaware corporation from a limited liability company. The change in tax status required us to revalue our deferred tax assets and liabilities at the current corporate federal and state income tax rates. Prior to July 24, 2013, the Company, as a limited liability company, was treated as a partnership for federal and state income tax purposes. Accordingly, no provision was made for federal and state income taxes during that period since all items of income or loss were required to be reported on the income tax returns of the members, who were responsible for any taxes thereon. The Company was, however, subject to the New York City Unincorporated Business Tax of 4%. We may be subject to state taxes in certain states that may assess capital taxes or taxes based on gross receipts. We also have subsidiaries in foreign jurisdictions, which are subject to local income taxes.

Results of Operations

Three Months Ended September 30, 2014 compared to Three Months Ended September 30, 2013

	Three Months Ended		
	September 30, 2014	September 30, 2013	Change
Software services revenue	$ 1,485,007	$ 732,388	$ 752,619
Cost of revenue (exclusive of items shown below)	729,620	398,121	331,499
Gross profit	755,387	334,267	421,120
Operating expenses:			
Compensation [(1)]	3,427,804	6,065,772	(2,637,968)
Consulting fees	288,607	221,333	67,274
Depreciation and amortization	1,804,994	1,823,084	(18,090)
Professional fees	768,754	1,259,884	(491,130)
Rent	430,049	319,390	110,659
Computer related and software development	1,384,270	608,175	776,095
Other	574,404	497,240	77,164
Total operating expenses	8,678,882	10,794,878	(2,115,996)
Loss from operations	(7,923,495)	(10,460,611)	2,537,116
Non-operating income (expense):			
Unrealized gain on contingent consideration payable	-	44,129	(44,129)
Loss on settlement of contingent consideration payable	-	(649,688)	649,688
Interest and other, net	(144,520)	126,909	(271,429)
Total non-operating income (expense)	(144,520)	(478,650)	334,130
Loss before income taxes	(8,068,015)	(10,939,261)	2,871,246
Income tax expense	-	1,309,903	(1,309,903)
Net loss	$ (8,068,015)	$ (12,249,164)	$ 4,181,149
(1) Share-based compensation included in compensation	$ 1,059,878	$ 1,902,154	(842,276)

For purposes of the following analysis, the three months ended September 30, 2014 is defined as the "current quarter" and the three months ended September 30, 2013 will be defined as the "prior quarter."

Revenue

Software services revenue was $1.5 million during the three months ended September 30, 2014, an increase of $0.8 million from $0.7 million during prior quarter. The increase was due primarily to an increase in the number of customers and units contributing to revenue during the current quarter. Customers and units contributing to revenue totaled 95 and 670, respectively, at September 30, 2014 compared to 27 and 455, respectively, at September 30, 2013. QuantX and our affiliated customers accounted for 62% of our software services revenue during the three months ended September 30, 2014, and 60% of our units contributing to revenue at September 30, 2014. During the fourth quarter of 2013, we entered into a $1.0 million annual contract with QuantX for an enhanced version of our LiquidMetrics ® platform, and we started charging customers for their use of market data services, both of which added to the increase in software services revenue during the current quarter. During the second quarter of 2014, we entered into a $250,000 annual contract with another customer for our LiquidMetrics ® platform that also contributed to the increase in software services revenue during current quarter. Revenue generated from market data services totaled $0.1 million for the three months ended September 30, 2014.

Cost of Revenue, Gross Profit and Gross Margin

Cost of revenues for software services was $0.7 million during the three months ended September 30, 2014, an increase of $0.3 million from $0.4 million in the prior quarter. The increase was directly attributable to the increase in our revenue, as the need to grow our company in order to support the implementation of new customers and the continued support of existing customers led to increases in payroll and consulting costs that are allocated to cost of revenues. Additionally, costs related to market data, a service that we started charging customers for in the fourth quarter of 2013, contributed to the overall increase in cost of revenues for software services. The costs related to market data were charged to those customers utilizing this service at no profit to the Company. Gross profit and gross margin related to software services revenue during the three months ended September 30, 2014 was $0.8 million and 50.9%, respectively, compared to $0.3 million and 45.6%, respectively, in the prior quarter.

Operating Expenses

Total operating expenses were $8.7 million during the three months ended September 30, 2014, a decrease of $2.1 million from $10.8 million in the prior quarter. The decrease was due primarily to a decrease in compensation expense of $2.6 million plus a decrease in professional fees of $0.5 million offset, in part, by an increase in computer related and software development costs of $0.8 million.

Compensation expense was $3.4 million during the three months ended September 30, 2014, a decrease of $2.6 million from $6.1 million in the prior quarter. Excluding share-based compensation, compensation expense was $2.4 million, a decrease of $1.8 million from $4.2 million in the prior quarter. The prior quarter included guaranteed payments to the founders of the Company totaling $1.1 million as well as the salary of one of those founders, Brian Ferdinand. In April of 2014, Mr. Ferdinand became a consultant to the Company and, therefore, his compensation is recorded in consulting fees during the three months ended September 30, 2014 (see Note 5 to the accompanying condensed consolidated financial statements). Also adding to the decrease in compensation expense was a higher percentage of compensation costs allocated to cost of revenues and research & development costs during the current quarter as compared to the prior quarter. The decrease was offset, in part, by higher compensation costs due to the increase in overall headcount, as well as severance costs incurred, during the current quarter. Share-based compensation was $1.1 million during the three months ended September 30, 2014 compared to $1.9 million in the prior quarter. This decrease was due to the revaluation of certain awards based on the decline in the Company’s stock price at September 30, 2014 compared to the stock price at September 30, 2013.

Consulting fees were $0.3 million during the three months ended September 30, 2014, an increase of $0.1 million from $0.2 million in the prior quarter. The increase was due primarily to the consulting agreement we entered into in April of 2014 with Mr. Ferdinand as noted in the preceding paragraph.

Depreciation and amortization was $1.8 million during the three months ended September 30, 2014, a slight decrease from the prior quarter due primarily to certain intangible assets that became fully amortized at December 31, 2013 and, therefore, no amortization was recorded for these intangible assets during the current quarter. Offsetting this current quarter decrease, in part, was an increase in depreciation due to the increase in our property and equipment purchased subsequent to the prior quarter.

Professional fees were $0.8 million during the three months ended September 30, 2014, a decrease of $0.5 million from $1.3 million in the prior quarter. The decrease was due primarily to lower auditing and tax fees driven by the recent change in our independent public accounting firm and a higher percentage of professional fees allocated to cost of revenues and research & development costs during the current quarter as compared to the prior quarter. This decrease was offset, in part, by higher public company costs incurred during the current quarter as our IPO occurred at the end of July 2013.

Rent expense was $0.4 million during the three months ended September 30, 2014, an increase of $0.1 million from $0.3 million in the prior quarter. The increase was due primarily to higher rent for the lease of our corporate headquarters that became effective December 6, 2013 as well as space we leased for certain back-office operations that commenced on October 1, 2013 (see *Lease Commitments* section of Note 6 to the accompanying condensed consolidated financial statements).

Computer related and software development costs were $1.4 million during the three months ended September 30, 2014, an increase of $0.8 million from $0.6 million in the prior quarter. The increase was due primarily to research & development costs for our software which totaled $1.0 million during the current quarter compared to $0.4 million in the prior quarter. Additionally, increased data center and software licensing and maintenance fees during the current quarter contributed to the increase.

Other expenses were $0.6 million during the three months ended September 30, 2014, an increase of $0.1 million from $0.5 million in the prior quarter. The increase was due primarily to higher insurance costs and taxes. Since converting to a corporation in July 2013, the Company is subject to capital-based taxes in the states in which it does business. These taxes are not based on income and, therefore, are recorded in *Other operating expenses* in the accompanying condensed consolidated statements of operations and comprehensive loss. The increase was offset, in part, by lower travel, entertainment and marketing costs as the Company continues to focus on becoming more cost efficient with its spending.

Non-Operating Income (Expense)

Total non-operating expense was $144,520 during the three months ended September 30, 2014 compared to $478,650 in the prior quarter. The expense during the current quarter consisted of $150,000 for the Company's share of a legal settlement (see *Legal Matters* section of Note 6 to the accompanying condensed consolidated financial statements) offset, in part, by net interest income. The expense in the prior quarter was the result of a $650,000 loss on the settlement of contingent consideration related to our July 31, 2012 acquisition of Fundsolve. This loss was offset, in part, by an insurance reimbursement received in the prior quarter related to a previously disclosed legal settlement.

Income Tax Expense

We incurred no income tax expense during the three months ended September 30, 2014, as compared to $1.3 million in the prior quarter. We recorded a full valuation allowance during the current quarter as a result of analyzing the recoverability of our recorded deferred tax assets. As previously noted, on July 24, 2013, we reorganized as a corporation from a limited liability company and are now subject to federal and state taxes. Based on this conversion, our deferred tax liabilities originally recorded at the tax rates applicable to our LLC status, were revalued at the current corporate income tax rates in effect at such time. As a result, we incurred a tax expense of $1.3 million in the prior quarter.

Nine Months Ended September 30, 2014 compared to Nine Months Ended September 30, 2013

	Nine Months Ended		
	September 30, 2014	September 30, 2013	Change
Revenues:			
Software services	$ 4,308,876	$ 2,016,159	$ 2,292,717
Brokerage activities	-	1,872,647	(1,872,647)
	4,308,876	3,888,806	420,070
Cost of revenues (exclusive of items shown below):			
Software services	1,932,083	993,697	938,386
Brokerage activities	-	1,248,192	(1,248,192)
	1,932,083	2,241,889	(309,806)
Gross profit:			
Software services	2,376,793	1,022,462	1,354,331
Brokerage activities	-	624,455	(624,455)
	2,376,793	1,646,917	729,876
Operating expenses:			
Compensation (1)	9,353,828	14,928,963	(5,575,135)
Consulting fees (2)	959,816	12,182,417	(11,222,601)
Depreciation and amortization	5,375,979	5,472,329	(96,350)
Professional fees	2,024,456	2,262,022	(237,566)
Rent	1,296,266	926,711	369,555
Computer related and software development	3,822,565	1,639,335	2,183,230
Other	1,914,678	1,621,821	292,857
Total operating expenses	24,747,588	39,033,598	(14,286,010)
Loss from operations	(22,370,795)	(37,386,681)	15,015,886
Non-operating income (expense):			
Unrealized gain on contingent consideration payable	-	-	-
Loss on settlement of contingent consideration payable	-	(649,688)	649,688
Interest and other, net	(144,279)	136,398	(280,677)
Total non-operating income (expense)	(144,279)	(513,290)	369,011
Loss before income taxes	(22,515,074)	(37,899,971)	15,384,897
Income tax expense	-	1,125,697	(1,125,697)
Net loss	$ (22,515,074)	$ (39,025,668)	$ 16,510,594
(1) Share-based compensation included in compensation	$ 2,761,167	$ 7,430,087	(4,668,920)
(2) Share-based compensation included in consulting fees	$ -	$ 11,649,693	(11,649,693)

For purposes of the following analysis, the nine months ended September 30, 2014 is defined as the "current period" and the nine months ended September 30, 2013 will be defined as the "prior period."

