Merriman Holdings, Inc
Form 10-K
March 31, 2014

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended December 31, 2013

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 001-15831

MERRIMAN HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**11-2936371**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

250 Montgomery Street, 16th Floor

San Francisco, CA 94104

(Address of principal executive offices)(Zip Code)

(415) 248-5600

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

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

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 x

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer ¨ Accelerated filer ¨
Non-accelerated filer (Do not check if a smaller reporting company) ¨ Smaller Reporting Company x

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

The aggregate market value of the 120,914,125 shares of common stock of the Registrant issued and outstanding as of September 30, 2013, the last business day of the registrant's most recently completed third fiscal quarter, was $12,091,413. This amount is based on the closing price of the common stock on OTCQX of $0.10 per share on September 30, 2013.

The number of shares of Registrant's common stock outstanding as of March 24, 2014 was 125,059,053.

TABLE OF CONTENTS

PART I

Item 1.	Business	1
Item 1A.	Risk Factors	7
Item 1B.	Unresolved Staff Comments	18
Item 2.	Properties	18
Item 3.	Legal Proceedings	19

PART II

Item 5.	Market for Registrant's Common Stock and Related Stockholder Matters	20
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	38
Item 8.	Financial Statements and Supplementary Data	39
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	82
Item 9A.	Controls and Procedures	82
Item 9B.	Other Information	82

PART III

Item 10.	Directors and Executive Officers of the Registrant	83
Item 11.	Executive Compensation	83
Item 12.	Security Ownership of Certain Beneficial Owners and Management	83
Item 13.	Certain Relationships and Related Transactions	83
Item 14.	Principal Accounting Fees and Services	83

PART IV

Item 15.	Exhibits and Financial Statement Schedules	84

This Annual Report on Form 10-K and the information incorporated by reference in this Form 10-K include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Some of the forward-looking statements can be identified by the use of forward-looking words such as "believes," "expects," "may," "should," "seeks," "approximately," "intends," "plans," "estimates" or "anticipates," or the negative of those words or other comparable terminology. Forward-looking statements involve risks and uncertainties. You should be aware that a number of important factors could cause our actual results to differ materially from those in the forward-looking statements. We will not necessarily update the information presented or incorporated by reference in this Annual Report on Form 10-K if any of these forward-looking statements turn out to be inaccurate. Risks affecting our business are described throughout this Form 10-K and especially in the section "Risk Factors." This entire Annual Report on Form 10-K, including the consolidated financial statements and the notes and any other documents incorporated by reference into this Form 10-K, should be read for a complete understanding of our business and the risks associated with that business.

PART I

Item 1. Business

Overview

Merriman Holdings, Inc. and subsidiaries (the Company) is a financial services holding company that provides capital markets advisory and research, corporate and investment banking services through its wholly-owned operating subsidiary, Merriman Capital, Inc. (hereafter MC). MC is an investment bank and securities broker-dealer whose clients are fast growing public and private companies and the entrepreneurs who manage those companies. MC is registered with the Securities and Exchange Commission (SEC) as a broker-dealer and is a member of the Financial Industry Regulatory Authority (FINRA) and Securities Investor Protection Corporation (SIPC).

Our mission is to be the leader in advising, financing, trading and investing in fast-growing companies under $1 billion in market capitalization. We originate differentiated equity research, brokerage and trading services primarily to institutional investors, as well as investment banking and advisory services to our fast-growing corporate clients.

We recognize that there is an opportunity to build an institutional quality, fully compliant platform to streamline the incredibly inefficient process of fundraising for and advising emerging companies. In the fourth quarter, we launched the Digital Capital Network, an online capital marketplace. We are now a financial technology company focused on taking a significant role in changing how high growth emerging public and private companies are funded.

We are headquartered in San Francisco, with an additional office in New York, NY. As of December 31, 2013, we had 29 employees.

Liquidity/Going Concern

The Company incurred substantial losses in 2013 and 2012, having net losses of $3,992,000 and $6,869,000, and negative operating cash flows of $2,835,000 and $4,971,000 in 2013 and 2012, respectively. As of December 31, 2013, the Company had an accumulated deficit of $148,909,000 and a shareholders' deficit of $147,000. These facts raise substantial doubt as to the Company's ability to continue as a going concern.

The accompanying audited consolidated financial statements have been prepared assuming the Company will continue on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business and do not include any adjustments that might result from uncertainty about the Company's ability to continue as a going concern.

Management's plan to alleviate the going-concern uncertainty includes, but is not limited to, the issuance of equity and debt instruments for working capital. The Company's continued existence is also dependent upon its ability to increase revenues generated from operations which will enable the Company to achieve a profitable level of operations.

If anticipated operating results are not achieved, management has the intent, and believes it has the ability, to further delay or reduce expenditures. In such case, the further reduction in operating expenses might need to be substantial. Failure to generate sufficient cash flows from operations, raise additional capital, or reduce certain discretionary spending would have a material adverse effect on the Company's ability to achieve its intended business objectives. The Company can give no assurance that it will be successful in its plans and can give no assurance that additional financing will be available on terms advantageous to the existing terms or that additional financing will be available at all. Should the Company not be successful in obtaining the necessary financing to fund its operations, the Company would need to curtail certain or all of its operational activities and/or contemplate the sale of its assets if necessary.

On March 28, 2013 and April 26, 2013, the Company issued an aggregate of 60,745,824 shares of common stock at $0.03 per share and 15,186,449 warrants for total proceeds of $1,822,375. In addition, the Company issued 40,333,331 shares of common stock at $0.03 per share and 19,249,998 warrants in connection with the conversion of $1,210,000 debt. (See Note 6) Also, on March 28, 2013, 17,001,579 shares of Series D Convertible Preferred Stock and 6,303,799 shares of Series E Convertible Preferred Stock were converted into 5,802,126 and 6,303,799 shares of common stock, respectively.

On September 16, 2013, the Company issued 2,333,332 shares of common stock at $0.06 per share and 583,332 warrants for total proceeds of $140,000. On November16, 2013 and December 15, 2013, the Company issued an aggregate of 666,666 shares of common stock at $0.06 per share and 166,666 warrants for total proceeds of $40,000. On March 12, 2014, the Company issued 833,333 shares of common stock at $0.06 per share and 208,333 warrants for total proceeds of $50,000.

1

Principal Services

Our investment banking /broker-dealer subsidiary provides four distinctive lines of business: investment banking, institutional brokerage, capital markets advisory and financial entrepreneur platform. We also provide limited research-based financial services to companies with market capitalization up to $1 billion, which we believe is an under-served sector in the financial services industry.

Investment Banking

Our investment bankers provide a full range of corporate finance and strategic advisory services. Our corporate finance practice is comprised of industry coverage investment bankers who focus on raising capital for fast-growing companies in selected industry sectors. Our strategic advisory practice tailors solutions to meet the specific needs of our clients at various phases in their growth cycle.

Corporate Finance – Our corporate finance practice advises on and structures capital raising solutions for our corporate clients through public and private offerings primarily of equity and convertible debt securities. Our focus is to provide fast-growing companies with necessary capital to bring them to the next level of growth. We offer a wide range of financial services designed to meet the needs of fast-growing companies, including initial public offerings, secondary offerings and private placements. Our equity capital markets team executes securities underwriting offerings, assists clients with investor relations advice and introduces companies seeking to raise capital to investors who we believe will be supportive, long-term investors. Additionally, we draw upon our extensive connections throughout the financial and corporate world, expanding the available options to our corporate clients.

Strategic Advisory – Our strategic advisory services include transaction-specific advice regarding mergers and acquisitions, divestitures, spin-offs and privatizations, as well as general strategic advice. Our commitment to long-term relationships and our ability to meet the needs of a diverse range of clients has made us a reliable source of advisory services for fast-growing public and private companies. Our strategic advisory services are also supported by our capital markets professionals, who provide assistance in acquisition financing in connection with mergers and acquisition transactions.

Institutional Brokerage

We provide institutional sales trading and equity execution and options execution services to institutional clients around the world. We execute securities transactions for money managers, mutual funds, hedge funds, insurance

companies, and pension and profit-sharing plans. Institutional investors normally purchase and sell securities in large quantities requiring the distribution and trading expertise we provide.

We provide integrated research and trading solutions centered on assisting our institutional clients in investing profitably, to grow their portfolios and ultimately their businesses. We understand the importance of building long-term relationships with our clients who look to us for the professional resources and relevant expertise to provide solutions for their specific situations. We believe it is important for us to assist public companies early in their corporate life cycles. We strive to provide unique investment opportunities in fast-growing, relatively undiscovered companies and to help our institutional clients to execute trades efficiently, timely and accurately.

Institutional Sales – Our sales professionals focus on communicating investment ideas to our clients and executing trades in securities of companies in our target growth sectors. By actively trading in these securities, we endeavor to couple the capital market information flow with the fundamental information flow provided by our analysts. We believe that this combined information flow is the basis of delivering favorable execution of investment strategies for our clients. Our sales professionals work with our analysts and bankers to provide up-to-date information to our institutional clients. We interface actively with our clients and plan to be involved with them over the long term.

Trading – Our trading professionals facilitate liquidity discovery in equity securities. We make markets in securities traded on the NASDAQ Stock Market, OTCQX, other stock exchanges and electronic communication networks, and service the trading desks of institutions in the United States. Our trading professionals have direct access to the major stock exchanges, including the NASDAQ Stock Market, the New York Stock Exchange and the American Stock Exchange.

The client base of our institutional brokerage business includes mutual funds, hedge funds and private investment firms. We believe this group of potential clients to number over 4,000. We grow our business by adding new clients and increasing the penetration of existing institutional clients that use our equity research and trading services in their investment process.

Corporate & Executive Services – We offer brokerage services to corporations such as stock repurchase program. We also serve the needs of company executives with restricted stock transactions, cashless exercise of options, and liquidity strategies.

Capital Markets Advisory Group – MC began offering services to sponsor companies on the International and Domestic OTCQX markets in 2007. In 2008, we solidified our position as the leading investment bank sponsor in this market. We enable non-U.S. and domestic companies to obtain greater exposure to U.S. institutional investors without the expense and regulatory burdens of listing on traditional U.S. exchanges. The International and Domestic OTCQX market tiers do not require full SEC registration and are not subject to the Sarbanes Oxley Act of 2002. Listing on the market requires the sponsorship of a qualified investment bank called a Principal American Liaison (PAL) for non-U.S. companies or a Designated Advisor for Disclosure (DAD) for domestic companies. MC was the first investment bank to achieve DAD and PAL designations. We believe that we are the leading investment bank in the number of listings of issuers on the OTCQX.

MC also offers Capital Markets Advisory Services to U.S. based companies desiring to increase the liquidity and visibility of their securities. MC believes that the market for these services is significant as it comprises the thousands of NYSE, NASDAQ, OTC and Pink Sheet companies that fall into MC's areas of research expertise and market capitalization.

Segment Reporting

Currently, the Company's business results are categorized into three operating segments: MC, Financial Entrepreneurial Platform (FEP) and Capital Market Advisory Services (CMAG). FEP is an investment banking division assisting corporate issuers in raising capital through a network of independent investment bankers. CMAG is its capital market advisory services assisting clients to obtain listing on OTCQX, a tier of Pink Sheets. The Company recognizes revenues earned by FEP on a gross basis in accordance with ASC 605-45, *Revenue Recognition: Principal Agent Considerations*, as the Company is the primary obligor in the arrangements entered into by FEP.

The Company's reportable segments are strategic business units that offer products and services which are compatible with its core business strategy. The MC segment includes a broad range of services, such as capital raising and financial advisory services for corporate clients, and brokerage and equity research services for our institutional investor clients. The FEP segment includes capital raising services through a network of independent investment bankers and CMAG includes assisting corporate issuers in listing on OTCQX, the premier OTC Market tier, along with other services that facilitate the access to institutional capital markets.

Competition

MC is engaged in the highly competitive financial services and investment industries. We compete with other securities firms – from large U.S.-based firms, securities subsidiaries of major commercial bank holding companies and U.S. subsidiaries of large foreign institutions to major regional firms, smaller niche players, and those offering competitive services via the internet. Long term developments in the brokerage industry, including decimalization and the growth of electronic communications networks, or ECNs, have reduced commission rates and profitability in the brokerage industry. Many large investment banks have responded to lower margins within their equity brokerage divisions by reducing research coverage, particularly for smaller companies, consolidating sales and trading services, and reducing headcount of more experienced sales and trading professionals. The trend by competitors to reduce services to address these challenges has created an opportunity for us as many highly qualified individuals have been dislocated, expanding the pool of experienced employees whom we might hire. Given the fact that many smaller firms have ceased their operations in the last four months, with our reduced overhead and the core compliance competency we have developed over the years, we believe the opportunity exists to expand our market presence in a cost effective way for our shareholders.

For a further discussion of the competitive factors affecting our business, see “We face strong competition from larger firms,” under “Item 1A - Risk Factors.”

Corporate Support

Accounting, Administration and Operations

Our accounting, administration and operations personnel are responsible for financial controls, internal and external financial reporting, human resources and personnel services, office operations, information technology and telecommunication systems, the processing of securities transactions, and corporate communications. With the exception of payroll processing which is performed by an outside service bureau, and client transaction processing which is performed by our clearing firm, most data processing functions are performed internally.

Compliance, Legal, Risk Management and Internal Audit

Our compliance, legal and risk management personnel (together with other appropriate personnel) are responsible for our compliance with legal and regulatory requirements of our investment banking business and our exposure to market, credit, operations, liquidity, compliance, legal and reputation risk. In addition, our compliance personnel test and audit for compliance with our internal policies and procedures. Our general counsel provides legal service throughout our Company, including advice on managing legal risk. The supervisory personnel in these areas have direct access to senior management and to the Audit Committee of our Board of Directors to ensure their independence in performing these functions. In addition to our internal compliance, legal, and risk management personnel, we retain outside auditors, tax advisors, consultants and legal counsel for their particular functional expertise.

Risk Management

In conducting our business, we are exposed to a range of risks including:

Market risk is the risk to our earnings or capital resulting from adverse changes in the values of assets resulting from movement in equity prices or market interest rates.

Credit risk is the risk of loss due to an individual client’s or institutional counterparty’s unwillingness or inability to fulfill its obligations.

Operations risk is the risk of loss resulting from systems failure, inadequate controls, human error, fraud or unforeseen catastrophes.

Liquidity risk is the potential that we would be unable to meet our obligations as they come due because of an inability to liquidate assets or obtain funding. Liquidity risk also includes the risk of having to sell assets at a loss to generate liquid funds, which is a function of the relative liquidity (market depth) of the asset(s) and general market conditions.

Compliance risk is the risk of loss, including fines, penalties and suspension or revocation of licenses by self-regulatory organizations, or from failing to comply with federal, state or local laws pertaining to financial services activities.

Legal risk is the risk that arises from potential contract disputes, lawsuits, adverse judgments, or adverse governmental or regulatory proceedings that can disrupt or otherwise negatively affect our operations or financial condition.

Reputation risk is the potential that negative publicity regarding our practices, whether factually correct or not, will cause a decline in our client base, costly litigation, or revenue decline.

We have a risk management program which sets forth various risk management policies, provides for a risk management committee and assigns risk management responsibilities. The program is designed to focus on the following:

- Identifying, assessing and reporting on corporate risk exposures and trends;
- Establishing and revising policies, procedures and risk limits, as necessary;
- Monitoring and reporting on adherence with risk policies and limits;
- Developing and applying new measurement methods to the risk process as appropriate; and
- Approving new product developments or business initiatives.

We cannot provide assurance that our risk management program or our internal controls will prevent or mitigate losses attributable to the risks to which we are exposed.

For a further discussion of the risks affecting our business, see “Item 1A Risk Factors.”

Regulation

As a result of federal and state registration and self-regulatory organization (“SRO”) memberships, we are subject to overlapping layers of regulation that cover all aspects of our securities business. Such regulations cover matters such as capital requirements, uses and safe-keeping of clients’ funds, conduct of directors, officers and employees, record-keeping and reporting requirements, supervisory and organizational procedures intended to ensure compliance with securities laws and to prevent improper trading on material nonpublic information, employee-related matters, including qualification and licensing of supervisory and sales personnel, limitations on extensions of credit in securities transactions, requirements for the registration, underwriting, sale and distribution of securities, and rules of the SROs designed to promote high standards of commercial honor and just and equitable principles of trade. A particular focus of the applicable regulations concerns the relationship between broker-dealers and their clients. As a result, many aspects of the broker-dealer client relationship are subject to regulation including, in some instances, “suitability” determinations as to certain client transactions, limitations on the amounts that may be charged to clients, timing of proprietary trading in relation to clients’ trades, and disclosures to clients.

As a broker-dealer registered with the SEC and as a member firm of FINRA, we are subject to the net capital requirements of the SEC (Rule 15c3-1 of the Securities Exchange Act of 1934) as regulated and enforced by FINRA. These capital requirements specify minimum levels of capital, computed in accordance with regulatory requirements that most firms are required to maintain and also limit the amount of leverage that each firm is able to obtain in its respective business.

"Net capital" is essentially defined as net worth (assets minus liabilities, as determined under accounting principles generally accepted in the United States ("U.S. GAAP"), plus qualifying subordinated borrowings, less the value of all of a broker-dealer's assets that are not readily convertible into cash (such as fixed assets, prepaid expenses, and unsecured receivables), and further reduced by certain percentages (commonly called "haircuts") of the market value of a broker-dealer's positions in securities and other financial instruments. The amount of net capital in excess of the regulatory minimum is referred to as "excess net capital."

The SEC's capital rules also (i) require that the broker-dealers notify it, in writing, two business days prior to making withdrawals or other distributions of equity capital or lending money to certain related persons if those withdrawals would exceed, in any 30-day period, 30% of the broker-dealers' excess net capital, and that they provide such notice within two business days after any such withdrawal or loan that would exceed, in any 30-day period, 20% of the broker-dealers' excess net capital; (ii) prohibit a broker-dealer from withdrawing or otherwise distributing equity capital or making related party loans if, after such distribution or loan, the broker-dealer would have net capital of less than $300,000 or if the aggregate indebtedness of the broker-dealer's consolidated entities would exceed 1000% of the broker-dealer's net capital in certain other circumstances; and (iii) provide that the SEC may, by order, prohibit withdrawals of capital from a broker-dealer for a period of up to 20 business days, if the withdrawals would exceed, in any 30-day period, 30% of the broker-dealer's excess net capital and if the SEC believes such withdrawals would be detrimental to the financial integrity of the broker-dealer or would unduly jeopardize the broker-dealer's ability to pay its client claims or other liabilities.

Compliance with regulatory net capital requirements could limit those operations that require the intensive use of capital, such as underwriting and trading activities, and could also restrict our ability to withdraw capital from our broker-dealer, which in turn could limit our ability to pay interests and dividends, repay debt, and redeem or repurchase shares of our outstanding capital stock.

We believe that we have been in compliance with the applicable minimum net capital rules of the SEC and FINRA at all times.

The failure of a broker-dealer to maintain its minimum required net capital would require it to cease executing client transactions until it came back into compliance, and could cause it to lose its FINRA membership, its registration with the SEC or require its liquidation. Further, the decline in a broker-dealer's net capital below certain "early warning levels," even though above minimum net capital requirements, could cause material adverse consequences to the broker-dealer.

We are also subject to "Risk Assessment Rules" imposed by the SEC, which require, among other things, that certain broker-dealers maintain and preserve certain information, describe risk management policies and procedures, and report on the financial condition of certain affiliates whose financial and securities activities are reasonably likely to have a material impact on the financial and operational condition of the broker-dealer. Certain "Material Associated Persons" (as defined in the Risk Assessment Rules) of the broker-dealer and the activities conducted by such Material Associated Persons may also be subject to regulation by the SEC.

In the event of non-compliance by us or our subsidiary with an applicable regulation, governmental regulators and one or more of the SROs may institute administrative or judicial proceedings that may result in censure, fine, civil penalties (including treble damages in the case of insider trading violations), the issuance of cease-and-desist orders, the deregistration or suspension of the non-compliant broker-dealer, the suspension or disqualification of officers or employees, or other adverse consequences. The imposition of any such penalties or orders on us or our personnel could have a material adverse effect on our operating results and financial condition.

Additional legislation and regulations, including those relating to the activities of our broker-dealer, changes in rules promulgated by the SEC, FINRA, or other states, or foreign governmental regulatory authorities and SROs, or changes in the interpretation or enforcement of existing laws and rules may adversely affect our operation and profitability. Our businesses may be materially affected not only by regulations applicable to us as a financial market intermediary but also by regulations of general application.

Geographic Area

Merriman Holdings, Inc. is domiciled in the United States and most of our revenue is attributed to United States and Canadian clients. In 2007, through our broker-dealer subsidiary, we began advising both international and domestic companies on listing on OTCQX.

All of our long-lived assets are located in the United States.

Available Information

Our website address is www.merrimanco.com. You may obtain free electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports on the "Investor Relations" portion of our website under the heading "SEC Filings." These reports are available on our website as soon as reasonably practicable after we electronically file them with the SEC. We are providing the address to our internet site solely for the information of investors. We do not intend the address to be an active link or to otherwise incorporate the contents of the website into this report.

Item 1a. Risk Factors

We face a variety of risks in our business, many of which are substantial and inherent in our business and operations. The following are risk factors that could affect our business which we consider material to our industry and to holders of our common stock. Other sections of this Annual Report on Form 10-K, including reports which are incorporated by reference, may include additional factors which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Risks Related to Our Business

We may not be able to achieve a positive cash flow and profitability.

Our ability to achieve a positive cash flow and profitability depends on our ability to generate and maintain greater revenue while incurring reasonable expenses. This, in turn, depends, among other things, on the successful shift from a transaction oriented business to service oriented business. It also depends on the continued development of our investment banking, securities brokerage business, continued growth in our Capital Markets Advisory Group (CMAG) and the successful launch of our Financial Entrepreneur Platform, and we may be unable to achieve profitability if we fail to do any of the following:

·establish, maintain, and increase our client base;

·manage the quality of our services;

·compete effectively with existing and potential competitors;

·further develop our business activities;

·attract and retain qualified personnel;

·limit operating costs;

- settle pending litigation, and

- maintain adequate working capital

We cannot be certain that we will be able to achieve a positive cash flow and profitability on a quarterly or annual basis in the future. Our inability to achieve profitability or positive cash flow could result in disappointing financial results, impede implementation of our growth strategy, or cause the market price of our common stock to decrease. Accordingly, we cannot assure you that we will be able to generate the cash flow and profits necessary to sustain our business.

We have had a number of structural changes to our operations as we divested certain non-core business lines to focus on our core service and product offerings. Additionally, there have been a number of significant challenges faced by the securities and financial industries in the past three years. As a result of our structural changes and the uncertainty of the current economic environment, the factors upon which we are able to base our estimates as to the gross revenue and the number of participating clients that will be required for us to maintain a positive cash flow are unpredictable. For these and other reasons, we cannot assure you that we will not require higher gross revenue and an increased number of clients, securities brokerage, and investment banking transactions, and/or more time in order for us to complete the development of our business that we believe we need to be able to cover our operating expenses. It is more likely than not that our estimates will prove to be inaccurate because actual events more often than not differ from anticipated events. Furthermore, in the event that financing is needed in addition to the amount that is required for this development, we cannot assure you that such financing will be available on acceptable terms, if at all.

We may not be able to continue operating our business

The Company incurred significant losses in 2013 and 2012. Even if we are successful in executing our plans, we will not be capable of sustaining losses such as those incurred in 2013. The Company's ability to meet its financial obligations is highly dependent on market and economic conditions. We also recorded net losses in certain quarters within other past fiscal years. If operating conditions worsen in 2014 or if the Company receives material adverse judgments in its pending litigations, we may not have the resources to meet our financial obligations. If the Company is not able to continue in business, the entire investment of our common shareholders may be at risk, and there can be no assurance that any proceeds shareholders would receive in liquidation would be equal to their investment in the Company, or even that shareholders would receive any proceeds in consideration of their common stock.

