

Merriman Holdings, Inc
Form 10-K
March 30, 2012

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-15831

MERRIMAN HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

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

600 California Street, 9th Floor

San Francisco, CA 94108

(Address of principal executive offices)(Zip Code)

(415) 248-5600

(Registrant's telephone number, including area code)

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

None

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

Yes No

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

Yes No

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

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

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

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

The aggregate market value of the 1,969,593 shares of common stock of the Registrant issued and outstanding as of June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, excluding 589,934 shares of common stock held by affiliates of the Registrant was \$5,120,942. This amount is based on the closing price of the common stock on NASDAQ of \$2.60 per share on June 30, 2011.

The number of shares of Registrant's common stock outstanding as of March 26, 2012 was 6,471,839.

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

PART I

Item 1. Business

Overview

We are a financial services holding company that primarily provides investment banking, sales and trading execution services, and capital markets advisory services through our primary operating subsidiary, Merriman Capital, Inc. (MC).

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

We are headquartered in San Francisco, CA, with an additional office in New York, NY. As of December 31, 2011, we had 35 employees. MC is registered with the Securities and Exchange Commission (SEC) as a broker-dealer and is a member of Financial Industry Regulatory Authority (FINRA) and the Securities Investors Protection Corporation (SIPC).

Liquidity

Merriman Holdings, Inc. (the Company) incurred substantial losses in 2011 and 2010. The Company had net losses of \$7,894,000 and \$5,338,000 in 2011 and 2010, respectively, and negative operating cash flows of \$4,467,000 and \$1,525,000 in 2011 and 2010. As of December 31, 2011, the Company had an accumulated deficit of \$138,048,000. While the Company believes its current funds will be sufficient to enable it to meet its planned expenditures through at least January 1, 2013, if anticipated operating results are not achieved, management has the intent and believes it has the ability to delay or reduce expenditures. Failure to generate sufficient cash flows from operations, raise additional capital, or reduce certain discretionary spending could have a material adverse effect on the Company's ability to achieve its intended business objectives.

In the fourth quarter, the Company decided to shift its strategic focus away from the traditional broker dealer model of research and institutional sales toward a capital markets advisory and platform revenue model. This represents a more scalable, predictable and profitable model in today's environment. Management believes this business model will result in reduced fixed operating costs and higher operating profit margin. Given the Company's track record and brand in investment banking and institutional sales, we will continue to assist firms raise the capital needed to fuel innovation.

Principal Services

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

Investment Banking

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

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

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

Institutional Brokerage

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

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

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

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

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

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

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

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

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

Segment Reporting

In January 2011, the Company's wholly owned broker dealer subsidiary, Merriman Capital, Inc. (MC), formed a new investment banking division, Riverbank Partners (Riverbank), to assist corporate issuers in raising capital through a network of independent investment bankers. Also, in January 2011, the Company repositioned its OTCQX Advisory Services (OTCQX) offering and fee structure. The Company recognizes revenues earned by Riverbank on a gross basis in accordance with ASC 605-45, *Revenue Recognition: Principal Agent Considerations*, as the Company is the primary obligor in the arrangements entered into by Riverbank.

Effective January 1, 2011, the Company reorganized its business around three operating segments: MC, Riverbank and OTCQX. The Company's reportable segments are strategic business units that offer products and services which are compatible with our core business strategy.

Competition

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

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

Corporate Support

Accounting, Administration and Operations

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

Compliance, Legal, Risk Management and Internal Audit

Our compliance, legal and risk management personnel (together with other appropriate personnel) are responsible for our compliance with legal and regulatory requirements of our investment banking business and our exposure to market, credit, operations, liquidity, compliance, legal and reputation risk. In addition, our compliance personnel test

and audit for compliance with our internal policies and procedures. Our general counsel provides legal service throughout our Company, including advice on managing legal risk. The supervisory personnel in these areas have direct access to senior management and to the Audit Committee of our Board of Directors to ensure their independence in performing these functions. In addition to our internal compliance, legal, and risk management personnel, we retain outside auditors, tax advisors, consultants and legal counsel for their particular functional expertise.

