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EMPIRE FINANCIAL HOLDING CO

Form 10QSB

November 08, 2007

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

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

COMMISSION FILE NUMBER 1-31292

EMPIRE FINANCIAL HOLDING COMPANY

(Exact name of small business issuer as specified in its charter)

FLORIDA

56-3627212

(State or Other Jurisdiction
of Incorporation or Organization)

(I.R.S. Employer
Identification No.)

2170 WEST STATE ROAD 434, SUITE 100 LONGWOOD, FL 32779

(Address of Principal Executive Offices)

800-569-3337

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [] No [X]

As of November 2, 2007 there were 11,159,492 shares of common stock, par value \$.01 per share, outstanding.

EMPIRE FINANCIAL HOLDING COMPANY
QUARTERLY REPORT ON FORM 10-QSB
FOR THE QUARTER ENDED SEPTEMBER 30, 2007

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EMPIRE FINANCIAL HOLDING COMPANY
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (UNAUDITED)
September 30, 2007

Assets:

Cash and cash equivalents	\$	134,698
Marketable securities owned, at market value		3,523,467
Securities not readily marketable, at estimated fair value		2,754,035

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Commissions and other receivables from clearing organizations..	2,496,918
Deposits at clearing organizations	4,132,185
Furniture and equipment, net	666,394
Prepaid expenses and other assets	2,692,314
Deferred tax assets, net	2,117,000
Notes receivable	718,767
Intangible assets, net	17,605,424

Total assets \$ 36,841,202
=====

Liabilities and stockholders' equity

Liabilities:

Accounts payable, accrued expenses and other liabilities	\$ 2,290,161
Due to clearing organizations	3,930,625
Securities sold, but not yet purchased, at market value	2,040,388
Line of credit payable	1,999,450
Notes payable	9,742,209
Deferred rent payable	33,512

Total liabilities 20,036,345

Commitments and Contingencies

Stockholders' equity:

Convertible preferred stock, series C and F, \$.01 par value	
1,000,000 shares authorized 827,049 issued and outstanding ..	\$ 8,270
Common stock, \$.01 par value 100,000,000 shares authorized	
11,159,492 shares issued and outstanding	111,595
Common stock subscribed, \$.01 par value, 1,622,718 shares	
to be issued	2,000,000
Additional paid-in capital	25,946,021
Accumulated deficit	(11,261,029)

Total stockholders' equity 16,804,857

Total liabilities and stockholders' equity \$ 36,841,202
=====

See accompanying notes to the condensed consolidated financial statements.

EMPIRE FINANCIAL HOLDING COMPANY AND SUBSIDIARIES (UNAUDITED)
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS	THREE MONTHS
ENDED	ENDED
September 30,	September 30,
2007	2006
-----	-----

Revenues:

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Commissions and fees	\$ 8,530,032	\$ 3,423,710
Trading income	1,991,789	2,564,447
Investment banking income	1,624,706	464,548
	-----	-----
	12,146,527	6,452,705
	-----	-----
Expenses:		
Employee compensation and benefits	5,521,709	2,449,795
Commissions and clearing costs	6,193,056	3,574,761
General and administrative	1,858,912	1,030,122
Communications and data processing	258,693	103,565
	-----	-----
	13,832,370	7,158,243
	-----	-----
Loss from operations	(1,685,843)	(705,538)
Other income (expenses):		
Interest and other income	42,409	105,010
Interest expense	(306,342)	(161,659)
	-----	-----
	(263,933)	(56,649)
	-----	-----
Loss before income taxes	(1,949,776)	(762,187)
Less: Provision for income taxes	-	297,909
	-----	-----
Net Loss	(1,949,776)	(464,278)
Preferred stock dividends	(46,734)	(69,639)
	-----	-----
Net loss applicable to common shareholders	\$ (1,996,510)	\$ (533,917)
	=====	=====
Basic and diluted loss per share applicable to common shareholders:		
Loss per share-basic and diluted	\$ (0.18)	\$ (0.08)
	=====	=====
Loss per share diluted	\$ (0.18)	\$ (0.08)
	=====	=====
Weighted average shares outstanding:		
Basic	11,082,381	7,009,037
	=====	=====
Diluted	11,082,381	7,009,037
	=====	=====

See accompanying notes to the condensed consolidated financial statements.

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	NINE MONTHS ENDED September 30, 2007 -----	NINE MONTHS ENDED September 30, 2006 -----
Revenues:		
Commissions and fees	\$ 25,467,103	\$ 13,113,457
Trading income	6,315,081	7,769,540
Investment banking income	8,440,045	1,929,390
	-----	-----
	40,222,229	22,812,387
	-----	-----
Expenses:		
Employee compensation and benefits	14,792,630	7,508,151
Commissions and clearing costs	22,748,034	12,223,771
General and administrative	6,389,256	2,832,756
Communications and data processing	670,082	254,647
	-----	-----
	44,600,002	22,819,325
	-----	-----
Loss from operations	(4,377,773)	(6,938)
Other income (expenses):		
Interest and other income	449,858	296,182
Interest expense	(1,245,516)	(207,397)
	-----	-----
	(795,658)	88,785
	-----	-----
Income (loss) before income taxes	(5,173,432)	81,847
Less: Provision for income taxes	-	(25,405)
	-----	-----
Net income (loss)	(5,173,432)	56,442
Preferred stock dividends	(127,500)	(172,122)
	-----	-----
Net loss applicable to common shareholders	\$ (5,300,932)	\$ (115,680)
	=====	=====
Basic and diluted loss per share applicable to common shareholders:		
Loss per share-basic and diluted	\$ (0.49)	\$ (0.02)
	=====	=====
Loss per share diluted	\$ (0.49)	\$ (0.02)
	=====	=====
Weighted average shares outstanding:		
Basic	10,847,537	6,991,413
	=====	=====
Diluted	10,847,537	6,991,413
	=====	=====

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See accompanying notes to the condensed consolidated financial statements.

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EMPIRE FINANCIAL HOLDING COMPANY AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

NINE MONTHS ENDED
September 30,
2007

Cash flows from operating activities:	
Net income (loss)	\$ (5,173,432)

Adjustments to reconcile net income (loss) to net cash used by operating activities:	
Depreciation and amortization	507,986
Amortization of customer lists	84,440
Amortization of note discount	71,901
Unrealized net loss on securities	821,773
Stock compensation expense	383,179
Amortization of debt discount	285,065
Deferred rent	40,581
Value of warrants and stock received for services	(1,881,751)
Deferred taxes	-
(Increase) decrease in operating assets:	
Commissions from clearing organizations	(447,071)
Deposits at clearing organizations	(2,598,411)
Reimbursement of trading losses	-
Other receivables	841,060
Marketable trading account securities, net	1,045,615
Prepaid expenses and other assets	(818,791)
Due from employees and officers	(521,127)
Increase (decrease) in operating liabilities:	
Accounts payable, accrued expenses and other liabilities	(2,225,882)
Payable to brokers, dealers and clearing organizations	1,435,938
Securities sold, not yet purchased	641,158

Total adjustments	(2,334,337)

Cash used by operating activities	(7,507,769)
Cash flows from investing activities:	
Purchases of furniture and equipment	(212,578)
Payments on notes receivable	127,955
Issuance of notes receivable	-

Total cash used by investing activities	(84,623)

Cash flows from financing activities:	
Payments of notes payable and line of credit	(4,190,050)
Payments on short-term loans - related parties	(1,000,000)
Proceeds from short-term loans - related parties	1,000,000