Prior claims on assets in liquidation

There can be no assurance that there will be any proceeds available in liquidation for our common shareholders after payments to holders of our Secured Promissory Notes and Unsecured Promissory Notes.

Common shareholders may receive nothing in liquidation or receive much less than they would if there were no Secured Promissory Notes and Unsecured Promissory Notes outstanding.

Limitations on our access to capital and our ability to comply with net capital requirements could impair our ability to conduct our business

Liquidity, or ready access to funds, is essential to financial services firms. Failures of financial institutions have often been attributable in large part to insufficient liquidity. Liquidity is of importance to our trading business, and perceived liquidity issues may affect our customers and counterparties' willingness to engage in brokerage transactions with us. Our liquidity could be impaired due to circumstances that we may be unable to control, such as a general market disruption or operational problems that affect our trading capability.

MC, our broker-dealer subsidiary, is subject to the net capital requirements of the SEC and various self-regulatory organizations of which it is a member. These requirements typically specify the minimum level of net capital a broker-dealer must maintain and also mandate that a significant part of its assets be kept in relatively liquid form. Any failure to comply with these net capital requirements could impair our ability to conduct our core business as a brokerage firm. Furthermore, MC is subject to laws that authorize regulatory bodies to prevent or reduce the flow of funds from it to Merriman Holdings, Inc. As a holding company, Merriman Holdings, Inc. depends on distributions

and other payments from its subsidiary to fund all payments on its obligations. As a result, regulatory actions could impede access to funds that Merriman Holdings, Inc. needs to make payments on obligations, including debt obligations.

Factors which could impede our ability to access additional capital include the recent extreme volatility in the equity markets and our recent operating results. If we are not able to access additional capital, we might not be able to meet our obligations in a timely manner, which would have a material adverse effect on the Company's ability to achieve its intended business objectives.

Our exposure to legal liability may be significant, and damages that we may be required to pay and the reputation harm that could result from legal action against us could materially adversely affect our businesses.

We face significant legal risks in our businesses and, in recent years, the volume of claims and amount of damages sought in litigation and regulatory proceedings against financial institutions have been increasing. These risks include potential liability under securities or other laws for materially false or misleading statements made in connection with securities offerings and other transactions, potential liability for "fairness opinions" and other advice we provide to participants in strategic transactions and disputes over the terms and conditions of trading arrangements. We are also subject to claims arising from disputes with employees for alleged discrimination or harassment, among other things. These risks often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time.

Our role as advisor to our clients on important underwriting or mergers and acquisitions transactions involves complex analysis and the exercise of professional judgment, including rendering "fairness opinions" in connection with mergers and other transactions. Therefore, our activities may subject us to the risk of significant legal liabilities to our clients and third parties, including shareholders of our clients who could bring securities class actions against us. Our investment banking engagements typically include broad indemnities from our clients and provisions to limit our exposure to legal claims relating to our services, but these provisions may not protect us or may not be enforceable in all cases.

For example, an indemnity from a client that subsequently is placed into bankruptcy is likely to be of little value to us in limiting our exposure to claims relating to that client. As a result, we may incur significant legal and other expenses in defending against litigation and may be required to pay substantial damages for settlements and adverse judgments. Substantial legal liability or significant regulatory action against us could have a material adverse effect on our results of operations or cause significant reputation harm to us, which could seriously harm our business and prospects.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation often has been instituted against many broker-dealers. Such litigation is expensive and diverts management's attention and resources. We cannot assure you that we will not be subject to such litigation. If we are subject to such litigation, even if we ultimately prevail, our business and financial condition may be adversely affected.

Our business and prospects increasingly rely on new business lines and new ways of doing business.

Our business and financial prospects rely in part on new and unproven business lines and ways of doing business, including the Digital Capital Network. Since they are new, it may be difficult to evaluate prospects for future business from such sources. Any failure of such business lines and ways of doing business to evolve in the manner expected

could adversely affect our stock price, financial condition and prospects. An increasing percentage of our revenue producers are independent contractors rather than employees of the Company. Such contractors may be more likely to sever their relationships with the Company than the employees we have typically relied on in the past, and if they do so, they may be more likely to take important client relationships with them. Furthermore, such contractors may work more independently from the Company than employees typically have and may be more likely to work from remote locations rather than from the Company's two office locations. These factors may increase the risk of claims and litigation arising from the actions of such independent contractors.

Our financial results may fluctuate substantially from period to period, which may impair our stock price.

We have experienced, and expect to experience in the future, significant periodic variations in our revenue and results of operations. These variations may be attributed in part to the fact that our investment banking revenue is typically earned upon the successful completion of a transaction, the timing of which is uncertain and beyond our control. In most cases we receive little or no payment for investment banking engagements that do not result in the successful completion of a transaction. As a result, our business is highly dependent on market conditions as well as the decisions and actions of our clients and interested third parties. For example, a client's acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or shareholder approvals, failure to secure necessary financing, adverse market conditions, or unexpected financial or other problems in the client's or counterparty's business. If the parties fail to complete a transaction on which we are advising or an offering in which we are participating, we will earn little or no revenue from the transaction.

Due to many factors, including the increased regulatory burden on corporate issuers, there have been fewer initial public offerings of securities of U.S. based companies. Consequently, many fast-growing companies have found a more cost effective method to attract capital through listing on the OTCQX. More companies initiating the process of an initial public offering are also simultaneously exploring merger and acquisition opportunities. If we are not engaged as a strategic advisor in any such dual-tracked process, our investment banking revenue would be adversely affected in the event that an initial public offering is not consummated.

As a result, we are unlikely to achieve steady and predictable earnings on a quarterly basis, which could in turn adversely affect our stock price.

Our ability to retain our professionals and recruit additional professionals is critical to the success of our business, and our failure to do so could materially adversely affect our reputation, business, and results of operations.

Our ability to obtain and successfully execute our business depends upon the personal reputation, judgment, business generation capabilities and project execution skills of our senior professionals, particularly D. Jonathan Merriman, our Co-Founder and Chief Executive Officer of Merriman Holdings, Inc., and the other senior professionals. Our senior professionals' personal reputations and relationships with our clients are a critical element in obtaining and executing client engagements. We face intense competition for qualified employees from other companies in the investment banking industry as well as from businesses outside the investment banking industry, such as investment advisory firms, hedge funds, private equity funds, and venture capital funds. From time to time, we have experienced losses of investment banking, brokerage, research, and other professionals and losses of our key personnel may occur in the future. The departure or other loss of Mr. Merriman or any other senior professional who manages substantial client relationships and possesses substantial experience and expertise, could impair our ability to secure or successfully

complete engagements, or protect our market share, each of which, in turn, could materially adversely affect our business and results of operations.

If any of our professionals were to join an existing competitor or form a competing company, some of our clients could choose to leave. The compensation plans and other incentive plans we have entered into with certain of our professionals may not prove effective in preventing them from resigning to join our competitors. If we are unable to retain our professionals or recruit additional professionals, our reputation, business, results of operations, and financial condition may be materially adversely affected.

Our compensation structure may negatively impact our financial condition if we are not able to effectively manage our expenses and cash flows.

Historically, the industry has been able to attract and retain investment banking, research, and sales and trading professionals in part because the business models have provided for lucrative compensation packages. Compensation and benefits are our largest expenditure and the variable compensation component, or bonus, has represented a significant proportion of this expense. The Company's bonus compensation is discretionary. For 2013, the potential pool was determined by a number of components including revenue production, key operating milestones, and profitability. There is a potential, in order to ensure retention of key employees, that we could pay individuals for revenue production despite the business having negative cash flows and/or net losses.

Pricing and other competitive pressures may impair the revenue and profitability of our brokerage business.

We derive a significant portion of our revenue from our brokerage business. Along with other brokerage firms, we have experienced intense price competition in this business in recent years. Recent developments in the brokerage industry, including decimalization and the growth of electronic communications networks, or ECNs, have reduced commission rates and profitability in the brokerage industry. We expect this trend toward alternative trading systems to continue. We believe we may experience competitive pressures in these and other areas as some of our competitors seek to obtain market share by competing on the basis of price.

In addition, we face pressure from larger competitors, which may be better able to offer a broader range of complementary products and services to brokerage customers in order to win their trading business.

Finally, certain large U.S. based broker-dealer firms operate under capital requirements which are less restrictive than the regulatory capital requirements we face, which puts smaller investment banks such as our Company at a competitive disadvantage in the market place.

We may experience significant losses if the value of our marketable security positions deteriorates.

We conduct active and aggressive securities trading, market making, and investment activities for our own account, which subjects our capital to significant risks. These risks include market, credit, counterparty, and liquidity risks, which could result in losses. These activities often involve the purchase, sale, or short sale of securities as principal in markets that may be characterized as relatively illiquid or that may be particularly susceptible to rapid fluctuations in liquidity and price. Trading losses resulting from such activities could have a material adverse effect on our business

and results of operations.

Difficult market conditions could adversely affect our business in many ways.

Difficult market and economic conditions and geopolitical uncertainties have in the past adversely affected and may in the future adversely affect our business and profitability in many ways. Weakness in equity markets and diminished trading volume of securities could adversely impact our brokerage business, from which we have historically generated more than half of our revenue. Industry-wide declines in the size and number of underwritings and mergers and acquisitions also would likely have an adverse effect on our revenue. In addition, reductions in the trading prices for equity securities also tend to reduce the deal value of investment banking transactions, such as underwriting and mergers and acquisitions transactions, which in turn may reduce the fees we earn from these transactions. As we may be unable to reduce expenses correspondingly, our profits and profit margins may decline.

We may suffer losses through our investments in securities purchased in secondary market transactions or private placements.

Occasionally, our Company, its officers and/or employees may make principal investments in securities through secondary market transactions or through direct investment in companies through private placements. In many cases, employees and officers with investment discretion on behalf of our Company decide whether to invest in our account or their personal account. It is possible that gains from investing will accrue to these individuals because investments were made in their personal accounts, and our Company will not realize gains because it did not make an investment. It is possible that gains from investing will accrue to these individuals and /or to the Company, while the Company’s brokerage customers do not accrue gains in the same securities due to differences in timing of investment decisions. Conversely, it is possible that losses from investing will accrue to our Company, while these individuals do not experience losses in their personal accounts because the individuals did not make investments in their personal accounts.

We face strong competition from larger firms.

The brokerage and investment banking industries are intensely competitive. We compete on the basis of a number of factors, including client relationships, reputation, the abilities and past performance of our professionals, market focus and the relative quality and price of our services and products. We have experienced intense price competition with respect to our brokerage business, including large block trades, spreads, and trading commissions. Pricing and other competitive pressures in investment banking, including the trends toward multiple book runners, co-managers, and multiple financial advisors handling transactions, have continued and could adversely affect our revenue, even during periods where the volume and number of investment banking transactions are increasing. We believe we may experience competitive pressures in these and other areas in the future as some of our competitors seek to obtain market share by competing on the basis of price.

We are a small investment bank with 29 employees as of December 31, 2013 and revenues of approximately $10 million in 2013. Many of our competitors in the investment banking and brokerage industries have a broader range of products and services, greater financial and marketing resources, larger customer bases, greater name recognition, more senior professionals to serve their clients' needs, greater global reach, have more established relationships with clients than we have, and some operate under less restrictive capital requirements. These larger and better capitalized competitors may be better able to respond to changes in the brokerage and investment banking industries, to compete for skilled professionals, to finance acquisitions, to fund internal growth, and to compete for market share generally.

The scale of our competitors has increased in recent years as a result of substantial consolidation among companies in the investment banking and brokerage industries. In addition, a number of large commercial banks, insurance companies, and other broad-based financial services firms have established or acquired underwriting or financial advisory practices and broker-dealers or have merged with other financial institutions. These firms operate under less restrictive capital requirements than we do and these firms have the ability to offer a wider range of products than we do, which enhances their competitive position. They also have the ability to support investment banking with commercial banking, insurance, and other financial services in an effort to gain market share, which has resulted, and could further result, in pricing pressure in our businesses. In particular, the ability to provide financing has become an important advantage for some of our larger competitors and, because we do not provide such financing, we may be unable to compete as effectively for clients in a significant part of the brokerage and investment banking market.

If we are unable to compete effectively with our competitors, our business, financial condition, and results of operations will be adversely affected.

We have incurred losses for the period covered by this report in the recent past and may incur losses in the future.

The Company recorded net losses of $3,392,000 and $6,869,000 for the years ended December 31, 2013 and 2012. We also recorded net losses in certain quarters within other past fiscal years. We may incur losses in future periods. If we are unable to finance future losses, those losses may have a significant effect on our liquidity as well as our ability to operate.

In addition, the Company may incur significant expenses in connection with initiating new business activities or in connection with any expansion of our underwriting, brokerage, or other businesses. We may also engage in strategic acquisitions and investments for which we may incur significant expenses. Accordingly, we may need to increase our revenue at a rate greater than our expenses to achieve and maintain profitability. If our revenue does not increase sufficiently, or even if our revenue does increase but we are unable to manage our expenses, we will not achieve and maintain profitability in future periods.

Capital markets and strategic advisory engagements are singular in nature and do not generally provide for subsequent engagements.

The ability to complete capital raising transactions for our clients is significantly affected by the state of the capital markets in general. Additionally, our investment banking clients generally retain us on a short-term, engagement-by-engagement basis in connection with specific capital markets or mergers and acquisitions transactions, rather than on a recurring basis under long-term contracts. As these transactions are typically singular in nature and our engagements with these clients may not recur, we must seek out new engagements when our current engagements are successfully completed or are terminated. As a result, high activity levels in any period are not necessarily indicative of continued high levels of activity in any subsequent period. If we are unable to generate a substantial number of new engagements and generate fees from those successful completion of transactions, our business and results of operations would likely be adversely affected.

Our risk management policies and procedures could expose us to unidentified or unanticipated risk.

Our risk management strategies and techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk.

We are exposed to the risk that third parties who owe us money, securities, or other assets will not fulfill their obligations. These parties may default on their obligations due to bankruptcy, lack of liquidity, operational failure, breach of contract, or other reasons. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. Although we regularly review credit exposures to specific clients and counterparties and to specific industries and regions that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee. In addition, concerns about, or a default by, one institution could lead to significant liquidity problems, losses, or defaults by other institutions, which in turn could adversely affect us. Also, risk management policies and procedures that we utilize with respect to investing our own funds or committing our capital with respect to investment banking or trading activities may not protect us or mitigate our risks from those activities. If any of the variety of instruments, processes, and strategies we utilize to manage our exposure to various types of risk are not effective, we may incur losses.

Our operations and infrastructure may malfunction or fail.

Our business is highly dependent on our ability to process, on a daily basis, a large number of increasingly complex transactions across diverse markets. Our financial, accounting, or other data processing systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including a disruption of electrical or communication services or our inability to occupy one or more of our buildings. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. If any of these systems do not operate properly or are disabled or if there are other shortcomings or failures in our internal processes, people, or systems, we could suffer impairment to our liquidity, financial loss, disruption of our businesses, liabilities to clients, regulatory intervention, or reputation damage.

We also face the risk of operational failure of any of our clearing agents, the exchanges, clearing houses, or other financial intermediaries we use to facilitate our securities transactions. Any such failure or termination could adversely affect our ability to execute transactions and to manage our exposure to risk.

In addition, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which located. This may include a disruption involving electrical, communication, transportation, or other services used by us or third parties with whom we conduct business, whether due to fire, other natural disaster, power or communication failure, act of terrorism or war or otherwise. Nearly all of

our employees in our primary locations, including San Francisco and New York, work in proximity to each other. If a disruption occurs in one location and our employees in that location are unable to communicate with or travel to other locations, our ability to service and interact with our clients may suffer and we may not be able to implement successfully contingency plans that depend on communication or travel. Insurance policies to mitigate these risks may not be available or may be more expensive than the perceived benefit. Further, any insurance that we may purchase to mitigate certain of these risks may not cover our loss.

Our operations also rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Our computer systems, software, and networks may be vulnerable to unauthorized access, computer viruses, or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize our or our clients' or counterparties' confidential and other information processed by, stored in, and transmitted through our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties', or third parties' operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

Evaluation of our prospects may be more difficult in light of our operating history.

As a result of the volatile economic conditions faced by the securities and financial industries, and the restructuring of our business lines, there have been a number of changes to our operations. Given these changes, we can no longer rely upon prior operating history to evaluate our business and prospects. Additionally, we are subject to the risks and uncertainties that face a company in the process of restructuring its business in the midst of uncertain economic environment. Some of these risks and uncertainties relate to our ability to attract and retain employees and clients on a cost-effective basis, expand and enhance our service offerings, raise additional capital, and respond to competitive market conditions. We may not be able to address these risks adequately, and our failure to do so may adversely affect our business and the value of an investment in our common stock.

Risks Related to Our Industry

Risks associated with volatility and losses in the financial markets.

In the last decade, the U.S. financial markets have experienced tremendous volatility and uncertainty. Several mortgage-related financial institutions and large, reputable investment banks were not able to continue operating their businesses. In the event that the securities and financial industries face similar or greater volatility, there can be no assurance that we will be able to continue our operations.

Employee misconduct could harm us and is difficult to detect and deter.

There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years. There is potential risk that employee misconduct could occur at our Company. For example, misconduct by employees could involve the improper use or disclosure of confidential information, which could result in regulatory sanctions and serious reputation or financial harm to us. It is not always possible to deter employee misconduct. The precautions we take to detect and prevent this activity may not be effective in all cases and we may suffer significant reputation harm for any misconduct by our employees.

Risks associated with regulatory impact on capital markets.

Highly publicized financial scandals in recent years have led to investor concerns over the integrity of the U.S. financial markets and have prompted Congress, the SEC, the NYSE, and FINRA to significantly expand corporate governance and public disclosure requirements. To the extent that private companies, in order to avoid becoming subject to these new requirements, decide to forgo initial public offerings, our equity underwriting business may be adversely affected. In addition, provisions of the Sarbanes-Oxley Act of 2002 and the corporate governance rules imposed by self-regulatory organizations have diverted many companies' attention away from capital market transactions, including securities offerings and acquisition and disposition transactions. In particular, companies that are or are planning to register their securities with the SEC or to become subject to the reporting requirements of the Securities Exchange Act of 1934 are incurring significant expenses in complying with the SEC and accounting standards relating to internal control over financial reporting, and companies that disclose material weaknesses in such controls under the new standards may have greater difficulty accessing the capital markets. These factors, in addition to adopted or proposed accounting and disclosure changes, may have an adverse effect on the business.

Financial services firms have been subject to increased scrutiny over the last several years, increasing the risk of financial liability and reputation harm resulting from adverse regulatory actions.

Firms in the financial services industry have been operating in a differentiated and difficult regulatory environment. The industry has experienced increased scrutiny from a variety of regulators, including the SEC, the NYSE, FINRA and state attorneys general. Penalties and fines sought by regulatory authorities have increased substantially over the last several years. This regulatory and enforcement environment has created uncertainty with respect to a number of transactions that had historically been entered into by financial services firms and that were generally believed to be permissible and appropriate. We may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. We also may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC and other United States or foreign governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. Among other things, we could be fined, prohibited from engaging in some of our business activities or subjected to limitations or conditions on our business activities. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputation harm to us, which could seriously harm our business prospects.

In addition, financial services firms are subject to numerous conflicts of interests or perceived conflicts. The SEC and other federal and state regulators have increased their scrutiny of potential conflicts of interest. We have adopted various policies, controls and procedures to address or limit actual or perceived conflicts and regularly seek to review and update our policies, controls and procedures. However, appropriate dealing with conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with conflicts of interest. Our policies and procedures to address or limit actual or perceived conflicts may also result in increased costs, additional operational personnel and increased regulatory risk. Failure to adhere to these policies and procedures may result in regulatory sanctions or client litigation. For example, the research areas of investment banks have been and remain the subject of heightened regulatory scrutiny which has led to increased restrictions on the interaction between equity research analysts and investment banking personnel at securities firms. Several securities firms in the United States reached a global settlement in 2003 and 2004 with certain federal and state securities regulators and self-regulatory organizations to resolve investigations into equity research analysts' alleged conflicts of interest. Under this settlement, the firms have been subject to certain restrictions and undertakings, which have imposed additional costs and limitations on the conduct of our businesses.

Financial service companies have experienced a number of highly publicized regulatory inquiries concerning market timing, late trading and other activities that focus on the mutual fund industry. These inquiries have resulted in increased scrutiny within the industry and new rules and regulations for mutual funds, investment advisers, and broker-dealers.

Risks Related to Ownership of Our Common Stock

Investor interest in our firm may be diluted due to issuance of additional shares of common stock.

Our Board of Directors has the authority to issue up to 300,000,000 shares of common stock and to issue options and warrants to purchase shares of our common stock without shareholder approval in certain circumstances. Future issuance of additional shares of our common stock could be at values substantially below the price at which you may purchase our stock and, therefore, could represent substantial dilution. In addition, our Board of Directors could issue large blocks of our common stock to fend off unwanted tender offers or hostile takeovers without further shareholder approval.

The table below represents a list of potentially dilutive securities outstanding as of March 24, 2014:

	December 31, 2013	2012
Series D convertible preferred stock warrants	3,388,677	3,388,677
Conversion of Series D preferred stock	-	5,802,126
Series E convertible preferred stock warrants	3,412,721	3,817,621
Conversion of Series E preferred stock	-	6,303,799
Stock options	12,796,463	3,005,532
Warrants issued in connection with secured promissory notes	492,620	87,720
Other outstanding warrants	35,945,732	759,286
Potentially dilutive securities oustanding	56,036,213	23,164,761

In addition to the potentially dilutive securities listed above, the total number of common shares outstanding as of March 24, 2014 was 125,059,053.

The exercise of the outstanding options and warrants would dilute the then-existing shareholders' percentage ownership of our common stock. Any sales resulting from the exercise of options and warrants in the public market could adversely affect prevailing market prices for our common stock. Moreover, our ability to obtain additional equity capital could be adversely affected since the holders of outstanding options and warrants may exercise them at a time when we would also wish to enter the market to obtain capital on terms more favorable than those provided by such options and warrants. We lack control over the timing of any exercise or the number of shares issued or sold if exercises occur.

A significant percentage of our outstanding common stock is owned or controlled by senior members of our firm and other employees and their interests may differ from those of other shareholders.

Our executive officers and directors, and entities affiliated with them, currently control approximately 52% of our outstanding common stock including exercise of their options and associated warrants. These shareholders, if they act together, will be able to exercise substantial influence over all matters requiring approval by our shareholders, including the election of directors and approval of significant corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change in control of us and might affect the market price of our common stock.

Provisions of the organizational documents may discourage an acquisition of us.

In addition, the Delaware General Corporation Law contains provisions that may enable our management to retain control and resist a takeover of the Company. These provisions generally prevent us from engaging in a broad range of business combinations with an owner of 15% or more of our outstanding voting stock for a period of three years from the date that such person acquires his or her stock. Accordingly, these provisions could discourage or make more difficult a change in control or a merger or other type of corporate reorganization even if it could be favorable to the interests of our shareholders.

The market price of our common stock may decline.

The market price of our common stock has in the past been, and may in the future continue to be, volatile. A variety of events may cause the market price of our common stock to fluctuate significantly, including:

- variations in quarterly operating results;
- announcements of significant contracts, milestones, and acquisitions;
- relationships with other companies;
- ability to obtain needed capital commitments;
- additions or departures of key personnel;
- sales of common and preferred stock, conversion of securities convertible into common stock, exercise of options and warrants to purchase common stock, or termination of stock transfer restrictions;
- general economic conditions, including conditions in the securities brokerage and investment banking markets;
- changes in financial estimates by securities analysts; and
- fluctuations in stock market price and trading volume.

Many of these factors are beyond our control. Any one of the factors noted herein could have an adverse effect on the value of our common stock. Declines in the price of our stock may adversely affect our ability to recruit and retain key employees, including our senior professionals.