Risk Management

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

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

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

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

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

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

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

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

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

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

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

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

Regulation

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

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

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

The SEC’s capital rules also (i) require that the broker-dealers notify it, in writing, two business days prior to making withdrawals or other distributions of equity capital or lending money to certain related persons if those withdrawals would exceed, in any 30-day period, 30% of the broker-dealers’ excess net capital, and that they provide such notice within two business days after any such withdrawal or loan that would exceed, in any 30-day period, 20% of the broker-dealers’ excess net capital; (ii) prohibit a broker-dealer from withdrawing or otherwise distributing equity capital or making related party loans if, after such distribution or loan, the broker-dealer would have net capital of less than \$300,000 or if the aggregate indebtedness of the broker-dealer’s consolidated entities would exceed 1,000% of the broker-dealer’s net capital in certain other circumstances; and (iii) provide that the SEC may, by order, prohibit withdrawals of capital from a broker-dealer for a period of up to 20 business days, if the withdrawals would exceed, in any 30-day period, 30% of the broker-dealer’s excess net capital and if the SEC believes such withdrawals would be detrimental to the financial integrity of the broker-dealer or would unduly jeopardize the broker-dealer’s ability to pay its client claims or other liabilities.

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

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

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

consequences to the broker-dealer.

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

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

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

Geographic Area

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

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

Available Information

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

Item 1a. Risk Factors

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

Risks Related to Our Business

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

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

- establish, maintain, and increase our client base;

- manage the quality of our services;

- compete effectively with existing and potential competitors;

- further develop our business activities;

- attract and retain qualified personnel;

- limit operating costs;

settle pending litigation, and

maintain adequate working capital

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

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

There are substantial legal proceedings against us involving claims for significant damages.

There are a number of legal actions against us as described in the Legal Proceedings section below. If we are found to be liable for the claims asserted in any or all of these legal actions, our cash position may suffer such that we are unable to continue our operations. Even if we ultimately prevail in all of these lawsuits, we may incur significant legal fees and diversion of management's time and attention from our core businesses, and our business and financial condition may be adversely affected. We are attempting to negotiate a settlement with some of the litigants, but there is no assurance of any favorable outcome.

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

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

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

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

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

We may not be able to continue operating our business

The Company incurred significant losses in 2011 and 2010. Even if we are successful in executing our plans, we will not be capable of sustaining losses such as those incurred in 2011. The Company's ability to meet its financial obligations is highly dependent on market and economic conditions. We also recorded net losses in certain quarters within other past fiscal years. If operating conditions worsen in 2012 or if the Company receives material adverse judgments in its pending litigations, we may not have the resources to meet our financial obligations. If the Company is not able to continue in business, the entire investment of our common shareholders may be at risk, and there can be no assurance that any proceeds shareholders would receive in liquidation would be equal to their investment in the Company, or even that shareholders would receive any proceeds in consideration of their common stock.

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

Liquidity, or ready access to funds, is essential to financial services firms. Failures of financial institutions have often been attributable in large part to insufficient liquidity. Liquidity is of importance to our trading business and perceived liquidity issues may affect our clients and counterparties' willingness to engage in brokerage transactions with us. Our liquidity could be impaired due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects our trading clients, third parties or us. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time.

The Company has historically accessed capital markets to raise money through the sale of equity. Holders of our Series D and E Preferred Stock have certain rights and restrictive provisions which may affect our ability to continue to raise capital through the issuance of additional common stock.

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

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

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

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

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

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

Our ability to obtain and successfully execute our business depends upon the personal reputation, judgment, business generation capabilities and project execution skills of our senior professionals, particularly D. Jonathan Merriman, our Co-Founder and Chief Executive Officer of Merriman Holdings, Inc., and the other members of our Executive Committee. Our senior professionals' personal reputations and relationships with our clients are a critical element in obtaining and executing client engagements. We face intense competition for qualified employees from other companies in the investment banking industry as well as from businesses outside the investment banking industry, such as investment advisory firms, hedge funds, private equity funds, and venture capital funds. From time to time, we have experienced losses of investment banking, brokerage, research, and other professionals and losses of our key personnel may occur in the future. The departure or other loss of Mr. Merriman, other members of our Executive Committee or any other senior professional who manages substantial client relationships and possesses substantial experience and expertise, could impair our ability to secure or successfully complete engagements, or protect our market share, each of which, in turn, could materially adversely affect our business and results of operations. Please see Risk Factor below entitled "If our CEO leaves the Company, additional warrants will be issued, which may further dilute the ownership percentages of the holders of the Company's Common Stock" for additional information regarding the consequences of the loss of the services of Mr. Merriman.