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Proceeds from issuance of notes payable	6,387,158
Proceeds from sale of common stock	895,276
Proceeds from common stock subscribed	2,000,000
Proceeds from line of credit	1,999,450
Retirement of preferred stock	-
Dividends paid on preferred stock	(85,167)
Fees and commissions paid for sale of stock	(269,662)

Total cash provided by financing activities	6,737,005

Net increase (decrease) in cash and cash equivalents	(855,387)
Cash and cash equivalents at beginning of period	990,085

Cash and cash equivalents at end of period	\$ 134,698
	=====
Supplemental cash flow information:	
Interest paid	\$ 599,797
	=====
Supplemental disclosures of non-cash investing and financing activities:	
Conversion of preferred stock to common stock	\$ 199,992
	=====
Accrued preferred stock dividends, net of payments	\$ 41,610
	=====
Acquisition of Long Island Office:	
Cancellation of note	\$ 4,162,856
Accrued liabilities	\$ 921,068

	\$ 5,083,924
	=====
Issuance of stock to pay liability	\$ 768,735
	=====
Issuance of note receivable to employee	\$ 200,000
	=====
Conversion of debt to common stock	\$ 100,000
	=====
Issuance of common stock to pay preferred dividends	\$ 26,484
	=====

See accompanying notes to the condensed consolidated financial statements.

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EMPIRE FINANCIAL HOLDING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

1. BASIS OF PRESENTATION

The accompanying interim consolidated financial statements of Empire Financial Holding Company ("EFH") and its wholly owned subsidiaries; Empire Financial Group, Inc. ("EFG"), Empire Investment Advisors, Inc. ("EIA"), and Jesup & Lamont Securities Corporation ("Jesup"), (collectively, the "Company") are unaudited; however, in the opinion of management, the interim consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results

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for the interim periods. All intercompany balances and transactions have been eliminated in consolidation. Certain footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the applicable rules and regulations of the Securities and Exchange Commission. The results of operations for the nine months ended September 30, 2007, are not necessarily indicative of the results to be expected for the year ending December 31, 2007. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2006 appearing in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2006, as filed with the Securities and Exchange Commission.

Use of Estimates

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

CLEARING ARRANGEMENTS. We do not carry accounts for customers or perform custodial functions related to customers' securities. We introduce all of our customer transactions, to our clearing brokers, who maintain our customers' accounts and clear such transactions. Additionally, the clearing brokers provide the clearing and depository operations for our proprietary securities transactions. These activities may expose us to off-balance-sheet risk in the event that customers do not fulfill their obligations with the primary clearing brokers, as we have agreed to indemnify our clearing brokers for any resulting losses. We continually assess risk associated with each customer who is on margin credit and record an estimated loss when we believe collection from the customer is unlikely.

CUSTOMER CLAIMS, LITIGATION AND REGULATORY MATTERS. In the normal course of business, we have been and continue to be the subject of civil actions and arbitrations arising out of customer complaints relating to our broker dealer activities, as an employer and as a result of other business activities.

FAIR VALUE. "Marketable securities owned" and "Securities sold, but not yet purchased" on our consolidated statement of financial condition are carried at fair value or amounts that approximate fair value, with related unrealized gains and losses recognized in our results of operations. The determination of fair value is fundamental to our financial condition and results of operations and, in certain circumstances, it requires management to make complex judgments.

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EMPIRE FINANCIAL HOLDING COMPANY NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Fair values are based on listed market prices, where possible. If listed market prices are not available or if the liquidation of our positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations, and marketability. Warrants received from investment banking engagements are generally valued using the Black-Scholes option valuation model and management may reduce the value if there is a restriction as to when the warrants may be

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exercised. The Black-Scholes method uses assumptions such as volatility, interest rates, and dividend yields to determine the value.

VALUATION OF DEFERRED TAX ASSETS. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

GOODWILL AND OTHER INTANGIBLE ASSETS. The Company applies SFAS 142, Goodwill and Other Intangible Assets and performs an annual impairment test. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The fair value of each reporting unit is estimated using a discounted cash flow methodology. This requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth of the Company's business, the useful life over which cash flows will occur, and determination of the Company's weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit. The Company has selected September 30 as the date on which it performs its annual goodwill impairment test.

In connection with its acquisitions, the Company has applied the provisions of SFAS No. 141 "Business Combinations" using the purchase method of accounting. The assets and liabilities assumed were recorded at their estimated fair values. The excess purchase price over the fair value of net tangible assets and identifiable intangible assets acquired was recorded as goodwill.

The additions to goodwill include the excess purchase price over the fair value of net tangible assets and identifiable intangible assets acquired and acquisition costs.

EXPENSE RECOGNITION OF EMPLOYEE STOCK OPTIONS. Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Standards No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123 (R)"), which is a revision of SFAS No. 123. SFAS No. 123 (R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows.

2. RECENTLY ISSUED ACCOUNTING PRINCIPLES

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)", which became effective for fiscal years beginning after December 15, 2006. This interpretation was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company adopted this interpretation effective January 1, 2007. The adoption did not have any effect on the Company's financial statements.

3. STOCK BASED COMPENSATION

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Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Standards No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123 (R)"), which is a revision of SFAS No. 123. SFAS No. 123 (R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach to accounting for share-based payments in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all new share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Pro forma disclosure of the fair value of new share-based payments is no longer an alternative to financial statement recognition.

Prior to 2006, the Company accounted for its employee stock option plans under the intrinsic value method, in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. Compensation expense related to the granting of employee stock options is recorded over the vesting period only, if, on the date of grant, the fair value of the underlying stock exceeds the option's exercise price. The Company had adopted the disclosure-only requirements of SFAS No. 123, "Accounting for Stock-Based Compensation", which allowed entities to continue to apply the provisions of APB No. 25 for transactions with employees and provide pro forma net income and pro forma income per share disclosures for employee stock grants made as if the fair value based method of accounting in SFAS No. 123 had been applied to these transactions.

During the nine months ended September 30, 2007, the Company granted options to acquire 535,300 shares, of the Company's common stock, with exercise prices of \$1.97 - \$4.31 per share, which had an aggregate fair value of \$757,284. The Company recorded a compensation charge of \$383,179 for the nine months ended September 30, 2007, relating to the amortization of the fair value associated with options granted. The Company will amortize the remaining values over the remaining vesting periods of the options.

The Black-Scholes option valuation model is used to estimate the fair value of the options granted. The model includes subjective input assumptions that can materially affect the fair value estimates. The model was developed for use in estimating the fair value of traded options that have no vesting restrictions and that are fully transferable. Options issued under the Company's option plan have characteristics that differ from traded options. Principal assumptions used in applying the Black-Scholes model for the nine months ending September 30, 2007 are outlined below. In selecting these assumptions, we considered the guidance for estimating expected volatility as set forth in SFAS No. 123(R). Volatility is a measure of the amount by which the Company's common stock price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility).