In addition, the stock market in recent years has experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many companies and that often have been unrelated to the operating performance of such companies. These market fluctuations have adversely impacted the price of our common stock in the past and may do so in the future.

Your ability to sell your shares may be restricted because there is a limited trading market for our common stock.

An active trading market in our stock has been limited. Accordingly, you may not be able to sell your shares when you want or at the price you want.

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

We do not anticipate paying cash dividends on our common stock in the foreseeable future. Accordingly, our common stock shareholders must rely on sales of their shares of common stock after price appreciation, which may never occur, as the primary means to realize any future gains on an investment in our common stock. Investors seeking cash dividends should not purchase our common stock.

Item 1b. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2013, all of our real estate properties are leased. Our principal offices are located in San Francisco, CA and New York City, NY. We believe the facilities we are now using are adequate and suitable for business requirements.

Item 3. Legal Proceedings

Del Biaggio/Cacchione Matters (settled of dismissed)

A number of lawsuits were filed against the Company and the Parent (collectively, “Merriman Parties”) in connection with the actions of William Del Biaggio III (Del Biaggio), a former customer of the Company, and David Scott Cacchione (Cacchione), a former retail broker of the Company from 2006 to 2008. Del Biaggio and Cacchione pleaded guilty to securities fraud and were subsequently imprisoned. As of December 31, 2013, all of these lawsuits have been settled or dismissed.

Khachaturian, Peterson and Salvi v. Merriman Capital, Inc. and Merriman Holdings, Inc. (settled or dismissed)

Complaints were filed in the San Francisco County Superior Court, California, by Henry Khachaturian in January 2011, by Charles Peterson in February 2010 and by Dolores Salvi in October 2010. The complaints also named as defendants, the Company’s officers and former officers D. Jonathan Merriman, Gregory Curhan, and Robert Ford. Messrs Curhan and Ford were dropped from the case in January 2011. The complaints were consolidated into one case in March 2011. The complaints alleged that plaintiffs were convinced by the Company to purchase shares of a small, risky stock in which the Company held a position. It further alleged that the Company did not permit plaintiffs to sell the shares when the stock’s price fell. In October 2013, the parties entered into a settlement agreement and release, and the case was dismissed.

Additionally, from time to time, the Company is involved in ordinary routine litigation incidental to our business.

PART II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

Our common stock is listed on the OTCQX, where it currently trades under the symbol "MERR." The following table sets forth the range of the high and low sales prices per share of our common stock for the fiscal quarters indicated.

	High	Low
2013		
Fourth Quarter	$0.15	$0.06
Third Quarter	0.20	0.10
Second Quarter	0.28	0.09
First Quarter	0.26	0.05
2012		
Fourth Quarter	$0.54	$0.06
Third Quarter	0.62	0.32
Second Quarter	0.91	0.52
First Quarter	0.75	0.39

The closing sale price for the common stock on March 24, 2014 was $0.13. The market price of our common stock has fluctuated significantly and may be subject to significant fluctuations in the future. See Item 1A – "Risk Factors."

According to the records of our transfer agent, we had 658 shareholders of record as of December 31, 2013. Since many shares are held by brokers and other institutions on behalf of shareholders, we are unable to estimate the total number of beneficial shareholders represented by these record holders.

Our policy is to reinvest earnings in order to fund future growth. Therefore, we have not paid, and currently do not plan to declare, dividends on our common stock.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table gives information about the Company's common stock that may be issued upon the exercise of options and warrants under all of our existing equity compensation plans as of December 31, 2013.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options and Warrants	Weighted-Average Exercise Price of Outstanding Options and Warrants	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by shareholders:			
2001 Stock Option and Incentive Plan	-	-	-
2003 Stock Option and Incentive Plan	82,066	5.48	-
2009 Stock Incentive Plan	83,480	2.02	-
2012 Stock Option and Incentive Plan	12,608,436	0.21	2,254,127
2006 Directors' Stock Option and Incentive Plan	14,118	3.01	-

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the notes thereto in Part II, Item 8 to this Annual Report on Form 10-K. This discussion contains forward-looking statements reflecting our current expectations. Actual results and the timing of events may differ significantly from those projected in forward- looking statements due to a number of factors, including those set forth in Item 1A "Risk Factors" of this Annual Report on Form 10-K.

Overview

Merriman Holdings, Inc. and subsidiaries (the Company) is a financial services holding company that provides capital markets advisory and research, corporate and investment banking services through its wholly-owned operating subsidiary, Merriman Capital, Inc. (hereafter MC). MC is an investment bank and securities broker-dealer whose clients are fast growing public and private companies and the entrepreneurs who manage those companies. MC is registered with the Securities and Exchange Commission (SEC) as a broker-dealer and is a member of the Financial Industry Regulatory Authority (FINRA) and Securities Investor Protection Corporation (SIPC).

Our mission is to be the leader in advising, financing, trading and investing in fast-growing companies under $1 billion in market capitalization. We originate differentiated equity research, brokerage and trading services primarily to institutional investors, as well as investment banking and advisory services to our fast-growing corporate clients.

We recognize that there is an opportunity to build an institutional quality, fully compliant platform to streamline the incredibly inefficient process of fundraising for and advising emerging companies. In the fourth quarter, we launched the Digital Capital Network, an online capital marketplace. We are now a financial technology company focused on taking a significant role in changing how high growth emerging public and private companies are funded.

We are headquartered in San Francisco, with an additional office in New York, NY. As of December 31, 2013, we had 29 employees.

Executive Summary

Our total revenues in 2013 decreased 23% to approximately $9,960,000 due to a 32% and 28% decrease in our commission and investment banking revenues, respectively, partially offset by a 60% and 11% increase in our principal transaction revenue and capital markets advisory fees, respectively. Net loss for 2013 was 42% less than that of 2012. Our net cash used in operating activities decreased by approximately $2,096,000 primarily due to a reduction in net operating loss.

Commissions – Commission revenue from institutional brokerage business decreased by 32% to $4,202,000 in 2013 from $6,200,000 in 2012. The decrease was primarily because we had fewer producers in 2013. The brokerage business continues to face increasing challenges, including the proliferation of electronic communication networks which have reduced commission rates and profitability in the brokerage industry. Many large investment banks have responded to lower margins within their equity brokerage divisions by reducing research coverage, particularly for smaller companies, consolidating sales and trading services, and reducing headcount of sales and trading professionals.

Principal Transactions – Principal transactions resulted in a $215,000 loss in 2013, 60% less than the $535,000 loss in 2012 mostly due to market performance. Principal transaction revenue consists of customer principal trades, profits from our market making and proprietary trading activities, and unrealized gain/(loss) on trading inventory and securities received in connection with certain investment banking transactions.

Our marketable security positions are accounted for on a trade date basis and marked to market value daily. Returns from market making and proprietary trading activities tend to be more volatile than those from customer agency and principal activities.

Investment Banking – Our investment banking revenues, including FEP's, decreased 28% to $3,887,000 in 2013 from $5,372,000 in 2012. The decrease is comprised of a $1,985,000 or 51% decrease in investment banking revenues partially offset by a $500,000 or 34% increase in FEP's revenues. Decrease in investment banking revenues was primarily due to the decrease in number of deals closed. There was only one large deal (over $250,000 in fees and excluding FEP's) closed in 2013 versus 4 in 2012.

Other Revenues – During 2007, MC began offering services to sponsor companies on the Domestic and International OTCQX markets. This offering has been designed to enable domestic and non-U.S. companies to obtain greater exposure to U.S. institutional investors without the expense and regulatory burdens of listing on traditional U.S. exchanges. The Domestic and International OTCQX market tiers do not require full SEC registration or Sarbanes Oxley compliance. Listing on the market requires the sponsorship of a qualified investment bank called a Designated Advisor for Disclosure (DAD) for domestic companies or a Principal American Liaison (PAL) for non-U.S. companies. MC was the first U.S. investment bank to achieve DAD and PAL designations. Revenues earned from these activities increased 11% to $2,086,000 in 2013 from $1,882,000 in 2012..

Employees –At December 31, 2013 and 2012, the Company had 29 and 32 employees, respectively.

Business Developments – We continue to invest in business areas that we believe will increase the awareness of our franchise and contribute to future revenue opportunities such as hosting investor conferences, introducing management teams of fast-growing companies to institutional investors, marketing, and other business development activities. We continue to implement cost cutting measures in 2012. We expect significant improvements in our operating results to be primarily driven by increases in our various revenue sources.

Results of Operations

The following table sets forth the results of operations for the years ended December 31, 2013 and 2012:

	Year Ended December 31,	
	2013	2012
Revenues		
Commissions	$4,201,980	$6,199,912
Principal transactions	(215,347)	(535,458)
Investment banking	3,887,147	5,372,046
Advisory and other	2,086,127	1,882,485
Total revenues	9,959,907	12,918,985
Operating expenses		
Compensation and benefits	8,024,014	12,084,591
Brokerage and clearing fees	440,098	593,681
Professional services	383,989	599,121
Occupancy and equipment	1,385,377	1,673,686
Communications and technology	727,286	1,084,234
Depreciation and amortization	82,664	20,787
Travel and entertainment	231,122	401,860
Legal services and litigation settlement expense	520,200	427,023
Cost of underwriting capital	49,600	197,600
Other	1,345,572	1,261,417
Total operating expenses	13,189,922	18,344,000
Operating loss	(3,230,015)	(5,425,015)
Other income	-	15,000
Interest expense	(340,381)	(250,194)
Amortization of debt discount	(128,326)	(122,742)
Loss on early extinguishment of debt	(293,347)	-
Loss on equity exchange	-	(1,086,329)
Net loss	(3,992,069)	(6,869,280)
Preferred stock cash dividend	-	(42,061)
Net loss attributable to common shareholders	$(3,992,069)	$(6,911,341)

Our total revenues in 2013 decreased 23% to approximately $9,960,000 due to a 32% and 28% decrease in our commission and investment banking revenues, respectively, partially offset by a 60% and 11% increase in our principal transaction revenue and capital markets advisory fees, respectively.

Investment Banking Revenue

Our investment banking activity includes the following:

- *Capital Raising* - Capital raising includes private placements of equity and debt instruments and underwritten public offerings.

- *Financial Advisory* - Financial advisory includes advisory assignments with respect to mergers and acquisitions, divestures, restructurings and spin-offs.

The following table sets forth our revenue and transaction volumes from our investment banking activities for the years ended December 31:

	2013	2012
Revenue:		
Capital raising	$3,196,419	$4,082,279
Financial advisory	690,728	1,289,767
Total investment banking revenue	$3,887,147	$5,372,046
Transaction Volumes:		
Public offerings:		
Capital underwritten participations	$93,500,000	$54,350,005
Number of transactions	4	5
Private placements:		
Capital raised	$159,180,000	$288,460,500
Number of transactions	14	10
Financial advisory:		
Transaction amounts	$-	$125,000,000
Number of transactions	3	7

Our investment banking revenues, including FEP's, decreased 28% to $3,887,000 in 2013 from $5,372,000 in 2012. The decrease is comprised of a $1,985,000 or 51% decrease in investment banking revenues partially offset by a $500,000 or 34% increase in FEP's revenues. Decrease in investment banking revenues was primarily due to the decrease in number of deals closed and our strategic shift to having FEP become our core banking revenue. There was only one large deal (over $250,000 in fees and excluding FEP's) closed in 2013 versus 4 in 2012. As a percentage of total revenues, investment banking revenues, including FEP's, contributed 39% in 2013 comparing to 42% in 2012.

During the years ended December 31, 2013 and 2012, no one single investment banking client accounted for more than 10% of our total revenues.

Commissions and Principal Transactions Revenue

Our broker-dealer activities include the following:

- *Commissions* – Commissions include revenue resulting from executing stock trades for exchange-listed securities, over-the-counter securities and other transactions as agent.

- *Principal Transactions* – Principal transactions consist of a portion of dealer spreads attributed to our securities trading activities as principal in NASDAQ-listed and other securities, and include transactions derived from our activities as a market-maker. Principal transactions also include gains and losses resulting from market price fluctuations that occur while holding positions in our trading security inventory.

The following table sets forth our revenue and losses and several operating metrics which we utilize in measuring and evaluating performance and the results of our trading operations:

	2013	2012
Commissions:		
Commissions on institutional equities	$4,201,980	$6,199,912
Principal transactions:		
Customer principal transactions, proprietary trading and market making	$67,313	$(171,160)
Investment portfolio	(282,660)	(364,298)
Total principal transaction revenue	$(215,347)	$(535,458)
Transaction Volumes:		
Number of shares traded	271,991,648	359,157,876

Commission revenue was approximately $4,202,000 or 42% of total revenue in 2013, representing a $1,998,000 or 32% decrease from that in 2012. The decrease was primarily due to lower trading volume as a result of the Company having fewer sales producers in 2013, as well as the dramatic overall decline in equity trading volumes in the U.S.

Principal transaction revenue consists of four different activities – customer principal trades, market making, and realized and unrealized gains and losses in our investment portfolio. As a broker-dealer, we account for all of our marketable security positions on a trade date basis and as a result, all security positions are marked to fair market

values. Returns from market making activities tend to be more volatile than acting as agent or principal for customers.

For 2013, principal transaction losses were approximately $215,000, consisting of a $283,000 net loss on our investment portfolios and a $116,000 net loss in proprietary trading and market making, partially offset by a $184,000 gain from customer principal transactions. For 2012, principal transaction losses were approximately $535,000, consisting of a $364,000 net loss on our investment portfolios and a $926,000 net loss in proprietary trading and market making, partially offset by a $755,000 gain from customer principal transactions.

For the years ended December 31, 2013, no customer accounted for more than 10% of total revenues. For the year ended December 31, 2012, one customer accounted for more than 10% of total revenues.

Compensation and Benefit Expenses

Compensation and benefits expenses represent the majority of our operating expenses and include commissions, base salaries, discretionary bonuses and stock-based compensation. Sales professionals are paid commissions based on their production. Incentive compensation varies primarily based on revenue production. Investment banking, research and support staff and executives are paid base salaries and may participate in the discretionary bonus plans. Discretionary bonuses paid to investment bankers and research analysts vary with revenue production, but also include other qualitative factors and are determined by management. Salaries, payroll taxes and employee benefits vary based primarily on overall headcount.

The following table sets forth the major components of our compensation and benefits for the years ended December 31, 2013 and 2012:

	2013		2012	
Incentive compensation and discretionary bonuses	$4,614,822		$6,215,340	
Salaries and wages	2,079,128		2,739,579	
Stock-based compensation	642,436		2,224,693	
Payroll taxes, benefits and other	687,628		904,979	
Total compensation and benefits	$8,024,014		$12,084,591	
Total compensation and benefits as a percentage of revenue	81	%	94	%
Cash compensation and benefits as a percentage of revenue	74	%	76	%

Total compensation and benefits were approximately $8,024,000 and $12,084,000 for the years ended December 31, 2013 and 2012, respectively, a decrease of approximately $4,060,000 or 34%. The decrease consisted of (i) a $1,600,000 (26%) decrease in incentive compensation and discretionary bonuses directly relating to the decrease in revenue, (ii) a $661,000 (24%) and $217,000 (24%) decrease in salaries and wages, and payroll taxes, benefits and other, respectively, primarily due to headcount reduction and more producers are on commission based compensation structure , (iii) a $1,582,000 (71%) decrease in stock-based compensation which was primarily due to option forfeiture recorded in 2012.

Of the total compensation and benefits for the year ended December 31, 2013, $1,577,000 was for FEP personnel.

In 2013 and 2012, the Company significantly reduced its operating expenses by eliminating certain non-revenue generating personnel, administrative positions and technology related costs. The Company continues to focus on

decreasing the ratio of total cash compensation and benefits as a percentage of revenue and anticipate a lower metric in 2014.

Incentive compensation directly correlates to commission revenue earned and discretionary bonuses primarily correlate to investment banking revenues earned. Cash compensation and benefits exclude stock-based compensation which is a non-cash expense.

In 2013 and 2012, one and two sales professionals accounted for more than 10% of total revenues, respectively.

Other Operating Expenses

Brokerage and clearing fees include trade processing expenses paid to our clearing broker, and execution fees paid to floor brokers and electronic communication networks. MC is a fully-disclosed broker-dealer which contracts a third party clearing broker to perform all of the clearance functions. The clearing broker-dealer processes and settles all of MC's customer transactions and maintains the detailed customer records. These expenses are almost entirely variable, and are based on commission revenue and trade volume. Brokerage and clearing fees decreased approximately $154,000 or 26% compared to 2012 as a direct result of decreases in trading volume and commission revenue.

Professional services expense includes audit and accounting fees, expenses related to investment banking transactions, and various consulting fees. Professional services expense decreased $215,000 or 36% compared to 2012 primarily due to decrease in outside consulting fees as the Company continues to control expenses and improve productivity.

Occupancy and equipment include rents and related costs of our office premises, equipment, software and leasehold improvements. Occupancy expense is largely fixed in nature while equipment expense can vary somewhat in relation to our business operations. Occupancy and equipment expenses decreased $288,000 or 17% compared to 2012 as a result of more New York office space was subleased in 2013.

Communications and technology expense includes market data and quote services, voice, data and internet service fees, and data processing costs. Communications and technology expense decreased $357,000 or 33% compared to 2012 due to headcount reduction and renegotiation and cancellation of a number of market data services.

Depreciation and amortization relate to the depreciation of our fixed assets and amortization of leasehold improvements. Depreciation and amortization are mostly fixed in nature. The increase of approximately $62,000, or 298% as compared to 2012 was due to a number of capital equipment leases entered into in 2013.

Travel and business development expenses include business development costs by our sales professionals, investment bankers and non-deal road show expenses. Non-deal road shows are meetings in which management teams of our corporate clients present directly to our institutional investors. The decrease of approximately $171,000 or 42% on a year over year basis was due to lower headcount, fewer deals closed and continued cost reduction measures.

Legal services and litigation settlement expenses relate to our ongoing litigations. The increase of $93,000 or 22% as compared to 2012 was due to $390,000 legal settlements in 2013, mostly offset by a decrease of $297,000 in legal fees.

Cost of underwriting capital represents borrowing cost of capital to supplement MC's net capital to enable it to underwrite banking deals. Costs of underwriting capital decreased $148,000 or 75% as compared to 2012 due to certain temporary borrowings in 2012 remained outstanding longer than anticipated.

The following expenses are included in other operating expenses for the years ended December 31, 2013 and 2012:

	2013	2012
Insurance	$520,518	$504,229
Regulatory & filing fees	203,615	220,216
Provision for uncollectible accounts receivable	277,308	337,436
Investor conference	-	210,317
Other	344,131	(10,781)
Total other operating expenses	$1,345,572	$1,261,417

Other operating expenses include insurance, regulatory & filing fees, provision for uncollectible accounts receivable, investor conference and other miscellaneous expenses. The increase of approximately $84,000 or 7% on a year over year basis was due to (i) a decrease of $60,000 in provision for uncollectible accounts receivable, (ii) a decrease of $210,000 in investor conference due to the fact that no investor conference was held in 2013, and (iii) an increase of $355,000 in other miscellaneous expenses primarily due to a non-recurring expense and office moving costs.

Interest Income

Interest income represents interest earned on our cash balances maintained at financial institutions.

Amortization of Debt Discounts

In 2011 we issued various debts with stocks or warrants, for which total proceeds were allocated to individual instruments based on the relative fair values of each instrument at the time of issuance. The value of the stocks or warrants was recorded as discount on the debt and amortized over the term of the respective debt using the effective interest method.

In November and December 2011, certain debt and related warrants were exchanged for common shares and new warrants to purchase common shares. The discounts related to the debt being exchanged were written off as part of the loss recognized as a result of the transaction.

For the years ended December 31, 2013 and 2013, amortizations of debt discounts for the remaining debt and related warrants were $128,000 and $123,000, respectively.

Income Tax Expense

Income tax expenses of $0 were recorded in 2013 and 2012 resulting in zero effective tax rates. The effective tax rate differs from the statutory rate primarily due to the net operating loss carry-forwards offset by a 100% valuation allowance resulting in a tax provision equal to our expected current benefit for the year.

The Company accounts for income taxes under the provisions of Accounting Standards Codification ("ASC") 740 - Income Taxes. ASC 740 requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and tax basis of assets and liabilities and the expected future tax benefit to be derived from tax loss and tax credit carry-forwards. ASC 740 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets.

27

Critical Accounting Policies and Estimates

The consolidated financial statements are prepared in accordance with U. S. GAAP which require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to the valuation of securities owned and deferred tax assets. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Investment banking revenue includes underwriting and private placement agency fees earned through the Company's participation in public offerings and private placements of equity and convertible debt securities and fees earned as financial advisor in mergers and acquisitions and similar transactions. Underwriting revenue is earned in securities offerings in which the Company acts as an underwriter and includes management fees, underwriting fees and selling concessions. Fee revenue relating to underwriting commitments is recorded when all significant items relating to the underwriting cycle have been completed and the amount of the underwriting revenue has been determined.

Syndicate expenses related to securities offerings in which the Company acts as underwriter or agent are deferred until the related revenue is recognized or we determine that it is more likely than not that the securities offerings will not ultimately be completed. Underwriting revenue is recorded net of related expenses. As co-manager for registered equity underwriting transactions, management must estimate the Company's share of transaction related expenses incurred by the lead manager in order to recognize revenue. Transaction-related expenses are deducted from the underwriting fee and therefore reduce the revenue that is recognized as co-manager. Such amounts are adjusted to reflect actual expenses in the period in which the Company receives the final settlement, typically 90 days following the closing of the transaction.

Merger and acquisition fees and other advisory service revenue are generally earned and recognized only upon successful completion of the engagement. Unreimbursed expenses associated with private placement and advisory transactions are recorded as expenses as incurred.

Commission revenues and related clearing expenses are recorded on a trade-date basis as security transactions occur. Principal transactions in regular-way trades are recorded on the trade date, as if they had settled. Profit and loss arising from all securities transactions entered into for the account and risk of our Company are recorded on a trade-date

basis.

28

Fair Value of Financial Instruments

Substantially all of the Company's financial instruments are recorded at fair value or contract amounts that approximate fair value. The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, securities owned, restricted cash, due from clearing broker, accounts receivable, accounts payable, commissions and bonus payable, accrued expenses and other, securities sold, not yet purchased, deferred revenue, and capital lease obligation, approximate their fair values.

Fair Value Measurement—Definition and Hierarchy

The Company follows the provisions of Accounting Standards Codification (ASC) 820, *Fair Value Measurement and Disclosures,* for its financial assets and liabilities. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the "exit price") in an orderly transaction between market participants at the measurement date.

Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. Assets and liabilities recorded at fair value in the consolidated statement of financial condition are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC 820 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 — Unadjusted, quoted prices are available in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities carried at Level 1 fair value generally are G-7 government and agency securities, equities listed in active markets, investments in publicly traded mutual funds with quoted market prices and listed derivatives.

Level 2 — Pricing inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life. Fair valued assets which are generally included in this category are stock warrants for which market-based implied volatilities are available, and unregistered common stock.

Level 3 — Pricing inputs are both significant to the fair value measurement and unobservable. These inputs generally reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Fair valued assets which are generally included in this category are stock warrants for which market-based implied volatilities are not available.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Stock-Based Compensation

The Company measures and recognizes compensation expense based on estimated fair values for all stock-based awards made to employees and directors, including stock options, restricted stock, and warrants. The Company estimates fair value of stock-based awards on the date of grant using the Black-Scholes option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense in the Company's consolidated statements of operations over the requisite service periods. Since stock-based compensation expense is based on awards that are ultimately expected to vest, stock-based compensation expense has been reduced to account for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

To calculate stock-based compensation resulting from the issuance of options, restricted common stock, and warrants, the Company uses the Black-Scholes option pricing model which is affected by the Company's stock price as well as assumptions regarding a number of subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. No tax benefits were attributed to the share-based compensation expense because a valuation allowance was maintained for all net deferred tax assets.

Income Taxes

The Company accounts for income taxes under the provisions of Accounting Standards Codification ("ASC") 740 - Income Taxes. ASC 740 requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and tax basis of assets and liabilities and the expected future tax benefit to be derived from tax loss and tax credit carry-forwards. ASC 740 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets.