Revenues

Software services revenue was $4.3 million during the nine months ended September 30, 2014, an increase of $2.3 million from $2.0 million during the prior period. The increase was due primarily to an increase in the number of customers and units contributing to revenue during the current period. Customers and units contributing to revenue totaled 95 and 670, respectively, at September 30, 2014 compared to 27 and 455, respectively, at September 30, 2013. QuantX and our affiliated customers accounted for 66% of our software services revenue during the nine months ended September 30, 2014, and 60% of our units contributing to revenue at September 30, 2014. During the fourth quarter of 2013, we entered into a $1.0 million annual contract with QuantX for an enhanced version of our LiquidMetrics ® platform, and we started charging customers for their use of market data services, both of which added to the increase in software services revenue during the current period. During the second quarter of 2014, we entered into a $250,000 annual contract with a separate customer for our LiquidMetrics ® platform that also contributed to the increase in software services revenue during the current quarter. Revenue generated from market data services totaled $0.4 million for the nine months ended September 30, 2014.

On June 1, 2013, the Company ceased the over-the-counter brokerage operations of LPS and Futures. As a result, we are not currently generating brokerage revenue.

Cost of Revenues, Gross Profit and Gross Margin

Cost of revenues for software services was $1.9 million during the nine months ended September 30, 2014, an increase of $0.9 million from $1.0 million in the prior period. The increase was directly attributable to the increase in our revenue, as the need to grow our company in order to support the implementation of new customers and the continued support of existing customers led to increases in payroll and consulting costs that are allocated to cost of revenues. Additionally, costs related to market data, a service that we started charging customers for in the fourth quarter of 2013, contributed to the overall increase in cost of revenues for software services. The costs related to market data were charged to those customers utilizing this service at no profit to the Company. Gross profit and gross margin related to software services revenue during the nine months ended September 30, 2014 was $2.4 million and 55.2%, respectively, compared to $1.0 million and 50.7%, respectively, in the prior period.

On June 1, 2013, the Company ceased the over-the-counter brokerage operations of LPS and Futures. As a result, we are not currently incurring any cost of revenues relating to brokerage activities.

Operating Expenses

Total operating expenses were $24.7 million during the nine months ended September 30, 2014, a decrease of $14.3 million from $39.0 million in the prior period. The decrease was due primarily to a decrease in share-based compensation of $16.3 million offset, in part, by increases in computer related and software development costs of $2.2 million.

Compensation expense was $9.4 million during the nine months ended September 30, 2014, a decrease of $5.6 million from $14.9 million in the prior period. Excluding share-based compensation, compensation expense was $6.6 million, a decrease of $0.9 million from $7.5 million in the prior period. The prior period included guaranteed payments to the founders of the Company totaling $1.1 million as well as the salary of one of those founders, Brian Ferdinand for a full nine months. In April of 2014, Mr. Ferdinand became a consultant to the Company and, therefore, his compensation from that point forward is recorded in consulting fees (see Note 5 to the accompanying condensed consolidated financial statements). Also adding to the decrease in compensation expense was a higher percentage of compensation costs allocated to cost of revenues and research & development costs during the current period as compared to the prior period. The decrease was offset, in part, by higher compensation costs due to the increase in overall headcount, as well as severance costs incurred, during the current period. Share-based compensation was $2.8 million during the nine months ended September 30, 2014 compared to $7.4 million in the prior period. The prior period amount was comprised predominantly of share-based compensation awarded to our founders, our board members as consideration for agreeing to serve as members of our board, and other transactions in our equity prior to our IPO. In addition, share-based compensation during the nine months ended September 30, 2014 was reduced due to the revaluation of certain awards based on the decline in the Company’s stock price at September 30, 2014 compared to the stock price at September 30, 2013.

Consulting fees were $1.0 million during the nine months ended September 30, 2014, a decrease of $11.2 million from $12.2 million in the prior period. Excluding share-based compensation, which was only reported in the prior period, consulting fees increased $0.4 million during the current period due primarily to costs for an IT systems consultant, who was brought on as a full-time employee during the third quarter of 2014, as well as the recording of Mr. Ferdinand’s compensation in consulting fees as noted in the preceding paragraph. Share-based compensation was $11.6 million during the prior period and was for equity we granted to consultants as payment for services rendered to us. In addition, the sale of our stock to strategic partners and consultants at below fair value also resulted in charges to share-based compensation.

Depreciation and amortization was $5.4 million during the nine months ended September 30, 2014, a slight decrease from the prior period due primarily to certain intangible assets that became fully amortized at December 31, 2013 and, therefore, no amortization was recorded for these intangible assets during current period. Offsetting this current period decrease, in part, was an increase in depreciation due to the increase in our property and equipment purchased subsequent to the prior period.

Professional fees were $2.0 million during the nine months ended September 30, 2014, a decrease of $0.2 million from $2.3 million in the prior period. The decrease was due primarily to lower legal fees incurred relating to litigation matters and a higher percentage of professional fees allocated to cost of revenues and research & development costs during the current period as compared to the prior period. This decrease was offset, in part, by higher public company costs incurred during the current period as our IPO occurred at the end of July 2013.

Rent expense was $1.3 million during the nine months ended September 30, 2014, an increase of $0.4 million from $0.9 million in the prior period. The increase was due primarily to higher rent for the lease of our corporate headquarters that became effective December 6, 2013 as well as space we leased for certain back-office operations that commenced on October 1, 2013 (see *Lease Commitments* section of Note 6 to the accompanying condensed consolidated financial statements).

Computer related and software development costs were $3.8 million during the nine months ended September 30, 2014, an increase of $2.2 million from $1.6 million in the prior period. The increase was due primarily to research & development costs for our software which totaled $2.8 million during the current period compared to $1.1 million in the prior period. Additionally, increased data center and software licensing and maintenance fees during the current period contributed to the increase.

Other expenses were $1.9 million during the nine months ended September 30, 2014, an increase of $0.3 million from $1.6 million in the prior period. The increase was due primarily to higher insurance costs relating to our directors & officers policy.

Non-Operating Income (Expense)

Total non-operating expense was $144,279 during the nine months ended September 30, 2014 compared to $513,290 in the prior period. The expense during the current period consisted of $150,000 for the Company's share of a legal settlement (see *Legal Matters* section of Note 6 to the accompanying condensed consolidated financial statements) offset, in part, by net interest income. The expense in the prior period was the result of a $650,000 loss on the settlement of contingent consideration related to our July 31, 2012 acquisition of Fundsolve. This loss was offset, in part, by an insurance reimbursement received in the prior period related to a previously disclosed legal settlement.

Income Tax Expense

We incurred no income tax expense during the nine months ended September 30, 2014, as compared to $1.1 million in the prior period. We recorded a full valuation allowance during the current period as a result of analyzing the recoverability of our recorded deferred tax assets. As previously noted, on July 24, 2013, we reorganized as a corporation from a limited liability company and are now subject to federal and state taxes. Based on this conversion, our deferred tax liabilities originally recorded at the tax rates applicable to our LLC status, were revalued at the current corporate income tax rates in effect at such time. As a result, we incurred a tax expense of $1.3 million in the prior period that was offset, in part, by a tax benefit recorded prior to the conversion.

Liquidity and Capital Resources

Overview

At September 30, 2014 and December 31, 2013, our cash and cash equivalents of approximately $30.1 million and $8.5 million, respectively, were held for working capital purposes. Our operations have been financed primarily through private and, more recently, public sales of our equity securities. On May 20, 2014, we completed a follow-on public offering in which 32,000,000 shares of our common stock were sold at a public offering price of $1.25 per share. On May 27, 2014, the underwriters for this offering partially exercised their over-allotment option and purchased an additional 2,945,000 shares of our common stock at $1.25 per share. We received net proceeds from this offering of approximately $39.5 million after deducting underwriting discounts and commissions of approximately $3.1 million and offering related expenses of approximately $1.1 million.

We have had significant operating losses during the period from our inception on April 24, 2012, through September 30, 2014. We have financed our operations during this time primarily through capital markets transactions. We anticipate that our existing capital resources, cash flows from revenues, and cost reduction initiatives, will be adequate to satisfy our liquidity requirements for at least the next 12 months. However, our future liquidity requirements will depend on many factors, including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced products and services offerings, the continuing market acceptance of our software and the continued ability to raise additional capital. See “Cautionary Note About Forward-Looking Statements” above.

The following table sets forth a summary of our cash flows for the nine months ended September 30, 2014 and 2013:

	Nine Months Ended	
	September 30, 2014	**September 30, 2013**
Net cash used in operating activities	$ (17,347,973)	$ (9,404,081)
Net cash provided by (used in) investing activities	(649,232)	2,060,958
Net cash provided by financing activities	39,472,752	19,558,810
Effect of exchange rate changes on cash and cash equivalents	104,715	(58,750)
Net increase in cash and cash equivalents	$ 21,580,262	$ 12,156,937

Cash Flows from Operating Activities

Net cash used in operating activities totaled $17.3 million during the nine months ended September 30, 2014. The net cash used resulted from our net loss of $22.5 million and a negative net change in our operating assets and liabilities of $3.3 million offset, in part, by non-cash charges of $8.5 million. The net loss was the result of significant expenses we continued to incur as a startup business and in now being a public company. Included in non-cash charges was $2.8 million in share-based compensation expense. The net change in our operating assets and liabilities was due primarily to a reduction in our accounts payable and accrued expenses of $2.1 million coupled with an increase in our accounts receivable of $1.2 million.

Net cash used in operating activities totaled $9.4 million during the nine months ended September 30, 2013. The net cash used resulted from our net loss of $39.0 million offset, in part, by non-cash charges of $26.4 million and a positive net change in our operating assets and liabilities of $3.2 million. The net loss was the result of significant expenses we incurred as a startup business and in our preparation to become a public company which occurred in July 2013. Included in non-cash charges was $19.1 million in share-based compensation expense to employees and equity grants to consultants, of which $15.7 million was from the sale or transfer of common shares by the Company, its founders and certain employees that were below fair value or for no monetary consideration and which are non-recurring because we are now a publicly traded company. The net change in our operating assets and liabilities was due primarily to $3.5 million of direct costs relating to our IPO that were charged to stockholders’ equity from deferred offering costs upon the completion of our IPO.

Cash Flows from Investing Activities

Net cash used in investing activities totaled $0.6 million during the nine months ended September 30, 2014 and was due to the purchase of property and equipment.

Net cash provided by investing activities totaled $2.1 million during the nine months ended September 30, 2013 and was due to the repayment of the principal balance of $2.3 million on a note due from QuantX offset, in part, by the purchase of property and equipment of $0.2 million.

Cash Flows from Financing Activities

Net cash provided by financing activities was $39.5 million during the nine months ended September 30, 2014 and was due to $40.6 million of net proceeds from our follow-on public offering less direct costs of $1.1 million.

