

Merriman Holdings, Inc
Form 10-Q
May 15, 2014

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

**.. 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: 1-15831

MERRIMAN HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware **11-2936371**
(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

250 Montgomery Street, 16th Floor
San Francisco, CA **94104**
(Address of Principal Executive Offices) (Zip Code)

(415) 248-5603
(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

The number of shares of Registrant's common stock outstanding as of May 9, 2014 was 135,475,716.

Merriman Holdings, Inc.

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PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements (unaudited)****MERRIMAN HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)**

	Three Months Ended	
	March 31,	
	2014	2013
Revenues		
Commissions	\$1,381,817	\$1,018,181
Principal transactions	248,612	267,762
Investment banking	2,419,233	245,035
Advisory and other	514,818	605,239
Total revenues	\$4,564,480	\$2,136,217
Operating expenses		
Compensation and benefits	\$2,508,751	\$1,596,663
Brokerage and clearing fees	124,709	86,348
Professional services	113,106	73,029
Occupancy and equipment	301,259	337,032
Communications and technology	186,838	119,222
Depreciation and amortization	39,412	4,257
Travel and entertainment	42,451	60,176
Legal services	40,191	16,769
Cost of underwriting capital	-	46,400
Other	180,502	324,942
Total operating expenses	3,537,219	2,664,838
Operating income/(loss)	1,027,261	(528,621)
Interest expense	(93,748)	(91,282)
Amortization of debt discount	(18,676)	(39,674)
Loss on debt modification	(262,299)	-
Loss on early extinguishment of debt	-	(293,347)

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Net income/(loss) attributable to common shareholders	\$652,538	\$(952,924)
Basic net income/(loss) per share	\$0.0052	\$(0.10)
Diluted net income/(loss) per share	\$0.0043	\$(0.10)
Weighted average common shares outstanding:		
Basic	124,409,032	9,400,500
Diluted	150,830,423	9,400,500

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

MERRIMAN HOLDINGS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(unaudited)**

	March 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	\$1,186,777	\$1,044,110
Securities owned		
Marketable, at fair value	870,023	1,176,347
Not readily marketable, at estimated fair value	1,817,284	671,801
Restricted cash	725,799	891,828
Due from clearing broker	91,811	97,811
Accounts receivable, net	621,458	532,431
Prepaid expenses and other assets	808,337	674,915
Equipment and fixtures, net	370,737	341,258
Total assets	\$6,492,226	\$5,430,501
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Liabilities		
Accounts payable	\$213,582	\$317,272
Commissions payable	425,399	418,075
Accrued expenses and other	941,392	814,946
Deferred rent	515,963	428,540
Deferred revenue	99,406	70,378
Capital lease obligations	336,969	360,795
Notes payable, net of debt discount	1,238,903	1,226,521
Notes payable to related parties, net of debt discount	1,815,867	1,940,601
Total liabilities	5,587,481	5,577,128
Shareholders' equity (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 March 31, 2014 and December 31, 2013; 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 March 31, 2014 and December 31, 2013; 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 March 31, 2014 and December 31, 2013; aggregate liquidation preference of \$0	-	-
	-	-

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Convertible preferred stock, Series D—\$0.0001 par value; 24,000,000 shares authorized, 23,720,916 shares issued and 0 shares outstanding as of March 31, 2014 and December 31, 2013; aggregate liquidation preference of \$0 prior to conversion, and pari passu with common stock on conversion

Convertible Preferred stock, Series E—\$0.0001 par value; 7,300,000 shares authorized, 6,825,433 shares issued and 0 shares outstanding as of March 31, 2014 and December 31, 2013; aggregate liquidation preference of \$0 prior to conversion, and pari passu with common stock on conversion

Common stock, \$0.0001 par value; 300,000,000 shares authorized; 125,088,489 and 124,255,156 shares issued and 125,059,053 and 124,225,720 shares outstanding as of March 31, 2014 and December 31, 2013, respectively

	12,509	12,426
Additional paid-in capital	149,374,163	148,975,412
Treasury stock	(225,613)	(225,613)
Accumulated deficit	(148,256,314)	(148,908,852)
Total shareholders' equity (deficit)	904,745	(146,627)
Total liabilities and shareholders' equity (deficit)	\$6,492,226	\$5,430,501

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

MERRIMAN HOLDINGS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)****FOR THE THREE MONTHS ENDED MARCH 31, 2014****(unaudited)**

	Common Stock		Treasury Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	
Balance at January 1, 2014	124,255,156	\$12,426	(29,436)	\$(225,613)	\$148,975,412	\$(148,908,852)	\$(146,627)
Net income						652,538	652,538
Issuance of restricted common stock and warrants for cash	833,333	83			49,917		50,000
Issuance of warrants in connection with debt modification					262,299		262,299
Stock-based compensation	-	-	-	-	86,535	-	86,535
Balance at March 31, 2014	125,088,489	\$12,509	(29,436)	\$(225,613)	\$149,374,163	\$(148,256,314)	\$904,745