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

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

Historically, the industry has been able to attract and retain investment banking, research, and sales and trading professionals in part because the business models have provided for lucrative compensation packages. Compensation and benefits are our largest expenditure and the variable compensation component, or bonus, has represented a significant proportion of this expense. The Company's bonus compensation is discretionary. For 2011, the potential pool was determined by a number of components including revenue production, key operating milestones, and profitability. There is a potential, in order to ensure retention of key employees, that we could pay individuals for revenue production despite the business having negative cash flows and/or net losses.

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

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

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

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

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

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

and results of operations.

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

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

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

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

We face strong competition from larger firms.

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

We are a relatively small investment bank with 35 employees as of December 31, 2011 and revenues of approximately \$22 million in 2011. Many of our competitors in the investment banking and brokerage industries have a broader range of products and services, greater financial and marketing resources, larger customer bases, greater name recognition, more senior professionals to serve their clients' needs, greater global reach, have more established relationships with clients than we have, and some operate under less restrictive capital requirements. These larger and better capitalized competitors may be better able to respond to changes in the brokerage and investment banking industries, to compete for skilled professionals, to finance acquisitions, to fund internal growth, and to compete for market share generally.

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

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

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

The Company recorded net losses of \$7,894,000 and \$5,338,000 for the years ended December 31, 2011 and 2010. We also recorded net losses in certain quarters within other past fiscal years. We may incur losses in future periods. If we are unable to finance future losses, those losses may have a significant effect on our liquidity as well as our ability to operate.

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

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

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

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

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

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

Our operations and infrastructure may malfunction or fail.

Our business is highly dependent on our ability to process, on a daily basis, a large number of increasingly complex transactions across diverse markets. Our financial, accounting, or other data processing systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including a disruption of electrical or communication services or our inability to occupy one or more of our buildings. The

inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. If any of these systems do not operate properly or are disabled or if there are other shortcomings or failures in our internal processes, people, or systems, we could suffer impairment to our liquidity, financial loss, disruption of our businesses, liabilities to clients, regulatory intervention, or reputation damage.

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

In addition, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which located. This may include a disruption involving electrical, communication, transportation, or other services used by us or third parties with whom we conduct business, whether due to fire, other natural disaster, power or communication failure, act of terrorism or war or otherwise. Nearly all of our employees in our primary locations, including San Francisco and New York, work in proximity to each other. If a disruption occurs in one location and our employees in that location are unable to communicate with or travel to other locations, our ability to service and interact with our clients may suffer and we may not be able to implement successfully contingency plans that depend on communication or travel. Insurance policies to mitigate these risks may not be available or may be more expensive than the perceived benefit. Further, any insurance that we may purchase to mitigate certain of these risks may not cover our loss.

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

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

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2011 and based on that evaluation, they concluded that such internal controls and procedures relating to the accounting research and reporting functions and the closing and reporting process were not effective. Management is committed to improving the Company's internal control over financial reporting processes and has taken remedial actions to correct the situation.

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

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

Risks Related to Our Industry

Risks associated with volatility and losses in the financial markets.

In the last 4 years, the U.S. financial markets have experienced tremendous volatility and uncertainty. Several mortgage-related financial institutions and large, reputable investment banks were not able to continue operating their businesses. In the event that the securities and financial industries face similar or greater volatility, there can be no assurance that we will be able to continue our operations.

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

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

Risks associated with regulatory impact on capital markets.

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

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

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

conditions on our business activities. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputation harm to us, which could seriously harm our business prospects.

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

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

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

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

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

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

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

Risks Related to Ownership of Our Common Stock

We have issued Series D and E Convertible Preferred Stock with rights preferences and privileges that are senior to those of our Common Stock. The exercise of some or all of these Series D and E Convertible Preferred

Stock rights may have a detrimental effect on the rights of the holders of the Common Stock.

