

Merriman Holdings, Inc
Form 10-Q
May 15, 2013

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, 2013

**.. 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
(State or Other Jurisdiction of**

**11-2936371
(I.R.S. Employer**

Incorporation or Organization) Identification No.)

600 California Street, 9th Floor

94108

San Francisco, CA

(Address of Principal Executive Offices) (Zip Code)

(415) 248-5600

(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 8, 2013 was 118,580,793.

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, | |
|--------------------------------------|------------------------------|--------------|
| | 2013 | 2012 |
| Revenues | | |
| Commissions | \$ 1,018,181 | \$ 1,337,724 |
| Principal transactions | 267,762 | 951,622 |
| Investment banking | 245,035 | 2,621,181 |
| Advisory and other | 605,239 | 391,989 |
| Total revenues | 2,136,217 | 5,302,516 |
| Operating expenses | | |
| Compensation and benefits | 1,596,663 | 4,726,238 |
| Brokerage and clearing fees | 86,348 | 158,267 |
| Professional services | 73,029 | 271,583 |
| Occupancy and equipment | 337,032 | 493,445 |
| Communications and technology | 119,222 | 316,969 |
| Depreciation and amortization | 4,257 | 5,283 |
| Travel and entertainment | 60,176 | 75,542 |
| Legal services | 16,769 | 209,924 |
| Cost of underwriting capital | 46,400 | 117,000 |
| Other | 324,942 | 415,585 |
| Total operating expenses | 2,664,838 | 6,789,836 |
| Operating loss | (528,621) | (1,487,320) |
| Other income | - | 15,000 |
| Interest income | 784 | 1,234 |
| Interest expense | (92,066) | (69,264) |
| Amortization of debt discount | (39,674) | (28,127) |
| Loss on early extinguishment of debt | (293,347) | - |

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| | | | |
|--|-------------|-----------|-----------------|
| Loss on equity exchange | - | (182,776 |) |
| Net loss | \$ (952,924 |) | \$ (1,751,253) |
| Preferred stock cash dividend | - | (42,061 |) |
| Net loss attributable to common shareholders | \$ (952,924 |) | \$ (1,793,314) |
| Basic and diluted net loss per share | | | |
| Net loss | \$ (0.10 |) | \$ (0.27) |
| Net loss attributable to common shareholders | \$ (0.10 |) | \$ (0.27) |
| Weighted average number of common shares | | | |
| Basic and diluted | 9,400,500 | 6,544,918 | |

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

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

| | 31-Mar-13 | 31-Dec-12 |
|---|--------------------|--------------------|
| Assets | | |
| Cash and cash equivalents | \$2,136,328 | \$1,316,990 |
| Securities owned | | |
| Marketable, at fair value | 1,016,243 | 709,333 |
| Not readily marketable, at estimated fair value | 971,804 | 728,312 |
| Restricted cash | 680,028 | 680,028 |
| Due from clearing broker | 93,783 | 127,702 |
| Accounts receivable, net | 543,827 | 533,606 |
| Prepaid expenses and other assets | 522,786 | 504,920 |
| Equipment and fixtures, net | 13,390 | 17,647 |
| Total assets | \$5,978,189 | \$4,618,538 |
| Liabilities and shareholders' equity | | |
| Liabilities | | |
| Accounts payable | \$255,484 | \$271,412 |
| Commissions payable | 256,893 | 403,978 |
| Accrued expenses and other | 622,563 | 661,144 |
| Deferred rent | 276,259 | 326,832 |
| Deferred revenue | 149,112 | 140,404 |
| Notes payable, net of debt discount | 1,217,873 | 1,205,281 |
| Notes payable to related parties, net of debt discount | 1,892,969 | 2,075,888 |
| Total liabilities | 4,671,153 | 5,084,939 |
| Shareholders' equity | | |
| 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, 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 March 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 March 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 and 23,720,916 shares issued and 0 and 17,001,579 shares outstanding as of March 31, 2013 and December 31, 2012, respectively; aggregate liquidation preference of \$0 | - | 1,701 |

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| | | |
|---|---------------|---------------|
| Convertible Preferred stock, Series E—\$0.0001 par value; 7,300,000 shares authorized, 6,825,433 and 6,825,433 shares issued and 0 and 6,303,799 shares outstanding as of March 31, 2013 and December 31, 2012, respectively; aggregate liquidation preference of \$0 | - | 630 |
| Common stock, \$0.0001 par value; 300,000,000 shares authorized; 94,173,004 and 5,425,149 shares issued and 94,143,568 and 5,395,713 shares outstanding as of March 31, 2013 and December 31, 2012, respectively | 9,415 | 543 |
| Additional paid-in capital | 147,392,941 | 144,673,121 |
| Treasury stock | (225,613) | (225,613) |
| Accumulated deficit | (145,869,707) | (144,916,783) |
| Total shareholders' equity | 1,307,036 | (466,401) |
| Total liabilities and shareholders' equity | \$5,978,189 | \$4,618,538 |