Expected dividend yield:	None
Risk free interest rate:	5.16%
Expected life:	3 - 5 years
Expected volatility:	58%

EMPIRE FINANCIAL HOLDING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Had the Company determined compensation expense of employee stock options issued prior to January 1, 2006, based on the estimated fair value of the stock options at the grant date and consistent with the guidelines of SFAS

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123, its net loss would have been the pro forma amounts indicated below:

	Nine months ended September 30,		Three months end September 30,	
	2007	2006	2007	2006
Net loss applicable to common stockholders as reported	\$ (5,300,932)	\$ (115,680)	\$ (1,996,510)	\$ (5,300,932)
Subtract stock-based employee compensation expense related to stock options determined under fair value method	(479,732)	(353,593)	(244,956)	(1,111,111)
Pro forma	\$ (5,780,664)	\$ (469,273)	\$ (2,241,466)	\$ (6,412,043)
Net loss per share applicable to common stockholders:				
As reported:				
Basic:	\$ (0.49)	\$ (0.02)	\$ (0.18)	\$ (0.49)
Diluted:	\$ (0.49)	\$ (0.02)	\$ (0.18)	\$ (0.49)
Pro forma:				
Basic:	\$ (0.53)	\$ (0.07)	\$ (0.20)	\$ (0.53)
Diluted:	\$ (0.53)	\$ (0.07)	\$ (0.20)	\$ (0.53)

4. NOTES RECEIVABLE

The Company has advanced funds to certain registered representatives in five Company owned offices.

The notes receivable, by location, at September 30, 2007, were as follows:

	Amount
New York	\$200,000
Longwood	7,222
Boca Raton	4,545
Boston	17,000
San Francisco	490,000
Total notes receivable	\$718,767

5. MARKETABLE SECURITIES OWNED, AT MARKET VALUE

At September 30, 2007, marketable securities owned included \$508,614 of securities which were received as a result of the Company calling secured demand notes receivable from two of its employees to recover trading losses incurred by them during 2006. The recovered trading losses were included in trading income for the year ended December 31, 2006.

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EMPIRE FINANCIAL HOLDING COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

6. INTANGIBLE ASSETS

At September 30, 2007, intangible assets consisted of the following:

Trademarks	\$ 3,282,077
Customer lists	1,157,266
Goodwill - Jesup	8,431,830
Goodwill - Long Island Office	4,840,335

	\$17,711,508
Less: accumulated amortization	(106,084)

	\$17,605,424
	=====

During the three months ended September 30, 2007, the Company recorded goodwill totaling \$450,000 as an adjustment of the acquisition purchase price of the Long Island office.

Amortization expense for intangible assets totaled \$28,932 and \$86,796 for the three months and nine months ended September 30, 2007, respectively.

The estimated annual aggregate amortization expense related to amortizable intangible assets for 2007 and the five succeeding fiscal years are as follows:

Year ending December 31, 2007	\$126,978
Year ending December 31, 2008	160,728
Year ending December 31, 2009	160,728
Year ending December 31, 2010	160,728
Year ending December 31, 2011	160,728
Year ending December 31, 2012	160,728

The Company has selected September 30 as the date on which it performs its annual goodwill impairment test. We performed our annual goodwill impairment test as of September 30, 2007, and determined we had no goodwill impairment at that date.

7. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

At September 30, 2007, accounts payable, accrued expenses and other liabilities consisted of the following:

Accrued commissions and management fees	150,855
Accrued payroll and taxes	682,080
Accrued rent	102,598
Accrued preferred stock dividends	165,404
Accrued interest expense	211,666
Accrued expenses for Long Island acquisition ...	685,696
Other accrued expenses and accounts payable	291,862

	\$2,290,161
	=====

EMPIRE FINANCIAL HOLDING COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

8. SHORT-TERM LOANS - RELATED PARTIES

On June 14, 2007, EFH obtained a short-term loan from EFH Partners LP, a related party in the amount of \$1 million. The loan bore no interest but a one-time fee of 7.5% or \$75,000, was paid to the Company's clearing firm. The loan was payable on demand. On June 26, 2007, a \$500,000 payment was made. A second payment of \$500,000 was made on July 6, 2007, paying in full the outstanding balance.

9. LINE OF CREDIT PAYABLE

On January 31, 2007, we obtained a \$2 million credit line from Fifth Third Bank. At September 30, 2007 we have drawn \$1,999,450 of the line. The line expires on February 1, 2008. The credit line carries interest payable monthly at Fifth Third Bank's prime rate and is subject to two debt covenants. The first covenant requires the Company to maintain net capital as defined under Net Capital Rule (Rule 15c3-1) under the Securities Exchange Act of 1934 in an amount at least equal to the amount drawn under the credit line. The Company was in compliance with the first covenant at September 30, 2007. The second covenant requires the Company to maintain tangible net worth of at least \$6 million. The Company is in violation of the second covenant and has not obtained a waiver. Although it has not given any indication it intends to do so, Fifth Third Bank could call the line of credit at anytime. The interest expense through September 30, 2007 was \$125,171.

10. NOTES PAYABLE

Notes payable at September 30, 2007 consisted of the following:

Convertible notes payable to investors, interest payable quarterly at 6.5%. The notes mature March 28, 2012 and are convertible into common stock at \$2.39 per share	\$ 6,387,158
Unsecured note payable to Jesup & Lamont Holding Corporation. The note accrues interest at four percent per annum with interest and principal payable at maturity on October 1, 2011	\$ 2,500,000
Subordinated note payable to EFH Partners, with interest at four percent payable at maturity on April 1, 2008	\$ 1,000,000
Unsecured note payable to an independent registered representative which accrues interest at five percent per annum. Principal and interest is payable on demand	\$ 246,533

	\$10,133,691
Less: Unamortized discount on note to Jesup & Lamont Holding Corp.	(391,482)

	\$ 9,742,209
	=====

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

The annual maturities of principal on the notes payable are as follows:

Year ending December 31, 2007	\$ 246,533
Year ending December 31, 2008	1,000,000
Year ending December 31, 2009	-
Year ending December 31, 2010	-
Year ending December 31, 2011	2,500,000
Thereafter	6,387,158

	\$10,133,691
	=====

Interest expense related to notes payable totaled \$511,760 and \$72,709 for the nine months ended September 30, 2007 and 2006, respectively.

On March 23, 2007, the Company filed an amended Form 8-K which disclosed that as of March 7, 2007, the Company had entered into binding agreements dated as of March 6, 2007 to sell \$8,018,052 of units in a private placement to 32 accredited individual and institutional investors. The final closing in March 2007 resulted in the Company selling \$7,282,434 of units in a private placement to 31 accredited individual and institutional investors. The units consisted of an aggregate principal amount of \$6,387,158 of convertible debentures, convertible into 2,672,437 shares of common stock, 296,922 shares of common stock, and five-year warrants to purchase 1,484,610 shares of common stock. The debentures have a term of five years, pay interest at 6.5% per annum, and are convertible to common stock at a price of \$2.39 per share. The debentures contain a provision whereby the Company may require the holders to convert their debentures in the event that the Company's common stock trades at a price above \$7.50 per share for 20 consecutive days or more. The warrants are exercisable after six months from the date of issue at a price of \$2.62 per share, and contain provisions for cashless exercise in the event that one year after the date of issuance the shares underlying the warrants may not be resold pursuant to an effective registration statement. Each share of common stock underlying the units is priced at \$2.39, the closing price of the Company's common stock on March 6, 2007.

On March 7, 2007 the Company also entered into binding registration rights agreements dated as of March 6, 2007, to register all 4,453,969 shares of the common stock included in and underlying the units. The Company filed its registration statement Form S-3 as required under the registration rights agreements under on May 1, 2007, and the registration became effective on May 18, 2007. No further listing, registration or contingent requirements exist.

The total separate purchase prices of the debentures, common stock and warrants were \$6,387,158, \$709,685, and \$185,591, respectively.

The Company considered SFAS 133 and EITF 00-19 in recording this private placement. We accounted for the warrants as equity, recording the warrants at the minimum purchase of \$0.125 per share required by the AMEX rules for an "at the market offering". The debentures, common stock and warrants were all recorded at their face value purchase prices which were determined to be their fair values upon sale of the securities.