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are determined based on temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which temporary differences are expected to reverse. A valuation allowance is recorded to reduce deferred tax assets to an amount whose realization is more likely than not. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date.

Liquidity/Going Concern

MC is a broker-dealer subject to Rule 15c3-1 of the Securities Exchange Act of 1934, which specifies uniform minimum net capital requirements, as defined, for its registrants. As of December 31, 2013, MC had regulatory net capital, as defined, of $646,000, which exceeded the amount required by $396,000.

The Company incurred substantial losses in 2013 and 2012, having net losses of $3,992,000 and $6,869,000, and negative operating cash flows of $2,835,000 and $4,971,000 in 2013 and 2012, respectively. As of December 31, 2013, the Company had an accumulated deficit of $148,909,000 and a shareholders' deficit of $147,000. These facts raise substantial doubt as to the Company's ability to continue as a going concern.

The accompanying audited consolidated financial statements have been prepared assuming the Company will continue on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business and do not include any adjustments that might result from uncertainty about the Company's ability to continue as a going concern.

Management's plan to alleviate the going-concern uncertainty includes, but is not limited to, the issuance of equity and debt instruments for working capital. The Company's continued existence is also dependent upon its ability to increase revenues generated from operations which will enable the Company to achieve a profitable level of operations.

If anticipated operating results are not achieved, management has the intent, and believes it has the ability, to further delay or reduce expenditures. In such case, the further reduction in operating expenses might need to be substantial. Failure to generate sufficient cash flows from operations, raise additional capital, or reduce certain discretionary spending would have a material adverse effect on the Company's ability to achieve its intended business objectives. The Company can give no assurance that it will be successful in its plans and can give no assurance that additional financing will be available on terms advantageous to the existing terms or that additional financing will be available at all. Should the Company not be successful in obtaining the necessary financing to fund its operations, the Company would need to curtail certain or all of its operational activities and/or contemplate the sale of its assets if necessary.

On March 28, 2013 and April 26, 2013, the Company issued an aggregate of 60,745,824 shares of common stock at $0.03 per share and 15,186,449 warrants for total proceeds of $1,822,375. In addition, the Company issued 40,333,331 shares of common stock at $0.03 per share and 19,249,998 warrants in connection with the conversion of $1,210,000 debt. (See Note 6) Also, on March 28, 2013, 17,001,579 shares of Series D Convertible Preferred Stock and 6,303,799 shares of Series E Convertible Preferred Stock were converted into 5,802,126 and 6,303,799 shares of common stock, respectively.

On September 16, 2013, the Company issued 2,333,332 shares of common stock at $0.06 per share and 583,332 warrants for total proceeds of $140,000. On November16, 2013 and December 15, 2013, the Company issued an aggregate of 666,666 shares of common stock at $0.06 per share and 166,666 warrants for total proceeds of $40,000. On March 12, 2014, the Company issued 833,333 shares of common stock at $0.06 per share and 208,333 warrants for total proceeds of $50,000.

Commitments

The following is a table summarizing our significant commitments as of December 31, 2013, consisting of non-cancellable payments under operating agreements and leases and capital leases with initial or remaining terms in excess of one year.

	Notes Payable	Office Leases	Operating Leases	Capital Leases	Total
2014	$ 2,676,505	$1,209,600	$587,600	$129,885	$4,603,590
2015	705,038	1,343,760	60,800	129,885	2,239,483
2016	-	1,353,354	36,000	100,499	1,489,853
2017	-	1,421,854	-	47,902	1,469,756
2018	-	1,437,268	-	-	1,437,268
Thereafter	-	2,189,662	-	-	2,189,662
Total Commitments	3,381,543	8,955,498	684,400	408,171	13,429,612
Interest	(153,915)	-	-	(47,376)	(201,291)
Net Commitments	$ 3,227,628	$8,955,498	$684,400	$360,795	$13,228,321

Off-Balance Sheet Arrangements

We were not a party to any off-balance sheet arrangements during the two years ended December 31, 2013. In particular, we do not have any interest in so-called limited purpose entities, which include special purpose entities and structured finance entities.

Related Party Transactions

Sale of Note and Trade Receivables

On September 28, 2012, the Company sold a certain note receivable with a carrying value of $125,000 to the Co-Chairman of the Board of Directors for $125,000 plus all accrued but unpaid interests. The buyer assumed the risk of collection with respect to the note receivable he purchased.

On February 14, 2012, the Company sold certain trade receivables with a carrying value of $507,000 at a discount to the Co-Chairman of the Board of Directors for $500,000. The buyer assumed the risk of collection with respect to the receivables he purchased. The $7,000 discount was included in cost of underwriting capital in the Company's condensed consolidated statement of operations.

Temporary Subordinated Borrowings

On March 4, 2013, the Company borrowed $400,000 from the Co-Chairman of the Board of Directors. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. Total fees incurred were $24,800, which amount was included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and related fees were paid in full on April 5, 2013.

On January 31, 2013, the Company borrowed $1,200,000 from the Co-Chairman of the Board of Directors. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. Total fees incurred were $52,800, of which $21,600 was included in cost of underwriting capital in the Company's consolidated statement of operations. The remaining balance was charged against banking deal expenses. The loan and related fees were paid in full on February 22, 2013.

On October 30, 2012, the Company borrowed $500,000 from the Co-Chairman of the Board of Directors. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. Total fees incurred were $45,000, which amount was included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and related fees were paid in full on December 14, 2012.

On June 13, 2012, the Company borrowed $1,600,000 from the Co-Chairman of the Board of Directors. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. Total fees incurred were $36,000, which amount was included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and related fees were paid in full on June 25, 2012.

On January 27, 2012, the Company borrowed $2,500,000 from the Co-Chairman of the Board of Directors. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. Total fees incurred were $110,000, which amount was included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and related fees were paid in full on February 17, 2012.

Subordinated Notes Payable

On September 29, 2010, the Company borrowed $1,000,000 from nine individual lenders, all of whom were directors, officers or employees of the Company at the time of issuance, pursuant to a series of unsecured promissory notes (Subordinated Notes). The Subordinated Notes are for a term of three years and provide for interest comprising two components: (i) six percent (6.0%) per annum to be paid in cash monthly; and (ii) eight percent (8.0%) per annum to be accrued and paid in cash upon maturity. Additional consideration was paid to the lenders at closing comprising a number of shares of common stock of the Company equal to: (A) 30% of the principal amount lent; divided by (B) $3.01 per share. The total effective interest on the note is approximately 21.73%. Proceeds were used to supplement underwriting capacity and working capital for MC.

The total proceeds of $1,000,000 raised in the transaction above were accounted for as an issuance of debt with stock. The total proceeds of $1,000,000 have been allocated to these individual instruments based on the relative fair values of each instrument. Based on such allocation method, the value of the stocks issued in connection with the Subordinated Notes was $206,000, which was recorded as a discount on the debt and applied against the Subordinated Notes.

In connection with the March 28, 2013 sale of common stock, $110,000 of the Subordinated Notes converted to equity. See Debt Conversion.

On September 29, 2013, $840,000 of the Subordinated Notes, together with $201,600 accrued interest were rolled into an Unsecured Promissory Note maturing on March 29, 2014. The new note bears interest at nine percent (9%) per annum payable monthly and five percent (5%) per annum payable at maturity. On March 27, 2014, the $1,041,600 Subordinated Notes, together with $25,826 accrued interest were rolled into a new Unsecured Promissory Note maturing on December 31, 2014 at the same interest rates plus warrants to purchase 3,335,706 shares of the Company’s common stock at $0.10 per share.

The remaining $50,000 of the subordinated notes payable were paid off in full on October 31, 2013 and November 1, 2013.

As of December 31, 2012, $897,000 of the Subordinated Notes, net of $53,000 discount, are outstanding and is included in notes payable to related parties in the Company’s consolidated statements of financial condition. The remaining Subordinated Notes held by parties no longer related to the Company of $47,000, net of $3,000 discount, are included in notes payable in the Company’s consolidated statements of financial condition. The discount on the note is amortized over the term of the loan using the effective interest method.

For the years ended December 31, 2013 and 2012, the Company incurred $134,000 and $141,000 in interest on the Subordinated Notes, respectively. Total interests of $35,000 and $81,000 remain outstanding as of December 31, 2013 and 2012, respectively, and are included in accrued expenses and other in the consolidated statements of financial condition.

Equity Lending Note

On August 31, 2012, the Company's Chief Executive Officer loaned $175,000 to the Company in a three year secured equity lending note (the "Equity Lending Note") at an interest rate of eight percent (8%) per annum payable quarterly in arrears. This note is secured by a security interest in and right of setoff against all of the Company's right, title and interest in and to all of the capital stock of Merriman Capital Inc., together with all proceeds, rents, profits and returns of and from any of the foregoing. Additional consideration in the form of 69,444 warrants to purchase common shares of the Company at $0.63 per share was issued to the lender. The warrants expire on August 31, 2015.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the Equity Lending Note was $13,000 which was recorded as a discount on the debt and applied against the Equity Lending Note. The note collateral has a carrying value of $175,000 and is included in other assets in the consolidated statement of financial condition as of December 31, 2013.

Secured Promissory Notes

On August 31, 2012, the Company's Co-Chairman of the Board of Directors loaned $250,000 to the Company in a three year secured promissory note (the "August 2012 Secured Promissory Note") at an interest rate of eight percent (8%) per annum payable quarterly in arrears. This note is secured by a security interest in and right of setoff against all of the Company's right, title and interest in and to all of the capital stock of Merriman Capital Inc., together with all proceeds, rents, profits and returns of and from any of the foregoing. Additional consideration in the form of 99,206 warrants to purchase common shares of the Company at $0.63 per share was issued to the lender. The warrants expire on August 31, 2015.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the August 2012 Secured Promissory Note was $19,000 which was recorded as a discount on the debt and applied against the August 2012 Secured Promissory Note.

On September 27, 2012, the Company's Co-Chairman of the Board of Directors loaned $125,000 to the Company in a three year secured promissory note (the "September 2012 Secured Promissory Note") at an interest rate of eight percent (8%) per annum payable quarterly in arrears. This note is secured by a security interest in and right of setoff against all of the Company's right, title and interest in and to all of the capital stock of Merriman Capital Inc., together with all proceeds, rents, profits and returns of and from any of the foregoing. Additional consideration in the form of 236,250 warrants to purchase common shares of the Company at $0.63 per share was issued to the lender. The warrants expire on September 27, 2015.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the September 2012 Secured Promissory Note was $45,000 which was recorded as a discount on the debt and applied against the September 2012 Secured Promissory Note.

On December 13, 2012, the Co-Chairman of the Board of Directors loaned $200,000 to the Company in a secured promissory note (the "December 2012 Secured Promissory Note") maturing on September 13, 2013 and bearing interest rates at eight percent (8%) per annum payable at maturity. On September 13, 2013, the December 2012 Secured Promissory Note was extended to July 8, 2013 at the same terms. On July 8, 2013, while interest rate remains unchanged, the Secured Note's maturity date was extended as follows:

	Maturity Dates	
Principal	31-Oct-13	31-Dec-13
$200,000	$66,667	$133,333

On September 26, 2013, the December 2012 Secured Promissory Note was further extended to mature on March 31, 2014 with the interest rate increased to ten percent (10%) per annum payable at maturity. On March 24, 2014, it was extended to mature on December 31, 2014 at the same interest rate plus 625,000 warrants to purchase the Company common stock at $0.08 per share.

On September 12, 2013 the Co-Chairman of the Board of Directors loaned $166,028 to the Company in a secured promissory note maturing on February 7, 2014, bearing interest rates at ten percent (10%) per annum payable at maturity. Principal amount and accrued interest were paid in full on January 23, 2014.

Convertible Secured Promissory Notes

On February 22, 2013 and December 28, 2012, the Co-Chairman of the Board of Directors loaned $600,000 and $500,000 to the Company in two convertible secured promissory notes (the "Convertible Notes") maturing on November 22, 2013 and September 28, 2013, respectively, bearing interest rates at eight percent (8%) per annum payable at maturity. Each Convertible Note is secured pursuant to a certain Stock Pledge Agreement dated December 13, 2012 and includes a conversion feature which provides for the note to automatically convert into the Company's common shares upon the consummation of a "Qualified Financing," defined as an equity investment in one or a series of related transactions resulting in not less than $2,000,000, including the amount converted under the Convertible Notes. The number of common shares issued will be equal to the Convertible Notes' principal divided by the price per share paid by the investors in the Qualified Financing. (See Note 5)

Convertible Unsecured Promissory Note

On November 1, 2013, the Co-Chairman of the Board of Directors loaned $30,000 to the Company in a convertible unsecured promissory note (the "Convertible Note") maturing on April 1, 2014 bearing interest rate at five percent (5%) per annum payable at maturity. At any time following the date of issue and prior to repayment, the outstanding principal and accrued interest are convertible to common shares of the Company at $0.06 per share.

As of December 31, 2013, the Convertible Note remains outstanding and is included in notes payable to related parties in the Company's consolidated statements of financial condition. The Convertible Note is currently under negotiation for further extension.

Debt Conversion

a. Conversion of Convertible Secured Promissory Notes

The March 28, 2013 sale of common stock (see Note 6) was the catalyst to the Qualified Financing specified in the Convertible Notes, triggering an automatic conversion of the Convertible Notes into the Company's common shares at $0.03 per share. For each common share purchased by means of surrender of the Convertible Notes, the holder received a warrant to purchase 0.50 share of common stock at $0.04 per share, for a term of five years. A total of 36,666,666 common shares and 18,333,333 warrants were issued.

The Company accounted for this transaction in accordance with ASC 470, *Debt*, as an extinguishment of debt, whereby a gain or loss was calculated as the difference between the reacquisition price and net carrying value of the debt. The reacquisition price was determined as the sum of the fair value of the common stock and new warrants. The warrants were valued using the Black-Scholes fair value model.

For the year ended December 31, 2013, a loss of approximately $267,000 was recorded on the transaction based on a reacquisition price of approximately $1,367,000 and fair value of the debt exchanged of approximately $1,100,000.

b. ***Conversion of Subordinated Notes Payable***

On March 28, 2013, certain subordinated notes payable holders, all of whom are directors and officers of the Company, agreed to convert $110,000 subordinated notes payable into the Company's common shares at $0.03 per share. For each common share purchased by means of surrender of the subordinated notes payable, the holders received a warrant to purchase 0.25 share of common stock at $0.04 per share, for a term of five years. A total of 3,666,665 common shares and 916,665 warrants were issued.

The Company accounted for this transaction in accordance with ASC 470, *Debt*, as an extinguishment of debt, whereby a gain or loss was calculated as the difference between the reacquisition price and net carrying value of the debt. The reacquisition price was determined as the sum of the fair value of the common stock and new warrants. The warrants were valued using the Black-Scholes fair value model.

For the year ended December 31, 2013, a loss of approximately $26,000 was recorded on the transaction based on a reacquisition price of approximately $136,000 and fair value of the debt exchanged of approximately $106,000.

Software Platform Purchase

In December 2013, the Company purchased a software platform called Digital Capital Network ("DCN"), an online capital marketplace, from an entity owned by an advisory board member. The purchase price consisted of $160,000 cash and 2,644,929 shares of the Company's common stock valued at $0.06 per share at the time of issuance, plus a $20,500 ongoing monthly payment.

Other Related Party Transactions

From time to time, officers and employees of the Company may invest in private placements which the Company arranges and for which the Company charges investment banking fees. The Company's employees may, at times, provide certain services and supporting functions to its affiliate entities. The Company is not reimbursed for any costs related to providing those services.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

The following discussion about market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We may be exposed to market risks related to changes in equity prices, interest rates and foreign currency exchange rates. We do not use derivative financial instruments for speculative trading or any other purpose.

Equity Price Risk

The potential for changes in the market value of our trading positions is referred to as “market risk.” Our trading positions result from proprietary trading activities. These trading positions in individual equities and equity indices may be either long or short at any given time. Equity price risks result from exposures to changes in prices and volatilities of individual equities and equity indices. We seek to manage this risk exposure through diversification and limiting the size of individual positions within the portfolio. The effect on earnings and cash flows of an immediate 10% increase or decrease in equity prices generally is not ascertainable and could be positive or negative, depending on the positions we hold at the time. We do not establish hedges in related securities or derivatives. From time to time, we also hold equity securities received as compensation for our services in investment banking transactions. These equity positions are always long; however, as the prices of individual equity securities do not necessarily move in tandem with the direction of the general equity market, the effect on earnings and cash flows of an immediate 10% increase or decrease in equity prices generally is not ascertainable.

Interest Rate Risk

Our exposure to market risk resulting from changes in interest rates relates primarily to our investment portfolio and long term debt obligations. Our interest income and cash flows may be impacted by changes in the general level of U.S. interest rates. We do not hedge this exposure because we believe that we are not subject to any material market risk exposure due to the short-term nature of our investments. We would not expect an immediate 10% increase or decrease in current interest rates to have a material effect on the fair market value of our investment portfolio.

Foreign Currency Risk

We do not have any foreign currency denominated assets or liabilities or purchase commitments and have not entered into any foreign currency contracts. Accordingly, we are not exposed to fluctuations in foreign currency exchange rates.

38

Item 8. Financial Statements and Supplementary Data

The following financial statements are included in this report:

- Report of Independent Registered Public Accounting Firm
- Consolidated Statements of Operations
- Consolidated Statements of Financial Condition
- Consolidated Statements of Shareholders' Deficit
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

Schedules other than those listed above are omitted because of the absence of conditions under which they are required or because the required information is presented in the financial statements or notes thereto.

Report of Independent Registered Public Accounting Firm

To the Audit Committee of the

Board of Directors and Shareholders

of Merriman Holdings, Inc.

We have audited the accompanying consolidated statement of financial condition of Merriman Holdings, Inc. (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, shareholders' deficiency and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Merriman Holdings Inc., as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has recurring losses, negative cash flows from operations and an accumulated deficit as of December 31, 2013 and 2012. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty

/s/ Marcum LLP

Marcum LLP

New York, New York

March 31, 2014

40

MERRIMAN HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2013	2012
Revenues		
Commissions	$4,201,980	$6,199,912
Principal transactions	(215,347)	(535,458)
Investment banking	3,887,147	5,372,046
Advisory and other	2,086,127	1,882,485
Total revenues	9,959,907	12,918,985
Operating expenses		
Compensation and benefits	8,024,014	12,084,591
Brokerage and clearing fees	440,098	593,681
Professional services	383,989	599,121
Occupancy and equipment	1,385,377	1,673,686
Communications and technology	727,286	1,084,234
Depreciation and amortization	82,664	20,787
Travel and entertainment	231,122	401,860
Legal services and litigation settlement expense	520,200	427,023
Cost of underwriting capital	49,600	197,600
Other	1,345,572	1,261,417
Total operating expenses	13,189,922	18,344,000
Operating loss	(3,230,015)	(5,425,015)
Other income	-	15,000
Interest expense	(340,381)	(250,194)
Amortization of debt discount	(128,326)	(122,742)
Loss on early extinguishment of debt	(293,347)	-
Loss on equity exchange	-	(1,086,329)
Net loss	$(3,992,069)	$(6,869,280)
Preferred stock cash dividend	-	(42,061)
Net loss attributable to common shareholders	$(3,992,069)	$(6,911,341)
Basic and diluted net loss per share		

Net loss	$(0.04)	$(1.31)
Net loss attributable to common shareholders	$(0.04)	$(1.32)
Weighted average number of common shares Basic and diluted	91,047,484	5,224,646

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

MERRIMAN HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	As of December 31,	
	2013	2012
Assets		
Cash and cash equivalents	$1,044,110	$1,316,990
Securities owned		
Marketable, at fair value	1,176,347	709,333
Not readily marketable, at estimated fair value	671,801	728,312
Restricted cash	891,828	680,028
Due from clearing broker	97,811	127,702
Accounts receivable, net	532,431	533,606
Prepaid expenses and other assets	674,915	504,920
Equipment and fixtures, net	341,258	17,647
Total assets	$5,430,501	$4,618,538
Liabilities and Shareholders' deficit		
Liabilities		
Accounts payable	$317,272	$271,412
Commissions payable	418,075	403,978
Accrued expenses and other	814,946	661,144
Deferred rent	428,540	326,832
Deferred revenue	70,378	140,404
Capital lease obligations	360,795	-
Notes payable, net of debt discount	1,226,521	1,205,281
Notes payable to related parties, net of debt discount	1,940,601	2,075,888
Total liabilities	5,577,128	5,084,939
Shareholders' deficit		
Convertible preferred stock, Series A–$0.0001 par value; 2,000,000 shares authorized; 2,000,000 shares issued and 0 shares outstanding as of December 31, 2013 and December 31, 2012; aggregate liquidation preference of $0	-	-
Convertible preferred stock, Series B–$0.0001 par value; 12,500,000 shares authorized; 8,750,000 shares issued and 0 shares outstanding as of December 31, 2013 and December 31, 2012; aggregate liquidation preference of $0	-	-
Convertible preferred stock, Series C–$0.0001 par value; 14,200,000 shares authorized; 11,800,000 shares issued and 0 shares outstanding as of December 31, 2013 and December 31, 2012; aggregate liquidation preference of $0	-	-

Convertible preferred stock, Series D–$0.0001 par value; 24,000,000 shares authorized, 23,720,916 shares issued and 0 and 17,001,597 shares outstanding as of December 31, 2013 and December 31, 2012, respectively; aggregate liquidation preference of $0 prior to conversion, and pari passu with common stock on conversion	-	1,701
Convertible Preferred stock, Series E–$0.0001 par value; 7,300,000 shares authorized, 6,825,433 shares issued and 0 and 6,303,799 shares outstanding as of December 31, 2013 and December 31, 2012, respectively; aggregate liquidation preference of $0 prior to conversion, and pari passu with common stock on conversion	-	630
Common stock, $0.0001 par value; 300,000,000 shares authorized; 124,255,156 and 5,425,149 shares issued and 124,225,720 and 5,395,713 shares outstanding as of December 31, 2013 and December 31, 2012, respectively	12,426	543
Additional paid-in capital	148,975,412	144,673,121
Treasury stock	(225,613)	(225,613)
Accumulated deficit	(148,908,852)	(144,916,783)
Total shareholders' deficit	(146,627)	(466,401)
Total liabilities and shareholders' deficit	$5,430,501	$4,618,538

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

MERRIMAN HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT

	Preferred Stock		Common Stock		Treasury Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Tota
Balance at January 1, 2012	22,094,950	2,210	6,183,815	619	(29,436)	(225,613)	140,857,954	(138,047,503)	2,5
Net loss	-	-	-	-	-	-	-	(6,869,280)	(6,
Issuance of Series E Convertible Preferred Stock	729,483	73	-	-	-	-	349,115	-	34
Issuance of warrants in connection with Series E Convertible Preferred Stock	-	-	-	-	-	-	110,388	-	11
Conversion of Series D Convertible Preferred Stock to common stock	(2,561,627)	(256)	874,205	87	-	-	169	-	-
Conversion of Series E Convertible Preferred Stock to common stock	(521,634)	(52)	521,634	52	-	-	-	-	-
Preferred stock dividend	-	-	-	-	-	-	(42,061)	-	(42
Issuance of restricted common stock	-	-	852,259	85	-	-	461,659	-	46
Issuance of warrants in	-	-	-	-	-	-	77,792	-	77

connection with issuance of debt									
Equity exchange	3,564,206	356	(3,006,764)	(300)	-	-	1,086,273	-	1,0
Option forfeiture	-	-	-	-	-	-	1,074,943	-	1,0
Stock-based compensation	-	-	-	-	-	-	696,889	-	69
Balance at January 1, 2013	23,305,378	$2,331	5,425,149	$543	(29,436)	$(225,613)	$144,673,121	$(144,916,783)	$(4
Net loss								(3,992,069)	(3,
Conversion of Series D Convertible Preferred Stock to common stock	(17,001,579)	(1,701)	5,802,126	580	-	-	1,121	-	-
Conversion of Series E Convertible Preferred Stock to common stock	(6,303,799)	(630)	6,303,799	630	-	-	-	-	-
Issuance of restricted common stock and warrants for cash	-	-	63,745,822	6,375	-	-	1,996,001	-	2,0
Issuance of restricted common stock for other assets	-	-	2,644,929	264			158,431		15
Issuance of restricted common stock and warrants in connection with debt conversion	-	-	40,333,331	4,034	-	-	1,499,314	-	1,5
Stock-based compensation	-	-	-	-	-	-	647,424	-	64
Balance at December 30, 2013	-	$-	124,255,156	$12,426	(29,436)	$(225,613)	$148,975,412	$(148,908,852)	$(14

