

SEC  
Mail Processing  
Section  
MAR 10 2014  
Washington DC  
404

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C.



14049663

OMB APPROVAL

OMB Number: 3235-0123  
Expires: March 31, 2016  
Estimated average burden  
hours per response..... 12.00

SEC FILE NUMBER

8-50935

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/13 AND ENDING 12/31/13  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: W.R. Hambrecht + Co., LLC

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

909 Montgomery St., 3<sup>rd</sup> Floor

(No. and Street)

San Francisco

California

94133

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Jay Gettenberg

212-668-8700 ext. 25

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Burr Pilger Mayer, Inc.

(Name - if individual, state last, first, middle name)

600 California Street Suite 1300

San Francisco

California

94108

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

90  
324

90  
3127114

## OATH OR AFFIRMATION

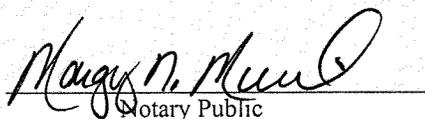
I, Jay Gettenberg, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of W.R. Hambrecht + Co., LLC, as of December 31, 2013, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

None

  
Signature

Financial and Operations Principal

Title

  
Notary Public

**MARGERY NELL MURRIEL**  
Notary Public, State of New York  
No. 01MU6247130  
Qualified in Kings County  
Commission Expires August 22, 2015

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

**W.R. HAMBRECHT + CO., LLC**

---

**C O N T E N T S**

	<b>Page</b>
Independent Auditors' Report	1-2
Consolidated Statement of Financial Condition	3
Notes to Consolidated Financial Statement	4-13
Supplemental Report:	
Report on Internal Control Required by SEC Rule 17a-5(g)(1) for a Broker-Dealer Claiming an Exemption from SEC Rule 15c3-3	14-15



BURR PILGER MAYER

600 California Street, Suite 1300, San Francisco, CA 94108

Phone 415.421.5757 Fax 415.288.6288 Email bpm@bpmcpa.com Web bpmcpa.com

## INDEPENDENT AUDITORS' REPORT

To the Member of  
W.R. Hambrecht + Co., LLC:

### Report on the Financial Statements

We have audited the accompanying consolidated statement of financial condition of W.R. Hambrecht + Co., LLC (the Company) as of December 31, 2013, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the consolidated financial statement.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statement that is free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statement, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statement in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statement referred to above present fairly, in all material respects, the financial position of W.R. Hambrecht + Co., LLC as of December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis-of-matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has a history of recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

*Burr Pilger Mayer, Inc.*

Burr Pilger Mayer, Inc.  
San Francisco, California  
March 3, 2014

**W.R. HAMBRECHT + CO., LLC**  
**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**  
December 31, 2013

---

**ASSETS**

Cash and cash equivalents	\$ 88,497
Receivables from broker-dealers and clearing organizations	121,921
Marketable trading securities at fair value	239,533
Long-term investments	3,895,751
Prepaid expenses and other assets	<u>61,421</u>
Total assets	<u><u>\$ 4,407,123</u></u>

**LIABILITIES AND MEMBER'S EQUITY**

Liabilities:	
Accounts payable and accrued liabilities	<u>\$ 189,029</u>
Total liabilities	<u>189,029</u>
Commitments and contingencies (Note 7)	
Member's equity	322,343
Noncontrolling interests in consolidated entities	<u>3,895,751</u>
Total equity	<u>4,218,094</u>
Total liabilities and member's equity	<u><u>\$ 4,407,123</u></u>

The accompanying notes are an integral  
part of this consolidated financial statement.

# W.R. HAMBRECHT + CO., LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENT

December 31, 2013

---

### 1. Ownership Structure

W.R. Hambrecht + Co., LLC (the Company) is a registered securities broker-dealer that is incorporated in the state of Delaware as a Delaware limited liability company. The Company is organized for the purpose of conducting a general stock brokerage and investment banking business. The Company is headquartered in San Francisco, California. The Company is a wholly-owned subsidiary of Hambrecht Partners Holdings, LLC, (the Parent) which is controlled by William R. Hambrecht. The accompanying consolidated financial statements include several limited liability companies that invest in private companies.

