

Merriman Holdings, Inc
Form 10-Q
June 22, 2015

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, 2015

.. 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.)

250 Montgomery Street, 16th Floor

94104

San Francisco, CA

(Address of Principal Executive Offices) (Zip Code)

(415) 248-5603

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

The number of shares of Registrant's common stock outstanding as of June 12, 2015 was 4,518,633.

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 | |
|-------------------------------------|-----------------------------|--------------|
| | 2015 | 2014 |
| Revenues | | |
| Commissions | \$ 1,185,546 | \$ 1,381,817 |
| Principal transactions | (618,169) | 248,612 |
| Investment banking | 1,059,976 | 2,419,233 |
| Advisory and other | 363,463 | 514,818 |
| Total revenues | \$ 1,990,816 | \$ 4,564,480 |
| Operating expenses | | |
| Compensation and benefits | \$ 2,365,851 | \$ 2,508,751 |
| Brokerage and clearing fees | 116,277 | 124,709 |
| Professional services | 124,155 | 153,297 |
| Occupancy and equipment | 251,667 | 301,259 |
| Communications and technology | 210,507 | 186,838 |
| Depreciation and amortization | 67,882 | 39,412 |
| Travel and entertainment | 43,798 | 42,451 |
| Cost of underwriting capital | 23,958 | - |
| Other | 311,517 | 180,502 |
| Total operating expenses | 3,515,612 | 3,537,219 |
| Operating income (loss) | (1,524,796) | 1,027,261 |
| Interest expense | (94,037) | (93,748) |
| Amortization of debt discount | (13,221) | (18,676) |
| Loss on debt modification | - | (262,299) |
| Net income (loss) before income tax | (1,632,054) | 652,538 |
| Income tax expense | (2,600) | - |

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| | | |
|-------------------|-----------------|------------|
| Net income (loss) | \$ (1,634,654) | \$ 652,538 |
|-------------------|-----------------|------------|

| | | |
|-----------------------------------|--------------|-----------|
| Basic net income (loss) per share | \$ (0.3618) | \$ 0.1574 |
|-----------------------------------|--------------|-----------|

| | | |
|-------------------------------------|--------------|-----------|
| Diluted net income (loss) per share | \$ (0.3618) | \$ 0.1298 |
|-------------------------------------|--------------|-----------|

Weighted average common shares outstanding:

| | | |
|-------|-----------|-----------|
| Basic | 4,518,633 | 4,146,967 |
|-------|-----------|-----------|

| | | |
|---------|-----------|-----------|
| Diluted | 4,518,633 | 5,027,680 |
|---------|-----------|-----------|

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

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

| | March 31, 2015 (unaudited) | December 31, 2014 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$967,827 | \$1,668,019 |
| Securities owned | | |
| Marketable, at fair value | 438,693 | 210,267 |
| Not readily marketable, at estimated fair value | 524,621 | 1,473,459 |
| Restricted cash | 300,000 | 250,000 |
| Due from clearing broker | 165,134 | 36,407 |
| Accounts receivable, net | 306,239 | 469,991 |
| Prepaid expenses and other assets | 281,361 | 265,057 |
| Secured demand notes | 639,000 | 639,000 |
| Capitalized software, net | 395,149 | 418,333 |
| Equipment and fixtures, net | 242,113 | 286,811 |
| Total assets | \$4,260,137 | \$5,717,344 |
| LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT) | | |
| Liabilities | | |
| Accounts payable | \$323,229 | \$251,629 |
| Commissions payable | 557,129 | 298,547 |
| Accrued expenses and other | 669,861 | 768,051 |
| Deferred rent | 533,899 | 542,275 |
| Deferred revenue | 71,130 | 84,088 |
| Capital lease obligations | 239,925 | 269,719 |
| Notes payable, net of debt discount | 856,326 | 809,620 |
| Notes payable to related parties, net of debt discount | 2,578,415 | 2,795,065 |
| Total liabilities | 5,829,914 | 5,818,994 |
| Shareholders' equity (deficit) | | |
| Convertible preferred stock, Series A—\$0.0001 par value; 2,000,000 shares authorized; 2,000,000 shares issued and 0 shares outstanding as of March 31, 2015 and December 31, 2014; 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, 2015 and December 31, 2014; 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, 2015 and December 31, 2014; aggregate liquidation preference of \$0 | - | - |

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| | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Convertible preferred stock, Series D—\$0.0001 par value; 24,000,000 shares authorized, 23,720,916 shares issued and 0 shares outstanding as of March 31, 2015 and December 31, 2014; aggregate liquidation preference of \$0 prior to conversion, and pari passu with common stock on conversion | - | - |
| Convertible Preferred stock, Series E—\$0.0001 par value; 7,300,000 shares authorized, 6,825,433 shares issued and 0 shares outstanding as of March 31, 2015 and December 31, 2014; aggregate liquidation preference of \$0 prior to conversion, and pari passu with common stock on conversion | - | - |
| Common stock, \$0.0001 par value; 300,000,000 shares authorized; 4,519,614 shares issued and 4,518,633 shares outstanding as of March 31, 2015 and December 31, 2014 | 452 | 452 |
| Additional paid-in capital | 150,826,816 | 150,660,289 |
| Treasury stock | (225,613) | (225,613) |
| Accumulated deficit | (152,171,432) | (150,536,778) |
| Total shareholders' equity (deficit) | (1,569,777) | (101,650) |
| Total liabilities and shareholders' equity (deficit) | \$4,260,137 | \$5,717,344 |