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

MERRIMAN HOLDINGS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY****FOR THE THREE MONTHS ENDED MARCH 31, 2013****(unaudited)**

| | Preferred Stock | | Common Stock | | Treasury Stock | | Paid-in | Accumulated | Total |
|---|-----------------|---------|--------------|---------|----------------|-------------|---------------|-----------------|-------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | Capital | Deficit | |
| Balance at January 1, 2013 | 23,305,378 | \$2,331 | 5,425,149 | \$543 | (29,436) | \$(225,613) | \$144,673,121 | \$(144,916,783) | \$(466,432) |
| Net loss | | | | | | | | (952,924) | (952,924) |
| 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 | | | 36,279,163 | 3,628 | | | 1,084,747 | | 1,088,375 |
| Issuance of restricted common stock and warrants in connection with debt conversion | | | 40,333,331 | 4,034 | | | 1,499,314 | | 1,503,348 |
| Stock-based compensation | | | | | | | 134,638 | | 134,638 |
| Balance at March 31, 2013 | - | \$- | 94,143,568 | \$9,415 | (29,436) | \$(225,613) | \$147,392,941 | \$(145,869,707) | \$1,307,084 |

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, | |
|---|------------------------------|-----------------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net loss | \$ (952,924) | \$ (1,751,253) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 4,257 | 5,283 |
| Stock-based compensation | 134,638 | 1,717,158 |
| Amortization of debt issuance costs | 39,674 | 28,127 |
| Loss on early extinguishment of debt | 293,347 | - |
| Loss on equity exchange | - | 182,776 |
| Loss on sale of accounts receivable | - | (7,000) |
| Provision for uncollectible accounts receivable | 101,967 | 40,576 |
| Securities received for services | (153,725) | (53,600) |
| Unrealized gain on securities owned | (270,642) | (816,338) |
| Changes in operating assets and liabilities: | | |
| Securities owned | (126,034) | (261,466) |
| Due from clearing broker | 33,918 | 63,246 |
| Accounts receivable | (122,221) | (197,243) |
| Prepaid expenses and other assets | (7,833) | (33,248) |
| Accounts payable | (15,928) | 31,280 |
| Commissions payable | (147,085) | (169,834) |
| Accrued expenses and other | (80,446) | (780,755) |
| Net cash used in operating activities | (1,269,037) | (2,002,291) |
| Cash flows from investing activities: | | |
| Purchase of equipment and fixtures | - | (1,510) |
| Net cash used in investing activities | - | (1,510) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of restricted common stock | 1,088,375 | - |
| Proceeds from issuance of convertible promissory note | 600,000 | - |
| Proceeds from issuance of temporary subordinated borrowings | 1,600,000 | 2,500,000 |
| Payment of temporary subordinated borrowings | (1,200,000) | (2,500,000) |
| Proceeds from issuance of preferred stock | - | 100,000 |
| Payment of preferred stock dividend | - | (42,061) |
| Net cash provided by financing activities | 2,088,375 | 57,939 |

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| | | |
|---|-----------------|--------------|
| Increase (decrease) in cash and cash equivalents | 819,338 | (1,945,862) |
| Cash and cash equivalents at beginning of the period | 1,316,990 | 4,003,512 |
| Cash and cash equivalents at end of the period | \$ 2,136,328 | \$ 2,057,650 |
| Supplementary disclosure of cash flow information: | | |
| Cash paid during the year: | | |
| Interest and cost of underwriting capital | \$ 95,520 | \$ 173,468 |
| Non-cash financing activities: | | |
| Debt conversion | \$ (1,210,000) | \$ - |
| Issuance of common stock in connection with debt conversion | \$ 1,210,000 | \$ - |
| Conversion of Series D Preferred to common stock | \$ - | \$ - |
| Conversion of Series E Preferred to common stock | \$ - | \$ - |

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. (the Company) is a financial services holding company that provides capital markets services, corporate services, and investment banking through its wholly-owned operating subsidiary, Merriman Capital, Inc. (hereafter MC). MC is an investment bank and securities broker-dealer focused on fast growing companies and institutional investors. 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).

Basis of 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 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 2012 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, 2012.

2. Liquidity/Going Concern

The Company incurred substantial losses during the first three months of 2013, having net losses of \$953,000 and negative operating cash flows of approximately \$1,269,000. As of March 31, 2013, the Company had an accumulated deficit of \$145,870,000. These facts raise substantial doubt as to the Company's ability to continue as a going concern.

The accompanying unaudited 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.

On March 28, 2013, the Company issued 36,279,163 shares of common stock and 9,069,788 warrants for total proceeds of \$1,088,375. In addition, the Company issued 40,333,331 shares of common stock and 19,249,998 warrants in connection with the conversion of \$1,210,000 debt. (See Note 6)

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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.

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.