The Company was sold by W.R. Hambrecht + Co., Inc. (WRH, Inc.) in 2009 to the Parent. Concurrent with the sale of the Company to the Parent, WRH, Inc. entered into a Patent License Agreement with the Company which provides the Company with a perpetual, non-exclusive license to the patents and trademarks owned by WRH, Inc. in exchange for royalty payments equal to 20% of the net proceeds received by the Company in connection with auction transactions under the license agreement. There were no such royalty payments in 2013.

In January 2010, the Company acquired the operations and personnel of MarkeTrade.com (MarkeTrade) from White Pacific Securities, Inc. (White Pacific) for nominal consideration. MarkeTrade is an online discount broker that focuses on the needs of the Asian-American community. Concurrent with the purchase of MarkeTrade, the Company entered into a sub-lease at White Pacific's offices, a revenue-sharing agreement, and a service agreement for White Pacific clients using order execution and clearing services from the Company's third party clearing firm. At the end of May 2013, the Company left the sub-lease arrangement and consolidated the MarkeTrade operations with the W.R. Hambrecht + Co Retail brokerage operations. In August 2013, the W.R. Hambrecht + Co Retail brokerage operations were effectively shut-down. The MarkeTrade brokerage operations are currently in the process of being closed down and, to all intents and purposes, will cease operations by the end of the first quarter, 2014.

### 2. Management's Plan

The Company has a history of operating losses and negative cash flows from operations. The attainment of profitable operations is dependent upon future events, including increasing the Company's customer base, implementing and successfully executing its business and marketing plan, and retaining quality personnel. The Company is also highly dependent upon increased levels of activity in the capital markets; particularly initial public offerings, follow-on offerings, and corporate merger and acquisition transactions. This may translate into the Company's ability to complete such revenue-generating transactions for its customers and/or achieve liquidity for some of its venture investments. Negative developments in any of these areas could have a material adverse effect on the Company's business, operations, financial condition, and net capital.

Continued

## W.R. HAMBRECHT + CO., LLC

### NOTES TO CONSOLIDATED FINANCIAL STATEMENT

December 31, 2013

---

#### 2. **Management's Plan**, continued

It is the Company's belief that the market demand for increased transparency in the capital markets will facilitate an increased adoption of the OpenIPO process, thus providing an opportunity to increase revenue generation. During 2013, the Company continued to reduce its fixed expense base. The combination of increased market adoption of auction IPOs and a reduced expense base should help to achieve sustainable profitability. The Company believes that it has ample access to capital resources to successfully operate its business plan in 2014. If necessary, the Company may seek to sell additional debt or equity securities or enter into new credit facilities to meet its cash and/or net capital needs. The Company cannot make assurances that it will be able to complete any financing or liquidity transaction, that such financing or liquidity transaction will be adequate for the Company's needs, or that a financing or liquidity transaction will be completed in a timely manner.

The factors discussed above create substantial doubt about the Company's ability to continue as a going concern and an uncertainty as to the recoverability and classification of recorded asset amounts and the amount and classification of liabilities. The accompanying consolidated financial statements do not include any adjustments relating to the recovery and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern or meet its net capital requirements.

#### 3. **Summary of Significant Accounting Policies**

##### ***Basis of Presentation and Consolidation Policy***

The consolidated financial statement included herein has been prepared by the Company in conformity with accounting principles generally accepted in the United States of America. The accompanying consolidated financial statement includes the accounts of the Company and its noncontrolling interests in private equity management and investment entities.

##### ***Use of Estimates***

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

##### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less. There are no withdrawal restrictions on cash and cash equivalents.

Continued

# W.R. HAMBRECHT + CO., LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENT

December 31, 2013

---

### 3. Summary of Significant Accounting Policies, continued

#### *Receivables from Broker-Dealers and Clearing Organizations*

Receivables from broker-dealers and clearing organizations primarily relates to funds held with the Company's clearing organizations. The Company clears all of its brokerage transactions through other broker-dealers on a fully disclosed basis. Funds on deposit of \$109,825 are included in this balance as of December 31, 2013.