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, 2015

(unaudited)

| | Common Stock | | Treasury Stock | | Additional | Accumulated | |
|-------------------------------------------------|--------------|--------|----------------|-------------|--------------------|-----------------|---------------|
| | Shares | Amount | Shares | Amount | Paid-in Capital | Deficit | Total |
| Balance at January 1, 2015 | 4,519,614 | \$ 452 | (981) | \$(225,613) | \$ 150,660,289 | \$(150,536,778) | \$(101,650) |
| Net loss | | | | | | (1,634,654) | (1,634,654) |
| Issuance of warrants in connection with debt | | | | | 75,165 | - | 75,165 |
| Stock-based compensation | | | | | 91,362 | - | 91,362 |
| Balance at March 31, 2015 | 4,519,614 | \$ 452 | (981) | \$(225,613) | \$ 150,826,816 | \$(152,171,432) | \$(1,569,777) |

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, | |
|----------------------------------------------------------------------------------------------------|------------------------------|--------------|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (1,634,654) | \$ 652,538 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 34,576 | 6,106 |
| Stock-based compensation | 91,362 | 86,535 |
| Amortization of capital leases | 33,306 | 33,306 |
| Amortization of debt issuance costs | 13,221 | 18,676 |
| Loss on modification of debt | - | 262,299 |
| Provision for uncollectible accounts receivable | 105,600 | - |
| Securities received for services | (124,000) | (1,013,133) |
| Unrealized gain on securities owned | (323,635) | (204,757) |
| Changes in operating assets and liabilities: | | |
| Securities owned | 1,168,047 | 378,731 |
| Restricted cash | (50,000) | 166,029 |
| Due from clearing broker | (128,727) | 6,000 |
| Accounts receivable | 58,152 | (89,026) |
| Prepaid expenses and other assets | (16,304) | (74,442) |
| Accounts payable | 71,600 | (103,690) |
| Commissions payable | 258,582 | 7,324 |
| Accrued expenses and other | (119,524) | 242,896 |
| Net cash provided by (used in) operating activities | (562,398) | 375,392 |
| Cash flows from investing activities: | | |
| Purchase of software platform | - | (58,980) |
| Purchase of equipment and fixtures | - | (68,891) |
| Net cash used in investing activities | - | (127,871) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of restricted common stock | - | 50,000 |
| Proceeds from issuance of secured promissory notes | 387,000 | - |
| Proceeds from issuance of unsecured convertible promissory note | - | 85,000 |
| Payments of notes payable | (495,000) | (216,028) |
| Principal payments of capital leases | (29,794) | (23,826) |

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| | | |
|------------------------------------------------------|------------|--------------|
| Net cash used in financing activities | (137,794) | (104,854) |
| Increase (decrease) in cash and cash equivalents | (700,192) | 142,667 |
| Cash and cash equivalents at beginning of the period | 1,668,019 | 1,044,110 |
| Cash and cash equivalents at end of the period | \$ 967,827 | \$ 1,186,777 |
| Supplementary disclosure of cash flow information: | | |
| Cash paid during the period: | | |
| Cost of underwriting capital | \$ 23,958 | \$ - |
| Interest expense | \$ 55,710 | \$ 74,420 |
| Non-cash financing activities: | | |
| Warrants issued in connection with issuance of debt | \$ 75,165 | \$ - |

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

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description of Business

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

The Company is a Delaware corporation incorporated on May 6, 1987. The Company's common stock is listed on the OTCQB where it currently trades under the symbol "MERR." On February 3, 2015, the Company moved its listing from the OTCQX to the OTCQB. The Company's ticker symbol, "MERR", was not changed. Its corporate office is located in San Francisco, CA.

Basis of Presentation

The accompanying condensed consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

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 condensed consolidated results of operations for the interim periods covered and the condensed consolidated financial condition of the Company as of March 31, 2015. 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

unaudited condensed consolidated financial statements should be read in conjunction with the Company's 2014 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, 2014 filed with the SEC on March 31, 2015, and April 30, 2015, respectively.

2. Liquidity/Going Concern

The Company incurred a net loss of \$1,635,000 and had negative operating cash flows of \$562,000 during the three months ended March 31, 2015. It also incurred substantial losses in 2014, having reported net losses of \$1,628,000 for the year ended December 31, 2014. As of March 31, 2015, the Company had an accumulated deficit of \$152,171,000. These facts raise substantial doubt as to the Company's ability to continue as a going concern.

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

The Company's continued existence is also dependent upon its ability to increase revenues generated from operations that will enable the Company to achieve a profitable level of operations.

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

On April 28, 2015 the Company borrowed \$1,000,000 from EGS, LLC, a Delaware limited liability company comprised of three investment professionals, pursuant to a Note Purchase Agreement, Secured Promissory Note, Stock Pledge Agreement, and an Intercreditor Agreement whereby other creditors of the Company subordinated their interests to EGS, LLC. The Secured Promissory Note matures on April 20, 2016 and carries an interest rate of 12.0% per annum. The note also includes warrants to purchase 500,000 shares of the Company's Common Stock at \$1.00 per share. The warrants expire on April 20, 2020.

In April 2015, the Company made capital contributions of \$500,000 to MC.

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 condensed 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. Interests for convertible debt are also not considered since including them in the calculation of diluted loss per share would be anti-dilutive.