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

MERRIMAN HOLDINGS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	\$ 652,538	\$ (952,924)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	39,412	4,257
Stock-based compensation	86,535	134,638
Amortization of debt issuance costs	18,676	39,674
Loss on modification of debt	262,299	-
Loss on early extinguishment of debt	-	293,347
Provision for uncollectible accounts receivable	-	101,967
Securities received for services	(1,013,133)	(153,725)
Unrealized gain on securities owned	(204,757)	(270,642)
Changes in operating assets and liabilities:		
Securities owned	378,731	(126,034)
Restricted cash	166,029	-
Due from clearing broker	6,000	33,918
Accounts receivable	(89,026)	(122,221)
Prepaid expenses and other assets	(74,442)	(7,833)
Accounts payable	(103,690)	(15,928)
Commissions payable	7,324	(147,085)
Accrued expenses and other	242,896	(80,446)
Net cash provided by (used in) operating activities	375,392	(1,269,037)
Cash flows from investing activities:		
Purchase of software platform	(58,980)	-
Purchase of equipment and fixtures	(68,891)	-
Net cash used in investing activities	(127,871)	-
Cash flows from financing activities:		
Proceeds from issuance of restricted common stock	50,000	1,088,375
Proceeds from issuance of secured convertible promissory note	-	600,000
Proceeds from issuance of unsecured convertible promissory note	85,000	-
Payments of notes payable	(216,028)	-
Proceeds from issuance of temporary subordinated borrowings	-	1,600,000
Payment of temporary subordinated borrowings	-	(1,200,000)

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Principal payments of capital leases	(23,826)	-
Net cash provided by (used in) financing activities	(104,854)	2,088,375
Increase in cash and cash equivalents	142,667		819,338
Cash and cash equivalents at beginning of the period	1,044,110		1,316,990
Cash and cash equivalents at end of the period	\$ 1,186,777		\$ 2,136,328
Supplementary disclosure of cash flow information:			
Cash paid during the year:			
Cost of underwriting capital	\$ -		\$ 95,520
Interest expense	\$ 74,420		\$ 49,120

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

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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 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).

The Company 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." Its corporate office is located in San Francisco, CA.

Basis of Presentation

The accompanying condensed consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States (U.S. GAAP). For the purposes of presentation, dollar amounts displayed in these Notes to Condensed Consolidated Financial Statements were rounded to the nearest thousand.

The Company's interim unaudited condensed consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the SEC. In the opinion of management, the condensed consolidated financial statements included in this report reflect all normal recurring adjustments that the Company considers necessary for the fair presentation of the consolidated results of operations for the interim periods covered and the consolidated financial condition of the Company at the date of the interim statements of financial condition. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. However, the Company believes all adjustments (consisting of normal recurring accruals) considered

necessary to make the unaudited condensed consolidated financial statements not misleading have been included. The operating results for interim periods are not necessarily indicative of the operating results for the entire year. These condensed consolidated financial statements should be read in conjunction with the Company's 2013 audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K and on Form 10-K/A for the year ended December 31, 2013.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

2. Liquidity/Going Concern

Although the Company turned a profit of \$653,000 and had positive operating cash flows of \$375,000 during the first three months of 2014, it incurred substantial losses in 2013, having net losses of \$3,992,000 and negative operating cash flows of \$2,836,000. As of March 31, 2014, the Company had an accumulated deficit of \$148,256,000. These facts raise substantial doubt as to the Company's ability to continue as a going concern.

The accompanying condensed 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 that 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.

In March and April 2014, the Company issued 833,333 and 10,416,663 shares of common stock at \$0.06 per share and 208,333 and 2,604,163 warrants for total proceeds of \$50,000 and \$625,000, respectively.

3. Summary of Significant Accounting Policies

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.

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.

MERRIMAN HOLDINGS, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED****(unaudited)****3. Summary of Significant Accounting Policies – continued***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. Interests for convertible debt are also not considered since including them in the calculation of diluted loss per share would be anti-dilutive.

The following table sets forth the components used in the computation of basic and dilutive earnings (loss) per common share:

	Three months ended March 31,	
	2014	2013
Numerator:		
Numerator for basic earnings (loss) per share		
Net income (loss) as reported	\$652,538	\$(952,924)
Effect of dilutive securities		
Interest on convertible notes	3,316	-
Numerator for basic earnings (loss) per share - net income (loss) as adjusted		
	\$655,854	\$(952,924)
Denominator:		
Denominator for basic earnings per share		

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weighted average shares	124,409,032	9,400,500
Effect of dilutive securities		
Assumed conversion of convertible notes	3,916,666	-
Common share equivalents of outstanding restricted stocks	1,873	-
Common share equivalents of outstanding warrants	22,502,852	-
Dilutive potential common shares	26,421,391	-
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	150,830,423	9,400,500
Net income (loss) available to common shareholders		
Basic	\$0.0052	\$(0.10)
Diluted	\$0.0043	\$(0.10)

For the three months ended March 31, 2014, 195,827,301 common share equivalents for the potential warrant exercises were excluded from the calculation of dilutive earnings per share since its inclusion would have been anti-dilutive. For the three months ended March 31, 2013, 12,645,105 common share equivalents for the potential conversion of Series D and E convertible preferred stock and warrant exercises were excluded from the calculation of dilutive net loss per share since its inclusion would have been anti-dilutive.