#### *Marketable Trading Securities*

Marketable trading securities are reported at prevailing market prices. Realized and unrealized gains and losses on marketable trading securities are included in net investment gains (losses).

#### *Fair Value Measurement - Definition and Hierarchy*

The Company measures the fair value of its financial instruments in accordance with generally accepted accounting principles (GAAP). GAAP defines fair value, establishes a framework that we use to measure fair value and provides for certain disclosures about our fair value measurements included in our financial statements. Fair value is defined by GAAP as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants on the measurement date.

In determining fair value, the Company uses various valuation approaches. GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

*Level 1*—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

*Level 2*—Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

*Level 3*—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Continued

**W.R. HAMBRECHT + CO., LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENT**

December 31, 2013

---

**3. Summary of Significant Accounting Policies, continued**

***Fair Value Measurement - Definition and Hierarchy***, continued

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

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date.

For further information on financial assets and liabilities that are measured at fair value on a recurring and nonrecurring basis, and a description of valuation techniques, see Note 4.

***Long-Term Investments***

The limited liability company (LLC) investments in which the Company is a managing member may allocate carried interest and make carried interest distributions, which represent an additional allocation of net realized and unrealized gains, to managing members if the LLC's investment performance reaches a threshold as defined in the respective operating agreements. These allocations are recognized in revenue as net investment gains (losses). Managing member carried interest allocations to the Company will only be recorded when the likelihood of a liquidity event for a portfolio company is deemed to be probable. No carried interest has been recorded as of December 31, 2013.

***Furniture, Software and Computer Equipment***

Furniture, equipment, and leasehold improvements are recorded at cost, less accumulated depreciation and amortization. Depreciation is computed using a straight-line depreciation method. The estimated useful lives for the computation of depreciation are:

Software and computer equipment	3 - 5 years
Furniture	7 years

***Income Taxes***

The Company is a single-member LLC and as such is considered a division of the Parent for federal and most state income tax reporting purposes. Accordingly, the Parent allocates income tax expense (benefit) to the Company as if it were a separate tax-paying entity. Therefore, the income tax consequences related to the Company's operations are reflected in its consolidated financial statements.

Continued

**W.R. HAMBRECHT + CO., LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENT**

December 31, 2013

---

**3. Summary of Significant Accounting Policies, continued**

*Income Taxes, continued*

The Company follows the accounting interpretation issued by the Financial Accounting Standards Board (FASB) on uncertainties in income taxes. This interpretation requires the evaluation of tax positions taken or expected to be taken in the course of preparing the tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company does not have any uncertain tax positions as of December 31, 2013.

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal, state, local, and foreign jurisdictions, where applicable. As of December 31, 2013, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations is from the year 2010 to 2012.

**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.

*Marketable Trading Securities - Equities*

Marketable trading securities are comprised primarily of exchange-traded equity securities that 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.

*Long-Term Investments - Private Equity*

The Company’s investments in private equity securities consist of various direct and third party private equity investments. The valuation of these investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of these assets. Initially, the transaction price for direct investments is generally considered by the Company as the exit price and is the Company’s best estimate of fair value.

Thereafter, valuation is based on an assessment of each underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information, including comparable company transactions, performance multiples and changes in market outlook, among other factors. Investments in third party funds are generally based on the financial statements of the partnerships, which generally use similar methodologies. These nonpublic investments are generally included in Level 3 of the fair value hierarchy because they trade infrequently, and, therefore, the fair value is unobservable.

Continued

**W.R. HAMBRECHT + CO., LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENT**

December 31, 2013

**4. Fair Value of Assets and Liabilities, continued**

Assets measured at fair value on a recurring basis are categorized in the table below based upon the lowest level of significant input to the valuations.