MERRIMAN HOLDINGS, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED****(unaudited)****3. Summary of Significant Accounting Policies – continued*****Earnings (Loss) Per Share – continued***

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

| | Three months ended March 31, | |
|-------------------------------------------------------------------------------------------------------|------------------------------|--------------|
| | 2015 | 2014 |
| Numerator: | | |
| Numerator for basic earnings (loss) per share | | |
| Net income (loss) as reported | \$ (1,634,654 |) \$ 652,538 |
| Effect of dilutive securities | | |
| Interest on convertible notes | - | 3,316 |
| Numerator for basic earnings (loss) per share - net income (loss) as adjusted | \$ (1,634,654 |) \$ 655,854 |
| Denominator: | | |
| Denominator for basic earnings per share weighted average shares | 4,518,633 | 4,146,967 |
| Effect of dilutive securities | | |
| Assumed conversion of convertible notes | - | 130,556 |
| Common share equivalents of outstanding restricted stocks | - | 62 |
| Common share equivalents of outstanding warrants | - | 750,095 |
| Dilutive potential common shares | - | 880,713 |
| Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions | 4,518,633 | 5,027,680 |
| Net income (loss) available to common shareholders | | |
| Basic | \$ (0.3618 |) \$ 0.1574 |
| Diluted | \$ (0.3618 |) \$ 0.1304 |

For the three months ended March 31, 2015, 42,660,990 common share equivalents for the potential warrant exercises were excluded from the calculation of dilutive loss per share since its inclusion would have been anti-dilutive. For the three months ended March 31, 2014, 6,527,576 common share equivalents for the potential warrant exercises were excluded from the calculation of dilutive earnings per share since its inclusion would have been anti-dilutive

Adoption of New Accounting Pronouncements

There are several new accounting pronouncements issued by FASB, which are not yet effective. Each of these pronouncements has been or will be adopted, as applicable, by the Company. None of these pronouncements are expected to have a material effect on the financial position, results of operations or cash flows of the Company.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

3. Summary of Significant Accounting Policies – continued

Securities Owned

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

Fair Value of Financial Instruments

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

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.

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As of March 31, 2015 and December 31, 2014, the Company held concentrated positions in two securities and one security, with total fair value of \$311,000 and \$206,000, respectively. The prices of these securities are highly volatile.

As of March 31, 2015 and December 31, 2014, the Company did not hold concentrated positions in accounts receivable with any one client which exceeded 10% of total accounts receivable.

During the three months ended March 31, 2015, one sales professional accounted for more than 10% of total revenue (approximately \$667,000) and no customer accounted for more than 10% of total revenue. During the three months ended March 31, 2014, one sales professional accounted for more than 10% of total revenue (approximately \$903,000) and no customer accounted for more than 10% of total revenue.

During the three months ended March 31, 2015 and 2014, one investment banking client accounted for more than 10% of our total revenues.

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

The Company has evaluated all subsequent events through the date these condensed consolidated financial statements were issued (See Note 12).

Reclassifications

Certain reclassifications have been made to the prior period's condensed consolidated financial statements to conform to the presentation of the current period's condensed consolidated financial statements. There were no changes to reported net income (loss).

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

4. Fair Value of Assets and Liabilities

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, 2015, the fair value of this type of securities included in securities owned in the condensed consolidated statements of financial condition is approximately \$439,000.

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, 2015, the fair value of this type of securities included in securities owned in the condensed consolidated statement of financial condition is approximately \$193,000.

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, 2015, the fair value of this type of securities included in securities owned in the condensed consolidated statement of financial condition is approximately \$332,000.

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, 2015, the fair value of this type of securities included in securities owned in the condensed consolidated statement of financial condition is approximately \$0.

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, 2015, the fair value of this type of securities included in securities owned in the condensed consolidated statement of financial condition is approximately \$0.

Securities Sold, Not Yet Purchased

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

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

| | Valuation Technique | Unobservable Input | Range | Weighted Average | |
|------------------------------------------------------------|------------------------------------|---------------------------|--------------|-------------------------|---|
| Financial instruments and other inventory positions owned: | | | | | |
| Stock warrants | Black-Scholes option pricing model | Stock volatility | 54 - 368% | 203 | % |

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, 2015 | | | |
|------------------------|----------------------------------------|---------|------------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Corporate equities | \$ 438,693 | \$ - | \$ 192,585 | \$ 631,278 |
| Stock warrants | - | - | 332,036 | 332,036 |
| Total securities owned | \$ 438,693 | \$ - | \$ 524,621 | \$ 963,314 |

The following summarizes the change in carrying values associated with Level 3 financial instruments for the three months ended March 31, 2015:

| | Corporate Equities | Stock Warrants | Underwriters' Purchase Options | Total |
|------------------------------------------------------------------------------------------|-----------------------|-------------------|--------------------------------------|--------------|
| Balance at December 31, 2014 | \$282,058 | \$1,191,401 | \$ - | \$1,473,459 |
| Purchases or receipt (a) | 44,167 | - | - | 44,167 |
| Sales or exercises | - | (22,121) | (207,555) | (229,676) |
| Transfers into | - | - | - | - |
| Transfers out of level 3 | (121,458) | - | - | (121,458) |
| Gains (losses): | | | | |
| Realized | - | - | - | - |
| Unrealized | (12,182) | (837,244) | 207,555 | (641,871) |
| Balance at March 31, 2015 | \$ 192,585 | \$ 332,036 | \$ - | \$ 524,621 |
| Change in unrealized gains (losses) relating to instruments still held at March 31, 2015 | \$(12,182) | \$(859,365) | \$ 207,555 | \$(663,992) |

(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. 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.