The table below represents a list of potentially dilutive securities outstanding as of March 31, 2013 and 2012:

| | March 31, | |
|---|------------|------------|
| | 2013 | 2012 |
| Series D convertible preferred stock warrants | 3,408,676 | 3,388,677 |
| Conversion of Series D preferred stock | - | 6,358,872 |
| Series E convertible preferred stock warrants | 3,412,721 | 1,617,418 |
| Conversion of Series E preferred stock | - | 3,234,830 |
| Stock options | 2,870,557 | 1,874,826 |
| Warrants issued in connection with debt | 492,620 | 87,720 |
| Other outstanding warrants | 739,287 | 947,413 |
| Warrants issued in connection with issuance of common stock | 28,319,786 | - |
| Potentially dilutive securities outstanding | 39,243,647 | 17,509,756 |

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

3. Summary of Significant Accounting Policies – continued

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, 2013 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.

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.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

3. Summary of Significant Accounting Policies – continued

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.

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, 2013 and December 31, 2012, the Company held concentrated positions in two securities with total fair values of \$964,000 and \$569,000, respectively. The prices of these securities are highly volatile.

As of March 31, 2013 and December 31, 2012, the Company held concentrated positions in accounts receivable with one client which exceeded 10% of total accounts receivable (approximately \$120,000 and \$200,000, respectively).

During the three month ended March 31, 2013, three sales professionals accounted for more than 10% of total revenue (approximately \$969,000) and no customer accounted for more than 10% of total revenue. During the three month ended March 31, 2012, two sales professionals accounted for more than 10% of total revenue (approximately \$978,000) 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 consolidated financial statements were issued. (See Note 12)

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

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.

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, 2013, the fair value of this type of securities included in securities owned in the statements of financial condition is approximately \$1,016,000.

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, 2013, the fair value of this type of securities included in securities owned in the condensed consolidated statement of financial condition is approximately \$264,000.

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, 2013, the fair value of this type of securities included in securities owned in the condensed consolidated statement of financial condition is approximately \$673,000.

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, 2013, the fair value of this type of securities included in securities owned in the condensed consolidated statement of financial condition is approximately \$33,000.

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, 2013, 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: | | | | | |
| Corporate equities | Put option discount using Black-Scholes option pricing model | Stock volatility | 150% | 150 | % |
| Stock warrants | Black-Scholes option pricing model | Stock volatility | 25 - 298% | 203 | % |
| Underwriters' purchase options | Black-Scholes option pricing model | Stock volatility | 198% | 198 | % |
| 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, 2013 | | | |
|-------------------------------|--|---------|-----------|-------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Corporate equities | \$1,016,243 | \$ - | \$264,859 | \$1,281,102 |
| Stock warrants | - | - | 673,469 | 673,469 |
| Underwriters' purchase option | - | - | 33,320 | 33,320 |
| Preferred stock | - | - | 156 | 156 |
| Total securities owned | \$1,016,243 | \$ - | \$971,804 | \$1,988,047 |

The following summarizes the change in carrying values associated with Level 3 financial instruments for the three months ended March 31, 2013:

| | Corporate Equities | Stock Warrants | Underwriters' Purchase Options | Preferred Stock | Total |
|--|-----------------------|-------------------|--------------------------------------|--------------------|-----------|
| Balance at December 31, 2012 | \$241,767 | \$468,848 | \$17,634 | \$63 | \$728,312 |
| Purchases or receipt (a) | - | 35,000 | - | - | 35,000 |
| Unrealized | 23,092 | 169,621 | 15,686 | 93 | 208,492 |
| Balance at March 31, 2013 | \$264,859 | \$673,469 | \$33,320 | \$156 | \$971,804 |
| Change in unrealized gains (losses) relating to instruments still held at March 31, 2013 | \$23,092 | \$169,621 | \$15,686 | \$93 | \$208,492 |

(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, 2013.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

5. Issuance of Debt

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 August 22, 2013 and June 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 Notes 5.a below and Note 6)

Debt Conversion

a. Conversion of Convertible Secured Promissory Notes

The March 28, 2013 sale of common stock (see Note 6) was the impetus to the Qualified Financing, triggering an automatic conversion of the Convertible Notes into the Company’s common shares at \$0.03 per share. For every two common shares purchased by means of surrender of the Convertible Notes, the holder received a warrant to purchase one 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 three months ended March 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 every four common shares purchased by means of surrender of the subordinated notes payable, the holders received a warrant to purchase one 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 three months ended March 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 \$110,000.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

6. Shareholders' Equity

Sale of Common Stock

On March 28, 2013, the Company entered into a definitive agreement (the "Stock Purchase Agreement") for the sale and issuance of 36,279,163 common shares at \$0.03 per share, resulting in total proceeds to the Company of \$1,088,375. 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 9,069,788 warrants were issued.

The total proceeds of \$1,088,375 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 \$876,000 and \$212,000, 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.

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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.