Adoption of New Accounting Pronouncements

The Financial Accounting Standards Board, the Emerging Issues Task Force and the SEC have issued certain accounting standards updates and regulations as of March 31, 2014 that will become effective in subsequent periods; however, management of the Company does not believe that any of those updates would have significantly affected the Company's financial accounting measures or disclosures had they been in effect during the period, and does not believe that any of those pronouncements will have a significant impact on the Company's condensed consolidated financial statements at the time they become effective.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

3. Summary of Significant Accounting Policies – continued

Securities Owned

Securities owned and securities sold, not yet purchased in the condensed 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.

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 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 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 4.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

3. Summary of Significant Accounting Policies – continued

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 March 31, 2014 and December 31, 2013, the Company held concentrated positions in three securities with total fair values of \$842,000 and \$1,092,000. The prices of these securities are highly volatile.

As of March 31, 2014 and December 31, 2013, the Company did not hold concentrated positions in accounts receivable with any one client that exceeded 10% of total accounts receivable.

During the three months ended March 31, 2014, one sales professional accounted for more than 10% of total revenue (approximately \$903,000 in the aggregate) and no customer accounted for more than 10% of total revenue. During the three month ended March 31, 2013, three sales professionals who each accounted for more than 10% of total revenue (approximately \$969,000 in the aggregate) and no customer accounted for more than 10% of total revenue.

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.

Subsequent Events

Under Accounting Standards Codification (ASC) Topic 855 – *Subsequent Events*, the Company has evaluated all subsequent events through the date these condensed consolidated financial statements were issued. (See Note 14)

4. 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.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

4. Fair Value of Assets and Liabilities – continued

Corporate Equities

Corporate equities are comprised primarily of exchange-traded equity securities that 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 becoming effective. The Company classifies these securities as “not readily 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 the exemption to 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 the observed closing stock price at the measurement date. As of March 31, 2014, the fair value of this type of securities included in securities owned in the statements of financial condition is approximately \$870,000.

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 trading 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 observable inputs such as interest rate, expected term and market price of the underlying stock, in addition to unobservable inputs such as stock volatility.

As of March 31, 2014, the fair value of this type of securities included in securities owned in the condensed consolidated statement of financial condition is \$174,000.

Stock Warrants

Also as partial compensation for investment banking services, the Company may receive stock warrants issued by the client. 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 March 31, 2014, the fair value of this type of securities included in securities owned in the condensed consolidated statement of financial condition is approximately \$1,609,000.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

4. 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 of 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 March 31, 2014, the fair value of this type of securities included in securities owned in the condensed consolidated statement of financial condition is approximately \$34,000.

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 March 31, 2014, the fair value of this type of securities included in securities owned in the condensed consolidated statement 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.

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:					
Stock warrants	Black-Scholes option pricing model	Stock volatility	52 - 350%	216	%
Underwriters' purchase options	Black-Scholes option pricing model	Stock volatility	257 %	257	%
Preferred stock	Exchange-quoted price of common stock equivalents	Preferred stock to common stock conversion rate	1.6	1.6	

MERRIMAN HOLDINGS, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED****(unaudited)****4. Fair Value of Assets and Liabilities — continued**

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

	Assets at Fair Value at March 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Corporate equities	\$ 870,023	\$ -	\$ 173,976	\$ 1,043,999
Stock warrants	-	-	1,608,920	1,608,920
Underwriters' purchase option	-	-	34,232	34,232
Preferred stock	-	-	156	156
Total securities owned	\$ 870,023	\$ -	\$ 1,817,284	\$ 2,687,307

The following summarizes the change in carrying values associated with Level 3 financial instruments for the three months ended March 31, 2014:

	Corporate Equities	Stock Warrants	Underwriters' Purchase Options	Preferred Stock	Total
Balance at December 31, 2013	\$ 78,756	\$ 568,755	\$ 24,056	\$ 234	\$ 671,801
Purchases or receipt (a)	48,625	882,588	-	-	931,213
Gains (losses):					
Realized	-	-	-	-	-
Unrealized	46,595	157,577	10,176	(78)	214,270
Balance at March 31, 2014	\$ 173,976	\$ 1,608,920	\$ 34,232	\$ 156	\$ 1,817,284

Change in unrealized gains
(losses) relating to instruments still held

at March 31, 2014 \$46,595 \$157,577 \$ 10,176 \$ (78) \$214,270

(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 condensed consolidated statements of operations.

Transfers within the Fair Value Hierarchy

The Company assesses its financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by ASC 820. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the end of the reporting period. There were no transfers between our Level 1, Level 2 and Level 3 classified instruments during the three months ended March 31, 2014.