	Assets at Fair Value at December 31, 2013			
	Level 1	Level 2	Level 3	Total
Marketable trading securities - equities	\$ 239,533	\$ -	\$ -	\$ 239,533
Long-term investments - private equities	-	-	3,895,751	3,895,751
Total	\$ 239,533	\$ -	\$ 3,895,751	\$ 4,135,284

The net investment loss related to long-term investments for the year ended December 31, 2013, includes an unrealized gain of \$85,006. The non-managing members' interests in limited liability companies includes \$3,895,751 in fair value and \$7,184,479 in cost. These limited liability companies are consolidated in accordance with FASB guidance for determining whether a decision maker is acting as a principal or an agent in a transaction.

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

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis for the Year Ended December 31, 2013		Private Equity
Beginning balance		\$ 3,810,745
Losses:		
Unrealized		(1,798)
Gains included in net loss attributable to noncontrolling interests:		
Unrealized		86,804
Ending balance		\$ 3,895,751 *
Unrealized gains for Level 3 assets still held at December 31, 2013		\$ 85,006

\*This amount is comprised of noncontrolling interests in consolidated entities.

Continued

**W.R. HAMBRECHT + CO., LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENT**

December 31, 2013

---

**4. Fair Value of Assets and Liabilities, continued**

The net losses in Level 3 long-term investments were primarily driven by performance related adjustments relative to comparable publicly traded securities.

	Fair Value at December 31, 2013	Valuation Technique	Unobservable Inputs
Non-controlling interests in privately held companies	\$ 3,895,751	Market approach	Estimated comparable company multiples and third party transactions
	\$ 3,895,751		

The Company assesses our financial instruments annually to determine the appropriate classification within the fair value hierarchy, as defined by ASC 820. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the beginning of the reporting period

**5. Furniture, Software and Computer Equipment**

Summary of furniture, software and computer equipment as of December 31, 2013, is as follows:

Software and computer equipment	\$ 22,092
Furniture	15,300
Total	37,392
Less accumulated depreciation	(37,392)
	\$ -

**6. Prepaid Expenses and Other Assets**

Summary of prepaid expenses and Security Deposits as of December 31, 2013, is as follows:

Prepaid insurance	\$ 22,983
Prepaid regulatory fees	26,021
Security deposits	12,417
Total	\$ 61,421

Continued

**W.R. HAMBRECHT + CO., LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENT**  
December 31, 2013

---

**7. Commitments and Contingencies**

At December 31, 2013, the Company was obligated under long-term, non-cancelable operating leases for office facilities, parking facilities, and equipment, which require the following minimum annual payments:

Year ending December 31:	
2014	\$ 146,902
2015	103,738
2016	47,738
2017	<u>15,913</u>
Total	<u>\$ 314,291</u>

Certain leases contain renewal options and escalation clauses.

The Company is currently involved in various legal and regulatory matters arising from its investment banking and securities activities. Although the outcome of these matters cannot be ascertained at this time, it is the opinion of management, based on discussions with legal counsel, that the resolution of these matters will not in the aggregate have a material adverse affect upon the Company's consolidated financial position or results of operations.

**8. Income Taxes**

As a single-member LLC wholly owned by the Parent, the Company is allocated income tax expense by the Parent. The Company and the Parent have a history of operating losses, and the Parent has recorded a full valuation allowance against its deferred tax assets. There was no current or deferred income tax allocated to the Company for the year ended December 31, 2013, and no tax related amounts were due to or from the Parent for the year ended December 31, 2013.

**9. Net Capital Requirement**

The Company is subject to the Uniform Net Capital Rule 15c3-1 (the Rule) adopted by the Securities and Exchange Commission (SEC) and administered by the Financial Industry Regulatory Authority, Inc. (FINRA), which requires the Company to maintain minimum net capital as defined by the Rule and a ratio of aggregate indebtedness to net capital, as defined, not in excess of 15 to 1. The relationship of aggregate indebtedness to net capital changes from day to day. At December 31, 2013, the Company's net capital was \$212,762 its ratio of aggregate indebtedness to net capital was 0.89 to 1, and its net capital was \$112,762 in excess of the required minimum net capital.