Net cash provided by financing activities totaled $19.6 million during the nine months ended September 30, 2013 and was due primarily to $26.0 million of net proceeds from our IPO less direct costs of $8.7 million. Additionally, $3.3 million of proceeds were received from the private sales of our equity securities.

Regulatory Capital

The SEC, the U.S. Commodity Futures Trading Commission ("CFTC"), the National Futures Association ("NFA"), the Financial Industry Regulatory Authority, Inc. ("FINRA"), FCA and other U.S. and non-U.S. regulators have stringent rules concerning the capitalization and operation of our broker-dealer subsidiaries.

LPS, our SEC registered broker-dealer subsidiary, which does not hold funds or securities for customers, is required to maintain a net capital of at least $100,000. As of September 30, 2014 and December 31, 2013, LPS maintained a net capital of approximately $141,000 and $292,000, respectively. We are exploring alternatives for LPS that may include the sale or closure of this entity as it is no longer needed to carry out the Company's business plans.

Effective February 12, 2014, Futures was merged into LPS, with LPS remaining as the surviving entity and, as a result, Futures is no longer subject to minimum net capital requirements. Prior to this merger, Futures operated as an independent introducing broker and was required to maintain $45,000 of net capital in accordance with CFTC Regulation 1.17. As of December 31, 2013 Futures maintained a net capital of approximately $85,000.

As an FCA regulated broker-dealer, Institutional, our U.K. subsidiary, was required to maintain €50,000 of minimum regulatory capital, which is reported to the FCA in British Pounds. As of September 30, 2014 and December 31, 2013, Institutional maintained regulatory capital of approximately $216,000 and $204,000, respectively (or approximately €170,000 and €148,000, respectively). We are currently in the process of closing the business of Institutional which we anticipate to occur prior to year end. Effective October 24, 2014, the FCA granted Institutional's request to withdraw its status as an authorized entity with the FCA.

Contractual Obligations and Commitments

Primary contractual obligations at September 30, 2014 are payments under operating leases and a consulting agreement. The following summarizes our material contractual obligations and commitments at September 30, 2014 (in thousands):

	Payments Due By Period				
	Total	Less Than 1 Year	Years 1-3	Years 4-5	More Than 5 Years
Operating leases [1]	$ 12,439	$ 1,426	$ 2,965	$ 2,958	$ 5,090
Consulting agreement [2]	713	450	263	-	-
	$ 13,152	$ 1,876	$ 3,228	$ 2,958	$ 5,090

(1) Consists of contractual obligations from non-cancellable office space under operating leases.

(2) Represents a two-year consulting agreement with Ferdinand Trading, LLC (see "Consulting Agreement").

Consulting Agreement

On April 18, 2014, Brian Ferdinand tendered his resignation as Vice Chairman and a member of the Board of Directors of the Company as well as his position as Head of Corporate Strategy. Mr. Ferdinand's resignation was not due to any disagreement with the Company, the Board or the Company's management.

In connection with Mr. Ferdinand's resignation, the Company entered into a two-year consulting agreement (the "Consulting Agreement") with Ferdinand Trading, LLC, an entity controlled by Mr. Ferdinand. Pursuant to the Consulting Agreement, Mr. Ferdinand will be assisting with business development efforts; developing strategy for product development, marketing, partnerships and mergers and acquisitions; and providing support to the sales and marketing team, including client introduction. On October 16, 2014, Mr. Ferdinand and the Company agreed to an amendment and restatement of the Consulting Agreement (see Note 11 to the accompanying condensed consolidated financial statements). The Consulting Agreement provides for, among other things, an annual fee of $450,000, payable in quarterly increments, for such services. The Company has also agreed to reimburse Mr. Ferdinand for his health insurance premiums for up to eighteen months.

Critical Accounting Policies

Our condensed consolidated financial statements have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent liabilities at the date of our financial statements. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

Our revenues and earnings are subject to substantial fluctuation from period to period based on a variety of circumstances, many of which are beyond our control. Accordingly, results for any historical period are not necessarily indicative of similar results for any future period.

The significant accounting policies that are most critical and aid in fully understanding and evaluating the reported financial results include: revenue recognition; goodwill and other intangibles; and share-based compensation.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in the notes to our audited consolidated financial statements for the year ended December 31, 2013, which are contained in our 2013 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily include risk related to interest rates, foreign currency exchange rates and inflation.

Interest Rate Risk

We had cash and cash equivalents of approximately $30.1 million and $8.5 million as of September 30, 2014 and December 31, 2013, respectively. This amount was held primarily in cash deposits and money market funds and is held for working capital purposes. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of the interest rates in the United States. Due to the short-term nature of these instruments, a sudden change in market interest rates would not be expected to have a material impact on our financial condition, liquidity or our results of operations.

Foreign Currency Exchange Rate Risk

Our sales contracts are primarily denominated in U.S. dollars. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British pound. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our condensed consolidated statements of operations and comprehensive loss. To date, foreign currency transaction gains and losses have not been material to our consolidated financial statements, and we have not engaged in any foreign currency hedging transactions. As a result, we believe we currently have limited exposure to foreign currency exchange rates and, therefore, we currently do not intend to enter into foreign currency hedging transactions. If our foreign operations increase, our exposure to foreign currency exchange rate fluctuations may increase and we could, if we deemed appropriate, enter into foreign currency hedging transactions to help mitigate such exposure.

Inflation

We do not believe that inflation has had a material effect on our business, financial condition, liquidity or results of operations to date. Nonetheless, if our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition, liquidity and results of operations.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Prior to our IPO, which closed on July 31, 2013, we were a private company with limited accounting personnel to adequately execute our accounting processes and limited other supervisory resources with which to address our internal control over financial reporting. In connection with the preparation of our audited financial statements for the period from April 24, 2012 through December 31, 2012 as well as the year ended December 31, 2013, our independent registered public accounting firm identified and communicated three material weaknesses in our internal controls over financial reporting to our Board of Directors. A material weakness is a deficiency, or a combination of deficiencies, that creates a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. The three material weaknesses related to our lack of: (i) internal controls and sufficient personnel to identify, analyze, record and report the accounting effects of the terms of agreements and contracts in accordance with U.S. GAAP; (ii) internal controls to safeguard and archive records to support amounts recorded in the financial statements; and (iii) policies, procedures and controls to identify, authorize, approve, monitor and account for and disclose related party transactions and arrangements, including those transactions outside the normal course of business, in the financial statements in accordance with U.S. GAAP. These material weaknesses resulted in audit adjustments to our consolidated financial statements, for the period from April 24, 2012 through December 31, 2012, that were identified by our independent registered public accounting firm.

We have been taking steps and plan to take additional steps to remediate the underlying causes of our material weaknesses, primarily through the development and implementation of formal policies, improved processes, upgraded financial accounting systems and documented procedures, as well as the hiring of additional finance personnel. We hired a Chief Financial Officer in September 2012, an Accounting Manager and a General Counsel in March 2013, and a Controller in April 2013, with the appropriate knowledge, experience and ability to fulfill our obligations to comply with the accounting, reporting and other requirements applicable to public companies. In addition, we implemented a new general ledger system in July 2014, which we believe will enhance our internal controls and reporting capabilities once fully utilized. In October 2014, we hired a new Chief Financial Officer. Although we plan to complete our remediation process as quickly as possible, we cannot at this time estimate how long it will take, and our initiatives may not prove to be successful in remediating these material weaknesses.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of September 30, 2014. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must necessarily reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on the foregoing evaluation, and in light of the identified material weaknesses discussed above and the fact that these identified material weaknesses are still in the process of being remediated, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2014 to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We have not engaged an independent registered accounting firm to perform an audit of our internal control over financial reporting as of any balance sheet date or for any period reported in our condensed consolidated financial statements. Our management is not presently required to perform an annual assessment of the effectiveness of our internal control over financial reporting. This requirement will first apply to our Annual Report on Form 10-K for the year ending December 31, 2014. We are an "emerging growth company" under the Jumpstart Our Business Startups (JOBS) Act. Our independent public registered accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting for our Annual Report on Form 10-K for so long as we are an "emerging growth company."

Changes in Internal Control over Financial Reporting

Except for the ongoing implementation of steps to remediate the material weaknesses identified above, there were no other changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the nine months ended September 30, 2014 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 discussion set forth in the *Legal Matters* section of Note 6 to the accompanying condensed consolidated financial statements is incorporated herein by reference.

Item 1A. Risk Factors

As of September 30, 2014, except as set forth below, there were no material changes to our Risk Factors from those described in Part 1, Item 1A, "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2013.

Risks Related to Ownership of Our Common Stock and Our Organizational Structure

If we fail to meet the requirements for continued listing on the NASDAQ Global Market, we may be at risk of being delisted.

Our common stock is currently listed on the NASDAQ Global Market. In order to maintain our listing on the NASDAQ Global Market, we must continue to meet certain continued listing requirements. One of these requirements is a $1.00 per share minimum closing bid price requirement. Our closing bid price on November 12, 2014 was $1.00 per share and, prior to this date, our closing bid price had been below $1.00 per share for 15 consecutive trading days. If we fail to satisfy the $1.00 per share minimum closing bid price requirement for a period of 30 consecutive trading days, we may receive a deficiency letter from the NASDAQ Stock Market, after which we anticipate that we would have a period of 180 days to regain compliance with the minimum closing bid price requirement. If we were unable to regain compliance within the 180-day period, we might be eligible to transfer our listing to the NASDAQ Capital Market if we satisfy all the requirements for continued listing on that market other than the minimum closing bid price requirement, after which we might be entitled to an extension of the 180-day period to regain compliance with the minimum closing bid price requirement. If we fail to satisfy the $1.00 per share minimum closing bid requirement or any other NASDAQ continued listing requirements and are unable to regain compliance, our common stock could be delisted from NASDAQ. Following any such delisting, our common stock might be traded over-the-counter on the OTC Bulletin Board or in the "pink sheets." These alternative markets are generally considered to be less efficient than, and not as broad as, the NASDAQ Global Market or the NASDAQ Capital Market. Many OTC and "pink sheet" stocks trade less frequently and in smaller volumes than securities traded on NASDAQ, which could have a material adverse effect on the liquidity of our common stock. In addition, if our common stock were to be delisted from NASDAQ, our ability to raise additional capital may be further impaired and we could become subject to the SEC's penny stock rules. The SEC generally defines "penny stock" as an equity security that has a market price of less than $5.00 per share, subject to certain exceptions. We are not currently subject to the penny stock rules because our common stock qualifies for an exception to the SEC's penny stock rules for companies that have an equity security that is quoted on NASDAQ. If we were delisted from NASDAQ and become subject to the penny stock rules, broker-dealers who sell our common stock would be subject to additional sales practice requirements, the ability of broker-dealers and our stockholders to sell their shares of our common stock may be more limited and market liquidity for our common stock could be materially adversely affected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

10.1	Amended & Restated Consulting Agreement, dated as of October 16, 2014, between Ferdinand Trading, LLC and Liquid Holdings Group, Inc. (incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 21, 2014).
10.2	Amendment of October 16, 2014 to Lock-up Agreement, dated April 18, 2014, in favor of Liquid Holdings Group, Inc. (incorporated herein by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 21, 2014).
10.3	Executive Employment Agreement, dated October 27, 2014, between Liquid Holdings Group, Inc. and Peter R. Kent (incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 30, 2014).
10.4	Notice of Stock Option Award and Non-Qualified Stock Option Agreement, dated November 13, 2014, between Liquid Holdings Group, Inc. and Peter R. Kent.
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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.