MERRIMAN HOLDINGS, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED****(unaudited)****7. Stock-based Compensation Expense***Stock Options*

The following table is a summary of the Company's stock option activity for the three months ended March 31, 2013:

| | Shares | Weighted- Average Exercise Price |
|--|------------|---|
| Outstanding at December 31, 2012 | 3,005,532 | \$ 0.76 |
| Granted | - | - |
| Exercised | - | - |
| Expired | (134,975) | (0.59) |
| Outstanding at March 31, 2013 | 2,870,557 | \$ 0.59 |
| Exercisable at March 31, 2013 | 982,068 | \$ 1.11 |
| Vested and expected to vest as of March 31, 2013 | 2,528,428 | |

Compensation expense for stock options during the three months ended March 31, 2013 and 2012 was approximately \$122,000 and \$1,153,000, respectively. As of March 31, 2013, total unrecognized compensation expense related to unvested stock options was approximately \$657,000. This amount is expected to be recognized as expense over a weighted-average period of 2.14 years. There were no options granted for the three months ended March 31, 2013.

Restricted Stock

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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.

The following table is a summary of the Company's restricted stock activity for the three months ended March 31, 2013:

| | Restricted Stock Outstanding | Weighted- Average Grant Date Fair Value | Aggregate Intrinsic Value |
|---------------------------------|------------------------------------|--|---------------------------------|
| Balance as of December 31, 2012 | 257,660 | \$ 0.58 | \$ 15,460 |
| Granted | - | - | |
| Vested | (1,532) | (2.72) | |
| Cancelled | (250,000) | (0.51) | |
| Balance as of March 31, 2013 | 6,128 | \$ 0.59 | \$ 1,593 |

Compensation expense for restricted stock during the three months ended March 31, 2013 and 2012 was approximately \$10,000 and \$550,000, respectively. As of March 31, 2013, total unrecognized compensation expense related to restricted stock was approximately \$13,000. This expense is expected to be recognized over a weighted-average period of 0.64 years. There was no restricted stock granted for the three months ended March 31, 2013.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

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, 2013, MC had regulatory net capital, as defined, of approximately \$607,000 which exceeded the amount required by approximately \$357,000. 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.

9. Litigation

Del Biaggio/Cacchione Matters

A number of lawsuits were filed against the Company and MC (collectively, “Merriman Parties”), in connection with the actions of William Del Biaggio III (Del Biaggio), a former customer of MC, and David Scott Cacchione (Cacchione), a former retail broker of MC. Del Biaggio and Cacchione pleaded guilty to securities fraud and were subsequently imprisoned. The majority of these lawsuits have been settled or dismissed. The remaining lawsuits against the Merriman Parties in connection with Cacchione’s activities are as follows:

Trustee for the Bankruptcy estates of William James “Boots” Del Biaggio and BDB Management, LLC v. Merriman Capital, Inc. and D. Jonathan Merriman

On September 2, 2011, a complaint was filed in FINRA arbitration against MC and D. Jonathan Merriman by the bankruptcy estates of William James “Boots” Del Biaggio III and BDB Management, LLC. The complaint alleges various causes of action arising from alleged unauthorized trading and cross collateralization in plaintiff’s accounts at MC and seeks damages of \$7.2 million. MC believes that it has valid defenses and intends to contest these claims vigorously. On November 2, 2011, MC filed an answer to the complaint on its behalf and D. Jonathan Merriman’s, denying the allegations and asserting, among other things, the right to set off damages caused to the Merriman Parties by Del Biaggio, who is currently serving an eight year sentence in federal prison for fraud, in an amount well in excess of plaintiff’s alleged damages. An arbitration hearing was set for August 2012 but was postponed at plaintiff’s request. It is currently scheduled for August 2013. Since the Company believes that the likelihood of an unfavorable outcome in the case is remote, management has not provided an accrual for this lawsuit as of March 31, 2013.

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 Chuck 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 allege that plaintiffs were convinced by the Company to purchase shares of a small, risky stock in which MC held a position. It further alleges that the Company did not permit plaintiffs to sell the shares when the stock’s price fell. The complaints seek unspecified compensatory and punitive damages. No trial date has been set. Since the Company believes that the likelihood of an unfavorable outcome in the case is remote, management has not provided an accrual for this lawsuit as of March 31, 2013.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

9. Litigation — continued

Howard v. Chanticleer Holdings, Inc. Et Al

A complaint was filed in federal court for the Southern District of Florida on October 15, 2012 by Francis Howard against Chanticleer Holdings, Inc., certain of its officers, Merriman Capital, Inc., Dawson James Securities, Inc., and Creason & Associates P.L.L.C. Plaintiff alleges violations of the Securities Act of 1933 in connection with a public offering by Chanticleer Holdings, Inc. and seeks class action status and unspecified damages. Since the Company believes that the likelihood of an unfavorable outcome in the case is remote, management has not provided an accrual for this lawsuit as of March 31, 2013.

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

10. Related Party Transactions

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 condensed 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, which amount was included in cost of underwriting capital in the Company's condensed consolidated statement of operations. The loan and related fees were paid in full on February 22, 2013.