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11. TRADING INCOME

Trading income includes market making revenues which consist of net realized and net unrealized gains and losses on securities traded for the Company's own account. Trading revenues are generated from the difference between the price paid to buy securities and the amount received from the sale of securities. Volatility of stock prices, which can result in significant price fluctuations in short periods of time, may result in trading gains or losses. Gains or losses are recorded on a trade date basis.

Trading revenues consisted of the following:

	Nine months ended September 30,		Three months ended September 30,	
	2007	2006	2007	2006
Net realized gains and losses	\$ 7,136,854	\$ 8,464,009	\$ 2,019,930	\$ 2,696,564
Unrealized gains	1,067,221	1,367,109	252,606	1,001,465
Unrealized losses	(1,888,994)	(2,061,578)	(280,747)	(1,133,582)
Trading income, net	\$ 6,315,081	\$ 7,769,540	\$ 1,991,789	\$ 2,564,447

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EMPIRE FINANCIAL HOLDING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

12. EARNINGS PER SHARE

Basic earnings (loss) per share are computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings (loss) per share considers the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the earnings of the entity.

Calculation of net income (loss) per share is as follows:

	Nine months ended September 30,		Three months ended September 30,
	2007	2006	2007
Numerator for earnings (loss) per share:			
Net income (loss)	\$ (5,173,432)	\$ 56,442	\$ (1,949,776)
Preferred stock dividends	\$ 127,500	\$ (172,122)	\$ (46,734)
Loss attributable to common stockholders	\$ (5,300,932)	\$ (115,680)	\$ (1,996,510)

Denominator for loss per share:

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Basic weighted-average shares	10,847,537	6,991,413	11,082,381
Diluted weighted-average shares:			
Stock options	-	-	-
Warrants	-	-	-
Convertible preferred stock Series B	-	-	-
Convertible preferred stock Series C	-	-	-
Convertible preferred stock Series D	-	-	-
Convertible preferred stock Series E	-	-	-
Convertible preferred stock Series F	-	-	-
Convertible notes	-	-	-
	-----	-----	-----
Diluted weighted-average shares	10,847,537	6,991,413	11,082,381
	=====	=====	=====
Basic and diluted loss per share:			
Basic loss per share	\$ (0.49)	\$ (0.02)	\$ (0.18)
	=====	=====	=====
Diluted loss per share	\$ (0.49)	\$ (0.02)	\$ (0.18)
	=====	=====	=====

Due to their anti-dilutive effect, the following potential common shares have been excluded from the computation of diluted earnings per share:

Stock options	3,984,443	1,878,761	3,984,443
Warrants	3,664,180	2,327,445	3,664,180
Convertible preferred stock Series B	-	1,166,666	-
Convertible preferred stock Series C	353,100	353,100	353,100
Convertible preferred stock Series D	-	100,000	-
Convertible preferred stock Series E	-	178,291	-
Convertible preferred stock Series F	819,987	866,139	819,987
Convertible notes	2,672,437	134,089	2,672,437
Convertible notes - anti-dilution shares	481,892	-	481,892
Common stock subscribed	1,622,718	-	1,622,718
Warrants for common stock subscribed	811,359	-	811,359
	-----	-----	-----
Total common shares	14,410,116	7,004,491	14,410,116
	=====	=====	=====

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EMPIRE FINANCIAL HOLDING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

13. EQUITY

For the nine months ended September 30, 2007, the Company recorded the following stock, warrant and unit transactions:

On August 24, 2007, the Company filed a Form 8-K which disclosed that as of August 20, 2007, the Company had entered into agreements to sell \$2,250,000 of units in a private placement to 4 accredited individual and institutional investors, of which it subsequently took down funds representing the placement of \$2,000,000 of units to 3 accredited institutional investors. The units consist of 1,622,718 shares of Common Stock for \$1,898,580.06, and five-year non-redeemable warrants to purchase 811,359 shares of common stock for \$101,419.94. The warrants are exercisable after six months from the date of issue at a price of \$1.40 per share. Each share of common stock underlying the

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units is priced at \$1.17, the closing price of the Company's common stock on August 20, 2007. The subscription included Empire's agreement to register all 2,434,077 shares of common stock included in and underlying the units. Pursuant to the terms of the agreements, Empire must pay partial liquidated damages in the amount of 1% per month of the purchase price, subject to a cap of an overall aggregate payment of 10% of the purchase price, upon certain failures to register all shares of common stock underlying the units within 120 days of the closing date of the transaction. Empire will pay total cash commissions of \$80,000 in connection with these transactions.

The closing of the transaction is subject to fulfillment of certain conditions. The above sales were made for investment by accredited investors and will be issued without registration under the Securities Act of 1933, as amended, pursuant to the exemptions provided under sections 4(6) and 4(2) thereof, and pursuant to the exemption provided by Regulation D. All the securities are restricted securities and will bear a restrictive legend and be subject to stop transfer restrictions. None of the shares of common stock included in and underlying the units will be issued until the American Stock Exchange has approved its listing.

On March 23, 2007, the Company filed an amended Form 8-K which disclosed that as of March 7, 2007, the Company had entered into binding agreements dated as of March 6, 2007 to sell \$8,018,052 of units in a private placement to 32 accredited individual and institutional investors. The final closing in March 2007 resulted in the Company selling \$7,282,434 of units in a private placement to 31 accredited individual and institutional investors. The units consisted of an aggregate principal amount of \$6,387,158 of convertible debentures, currently convertible into 2,672,437 shares of common stock, 296,922 shares of common stock, and five-year warrants to purchase 1,484,610 shares of common stock. The debentures have a term of five years, pay interest at 6.5% per annum, and are convertible to common stock at a price of \$2.39 per share. The debentures contain a provision whereby the Company may require the holders to convert their debentures in the event that the Company's common stock trades at a price above \$7.50 per share for 20 consecutive days or more. The warrants are exercisable after nine months from the date of issue at a price of \$2.62 per share, and contain provisions for cashless exercise in the event that one year after the date of issuance the shares underlying the warrants may not be resold

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EMPIRE FINANCIAL HOLDING COMPANY NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

pursuant to an effective registration statement. Each share of common stock underlying the units is priced at \$2.39, the closing price of the Company's common stock on March 6, 2007. On March 7, 2007 the Company also entered into binding registration rights agreements dated as of March 6, 2007, to register all 4,453,969 shares of the common stock included in the units. The Company filed its registration statement as required under the registration rights agreements under Form S-3 on May 1, 2007, and the registration became effective on May 18, 2007. No further listing, registration or contingent requirements exist.

Two outside investors converted their shares of Series F Preferred Stock for 46,152 shares of common stock.

An employee received 200,000 shares of restricted stock which had been provided for in 2006 for the acquisition of Jesup & Lamont. The stock was valued at \$632,000 and increased goodwill by this amount.

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An employee bought from two outside investors two convertible notes with a combined face value of \$100,000 which convert to common at \$2.00 per share. On conversion of these notes he received 50,000 shares of common stock.

An outside consultant was issued 85,000 share of common stock at \$1.25 per share. The stock was issued as compensation for consulting services rendered.

An outside legal firm was issued 23,450 shares of common stock at \$1.30 per share. The stock was issued as compensation for legal services rendered.

A preferred stockholder and ex-officer of the Company was issued 15,858 shares of common stock at \$1.67 per share. The stock was issued as payment for dividends owed from 2006.

In 2000, the Company adopted its Incentive Compensation Plan (the "Plan"). The Plan is designed to serve as an incentive for retaining directors, employees, consultants and advisors. Stock options, stock appreciation rights and restricted stock options may be granted to certain persons in proportion to their contributions to the overall success of the Company as determined by the Board of Directors.