Liquid Holdings Group, Inc.
(Registrant)

Date: November 14, 2014

/s/ PETER R. KENT
Peter R. Kent
Chief Financial Officer
(Principal Financial and Accounting Officer)

LIQUID HOLDINGS GROUP, INC.
NOTICE OF STOCK OPTION AWARD

Peter R. Kent
118 Hiawatha Ave
Oceanport, NJ 07757

Dear Peter:

You have been granted the following option to purchase Shares of Liquid Holdings Group, Inc. (the "Company"). Though these options are not issued pursuant to the Company's 2012 Amended and Restated Stock Incentive Plan (the "Plan"), the award is subject to the terms and conditions applicable to grants of Non-Qualified Stock Options under the Plan. Therefore, the Plan and any amendment thereto are hereby incorporated, *mutatis mutandis* , by reference. A copy of the Plan as in effect as of the Date of Award (as defined below) is attached hereto. Capitalized terms used herein and not defined either herein or in the attached Non-Qualified Stock Option Agreement (the "NQSO Agreement") shall have the meanings given in the Plan. Capitalized terms defined either herein or in the NQSO Agreement shall supplant any identical capitalized term defined in the Plan, as incorporated herein.

Total Number of Shares:	1,000,000
Type of Option:	Non-Qualified Stock Option
Exercise Price per Share:	$1.50
Date of Award:	November 13, 2014
Vesting Schedule:	The Shares underlying this option shall vest in three equal amounts (subject to your Continuous Status as an Employee, Director or Advisor) as follows:

Nov. 13, 2015	333,333
Nov. 13, 2016	333,333
Nov. 13, 2017	333,334

Accelerated Vesting:	If your employment is terminated on or prior to December 31, 2016 either by us without Cause or by you for Good Reason, the vesting of the next unvested tranche of this option shall be accelerated to your date of termination. If your employment is terminated within twelve (12) months of a Change of Control either by us without Cause or by you for Good Reason, the vesting of all unvested tranches of this option shall be accelerated to your date of termination. For purposes of this Notice of Stock Option Award: (a) a termination of your employment by the Company for "Cause" will be deemed to have occurred when there is a termination of your employment for "Cause" pursuant to Section 5(c) of the Executive Employment Agreement, dated as of October 24, 2014, between you and the Company, including any subsequent amendment(s) thereof (the "Employment Agreement"); (b) a termination of your employment by you for "Good Reason" will be deemed to have occurred when there is a termination of your employment for "Good Reason" pursuant to Section 5(d) of the Employment Agreement; and (c) a "Change of Control" will be deemed to have occurred when there is a "Change of Control" pursuant to Section 6(d) of the Employment Agreement. Nothing herein shall limit the Board's discretion to further accelerate the vesting schedule.
Expiration Date:	November 12, 2024. This option expires earlier if your Continuous Status as an Employee, Director or Advisor terminates earlier, as described in the Plan.

You and the Company agree that this option is granted under and governed by the terms and conditions of (a) the Plan, as incorporated herein by reference, and (b) the Non-Qualified Stock Option Agreement, which is attached hereto and is hereby incorporated by reference.

You further agree that the Company may deliver by email all documents relating to this option (including, without limitation, prospectuses required by the Securities and Exchange Commission) and all other documents that the Company is required to deliver to its security holders (including, without limitation, annual reports and proxy statements). You also agree that the Company may deliver these documents by posting them on a website maintained by the Company or by a third party under contract with the Company. If the Company posts these documents on a website, it will notify you by email. This consent will remain in effect until you give the Company written notice that it should deliver paper documents.

You further agree to comply with the policies regarding personal securities trading of employees of the Company, its Affiliates and with applicable laws and regulations when selling Shares of the Company.

LIQUID HOLDINGS GROUP, INC.

By: /s/ Brian M. Storms
Name: Brian M. Storms
Title Chief Executive Officer

ACCEPTED AND AGREED

By: /s/ Peter R. Kent
Name: Peter R. Kent

LIQUID HOLDINGS GROUP, INC.
NON-QUALIFIED STOCK OPTION AGREEMENT

1. THE PLAN AND OTHER AGREEMENTS. The terms of the Liquid Holdings Group, Inc. 2012 Amended and Restated Stock Incentive Plan (the "Plan") and any amendment thereto are hereby incorporated, *mutatis mutandis* , by reference. Capitalized terms used herein and not defined either herein or in the Notice of Stock Option Award (the "Notice of Award") to which this Non-Qualified Stock Option Agreement (the "NQSO Agreement") is attached shall have the meanings given in the Plan. Capitalized terms defined either herein or in the Notice of Award shall supplant any identical capitalized term defined in the Plan, as incorporated herein.

2. TAX TREATMENT. The option is not intended to be an incentive stock option as defined in Section 422 of the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder (the "Code"). Except as otherwise indicated by the context, the term "Recipient", as used in this option, shall be deemed to include any person who acquires the right to exercise this option validly under its terms.

3. VESTING **.** This option becomes exercisable in installments (the "Vesting Dates"), as shown in the Notice of Award, and will be only exercisable to the extent that it has vested. There will be no proportionate or partial vesting prior to the Vesting Dates, and all vesting will occur on the Vesting Dates. Other than as set forth in the Notice of Award under "Accelerated Vesting," this option will in no event become exercisable for additional shares after your service has terminated for any reason.

4. TERM **.** This option expires in any event at the close of business at Company headquarters on the day before the TENTH (10 th) anniversary of the Date of the Award, as shown in the Notice of Award. (It will expire earlier if your service terminates, as described below.)

5. EXERCISE. During your lifetime only you can exercise the option. The option may be exercised by the personal representative of your estate, by the beneficiary you have designated on forms prescribed by and filed with the Company and its Affiliates, or the beneficiary of your estate following your death. You may use the Notice of Exercise of Stock Option Award ("Notice of Exercise") in the form attached to this NQSO Agreement when you exercise the option.

The Board of Directors may, in its sole discretion at the time of exercise, determine that the exercise of this option is subject to your execution of a Shareholders Agreement, in the form in use at the time of exercise, whereby under certain circumstances, you grant to specified persons a right to purchase the shares acquired by you upon exercise of the option.

6. CONTINUOUS RELATIONSHIP WITH THE COMPANY. Except as otherwise provided in this NQSO Agreement or the Notice of Award, the option may not be exercised unless the Recipient, at the time he or she exercises this option is, and has been at all times since the date of the Award, an Employee, Director of, or Advisor to, the Company and its Affiliates.

7. TREATMENT UPON TERMINATION OF EMPLOYMENT OR SERVICE RELATIONSHIP . In the event your Continuous Status as an Employee, Director or Advisor terminates, the option shall be subject to the provisions set forth in Article IX of the Plan (as modified by the provisions set forth in the Notice of Award).

8. [RESERVED.]

9. LEAVES OF ABSENCE AND PART-TIME WORK. For purposes of this option, your service does not terminate when you go on a military leave, a sick leave or another bona fide leave of absence, if the leave was approved by the Company in writing and if continued crediting of service is required by the terms of the leave or by applicable law. But your service terminates when the approved leave ends, unless you immediately return to active work.

If you go on a leave of absence, then the vesting schedule specified in the Notice of Award may be adjusted in accordance with the Company's leave of absence policy or the terms of your leave. If you commence working on a part-time basis, then the vesting schedule specified in the Notice of Award may be adjusted in accordance with the Company's part-time work policy or the terms of an agreement between you and the Company pertaining to your part-time schedule.

10. RESTRICTIONS ON EXERCISE . The Company will not permit you to exercise this option if the issuance of shares at that time would violate any law or regulation.

11. CONTINUATION OF RELATIONSHIP. Nothing in this option will confer upon you any right to continue in the employ or other relationship of the Company and its Affiliates, or to interfere in any way with the right of the Company and its Affiliates to terminate your employment or other relationship at any time.

12. FORM OF PAYMENT. When you submit the Notice of Exercise, you must include payment of the option exercise price for the shares that you are purchasing. To the extent permitted by applicable law, payment may be made in one (1), or a combination of two (2) or more, of the following forms:

a. By delivering to the Company your personal check, a cashier's check or a money order.

b. By delivering to the Company certificates for Shares that you own, along with any forms needed to effect a transfer of those shares to the Company or directing the Company to withhold Shares otherwise issuable upon such exercise of the option. The value of the shares, determined as of the effective date of the option exercise, will be applied to the option exercise price. Instead of surrendering shares, you may attest to the ownership of those shares on a form provided by the Company and have the same number of shares subtracted from the option shares issued to you.

c. By giving to a Company-approved securities broker irrevocable directions to sell all or part of your option shares and to deliver to the Company, from the sale proceeds, an amount sufficient to pay the option exercise price and any withholding taxes. (The balance of the sale proceeds, if any, will be delivered to you.) The directions must be given in accordance with the instructions of the Company and the securities broker. This exercise method is sometimes called a "same-day sale."

13. WITHHOLDING TAXES. You will not be allowed to exercise this option unless you make arrangements acceptable to the Company to pay any withholding taxes that may be due as a result of the option exercise. These arrangements include payment in cash. With the Company's consent, these arrangements may also include (i) payment from the proceeds of the sale of shares through a Company-approved securities broker, (ii) withholding shares that otherwise would be issued to you when you exercise this option, (iii) surrendering shares that you previously acquired or (iv) withholding cash from other compensation. The Fair Market Value of withheld or surrendered shares, determined as of the date when taxes otherwise would have been withheld in cash, will be applied to the withholding taxes.

14. TRANSFER OF OPTION. Prior to your death, only you may exercise this option. You cannot transfer or assign this option. For instance, you may not sell this option or use it as security for a loan. If you attempt to do any of these things, this option will immediately become invalid. You may, however, dispose of this option in your will or by means of a beneficiary designation. Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from your former spouse, nor is the Company obligated to recognize your former spouse's interest in your option in any other way.

15. MARKET STANDOFF **.** By accepting this Agreement, you hereby agree that, in connection with any underwritten public offering by the Company of its equity securities pursuant to an effective registration statement filed under the federal Securities Act of 1933, as amended, you shall not sell or make any short sale of, loan, hypothecate, pledge, grant any option for the purchase of, or otherwise dispose of or transfer for value or otherwise agree to engage in any of the foregoing transactions with respect to, any shares issued under this Agreement without the prior written consent of the Company or its underwriters. Such limitations (the "Market Standoff") shall be in effect only if and to the extent and for such period of time as may be requested by the Company or such underwriters and agreed to by the Company's officers and directors; provided, however, that in no event shall the weighted average number of days in such period exceed one hundred and eighty (180) days. The Market Standoff shall in all events terminate two (2) years after the effective date of the Company's initial public offering. In order to enforce the Market Standoff, the Company may impose stop-transfer instructions with respect to the shares acquired pursuant to the option until the end of the applicable standoff period.