5. Issuance of Debt

Temporary Subordinated Borrowings

On December 30, 2014, MC borrowed \$495,000 from the Co-Chairman of the Company's 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 in the first quarter of 2015 were \$23,958 and included in cost of underwriting capital in the consolidated statements of operations. The loan and related fees were paid in full on February 3, 2015.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

5. Issuance of Debt – continued

Secured Promissory Notes

On January 15, 2015, a director of the Company loaned \$10,000 to the Company in a secured promissory note (the “January 15, 2015 Secured Promissory Note”) maturing on January 15, 2016, at an interest rate of twelve percent (12%) per annum payable quarterly. The note also includes warrants to purchase 1,250 shares of the Company’s Common Stock at \$2.00 per share. The warrants expire on January 15, 2018.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the January 15, 2015 Secured Promissory Note was \$2,000 which was recorded as a discount on the debt and applied against the January 15, 2015 Secured Promissory Note.

On January 20, 2015, a director of the Company loaned \$10,000 to the Company in a secured promissory note (the “January 20, 2015 Secured Promissory Note”) maturing on January 20, 2016, at an interest rate of twelve percent (12%) per annum payable quarterly. The note also includes warrants to purchase 2,500 shares of the Company’s Common Stock at \$2.00 per share. The warrants expire on January 20, 2018.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the January 20, 2015 Secured Promissory Note was \$3,000 which was recorded as a discount on the debt and applied against the January 20, 2015 Secured Promissory Note.

On January 30, 2015, the Co-Chairman of the Company’s Board of Directors loaned \$200,000 to the Company in a secured promissory note (the “January 30, 2015 Secured Promissory Note”) maturing on January 30, 2016, at an interest

rate of twelve percent (12%) per annum payable quarterly. The note also includes warrants to purchase 50,000 shares of the Company's Common Stock at \$2.00 per share. The warrants expire on January 30, 2018.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the January 30, 2015 Secured Promissory Note was \$34,000 which was recorded as a discount on the debt and applied against the January 30, 2015 Secured Promissory Note.

On March 23, 2015, the Co-Chairman of the Company's Board of Directors loaned \$105,000 to the Company in a secured promissory note (the "March 23, 2015 Secured Promissory Note") maturing on March 23, 2016, at an interest rate of twelve percent (12%) per annum payable quarterly. The note also includes warrants to purchase 26,250 shares of the Company's Common Stock at \$2.00 per share. The warrants expire on March 23, 2018.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the March 23, 2015 Secured Promissory Note was \$15,000 which was recorded as a discount on the debt and applied against the March 23, 2015 Secured Promissory Note.

On January 26, 2015, an unrelated party loaned \$50,000 and \$12,000 to the Company in two secured promissory notes (the "January 26, 2015 Secured Promissory Notes") maturing on January 26, 2016, each at an interest rate of twelve percent (12%) per annum payable quarterly. The notes also include warrants to purchase a total of 12,500 and 3,000 shares of the Company's Common Stock at \$2.00 per share. The warrants expire on January 26, 2018.

These transactions were accounted for as issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the January 26, 2015 Secured Promissory Notes was \$17,000 and \$4,000, which was recorded as a discount on the debt and applied against the January 26, 2015 Secured Promissory Notes.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

6. Shareholders' Equity

Reverse Stock Split

The Company announced a reverse stock split which became effective on July 14, 2014. The ratio of the reverse stock split is 1-for-30 shares of the Company's issued and outstanding common stock. Accordingly, each 30 shares of common stock have been converted into one share of common stock.

The condensed consolidated financial statements have been restated to reflect the reverse stock split for all periods presented herein.

7. Stock-based Compensation Expense

During the three months ended March 31, 2015, the Company granted 58,000 options to purchase common shares at exercise prices of \$2.00, and 143,999 options to purchase common shares at exercise prices of \$1.50, with immediate vesting. The options have a fair value of \$60,000 and \$152,000, respectively.

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

| | |
|-------------------------------|----------|
| Expected Volatility | 209.20 % |
| Average expected term (years) | 3.70 |
| Risk-free interest rate | 1.28 % |
| Dividend yield | - |

Compensation expense for stock options during the three months ended March 31, 2015 and 2014 was approximately \$91,000 and \$87,000, respectively. As of March 31, 2015, total unrecognized compensation expense related to unvested stock options was approximately \$697,000. This amount is expected to be recognized as expense over a weighted-average period of 2.88 years.

8. Regulatory Requirements

MC is a broker-dealer subject to Rule 15c3-1 of the SEC which specifies uniform minimum net capital requirements, as defined, for their registrants. As of March 31, 2015, MC had regulatory net capital, as defined, of approximately \$337,000 which exceeded the amount required by approximately \$87,000. 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.

As of February 28, 2015, MC was in net capital deficiency of approximately \$40,000. MC filed the deficiency notification under SEA Rule 17a-11(c)(2) with the SEC and FINRA on March 24, 2015. The net capital deficiency was cured on the same day.

In April 2015, the Company made capital contributions of \$500,000 to MC.

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

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

9. Litigation and Contingencies

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

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

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

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

10. Related Party Transactions

Temporary Subordinated Borrowings

On December 30, 2014, MC borrowed \$495,000 from the Co-Chairman of the Company's 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 in the first quarter of 2015 were \$23,958 and included in cost of underwriting capital in the consolidated statements of operations. The loan and related fees were paid in full on February 3, 2015.

Secured Promissory Notes

On January 15, 2015, a director of the Company loaned \$10,000 to the Company in a secured promissory note (the "January 15, 2015 Secured Promissory Note") maturing on January 15, 2016, at an interest rate of twelve percent (12%) per annum payable quarterly. The note also includes warrants to purchase 1,250 shares of the Company's Common Stock at \$2.00 per share. The warrants expire on January 15, 2018.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the January 15, 2015 Secured Promissory Note was \$2,000 which was recorded as a discount on the debt and applied against the January 15, 2015 Secured Promissory Note.