MERRIMAN HOLDINGS, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED****(unaudited)****5. Issuance of Debt**

Notes Payable as of March 31, 2014 comprise of the following:

	Notes Payable	Notes Payable Related Party	Total
Subordinated notes payable	\$ 170,000	\$ 1,281,600	\$ 1,451,600
Debt discount	-	(6,507)	(6,507)
	170,000	1,275,093	1,445,093
Secured promissory notes	1,070,000	575,000	1,645,000
Debt discount	(1,097)	(34,226)	(35,323)
	1,068,903	540,774	1,609,677
Total	\$ 1,238,903	\$ 1,815,867	\$ 3,054,770

Subordinated Notes Payable

On September 29, 2013, \$840,000 of the Subordinated Notes loaned to the Company from the Co Chairman of the Board of Directors, 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 terms of the \$1,041,600 Unsecured Promissory Note were modified to mature 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 Company accounted for this transaction in accordance with ASC 470, *Debt*, as a modification of debt, whereby a gain or loss was calculated as the difference between the fair value of the modified debt and net carrying value of the

old debt. The fair value of the modified debt was determined as the sum of the face value of the debt and fair value of the warrants using the Black-Scholes fair value model. For the three months ended March 31, 2014, a loss of approximately \$262,000 was recorded on the transaction, representing the fair value of the warrants.

For the three months ended March 31, 2014 and 2013, the Company incurred \$36,000 and \$34,000 in interest on the Subordinated Notes, respectively. Total interests of 68,000 and \$56,000 remain outstanding as of March 31, 2014 and December 31, 2013, respectively, and are included in accrued expenses and other in the condensed consolidated statements of financial condition.

Unsecured Convertible Promissory Notes

On November 1, 2013, the Company's Chief Executive Officer loaned \$30,000 to the Company in an unsecured convertible promissory note maturing on April 1, 2014. The note bears 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. On April 1, 2014, the maturity date was extended to May 15, 2014 under the same terms.

On January 10, 2014, a common shareholder loaned \$50,000 to the Company in the form of an unsecured convertible promissory notes maturing on January 10, 2016. The note bears interest rates 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.

On January 15, 2014, a common shareholder who is also an employee loaned \$35,000 to the Company in an unsecured convertible promissory note maturing on January 15, 2016. The note bears 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.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

5. Issuance of Debt — continued

Secured Promissory Notes

On September 12, 2013, the Co-Chairman of the Board of Directors loaned \$166,028 to the Company in a secured (a) 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.

(b) On December 13, 2012, an unrelated party loaned \$300,000 to the Company in a secured promissory note maturing on June 13, 2013 and bearing interest rate at eight percent (8%) per annum payable at maturity. The note was extended several times and several principal payments were made. The \$150,000 balance outstanding at March 31, 2014 was paid in full on April 3, 2014.

As of March 31, 2014, \$920,000 principal balance of the secured promissory notes remained outstanding and were (c) included in notes payable in the Company's condensed consolidated statement of financial condition, of which \$270,000 principal balance were paid in April 2014.

6. Shareholders' Equity

Sale of Common Stock

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.

7. Stock-based Compensation Expense

During the three months ended March 31, 2014, the Company granted 1,400,000 options to purchase common shares at exercise prices of \$0.14. The options vest in 4 years and have a fair value of \$161,000.

The fair value of employee grants is estimated on the date of grant using the Black-Scholes option pricing model. Key weighted average assumptions used to apply this pricing model were as follows:

Expected Volatility	199.20%
Average expected term (years)	4.07
Risk-free interest rate	1.04 %
Dividend yield	-

Compensation expense for stock options during the three months ended March 31, 2014 and 2013 was approximately \$87,000 and \$122,000, respectively. As of March 31, 2014, total unrecognized compensation expense related to unvested stock options was approximately \$445,000. This amount is expected to be recognized as expense over a weighted-average period of 4.07 years.

8. Regulatory Requirements

MC is a broker-dealer subject to Rule 15c3-1 of the SEC which specifies uniform minimum net capital requirements, as defined, for their registrants. As of March 31, 2014, MC had regulatory net capital, as defined, of approximately \$426,000 which exceeded the amount required by approximately \$176,000. 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

9. Litigation and Contingencies

Certain conditions may exist as of the date the condensed consolidated financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's condensed consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability and an estimate of the range of possible losses, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed, unless they involve guarantees, in which case the guarantees would be disclosed. There can be no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows.

Currently, there is no litigation against the Company. From time to time, the Company is involved in ordinary routine litigation incidental to our business.

For the three months ended March 31, 2014 and 2013, the Company incurred legal services of \$40,000 and \$17,000, respectively.