16. SHAREHOLDER RIGHTS. You, or your estate or heirs, have no rights as an equityholder of the Company until you have exercised this option by giving the required notice to the Company and paying the exercise price. No adjustments are made for dividends or other rights if the applicable record date occurs before you exercise this option, except as described in the Plan.

17. APPLICABLE LAW. The Agreement will be interpreted and enforced under the laws of the State of Delaware (without regard to their choice-of-law provisions).

18. SECTION 409A OF THE CODE. The delivery of the shares upon exercise of this option shall not be deferred in a manner that violates Section 409A of the Code, unless the Board specifically permits such deferral. The Company shall have no liability to a participant, or any other party, if this option is not exempt from, or compliant with, Section 409A or for any action taken by the Board with respect to the option.

19. [RESERVED.]

20. ENTIRE AGREEMENT. This NQSO Agreement and the Notice of Award constitute the entire understanding between you and the Company regarding this option. Any prior agreements, commitments or negotiations concerning this option are superseded. The Agreement may be amended only by another written agreement between the parties.

By signing the cover sheet of the Agreement, you agree to all of the terms and conditions described above and in the Plan (as incorporated herein).

NOTICE OF EXERCISE OF STOCK OPTION AWARD

Liquid Holdings Group, Inc.
800 Third Avenue, 39 th Floor
New York, New York 10022

Attention: [_____]

Exercise of Option . Effective as of today, _____, 20__, the undersigned ("Participant") hereby elects to exercise Participant's option (the Option") to purchase _____ shares of the Common Stock (the "Shares") of Liquid Holdings Group, Inc., a Delaware corporation (the "Company"), under and pursuant to the Non-Qualified Stock Option Agreement dated _____, ____, (the "Option Agreement").

Delivery of Payment . Purchaser herewith delivers to the Company the full purchase price for the Shares, in the amount of $_____, in the form of:

□ Personal check, cashier's check or money order.

□ A reduction in the number of shares of Common Stock otherwise issuable to Participant pursuant to the Option, based on the Fair Market Value of Common Stock.
□ By delivery of certificates of shares of Common Stock that you own.

□ By copy of irrevocable instruction to a Company-approved securities broker (same-day sale).

□ By a combination of the above.

Participant agrees to provide for the payment to the Company in a manner permitted by the Company of the Company's withholding obligation, if any, relating to the exercise of the Option or the issuance of the Shares.

Representations of Participant . Participant acknowledges that Participant has received, read and understood the Option Agreement and agrees to abide by and be bound by its terms and conditions.

Rights as Shareholder . Until the issuance of the Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Common Stock subject to an Option, notwithstanding the exercise of the Option. The Shares shall be issued to the Participant as soon as practicable after the Option is exercised in accordance with the Option Agreement. No adjustment shall be made for a dividend or other right for which the record date is prior to the date of issuance.

Further Restrictions . Participant acknowledges that the Shares are subject to further restrictions on transfer as set forth in the Option Agreement and other documents that govern the Shares. Participant agrees that such restrictions are enforceable and binding on Participant and any heirs, executors, administrators, successors and assigns.

Tax Consultation . Participant understands that Participant may suffer adverse tax consequences as a result of Participant's purchase or disposition of the Shares. Participant represents that Participant has consulted with any tax consultants Participant deems advisable in connection with the purchase or disposition of the Shares and that Participant is not relying on the Company for any tax advice.

Restrictive Legends and Stop-Transfer Orders .

Legends . Participant understands and agrees that the Company may cause any legends that may be required by the Company or by state or federal securities laws to be placed upon any certificate(s) evidencing ownership of the Shares.

Stop-Transfer Notices . Participant agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions with respect to the Shares in connection with any market standoff.

Refusal to Transfer . The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Notice of Exercise or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

Successors and Assigns . The Company may assign any of its rights under this Notice of Exercise to single or multiple assignees, and this Notice of Exercise shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Notice of Exercise shall be binding upon Participant and his or her heirs, executors, administrators, successors and assigns.

Governing Law; Severability . This Notice of Exercise is governed by the internal substantive laws, but not the choice of law rules, of Delaware. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Notice of Exercise shall continue in full force and effect.

Entire Agreement . The Option Agreement and the Notice of Award are incorporated herein by reference. This Notice of Exercise, the Option Agreement and the Notice of Award constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof, and may not be modified adversely to the Participant's interest except by means of a writing signed by the Company and Participant.

Submitted by:

PARTICIPANT:

By: _____
(Signature)

Name: _____

Date: _____

Address :

_____

_____

Accepted by:

LIQUID HOLDINGS GROUP, INC.

By: _____

Name: _____

_____
Date Received

LIQUID HOLDINGS GROUP, INC.

2012 AMENDED AND RESTATED STOCK INCENTIVE PLAN

Adopted by the Board: April 5, 2013
Adopted by the Members: April 5, 2013
Amended by the Human Resources and Compensation Committee of the Board: July 24, 2013

ARTICLE I
PURPOSE

The purpose of this Amended and Restated Stock Incentive Plan (the "Plan") is to advance the interests of Liquid Holdings Group, Inc. (the "Company") by providing a means by which selected Employees, Directors and Advisors of the Company, and its Affiliates, are incented to perform through the opportunity to benefit from increases in value of the shares of common stock of the Company, par value $0.0001 per share (the "Common Stock") from grants of Options, Stock Appreciation Rights, Restricted Stock Units, Restricted Shares and Incentive Bonuses.

ARTICLE II
DEFINITIONS

"ACT" means the Securities Act of 1933, as amended.

"ADVISOR" means any person engaged by the Company or an Affiliate to render advisory services as an independent contractor and who is compensated for such services, provided that the term "Advisor" shall not include Directors.

"AFFILIATE" means any parent corporation or subsidiary corporation or entity of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f) respectively, of the Code.

"AWARD" means the grant of an Option, Stock Appreciation Right, Restricted Stock Unit, Restricted Share or Incentive Bonus.

" AWARD AGREEMENT " means a written agreement between the Company and a Recipient evidencing the terms and conditions of an individual Award grant. The Award Agreement shall be in the form approved by the Board from time to time. Each Award Agreement shall be subject to the terms and conditions of the Plan.

" BOARD " means the Board of Managers of the Company.

"CAUSE" means a determination by the Board, or of the board of directors of an Affiliate for whom the Recipient provides services, that the Recipient was terminated for certain actions, including but not limited to: (i) the Recipient committed an act of material dishonesty in connection with their responsibilities as an Employee, Officer, Director, or Advisor; (ii) the Recipient failed to comply with the material terms of any written Company policy or rule as they may be in effect from time to time during the Recipient's term as an Employee, Officer, Director, or Advisor, and such failure is materially and demonstrably injurious to the Company; (iii) the Recipient breached any material term of a Stock Award Agreement or any employment agreement entered into between the Recipient and the Company, or any other written agreement between the Recipient and the Company and such breach is materially and demonstrably injurious to the Company; (iv) the Recipient was convicted of, or entered a plea of guilty or *nolo contendere* to, a felony or crime of moral turpitude; or (v) the Recipient engaged in gross misconduct or gross neglect of the Recipient's duties and such misconduct or neglect is materially and demonstrably injurious to the Company.

“ CODE ” means the Internal Revenue Code of 1986, as amended, and any Internal Revenue Code adopted in the future to replace the Internal Revenue Code of 1986.

“ COMMITTEE ” means any other committee appointed by the Board in accordance with Article III to administer the Plan.

“ CONTINUOUS STATUS AS AN EMPLOYEE, DIRECTOR OR ADVISOR ” means that the provision of services to the Company or an Affiliate in the capacity of Employee, Director or Advisor is not interrupted or terminated. Continuous Status as an Employee, Director or Advisor shall not be considered interrupted in the case of (i) any approved leave of absence, (ii) transfers between locations of the Company or among the Company, any Affiliate, or any successor, in any capacity as Employee, Director or Advisor, or (iii) any change in status as long as the person remains in the service of the Company, Affiliate or successor in any capacity as an Employee, Director or Advisor (except as otherwise provided in the Award Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave approved by the Company; provided, however, that any such authorized leave of absence shall be treated as Continuous Status as an Employee, Director or Advisor for the purposes of vesting only to the extent as may be provided in the Company’s leave policy. For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. Notwithstanding anything to the contrary in this definitional paragraph, an Advisor’s status shall not be considered continuous unless the Advisor is and continues to be ready, willing and able to engage in substantial services to the Company. The Board, in its sole discretion, shall in all cases determine whether Continuous Status as an Employee, Director or Advisor shall be considered interrupted or terminated.

“ DIRECTOR ” means a member of the Board or of the board of directors of an Affiliate.

“DISABILITY” means a scenario where an individual is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months. An individual shall not be considered to be permanently and totally disabled unless he furnishes proof of the existence thereof in such form and manner, and at such times, as the Board may require.

“ EMPLOYEE ” means any person, including Officers and Executive Directors, employed by the Company or any Affiliate of the Company as determined under the rules contained in Code Section 3401. Neither service as a Director nor payment of a director’s fee by the Company shall be sufficient by itself to constitute “employment” by the Company.

“ EXCHANGE ACT ” means the Securities Exchange Act of 1934, as amended.

“ EXECUTIVE DIRECTOR ” means an individual who is an Officer of the Company and also serves as a member of the Board of Directors.

“ FAIR MARKET VALUE ” means, as of any date, the value of the Common Stock determined as follows:

(a) If the Common Stock is readily tradable on an established securities market, the fair market value of the Common Stock on the date of grant means the value determined based upon the last sale before or the first sale after the grant, the closing price on the trading day before or the trading day of the grant of the Award, or any other reasonable basis using actual transactions in the Common Stock as reported by such market and consistently applied.

(b) If the Common Stock is not readily tradable on an established securities market, the fair market value of the Common Stock on the date of grant means the value determined by a valuation of the Common Stock determined by an independent appraisal that meets the requirements of Section 401(a)(28)(C) of the Code and the regulations thereunder as of a date that is no more than twelve (12) months before the relevant Option grant date, unless determined otherwise by the Board in a manner consistent with Section 409A of the Code.

"INCENTIVE BONUS" means an Award pursuant to which a Recipient may become entitled to receive an amount in cash and/or Common Stock, as determined by the Board, based on terms and conditions established by the Board.

" INCENTIVE STOCK OPTION " means an Option intended to qualify as an incentive stock option (as set forth in the Award Agreement) and that qualifies as an Incentive Stock Option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

" NON-QUALIFIED STOCK OPTION " means an Option not intended to qualify as an Incentive Stock Option (as set forth in the Award Agreement) or that does not qualify as an Incentive Stock Option.

" OFFICER " means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

"OPTION" means the right, granted pursuant to the Plan, to purchase Common Stock at a specified price per share for a specified period of time.