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 August 22, 2013 and June 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 Notes 5.a and Note 6)

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

10. 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 impetus to the Qualified Financing, triggering an automatic conversion of the Convertible Notes into the Company's common shares at \$0.03 per share. For every two common shares purchased by means of surrender of the Convertible Notes, the holder received a warrant to purchase one 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 three months ended March 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 every four common shares purchased by means of surrender of the subordinated notes payable, the holders received a warrant to purchase one 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 three months ended March 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 \$110,000.

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.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

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 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:

Three Months Ended
31-Mar-13 31-Mar-12

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| | | |
|---|---------------|---------------|
| Revenues | | |
| MC | \$1,487,654 | \$4,311,627 |
| FEP | 73,400 | 584,469 |
| CMAG | 570,883 | 380,524 |
| Total segment revenues | 2,131,937 | 5,276,620 |
| Consolidation items and elimination | 4,280 | 25,896 |
| Consolidated revenues | \$2,136,217 | \$5,302,516 |
| Segment loss | | |
| MC | \$(1,069,816) | \$(1,717,595) |
| FEP | 43,800 | 54,790 |
| CMAG | 485,481 | 181,960 |
| Total segment loss | (540,535) | (1,480,845) |
| Consolidation items and elimination | (412,389) | (270,408) |
| Consolidated net loss before income taxes | \$(952,924) | \$(1,751,253) |

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.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

12. Subsequent Events

On April 26, 2013, the Company entered into a definitive agreement (the “Stock Purchase Agreement”) for the sale and issuance of 24,466,661 common shares at \$0.03 per share, resulting in total proceeds to the Company of \$734,000. 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 6,116,661 warrants were issued.

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. (the Company) is a financial services holding company that provides capital markets services, corporate services, and investment banking through its wholly-owned operating subsidiary, Merriman Capital, Inc. (hereafter MC). MC is an investment bank and securities broker-dealer focused on fast growing companies and institutional investors. 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 are headquartered in San Francisco, with an additional office in New York, NY. As of March 31, 2013, we had 26 employees.

Executive Summary

Our total revenues were approximately \$2,136,000 for the three months ended March 31, 2013 representing a 60% decrease over the same period in 2012. The decrease was primarily due to the Company's reorganizing and repositioning of its business segments, including the discontinuance of certain non-profitable businesses and reduction in force. Our commission revenues for the same period decreased 24% year-over-year due to fewer sales producers in 2013. Investment banking revenue decreased 91% year over year due to fewer banking transactions being closed as a result of the Company having fewer bankers. Principal transactions decreased 72% from the same period in 2012 primarily due to market volatility. Due to the Company's repositioning its business model to focus on capital markets advisory and platform revenue model, we saw a 54% increase in revenue in those areas. For the three months ended March 31, 2013, net loss was approximately \$953,000 or \$0.10 per share. Net loss for the three months ended March 31, 2012 included stock based compensation expense of approximately \$1,717,000, of which \$1,075,000 was due to option cancellation.

Liquidity/Going Concern

The Company incurred substantial losses during the first three months of 2013, having net losses of \$953,000 and negative operating cash flows of approximately \$1,269,000. As of March 31, 2013, the Company had an accumulated deficit of \$145,870,000. These facts raise substantial doubt as to the Company's ability to continue as a going concern.

The accompanying unaudited 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.

On March 28, 2013, the Company issued 36,279,163 shares of common stock and 9,069,788 warrants for total proceeds of \$1,088,375. In addition, the Company issued 40,333,331 shares of common stock and 19,249,998 warrants in connection with the conversion of \$1,210,000 debt.

Results of Operations

The following table sets forth the results of operations for the three months ended March 31, 2013 and 2012:

| | Three Months Ended | |
|--|--------------------|---------------|
| | 31-Mar-13 | 31-Mar-12 |
| Revenues | | |
| Commissions | \$1,018,181 | \$1,337,724 |
| Principal transactions | 267,762 | 951,622 |
| Investment banking | 245,035 | 2,621,181 |
| Advisory and other | 605,239 | 391,989 |
| Total revenues | 2,136,217 | 5,302,516 |
| Operating expenses | | |
| Compensation and benefits | 1,596,663 | 4,726,238 |
| Brokerage and clearing fees | 86,348 | 158,267 |
| Professional services | 73,029 | 271,583 |
| Occupancy and equipment | 337,032 | 493,445 |
| Communications and technology | 119,222 | 316,969 |
| Depreciation and amortization | 4,257 | 5,283 |
| Travel and entertainment | 60,176 | 75,542 |
| Legal services | 16,769 | 209,924 |
| Cost of underwriting capital | 46,400 | 117,000 |
| Other | 324,942 | 415,585 |
| Total operating expenses | 2,664,838 | 6,789,836 |
| Operating loss | (528,621) | (1,487,320) |
| Other income | - | 15,000 |
| Interest income | 784 | 1,234 |
| Interest expense | (92,066) | (69,264) |
| Amortization of debt discount | (39,674) | (28,127) |
| Loss on early extinguishment of debt | (293,347) | - |
| Loss on equity exchange | - | (182,776) |
| Net loss | \$(952,924) | \$(1,751,253) |
| Preferred stock cash dividend | - | (42,061) |
| Net loss attributable to common shareholders | \$(952,924) | \$(1,793,314) |

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Total revenues during the first quarter of 2013 decreased by approximately \$3,166,000, or 60% compared to the same period in 2012. The decrease consisted of approximately \$2,376,000, \$684,000 and \$319,000 decreases in investment banking revenues, principal transactions and commissions, respectively, partially offset by a \$213,000 increase in other revenues.