On January 20, 2015, a director of the Company loaned \$10,000 to the Company in a secured promissory note (the "January 20, 2015 Secured Promissory Note") maturing on January 20, 2016, at an interest rate of twelve percent (12%) per annum payable quarterly. The note also includes warrants to purchase 2,500 shares of the Company's Common Stock at \$2.00 per share. The warrants expire on January 20, 2018.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the January 20, 2015 Secured Promissory Note was \$3,000 which was recorded as a discount on the debt and applied against the January 20, 2015 Secured Promissory Note.

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

10. Related Party Transactions — continued

Secured Promissory Notes – continued

On January 30, 2015, the Co-Chairman of the Company's Board of Directors loaned \$200,000 to the Company in a secured promissory note (the "January 30, 2015 Secured Promissory Note") maturing on January 30, 2016, at an interest rate of twelve percent (12%) per annum payable quarterly. The note also includes warrants to purchase 50,000 shares of the Company's Common Stock at \$2.00 per share. The warrants expire on January 30, 2018.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the January 30, 2015 Secured Promissory Note was \$34,000 which was recorded as a discount on the debt and applied against the January 30, 2015 Secured Promissory Note.

On March 23, 2015, the Co-Chairman of the Company's Board of Directors loaned \$105,000 to the Company in a secured promissory note (the "March 23, 2015 Secured Promissory Note") maturing on March 23, 2016, at an interest rate of twelve percent (12%) per annum payable quarterly. The note also includes warrants to purchase 26,250 shares of the Company's Common Stock at \$2.00 per share. The warrants expire on March 23, 2018.

This transaction was accounted for as an issuance of debt with warrants and the proceeds were allocated to the individual instruments based on the relative fair values of each instrument at the time of issuance. Based on the fair value allocation method, the value of the warrants issued in connection with the March 23, 2015 Secured Promissory Note was \$15,000 which was recorded as a discount on the debt and applied against the March 23, 2015 Secured Promissory Note.

Software Platform Payments

In connection with the December 2013 purchase of a software platform called Digital Capital Network (“DCN”), an online capital marketplace, from an entity owned by a Board member, Robert K. Ward, the Company makes an ongoing monthly payment to our developers, Founding Minds. The Company entered into a licensing agreement to pay this entity \$18,000 per month, which was amended to reflect a payment amount of \$7,000 per month effective December 2014. As of March 31, 2015 the Company is currently actively using its DCN platform.

Other Related Party Transactions

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

11. Segment Reporting

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

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

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

MERRIMAN HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(unaudited)

11. Segment Reporting — continued

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

| | Three Months Ended March 31 | |
|-------------------------------------------|-----------------------------|--------------|
| | 2015 | 2014 |
| Revenues | | |
| MC | \$ 729,034 | \$ 3,830,850 |
| FEP | 922,198 | 254,749 |
| CMAG | 339,584 | 478,970 |
| Total segment revenues | 1,990,816 | 4,564,569 |
| Consolidation items and elimination | - | (89) |
| Consolidated revenues | \$ 1,990,816 | \$ 4,564,480 |
| Segment income (loss) | | |
| MC | \$ (1,914,868) | \$ 707,069 |
| FEP | 212,340 | (87,845) |
| CMAG | 153,470 | 362,011 |
| Total segment income (loss) | (1,549,058) | 981,235 |
| Consolidation items and elimination | (85,596) | (328,697) |
| Consolidated net loss before income taxes | \$ (1,634,654) | \$ 652,538 |

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

12. Subsequent Event

Secured Promissory Note

On April 28, 2015 the Company borrowed \$1,000,000 from EGS, LLC, a Delaware limited liability company comprised of three investment professionals, pursuant to a Note Purchase Agreement, Secured Promissory Note, Stock Pledge Agreement, and an Intercreditor Agreement whereby other creditors of the Company subordinated their interests to EGS, LLC. The Secured Promissory Note matures on April 20, 2016 and carries an interest rate of 12.0% per annum. The note also includes warrants to purchase 500,000 shares of the Company's Common Stock at \$1.00 per share. The warrants expire on April 20, 2020.

In April 2015, the Company made capital contributions of \$500,000 to MC.

On April 9, 2015 the Company borrowed \$300,000 from the Co-Chairman of the Company's Board of Directors in a demand promissory note maturing on June 9, 2015, at an interest rate of two tenths of one percent (0.2%) per day payable monthly. The loan and related fees were paid in full on April 30, 2015.

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” herein. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Overview

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

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

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

With DCN, we are creating a turnkey solution for investors to screen dozens of investment opportunities across multiple investment strategies, sectors, deal sizes and locations. By increasing the number of investment opportunities

available to them, institutions and family offices will be able to focus on evaluating deals rather than sourcing them. As a result, they will be able to make better investment decisions and improve the diversification of their portfolios. DCN also enables issuers with the ability to have their deals viewed immediately by dozens of qualified investors, something that previously would have taken months of travel, lengthy conference calls, and expensive road shows.

MC's Financial Entrepreneur Platform (FEP) exclusively supports highly ethical, independent investment bankers, respected research professionals and wealth managers and their clients. Many of our FEP members have recently gained independence from large and mid-tier investment banks, and are now looking for a platform where they can grow their own practice and brand within a compliant, professional and synergistic financial service environment. We currently have 25 professionals with experience in the major verticals and can advise on most structures. This variable cost model allows us to service our clients while keeping our operational expenses down.

We are headquartered in San Francisco, with an additional office in New York, NY. As of March 31, 2015, we had 28 employees.

COR Clearing LLC became the Company's clearing broker effective March 16, 2015.