On September 28, 2007, the Company's stockholders approved the new 2007 Incentive Compensation Plan, which authorizes 4,000,000 shares of the Company's common stock to be eligible for grant of awards under the Plan. Its purpose and terms are the same as those of the 2000 Incentive Compensation Plan.

At September 30, 2007, the Company had outstanding options to purchase 3,984,443 shares of the Company's common stock. These options have been granted to officers, directors and key employees. Of the 3,984,443 options, 1,670,921 options were granted to employees, 1,420,000 were granted to officers who are not members of the Board of Directors, 625,000 were granted to officers who are members of the Board of Directors and 268,522 were granted to current outside members of the Board of Directors.

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EMPIRE FINANCIAL HOLDING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

14. INCOME TAXES

The federal and state income tax provisions are summarized as follows:

	Nine months ended September 30, 2007	Three months ended September 30, 2007
	-----	-----
Current		
Federal	\$ -	\$ -
State	-	-
	-----	-----
	-	-
	-----	-----
Deferred		
Federal	-	-
State	-	-
	-----	-----

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-	-
-----	-----
\$ -	\$ -
=====	=====

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Management believes that, based on current operations and future projections, the benefit arising from deferred tax assets totaling \$2,117,000 will be realized. However, Management also believes any additional deferred tax assets which could be recorded may not be realized, and accordingly, we recorded a valuation allowance totaling \$4,044,000 at September 30, 2007. The components of the Company's deferred tax assets at September 30, 2007 were as follows:

Deferred tax assets:	
Net operating loss carryforwards	\$ 6,257,000
Amortization of intangibles	1,035,000

Deferred tax assets	7,292,000

Deferred tax liabilities:	
Value of warrants received for services	(853,000)
Amortization of goodwill and trademarks	(278,000)

Deferred tax liabilities	(1,131,000)

Net deferred tax assets	6,161,000
Less: Valuation allowance	(4,044,000)

Net deferred tax assets	\$ 2,117,000
	=====

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EMPIRE FINANCIAL HOLDING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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The Company has net operating loss carryforwards for federal tax purposes of approximately \$15,643,000 which expire in years 2022 through 2026. The amount deductible per year is limited to approximately \$576,000 under current tax regulations for EFG and EFH and EIA combined and \$640,000 for Jesup. The intangibles being amortized are primarily Internal Revenue Code Section 197 intangibles that must be amortized over 15 years for tax purposes. Specifically, the intangibles are customer base intangibles that have been fully amortized or written off due to impairment as required under SFAS 142.

15. ACQUISITION OF LONG ISLAND OFFICE

On March 26, 2007, (the "Effective Date"), we acquired all the assets and operations of an independent broker office of supervisory jurisdiction ("OSJ") located in New York ("the Long Island office"). We paid (i) \$4,162,856 by canceling notes owed to the Company by the OSJ, and (ii) \$921,068 in accrued liabilities, for 100% of the OSJ's assets and operations. The total purchase price was \$5,083,924.

Prior to the Effective Date, neither the Registrant nor any of its affiliates, nor any officer or director of the Registrant or any associate of any such officer or director, had any material relationship with the OSJ, except that the OSJ was an Office of Supervisory Jurisdiction (as such term is defined

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by the NASD) of the Registrant.

Under the acquisition, the Company recorded (i) furniture and equipment with a fair value of \$163,090, (ii) security deposits of \$80,499, (iii) customer list of \$450,000, and (iv) goodwill of \$4,390,335.

16. COMMITMENTS AND CONTINGENCIES

Regulatory and Legal Matters

During 2005, we received and executed a settlement offer from the Securities and Exchange Commission. This settlement offer resolved an enforcement action that was brought against EFG, in May of 2004, for trading mutual fund shares on behalf of clients.

In connection with the settlement, EFG deposited \$350,000 into an escrow account pending ratification by the SEC's main office in Washington D.C. On May 11, 2007, we notified the SEC that we were withdrawing our settlement offer related to the enforcement action brought against EFG in May of 2004. On June 14, 2007 we withdrew the \$350,000 from escrow. On August 23, 2007, we received a letter from the SEC stating this investigation was completed and no further action would be pursued.

A competing brokerage firm commenced arbitration by filing a Statement of Claim on October 14, 2005 before the NASD alleging, among other things, that EFG improperly solicited Claimant's brokers for employment with EFG. To that end, Claimant has asserted claims against the Company for tortious interference with contract and unfair competition. Claimant seeks \$10,000,000 in damages from the Company. The Company denies the material allegations of the Statement of Claim and is vigorously defending this action. The Company has also asserted a counterclaim against Claimant for unfair competition. The parties appeared for the several hearings in this arbitration in 2007. Additional hearing dates have been scheduled in 2008. This claim is associated with the Long Island office that EFG acquired in March 2007.

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EMPIRE FINANCIAL HOLDING COMPANY NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Customer Complaints and Arbitration

From time to time, EFG and Jesup may be a defendant or co-defendant in arbitration matters incidental to its retail brokerage services business. EFG and Jesup may contest the allegations of the complaints in these cases and carries error and omission insurance policy to cover such incidences. The policy terms require that the Company pay a deductible of \$100,000 per incident. In the opinion of management, based on discussions with legal counsel, the outcome of any pending matters will not result in a material adverse affect on the financial position or results of operations of the Company or its subsidiaries.

The Company's subsidiaries' business involves substantial risks of liability, including exposure to liability under federal and state securities laws in connection with the underwriting or distribution of securities and claims by dissatisfied clients for fraud, unauthorized trading, churning, mismanagement and breach of fiduciary duty. In recent years there has been an increasing incidence of litigation involving the securities industry, including class actions which generally seek rescission and substantial damages. In the ordinary course of business, the Company operating through its subsidiaries and its principals are, and may become party to additional legal or regulatory

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proceedings or arbitrations. The Company is not currently involved in any additional legal or regulatory proceeding or arbitrations, the outcomes of which are expected to have a material adverse impact on the Company's business.

Due to the uncertain nature of litigation in general, we are unable to estimate a range of possible loss related to lawsuits and legal fees filed against us, and in accordance with SFAS 5 have not accrued any liability with regards to these matters.

17. NET CAPITAL REQUIREMENTS AND VIOLATIONS OF BROKER DEALER SUBSIDIARIES

Our broker dealer subsidiaries, EFG and Jesup, are subject to the requirements of the Net Capital Rule (Rule 15c3-1) under the Securities Exchange Act of 1934, which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, should not exceed 15 to 1. Net capital and related ratio of aggregate indebtedness to net capital, as defined, may fluctuate on a daily basis.

On February 6, 2006, EFG received a letter from the National Association of Securities Dealers ("NASD") threatening disciplinary action for failure to maintain required net capital during the period from September 2003 to February 14, 2005 while the Company was under different management, and alleging its violation of other NASD rules. The NASD calculated the range of net capital deficiencies during that period as between approximately \$488,000 and \$1.833 million.

On April 25, 2006, the Company notified the NASD and Securities and Exchange Commission (SEC) that as a result of a routine examination of the Company in April 2005, the Company was under the minimum net capital requirement for that period. It was determined that the trading operation was not properly terminating, in the computer trading platforms, for the stocks in which the Company makes a market. The technical error made it appear that the Company was making a market in between 39 and 78 more stocks. The Company also utilized a restricted stock position for net capital purposes that was eligible to become unrestricted but the Company had not yet submitted the documents to the transfer agent to have it cleared.