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

MERRIMAN HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2013	2012
Cash flows from operating activities:		
Net loss	$(3,992,069)	$(6,869,280)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	82,664	20,787
Stock-based compensation	647,424	2,233,576
Amortization of debt issuance costs	128,325	122,741
Loss on early extinguishment of debt	293,347	-
Loss on equity exchange	-	1,086,329
Loss on sale of accounts receivable	-	7,000
Provision for uncollectible accounts receivable	277,308	(228,907)
Securities received for services	(728,662)	(436,151)
Unrealized loss on securities owned	429,332	791,507
Changes in operating assets and liabilities:		
Securities owned	(111,172)	690,568
Restricted cash	(211,800)	-
Due from clearing broker	29,890	(2,896)
Accounts receivable	(276,133)	(289,235)
Prepaid expenses and other assets	148,700	14,224
Accounts payable	45,860	25,372
Commissions payable	14,097	(570,264)
Accrued expenses and other	387,084	(1,566,511)
Net cash used in operating activities	(2,835,805)	(4,971,140)
Cash flows from investing activities:		
Sale of note receivable	-	125,000
Sale of accounts receivable	-	500,000
Purchase of software platform	(160,000)	-
Purchase of equipment and fixtures	(6,600)	(7,897)
Net cash used in investing activities	(166,600)	617,103
Cash flows from financing activities:		
Issuance of restricted common stock and warrants	2,002,376	-
Proceeds from issuance of note receivable	-	(125,000)
Proceeds from issuance of secured promissory note	166,028	500,000
Proceeds from issuance of secured convertible promissory note	600,000	500,000

Proceeds from issuance of unsecured convertible promissory note	150,000	-
Proceeds from issuance of long term subordinated borrowings	-	375,000
Proceeds from issuance of temporary subordinated borrowings	1,600,000	4,600,000
Payment of temporary subordinated borrowings	(1,600,000)	(4,600,000)
Proceeds form issuance of preferred stock	-	459,576
Payment of notes payable	(150,000)	-
Principal payments of capital leases	(38,879)	-
Payment of preferred stock dividend	-	(42,061)
Net cash (used in) provided by financing activities	2,729,525	1,667,515
Decrease in cash and cash equivalents	(272,880)	(2,686,522)
Cash and cash equivalents at beginning of the period	1,316,990	4,003,512
Cash and cash equivalents at end of the period	$1,044,110	$1,316,990

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

MERRIMAN HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

Supplementary disclosure of cash flow information:		
Cash paid during the year:		
Cost of underwriting capital	$80,800	$197,600
Interest expense	$449,263	$156,889
Non-cash financing activities:		
Warrants issued in connection with issuance of debt	$-	$77,792
Issuance of restricted common stock and warrants in connection with debt conversion	$1,210,000	$-
PP&E acquired through capital leases	$399,675	$-

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

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Merriman Holdings, Inc. and subsidiaries (the Company) is a financial services holding company that provides capital markets advisory and research, corporate and investment banking services through its wholly-owned operating subsidiary, Merriman Capital, Inc. (hereafter MC). MC is registered with the Securities and Exchange Commission (SEC) as a broker-dealer and is a member of the Financial Industry Regulatory Authority (FINRA) and Securities Investor Protection Corporation (SIPC).

Merriman Holdings, Inc. is a Delaware corporation incorporated on May 6, 1987. The Company's common stock is listed on the OTCQX where it currently trades under the symbol "MERR." The Company's corporate office is located in San Francisco, CA.

2. Liquidity/Going Concern

The Company incurred substantial losses in 2013 and 2012, having net losses of $3,992,000 and $6,869,000, and negative operating cash flows of $2,835,000 and $4,971,000 in 2013 and 2012, respectively. As of December 31, 2013, the Company had an accumulated deficit of $148,909,000 and a shareholders' deficit of $147,000. These facts raise substantial doubt as to the Company's ability to continue as a going concern.

The accompanying audited consolidated financial statements have been prepared assuming the Company will continue on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business and do not include any adjustments that might result from uncertainty about the Company's ability to continue as a going concern.

Management's plan to alleviate the going-concern uncertainty includes, but is not limited to, the issuance of equity and debt instruments for working capital. The Company's continued existence is also dependent upon its ability to increase revenues generated from operations which will enable the Company to achieve a profitable level of operations.

If anticipated operating results are not achieved, management has the intent, and believes it has the ability, to further delay or reduce expenditures. In such case, the further reduction in operating expenses might need to be substantial. Failure to generate sufficient cash flows from operations, raise additional capital, or reduce certain discretionary spending would have a material adverse effect on the Company's ability to achieve its intended business objectives. The Company can give no assurance that it will be successful in its plans and can give no assurance that additional financing will be available on terms advantageous to the existing terms or that additional financing will be available at all. Should the Company not be successful in obtaining the necessary financing to fund its operations, the Company would need to curtail certain or all of its operational activities and/or contemplate the sale of its assets if necessary.

On March 28, 2013 and April 26, 2013, the Company issued an aggregate of 60,745,824 shares of common stock at $0.03 per share and 15,186,449 warrants for total proceeds of $1,822,375. In addition, the Company issued 40,333,331 shares of common stock at $0.03 per share and 19,249,998 warrants in connection with the conversion of $1,210,000 debt. (See Note 6)

On September 16, 2013, the Company issued 2,333,332 shares of common stock at $0.06 per share and 583,332 warrants for total proceeds of $140,000. On November16, 2013 and December 15, 2013, the Company issued an aggregate of 666,666 shares of common stock at $0.06 per share and 166,666 warrants for total proceeds of $40,000. On March 12, 2014, the Company issued 833,333 shares of common stock at $0.06 per share and 208,333 warrants for total proceeds of $50,000.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies

Basis and Presentation

The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Under Accounting Standards Codification (ASC) 855, *Subsequent Events*, the Company has evaluated all subsequent events until the date these consolidated financial statements were filed with the SEC.

For the purposes of presentation, dollar amounts displayed in these Notes to Consolidated Financial Statements were rounded to the nearest thousand.

Principles of Consolidation

As of December 31, 2013, the Company has two wholly-owned U.S. subsidiaries. The subsidiaries, MC and Merriman Asset Management, Inc. have been consolidated in the accompanying consolidated financial statements. All significant intercompany accounts and transactions have been eliminated.

Segment Reporting

Currently, the Company’s business results are categorized into three operating segments: MC, Financial Entrepreneurial Platform (FEP) and Capital Market Advisory Services (CMAG). FEP is an investment banking division assisting corporate issuers in raising capital through a network of independent investment bankers. CMAG is its capital market advisory services assisting clients to obtain listing on OTCQX, a tier of Pink Sheets.

The Company's reportable segments are strategic business units that offer products and services which are compatible with its core business strategy. The MC segment includes a broad range of services, such as capital raising and financial advisory services for corporate clients, and brokerage and equity research services for our institutional investor clients. The FEP segment includes capital raising services through a network of independent investment bankers and CMAG includes assisting corporate issuers in listing on OTCQX, the premier OTC Market tier, along with other services that facilitate the access to institutional capital markets.

The Company recognizes revenues earned by FEP on a gross basis in accordance with ASC 605-45, *Revenue Recognition: Principal Agent Considerations*, as the Company is the primary obligor in the arrangements entered into by FEP. Revenues earned by FEP are recognized consistent with the Company’s revenue recognition policies as disclosed herein.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior year’s consolidated financial statements to conform to the presentation of the current year’s consolidated financial statements. There were no changes to reported net loss.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (continued)

Commissions and Principal Transactions Revenue

Commission revenue includes revenue resulting from executing stock exchange-listed securities, over-the-counter securities and other transactions as agent for the Company's clients. Principal transactions consist of a portion of dealer spreads attributed to the Company's securities trading activities as principal in NASDAQ-listed and other securities, and include transactions derived from activities as a market-maker. Additionally, principal transactions include gains and losses resulting from market price fluctuations that occur while holding positions in trading security inventory. Commission revenue and related clearing expenses are recorded on a trade-date basis as security transactions occur. Principal transactions in regular-way trades are recorded on the trade date, as if they had settled. Profit and loss arising from all securities and commodities transactions entered into for the account and risk of the Company are recorded on a trade-date basis.

Investment Banking Revenue

Investment banking revenue includes underwriting and private placement agency fees earned through the Company's participation in public offerings and private placements of equity and convertible debt securities and fees earned as financial advisor in mergers and acquisitions and similar transactions. Underwriting revenue is earned in securities offerings in which the Company acts as an underwriter and includes management fees, underwriting fees and selling concessions. Fee revenue relating to underwriting commitments is recorded when all significant items relating to the underwriting cycle have been completed and the amount of the underwriting revenue has been determined.

Syndicate expenses related to securities offerings in which the Company acts as underwriter or agent are deferred until the related revenue is recognized or we determine that it is more likely than not that the securities offerings will not ultimately be completed. Underwriting revenue is recorded net of related expenses. As co-manager for registered equity underwriting transactions, management must estimate the Company's share of transaction related expenses incurred by the lead manager in order to recognize revenue. Transaction-related expenses are deducted from the underwriting fee and therefore reduce the revenue that is recognized as co-manager. Such amounts are adjusted to reflect actual expenses in the period in which the Company receives the final settlement, typically 90 days following

the closing of the transaction.

Merger and acquisition fees and other advisory service revenue are generally earned and recognized only upon successful completion of the engagement. Unreimbursed expenses associated with private placement and advisory transactions are recorded as expenses as incurred.

Other Revenues and Deferred Revenue

The Company provides capital markets advisory services in the form of assistance to its clients in listing on OTCQX, a tier of Pink Sheets, along with other services that facilitate their access to institutional capital markets.

Deferred revenue mainly represents customer billings made in advance to certain clients for due diligence services, and annual support contract for providing services as their Principal American Liaison (PAL) if a non-U.S. company or a Designated Advisor for Disclosure (DAD), if a U.S. company. Capital markets advisory service revenues are primarily recognized on a straight-line basis from the completion of the due diligence until the end of the engagement term which is generally one year.

Other revenues consist primarily of revenues generated by capital markets advisory services. In addition, immaterial amounts of revenue that do not conform to the types described above are also recorded as other revenues.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (continued)

Stock-Based Compensation Expense

The Company measures and recognizes compensation expense based on estimated fair values for all stock-based awards made to employees and directors, including stock options, restricted stock, and warrants. The Company estimates fair value of stock-based awards on the date of grant using the Black-Scholes option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense in the Company's consolidated statements of operations over the requisite service periods. Because stock-based compensation expense is based on awards that are ultimately expected to vest, stock-based compensation expense has been reduced to account for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

To calculate stock-based compensation resulting from the issuance of options, restricted common stock, and warrants, the Company uses the Black-Scholes option pricing model, which is affected by the Company's stock price as well as assumptions regarding a number of subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. No tax benefits were attributed to the share-based compensation expense because a valuation allowance was maintained for all net deferred tax assets.

Cost of Underwriting Capital

The Company incurs fees on financing arrangements entered into to supplement underwriting capacity and working capital for the broker-dealer subsidiary. These fees are recorded as cost of underwriting capital as incurred.

Income Taxes

The Company accounts for income taxes under the provisions of Accounting Standards Codification ("ASC") 740 - Income Taxes. ASC 740 requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and tax basis of assets and liabilities and the expected future tax benefit to be derived from tax loss and tax credit carry-forwards. ASC 740 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets.

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are determined based on temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which temporary differences are expected to reverse. A valuation allowance is recorded to reduce deferred tax assets to an amount whose realization is more likely than not. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding, excluding shares of non-vested stock. Diluted income per share is calculated by dividing net income by the weighted average number of common shares used in the basic income per share calculation plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares outstanding, including non-vested stock. Diluted loss per share is unchanged from basic loss per share because the addition of common shares that would be issued assuming exercise or conversion would be anti-dilutive. Interest and dividends for convertible debt and convertible preferred stock are also not considered since including them in the calculation of diluted loss per share would be anti-dilutive.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (continued)

Earnings (Loss) Per Share (continued)

The table below represents a list of potentially dilutive securities outstanding as of:

	December 31,	
	2013	2012
Series D convertible preferred stock warrants	3,388,677	3,388,677
Conversion of Series D preferred stock	-	5,802,126
Series E convertible preferred stock warrants	3,412,721	3,817,621
Conversion of Series E preferred stock	-	6,303,799
Stock options	12,796,463	3,005,532
Warrants issued in connection with secured promissory notes	492,620	87,720
Other outstanding warrants	35,945,732	759,286
Potentially dilutive securities oustanding	56,036,213	23,164,761

Adoption of New Accounting Pronouncements

The Company does not believe that other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material impact on the accompanying consolidated financial statements.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of ninety days or less to be cash equivalents.

Restricted Cash and Letters of Credit

Restricted cash includes cash deposited with the clearing broker and cash collateral for a stand-by letter of credit with a commercial bank. The letters of credit satisfy deposit requirements of the Company's operating leases.

Due From/To Clearing Broker

The Company clears all of its brokerage transactions through a clearing broker on a fully disclosed basis. Due from clearing broker amount relates to the aforementioned transactions. The Company monitors the credit standing of the clearing organizations as deemed necessary.

Securities Owned

Securities owned and securities sold, not yet purchased in the consolidated statements of financial condition consist of financial instruments carried at fair value with related unrealized gains or losses recognized in principal transactions in the consolidated statement of operations. The securities owned are classified into "Marketable" and "Non-marketable." Marketable securities are those that can readily be sold, either through a stock exchange or through a direct sales arrangement. Non-marketable securities are typically securities restricted under the Federal Securities Act of 1933 provided by SEC Rule 144 (Rule 144) or have some restriction on their sale whether or not a buyer is identified.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

Substantially all of the Company's financial instruments are recorded at fair value or contract amounts that approximate fair value. The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, restricted cash, due from clearing broker, accounts receivable, accounts payable, commissions payable, accrued expenses and other, deferred revenue, and capital lease obligation, approximate their fair values.

Fair Value Measurement—Definition and Hierarchy

The Company follows the provisions of ASC 820, *Fair Value Measurement and Disclosures,* for its financial assets and liabilities. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the "exit price") in an orderly transaction between market participants at the measurement date.

Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. Assets and liabilities recorded at fair value in the consolidated statement of financial condition are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC 820 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 — Unadjusted, quoted prices are available in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities carried at Level 1 fair value generally are G-7 government and agency securities, equities listed in active markets, investments in publicly traded mutual funds with quoted market prices and listed derivatives.

Level 2 — Pricing inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life. Fair valued assets which are generally included in this category are stock warrants for which market-based implied volatilities are available, and unregistered common stock.

Level 3 — Pricing inputs are both significant to the fair value measurement and unobservable. These inputs generally reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Fair valued assets which are generally included in this category are stock warrants for which market-based implied volatilities are not available.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

For further information on financial assets and liabilities that are measured at fair value on a recurring and nonrecurring basis, and a description of valuation techniques, see Note 6.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. To the extent deemed necessary, the Company maintains an allowance for estimated losses from the inability of clients to make required payments. The collectability of outstanding invoices is continually assessed. In estimating the allowance for doubtful accounts, the Company considers factors such as historical collections, a client's current creditworthiness, age of the receivable balance and general economic conditions that may affect a client's ability to pay.

No allowance for uncollectible accounts was required as of December 31, 2013. Allowance for uncollectible accounts was $109,000 as of December 31, 2012.

Equipment and Fixtures

Equipment and fixtures are reported at historical cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over useful lives of three to five years. Leasehold improvements are amortized using the straight-line method over the lesser of the life of the lease or the service lives of the improvements. Maintenance and repairs are charged to expenses as incurred; costs of major additions and betterments that extend the useful lives of the assets are capitalized. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation or amortization are removed from the accounts and any gain or loss on disposal is recognized.

Long-Lived Assets

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. When assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Warrant Liabilities

Stock warrants to purchase the Company's common stock issued to our investors and creditors are rights to purchase our common stock. Such positions are considered illiquid and do not have readily determinable fair values, and therefore require significant management judgment or estimation. The Company uses the Black-Scholes valuation methodology or similar techniques to estimate its value.

Concentrations and Credit Risk

Substantially all of the Company's cash and cash equivalents are held at two major U.S. financial institutions. The majority of the Company's cash equivalents consist of short-term marketable securities. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand.

As of December 31, 2013 and 2012, the Company held concentrated positions in three and two securities with total fair value of $1,092,000 and $569,000, respectively. The prices of these securities are highly volatile.

As of December 31, 2013, the Company did not hold concentrated positions in accounts receivable with any one client which exceeded 10% of total accounts receivable. As of December 31, 2012, the Company held concentrated positions in accounts receivable with one client which exceeded 10% of total accounts receivable (approximately $200,000).

During 2013, one sales professional accounted for more than 10% of total revenue (approximately $2,490,000) and no customer accounted for more than 10% of total revenue. During 2012, two sales professionals accounted for more than 10% of total revenue (approximately $4,586,000) and one customer accounted for more than 10% of total revenue (approximately $1,336,000).

The Company is also exposed to credit risk as it relates to the collection of receivables from third parties, including lead managers in underwriting transactions and the Company's corporate clients related to private placements of

securities and financial advisory services.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Issuance of Debt

Notes Payable as of December 31, 2013 comprise of the following:

	Notes Payable	Notes Payable Related Party	Total
Subordinated notes payable	$ 120,000	$ 1,246,600	$1,366,600
Debt discount	-	(7,613)	(7,613)
	120,000	1,238,987	1,358,987
Secured promissory notes	1,120,000	741,028	1,861,028
Debt discount	(13,479)	(39,414)	(52,893)
	1,106,521	701,614	1,808,135
Total	$ 1,226,521	$ 1,940,601	$3,167,122

Subordinated Notes Payable

On September 29, 2010, the Company borrowed $1,000,000 from nine individual lenders, all of whom were directors, officers or employees of the Company at the time of issuance, pursuant to a series of unsecured promissory notes (Subordinated Notes). The Subordinated Notes are for a term of three years and provide for interest comprising two components: (i) six percent (6.0%) per annum to be paid in cash monthly; and (ii) eight percent (8.0%) per annum to be accrued and paid in cash upon maturity. Additional consideration was paid to the lenders at closing comprising a number of shares of common stock of the Company equal to: (A) 30% of the principal amount lent; divided by (B) $3.01 per share. The total effective interest on the note is approximately 21.73%. Proceeds were used to supplement underwriting capacity and working capital for MC.

The total proceeds of $1,000,000 raised in the transaction above were accounted for as an issuance of debt with stock. The total proceeds of $1,000,000 have been allocated to these individual instruments based on the relative fair values of each instrument. Based on such allocation method, the value of the stocks issued in connection with the

Subordinated Notes was $206,000, which was recorded as a discount on the debt and applied against the Subordinated Notes.

In connection with the March 28, 2013 sale of common stock, $110,000 of the Subordinated Notes converted to equity. See Debt Conversion.

On September 29, 2013, $840,000 of the Subordinated Notes, together with $201,600 accrued interest were rolled into an Unsecured Promissory Note maturing on March 29, 2014. The new note bears interest at nine percent (9%) per annum payable monthly and five percent (5%) per annum payable at maturity. On March 27, 2014, the $1,041,600 Subordinated Notes, together with $25,826 accrued interest were rolled into a new Unsecured Promissory Note maturing on December 31, 2014 at the same interest rates plus warrants to purchase 3,335,706 shares of the Company’s common stock at $0.10 per share.

The remaining $50,000 of the subordinated notes payable were paid off in full on October 31, 2013 and November 1, 2013.

As of December 31, 2012, $897,000 of the Subordinated Notes, net of $53,000 discount, remain outstanding and are included in notes payable to related parties in the Company’s consolidated statements of financial condition. The remaining Subordinated Notes held by parties no longer related to the Company of $47,000, net of $3,000 discount, are included in notes payable in the Company’s consolidated statements of financial condition. The discount on the note is amortized over the term of the loan using the effective interest method.

For the years ended December 31, 2013 and 2012, the Company incurred $134,000 and $141,000 in interest on the Subordinated Notes, respectively. Total interests of $35,000 and $81,000 remain outstanding as of December 31, 2013 and 2012, respectively, and are included in accrued expenses and other in the consolidated statements of financial condition.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Issuance of Debt (continued)

Unsecured Promissory Notes

On November 1, 2010, the Company issued $300,000 in unsecured promissory notes (Unsecured Promissory Notes) to four of its Series D Convertible Preferred Stockholders with a maturity date of the earlier of January 31, 2011 or the consummation of a qualified financing, as defined. The Unsecured Promissory Notes provide for interest of twelve percent (12%) per annum to be paid in cash at maturity. Additional consideration was paid to the lenders at closing comprising a number of shares of common stock of the Company equal to 55% of the principal amount lent divided by $3.01 per share.

The total proceeds of $300,000 raised in the transaction above is accounted for as an issuance of debt with stock and have been allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on such allocation method, the value of the stock issued in connection with the Unsecured Promissory Notes was $106,000, which was recorded as a discount on the debt and applied against the Unsecured Promissory Notes.

On January 31, 2011, the Company amended its Unsecured Promissory Notes to extend their maturity dates from January 31, 2011 to December 31, 2011. The interest rate from the amendment date to the maturity date was increased to 13%. Furthermore, the additional common stock consideration was cancelled and returned to the Company; as such $65,000 of previously amortized discount on debt was reversed.

On December 14, 2011, the Company entered into exchange agreements with the Unsecured Promissory Note holders whereby the Note holders agreed to exchange the Unsecured Promissory Notes and Warrants for common shares and new warrants to purchase common shares of the Company as follows:

(a) For the Unsecured Promissory Notes, a number of new shares of common stock equal to (i) the total amount of principal plus accrued but unpaid interest of the Unsecured Promissory Notes submitted for cancellation divided by

(ii) an amount equal to 80% of the average closing price per share of common stock as quoted on the exchange on which it principally trades for the 30 day period ending two days prior to the closing date (the AP); plus

(b) For the Warrants, 1.25 new warrants for each Warrant converted, with each new warrant carrying an exercise price equal to 110% of the AP.

On December 14, 2011, the Unsecured Promissory Note holders exchanged $300,000 of principal balance and approximately $43,000 accrued interest for 459,218 common shares and 83,496 warrants.

The Company accounted for this transaction in accordance with ASC 470, *Debt*, as an extinguishment of debt, whereby a gain or loss was calculated as the difference between the reacquisition price and net carrying value of the debt. The reacquisition price was determined as the sum of the fair value of the common stock and new warrants. The warrants were valued using the Black-Scholes fair value model. For the year ended December 31, 2011, a gain of approximately $107,000 was recorded on the transaction based on a reacquisition price of approximately $236,000 and net carrying value, including interest, of approximately $343,000.

As further discussed in Note 5, in the first quarter of 2012, the Company offered the Unsecured Promissory Note holders the opportunity to exchange the common shares plus warrants received from the December 14, 2011 debt exchange for shares of the Series E Convertible Preferred Stock plus warrants under the same terms effected on December 30, 2011. The Company accounted for this transaction as a continuation and settlement of the December 14, 2011 debt modification.