10. Related Party Transactions

Subordinated Notes Payable

On September 29, 2013, \$840,000 of the Subordinated Notes loaned to the Company from the Co Chairman of the Board of Directors, 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 terms of the \$1,041,600 Unsecured Promissory Note were modified to mature 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 Company accounted for this transaction in accordance with ASC 470, *Debt*, as a modification of debt, whereby a gain or loss was calculated as the difference between the fair value of the modified debt and net carrying value of the old debt. The fair value of the modified debt was determined as the sum of the face value of the debt and fair value of the warrants using the Black-Scholes fair value model. For the three months ended March 31, 2014, a loss of approximately \$262,000 was recorded on the transaction, representing the fair value of the warrants.

Unsecured Convertible Promissory Notes

On November 1, 2013, the Company's Chief Executive Officer loaned \$30,000 to the Company in an unsecured convertible promissory note maturing on April 1, 2014. The note bears 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. On April 1, 2014, the maturity date was extended to May 15, 2014 under the same terms.

On January 15, 2014, a common shareholder who is also an employee loaned \$35,000 to the Company in an unsecured convertible promissory note maturing on January 15, 2016. The note bears 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.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

10. Related Party Transactions — continued

Secured Promissory Notes

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.

Software Platform Payments

In connection with the purchase of a software platform called Digital Capital Network (“DCN”), an online capital marketplace, from an entity owned by a Board member, the Company makes a \$20,500 ongoing monthly payment to the Board member.

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.

11. Segment Reporting

The Company's business results are categorized into three operating segments: MC, FEP and CMAG. The Company's reportable segments are strategic business units that offer products and services that 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.

MERRIMAN HOLDINGS, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED****(unaudited)****11. Segment Reporting— continued**

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

	Three Months Ended	
	31-Mar-14	31-Mar-13
Revenues		
MC	\$3,830,850	\$1,487,654
FEP	254,749	73,400
CMAG	478,970	570,883
Total segment revenues	4,564,569	2,131,937
Consolidation items and elimination	(89)	4,280
Consolidated revenues	\$4,564,480	\$2,136,217
Segment income (loss)		
MC	\$707,069	\$(1,069,816)
FEP	(87,845)	43,800
CMAG	362,011	485,481
Total segment income (loss)	981,235	(540,535)
Consolidation items and elimination	(328,697)	(412,389)
Consolidated net income (loss) before income taxes	\$652,538	\$(952,924)

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

12. Subsequent Event

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In April 2014, the Company issued 10,416,663 shares of common stock at \$0.06 per share and 2,604,163 warrants for total proceeds of \$625,000.

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

This Quarterly Report on Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements regarding future events and our future results that are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as “may,” “should,” “expects,” “anticipates,” “targets,” “goals,” “projects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “predicts,” “potential” or “continue,” variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances, are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are referred to risks and uncertainties identified under “Risk Factors” beginning on page 36 and elsewhere herein. We undertake no obligation to revise or update publicly any forward-looking statements for any reason. Numbers expressed herein may be rounded to thousands of dollars.

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.

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With DCN, we are creating a turnkey solution for investors to screen dozens of investment opportunities across multiple investment strategies, sectors, deal sizes and locations. By increasing the number of investment opportunities available to them, institutions and family offices will be able to focus on evaluating deals rather than sourcing them. As a result, they will be able to make better investment decisions and improve the diversification of their portfolios. DCN also enables Issuers with the ability to have their deals viewed immediately by dozens of qualified investors, something that previously would have taken months of travel, lengthy conference calls, and expensive road shows.

We are headquartered in San Francisco, with an additional office in New York, NY. As of March 31, 2014, we had 29 employees.

Executive Summary

Our total revenues were approximately \$4,565,000 for three months ended March 31, 2014, representing a \$2,248,000 or 114% increase from total revenues of \$2,136,000 for three months ended March 31, 2013. The increase was primarily due to higher banking revenues.

For the three months ended March 31, 2014, commission revenues increased \$364,000 or 36% over the same period in 2013 primarily due to favorable market conditions. Investment banking revenues increased \$2,174,000 or 887% over the same period in 2013 primarily due to more banking transactions being closed as a result of favorable market conditions. Other revenues decreased \$90,000 or 15% over the same period in 2013 primarily due to capital markets advisory business.

For the three months ended March 31, 2014 and 2013, net income (loss) was approximately \$653,000 and (\$953,000) or \$0.0052 and (\$0.10) per share, respectively. Net income (loss) for the three months ended March 31, 2014 and 2013 included stock based compensation expenses of approximately \$89,000 and \$135,000, respectively.

Liquidity/Going Concern

Although the Company turned a profit of \$653,000 and had positive operating cash flows of \$375,000 during the first three months of 2014, it incurred substantial losses in 2013, having net losses of \$3,992,000 and negative operating cash flows of \$2,836,000. As of March 31, 2014, the Company had an accumulated deficit of \$148,256,000. These facts raise substantial doubt as to the Company's ability to continue as a going concern.

The accompanying condensed 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.

In March and April 2014, the Company issued 833,333 and 10,416,663 shares of common stock at \$0.06 per share and 208,333 and 2,604,163 warrants for total proceeds of \$50,000 and \$625,000, respectively.