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EMPIRE FINANCIAL HOLDING COMPANY NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

In August 2007, EFG received a Notice of Acceptance of Letter of Acceptance, Waiver and Consent from the NASD ("AWC") dated July 30, 2007. The AWC settles all matters in the preceding paragraphs in return for EFG's payment of a fine in the amount of \$145,000. On August 22, 2007 payment was to the NASD in this amount.

On August 11, 2006, EFG was notified by the NASD that they considered secured demand notes receivable from employees totaling \$1,348,357 as non-allowable assets which would have placed EFG in a net capital violation. Before giving effect to the NASD position, EFG had determined that its net capital at June 30, 2006 was \$885,923, which exceeded the minimum net capital requirement by \$364,423 (an excess amount challenged by the NASD). Although the Company disagreed with the NASD position, as a result of the notification from the NASD, on August 11, 2006, the Company called the demand notes and ordered its clearing company to sweep the securities pledged as collateral for the notes from a segregated account and deposit the securities in the name of EFG in its general marketable securities account. EFG then reclassified the amounts previously recorded as secured demand notes receivable to marketable securities

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owned, at market value. Further, pursuant to a request by the NASD, the Company also filed a net capital deficiency notification under Exchange Act Rule 17a-11 with the SEC and NASD on August 11, 2006.

At September 30, 2007, EFG reported net capital of \$1,388,237, which was \$853,237 above the required net capital of \$535,000. At September 30, 2007, Jesup reported net capital of \$810,475, which was \$710,475 above the required net capital of \$100,000.

On May 2, 2007, Jesup filed a net capital deficiency notification under Exchange Act Rule 17a-11 with the SEC and NASD related to a net capital deficiency as of March 9, 2007. This deficiency, which amounted to approximately \$5,258,000, occurred for one day as a result of Jesup's participation in a firm commitment underwriting. The deficiency was cured when the underwriting was completed.

The Company believes these matters will not have a material adverse effect.

The ratio of aggregate indebtedness to net capital was 0.67 to 1 for EFG and .85 to 1 for Jesup. EFG and Jesup are exempt from Rule 15c3-3 under Paragraph (k)(2)(ii) of the Rule as all customer transactions are cleared through other broker dealers on a fully-disclosed basis.

We have received the final approved Membership Agreement from the NASD for our acquisition of Jesup.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the Selected Consolidated Financial Data and the Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-KSB for the year ended December 31, 2006, as previously filed with the Securities and Exchange Commission. Our significant accounting policies are disclosed in the Notes to Consolidated Financial Statements found in our Annual Report on Form 10-KSB for the year ended December 31, 2006.

This Form 10-QSB contains statements about future events and expectations which are, "forward looking statements". Any statement in this Form 10-QSB that is not a statement of historical fact may be deemed to be a forward looking statement. Forward-looking statements represent our judgment about the future and are not based on historical facts. These statements include: forecasts for growth in the number of customers using our service, statements regarding our anticipated revenues, expense levels, liquidity and capital resources and other statements including statements containing such words as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," "continue" or "plan" and similar expressions or variations. These statements reflect the current risks, uncertainties and assumptions related to various factors including, without limitation, fluctuations in market prices, competition, changes in securities regulations or other applicable governmental regulations, technological changes, management disagreements and other factors described under the heading "Factors affecting our operating results, business prospects, and market price of stock" contained in our Annual Report on Form 10-KSB for the year ended December 31, 2006, as previously filed with the SEC. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described in this report as

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anticipated, believed, estimated or intended. We undertake no obligation to update, and we do not have a policy of updating or revising, these forward-looking statements. Except where the context otherwise requires, the terms "we," "us," or "our" refer to Empire Financial Holding Company and its wholly-owned subsidiaries.

RESULTS OF OPERATIONS:

Three months ended September 30, 2007 compared to three months ended September 30, 2006:

Revenues:

Total revenues for the three months ended September 30, 2007 were \$12,146,527, an increase of \$5,693,822, or 88%, over total revenues of \$6,452,705 for the same period in 2006, of which 93% was due to the acquisition of Jesup. This increase is primarily due to the reasons described below:

Commissions and fees revenues for the three months ended September 30, 2007 were \$8,530,032, an increase of \$5,106,322 or approximately 149%, from our commissions and fees revenues of \$3,423,710 for the comparable period in 2006, of which 65% was due to the acquisition of Jesup. The increase was primarily due to the acquisition of Jesup, which accounted for approximately 39% of our commissions and fees revenues for the three month period ended September 30, 2007. Commissions and fees revenues accounted for approximately 70% and 53%, of our total revenues for the three month periods ended September 30, 2007 and 2006, respectively.

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For the three months ended September 30, 2007 trading income was \$1,991,789, a decrease of \$572,658, or approximately 22%, from our trading income of \$2,564,447 for the comparable period in 2006. Trading income accounted for approximately 17% and 40%, of our total revenues for the three month periods ended September 30, 2007 and 2006, respectively.

For the three months ended September 30, 2007, our investment banking revenues were \$1,624,706, an increase of \$1,160,158, or approximately 250%, from our investment banking revenues of \$464,548 for the comparable period in 2006. The increase was primarily due to the growth and maturing of our investment banking department. Investment banking revenues accounted for approximately 13% and 7% of our revenues for the three month periods ended September 30, 2007 and 2006, respectively.

Expenses:

Employee compensation and benefits increased 125% to \$5,521,709 for the three months ending September 30, 2007 from \$2,449,795 for the same period in 2006. The increase was primarily due to the acquisition of Jesup, which accounted for approximately 38% of our employee compensation and benefits for the three month period ended September 30, 2007.

Commissions and clearing costs were \$6,193,056 and \$3,574,761 for the three months ending September 30, 2007 and 2006, respectively. The increase of \$2,618,295, or 73%, was due primarily to the acquisition of Jesup, which accounted for approximately 33% of our commissions and clearing costs for the three month period ended September 30, 2007.

General and administrative expenses and communications and data

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processing for the three months ending September 30, 2007 increased approximately 93% to \$2,189,507 from \$1,133,687 for the three months ended September 30, 2006. The increase was due primarily to the acquisition of Jesup, which accounted for approximately 33% of our general and administrative expenses and communications and data processing for the three month period ended September 30, 2007.

Interest expense for the three months ending September 30, 2007 increased to \$234,440 as compared to \$161,659 for the three months ending September 30, 2006. This interest was for cash interest related to bridge notes, convertible notes, and other debt in 2007.

As a result of the net loss and the increase in the deferred tax valuation allowance, there was no provision for income taxes for the three months ended September 30, 2007 and 2006.

As a result of the items discussed in the preceding paragraphs, the Company incurred a net loss of \$1,949,776 for the three months ended September 30, 2007 as compared to a net loss of \$464,278 for the three months ended September 30, 2006.

Nine months ended September 30, 2007 compared to nine months ended September 30, 2006:

Revenues:

Total revenues for the nine months ended September 30, 2007 were \$40,222,229, an increase of \$17,409,842 or approximately 76%, over total revenues of \$22,812,387 for the same period in 2006, of which 95% was due to the acquisition of Jesup. This increase is primarily due to the reasons described below:

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Commissions and fees revenues for the nine months ended September 30, 2007 were \$25,467,103, an increase of \$12,353,646 or approximately 94%, from our commissions and fees revenues of \$13,113,457 for the comparable period in 2006, of which 99% was due to the acquisition of Jesup. The increase was primarily due to the acquisition of Jesup, which accounted for approximately 48% of our commissions and fees revenues for the nine month period ended September 30, 2007. Commissions and fees revenues accounted for approximately 63% and 57%, of our total revenues for the nine month periods ended September 30, 2007 and 2006, respectively.