On March 29, 2012, the Unsecured Promissory Note holders exchanged 459,218 common shares and 83,496 warrants for 544,356 shares of Series E Convertible Preferred Stock and 272,178 warrants. For the year ended December 31, 2012, a loss of approximately $183,000 was recorded on the transaction based on a reacquisition price of approximately $473,000 and fair value of the equity exchanged of approximately $290,000.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Issuance of Debt (continued)

Equity Lending Note

On August 31, 2012, the Company's Chief Executive Officer loaned $175,000 to the Company in a three year secured equity lending note (the "Equity Lending Note") at an interest rate of eight percent (8%) per annum payable quarterly in arrears. This note is secured by a security interest in and right of setoff against all of the Company's right, title and interest in and to all of the capital stock of Merriman Capital Inc., together with all proceeds, rents, profits and returns of and from any of the foregoing. Additional consideration in the form of 69,444 warrants to purchase common shares of the Company at $0.63 per share was issued to the lender. The warrants expire on August 31, 2015.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the Equity Lending Note was $13,000 which was recorded as a discount on the debt and applied against the Equity Lending Note. The note collateral has a carrying value of $175,000 and is included in other assets in the consolidated statement of financial condition as of December 31, 2013.

Secured Promissory Notes

On August 31, 2012, the Company's Co-Chairman of the Board of Directors loaned $250,000 to the Company in a three year secured promissory note (the "August 2012 Secured Promissory Note") at an interest rate of eight percent (8%) per annum payable quarterly in arrears. This note is secured by a security interest in and right of setoff against all of the Company's right, title and interest in and to all of the capital stock of Merriman Capital Inc., together with all proceeds, rents, profits and returns of and from any of the foregoing. Additional consideration in the form of 99,206 warrants to purchase common shares of the Company at $0.63 per share was issued to the lender. The warrants expire on August 31, 2015.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the August 2012 Secured Promissory Note was $19,000 which was recorded as a discount on the debt and applied against the August 2012 Secured Promissory Note.

On September 27, 2012, the Company's Co-Chairman of the Board of Directors loaned $125,000 to the Company in a three year secured promissory note (the "September 2012 Secured Promissory Note") at an interest rate of eight percent (8%) per annum payable quarterly in arrears. This note is secured by a security interest in and right of setoff against all of the Company's right, title and interest in and to all of the capital stock of Merriman Capital Inc., together with all proceeds, rents, profits and returns of and from any of the foregoing. Additional consideration in the form of 236,250 warrants to purchase common shares of the Company at $0.63 per share was issued to the lender. The warrants expire on September 27, 2015.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the September 2012 Secured Promissory Note was $45,000 which was recorded as a discount on the debt and applied against the September 2012 Secured Promissory Note.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Issuance of Debt (continued)

Secured Promissory Notes (continued)

On December 13, 2012, the Co-Chairman of the Board of Directors loaned $200,000 to the Company in a secured promissory note (the “December 2012 Secured Promissory Note”) maturing on September 13, 2013 and bearing interest rates at eight percent (8%) per annum payable at maturity. On September 13, 2013, the December 2012 Secured Promissory Note was extended to July 8, 2013 at the same terms. On July 8, 2013, while interest rate remains unchanged, the Secured Note’s maturity date was extended as follows:

	Maturity Dates	
Principal	31-Oct-13	31-Dec-13
$200,000	$66,667	$133,333

On September 26, 2013, the December 2012 Secured Promissory Note was further extended to mature on March 31, 2014 with the interest rate increased to ten percent (10%) per annum payable at maturity. On March 24, 2014, it was extended to mature on December 31, 2014 at the same interest rate plus 625,000 warrants to purchase the Company common stock at $0.08 per share.

On September 12, 2013 the Co-Chairman of the Board of Directors loaned $166,028 to the Company in a secured promissory note maturing on February 7, 2014, bearing interest rates at ten percent (10%) per annum payable at maturity. Principal amount and accrued interest were paid in full on January 23, 2014.

On December 13, 2012, an unrelated party loaned $300,000 to the Company in a six month secured promissory note at an interest rate of eight percent (8%) per annum payable at maturity. On June 13, 2013, the note was extended to July 8, 2013 at the same terms. On July 8, 2013, while interest rate remains un-changed, the note’s maturity date was extended as follows:

	Maturity Dates	
Principal	31-Oct-13	31-Dec-13
$300,000	$100,000	$200,000

Payment of $100,000 was paid. On December 26, 2013, the $200,000 balance was extended to March 31, 2014. A principal payment of $50,000 was made on January 2, 2014 and the remaining balance is currently under negotiation for further extension.

Convertible Secured Promissory Notes

On February 22, 2013 and December 28, 2012, the Co-Chairman of the Board of Directors loaned $600,000 and $500,000 to the Company in two convertible secured promissory notes (the “Convertible Notes”) maturing on November 22, 2013 and September 28, 2013, respectively, bearing interest rates at eight percent (8%) per annum payable at maturity. Each Convertible Note is secured pursuant to a certain Stock Pledge Agreement dated December 13, 2012 and includes a conversion feature which provides for the note to automatically convert into the Company’s common shares upon the consummation of a “Qualified Financing,” defined as an equity investment in one or a series of related transactions resulting in not less than $2,000,000, including the amount converted under the Convertible Notes. The number of common shares issued will be equal to the Convertible Notes’ principal divided by the price per share paid by the investors in the Qualified Financing. (See Debt Conversion)

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Issuance of Debt (continued)

Convertible Unsecured Promissory Note

On November 1, 2013, the Co-Chairman of the Board of Directors loaned $30,000 to the Company in a convertible unsecured promissory note (the "Convertible Note") maturing on April 1, 2014 bearing interest rate at five percent (5%) per annum payable at maturity. At any time following the date of issue and prior to repayment, the outstanding principal and accrued interest are convertible to common shares of the Company at $0.06 per share.

As of December 31, 2013, the Convertible Note remains outstanding and is included in notes payable to related parties in the Company's consolidated statements of financial condition. The Convertible Note is currently under negotiation for further extension.

Debt Conversion

a. Conversion of Convertible Secured Promissory Notes

The March 28, 2013 sale of common stock (see Note 6) was the catalyst to the Qualified Financing specified in the Convertible Notes, triggering an automatic conversion of the Convertible Notes into the Company's common shares at $0.03 per share. For each common share purchased by means of surrender of the Convertible Notes, the holder received a warrant to purchase 0.50 share of common stock at $0.04 per share, for a term of five years. A total of 36,666,666 common shares and 18,333,333 warrants were issued.

The Company accounted for this transaction in accordance with ASC 470, *Debt*, as an extinguishment of debt, whereby a gain or loss was calculated as the difference between the reacquisition price and net carrying value of the debt. The reacquisition price was determined as the sum of the fair value of the common stock and new warrants. The warrants were valued using the Black-Scholes fair value model.

For the year ended December 31, 2013, a loss of approximately $267,000 was recorded on the transaction based on a reacquisition price of approximately $1,367,000 and fair value of the debt exchanged of approximately $1,100,000.

b. ***Conversion of Subordinated Notes Payable***

On March 28, 2013, certain subordinated notes payable holders, all of whom are directors and officers of the Company, agreed to convert $110,000 subordinated notes payable into the Company's common shares at $0.03 per share. For each common share purchased by means of surrender of the subordinated notes payable, the holders received a warrant to purchase 0.25 share of common stock at $0.04 per share, for a term of five years. A total of 3,666,665 common shares and 916,665 warrants were issued.

The Company accounted for this transaction in accordance with ASC 470, *Debt*, as an extinguishment of debt, whereby a gain or loss was calculated as the difference between the reacquisition price and net carrying value of the debt. The reacquisition price was determined as the sum of the fair value of the common stock and new warrants. The warrants were valued using the Black-Scholes fair value model.

For the year ended December 31, 2013, a loss of approximately $26,000 was recorded on the transaction based on a reacquisition price of approximately $136,000 and fair value of the debt exchanged of approximately $106,000.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Shareholders' Equity

Sale of Common Stock

On March 28, 2013 and April 26, 2013, the Company entered into a definitive agreement (the "Stock Purchase Agreement") for the sale and issuance of 60,745,824 common shares at $0.03 per share, resulting in total proceeds to the Company of $1,822,375. For every four common shares purchased, the investors received a warrant to purchase one share of common stock at $0.04 per share, for a term of five years. A total of 15,186,449 warrants were issued.

The total proceeds of $1,822,375 is accounted for as an issuance of common stock with warrants and was allocated to the individual instruments based on the relative fair value of each instrument at the time of issuance. Based on such allocation method, the values allocated to common stock and warrants were $1,466,000 and $356,000, respectively.

On September 16, 2013, the Company entered into a definitive agreement (the "Stock Purchase Agreement") for the sale and issuance of 2,333,332 common shares at $0.06 per share, resulting in total proceeds to the Company of $140,000. For every four common shares purchased, the investors received a warrant to purchase one share of common stock at $0.08 per share, for a term of five years. A total of 583,332 warrants were issued.

The total proceeds of $140,000 is accounted for as an issuance of common stock with warrants and was allocated to the individual instruments based on the relative fair value of each instrument at the time of issuance. Based on such allocation method, the values allocated to common stock and warrants were $113,000 and $27,000, respectively.

On November16, 2013 and December 15, 2013, the Company issued an aggregate of 666,666 shares of common stock at $0.06 per share and 166,666 warrants for total proceeds of $40,000. The total proceeds of $40,000 is accounted for as an issuance of common stock with warrants and was allocated to the individual instruments based on the relative fair value of each instrument at the time of issuance. Based on such allocation method, the values allocated to common stock and warrants were $32,000 and $8,000, respectively.

On March 12, 2014, the Company issued 833,333 shares of common stock at $0.06 per share and 208,333 warrants for total proceeds of $50,000. The total proceeds of $50,000 is accounted for as an issuance of common stock with warrants and was allocated to the individual instruments based on the relative fair value of each instrument at the time of issuance. Based on such allocation method, the values allocated to common stock and warrants were $40,000 and $10,000, respectively.

Conversion of Series D and E Convertible Preferred Stock to Common Stock

In connection with the sale of common stock described above, the Investors Rights Agreement dated September 9, 2009 by and among the Company and investors in its Series D Convertible Preferred Stock was terminated and a new Voting Agreement dated March 28, 2013 was entered into.

On March 28, 2013, all outstanding shares of Series D and Series E Convertible Preferred Stock of the Company were converted into shares of common stock. Each share of Series D Convertible Preferred Stock was converted into 0.34127 share of common stock. Each share of Series E Convertible Preferred Stock was converted into one share of common stock. At the time of the conversion, all dividends accumulated but not declared on the Series D and series E Convertible Preferred Stock were canceled.

On March 28, 2013, 17,001,579 shares of Series D Convertible Preferred Stock and 6,303,799 shares of Series E Convertible Preferred Stock were converted into 5,802,126 and 6,303,799 shares of common stock, respectively.

Issuance of Common Stock

During the year ended December 31, 2012, the Company issued 400,000 restricted stock grants with immediate vesting and 452,259 shares of common stock as compensation.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Shareholders' Equity (continued)

Series D Convertible Preferred Stock

On September 8, 2009, the Company issued 23,720,916 shares of Series D Convertible Preferred Stock along with 5-year warrants to purchase 3,388,677 shares of the Company's common stock with an exercise price of $4.55 per share on a post-reverse split basis. The investor group constituted of 56 individuals and entities, including certain officers, directors and employees of the Company, as well as outside investors.

The Series D Convertible Preferred Stock was issued in a private placement exempt from registration requirements pursuant to Regulation D of the Securities Act of 1933. The Series D Convertible Preferred Stock is convertible into common stock at $0.43 per share. For the year ended December 31, 2012, 2,561,627 shares of Series D Convertible Preferred Stock were converted to 874,205 shares of common stock.

The Series D Convertible Preferred Stock carries a dividend rate of 6% per annum, payable monthly in arrears. For the year ended December 31, 2012, total Series D Convertible Preferred Stock dividends were $42,000. There were no dividends outstanding as of December 31, 2012.

Both the Series D Convertible Preferred Stock and the warrants issued in connection with the Series D Convertible Preferred Stock had, when issued, anti-dilution features including a full ratchet provision so that if the Company pays dividends, splits its common shares forward or reverse, issues additional shares at a lower price than the Series D Convertible Preferred Stock price, or adjusts its shares outstanding due to a combination, the conversion and exercises prices would also adjust proportionally. The full ratchet provision resulted in the warrants being accounted for as derivative instruments, since the exercise price was not fixed and could be lowered if the Company had issued securities at prices lower than the original exercise price of the warrant. On December 28, 2009, 100% of the holders of the warrants issued in connection with the Series D convertible Preferred Stock agreed to amend their warrants to remove the full ratchet provision.

The warrants expire five years from the date of the transaction. Holders of the Series D Convertible Preferred Stock may convert them into shares of the Company's common stock at any time in amounts no less than $100,000 unless all of the shares held by the holder are for a lesser amount. The Series D Convertible Preferred Stock will automatically convert at the discretion of the Company upon 10-day notice given when the average closing price of the Company's common stock over a 30-day period is at or above $21.00 per share on a post-reverse split basis and when the average trading volume for the immediately prior four-week period is 4,285 shares or more, provided that the shares have been effectively registered with the Securities and Exchange Commission or all of the Series D Convertible Preferred Stock may be sold under Rule 144 of the 1933 Exchange Act.

The holders of Series D Convertible Preferred Stock are entitled to a "liquidation preference payment" of $0.43 per share of Series D Convertible Preferred Stock plus all accrued but unpaid dividends on such shares prior and in preference to any payment to holders of the Common Stock upon a merger, acquisition, sale of substantially all the assets, or certain other liquidation events of the Company. Any proceeds after payment of the "liquidation preference payment" shall be paid pro rata to the holders of the Series D Convertible Preferred Stock and Common Stock on an as converted to Common Stock basis.

The Company has accounted for this transaction as the issuance of convertible preferred stock and a detachable stock warrant. The total gross proceeds of $10,200,000 which include $1,392,000 from conversions of prior notes (see Note 4) have been allocated to these individual instruments based on the relative fair value method. Of the total cash proceeds, $4,300,000 was used to settle certain legal claims which had an aggregate exposure of $43,577,000. The remaining cash of $4,508,000 was used for working capital.

As discussed above, the Company issued warrants to purchase 3,388,677 shares of common stock in conjunction with the sale of the Series D Convertible Preferred Stock. The proceeds of the transaction were allocated between the Series D Convertible Preferred Stock and the warrants using the residual method in which proceeds are first allocated to the warrant liability and any remaining value is then allocated to the preferred stock. The warrants were valued using the Black-Scholes fair value model. The grant date fair value of the warrants issued with the Series D Convertible Preferred Stock was $15,264,000. As the fair value of the warrants exceeds the proceeds received, the Company allocated all of the proceeds, with the exception of the par value of the Series D Convertible Preferred Stock, to the warrant liability. The additional value needed to record the warrants at fair value was recorded as a charge to additional paid-in capital (APIC) and shown as deemed dividend on the consolidated statements of operations.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Shareholders' Equity (continued)

Series D Convertible Preferred Stock (continued)

During November 2011, as required by the Series D certificate of designation, more than 50% of the holders of the outstanding Series D Convertible Preferred Stock of the Company agreed to amend certain provisions of the Series D certificate of designation. Accordingly, the following amendments became applicable to all of the outstanding Series D Convertible Preferred Stock; an amendment to require that until such time as the directors declare a dividend, any unpaid and undeclared dividends accumulate, compound and will not be payable, and an amendment to decrease the "full ratchet" anti-dilution provision of the Series D certificate of designation to an amount to equal two times the AP, as applicable to the conversion of the Secured Promissory Notes and Unsecured Promissory Notes described above.

During December 2011, the Series D certificate of designation was amended again to decrease the "full ratchet" anti-dilution provision of the Series D certificate of designation to an amount equal to two times the price at which such additional shares of common stock are issued in connection with the sale of Series E Convertible Preferred Stock.

Series E Convertible Preferred Stock

During the year ended December 31, 2012, 521,634 shares of Series E Convertible Preferred Stock were converted into common stock at the conversion ratio of 1:1.

During the year ended December 31, 2012, the Company issued 729,483 shares of Series E Convertible Preferred Stock at $0.63 per share plus 364,740 warrants, respectively, to purchase the Company's common stock with an exercise price of $0.63 per share.

The warrants expire five years from the effective date. Total proceeds of $459,576 were allocated between the Series E Convertible Preferred Stock and the related warrants based on the relative fair values of each instrument at the time of issuance.

The Series E Convertible Preferred Stock carries a dividend rate of 9% per annum, such dividends will be paid only when, if and as declared by the Board of Directors. The Company is prohibited from paying any dividends on the Common Stock until all accrued dividends on the Series D and Series E Convertible Preferred Stock are first paid. The Series E Convertible Preferred Stock is convertible into common stock at $0.63 per share.

The holders of Series E Convertible Preferred Stock are entitled to a liquidation preference payment of $0.63 per share of Series E Convertible Preferred Stock plus all accrued but unpaid dividends on such shares prior and in preference to any payment to holders of the Common Stock upon a merger, acquisition, sale of substantially all the assets, or certain other liquidation events of the Company. Any proceeds after payment of the liquidation preference payment shall be paid pro rata to the holders of the Series D and E Convertible Preferred Stock and Common Stock on an as converted to Common Stock basis.

Series E Convertible Preferred Stock dividends declared for the quarter ended December 31, 2011 in the amount of $42,000 were paid in 2012.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Shareholders' Equity (continued)

Common Stock Exchange Offer

As discussed in Note 4 – Issuance of Debt, on December 14, 2011 and November 16, 2011, four Unsecured Promissory Note holders and fifteen Secured Promissory Note holders, respectively, exchanged the principal balances of their notes plus accrued interests for shares of the Company's common stock and warrants.

In the first quarter of 2012, the Company offered these shareholders the opportunity to exchange the common shares resulted from the note exchange for shares of the Series E Convertible Preferred Stock under the same terms effected on December 30, 2011 (the Series E Exchange). The Secured Promissory Note holders who did not participate in the November 2011 exchange are also eligible to participate in the Series E Exchange which expires on May 15, 2012.

On March 29, 2012, the Unsecured Promissory Note holders exchanged 459,218 common shares and 83,496 warrants for 544,356 shares of Series E Convertible Preferred Stock and 272,178 warrants. For the year ended December 31, 2012, a loss of approximately $183,000 was recorded on the transaction based on a reacquisition price of approximately $473,000 and fair value of the equity exchanged of approximately $290,000.

On May 15, 2012, the Secured Promissory Note holders and Ronald L. Chez exchanged 2,102,247 and 445,299 common shares and 166,626 warrants for 2,491,994 and 527,856 shares of Series E Convertible Preferred Stock and 1,245,997 and 263,928 warrants, respectively. For the year ended December 31, 2012, losses in the amounts of approximately $735,000 and $169,000 were recorded on the transaction based on a reacquisition price of approximately $2,415,000 and $512,000 and fair value of the equity exchanged of approximately $1,680,000 and $343,000, respectively.

Option Forfeiture/Cancellation

Due to recent market performance, many of the Company's outstanding options carry exercise prices that are significantly higher than the current market price of the Company's common stock. As a result, in March 2012, the Company offered those option holders who are current officers and employees the ability to return their options to the Company.

The option holders were under no obligation to participate. Option holders who chose to return their options would be considered for new option grants which take into consideration their current positions with the Company, their potential contribution to building the Company's business, and the Company's stock price at the time of grant. There is no guarantee that (a) option holders who returned options will receive new grants, (b) any new option grants will be for the same number of shares as those relinquished, and (c) the new terms will be the same as those of the relinquished options.

For the year ended December 31, 2012, eight option holders who were also directors and employees of the Company consented to relinquish their rights in their 947,178 currently held options. The Company accounted for this transaction in accordance with ASC 718-20 *Compensation – Stock Compensation* which states that a cancellation of an award that is not accompanied by the concurrent grant of (or offer to grant) a replacement award or other valuable consideration shall be accounted for as a repurchase for no consideration. Accordingly, approximately $1,075,000 of unamortized stock based compensation expense related to the forfeited options as of the cancellation date was expensed and included in the Company's consolidated statement of operations.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Fair Value of Assets and Liabilities

Fair value is defined as the price at which an asset would sell for or an amount paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or parameters are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or the market on which they are primarily traded, and the instruments' complexity. Assets and liabilities recorded at fair value in the consolidated statements of financial condition are categorized based upon the level of judgment associated with the inputs used to measure their fair value

A description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value on a recurring basis follows.

Securities Owned

Corporate Equities

Corporate equities are comprised primarily of exchange-traded equity securities in which the Company takes selective proprietary positions based on expectations of future market movements and conditions.

Also, as compensation for investment banking services, the Company frequently receives common stock of the client as an additional compensation to cash fees. The common stock is typically issued prior to a registration statement is effective. The Company classifies these securities as "non-marketable securities" as they are restricted stock and may be freely traded only upon the effectiveness of a registration statement covering them or upon the satisfaction of the requirements to qualify under Rule 144, including the requisite holding period. Once a registration statement covering the securities is declared effective by the SEC or the securities have satisfied the Rule 144 requirements, the Company classifies them as "marketable securities."

Typically, the common stock is traded on stock exchanges and most are classified as Level 1 securities. The fair value is based on observed closing stock price at the measurement date. As of December 31, 2013 and 2012, the fair value of this type of securities included in securities owned in the consolidated statements of financial condition was approximately $1,176,000 and $709,000, respectively.

Certain securities are traded infrequently and therefore do not have observable prices based on actively traded markets. These securities are classified as Level 3 securities, if pricing inputs or adjustments are both significant to the fair value measurement and unobservable. The Company determines the fair value of infrequently traded securities using the observed closing price at measurement date, discounted for the put option value calculated through the Black-Scholes model or similar valuation techniques. Valuation inputs used in the Black-Scholes model include interest rate, stock volatility, expected term and market price of the underlying stock. As of December 31, 2013 and 2012, the fair value of this type of securities included in securities owned in the consolidated statements of financial condition was $79,000 and $242,000, respectively.

Stock Warrants

Also as partial compensation for investment banking services, the Company may receive stock warrants issued by the client. Stock warrants provide their holders with the right to purchase equity in a company. If the underlying stock of the warrants is freely tradable, the warrants are considered to be marketable. If the underlying stock is restricted, subject to a registration statement or to satisfying the requirements for a Rule 144 exemption, the warrants are considered to be non-marketable. Such positions are considered illiquid and do not have readily determinable fair values, and therefore require significant management judgment or estimation.

The fair value of the stock warrants is determined using the Black-Scholes model or similar valuation techniques. Valuation inputs used in the Black-Scholes model include observable inputs such as interest rate, expected term and market price of the underlying stock, in addition to unobservable inputs such as stock volatility. Generally, a change in stock volatility results in a directionally similar change in fair value. As these require significant management assumptions, they are classified as Level 3 securities.

As of December 31, 2013 and 2012, the fair value of this type of securities included in securities owned in the consolidated statements of financial condition was approximately $569,000 and $469,000, respectively.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Fair Value of Assets and Liabilities (continued)

Underwriters' Purchase Options

The Company may receive partial compensation for its investment banking services also in the form underwriters' purchase options (UPOs). UPOs are identical to warrants other than with respect to the securities for which they are exercisable. UPOs grant the holder the right to purchase a "bundle" of securities, including common stock and warrants to purchase common stock. UPOs grant the right to purchase securities of companies for which the Company acted as an underwriter to account for any overallotment of these securities in a public offering. Such positions are considered illiquid and do not have readily determinable fair values, and therefore require significant management judgment or estimation.

The fair value of the UPO is determined using the Black-Scholes model or similar technique, applied in two stages. The first stage is to determine the value of the warrants contained within the "bundle" which is then added to the fair value of the stock within the bundle. Once the fair value of the underlying "bundle" is established, the Black-Scholes model is used again to estimate a value for the UPO. The fair value of the "bundle" as estimated by Black-Scholes in the first stage is used instead of the price of the underlying stock as one of the inputs in the second stage of the Black-Scholes. Valuation inputs used in the Black-Scholes model include observable inputs such as interest rate; stock expected term and market price of the underlying stock, in addition to unobservable inputs such as stock volatility. Generally, a change in stock volatility results in a directionally similar change in fair value. The use of the valuation techniques requires significant management assumptions and therefore UPOs are classified as Level 3 securities.