Results of Operations

The following table sets forth the results of operations for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31	
	2014	2013
Revenues		
Commissions	\$1,381,817	\$1,018,181
Principal transactions	248,612	267,762
Investment banking	2,419,233	245,035
Advisory and other	514,818	605,239
Total revenues	\$4,564,480	\$2,136,217
Operating expenses		
Compensation and benefits	\$2,508,751	\$1,596,663
Brokerage and clearing fees	124,709	86,348
Professional services	113,106	73,029
Occupancy and equipment	301,259	337,032
Communications and technology	186,838	119,222
Depreciation and amortization	39,412	4,257
Travel and entertainment	42,451	60,176
Legal services	40,191	16,769
Cost of underwriting capital	-	46,400
Other	180,502	324,942
Total operating expenses	3,537,219	2,664,838
Operating income/(loss)	1,027,261	(528,621)
Interest expense	(93,748)	(91,282)
Amortization of debt discount	(18,676)	(39,674)
Loss on debt modification	(262,299)	-
Loss on early extinguishment of debt	-	(293,347)
Net income/(loss) attributable to common shareholders	\$652,538	\$(952,924)

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For the three months ended March 31, 2014, total revenues increased by approximately \$2,428,000 or 114% as compared to the same periods in 2013. The \$2,428,000 increase primarily consisted of approximately (a) a \$2,174,000 increase in investment banking revenues, (b) a \$364,000 increase in commission revenues, partially offset by (c) a (\$90,000) decrease in other revenues and (d) (\$19,000) decrease in principal transactions.

Investment Banking Revenue

The following table sets forth our revenue and transaction volumes from our investment banking activities for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
Revenue:		
Capital raise	\$2,160,337	\$151,635
Financial advisory	258,896	93,400
Total investment banking revenue	\$2,419,233	\$245,035
Transaction volumes:		
Public offerings:		
Capital underwritten participations	\$-	\$21,000,000
Number of transactions	-	1
Private placements:		
Capital raise	\$26,795,606	\$1,000,000
Number of transactions	7	1
Financial advisory:		
Transaction amounts	\$-	\$-
Number of transactions	-	1

For the three months ended March 31, 2014 and 2013, investment banking revenues were approximately \$2,419,000 and \$245,000 or 50% and 11% of total revenues, representing a \$2,174,000 or 887% increase as a result of more banking transactions being closed.

For the three months ended March 31, 2014 and 2013, investment banking revenues generated by FEP associates were \$467,000 and \$73,000, respectively.

During the three months ended March 31, 2014, there was one investment banking client who accounted for more than 10% of total revenues. During the three months ended March 31, 2013, there was no investment banking client who accounted for more than 10% of total revenues.

Commission and Principal Transaction Revenue

Our broker-dealer activity includes the following:

Commissions – Commissions include revenue resulting from executing trades in 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. Additionally, principal transactions include gains and losses resulting from market price fluctuations that occur while holding positions in our securities trading inventory.

The following table sets forth our revenue and several operating metrics, which we utilize in measuring and evaluating performance of our trading activity:

	Three Months Ended March 31,	
	2014	2013
Commissions:		
Institutional equities	\$1,381,817	\$1,018,181
Total commission revenue	\$1,381,817	\$1,018,181
Principal transactions:		
Customer principal transactions, proprietary trading and market making	\$8,442	\$41,568
Investment portfolio	240,170	226,194
Total principal transaction revenue	\$248,612	\$267,762
Transaction Volumes:		
Number of shares traded	109,448,058	48,609,730

For the three months ended March 31, 2014 and 2013, commission revenues were approximately \$1,382,000 and \$1,018,000 or 30% and 48% of total revenue, respectively, representing a \$364,000 or 36% increase primarily due to favorable market conditions.

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 trading 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 the three months ended March 31, 2014, principal transaction gains were approximately \$249,000 which consisted of (a)

a \$240,000 gain on our investment portfolio, (b) a \$93,000 gain from customer principal transactions, and (c) partially offset by a (\$84,000) loss from proprietary trading and market making. For the three months ended March 31, 2013, principal transaction gains were approximately \$268,000 which consisted of (a) a \$226,000 gain on our investment portfolio, (b) a \$48,000 gain from customer principal transactions, and (c) partially offset by a (\$6,000) loss from proprietary trading and market making.

During the three months ended March 31, 2014, there was no brokerage customer that accounted for more than 10% of our total revenue.