For the nine months ended September 30, 2007 trading income was \$6,315,081, a decrease of \$1,454,459, or approximately 19%, from our trading income of \$7,769,540 for the comparable period in 2006. The decrease was primarily due to losses incurred from proprietary trading. Trading income accounted for approximately 16% and 34%, of our total revenues for the nine month periods ended September 30, 2007 and 2006, respectively.

For the nine months ended September 30, 2007, our investment banking revenues were \$8,440,045, an increase of \$6,510,655, or approximately 337%, from our investment banking revenues of \$1,929,390 for the comparable period in 2006. The increase was primarily due to the growth and maturing of our investment banking department. Investment banking revenues accounted for approximately 21% and 9% of our revenues for the nine month periods ended September 30, 2007 and 2006, respectively.

Expenses:

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Employee compensation and benefits increased 97% to \$14,792,630 for the nine months ending September 30, 2007 from \$7,508,151 for the same period in 2006. The increase was primarily due to the acquisition of Jesup, which accounted for approximately 31% of our employee compensation and benefits for the nine month period ended September 30, 2007, and the acquisition of our Long Island office.

Commissions and clearing costs were \$22,748,034 and \$12,223,771 for the nine months ending September 30, 2007 and 2006, respectively. The increase of \$10,524,263, or 86%, was due primarily to the acquisition of Jesup, which accounted for approximately 46% of our commissions and clearing costs for the nine month period ended September 30, 2007.

General and administrative expenses and communications and data processing for the nine months ending September 30, 2007 increased approximately 131% to \$7,131,239 from \$3,087,403 for the nine months ended September 30, 2006. The increase was due primarily to increased activity in the Long Island office and the acquisition of Jesup, which accounted for approximately 40% of our general and administrative expenses and communications and data processing for the nine month period ended September 30, 2007.

Interest and other income for the nine months ended September 30, 2007 included \$350,000 of other income related to the withdrawal of escrow for an SEC settlement and the reversal of the expense previously recorded.

Interest expense for the nine months ending September 30, 2007 increased to \$1,173,616 as compared to \$207,397 for the nine months ending September 30, 2006. A total of \$285,065 of the interest expense in 2007 was amortization of debt discount. The remaining \$888,551 was for cash interest related to bridge notes, convertible notes, and other debt in 2007.

As a result of the net loss and the increase in the valuation allowance against the deferred tax assets, the provision for income taxes was zero for the nine months ended September 30, 2007.

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As a result of the items discussed in the preceding paragraphs, the Company incurred a net loss of \$5,173,432 for the nine months ended September 30, 2007 as compared to net income of \$56,442 for the nine months ended September 30, 2006.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2007, we had \$36,841,202 in assets, approximately 35% of which consisted of cash or assets readily convertible into cash. We have financed our business primarily through private placements of stock and debt offerings.

Stockholders' equity increased \$8,779,138 to \$16,804,857 at September 30, 2007, compared to \$8,025,719 at September 30, 2006. This increase is primarily due to the acquisition of Jesup and the sales and/or conversion of our preferred and common stock and convertible debt.

Due to the net loss incurred during the quarter, and non cash items offset by changes in operating assets and liabilities, net cash used by operations for the nine months ended September 30, 2007 was \$7,507,769 as opposed to net cash used by operations for the same period in 2006 of \$1,452,856.

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Cash used in investing activities for the nine months ended September 30, 2007 was \$84,623 as compared to \$2,895,164 for the same period in 2006. In 2007, the Company received \$127,955 related to notes receivable issued to provide capital to expand its independent office in Uniondale, NY and offices in San Francisco, California and Boca Raton, Florida. The Company used \$212,578 to purchase furniture and equipment. For the same period in 2006, the Company issued notes receivable for \$3,339,193, received \$591,113 on these notes and used \$147,084 for the purchase of furniture and equipment.

Cash provided from financing activities for the nine months ending September 30, 2007 was \$6,737,005. The Company raised \$6,387,158 from the issuance of interest bearing investor notes, \$895,276 from the sale of common stock and \$2,000,000 from subscriptions for an additional sale of units of common stock and warrants. The Company received proceeds of \$1,999,450 from a line of credit and made payments against notes payable of \$4,190,050. The Company also received proceeds of \$1,000,000 from short-term loans and repaid \$1,000,000 on these loans.

Goodwill and Other Intangible Assets. The Company applies SFAS 142, Goodwill and Other Intangible Assets and performs an annual impairment test. Under SFAS 142, the fair value of an asset (or liability) is the amount at which that asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Thus, the fair value of a reporting unit refers to the amount at which the unit as a whole could be bought or sold in a current transaction between willing parties. Quoted market prices in active markets are the best evidence of fair value and shall be used as the basis for the measurement, if available. However, the market price of an individual equity security (and thus the market capitalization of a reporting unit with publicly traded equity securities) may not be representative of the fair value of the reporting unit as a whole. The quoted market price of an individual equity security, therefore, need not be the sole measurement basis of the fair value of a reporting unit. Substantial value may arise from the ability to take advantage of synergies and other benefits that flow from control over another entity.

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Consequently, measuring the fair value of a collection of assets and liabilities that operate together in a controlled entity is different from measuring the fair value of that entity's individual equity securities. An acquiring entity often is willing to pay more for equity securities that give it a controlling interest rather than an investor who would pay for a number of equity securities representing less than a controlling interest. That control premium may cause the fair value of a reporting unit to exceed its market capitalization.

Our goodwill was recorded for acquisitions which are less than one year old. We believe we have not nearly begun to realize the fair value of these acquisitions or the synergies which we believe will be realized from combining with our pre-acquisition operations.

We have determined that the fair value of each reporting unit is best estimated using a discounted cash flow methodology.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The fair value of each reporting unit is estimated using a discounted cash flow methodology. This requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth

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of the Company's business, the useful life over which cash flows will occur, and determination of the Company's weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and potential goodwill impairment for each reporting unit. The Company has selected September 30 as the date on which it will perform its annual goodwill impairment test. We performed our annual goodwill impairment test as of September 30, 2007, and determined we had no goodwill impairment at that date.

If the Company subsequently determines its goodwill and other intangible assets have been impaired, the Company may have to write off a portion or all of such goodwill and other intangible assets. If all goodwill and other intangible assets were written off, the Company would record a non cash loss approximating \$17.6 million to operations and stockholders' equity.

We have only recently started to realize the benefit from the many operational changes we have made since our major change in ownership control which occurred approximately only two years ago. For example, investment banking is becoming a primary line of business. Investment banking revenues for the years ended December 31, 2005 and 2004, totaled \$266,410 and \$0, respectively. However, investment banking revenues totaled \$3,543,625 for the year ended December 31, 2006, and already totals \$8,440,045 for the nine months ended September 30, 2007.

The Company plans to raise additional debt and equity capital in 2007 and 2008 for working capital. The Company also has an acquisition plan which contemplates raising debt and equity capital to finance the acquisitions.

The Company has implemented many operating changes which are expected to benefit operations in the future. The more notable of these changes have been to eliminate our proprietary trading and consolidate operations of our broker dealers. The pro forma summary set forth below summarizes the impact on our net loss, cash and net capital as if these changes had been made as of January 1, 2007.