The 54% increase in other revenues was primarily due to the expansion of our CMAG services as we sponsored more companies in the OTCQX Markets.

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, 2013 and 2012:

| | Three Months Ended | |
|-------------------------------------|--------------------|----------------|
| | 31-Mar-13 | 31-Mar-12 |
| Revenue: | | |
| Capital raising | \$ 151,635 | \$ 1,507,581 |
| Financial advisory | 93,400 | 1,113,600 |
| Total investment banking revenue | \$ 245,035 | \$ 2,621,181 |
| Transaction Volumes: | | |
| Public offerings: | | |
| Capital underwritten participations | \$ 21,000,000 | \$ 24,600,000 |
| Number of transactions | 1 | 2 |
| Private placements: | | |
| Capital raised | \$ 1,000,000 | \$ 127,210,500 |
| Number of transactions | 1 | 2 |
| Financial advisory: | | |
| Transaction amounts | \$- | \$ 125,000,000 |
| Number of transactions | 1 | 6 |

Investment banking revenue was approximately \$245,000 or 11% of total revenues during the first quarter of 2013, representing a 91% decrease from the same quarter in 2012 due to fewer banking transactions being closed as a result of the Company having fewer bankers in 2013. Of the \$245,000 investment banking revenue, approximately \$73,000 was generated by FEP during the first quarter of 2013.

During the three months ended March 31, 2013, no investment banking client accounted for more than 10% of our total revenue.

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 | |
|--|--------------------|-------------|
| | 31-Mar-13 | 31-Mar-12 |
| Commissions: | | |
| Institutional equities | \$1,018,181 | \$1,337,724 |
| Total commission revenue | \$1,018,181 | \$1,337,724 |
| Principal transactions: | | |
| Customer principal transactions, proprietary trading and market making | \$41,568 | \$203,118 |
| Investment portfolio | 226,194 | 748,504 |
| Total principal transaction revenue | \$267,762 | \$951,622 |
| Transaction Volumes: | | |
| Number of shares traded | 48,609,730 | 111,547,491 |

Commission revenue was approximately \$1,018,000 or 48% of total revenue during the first quarter of 2013, representing a \$319,000 or 24% decrease from the same period in 2012. The decrease was due to lower trading volume as a result of the Company having fewer sales producers in 2013.

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, 2013, principal transaction gains were approximately \$268,000, consisting of a \$226,000 gain on our investment portfolio and a \$42,000 gain from customer principal transactions and proprietary trading and market making. For the same period in 2012, principal transaction gains were approximately \$952,000, consisting of a \$749,000 gain on our investment portfolio and a \$203,000 gain from customer principal transactions and proprietary trading and market making.

During the first quarter of 2013 and 2012, there was no brokerage customer that accounted for more than 10% of our total revenue.

Compensation and Benefit Expenses

Compensation and benefit expenses represent the largest component of our operating expenses and includes incentive compensation paid to sales, trading, research and investment banking professionals, as well as discretionary bonuses, salaries and wages, and stock-based compensation. Incentive compensation varies primarily based on revenue production. 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, 2013 and 2012:

| | Three Months Ended | | |
|---|--------------------|-------------|---|
| | 31-Mar-13 | 31-Mar-12 | |
| Incentive compensation and discretionary bonuses | \$741,493 | \$1,966,196 | |
| Salaries and wages | 536,515 | 727,736 | |
| Stock-based compensation | 135,416 | 1,717,158 | |
| Payroll taxes, benefits and other | 183,239 | 315,148 | |
| Total compensation and benefits | \$1,596,663 | \$4,726,238 | |
| Cash compensation and benefits as a percentage of core business revenue | 78 | % 69 | % |

Total compensation and benefits were approximately \$1,597,000 and \$4,726,000 for the three months ended March 31, 2013 and 2012, respectively, a decrease of approximately \$3,130,000 or 66%. Incentive compensation and discretionary bonuses decreased \$1,225,000 or 62% as a direct result of lower commissions and banking revenues. Salaries and wages decreased \$191,000 or 26% due to lower headcounts. As of March 31, 2013 and 2012, the Company had 26 and 34 employees, respectively. Stock-based compensation decreased \$1,582,000 or 92% primarily due to the \$1,075,000 option cancellation charge and \$507,000 restricted stock grants made in March 2012. Payroll taxes and benefits' decrease of \$132,000 or 42% directly correlated to lower compensation expenses.