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 three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,			
	2014	2013		
Incentive compensation and discretionary bonuses	\$ 1,689,538	\$ 741,493		
Salaries and wages	519,477	536,515		
Stock-based compensation	88,542	135,416		
Payroll taxes, benefits and other	211,194	183,239		
Total compensation and benefits	\$ 2,508,751	\$ 1,596,663		
Total compensation and benefits as a percentage of core business revenue	58	%	85	%
Cash compensation and benefits as a percentage of core business revenue	56	%	78	%

For the three months ended March 31, 2014 and 2013, total compensation and benefits were approximately \$2,509,000 and \$1,597,000, respectively, an increase of approximately \$912,000 or 57%. Incentive compensation and discretionary bonuses increased \$948,000 or 128% as a direct result of higher commission and banking revenues. Salaries and wages decreased a minimal (\$17,000) or 3%. Stock-based compensation decreased (\$47,000) or 35% primarily due to terminated employees. Payroll taxes and benefits' increase of \$28,000 or 15% directly correlated to higher compensation expenses.

As of March 31, 2014 and 2013, the Company had 29 and 29 employees, respectively.

For the three months ended March 31, 2014 and 2013, of the total compensation and benefits, \$343,000 and \$22,000 were for FEP associates, respectively.

During the three months ended March 31, 2014, one sales professional accounted for more than 10% of total revenue (approximately \$903,000) and no customer accounted for more than 10% of total revenue. During the three month ended March 31, 2013, three sales professionals accounted for more than 10% of total revenue (approximately \$969,000) and three customers accounted for more than 10% of total revenue (approximately \$355,000).

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. For the three months ended March 31, 2014, brokerage and clearing fees increased \$38,000 or 44% as compared to the same period in 2013 as a direct result of higher trading volume and commission revenues.

Professional services expense includes audit, accounting fees and various consulting fees. For the three months ended March 31, 2014, professional services expense increased \$40,000 or 55% as compared to the same period in 2013 due to the Company using outside consultants to upgrade its computer and phone systems and general ledger conversion.

Occupancy and equipment include rents and related costs of our office premises, equipment, and leasehold improvements. Occupancy expense is largely fixed in nature while equipment expense can vary somewhat in relation to our business operations. For the three months ended March 31, 2014, occupancy and equipment expenses decreased \$36,000 or 11%, as compared to the same period in 2013 due to more subtenants being procured.

Communications and technology expense includes market data and quote services, voice, data and internet service fees, and data processing costs. For the three months ended March 31, 2014, communications and technology expense increased \$68,000 or 57%, as compared to the same period in 2013 primarily due to a \$81,000 market data service rebate received in March 2013.

Depreciation and amortization expenses relate to the depreciation of our fixed assets and amortization of leasehold improvements and are mostly fixed in nature. For the three months ended March 31, 2014, depreciation expenses increased \$35,000 or 826% as compared to the same period in 2013 due to certain capital leases were entered into during the third quarter of 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. For the three months ended March 31, 2014, travel and entertainment expenses decreased approximately \$18,000 or 29% as compared to the same period in 2013 as a result of continued cost reduction measures.

Legal services relate to our various corporate legal consult. For the three months ended March 31, 2014, legal services increased \$23,000 or 140% as compared to the same period in 2013 primarily due to increased number of FINRA inquiries.

Cost of underwriting capital represents borrowing cost of capital to supplement MC's net capital to enable it to underwrite banking deals. For the three months ended March 31, 2014, no costs of underwriting capital were incurred due to the fact that the banking deals closed did not require underwriting capital.

The following expenses are included in other operating expenses for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
Insurance	\$72,504	\$126,745
Regulatory & filing fees	52,544	39,125
Provision for uncollectible accounts receivable	-	122,033
Other	55,454	37,039
Total other operating expenses	\$180,502	\$324,942

Other operating expenses include insurance, regulatory & filing fees, provision for uncollectible accounts receivable, investor conference and other miscellaneous expenses.

For the three months ended March 31, 2014, other operating expenses decreased \$144,000 or 44% as compared to the same period in 2013 due to (a) a (\$122,000) decrease in provision for uncollectible accounts receivable, (b) a (\$54,000) decrease in insurance, partially offset by (c) a \$14,000 increase regulatory & filing fees and (d) an \$18,000 increase in miscellaneous other expenses.

Amortization of Debt Discounts

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. For the three months ended March 31, 2014 and 2013, amortizations of debt discounts for the remaining debt and related warrants were \$19,000 and \$40,000, respectively.

Off-Balance Sheet Arrangements

We were not a party to any off-balance sheet arrangements during the three months ended March 31, 2014 and 2013. In particular, we do not have any interest in so-called limited purpose entities, which include special purpose entities and structured finance entities.

*Commitments**Other Commitments*

The following table summarizes our significant commitments as of March 31, 2014, consisting of future minimum lease payments under all non-cancelable operating leases and other non-cancelable commitments with initial or remaining terms in excess of one year.

	Notes Payable	Office Leases	Operating Leases	Capital Leases	Total
2014	\$2,561,031	\$969,600	\$456,500	\$97,415	\$4,084,546
2015	710,121	1,343,760	60,800	129,885	2,244,566
2016	85,140	1,353,354	36,000	100,499	1,574,993
2017	-	1,421,854	-	49,563	1,471,417
2018	-	1,437,268	-	-	1,437,268
Thereafter	-	2,189,662	-	-	2,189,662
Total Commitments	3,356,292	8,715,498	553,300	377,362	13,002,452
Interest	(259,692)	-	-	(40,393)	(300,085)
Net Commitments	\$3,096,600	\$8,715,498	\$553,300	\$336,969	\$12,702,367

Critical Accounting Policies and Estimates

The condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, 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 condensed consolidated financial statements.