Executive Summary

Our total revenues were approximately \$1,991,000 for the three months ended March 31, 2015, representing a \$2,574,000 or 56% decrease over the same period in 2014. The decrease was primarily due to lower investment banking revenues and principal transactions.

For the three months ended March 31, 2015, commission revenues decreased 14% comparing to the same period in 2014 due to market volatility. Principal transactions decreased 349% from the same period in 2014 due to partial sales of our warrant and restricted stock portfolio. For the three months ended March 31, 2015, investment banking revenues decreased 56% over the same period in 2014 due to unfavorable conditions in the microcap financing market. For the three months ended March 31, 2015, advisory and other revenue increased 29% over the same period in 2014.

For the three months ended March 31, 2015, net loss was \$1,635,000 or \$0.36 per share. For the three months ended March 31, 2014, net income was \$653,000 or \$0.16 per share. Net loss for the three months ended March 31, 2015 included stock based compensation expenses of approximately \$91,000. Net income for the three months ended March 31, 2014 included stock based compensation expenses of approximately \$87,000.

Liquidity/Going Concern

The Company incurred a net loss of \$1,635,000 and had negative operating cash flows of \$562,000 during the three months ended March 31, 2015. It also incurred substantial losses in 2014, having reported net losses of \$1,628,000 for the year ended December 31, 2014. As of March 31, 2015, the Company had an accumulated deficit of \$152,171,000. These facts raise substantial doubt as to the Company's ability to continue as a going concern.

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

The Company's continued existence is also dependent upon its ability to increase revenues generated from operations that will enable the Company to achieve a profitable level of operations.

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

On April 28, 2015 the Company borrowed \$1,000,000 from EGS, LLC, a Delaware limited liability company comprised of three investment professionals, pursuant to a Note Purchase Agreement, Secured Promissory Note, Stock Pledge Agreement, and an Intercreditor Agreement whereby other creditors of the Company subordinated their interests to EGS, LLC. The Secured Promissory Note matures on April 20, 2016 and carries an interest rate of 12.0% per annum. The note also includes warrants to purchase 500,000 shares of the Company's Common Stock at \$1.00 per share. The warrants expire on April 20, 2020.

In April 2015, the Company made capital contributions of \$500,000 to MC.

Results of Operations

The following table sets forth the results of operations for the three months ended March 31, 2015 and 2014:

| | Three Months Ended March 31 | |
|-------------------------------|-----------------------------|--------------|
| | 2015 | 2014 |
| Revenues | | |
| Commissions | \$ 1,185,546 | \$ 1,381,817 |
| Principal transactions | (618,169) | 248,612 |
| Investment banking | 1,059,976 | 2,419,233 |
| Advisory and other | 363,463 | 514,818 |
| Total revenues | \$ 1,990,816 | \$ 4,564,480 |
| Operating expenses | | |
| Compensation and benefits | \$ 2,365,851 | \$ 2,508,751 |
| Brokerage and clearing fees | 116,277 | 124,709 |
| Professional services | 124,155 | 153,297 |
| Occupancy and equipment | 251,667 | 301,259 |
| Communications and technology | 210,507 | 186,838 |
| Depreciation and amortization | 67,882 | 39,412 |
| Travel and entertainment | 43,798 | 42,451 |
| Cost of underwriting capital | 23,958 | - |
| Other | 311,517 | 180,502 |
| Total operating expenses | 3,515,612 | 3,537,219 |
| Operating income (loss) | (1,524,796) | 1,027,261 |
| Interest expense | (94,037) | (93,748) |
| Amortization of debt discount | (13,221) | (18,676) |
| Loss on debt modification | - | (262,299) |
| Net loss before income tax | \$ (1,632,054) | \$ 652,538 |
| Income tax expense | (2,600) | - |
| Net income (loss) | \$ (1,634,654) | \$ 652,538 |

For the three months ended March 31, 2015, total revenues decreased \$2,574,000 or 56% over the same period in 2014. The decrease was primarily attributable to lower investment banking revenues and principal transactions (\$1,359,000 decrease in investment banking revenues and \$867,000 decrease in principal transactions resulting from a sale of a portion of our warrant and restricted stock portfolio).

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, 2015 and 2014:

| | Three Months Ended March 31, | |
|-------------------------------------|------------------------------|---------------|
| | 2015 | 2014 |
| Revenue: | | |
| Capital raise | \$ 929,698 | \$ 2,160,337 |
| Financial advisory | 130,278 | 258,896 |
| Total investment banking revenue | \$ 1,059,976 | \$ 2,419,233 |
| Transaction volumes: | | |
| Public offerings: | | |
| Capital underwritten participations | \$ 9,480,000 | \$ - |
| Number of transactions | 1 | - |
| Private placements: | | |
| Capital raise | \$ 37,610,000 | \$ 26,795,606 |
| Number of transactions | 4 | 7 |
| Financial advisory: | | |
| Transaction amounts | \$ - | \$ - |
| Number of transactions | - | - |

For the three months ended March 31, 2015, investment banking revenues were \$1,060,000 or 53% of total revenues, representing a decrease of \$1,359,000 or 56% over the three months ended March 31, 2014. The decrease was due to less banking transactions being closed. Of the \$1,060,000 investment banking revenues for the three months ended March 31, 2015, \$922,000 was generated by FEP.

During the three months ended March 31, 2015 and 2014, one investment banking client accounted for more than 10% of our total revenues.