Of the total compensation and benefits for the three months ended March 31, 2013 and 2012, \$22,000 and \$526,000 were for FEP personnel, respectively.

During the three month ended March 31, 2013, three sales professionals accounted for more than 10% of total revenue (approximately \$969,000) and three customer accounted for more than 10% of total revenue (approximately

\$355,000). During the three month ended March 31, 2012, two sales professionals accounted for more than 10% of total revenue (approximately \$978,000) and no customer accounted for more than 10% of total revenue.

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 \$72,000 or 45% compared to 2012 as a direct result of decreases in trading volume and commission revenue.

Professional services expense includes audit, accounting fees and various consulting fees. Professional services expense decreased \$199,000 or 73% compared to 2012 primarily due to the fact that there was number of consulting agreements which expired during the 1st quarter of 2012 and were not renewed.

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 \$156,000 or 32% compared to 2012 as a result of certain subleases that took effect in 2012.

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 \$198,000 or 62% compared to 2012 due to headcount reduction and cancellation of certain 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 expenses were de-minimis in 2013 due to minimal fixed asset additions and the full depreciation of certain assets, reducing the depreciable asset base.

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 \$15,000 or 20% compared to 2012 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 decrease of \$193,000 or 92% compared to 2012 was due to the fact that most litigation was settled in 2012.

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 \$71,000 or 60% compared to 2012 due to less banking deals closed in 2013.

The following expenses are included in other operating expenses for the three months ended March 31, 2013 and 2012:

| | 31-Mar-13 | 31-Mar-12 |
|---|-------------------|-------------------|
| Insurance | \$ 126,745 | \$ 126,043 |
| Regulatory & filing fees | 39,125 | 61,259 |
| Provision for uncollectible accounts receivable | 122,033 | 38,889 |
| Investor conference | - | 210,317 |
| Other | 37,039 | (20,923) |
| Total other operating expenses | \$ 324,942 | \$ 415,585 |

Other operating expenses include insurance, regulatory & filing fees, provision for uncollectible accounts receivable, investor conference and other miscellaneous expenses. The decrease of approximately \$91,000 or 22% compared to 2012 was due to (i) a decrease of \$22,000 in regulatory & filing fees due to lower number of registered employees and lower revenue resulting in lower regulatory fee assessment, (ii) an increase of \$83,000 in provision for uncollectible accounts receivable due to write-off of certain CMAG and banking receivables, (iii) a decrease of \$210,000 in investor conference due to the fact that no investor conference was held in 2013, (iv) and a increase of \$58,000 in other miscellaneous expenses primarily due to reduction in recruiting and commercial rent tax expenses in 2012.

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, 2013 and 2012, amortizations of debt discounts for the remaining debt and related warrants were \$36,000 and \$28,000, respectively.

Off-Balance Sheet Arrangements

We were not a party to any off-balance sheet arrangements during the three months ended March 31, 2013 and 2012. 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, 2013, 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 | Total |
|-------------------|------------------|------------------|---------------------|--------------|
| 2013 | \$1,747,300 | \$986,085 | \$398,299 | \$3,131,684 |
| 2014 | 987,000 | 960,000 | 298,452 | 2,245,452 |
| 2015 | 579,333 | 960,000 | 42,418 | 1,581,751 |
| 2016 | - | 960,000 | - | 960,000 |
| 2017 | - | 1,018,667 | - | 1,018,667 |
| Thereafter | - | 2,645,333 | - | 2,645,333 |
| Total Commitments | 3,313,633 | 7,530,085 | 739,169 | 11,582,887 |
| Interest | (453,633) | - | - | (453,633) |
| Net Commitments | \$2,860,000 | \$7,530,085 | \$739,169 | \$11,129,254 |

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.

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 will be considered for new option grants which will 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.

The Company accounted for this transaction in accordance with the guidance of 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.

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, 2013 and December 31, 2012 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, 2012. There has been no material change in the quantitative and qualitative disclosure about market risk since December 31, 2012.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures – We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company’s financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation as of March 31, 2013, the principal executive and financial officers of the Company concluded that the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

Management’s Report on Internal Control Over Financial Reporting – Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rules 13a-15(f), to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the United States Generally Accepted Accounting Principles (U.S. GAAP). The internal control includes policies and procedures to provide reasonable assurance that transactions are properly accounted for in accordance with U.S. GAAP.

Due to its inherent limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Projections of any evaluation of effectiveness to future periods are subject to the risk that policies and procedures may become inadequate because of changes in conditions, or that the degree of compliance may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. These inherent limitations are taken into consideration in the design of the financial reporting internal control to reduce, though not eliminate, this risk.

Management assessed the effectiveness of our internal control over financial reporting as of March 31, 2013 and based on that evaluation, they concluded that such internal controls and procedures were effective.