As of December 31, 2013 and 2012, the fair value of this type of securities included in securities owned in the consolidated statements of financial condition was approximately $24,000 and $18,000, respectively.

Preferred Stock

Preferred stock represents preferred equity in companies. The preferred stock owned by the Company is convertible at the Company's discretion. For these securities, the Company uses the exchange-quoted price of the common stock equivalents to value the securities. They are classified within Level 2 or Level 3 of the fair value hierarchy depending on the availability of an observable stock price on actively traded markets.

As of December 31 2013 and 2012, the fair value of this type of securities included in securities owned in the consolidated statements of financial condition was deemed de minimis.

Securities Sold, Not Yet Purchased

Securities sold, not yet purchased are comprised primarily of exchange-traded equity securities that the Company sold short based on expectations of future market movements and conditions. They are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied and they are categorized in Level 1 liability of the fair value hierarchy.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Fair Value of Assets and Liabilities (continued)

Summary

The following table summarizes quantitative information about the significant unobservable inputs used in the fair value measurement of the Company's Level 3 financial instruments:

	Valuation Technique	Unobservable Input	Range	Weighted Average
Financial instruments and other inventory positions owned:				
Corporate equities	Put option discount using Black-Scholes option pricing model	Stock volatility	150 %	150 %
Stock warrants	Black-Scholes option pricing model	Stock volatility	54 - 447 %	194 %
Underwriters' purchase options	Black-Scholes option pricing model	Stock volatility	200 %	200 %
Preferred stock	Exchange-quoted price of common stock equivalents	Preferred stock to common stock conversion rate	1.6	1.6

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Assets at Fair Value at December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Corporate equities	$ 1,176,347	$ -	$ 78,756	$ 1,255,103
Stock warrants	-	-	568,755	568,755
Underwriters' purchase option	-	-	24,056	24,056
Preferred stock	-	-	234	234

Total securities owned	$ 1,176,347	$ -	$ 671,801	$ 1,848,148

	Assets at Fair Value at December 31, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Corporate equities	$ 709,333	$ -	$ 241,767	$ 951,100
Stock warrants	-	-	468,848	468,848
Underwriters' purchase option	-	-	17,634	17,634
Preferred stock	-	-	63	63
Total securities owned	$ 709,333	$ -	$ 728,312	$ 1,437,645

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Fair Value of Assets and Liabilities (continued)

The following table presents additional information about Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2013 and 2012.

	Corporate Equities	Stock Warrants	Underwriters' Purchase Options	Preferred Stock		Total
Balance at January 1, 2012	$907,495	$683,211	$ 5,972	$ 395		$1,597,073
Purchases or receipt (a)	22,066	288,153	-	-		310,219
Sales or exercises	(801,997)	(328)	-	(83)		(802,408)
Transfers out of	-	-	-	-		-
Gains (losses):						
Realized	290,393	-	-	-		290,393
Unrealized	(176,190)	(502,188)	11,662	(249)		(666,965)
Balance at December 31, 2012	241,767	468,848	17,634	63		728,312
Purchases or receipt (a)	-	400,336	-	-		400,336
Sales or exercises	-	(40,426)	-	-		(40,426)
Transfers into	74,280	-	-	-	(b)	74,280
Transfers out of	(188,793)	-	-	-		(188,793)
Gains (losses):						
Realized	-	-	-	-		-
Unrealized	(48,498)	(260,003)	6,422	171		(301,908)
Balance at December 31, 2013	$78,756	$568,755	$ 24,056	$ 234		$671,801
Change in unrealized gains (losses) relating to instruments still held at December 31, 2013	$(48,498)	$(260,003)	$ 6,422	$ 171		$(301,908)
Change in unrealized gains (losses) relating to instruments still held at December 31, 2012	$(8,356)	$(502,188)	$ 11,662	$ (249)		$(499,131)

(a) Includes purchases of securities and securities received for services

Net gains and losses (both realized and unrealized) for Level 3 financial assets are a component of principal transactions in the consolidated statements of operations.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Capital Leases

During the third quarter of 2013, the Company entered into certain leases for a portion of its property and equipment with various financing institutions and equipment providers for periods ranging from three to four years.

The following is an analysis of the leased assets included in equipment and fixtures at December 31, 2013 and 2012.

	December 31,	
	2013	2012
Property and equipment	$399,675	$ -
Less: accumulated depreciation	(71,045)	-
Capital lease assets, net	$328,630	$ -

Capital lease liabilities to financial institutions and equipment providers are due in monthly installments totaling $10,000, including fixed interest rates varying from 8.00% to 9.00%. Maturity of the capital leases vary from May 2016 to May 2017. As of December 31, 2013 and 2012, the outstanding capital lease liabilities were $361,000 and $0, respectively.

Interests related to these capital leases charged to interest expenses totaled $17,000 and $0, for the years ended December 31, 2013 and 2012, respectively.

The following is a schedule by years of future minimum payments required under the capital leases together with their present value as of December 31, 2013:

	Amount

2014	129,885
2015	129,885
2016	100,499
2017	47,902
Thereafter	-
Total minimum lease payments	408,171
Less: amount representing interest	(47,376)
Net commitments	$360,795

8. Equipment and Fixtures

Equipment and fixtures consisted of the following:

	December 31,	
	2013	2012
Computer equipment	$549,655	$568,203
Furniture and equipment	533,026	939,482
Software	-	191,744
Leasehold improvements	761,763	1,113,769
	1,844,444	2,813,198
Less accumulated depreciation	(1,503,186)	(2,795,551)
	$341,258	$17,647

Depreciation and amortization expenses for the years ending December 31, 2013 and 2012 were $83,000 and $21,000, respectively.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Stock-Based Compensation Expense

Stock Options

In 2009, the Company, with shareholders' approval, adopted the 2009 Stock Incentive Plan (the "2009 Plan"). Up to 1,142,857 new shares of its common stock may be issued pursuant to awards granted under the 2009 Plan. The Company no longer grants options under any of its prior option plans. Any shares of the Company's common stock which become available for new grant, upon the termination of employees holding unvested option grants under existing plans, will be added to the 2009 Plan.

The 2009 Plan, 1999 Stock Option Plan, 2000 Stock Option and Incentive Plan, 2001 Stock Option and Incentive Plan, 2003 Stock Option and Incentive Plan, 2004 Non-Qualified Stock Option and Inducement Plan and 2006 Directors' Stock Option and Incentive Plan, collectively the Option Plans, permit the Company to grant employees, outside directors, and consultants incentive stock options, nonqualified stock options or stock purchase rights to purchase shares of the Company's common stock. The Option Plans do not permit the exercise of restricted stock options, and therefore as of December 31, 2013 and 2012, there were no shares subject to repurchase.

As of December 31, 2013 and 2012, there were 23,345,689 and 6,775,584 shares authorized for issuance under the Option Plans, and 87,551 shares authorized for issuance outside of the Option Plans. There were no shares available for future option grants outside of the Option Plans.

On March 23, 2012, the Company's Board of Directors approved the 2012 Stock Incentive Plan (the 2012 Plan). Originally, 4,619,669 shares of the Company's common stock were reserved for issuance under the 2012 Plan. On June 3, 2013 shares reserved for issuance under the 2012 Plan were increased to 21,189,774.

Restricted stock and option grants were made on March 23, 2012, May 31, 2012, August 7, 2012 and June 3, 2013 under the 2012 Plan.

The following table is a summary of the Company's stock option activity for the years ended December 31, 2013 and 2012:

	2013		2012	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	3,005,532	$ 0.76	929,646	$ 6.18
Granted	9,985,000	0.12	3,150,000	0.56
Exercised	-	-	-	-
Cancelled	(194,069)	(0.64)	(1,074,114)	(5.11)
Outstanding at end of year	12,796,463	$ 0.26	3,005,532	0.76
Exercisable at end of year	3,912,790	$ 0.44	519,478	$ 1.85
Vested and expected to vest as of December 31, 2013	9,046,321			

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Stock-Based Compensation Expense (continued)

The following table summarizes information with respect to stock options outstanding at December 31, 2013, based on the Company's closing stock price on December 31, 2013 of $0.12 per share:

	Options Outstanding at December 31, 2013				Vested Options at December 31, 2013		
Range of Exercise Price	Number	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Number	Weighted-Average Exercise Price	Aggregate Intrinsic Value
$0.0000 - $3.4999	12,763,682	9.14	$ 0.24	$ -	3,880,188	$ 0.36	$ -
$3.5000 - $6.9999	8,631	5.80	4.56	-	8,452	4.52	-
$7.0000 - $10.4999	5,019	4.94	9.97	-	5,019	9.97	-
$10.5000 - $13.9999	18,570	5.72	10.99	-	18,570	10.99	-
$14.0000 - $27.9999	-	-	-	-	-	-	-
$28.0000 - $48.9999	510	2.63	34.30	-	510	34.30	-
$49.0000 - $84.4999	51	1.17	74.48	-	51	74.48	-
	12,796,463	9.14	$ 0.26	$ -	3,912,790	$ 0.44	$ -

	Options Outstanding at December 31, 2012				Vested Options at December 31, 2012		
Range of Exercise Price	Number	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Number	Weighted-Average Exercise Price	Aggregate Intrinsic Value

$0.0000 - $3.4999	2,972,330	9.24	$ 0.66	$ -	374,326	$ 1.28	$ -
$3.5000 - $6.9999	9,002	6.52	4.52	-	8,100	4.33	-
$7.0000 - $10.4999	5,049	6.76	9.97	-	4,022	9.96	-
$10.5000 - $13.9999	18,570	6.72	10.99	-	15,088	10.99	-
$14.0000 - $27.9999	-	-	-	-	-	-	-
$28.0000 - $48.9999	530	3.49	34.21	-	530	34.21	-
$49.0000 - $84.4999	51	2.17	74.48	-	51	74.48	-
	3,005,532	9.21	$ 0.76	$ -	402,117	$ 1.85	$ -

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Stock-Based Compensation Expense (continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 2013 and 2012:

	2013	2012
Expected Volatility	179.10%	140.31%
Average expected term (years)	4.07	4.95
Risk-free interest rate	61.00 %	0.66 %
Dividend yield	-	-

Consistent with ASC 718, *Stock Compensation*, the Company considered the historical volatility of its stock price in determining its expected volatility, and, finding this to be reliable, determined that the historical volatility would result in the best estimate of expected volatility. Since the Company does not have any traded options or other traded financial instruments such as convertible debt, implied volatilities are not available.

The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding. The Company calculated the expected term using the Black-Scholes model with specific assumptions about the suboptimal exercise behavior, post-vesting termination rates and other relevant factors.

The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of the Company’s employee stock options.

The dividend yield assumption is based on the Company’s history and expectation of dividend payouts. The Company has not paid and currently does not plan to declare dividends on its common stock.

As stock-based compensation expense recognized is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures were estimated based on the Company’s historical experience.

The weighted-average grant date fair value of stock options granted during 2013 and 2012 was $0.03 and $0.47, respectively. Compensation expense for stock options during the years ended December 31, 2013 and 2012 was $642,000 and $536,000, respectively. As of December 31, 2013, total unrecognized compensation expenses related to unvested stock options were $450,000. This amount is expected to be recognized as expense over a weighted-average period of 2 years.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Stock-Based Compensation Expense (continued)

Restricted Stock

At the date of grant, the recipients of restricted stock have most of the rights of a stockholder other than voting rights, subject to certain restrictions on transferability and a risk of forfeiture. Restricted shares typically vest over a two to four year period beginning on the date of grant. The fair value of each restricted stock award is based on the market value of the Company's stock on the date of grant. The Company recognizes the compensation expense for restricted stock on a straight-line basis over the requisite service period. Compensation expense for restricted stock during the years ended December 31, 2013 and 2012 was $19,000 and $195,000, respectively.

The following table is a summary of the Company's restricted stock activity, based on the Company's closing stock price on December 31, 2013 of $0.12 per share:

	Restricted Stock Outstanding	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value
Balance as of January 1, 2012	70,605	2.12	$ 30,360
Granted	1,102,259	0.53	
Vested	(915,204)	(0.65)	
Canceled	-	-	
Balance as of December 31, 2012	257,660	$ 0.58	$ 15,460
Granted	-	-	
Vested	(4,595)	(2.72)	
Cancelled	(250,000)	(0.51)	
Balance as of December 31, 2013	3,065	$ 2.72	$ 368
Vested and expected to vest as of December 31, 2013	3,065		

The total fair value of restricted stock that vested during the years ended December 31, 2013 and 2012 was $1,000 and $55,000, respectively. Cancelled shares were from one recipient who voluntarily cancelled the grants prior to vesting.

As of December 31, 2013, total unrecognized compensation expense related to restricted stock was $0.

10. Employee Benefit Plans

The Company has a 401(k) defined contribution plan. The 401(k) plan allows eligible employees to contribute up to 15% of their compensation, subject to a statutory prescribed annual limit. Employee contributions and earnings thereon vest immediately. Although the Company may make discretionary contributions to the 401(k) plan, none were made during the years ended December 31, 2013 and 2012.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Income Taxes

The income tax provision (benefit) consists of the following:

	December 31, 2013	2012
Federal		
Current	$-	$-
Deferred	(938,000)	(1,343,000)
State & local		
Current	-	-
Deferred	(332,000)	807,000
Total	(1,270,000)	(536,000)
Change in valuation allowance	1,270,000	536,000
Income tax provision (benefit)	$-	$-

The provision (benefit) for income taxes using the statutory federal tax rate as compared to the Company's effective tax rate is summarized as follows:

	December 31, 2013	2012
Federal statutory income tax rate (benefit)	-34.0%	-34.0%
State income taxes	-8.3 %	-7.7 %
Stock-based compensation	6.8 %	9.8 %
Meals & entertainment	0.4 %	0.7 %
Equity conversion loss	3.1 %	6.6 %
Penalties	1.3 %	-
Other permanent differences	5.8 %	-2.5 %
Change in rate	-6.9 %	19.2 %
Valuation allowance	31.8 %	7.9 %

Effective tax rate	0.0 %	0.0 %

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Income Taxes (continued)

The Company's deferred tax assets consisted of the effects of temporary differences attributable to the following:

	December 31, 2013	2012
Deferred tax assets:		
Net operating loss carry-forwards	$13,527,000	$12,619,000
Reserves and accruals	239,000	43,000
Unrealized loss	4,749,000	4,460,000
Other	1,576,000	1,700,000
Total deferred tax assets	20,091,000	18,822,000
Valuation allowance	(20,091,000)	(18,822,000)
Net deferred tax assets	$-	$-

As of December 31, 2013 and 2012, the Company had approximately $34.5 and $32.4 million of U.S. federal net operating loss carryovers available to offset future taxable income, respectively. As of December 31, 2013 and 2012, the Company had approximately $62 and $62 million of state net operating loss carryovers available to offset future taxable income, respectively. These net operating losses which, if not utilized, begin expiring in the year 2029. In accordance with Section 382 of the Internal Revenue Code, deductibility of the Company's net operating loss carry over may be subject to an annual limitation in the event of a change of control. Management will be performing a preliminary evaluation as to whether a change in control has taken place.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. After consideration of all of the information available, management believes that significant uncertainty exists with respect to future realization of the deferred tax assets and has therefore established a full valuation allowance. For the year ended December 31, 2013 and 2012, the change in

the valuation allowance was approximately $1,270,000 and $536,000, respectively.

The Company evaluated the provisions of ASC 740 related to the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements. ASC 740 prescribes a comprehensive model for how a company should recognize, present, and disclose uncertain positions that the company has taken or expects to take in its tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Differences between tax positions taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to the interpretation are referred to as "unrecognized benefits." A liability is recognized (or amount of net operating loss carry forward or amount of tax refundable is reduced) for an unrecognized tax benefit because it represents an enterprise's potential future obligation to the taxing authority for a tax position that was not recognized as a result of applying the provisions of ASC 740.

Interest costs related to unrecognized tax benefits are required to be calculated (if applicable) and would be classified as "Interest expense, net" in the statements of operation. Penalties would be recognized as a component of "General and administrative expenses."

No interest or penalties were recorded during the year ended December 31, 2013 and December 31, 2012. As of December 31, 2013 and December 31, 2012 no liability for unrecognized tax benefits was required to be reported. The Company does not expect any significant changes in its unrecognized tax benefits in the next year.

The Company files U.S. federal and state income tax returns. These tax returns are subject to examination by tax authorities for years beginning in December 31, 2010.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Segment Reporting

Currently, the Company’s business results are categorized into three operating segments: MC, Financial Entrepreneurial Platform (FEP) and Capital Market Advisory Services (CMAG). FEP is an investment banking division assisting corporate issuers in raising capital through a network of independent investment bankers. CMAG is its capital market advisory services assisting clients to obtain listing on OTCQX, a tier of Pink Sheets. The Company recognizes revenues earned by FEP on a gross basis in accordance with ASC 605-45, *Revenue Recognition: Principal Agent Considerations*, as the Company is the primary obligor in the arrangements entered into by FEP.

The Company's reportable segments are strategic business units that offer products and services which are compatible with its core business strategy. The MC segment includes a broad range of services, such as capital raising and financial advisory services for corporate clients, and brokerage and equity research services for our institutional investor clients. The FEP segment includes capital raising services through a network of independent investment bankers and CMAG includes assisting corporate issuers in listing on OTCQX, the premier OTC Market tier, along with other services that facilitate the access to institutional capital markets.

The accounting policies of the segments are consistent with those described in the Significant Accounting Policies in Note 3. The Company evaluates segment results based on revenue and segment income. There are no revenue-generating activities between segments. Segment asset disclosures are not provided as no significant assets are separately determinable for FEP or CMAG. Revenue and expenses directly associated with each segment are included in determining segment income, which is also the internal performance measure used by management to assess the performance of each business in a given period.

Consolidation items and eliminations include the effects of eliminating transactions between operating segments, and certain non-allocated amounts. Consolidation items and elimination is not an operating segment. Rather, it is added to operating segment totals to reconcile to consolidated totals on the financial statements. Certain amounts included in consolidation items and elimination costs are not allocated to operating segments because they are excluded from the measurement of their operating performance for internal purposes. These include Board of Directors compensation, interest on general borrowings, litigation settlement costs and other charges.

Management believes that the following information provides a reasonable representation of each segment's contribution to revenue and loss or operating results:

	Year Ended December 31,	
	2013	2012
Revenues		
MC	$5,947,245	$9,696,194
FEP	2,017,708	1,487,636
CMAG	1,996,119	1,670,610
Total segment revenues	9,961,072	12,854,440
Consolidation items and elimination	(1,165)	64,545
Consolidated revenues	$9,959,907	$12,918,985
Segment profit (loss)		
MC	$(4,738,706)	$(6,674,945)
FEP	440,750	145,893
CMAG	1,363,571	1,085,452
Total segment loss	(2,934,385)	(5,443,600)
Consolidation items and elimination	(1,057,684)	(1,425,680)
Consolidated net loss before income taxes	$(3,992,069)	$(6,869,280)

Substantially all of our revenues are from customers located in the United States and all of our long-lived assets are located in the United States.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Commitments and Contingencies

The following is a table summarizing significant commitments as of December 31, 2013, consisting of notes payable, future minimum lease payments under all non-cancelable operating leases and capital leases with initial or remaining terms in excess of one year.

	Notes Payable	Office Leases	Operating Leases	Capital Leases	Total
2014	$ 2,676,505	$1,209,600	$587,600	$129,885	$4,603,590
2015	705,038	1,343,760	60,800	129,885	2,239,483
2016	-	1,353,354	36,000	100,499	1,489,853
2017	-	1,421,854	-	47,902	1,469,756
2018	-	1,437,268	-	-	1,437,268
Thereafter	-	2,189,662	-	-	2,189,662
Total Commitments	3,381,543	8,955,498	684,400	408,171	13,429,612
Interest	(153,915)	-	-	(47,376)	(201,291)
Net Commitments	$ 3,227,628	$8,955,498	$684,400	$360,795	$13,228,321

The Company’s current San Francisco corporate office lease expired on December 31, 2013. On August 22, 2013, the Company entered into an office lease for its San Francisco corporate office commencing in January 2014 and expiring in April 2020. The Company leases its New York office under a non-cancelable operating lease that expires in and July 2020.

For the years ended December 31, 2013 and 2012, rent expenses were approximately $1,035,000 and $1,306,000, net of $511,000 and $259,000 sublease rent received, respectively. The operating leases in the table above include non-cancelable contracts for operating services, such as market data services.

In connection with its underwriting activities, the Company enters into firm commitments for the purchase of securities in return for a fee. These commitments require it to purchase securities at a specified price. Securities underwriting exposes the Company to market and credit risk, primarily in the event that, for any reason, securities

purchased by the Company cannot be distributed at anticipated price levels. As December 31, 2013 and 2012, the Company had no open underwriting commitments.

Marketable securities, restricted cash, and cash held by the clearing broker may be used to maintain margin requirements. At December 31, 2013 and 2012, the Company had $250,000 of cash on deposit with its clearing broker. Furthermore, the marketable securities owned may be hypothecated or borrowed by the clearing broker.

From time to time, the Company may obtain funds through capital leases to purchase furniture and equipment, to replace current ones or for expansion.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Commitments and Contingencies (continued)

Legal Proceedings

Del Biaggio/Cacchione Matters

A number of lawsuits were filed against the Company and the Parent (collectively, “Merriman Parties”) in connection with the actions of William Del Biaggio III (Del Biaggio), a former customer of the Company, and David Scott Cacchione (Cacchione), a former retail broker of the Company from 2006 to 2008. Del Biaggio and Cacchione pleaded guilty to securities fraud and were subsequently imprisoned. As of December 31, 2013, all of these lawsuits have been settled or dismissed.

Khachaturian, Peterson and Salvi v. Merriman Capital, Inc. and Merriman Holdings, Inc.

Complaints were filed in the San Francisco County Superior Court, California, by Henry Khachaturian in January 2011, by Charles Peterson in February 2010 and by Dolores Salvi in October 2010. The complaints also named as defendants, the Company’s officers and former officers D. Jonathan Merriman, Gregory Curhan, and Robert Ford. Messrs Curhan and Ford were dropped from the case in January 2011. The complaints were consolidated into one case in March 2011. The complaints alleged that plaintiffs were convinced by the Company to purchase shares of a small, risky stock in which the Company held a position. It further alleged that the Company did not permit plaintiffs to sell the shares when the stock’s price fell. In October 2013, the parties entered into a settlement agreement and release, and the case was dismissed.

Additionally, from time to time, the Company is involved in ordinary routine litigation incidental to our business.

For the years ended December 31, 2013 and 2012, the Company incurred legal services and litigation settlement of $520,000 and $427,000, respectively. Of the $520,000 amount incurred in 2013, $390,000 was for settlement for certain litigation. There was no litigation settlement in 2012.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Financial Instruments, Off-Balance Sheet Arrangements and Indemnification

Financial Instruments

The Company's broker-dealer entity trades securities that are primarily traded in United States markets. As of December 31, 2013 and 2012, the Company had not entered into any transactions involving financial instruments, such as financial futures, forward contracts, options, swaps or derivatives that would expose the Company to significant related off-balance-sheet risk.

In addition, the Company, from time to time, has sold securities it does not currently own in anticipation of a decline in the fair value of that security (securities sold, not yet purchased). When the Company sells a security short and borrows the security to make a delivery, a gain, limited to the price at which the Company sold the security short, or a loss, unlimited in size, is realized as the fair value of the underlying security decreases or increases, respectively.

Market risk is primarily caused by movements in market prices of the Company's trading and investment account securities. The Company's trading securities and investments are also subject to interest rate volatility and possible illiquidity in markets in which the Company trades or invests. The Company seeks to control market risk through monitoring procedures. The Company's principal transactions are primarily long and short equity transactions.