Commission and Principal Transaction Revenue

Our broker-dealer activity includes the following:

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

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

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

| | Three Months Ended March 31, 2015 | 2014 |
|------------------------------------------------------------------------|--------------------------------------|--------------|
| Commissions: | | |
| Institutional equities | \$ 1,185,546 | \$ 1,381,817 |
| Total commission revenue | \$ 1,185,546 | \$ 1,381,817 |
| Principal transactions: | | |
| Customer principal transactions, proprietary trading and market making | \$ 33,099 | \$ 8,442 |
| Investment portfolio | (651,268) | 240,170 |
| Total principal transaction revenue | \$ (618,169) | \$ 248,612 |
| Transaction Volumes: | | |
| Number of shares traded | 116,498,466 | 109,448,058 |

For the three months ended March 31, 2015, commission revenues were \$1,186,000 or 60% of total revenues, representing a decrease of \$196,000 or 14% over the three months ended March 31, 2014.

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, 2015, principal transaction losses were \$618,000, consisting of (a) a \$46,000 gain in customer principal transactions, (b) a \$13,000 loss in proprietary trading and market making and (c) a \$651,000 loss on our investment portfolio. This \$651,000 loss resulted primarily from the sale of a portion of our warrant and restricted stock portfolio. For the three months ended March 31, 2014, principal transaction gains were \$249,000, consisting of a \$9,000 gain from customer principal transactions, proprietary trading and market making and a \$240,000 gain on our investment portfolio.

During the three months ended March 31, 2015, one brokerage customer accounted for more than 10% of our total revenue. During the three months ended March 31, 2014, there was no brokerage customer who 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, 2015 and 2014:

| | Three Months Ended March 31, | | | |
|--------------------------------------------------------------------------|------------------------------|---|--------------|---|
| | 2015 | | 2014 | |
| Incentive compensation and discretionary bonuses | \$ 1,563,325 | | \$ 1,689,538 | |
| Salaries and wages | 506,109 | | 519,477 | |
| Stock-based compensation | 91,362 | | 88,542 | |
| Payroll taxes, benefits and other | 205,055 | | 211,194 | |
| Total compensation and benefits | \$ 2,365,851 | | \$ 2,508,751 | |
| Total compensation and benefits as a percentage of core business revenue | 91 | % | 58 | % |
| Cash compensation and benefits as a percentage of core business revenue | 87 | % | 56 | % |

For the three months ended March 31, 2015, total compensation and benefits were \$2,366,000, representing a decrease of \$143,000 or 6% as compared to the same period in 2014.

Incentive compensation and discretionary bonuses decreased \$126,000 or 7% because of lower commissions and investment banking revenues during the three months ended March 31, 2015, as compared to the same period in 2014.

For the three months ended March 31, 2015, salaries and wages decreased \$13,000 or 3%, stock-based compensation increased \$3,000 or 3%, and payroll taxes and benefits decreased \$6,000 or 3%, as compared to the same period in 2014.

Of the total compensation and benefits for the three months ended March 31, 2015 and 2014, \$710,000 and \$343,000 were for FEP personnel, respectively.

During the three months ended March 31, 2015, one sales professional accounted for more than 10% of total revenue (approximately \$667,000) and one customer accounted for more than 10% of total revenue (approximately \$337,000). During the three months ended March 31, 2014, one sales professional accounted for more than 10% of total revenue (approximately \$903,000) and no customer accounted for more than 10% of total revenue.

Other Operating Expenses

Brokerage and clearing fees include trade processing expenses paid to our clearing broker, and execution fees paid to floor brokers and electronic communication networks. MC is a fully-disclosed broker-dealer which contracts a third party clearing broker to perform all of the clearance functions. The clearing broker-dealer processes and settles all of MC's customer transactions and maintains the detailed customer records. These expenses are almost entirely variable, and are based on commission revenue and trade volume. For the three months ended March 31, 2015, brokerage and clearing fees decreased \$8,000 or 7%, as compared to the same period in 2014.

Professional services expense includes audit, accounting, legal, and various consulting fees. For the three months ended March 31, 2015, professional services expense decreased \$29,000 or 19% as compared to the same period in 2014 due to a decrease in legal fees, partially offset by an increase in the use of consultants.

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. For the three months ended March 31, 2015, occupancy and equipment expenses decreased \$50,000 or 16% as compared to the same period in 2014 due to more space in New York office being subleased.

Communications and technology expense includes market data and quote services, voice, data and internet service fees, and data processing costs. For the three months ended March 31, 2015, communications and technology expense increased \$24,000 or 13% as compared to the same period in 2014 due to higher market data service expenses resulting from new hires.

Depreciation and amortization relate to the depreciation of our fixed assets and amortization of leasehold improvements. Depreciation and amortization are mostly fixed in nature. For the three months ended March 31, 2015, depreciation and amortization expenses increased \$28,000 or 72% as compared to the same period in 2014 due to amortization of capitalized software beginning in July 2014.

Travel and business development expenses include business development costs by our sales professionals, investment bankers and non-deal road show expenses. Non-deal road shows are meetings in which management teams of our corporate clients present directly to our institutional investors. For the three months ended March 31, 2015, travel and business development expenses increased \$1,000 or 3% as compared to the same period in 2014.

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Cost of underwriting capital represents borrowing cost of capital to supplement MC's net capital to enable it to underwrite banking deals. For the three months ended March 31, 2015, the cost of underwriting capital of \$24,000 was due to fees incurred in connection with a temporary subordinated borrowing in December 2014. For the three months ended March 31, 2014, no costs of underwriting capital were incurred due to the fact that the banking transactions closed did not require underwriting capital.