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PRO FORMA SUMMARY (\$Millions)

	3 MONTHS -----	9 MONTHS -----	9 MONTHS -----	9 MONTHS -----
	----- ENDED SEPTEMBER 30, 2007 -----			
	NET LOSS ----	NET LOSS ----	CASH ----	BROKERS' NET CAPITAL -----
Balances as reported at September 30, 2007:	\$(2.0)	\$(5.3)	\$0.1	\$2.2
Net adjustments related to proprietary trading	0.2	4.5	4.1	1.3
Net adjustments related to other operations	0.3 -----	1.0 -----	1.3 -----	1.0 -----
Pro forma balances	\$(1.5) -----	\$ 0.2 -----	\$5.5 -----	\$4.5 -----
Additional adjustments for				

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recurring non cash expenses:

FAS 123 stock compensation	0.1	0.4		
Depreciation and amortization	0.2	0.9		
	-----	-----		
Pro forma balances on cash basis	\$(1.2)	\$ 1.5	\$5.5	\$4.5
	=====	=====	=====	=====

OFF-BALANCE SHEET ARRANGEMENTS

Clearing Arrangements. We do not carry accounts for customers or perform custodial functions related to customers' securities. We introduce all of our customer transactions, to our clearing brokers, who maintain our customers' accounts and clear such transactions. Additionally, the clearing brokers provide the clearing and depository operations for our proprietary securities transactions. These activities may expose us to off-balance-sheet risk in the event that customers do not fulfill their obligations with the primary clearing brokers, as we have agreed to indemnify our clearing brokers for any resulting losses. We continually assess risk associated with each customer who is on margin credit and record an estimated loss when we believe collection from the customer is unlikely.

Customer Claims, Litigation and Regulatory Matters. In the normal course of business, we have been and continue to be the subject of civil actions and arbitrations arising out of customer complaints relating to our broker dealer activities, as an employer and as a result of other business activities.

We have sold securities which we do not currently own and therefore will be obligated to purchase the securities at a future date. We have recorded these obligations in our financial statements at September 30, 2007 at the market values of the securities and will incur a loss if the market value increases subsequent to September 30, 2007. The occurrence of these off-balance sheet losses could impair our liquidity and force us to reduce or curtail operations.

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ITEM 3. CONTROLS AND PROCEDURES

Management, with the participation of our President and the Chief Financial Officer, carried out an evaluation of the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act") Rules 13a-15(e) and 15-d-15(e)) as of the end of the period covered by this report (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including its Chief Executive and Chief Financial Officers, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING. There were no changes in our internal controls over financial reporting that occurred during the period covered by this report that have materially affected, or are

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reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

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

On August 24, 2007, the Company filed a Form 8-K which disclosed that as of August 20, 2007, the Company had entered into agreements to sell \$2,250,000 of units in a private placement to 4 accredited individual and institutional investors, of which it subsequently took down funds representing the placement of \$2,000,000 of units to 3 accredited institutional investors. The units consist of \$1,898,580.06 to purchase 1,622,718 shares of Common Stock, and \$101,419.94 to purchase five-year non-redeemable warrants to purchase 811,359 shares of common stock. The warrants are exercisable after six months from the date of issue at a price of \$1.40 per share. Each share of common stock underlying the units is priced at \$1.17, the closing price of the Company's common stock on August 20, 2007. The subscription included Empire's agreement to register all 2,434,077 shares of common stock included in and underlying the units. Pursuant to the terms of the agreements, Empire must pay partial liquidated damages in the amount of 1% per month of the purchase price, subject to a cap of an overall aggregate payment of 10% of the purchase price, upon certain failures to register all shares of common stock underlying the units within 120 days of the closing date of the transaction. Empire will pay total cash commissions of \$80,000 in connection with these transactions.

The closing of the transaction is subject to fulfillment of certain conditions. The above sales were made for investment by accredited investors and will be issued without registration under the Securities Act of 1933, as amended, pursuant to the exemptions provided under sections 4(6) and 4(2) thereof, and pursuant to the exemption provided by Regulation D. All the securities are restricted securities and will bear a restrictive legend and be subject to stop transfer restrictions. None of the shares of common stock included in and underlying the units will be issued until the American Stock Exchange has approved its listing.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

The Company held its 2007 annual meeting of Stockholders on September 28, 2007. The matters voted on and approved by the Stockholders were as follows:

- (i) Election of Directors. Presented below are the votes cast for each director nominee.

NAME	FOR	WITHHELD AUTHORITY
----	---	-----
a. Donald A. Wojnowski Jr.	8,029,970	567,930
b. Bradley L. Gordon	8,029,970	567,930
c. Steven M. Rabinovici	8,027,970	569,930
d. John C. Rudy	8,028,970	568,930

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e. Kirk M. Warshaw 8,027,970 569,930

- (ii) Incentive Compensation Plan. Approval of a new Incentive Compensation Plan that will authorize 4,000,000 shares of our common stock to be eligible for grant of awards under the Plan. The results were as follows:

FOR ---	AGAINST -----	ABSTAIN -----	NOT VOTED -----
6,382,504	184,186	529,642	1,501,568

- (iii) Independent Auditors. Confirmation of the appointment of Miller Ellin & Company, LLP as Empire's independent auditors for the fiscal year ending December 31, 2007. The results were as follows:

FOR ---	AGAINST -----	ABSTAIN -----
8,562,998	2,043	32,859

- (iv) Company Name Change. To amend the Company's Articles of Incorporation to change the name of the Company to "Jesup & Lamont, Inc.". The results were as follows:

FOR ---	AGAINST -----	ABSTAIN -----
8,582,975	13,575	1,350

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ITEM 5. OTHER INFORMATION

On November 6, 2007, the Company's Board of Directors approved amended and restated bylaws that provide for the issuance of uncertificated shares, in order for the Company's stock to be eligible for the Depository Trust Company's Direct Registration System and to meet the requirements of Section 135 of the AMEX Company Guide which are effective January 1, 2008. The complete amended and restated bylaws are attached to this report on Form 10QSB as Exhibit 3(ii).

On November 6, 2007, the Company's Board of Directors appointed Kevin A. Carreno as Chief Operating Officer. From 2005 to the present, Mr. Carreno founded and was President of a independent legal and compliance consulting firm that served the broker-dealer and investment advisory industry. Since 2006 he was also an adjunct professor in business and computer law at St. Petersburg College, Florida. Before that, from 2000 to 2004, he was Chief Executive Officer of the first independent contractor Broker Dealer launched in the UK. From 1990 until 2000, he served in a variety of senior management roles including Director of Compliance and Associate Corporate Counsel for a Florida based financial services company. Mr. Carreno retired from the U.S. Air Force as a Lieutenant Colonel after 27 years of both active duty and Reserve service. Mr. Carreno holds a Bachelor of Science degree from the United States Air Force Academy and a J.D. from the University of Denver.

Mr. Carreno's annual compensation under the agreement is \$250,000 plus bonuses and other benefits provided to its employees. Mr. Carreno was also awarded a grant of 100,000 shares of the Company's common stock, and an option to purchase 200,000 shares of the Company's common stock at 110% of the closing price on November 6, 2007.

ITEM 6. EXHIBITS

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- 3(ii) Amended and Restated Bylaws.
- 10.29 2007 Incentive Compensation Plan (1)
- 10.30 Employment contract for Kevin A. Carreno
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Principal Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Principal Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A, filed with the SEC on August 23, 2007.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EMPIRE FINANCIAL HOLDING COMPANY

/s/ Donald A. Wojnowski Jr.

Date: November 8, 2007

Donald A. Wojnowski Jr.
President/CEO
(Principal Executive Officer)

/s/ James M. Matthew

Date: November 8, 2007

James M. Matthew
Chief Financial Officer
(Principal Financial Officer)

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