" RECIPIENT " means an Employee, Director or Advisor, or their permitted transferees, who holds an outstanding Award.

"RESTRICTED SHARE" means an Award of Common Stock the grant, issuance, retention, vesting and/or transferability of which is subject during specified periods of time to such conditions (including continued employment) and terms as the Board deems appropriate.

"RESTRICTED STOCK UNIT" means an Award denominated in units under which the issuance of Common Stock (or cash payment in lieu thereof) is subject to such conditions (including continued employment) and terms as the Board deems appropriate.

"STOCK APPRECIATION RIGHT" means an Award that entitles the Recipient to receive, in cash or Common Stock or a combination thereof, as determined by the Board, value equal to the excess of (i) the Fair Market Value of a specified number of shares of Common Stock at the time of exercise over (ii) the exercise price of the right, as established by the Board on the date of grant.

ARTICLE III
ADMINISTRATION

1. ADMINISTRATION BY THE BOARD. The Plan will be administered by the Board who shall have the power, subject to, and within the limitations of the Plan, to:

1.1. Determine, in its sole discretion, from time to time which of the persons eligible under the Plan shall be granted an Award; when and how each Award shall be granted; whether an Option granted will be an Incentive Stock Option or a Non-Qualified Stock Option, or a combination of the foregoing; the provisions of each Award granted (which need not be identical), including the time or times when a person shall be permitted to receive stock pursuant to an Award; the number of shares with respect to which an Award shall be granted to each such person; the vesting conditions of each Award, and all other terms, conditions and restrictions applicable to each such Award or Common Stock acquired pursuant to an Award not inconsistent with the terms of the Plan.

1.2. Approve one (1) or more forms of Award Agreements.

1.3. Construe and interpret, in its sole discretion, the Plan and Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Award Agreement evidencing an Award, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

1.4. Amend, modify or otherwise change in any manner the Plan or an Award as provided in Article X and to suspend or terminate the Plan as provided in Article XIII.

1.5. Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company that are not in conflict with the provisions of the Plan.

All decisions, determinations and interpretations of the Board shall be final, binding and conclusive on any Recipient and any other person with an interest in the Plan or in an Award and on any Affiliate.

2. DELEGATION OF BOARD POWERS.

2.1. To the extent permitted by applicable law, the Board may delegate to one (1) or more Officers of the Company the power to grant Awards and exercise such other powers under the Plan as the Board may determine.

2.2. To the extent permitted by applicable law, the Board may delegate any or all of its powers under the Plan to one (1) or more Committees or subcommittees of the Board. The Committee shall have, during such delegation and in connection with the administration of the Plan, the powers theretofore possessed by the Board (and references in this Plan to the Board shall thereafter be to the Committee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. Administration of the Plan shall encompass, among other things, determining potential Recipients, establishing the terms of each Award, ensuring all proposed grants are consistent with the terms of the Plan, granting Awards and ensuring a designated Company representative keeps accurate records of Awards granted and vested and/or exercised, as applicable. The Board may withdraw administration of the Plan from the Committee at any time. The Board may abolish the Committee at any time and, upon abolition administration of the Plan shall revert automatically, without any further action on the Board's part, to the Board.

2.3. No member of the Board or of any Committee or subcommittee constituted under this Article III or any Officer acting pursuant to this Article III shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or any Award.

ARTICLE IV
SHARES SUBJECT TO THE PLAN

Subject to the provisions of Article IX relating to adjustments upon changes in stock, up to a number of shares of Common Stock equal to 15% of the total number of shares of Common Stock outstanding as of the date the Plan is approved by the Board (calculated on a fully-diluted basis) may be issued pursuant to this Plan. If any Awards granted under the Plan shall terminate, expire or be cancelled for any reason as to any Common Stock, new Awards may thereafter be granted covering such Common Stock. In addition, the following Common Stock will also be added back to the aggregate number of shares of Common Stock available for issuance under this Plan: (i) Common Stock that was subject to a stock-settled Stock Appreciation Right and was not issued upon the net settlement or net exercise of such Stock Appreciation Right, (ii) Common Stock delivered to or withheld by the Company to pay the exercise price of an Option, or (iii) Common Stock delivered to or withheld by the Company to pay the withholding taxes related an Award. Any Common Stock issued under this Plan may, in whole or in part, be either authorized but unissued Common Stock or issued Common Stock reacquired by the Company. Notwithstanding anything herein to the contrary, the aggregate Common Stock that may be issued pursuant to the exercise of Incentive Stock Options granted under this Plan shall not exceed a number of shares of Common Stock equal to 15% of the total Common Stock outstanding as of the date the Plan is approved by the Board (calculated on a fully-diluted basis), which number shall be calculated and adjusted pursuant to Article IX only to the extent that such calculation or adjustment will not affect the status of any Option intended to qualify as an Incentive Stock Option under Section 422 of the Code.

ARTICLE V
ELIGIBILITY AND RESTRICTIONS

1. ELIGIBILITY. To the extent permitted by applicable law, Incentive Stock Options may be awarded to Employees. All other Awards may be granted to Employees, Officers, Directors or Advisors of the Company or its Affiliates.

2. RESTRICTIONS. Incentive Stock Options granted under this Plan shall be subject to the following restrictions:

2.1. *Limitation on the Number of Shares* . The aggregate Fair Market Value, determined as of the date of Incentive Stock Option is granted, of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by a Recipient during any calendar year shall not exceed $100,000. If a Recipient is eligible to participate in any other incentive stock option plans of the Company which are also intended to comply with the provisions of Section 422 of the Code, the applicable annual limitation shall apply to the Common Stock for which Incentive Stock Options may be granted under all such plans. An Incentive Stock Option may be granted which exceeds $100,000 limitation, as long as under then applicable law the portion of such Option which is exercisable for shares in excess of the $100,000 limitation shall be treated as a Non-Qualified Stock Option.

2.2. *Ten Percent (10%) Shareholder* . If any Recipient to whom an Incentive Stock Option is granted pursuant to the provisions of the Plan is on the date of grant the owner of stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company (or of any parent or subsidiary of the Company), then the following special provisions shall be applicable to the Incentive Stock Option granted to such individual:

2.2.1. The option price per share of Common Stock subject to such Incentive Stock Option shall not be less than one hundred and ten (110%) of the Fair Market Value of one (1) share of Common Stock on the date of grant; and

2.2.2. An Incentive Stock Option shall not have a term in excess of five (5) years from the date of grant.

In determining stock ownership, a Recipient shall be considered as owning the voting capital stock owned, directly or indirectly, by or for his/her brothers and sisters, spouse, ancestors, and lineal descendants. Voting capital stock owned, directly or indirectly, by or for a corporation, partnership, estate or trust shall be considered as being owned proportionately by or for its shareholders, partners, or beneficiaries, as applicable. Common Stock with respect to which any such Recipient holds an Option shall not be counted. Additionally, outstanding capital stock shall include all capital stock actually issued and outstanding immediately after the grant of the Option to the Recipient. Outstanding capital stock shall not include capital stock authorized for issue under outstanding Options held by the Recipient or any other person.

ARTICLE VI
TERMS OF OPTIONS

1. AWARD AGREEMENT. The provisions of separate Award Agreements need not be identical, but each Award Agreement shall include (through incorporation of provisions hereof or as specifically set forth in the Award Agreement or otherwise) the substance of each of the following provisions:

1.1. *Price* . The exercise price of each Option shall be not less than one hundred percent (100%) of the Fair Market Value of the stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

1.2. *Term.* No Option shall be exercisable after the expiration of ten (10) years from the date of the grant.

1.3. *Number of Shares* . Each Award Agreement shall specify the number of shares of Common Stock to which it pertains.

1.4. *Consideration* . The purchase price of the Common Stock acquired pursuant to an Option (the “Purchase Price”) shall be paid, to the extent permitted by applicable statutes and regulations, either (i) in cash or check at the time the Option is exercised, or (ii) as otherwise determined by the Board and set forth in the Award Agreement, including through an irrevocable commitment by a broker to pay over such amount from a sale of the Common Stock issuable under the Option, the delivery of previously owned Common Stock or withholding of Common Stock otherwise deliverable upon exercise of the Option.

2. EXERCISE. The total number of shares of Common Stock subject to an Option may, but need not, be allotted in periodic installments (which may, but need not, be equal). The Award Agreement may provide that from time to time during each of such installment periods, the Option may become exercisable (“vest”) with respect to some or all of the shares allotted to that period, and may be exercised with respect to some or all of the shares allotted to such period and/or any prior period as to which the Option became vested but was not fully exercised. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Board may deem appropriate. Unless otherwise specified in an Award Agreement, the Common Stock underlying an Option grant shall vest in three equal amounts: the first installment will be first exercisable on the one (1) year anniversary of the grant date and each succeeding installment will be first exercisable one (1) year from the date that the immediately preceding installment became exercisable. Any vesting schedule can be accelerated in the discretion of the Board.

3. NOTICE OF EXERCISE AND PAYMENT. An Option shall be exercisable only by delivery of a written notice to the Board specifying the number of shares of Common Stock for which it is exercised. If such Common Stock is not at the time effectively registered under the Act, as amended, the Recipient shall include with such notice a letter, in form and substance satisfactory to the Company, confirming that such Common Stock is being purchased for the Recipient's own account for investment and not with a view to the resale or distribution thereof. Payment shall be made in full at the time of delivery to the Recipient of the Common Stock for which the Option was exercised.

ARTICLE VI
TERMS OF STOCK APPRECIATION RIGHTS

1. AWARD AGREEMENT. The provisions of separate Award Agreements need not be identical, but each Award Agreement shall include (through incorporation of provisions hereof or as specifically set forth in the Award Agreement or otherwise) the substance of each of the following provisions:

1.1. *Price* . The exercise price of each Stock Appreciation Right shall be not less than one hundred percent (100%) of the Fair Market Value of the stock subject to the Option on the date the Stock Appreciation Right is granted. Notwithstanding the foregoing, a Stock Appreciation Right may be granted with an exercise price lower than that set forth in the preceding sentence if such Stock Appreciation Right is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 409A of the Code.

1.2. *Term.* No Stock Appreciation Right shall be exercisable after the expiration of ten (10) years from the date of the grant.

1.3. *Number of Shares* . Each Award Agreement shall specify the number of shares of Common Stock to which it pertains.

2. EXERCISE. The total number of shares of Common Stock subject to a Stock Appreciation Right may, but need not, be allotted in periodic installments (which may, but need not, be equal). The Award Agreement may provide that from time to time during each of such installment periods, the Stock Appreciation Right may become exercisable ("vest") with respect to some or all of the shares allotted to that period, and may be exercised with respect to some or all of the shares allotted to such period and/or any prior period as to which the Stock Appreciation Right became vested but was not fully exercised. The Stock Appreciation Right may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Board may deem appropriate. Unless otherwise specified in an Award Agreement, the Common Stock underlying a Stock Appreciation Right grant shall vest in three equal amounts: the first installment will be first exercisable on the one (1) year anniversary of the grant date and each succeeding installment will be first exercisable one (1) year from the date that the immediately preceding installment became exercisable. Any vesting schedule can be accelerated in the discretion of the Board.