The following expenses are included in other operating expenses for the three months ended March 31, 2015 and 2014:

| | Three Months Ended March 31, | |
|-------------------------------------------------|------------------------------|------------|
| | 2015 | 2014 |
| Insurance | \$ 79,445 | \$ 72,504 |
| Regulatory & filing fees | 38,419 | 52,544 |
| Provision for uncollectible accounts receivable | 105,600 | - |
| Other | 88,053 | 55,454 |
| Total other operating expenses | \$ 311,517 | \$ 180,502 |

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

For the three months ended March 31, 2015, other operating expenses increased \$131,000 or 73% as compared to the same period in 2014 due to increases of \$7,000 in insurance, \$106,000 in provision for uncollectible accounts receivable, and \$33,000 in other miscellaneous expenses, partially offset by a decrease of \$14,000 in regulatory & filing fees.

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, 2015 and 2014, amortizations of debt discounts for the remaining debt and related warrants were \$13,000 and \$19,000, respectively.

Off-Balance Sheet Arrangements

We were not a party to any off-balance sheet arrangements during the three months ended March 31, 2015 and 2014.

Contractual Obligations

The following table summarizes our significant contractual obligations as of March 31, 2015, consisting of future minimum lease payments under all non-cancelable operating leases with initial or remaining terms in excess of one year.

| | Office Leases | Operating Leases | Total |
|------------|------------------|---------------------|-------------|
| 2015 | \$1,007,820 | \$476,775 | \$1,484,595 |
| 2016 | 1,353,354 | 37,200 | 1,390,554 |
| 2017 | 1,421,854 | 37,200 | 1,459,054 |
| 2018 | 1,437,268 | - | 1,437,268 |
| Thereafter | 2,189,662 | - | 2,189,662 |
| Total | \$7,409,958 | \$551,175 | \$7,961,133 |

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.

Fair Value Accounting of Equity-Based Compensation

The Company used the Market Approach to arrive at an estimated fair value of the Company's common stock used in the Black-Scholes option pricing model to determine the fair value of the option grants made during the three months ended March 31, 2015.

The Market Approach (for determining the fair market value of the Company's common stock) is based on the economic principle of competition (i.e., in a free market, forces of demand and supply will direct the values of businesses to a particular balance). Valuation under the Market Approach entails both the application of appropriate market-based multiples selected from guideline public companies (GPCs) to parameters such as level of earnings, cash flow, revenues, invested capital or other financial factors (financial metrics) that represent the subject company's future financial performance and from cash transactions related to the sale of securities of the Company. This method is based on the idea of determination of the price at which the company will be exchanged in the public market, and is particularly useful for valuing companies that are currently profitable and expected to continue making profits in the foreseeable future.

Under the Market Approach, the Company used the following methods:

•Observable inputs from the trading of its common stock on OTCQB;

•Guidelines Public Companies' Trading Multiples Method ("GPC");

•Back Solve approach (derived from the Company's actual security transactions).

As of March 31, 2015, the fair market value of the Company's common stock was \$1.33 per share.

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, 2015 and December 31, 2014 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, 2014. There has been no material change in the quantitative and qualitative disclosure about market risk since December 31, 2014.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure Controls and Procedures – We carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon our evaluation, our chief executive officer and principal financial officer concluded that our disclosure controls and procedures are effective, as of March 31, 2015, in ensuring that material information that we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

Changes in Internal Control over Financial Reporting – There were no changes in the Company’s internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) of the Exchange Act) occurred during the three months ended March 31, 2015, that materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

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

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

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

ITEM 1A. Risk Factors

In addition to the information set forth in this report, including reports we incorporate by reference, you should carefully consider the risk factors previously disclosed in response to Item 1A to Part 1 of our Annual Report on Form 10-K for the year ended December 31, 2014, filed on March 31, 2015, as amended by our Form 10-K/A filed on April 30, 2015.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds***Recent Sales of Unregistered Securities***

During the quarter ended March 31, 2015, the Company issued warrants to purchase 95,500 shares of the Company's Common Stock at \$2.00 per share (the "Warrants"). The Warrants were issued in connection with the issuance of Promissory Notes described in Part I, Item 2 hereof. The Warrants were issued without the payment of additional consideration and so did not result in any additional proceeds to the Company. Investors and terms of the Warrants are shown in the table below. The Warrants were issued pursuant to the exemption from registration requirements contained in Section 4.2 of the Securities Act of 1933, as amended.

Warrants Issued in Quarter Ended March 31, 2015

| Date | Investor | Note Principal | Warrant Strike Price | Number of Warrants | Term (years) |
|---------|--------------------|----------------|----------------------|--------------------|--------------|
| 1-26-15 | Babu Sivadasan | 50,000 | \$ 2.00 | 12,500 | 3 |
| 1-26-15 | Babu Sivadasan | 12,000 | \$ 2.00 | 3,000 | 3 |
| 1-15-15 | Patrick W. O'Brien | 10,000 | \$ 2.00 | 1,250 | 3 |
| 1-20-15 | William J. Febbo | 10,000 | \$ 2.00 | 2,500 | 3 |
| 1-30-15 | Ronald L. Chez | 200,000 | \$ 2.00 | 50,000 | 3 |
| 3-23-15 | Ronald L. Chez | 105,000 | \$ 2.00 | 26,250 | 3 |

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

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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 Principal 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.

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema.

101.CAL XBRL Taxonomy Extension Calculation Linkbase.

101.DEF XBRL Taxonomy Extension Definition Linkbase.

101.LAB XBRL Taxonomy Extension Label Linkbase.

101.PRE XBRL Taxonomy Extension Presentation Linkbase.

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.

June 22, 2015 By: /s/ D. JONATHAN MERRIMAN
D. Jonathan Merriman,
Chief Executive Officer
(Principal Executive Officer)

June 22, 2015 By: /s/ WILLIAM J. FEBBO
William J. Febbo
Principal Financial Officer
(Principal Financial Officer)