For purposes of the computation of net capital, the Company is not required to include \$3,895,751 of long-term investments and related minority interests related to limited liability companies that are included in the Company's consolidated financial statements, as the Company has not guaranteed, endorsed or assumed the obligations of the limited liability companies. The Company is exempt from the requirements of Rule 15c3-3, as adopted by the SEC.

Continued

## W.R. HAMBRECHT + Co., LLC

### NOTES TO CONSOLIDATED FINANCIAL STATEMENT

December 31, 2013

---

#### 10. 401(k) Savings Plan

The Company maintains a 401(k) Savings Plan (the Plan) for substantially all employees. Subject to Internal Revenue Service limitations, participants may contribute up to 60% of their salaries on a pretax basis as defined in the Plan. However, total contributions may not exceed 20% of their salaries. The Company may make discretionary matching contributions and/or profit-sharing contributions to the Plan. No such matching or profit-sharing contributions were made in 2013.

#### 11. Financial Instruments with Off-Balance-Sheet Credit Risk and Concentrations of Credit Risk

As a securities broker-dealer, the Company's transactions are executed on behalf of its customers. The Company introduces these transactions for clearance on a fully-disclosed basis. The agreement between the Company and its clearing brokers provides that the Company is obligated to assume any exposure related to non-performance by its customers. The Company seeks to control the risk associated with non-performance by reviewing information it receives from its clearing brokers on a daily basis and reserving for doubtful accounts when necessary. Therefore, management believes that the potential for the Company to make payments under these customer transactions is remote. Accordingly, no additional liability has been recognized for these transactions. During the normal course of business the Company may sell securities which it has not yet purchased, which represent obligations of the Company to deliver the specified security at a contracted price, thereby creating a liability to purchase the security in a market at prevailing prices. Such transactions result in off-balance-sheet market risk as the Company's ultimate obligation to satisfy the sale of securities sold, not yet purchased may exceed the amount recorded in the consolidated statement of financial condition. The Company seeks to control such market risk through the use of internal monitoring guidelines.

During the normal course of business the Company regularly maintains cash balances at Federal Deposit Insurance Corporation (FDIC) insured financial institutions that exceed the insurance coverage limitations provided by FDIC.

Additionally, the Company is a member of the Securities Investor Protection Corporation (SIPC). The coverage available to the Company's customers through SIPC are limited in the risks, amounts, and investments that it covers. SIPC does not protect against market risk, which is the risk inherent in a fluctuating market. Furthermore, SIPC coverage is limited to \$500,000 per customer, including up to \$250,000 for cash. For purposes of SIPC coverage, customers are persons who have securities or cash on deposit with a SIPC member for the purpose of, or as a result of, securities transactions. SIPC does not protect customer funds placed with the Company just to earn interest. Insiders of the Company, such as its owners and officers, are not customers for SIPC coverage. Lastly, not all investments are protected by SIPC. In general, SIPC covers notes, stocks, bonds, mutual fund and other investment company shares, and other registered securities. It does not cover instruments such as unregistered investment contracts, unregistered limited partnerships, fixed annuity contracts, currency, and interests in gold, silver, or other commodity futures contracts or commodity options.

Continued

**W.R. HAMBRECHT + CO., LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENT**  
December 31, 2013

---

**12. Subsequent Events**

The Company has evaluated all subsequent events for recognition and disclosure through March 3, 2014, the date which these financial statements were available to be issued. Nothing has occurred outside the normal course of business operations that require disclosure or recognition as of December 31, 2013.

**REPORT ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5(g)(1)  
FOR A BROKER-DEALER CLAIMING AN EXEMPTION FROM SEC RULE 15c3-3**

To the Member of  
W.R. Hambrecht + Co., LLC:

In planning and performing our audit of the consolidated financial statements of W.R. Hambrecht + Co. (the Company), as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13.
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's previously mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined previously.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2013, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the Financial Industry Regulatory Authority (FINRA), and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*Burr Pilger Mayer, Inc.*

Burr Pilger Mayer, Inc.  
San Francisco, California  
March 3, 2014