3. NOTICE OF EXERCISE. A Stock Appreciation Right shall be exercisable only by delivery of a written notice to the Board specifying the number of shares of Common Stock for which it is exercised. If such Common Stock is not at the time effectively registered under the Act, as amended, the Recipient shall include with such notice a letter, in form and substance satisfactory to the Company, confirming that such Common Stock is being acquired for the Recipient's own account for investment and not with a view to the resale or distribution thereof.

ARTICLE VII
TERMS OF RESTRICTED SHARES AND RESTRICTED STOCK UNITS

1. AWARD AGREEMENT. The provisions of separate Award Agreements need not be identical, but each Award Agreement shall include (through incorporation of provisions hereof or as specifically set forth in the Award Agreement or otherwise) the substance of each of the following provisions:

1.1. *Price* . Each Award Agreement shall specify the price, if any, to be paid for the Common Stock subject to the Award, and the means of payment.

1.2. *Number of Shares* . Each Award Agreement shall specify the number of Restricted Shares or Restricted Stock Units to which it pertains.

1.3. *Restrictive Legend* . The restrictions on transferability applicable to unvested Restricted Shares shall be enforced with the appropriate legends as determined by the Board.

2. VESTING. The total number of Restricted Shares or Restricted Stock Units subject to an Award under this Article VII may, but need not, be allotted in periodic installments (which may, but need not, be equal). The Award Agreement may provide that from time to time during each of such installment periods, the Award may become vested and nonforfeitable with respect to some or all of the Restricted Shares or Restricted Stock Units allotted to that period. The Award may be subject to such other terms and conditions on the time or times when it shall become vested (which may be based on performance or other criteria) as the Board may deem appropriate. Unless otherwise specified in an Award Agreement, Awards of Restricted Shares and Restricted Stock Units shall vest in three equal amounts: the first installment will vest on the one (1) year anniversary of the grant date and each succeeding installment will vest one (1) year from the date that the immediately preceding installment became vested. Any vesting schedule can be accelerated in the discretion of the Board.

3. VALUE OF RESTRICTED STOCK UNITS. Each Restricted Stock Unit will be equal to one share of Common Stock and will entitle a Recipient to either the issuance of Common Stock or payment of an amount of cash determined with reference to the value of shares of Common Stock.

4. RESTRICTIONS ON AWARDS OF RESTRICTED SHARES . Except as otherwise specifically provided in the Plan, unvested Restricted Shares may not be sold, exchanged, transferred, pledged, hypothecated, or otherwise disposed by the Recipient.

5. VOTING RIGHTS. Unless otherwise determined by the Board, Recipients holding Restricted Shares (whether vested or unvested) granted hereunder may exercise full voting rights with respect to those Restricted Shares during the period of restriction. Recipients shall have no voting rights with respect to Common Stock underlying Restricted Stock Units unless and until such Common Stock is reflected as issued and outstanding shares on the Company's stock ledger.

6. DIVIDENDS AND DISTRIBUTIONS. A Recipient in whose name an Award of Restricted Shares and/or Restricted Stock Units is granted shall be entitled to receive all dividends and other distributions paid with respect to the Common Stock underlying such Award, unless determined otherwise by the Board. The Board will determine whether any such dividends or distributions will be automatically reinvested in additional Common Stock or will be payable in cash; provided that such additional Common Stock and/or cash shall, unless the Board determines otherwise, be subject to the same restrictions and vesting conditions as the Award with respect to which they were distributed. Notwithstanding anything herein to the contrary, in no event shall dividends or dividend equivalents be currently payable with respect to unvested or unearned Awards that are subject to performance-based vesting.

7. INVESTMENT INTENT. The Company may require that, in acquiring any Restricted Shares or Common Stock pursuant to an Award of Restricted Stock Units, the Recipient agree with, and represent to, the Company that the Recipient is acquiring such Common Stock for the purpose of investment and with no present intent to transfer, sell, or otherwise dispose of such Common Stock except for such distribution by a legal representative as shall be required by will or the laws of any jurisdiction in winding up the estate of any Recipient. Such Common Stock shall be transferable thereafter only if the proposed transfer is permitted under the Plan and if, in the opinion of counsel (who shall be satisfactory to the Company), such transfer at such time complies with applicable securities laws.

ARTICLE VIII
TERMS OF INCENTIVE BONUSES

1. AWARD AGREEMENT. The provisions of separate Award Agreements need not be identical, but each Award Agreement shall include (through incorporation of provisions hereof or as specifically set forth in the Award Agreement or otherwise) the substance of each of the following provisions:

1.1. *Performance Criteria.* The Board shall establish the performance criteria and level of achievement versus these criteria that shall determine the amount payable under an Incentive Bonus, which may include a target, threshold and/or maximum amount payable and any formula for determining such.

1.2. *Timing and Form of Payment* . The Board shall determine the timing of payment of any Incentive Bonus. Payment of the amount due under an Incentive Bonus may be made in cash or in Common Stock, as determined by the Board. The Board may provide for or, subject to such terms and conditions as the Board may specify, may permit a Recipient to elect for the payment of any Incentive Bonus to be deferred to a specified date or event.

1.3. *Discretionary Adjustments* . Notwithstanding satisfaction of any performance goals, the amount paid under an Incentive Bonus on account of either financial performance or personal performance evaluations may be adjusted by the Board on the basis of such further considerations as the Board shall determine.

ARTICLE IX
TERMINATION OF RELATIONSHIP WITH THE COMPANY

1. TERMINATION OF EMPLOYMENT OR RELATIONSHIP AS AN EMPLOYEE, DIRECTOR OR ADVISOR . In the event that a Recipient's Continuous Status as an Employee, Director or Advisor terminates (other than upon the Recipient's death, Disability, or by the Company with or without Cause), (i) all unvested Options, Stock Appreciation Rights, Restricted Shares and Restricted Stock Units will immediately and automatically be terminated and forfeited back to the Company without payment of any additional consideration, unless determined otherwise at the discretion of the Board, and (ii) the Recipient may exercise his or her vested Options and Stock Appreciation Rights but only within such period of time ending on the earlier of (A) ninety (90) days after the termination of the Recipient's status as an Employee, Director or Advisor (or, such longer or shorter period specified in the applicable Award Agreement or another written agreement between the Company and the Recipient), or (B) the expiration of the term of the Award as set forth in the applicable Award Agreement.

2. TERMINATION WITHOUT CAUSE. In the event that a Recipient's Continuous Status as an Employee, Director or Advisor is terminated by the Company without Cause, as defined herein (and other than by reason of the Recipient's death, Disability or resignation for any reason), (i) all unvested Options, Stock Appreciation Rights, Restricted Shares and Restricted Stock Units scheduled to vest through the end of the year of termination will immediately and automatically vest and the remaining unvested shares subject to any such Awards will immediately and automatically be terminated and forfeited back to the Company without payment of any additional consideration, unless determined otherwise at the discretion of the Board, and (ii) the Recipient may exercise his or her vested Options and Stock Appreciation Rights but only within such period of time ending on the earlier of (A) ninety (90) days after the termination of the Recipient's status as an Employee, Director or Advisor (or, such longer or shorter period specified in the applicable Award Agreement or another written agreement between the Company and the Recipient), or (B) the expiration of the term of the Award as set forth in the applicable Award Agreement.

3. TERMINATION FOR CAUSE. In the event that a Recipient's Continuous Status as an Employee, Director or Advisor terminates for Cause, as defined herein, all vested and unvested Awards then held by the Recipient will immediately and automatically be terminated and forfeited back to the Company without payment of any additional consideration.

4. DISABILITY OF RECIPIENT . In the event that a Recipient's Continuous Status as an Employee, Director or Advisor terminates as a result of the Recipient's Disability, as defined herein and in Section 22(e)(3) of the Code, (i) all unvested Options, Stock Appreciation Rights, Restricted Shares and Restricted Stock Units scheduled to vest through the end of the year of termination will immediately and automatically vest and the remaining unvested shares subject to any such Awards will immediately and automatically be terminated and forfeited back to the Company without payment of any additional consideration, unless determined otherwise at the discretion of the Board, and (ii) the Recipient may exercise his or her vested Options and Stock Appreciation Rights, but only within such period of time ending on the earlier of (A) the date twelve (12) months following such termination (or, such longer or shorter period specified in the applicable Award Agreement or another written agreement between the Company and the Recipient), or (B) the expiration of the term of the Award as set forth in the applicable Award Agreement.

5. DEATH OF RECIPIENT . In the event of the death of a Recipient during, or within a period specified in the Award Agreement after the termination of, the Recipient's status as an Employee, Director or Advisor, all unvested Awards will immediately and automatically vest, and Recipient's Options and Stock Appreciation Rights may be exercised by the Recipient's estate, by a person who acquired the right to exercise the Award by bequest or inheritance or by a person designated to exercise the Award upon the Recipient's death pursuant to this Plan, but only within the period ending on the earlier of (i) the date twelve (12) months following the date of death (or, such longer or shorter period specified in the applicable Award Agreement or another written agreement between the Company and the Recipient), or (B) the expiration of the term of the Award as set forth in the applicable Award Agreement.

6. ADJUSTMENTS BY THE BOARD. Any provisions under this Article IX may be subject to adjustments by the Board, including the acceleration or extension of specified time periods.

ARTICLE X
DUTIES, RIGHTS AND RESPONSIBILITIES OF RECIPIENTS

1. RESPONSIBILITY FOR EXERCISE . A Recipient is responsible for taking any and all actions as may be required to exercise any Option or Stock Appreciation Right in a timely manner, and for properly executing any documents as may be required for the exercise of an Option or Stock Appreciation Right in accordance with such rules and procedures as may be established from time to time under the Plan. By signing or accepting an Award Agreement a Recipient (and any person to whom the Option or Stock Appreciation Right under that Award Agreement is transferred) acknowledges that information regarding the procedures and requirements for the exercise of that Option or Stock Appreciation Right is available upon such Recipient's or person's request to the Board. The Company shall have no duty or obligation to notify any Recipient of the expiration of any Option or Stock Appreciation Right.

2. WITHHOLDING TAXES; DELIVERY OF SHARES . If Common Stock acquired by exercise of an Incentive Stock Option granted pursuant to this Plan is disposed of within two (2) years from the date of grant of the Option or within one (1) year after the transfer of the Common Stock to the Recipient, the holder of the Common Stock immediately prior to the disposition shall promptly notify the Company in writing of the date and terms of the disposition and shall provide such other information regarding the disposition as the Company may reasonably require. The Company shall not deliver Common Stock in respect of any Award unless and until the Recipient has made arrangements satisfactory to the Company to satisfy applicable withholding tax obligations. Unless the Recipient pays the withholding tax obligations to the Company by cash or check in connection with the delivery of the Common Stock or any other taxable event involving an Award, withholding may be effected, at the Company's option, by withholding Common Stock otherwise issuable in connection with the vesting and/or exercise of an Award, as applicable. The Recipient acknowledges that the Company shall have the right to deduct any taxes required to be withheld by law in connection with the delivery of Awards from any amounts payable by it to the Recipient (including, without limitation, future cash compensation).