Securities Owned

Corporate Equities – are comprised primarily of exchange-traded equity securities that the Company takes selective proprietary positions 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 of the fair value hierarchy. 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 trading 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.

Stock Warrants – represent warrants to purchase equity in a publicly traded company. Such positions are considered illiquid and do not have readily determinable fair values, and therefore require significant management judgment or estimation. For these securities, the Company uses the Black-Scholes valuation methodology or similar techniques. They are classified within Level 3 of the fair value hierarchy.

Underwriters' Purchase Options – represent the overallotment of units for a publicly traded company for which the Company acted as an underwriter. Such positions are considered illiquid and do not have readily determinable fair values, and therefore require significant management judgment or estimation. For these securities, the Company uses the Black-Scholes valuation methodology. They are classified within Level 3 of the fair value hierarchy.

Valuation of Securities Owned

Securities owned and securities sold, not yet purchased are reflected in the condensed consolidated statements of financial condition on a trade-date basis. Related unrealized gains or losses are generally recognized in principal transactions in the condensed consolidated statements of operations. The use of fair value to measure financial instruments is fundamental to our condensed consolidated financial statements and is one of our most critical accounting policies.

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Instruments that we own (long positions) are marked to bid prices, and instruments that we have sold, but not yet purchased (short positions), are marked to offer prices. Fair value measurements are not adjusted for transaction costs. Fair values of our financial instruments are generally obtained from quoted market prices in active markets, broker or dealer price quotations, or alternative pricing sources with reasonable levels of price transparency. To the extent certain financial instruments trade infrequently or are non-marketable securities and, therefore, have little or no price transparency, we value these instruments based on management's estimates.

Substantially all of our financial instruments are recorded at fair value or contract amounts that approximate fair value. Securities owned and securities sold, not yet purchased, are stated at fair value, with any related changes in unrealized appreciation or depreciation reflected in principal transactions in the consolidated statements of operations. Financial instruments carried at contract amounts include cash and cash equivalents and amounts due from and to brokers, dealers and clearing brokers.

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, and warrants, the Company uses the Black-Scholes option pricing model, which is affected by its 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 stock-based compensation expense because a valuation allowance was maintained for all net deferred tax assets.

Deferred Tax Valuation Allowance

The Company accounts for income taxes in accordance with the provision of ASC 740, *Income Taxes*, which requires the recognition of deferred tax assets and liabilities at tax rates expected to be in effect when these balances reverse. Future tax benefits attributable to temporary differences are recognized to the extent that the realization of such benefits is more likely than not. The Company has concluded that it is not more likely than not that it will be able to realize the benefit of its deferred tax assets as of March 31, 2014 and December 31, 2013 based on the scheduling of deferred tax liabilities and projected taxable income. The amount of the deferred tax assets actually realized, however, could vary if there are differences in the timing or amount of future reversals of existing deferred tax liabilities or changes in the actual amounts of future taxable income. Should the Company determine that it will be able to realize all or part of the deferred tax asset in the future, an adjustment to the deferred tax asset will be recorded in the period such determination is made.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Information concerning market risk is incorporated herein by reference to Item 7A of our Annual Report on Form 10-K and Form 10-K/A for the year ended December 31, 2013. There has been no material change in the quantitative and qualitative disclosure about market risk since December 31, 2013.

ITEM 4. Controls and Procedures

Evaluation of Disclosure 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 principal financial officer concluded that our disclosure controls and procedures are effective, as of March 31, 2014, 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 three months ended March 31, 2014, that materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1.

Legal Proceedings

Certain conditions may exist as of the date the condensed consolidated financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability and an estimate of the range of possible losses, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed, unless they involve guarantees, in which case the guarantees would be disclosed. There can be no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows.

Currently, there is no litigation against the Company. From time to time, the Company is involved in ordinary routine litigation incidental to our business.

ITEM 1A. Risk Factors

In addition to the information set forth in this report, including reports we incorporate by reference, you should carefully consider the risk factors previously disclosed in response to Item 1A to Part 1 of our Annual Report on Form 10-K for the year ended December 31, 2013, filed on March 31, 2014, as amended by our Form 10-K/A filed on April 30, 2014.

ITEM 6. Exhibits

31.1 Certification of Principal Executive Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002.

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

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SIGNATURES

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

MERRIMAN HOLDINGS, INC.

May 15, 2014 By: /s/ D. JONATHAN MERRIMAN
D. Jonathan Merriman,
Chief Executive Officer
(Principal Executive Officer)

May 15, 2014 By: /s/ WILLIAM J. FEBBO
William J. Febbo
Principal Financial Officer
(Principal Financial Officer)

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