Changes in Internal Controls

Except as otherwise discussed above, there have been 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) that occurred during the fiscal quarter ended March 31, 2013, 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

Del Biaggio/Cacchione Matters

A number of lawsuits were filed against the Company and MC (collectively, "Merriman Parties"), in connection with the actions of William Del Biaggio III (Del Biaggio), a former customer of MC, and David Scott Cacchione (Cacchione), a former retail broker of MC. Del Biaggio and Cacchione pleaded guilty to securities fraud and were subsequently imprisoned. The majority of these lawsuits have been settled or dismissed. The remaining lawsuits against the Merriman Parties in connection with Cacchione's activities are as follows:

Trustee for the Bankruptcy estates of William James "Boots" Del Biaggio and BDB Management, LLC v. Merriman Capital, Inc. and D. Jonathan Merriman

On September 2, 2011, a complaint was filed in FINRA arbitration against MC and D. Jonathan Merriman by the bankruptcy estates of William James "Boots" Del Biaggio III and BDB Management, LLC. The complaint alleges various causes of action arising from alleged unauthorized trading and cross collateralization in plaintiff's accounts at MC and seeks damages of \$7.2 million. MC believes that it has valid defenses and intends to contest these claims vigorously. On November 2, 2011, MC filed an answer to the complaint on its behalf and D. Jonathan Merriman's, denying the allegations and asserting, among other things, the right to set off damages caused to the Merriman Parties by Del Biaggio, who is currently serving an eight year sentence in federal prison for fraud, in an amount well in excess of plaintiff's alleged damages. An arbitration hearing was set for August 2012 but was postponed at plaintiff's request. It is currently scheduled for August 2013. Since the Company believes that the likelihood of an unfavorable outcome in the case is remote, management has not provided an accrual for this lawsuit as of March 31, 2013.

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 Chuck 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 allege that plaintiffs were convinced by the Company to purchase shares of a small, risky stock in which MC held a position. It further alleges that the Company did not permit plaintiffs to sell the shares when the stock's price fell. The complaints seek unspecified compensatory and punitive damages. No trial date has been set. Since the Company believes that the likelihood of an unfavorable outcome in the case is remote, management has not provided an accrual for this lawsuit as of March 31, 2013.

Howard v. Chanticleer Holdings, Inc. Et Al

A complaint was filed in federal court for the Southern District of Florida on October 15, 2012 by Francis Howard against Chanticleer Holdings, Inc., certain of its officers, Merriman Capital, Inc., Dawson James Securities, Inc., and Creason & Associates P.L.L.C. Plaintiff alleges violations of the Securities Act of 1933 in connection with a public offering by Chanticleer Holdings, Inc. and seeks class action status and unspecified damages. Since the Company believes that the likelihood of an unfavorable outcome in the case is remote, management has not provided an accrual for this lawsuit as of March 31, 2013.

ITEM 1A. Risk Factors

In addition to the factors set forth below and the other 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, 2012, filed on April 1, 2013, as amended by our Form 10-K/A filed on April 30, 2013.

We may not be able to continue operating our business

The Company incurred significant losses in the three months ended March 31, 2013 and the year ended December 31, 2012. Even if we are successful in executing our plans, we may not be able to continue sustaining such losses. 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.

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 and Unsecured Promissory Notes. Common shareholders may receive nothing in liquidation or receive much less than they would if there were no Secured 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. Furthermore, MC is subject to laws that authorize regulatory bodies to prevent or reduce the flow of funds from it to the Company

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.

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 approximately \$953,000 for the three months ended March 31, 2013 and \$6,869,000 for the year ended December 31, 2012. We also recorded net losses in certain quarters within other past fiscal years. We may incur losses in future periods.

Reduced scale of operations and revenues, and changes to business plan

During the last quarter of 2011, the Company significantly reduced the scale of its operations and is executing a new business model. The Company had 35 and 26 employees at January 1, 2012 and March 31, 2013, respectively. The historical business of the firm is outlined in our prior filings with the SEC. There is a risk that the firm will not be able to achieve profitability with this reduced level of productive personnel.

The Company is executing a business plan focusing on its strengths in sponsoring corporate issuers to be listed on the OTCQX market, and on executing securities transactions for institutional investors. There is a risk that the Company may not be able to execute the business plan successfully due to various constraints, including those related to the current capital markets and the lack of adequate financial resources to transition the Company into the new business model.

Possible need for additional capital

As of March 31, 2013, the Company had approximately \$4.9 million in current assets, \$2.0 million in current liabilities and \$1.3 million of equity. Additionally, its broker-dealer subsidiary, MC, is required to maintain a minimum level of net capital in order to conduct its business. MC's excess net capital as of March 31, 2013 was

approximately \$357,000. Given the Company's history of losses, the market volatility and uncertain business environment, there can be no assurance that the Company will have sufficient capital to achieve its intended business objectives.

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 Chief 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, 2013 By: /s/ D. JONATHAN MERRIMAN
D. Jonathan Merriman,
Chief Executive Officer
(Principal Executive Officer)

May 15, 2013 By: /s/ WILLIAM J. FEBBO
William J. Febbo
Principal Financial Officer
(Principal Financial Officer)