3. NONTRANSFERABILITY . No Award shall be transferable by the Recipient otherwise than by will or the laws of descent or distribution, and with respect to Options and Stock Appreciation Rights granted under the Plan, each such Option and Stock Appreciation Right shall be exercisable during his/her lifetime only by him/her (except as otherwise provided for in Article IX).

4. RIGHTS AS A SHAREHOLDER . A Recipient shall have no rights as a shareholder with respect to any Common Stock covered by an Award under this Plan until the date the Recipient becomes the holder of record of such Common Stock pursuant to the terms and conditions hereof and in the applicable Award Agreement.

5. NO RIGHTS. Except as otherwise expressly provided in herein, no Recipient shall have any rights by reason of any subdivision or consolidation of shares of the capital stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of any class or by reason of any dissolutions, liquidation, merger or consolidation or spin-off of assets or stock of another corporation, and any issue by the Company of shares of any class or of securities convertible into shares of any class shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to any Award granted hereunder. The grant of an Award pursuant to this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or consolidate or to dissolve, liquidate, sell, or transfer all or any part of its business or assets.

ARTICLE XI
REPRICING, CANCELLATION AND RE-GRANT OF OPTIONS

Except in connection with an change in capitalization as described in Article XII, the Board shall not effect at any time directly or indirectly the repricing of any outstanding Options or Stock Appreciation Rights, including without limitation a repricing by the cancellation of any outstanding Options or Stock Appreciation Rights under the Plan and the grant in substitution therefore of new Options or Stock Appreciation Rights under the Plan covering the same or different amount of Common Stock.

ARTICLE XII
ADJUSTMENTS UPON CHANGES IN STOCK

If any change is made in the Common Stock subject to the Plan, or subject to any Award, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan will be equitably adjusted in the class(es) and maximum number of shares subject to the Plan, and the outstanding Awards will be appropriately adjusted in the class(es) and number of shares and price per share subject to such outstanding Awards. Such adjustments shall be made by the Board, the determination of which shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction not involving the receipt of consideration by the Company.) When the event(s) described in the preceding sentences occur, all Plan provisions relating to restrictions and lapse of restrictions will apply to such new, additional, or different shares or securities to the extent applicable to the Common Stock with respect to which they were distributed, provided, however, that if the Recipient shall receive rights, warrants or fractional interests in respect of any of Award, such rights or warrants may be held, exercised, sold or otherwise disposed of, and such fractional interests may be settled, by the Recipient free and clear of the restrictions hereafter set forth.

ARTICLE XIII
AMENDMENT OF THE PLAN AND AWARDS

1. The Board at any time, and from time to time, may amend the Plan. However, except as provided in Article XII relating to adjustments upon changes in capitalization, no amendment shall be effective unless approved by the equity holders of the Company within twelve (12) months before or after the adoption of the amendment, where the amendment will:

1.1. Increase the number of shares of Common Stock reserved for Awards under the Plan;

1.2. Modify the requirements as to eligibility for participation in the Plan (to the extent such modification requires shareholder approval in order for the Plan to satisfy the requirements of Section 422 of the Code or any securities exchange on which the Common Stock is listed); or

1.3. Modify the Plan in any other way if such modification requires equity holder approval in order for the Plan to satisfy the requirements of Section 422 of the Code, other applicable law or any securities exchange on which the Common Stock is listed.

2. The Board may in its sole discretion submit any other amendment to the Plan for equity holder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 162(m) of the Code and the regulations promulgated thereunder regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to certain executive officers.

3. It is expressly contemplated that the Board may, but shall not be required to, amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees, Directors or Advisors with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Awards and/or to bring the Plan and/or Awards granted under it into compliance therewith.

4. Rights and obligations of the Recipient under any Award granted before amendment of the Plan shall not be materially impaired by any amendment of the Plan except with the written consent of the Recipient, unless such amendment is necessary to comply with any applicable law, regulation, rule or accounting requirement as determined in the sole discretion of the Board.

5. The Board at any time, and from time to time, may amend, modify, extend, cancel or renew any Award or waive any restrictions or conditions applicable to any Award or any shares acquired upon the exercise thereof and accelerate, continue, extend or defer the exercise time or vesting period for any Award or the vesting of any Common Stock subject thereto, including with respect to the period following a Recipient's termination of status as an Employee, Director or Advisor; provided, however, that the rights and obligations under any Award shall not be materially impaired by any such amendment except with the written consent of the Recipient, unless such amendment is necessary to comply with any applicable law, regulation, rule or accounting requirement as determined in the sole discretion of the Board.

6. The Board may accelerate the vesting and/or, if applicable, exercisability of any Award notwithstanding the provisions in the applicable Award Agreement.

7. The Board may amend the Plan to take into account changes in law and tax and accounting rules, as well as other developments, and to grant Awards that qualify for beneficial treatment under such rules without shareholder approval.

ARTICLE XIV
COMPLIANCE WITH SECURITIES LAWS

The grant of Awards and the issuance of Common Stock upon or following the exercise and/or vesting of Awards shall be subject to compliance with all applicable requirements of federal and state law with respect to such securities. Common Stock may not be issued in respect of an Award granted hereunder if the issuance of such Common Stock would constitute a violation of any applicable federal or state securities laws or other laws or regulations or the requirements of any stock exchange or market system upon which the Common Stock may then be listed. In addition, no Option or Stock Appreciation Right may be exercised and no Common Stock may be issued in connection with an Award unless (i) a registration statement under the Act shall at the time of issuance be in effect with respect to the Common Stock to be issued in connection with the Award or (ii) in the opinion of counsel to the Company, the Common Stock issuable in connection with the Award may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Common Stock under the Plan shall relieve the Company of any liability in respect of the failure to issue or sell such Common Stock as to which such requisite authority shall not have been obtained. As a condition of the exercise of any Option or Stock Appreciation Right or the grant of any other Award, the Company may require the Recipient to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company. The Company may, upon the advice of counsel to the Company, place legends on any stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

ARTICLE XV
COMPLIANCE WITH SECTION 409A

To the extent that the Board determines that any Award granted under the Plan is subject to Section 409A of the Code, the Award Agreement or other agreement evidencing the Award will incorporate the terms and conditions required by Section 409A of the Code. To the extent applicable, the Plan and Award agreements will be interpreted in accordance with Section 409A of the Code and Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Plan's effective date. Notwithstanding any provision of the Plan to the contrary, in the event that following the Plan's effective date the Board determines that any Award may be subject to Section 409A of the Code and related Department of Treasury guidance (including such Department of Treasury guidance as may be issued after the Plan's effective date), the Board may adopt such amendment to the Plan and applicable Award agreements or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Board determines are necessary or appropriate to (i) exempt the Award from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (ii) comply with the requirements of Section 409A of the Code and related Department of Treasury guidance.

ARTICLE XVI
MISCELLANEOUS

1. AWARD AGREEMENT REQUIRED. Each Award under this Plan shall be evidenced by an Award Agreement in such form and shall contain such terms and conditions as the Board shall deem appropriate. No Award or purported Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement or by communicating with the Company in such manner as the Company may authorize.

2. EMPLOYMENT AND SHAREHOLDER STATUS. The Plan does not constitute a contract of employment, and selection as a Recipient will not give any Employee the right to be retained in the employ of the Company. Except as otherwise provided herein, the grant of an Award under the Plan shall not confer upon the holder thereof any right as an equity holder of the Company, unless and until the Recipient becomes registered as a holder of Common Stock on the records of the Company.

3. WITHHOLDING BY COMPANY. If the Company or its Affiliates is required to withhold any amounts by reason of federal, state or local tax laws, rules or regulations, in respect of the issuance of Awards or Common Stock pursuant to the Plan, the Company or such Affiliates shall be entitled to deduct and withhold such amounts from any cash payments to be made to the Recipient. In any event, such person shall promptly make available to the Company or such Affiliate, when requested by the Company or such Affiliate, sufficient funds to meet the requirements of such withholding, and the Company or such Affiliate may take and authorize such steps as it may deem advisable in order to have such funds made available to the Company or such Affiliate from any funds or property due or to become due to such person. The exercise will not be effective until the Company has received such funds to cover the withholding.

4. TERMINATION. The Plan shall terminate automatically on the date that is ten (10) years from the effective date of the Plan, and may be terminated at any earlier date by the Board. No Award shall be granted hereunder after termination of the Plan, but such termination shall not affect the validity of any Award then outstanding.

5. EFFECTIVE DATE. This Plan was adopted by the Board on April 5, 2013 and shall be effective as of such date, provided the Plan is approved by equity holders within twelve (12) months of said date. Awards may be granted, but Common Stock may not be issued pursuant to such Awards, prior to the date of such shareholder approval.

6. FRACTIONAL SHARES. The Company shall not be required to issue fractional shares pursuant to this Plan and, accordingly, a Recipient may be awarded or required to purchase only whole shares.

7. GOVERNING LAW. The Plan and all determinations made and actions taken hereunder, to the extent not otherwise governed by the Code or laws of the United States, shall be governed by the laws of the State of Delaware and construed accordingly, without reference to the conflict of laws principles.

8. FUNDING OF PLAN. The Plan is intended to be an unfunded plan. The Company shall not be required to establish or fund any special or separate account or to make any other segregation of assets to assure the payment of any Award under the Plan. Recipients are and shall at all times be general creditors of the Company with respect to their Awards. If the Board or the Company chooses to set aside funds in a trust or otherwise for the payment of Awards under the Plan, such funds shall at all times be subject to the claims of the creditors of the Company in the event of its bankruptcy or insolvency.

9. SUCCESSORS. All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

10. GENDER AND NUMBER. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, any feminine term used herein shall include the masculine, and the plural shall include the singular and the singular shall include the plural.

11. SEVERABILITY. If any provision of the Plan shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

12. RULES OF CONSTRUCTION. Whenever any provision of the Plan refers to any law, rule, or regulation, such provision shall be deemed to refer to the law, rule, or regulation currently in effect and, when and if such law, rule, or regulation is subsequently amended or replaced, to the amended or successor law, rule, or regulation. The term “including” shall be deemed to include the words “including without limitation.”

Exhibit 31.1

CERTIFICATION

I, Brian M. Storms, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Liquid Holdings Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f)and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2014

/s/ BRIAN M. STORMS
Brian M. Storms
Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Peter R. Kent, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Liquid Holdings Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f)and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2014

/s/ PETER R. KENT
Peter R. Kent
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

Each of the undersigned officers of Liquid Holdings Group, Inc. (the "Company") certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2014 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2014

/s/ BRIAN M. STORMS
Brian M. Storms
Chief Executive Officer and Director
(Principal Executive Officer)

Date: November 14, 2014

/s/ PETER R. KENT
Peter R. Kent
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff on request.

This certification accompanies this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.