Off-Balance Sheet Arrangements

The Company was not a party to any off-balance sheet arrangements during the two years ended December 31, 2013. In particular, the Company does not have any interest in so-called limited purpose entities, which include special purpose entities and structured finance entities.

Indemnification

The Company's broker-dealer subsidiary functions as an introducing broker that places and executes customer orders. The orders are then settled by an unrelated clearing organization that maintains custody of customers' securities and provides financing to customers. Through indemnification provisions in agreements with clearing organizations, customer activities may expose the Company to off-balance-sheet credit risk. Financial instruments may have to be purchased or sold at prevailing market prices in the event a customer fails to settle a trade on its original terms or in the event cash and securities in customer margin accounts are not sufficient to fully cover customer obligations. The Company seeks to control the risks associated with customer activities through customer screening and selection procedures, as well as through requirements on customers to maintain margin collateral in compliance with various regulations and clearing organization policies.

15. Regulatory Requirements

MC is a broker-dealer subject to Rule 15c3-1 of the Securities Exchange Act of 1934 which specifies uniform minimum net capital requirements, as defined, for its registrants. As of December 31, 2013, MC had regulatory net capital, as defined, of $646,000, which exceeded the amount required by $396,000. MC complies with the alternative net capital requirement allowed in Appendix E of Rule 15c3-1. MC is exempt from Rules 15c3-3 and 17a-13 under the Securities Exchange Act of 1934 because it does not carry customer accounts, nor does it hold customer securities or cash.

Under its rules, FINRA may prohibit a member firm from expanding its business or paying dividends if resulting net capital would be less than 5 percent of aggregate debit balances. Advances to affiliates, repayment of subordinated debt, dividend payments and other equity withdrawals by MC are subject to certain notification and other provisions of the SEC and FINRA rules. In addition, MC is subject to certain notification requirements related to withdrawals of excess net capital

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Related Party Transactions

Sale of Note and Trade Receivables

On September 28, 2012, the Company sold a certain note receivable with a carrying value of $125,000 to the Co-Chairman of the Board of Directors for $125,000 plus all accrued but unpaid interests. The buyer assumed the risk of collection with respect to the note receivable he purchased.

On February 14, 2012, the Company sold certain trade receivables with a carrying value of $507,000 at a discount to the Co-Chairman of the Board of Directors for $500,000. The buyer assumed the risk of collection with respect to the receivables he purchased. The $7,000 discount was included in cost of underwriting capital in the Company's condensed consolidated statement of operations.

Temporary Subordinated Borrowings

On March 4, 2013, the Company borrowed $400,000 from the Co-Chairman of the Board of Directors. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. Total fees incurred were $28,000, which amount was included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and related fees were paid in full on April 5, 2013.

On January 31, 2013, the Company borrowed $1,200,000 from the Co-Chairman of the Board of Directors. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. Total fees incurred were $52,800, of which $21,600 was included in cost of underwriting capital in the Company's consolidated statement of operations. The remaining balance was charged against banking deal expenses. The loan and related fees were paid in full on February 22, 2013.

On October 30, 2012, the Company borrowed $500,000 from the Co-Chairman of the Board of Directors. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. Total fees incurred were $45,000, which amount was included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and related fees were paid in full on December 14, 2012.

On June 13, 2012, the Company borrowed $1,600,000 from the Co-Chairman of the Board of Directors. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. Total fees incurred were $36,000, which amount was included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and related fees were paid in full on June 25, 2012.

On January 27, 2012, the Company borrowed $2,500,000 from the Co-Chairman of the Board of Directors. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. Total fees incurred were $110,000, which amount was included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and related fees were paid in full on February 17, 2012.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Related Party Transactions (continued)

Subordinated Notes Payable

On September 29, 2010, the Company borrowed $1,000,000 from nine individual lenders, all of whom were directors, officers or employees of the Company at the time of issuance, pursuant to a series of unsecured promissory notes (Subordinated Notes). The Subordinated Notes are for a term of three years and provide for interest comprising two components: (i) six percent (6.0%) per annum to be paid in cash monthly; and (ii) eight percent (8.0%) per annum to be accrued and paid in cash upon maturity. Additional consideration was paid to the lenders at closing comprising a number of shares of common stock of the Company equal to: (A) 30% of the principal amount lent; divided by (B) $3.01 per share. The total effective interest on the note is approximately 21.73%. Proceeds were used to supplement underwriting capacity and working capital for MC.

The total proceeds of $1,000,000 raised in the transaction above were accounted for as an issuance of debt with stock. The total proceeds of $1,000,000 have been allocated to these individual instruments based on the relative fair values of each instrument. Based on such allocation method, the value of the stocks issued in connection with the Subordinated Notes was $206,000, which was recorded as a discount on the debt and applied against the Subordinated Notes.

In connection with the March 28, 2013 sale of common stock, $110,000 of the Subordinated Notes converted to equity. See Debt Conversion.

On September 29, 2013, $840,000 of the Subordinated Notes, together with $201,600 accrued interest were rolled into an Unsecured Promissory Note maturing on March 29, 2014. The new note bears interest at nine percent (9%) per annum payable monthly and five percent (5%) per annum payable at maturity. On March 27, 2014, the $1,041,600 Subordinated Notes, together with $25,826 accrued interest were rolled into a new Unsecured Promissory Note maturing on December 31, 2014 at the same interest rates plus warrants to purchase 3,335,706 shares of the Company’s common stock at $0.10 per share.

The remaining $50,000 of the subordinated notes payable were paid off in full on October 31, 2013 and November 1, 2013.

As of December 31, 2012, $897,000 of the Subordinated Notes, net of $53,000 discount, are outstanding and included in notes payable to related parties in the Company’s consolidated statements of financial condition. The remaining Subordinated Notes held by parties no longer related to the Company of $47,000, net of $3,000 discount, are included in notes payable in the Company’s consolidated statements of financial condition. The discount on the note is amortized over the term of the loan using the effective interest method.

For the years ended December 31, 2013 and 2012, the Company incurred $134,000 and $141,000 in interest on the Subordinated Notes, respectively. Total interests of $35,000 and $81,000 remain outstanding as of December 31, 2013 and 2012, respectively, and are included in accrued expenses and other in the consolidated statements of financial condition.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Related Party Transactions (continued)

Equity Lending Note

On August 31, 2012, the Company's Chief Executive Officer loaned $175,000 to the Company in a three year secured equity lending note (the "Equity Lending Note") at an interest rate of eight percent (8%) per annum payable quarterly in arrears. This note is secured by a security interest in and right of setoff against all of the Company's right, title and interest in and to all of the capital stock of Merriman Capital Inc., together with all proceeds, rents, profits and returns of and from any of the foregoing. Additional consideration in the form of 69,444 warrants to purchase common shares of the Company at $0.63 per share was issued to the lender. The warrants expire on August 31, 2015.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the Equity Lending Note was $13,000 which was recorded as a discount on the debt and applied against the Equity Lending Note. The note collateral has a carrying value of $175,000 and is included in other assets in the consolidated statement of financial condition as of December 31, 2013.

Secured Promissory Notes

On August 31, 2012, the Company's Co-Chairman of the Board of Directors loaned $250,000 to the Company in a three year secured promissory note (the "August 2012 Secured Promissory Note") at an interest rate of eight percent (8%) per annum payable quarterly in arrears. This note is secured by a security interest in and right of setoff against all of the Company's right, title and interest in and to all of the capital stock of Merriman Capital Inc., together with all proceeds, rents, profits and returns of and from any of the foregoing. Additional consideration in the form of 99,206 warrants to purchase common shares of the Company at $0.63 per share was issued to the lender. The warrants expire on August 31, 2015.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the August 2012 Secured Promissory Note was $19,000 which was recorded as a discount on the debt and applied against the August 2012 Secured Promissory Note.

On September 27, 2012, the Company's Co-Chairman of the Board of Directors loaned $125,000 to the Company in a three year secured promissory note (the "September 2012 Secured Promissory Note") at an interest rate of eight percent (8%) per annum payable quarterly in arrears. This note is secured by a security interest in and right of setoff against all of the Company's right, title and interest in and to all of the capital stock of Merriman Capital Inc., together with all proceeds, rents, profits and returns of and from any of the foregoing. Additional consideration in the form of 236,250 warrants to purchase common shares of the Company at $0.63 per share was issued to the lender. The warrants expire on September 27, 2015.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the September 2012 Secured Promissory Note was $45,000 which was recorded as a discount on the debt and applied against the September 2012 Secured Promissory Note.

On December 13, 2012, the Co-Chairman of the Board of Directors loaned $200,000 to the Company in a secured promissory note (the "December 2012 Secured Promissory Note") maturing on September 13, 2013 and bearing interest rates at eight percent (8%) per annum payable at maturity. On September 13, 2013, the December 2012 Secured Promissory Note was extended to July 8, 2013 at the same terms. On July 8, 2013, while interest rate remains unchanged, the Secured Note's maturity date was extended as follows:

	Maturity Dates	
Principal	31-Oct-13	31-Dec-13
$200,000	$66,667	$133,333

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Related Party Transactions (continued)

On September 26, 2013, the December 2012 Secured Promissory Note was further extended to mature on March 31, 2014 with the interest rate increased to ten percent (10%) per annum payable at maturity. On March 24, 2014, it was extended to mature on December 31, 2014 at the same interest rate and 625,000 warrants to purchase the Company common stock at $0.08 per share.

On September 12, 2013 the Co-Chairman of the Board of Directors loaned $166,028 to the Company in a secured promissory note maturing on February 7, 2014, bearing interest rates at ten percent (10%) per annum payable at maturity. Principal amount and accrued interest were paid in full on January 23, 2014.

Convertible Secured Promissory Notes

On February 22, 2013 and December 28, 2012, the Co-Chairman of the Board of Directors loaned $600,000 and $500,000 to the Company in two convertible secured promissory notes (the “Convertible Notes”) maturing on November 22, 2013 and September 28, 2013, respectively, bearing interest rates at eight percent (8%) per annum payable at maturity. Each Convertible Note is secured pursuant to a certain Stock Pledge Agreement dated December 13, 2012 and includes a conversion feature which provides for the note to automatically convert into the Company’s common shares upon the consummation of a “Qualified Financing,” defined as an equity investment in one or a series of related transactions resulting in not less than $2,000,000, including the amount converted under the Convertible Notes. The number of common shares issued will be equal to the Convertible Notes’ principals divided by the price per share paid by the investors in the Qualified Financing. (See Note 5)

Convertible Unsecured Promissory Note

On November 1, 2013, the Co-Chairman of the Board of Directors loaned $30,000 to the Company in a convertible unsecured promissory note (the “Convertible Note”) maturing on April 1, 2014 bearing interest rate at five percent (5%) per annum payable at maturity. At any time following the date of issue and prior to repayment, the outstanding

principal and accrued interest are convertible to common shares of the Company at $0.06 per share.

As of December 31, 2013, the Convertible Note remains outstanding and is included in notes payable to related parties in the Company’s consolidated statements of financial condition. The Convertible Note is currently under negotiation for further extension.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Related Party Transactions (continued)

Debt Conversion

a. Conversion of Convertible Secured Promissory Notes

The March 28, 2013 sale of common stock (see Note 6) was the catalyst to the Qualified Financing specified in the Convertible Notes, triggering an automatic conversion of the Convertible Notes into the Company's common shares at $0.03 per share. For each common share purchased by means of surrender of the Convertible Notes, the holder received a warrant to purchase 0.50 share of common stock at $0.04 per share, for a term of five years. A total of 36,666,666 common shares and 18,333,333 warrants were issued.

The Company accounted for this transaction in accordance with ASC 470, *Debt*, as an extinguishment of debt, whereby a gain or loss was calculated as the difference between the reacquisition price and net carrying value of the debt. The reacquisition price was determined as the sum of the fair value of the common stock and new warrants. The warrants were valued using the Black-Scholes fair value model.

For the year ended December 31, 2013, a loss of approximately $267,000 was recorded on the transaction based on a reacquisition price of approximately $1,367,000 and fair value of the debt exchanged of approximately $1,100,000.

b. Conversion of Subordinated Notes Payable

On March 28, 2013, certain subordinated notes payable holders, all of whom are directors and officers of the Company, agreed to convert $110,000 subordinated notes payable into the Company's common shares at $0.03 per share. For each common share purchased by means of surrender of the subordinated notes payable, the holders received a warrant to purchase 0.25 share of common stock at $0.04 per share, for a term of five years. A total of 3,666,665 common shares and 916,665 warrants were issued.

The Company accounted for this transaction in accordance with ASC 470, *Debt*, as an extinguishment of debt, whereby a gain or loss was calculated as the difference between the reacquisition price and net carrying value of the debt. The reacquisition price was determined as the sum of the fair value of the common stock and new warrants. The warrants were valued using the Black-Scholes fair value model.

For the year ended December 31, 2013, a loss of approximately $26,000 was recorded on the transaction based on a reacquisition price of approximately $136,000 and fair value of the debt exchanged of approximately $106,000.

Software Platform Purchase

In December 2013, the Company purchased a software platform called Digital Capital Network (“DCN”), an online capital marketplace, from an entity owned by an advisory board member. The purchase price consisted of $160,000 cash and 2,644,929 shares of the Company’s common stock valued at $0.06 per share at the time of issuance, plus a $20,500 ongoing monthly payment.

Other Related Party Transactions

From time to time, officers and employees of the Company may invest in private placements which the Company arranges and for which the Company charges investment banking fees. The Company’s employees may, at times, provide certain services and supporting functions to its affiliate entities. The Company is not reimbursed for any costs related to providing those services.

17. Subsequent Events

The Company evaluated subsequent events through the date these financial statements were issued. The Company determined the following to be material subsequent events that require disclosure.

On March 12, 2014, the Company issued 833,333 shares of common stock at $0.06 per share and 208,333 warrants for total proceeds of $50,000. The total proceeds of $50,000 is accounted for as an issuance of common stock with warrants and was allocated to the individual instruments based on the relative fair value of each instrument at the time of issuance. Based on such allocation method, the values allocated to common stock and warrants were $40,000 and $10,000, respectively.

81

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The financial statements included in this report have been audited by Marcum LLP ("Marcum"), independent registered public accounting firms, as stated in their audit reports appearing herein.

During the year ended December 31, 2013 and through the date of this Annual Report on Form 10-K, there were no disagreements with Marcum on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure which, if not resolved to Marcum's and BPM's satisfaction, would have caused them to make reference to the subject matter in connection with their report on the Company's consolidated financial statements; and there were no reportable events as set forth in applicable SEC regulations.

Item 9a. Controls and Procedures

Disclosure Controls and Procedures **–** We carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective, as of December 31, 2013, in ensuring that material information that 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 the Securities and Exchange Commission rules and forms.

Changes in Internal Control over Financial Reporting **–** There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) of the Exchange Act) occurred during the year ended December 31, 2013, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting **–** Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, a company's principal executive and principal financial officers and effected by a company's board of directors, management and other personnel 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. Our internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework in 1992. Based on our assessment, our management has concluded that, as of December 31, 2013, our internal control over financial reporting is effective based on those criteria.

Item 9b. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information is incorporated by reference to the Company's definitive 2013 Proxy Statement.

Item 11. Executive Compensation

The information is incorporated by reference to the Company's definitive 2013 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information is incorporated by reference to the Company's definitive 2013 Proxy Statement.

Item 13. Certain Relationships and Related Transactions

The information is incorporated by reference to the Company's definitive 2013 Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information is incorporated by reference to the Company's definitive 2013 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. The information required by this item is included in Item 8 of Part II of this Annual Report on Form 10-K.

2. Financial Statement Schedules

The required schedules are omitted because of the absence of conditions under which they are required or because the required information is presented in the financial statements or notes thereto.

3. Exhibits

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Merriman Holdings, Inc.

March 31, 2014 By: /s/ D. Jonathan Merriman

D. Jonathan Merriman,
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ D. Jonathan Merriman D. Jonathan Merriman	Chief Executive Officer, and Co-Chairman of the Board of Directors	March 31, 2014
/s/ Ronald L. Chez Ronald L. Chez	Co-Chairman of the Board of Directors	March 31, 2014
/s/ Patrick O'Brien Patrick O'Brien	Director	March 31, 2014
/s/ William J. Febbo William J. Febbo	Director	March 31, 2014
/s/ Dennis G. Schmal Dennis G. Schmal	Director	March 31, 2014
/s/ Jeffrey M. Soinski Jeffrey M. Soinski	Director	March 31, 2014

EXHIBIT INDEX

Exhibit No.	Description
3.1	Certificate of Incorporation, as amended (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Reg. No. 333-37004)).
3.3	Amended and Restated Bylaws, as amended. (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (Reg. No. 333-53316)).
3.4	Certificate of Amendment to the Certificate of Incorporation changing name from MCF Corporation to Merriman Curhan Ford Group, Inc. (incorporated herein by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on May 14, 2008 (Reg. No. 001-15831).
3.5	Certificate of Designation providing for Series D Preferred Stock (incorporated by Reference to Exhibit 3.5 of the Company's Current Report on Form 8-K filed on August 28, 2009).
3.6	Certificate of Amendment to the Certificate of Incorporation changing name from Merriman Curhan Ford Group, Inc. to Merriman Holdings, Inc. (incorporated herein by reference to the Company's Schedule 14A filed on July 9, 2010.
3.7	Certificate of Amendment to the Certificate of Incorporation effecting an 0ne-forseven reverse stock split (incorporated herein by reference to the Company's Schedule 14A filed on July 9, 2010.
3.8	Amendment to Certificate of Designation further amending provisions for Series D Preferred Stock (incorporated by reference to the Company's Current Report on Form 10-Q filed on November 14, 2011).
3.9	Amendment to Certificate of Designation further amending provisions for Series D Preferred Stock (incorporated by Reference to Exhibit 3.9 of the Company's Current Report on Form 8-K filed on January 5, 2012).
3.10	Certificate of Designation providing for Series E Preferred Stock (incorporated by Reference to Exhibit 3.10 of the Company's Current Report on Form 8-K filed on January 5, 2012).
3.11	Amendment to Certificate of Designation amending provisions for Series D and Series E Preferred Stock (incorporated by Reference to Exhibit 3.11 of the Company's Current Report on Form 8-K filed on May 18, 2012).
3.12	Amendment to Certificate of Designation further amending provisions for Series D and Series E Preferred Stock (incorporated by Reference to Exhibit 3.12 of the Company's Current Report on Form 8-K filed on August 3, 2012).
4.1	Form of Convertible Subordinated Note related to the Company's private financing, dated November 26, 2001 (incorporated by reference to Exhibit 4.1 to the Company's Form 10-K for the year ended December 31, 2001) (Reg. No. 001-15831).

4.2	Form of Class A Redeemable Warrant to Purchase Common Stock of the Company related to Merriman Holdings, Inc. private financing, dated November 26, 2001 (incorporated by reference to Exhibit 4.2 to the Company's Form 10-K for the year ended December 31, 2001) (Reg. No. 001-15831).
10.13+	Employment Agreement between the Company and D. Jonathan Merriman dated October 5, 2000 (incorporated herein by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 (Reg. No. 333-53316)).
10.15+	1999 Stock Option Plan (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 (Reg. No.333-43776)).
10.16+	Form of Non-Qualified, Non-Plan Stock Option Agreement dated February 24, 2000 between the Company and Phillip Rice, Nick Cioll, Paul Wescott, Ross Mayfield, Russ Matulich, Terry Ginn, Donald Sledge, Christopher Vizas, Douglas Cole, Ronald Spears and Jonathan Merriman (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Forms S-8 (Reg. No. 333-43776)).
10.17+	Schedule of non-plan option grants made under Non-Qualified, Non-Plan Stock Option Agreements to directors and executive officers (incorporated herein by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1 (Reg. No. 333-53316)).
10.18+	2000 Stock Option and Incentive Plan, as amended (incorporated herein by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 (Reg. No. 333-53316)).
10.23	Master Equipment Lease Agreement dated March 16, 2000 (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (Reg. No. 333-37004)).
10.29	Agreement between the Company and BL Partners related to RMG Partners Corporation, dated April 8, 2001 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended June 30, 2001) (Reg. No. 001-15831).

Exhibit No.	Description
10.30+	Offer of Employment Agreement between the Company and Robert E. Ford, dated February 19, 2001, is Exhibit 10.2 to Form 10-Q for the quarter ended June 30, 2001, and is hereby incorporated by reference (Reg. No. 001-15831).
10.31	Ratexchange Placement Agreement with Murphy & Durieu, dated November 28, 2001, for private financing transaction (incorporated by reference to Exhibit 10.31 to the Company's Form 10-K for the year ended December 31, 2001) (Reg. No. 001-15831).
10.32	Form of Placement Agent Warrant to Murphy & Durieu, dated November 28, 2001 (incorporated by reference to Exhibit 10.32 to the Company's Form 10-K for the year ended December 31, 2001) (Reg. No. 001-15831).
10.33	Convertible Promissory Note held by Forsythe/McArthur Associates, Inc., dated September 1, 2001, related to restructure of Master Equipment Lease Agreement that is Exhibit 10.23 to Form 10K for the year ended December 31, 2000 (incorporated by reference to Exhibit 10.33 to the Company's Form 10-K for the year ended December 31, 2001) (Reg. No. 001-15831).
10.34+	Employment Agreement between the Company and Gregory S. Curhan, dated January 9, 2002 (incorporated by reference to Exhibit 10.34 to the Company's Form 10-K for the year ended December 31, 2001) (Reg. No. 001-15831).
10.35+	Employment Agreement between the Company and Robert E. Ford, dated January 1, 2002 (incorporated by reference to Exhibit 10.35 to the Company's Form 10-K for the year ended December 31, 2001) (Reg. No. 001-15831).
10.37	Stock Purchase Agreement by and among the Company and InstreamSecurities, Inc, (formerly known as Spider Securities, Inc.) and Independent Advantage Financial & Insurance Services, Inc., dated December 7, 2001 (incorporated by reference to Exhibit 10.37 to the Company's Form 10-K for the year ended December 31, 2001) (Reg. No. 001-15831).
10.38	Agreement to Restructure Convertible Promissory Note held by Forsythe McArthur Associates, dated November 20, 2002 (incorporated by reference to Exhibit 10.38 to the Company's Form 10-K for the year ended December 31, 2001) (Reg. No. 001-15831).
10.39	Securities Exchange Agreement in connection with Merriman Holdings, Inc. dated June 22, 2003 (incorporated by reference to Exhibit 99.1 to the Company's Form 8-K filed on July 3, 2003) (Reg. No. 001-15831).

Exhibit No.	Description
10.43	Stock Purchase Agreement by and between the Company and Ascend Services Ltd., dated April 29, 2005; together with the following documents which form exhibits thereto: Escrow Agreement and Registration Rights Agreement (incorporated by reference to the registrant's Report on Form 10-Q for the quarter ended March 31, 2005) (Reg. No. 001-15831).
10.44	Promissory Note issued by Ascend Services Ltd dated April 29, 2005 (incorporated by reference to the registrant's Report on Form 10-Q for the quarter ended March 31, 2005) (Reg. No. 001-15831).
10.45	Employment Agreement between the Company and Gregory S. Curhan, dated January 1, 2005 (incorporated by reference to the registrant's Report on Form 10-Q for the quarter ended June 30, 2005).
10.46	Employment Agreement between the Company and Robert E. Ford, dated January 1, 2005. (incorporated by reference to the registrant's Report on Form 10-Q for the quarter ended June 30, 2005) (Reg. No. 001-15831).
10.47	Form of Unsecured Promissory Note dated September 29, 2010 (incorporated by reference to the Registrant's Current Report on Form 8-K filed on October 5, 2010).
10.48	Form of Secured Promissory Note dated November 17, 2010 (incorporated by reference to the Registrant's Current Report on Form 8-K filed on November 23, 2010).
21.1	List of Subsidiaries of the Company.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Principal Executive Officer Pursuant To Section 302 of The Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant To Section 302 of The Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.

+Represents management contract or compensatory plan or arrangement.