On September 8, 2009, we closed a private placement Preferred Stock financing transaction. We sold 23,720,916 shares of our Series D Convertible Preferred Stock at \$0.43 per share (equivalent to 3,388,677 shares of common at a conversion price of \$3.01 per share after adjusting for our reverse stock split in August 2010) and warrants to purchase 3,388,677 share of Common Stock at \$4.55 per share to an investor group that includes certain of our officers and directors, in addition to outside investors. In connection with this transaction, the Company converted the principal and accrued interest of certain notes issued by the Company between May 2009 and July 2009 into Series D Convertible Stock. The aggregate principal amount from these cancelled notes was \$1,425,000.

As the warrants originally contained a full ratchet anti-dilution provision, we recorded a non-cash warrant liability of approximately \$26 million as of September 30, 2009 in accordance with U. S. GAAP, which resulted in a shareholders' deficit (negative shareholders' equity). This, in turn, caused us to fall outside of the NASDAQ Listing Rules which require a minimum of \$2,000,000 of shareholders' equity.

We have since remedied the noncompliance with the NASDAQ Listing Rules by amending the warrants to remove the full ratchet anti-dilution provision and thus removed the resulting shareholders' deficit. In consideration for such amendment, the Company has agreed to pay the holders of the warrants \$0.035 per warrant share in cash which was paid in February 2011.

The Series D Convertible Preferred Stock has a number of rights, preferences, and privileges that are superior to those of the Common Stock. Holders of the Series D Convertible Preferred Stock are entitled to a 6% annual dividend payable monthly in arrears. For the year ended December 31, 2011, the Company recorded cash dividends of \$491,334. The Company is prohibited from paying any dividends on the Common Stock until all accrued dividends on the Series D Convertible Preferred Stock are first paid.

The holders of Series D Convertible Preferred Stock are entitled to a “liquidation preference payment” of \$0.43 per share of Series D Convertible Preferred Stock plus all accrued but unpaid dividends on such shares prior and in preference to any payment to holders of the Common Stock upon a merger, acquisition, sale of substantially all the assets, or certain other liquidation events of the Company. Any proceeds after payment of the “liquidation preference payment” shall be paid pro rata to the holders of the Series D Convertible Preferred Stock and Common Stock on an as converted to Common Stock basis. As such, holders of Common Stock might receive nothing in liquidation, or receive much less than they would if there were no Series D Convertible Preferred Stock outstanding.

The holders of the Series D Convertible Preferred Stock also have substantial voting power over the Company. Such holders are entitled to elect four of the nine authorized members of our Board of Directors. Additionally, they have certain “protective provisions,” as set forth in the Certificate of Designation, requiring us to obtain their approval before we can carry out certain actions. The holders of Series D Convertible Preferred Stock may gain additional voting power if they exercise the warrants or they acquire shares of our Common Stock in the market.

The interests of the holders of the Series D Convertible Preferred Stock might not be aligned with those of the holders of Common Stock, which could result in the Company being sold or liquidated in a transaction in which the holders of Common Stock receive little or nothing.

In connection with the private placement transaction, we entered into an Investors’ Rights Agreement with the investors. Under the terms of the Investors’ Rights Agreement, if a registration statement relating to the Common Shares underlying the Series D Convertible Preferred Stock and warrants is not declared effective or is not available within time lines provided in the Investors’ Rights Agreement (with certain limited exceptions), then we are required to pay the investors, pro rata, in proportion to the number of shares of Series D Convertible Preferred Stock purchased by such investor in the transaction, five year warrants to purchase 21,428 shares of the Company’s Common Stock at \$4.55 per share, on terms identical to those issued to the investors under the financing transaction (the “Registration Warrants”), as liquidated damages and not as penalty, subject to an overall limit of liquidated damages in the aggregated of 128,571 Registration Warrants. The liquidated damages pursuant to the terms hereof shall apply on a daily pro rata basis for any portion of a month prior to securing an effective registration statement. The foregoing shall in no way limit any equitable remedies available to investors for failure to secure an effective registration statement by the time specified in the Investors’ Rights Agreement. Investors shall also be able to pursue monetary damages for failure to secure an effective registration statement by the time specified in the Investors’ Rights Agreement. Investors shall also be able to pursue monetary damages for failure to secure an effective registration statement by the agreed upon time but only if such failure is due to the willful or deliberate action or inaction of the Company in breach of the covenants.

During November 2011, more than 50% of the holders of the outstanding Series D Convertible Preferred Stock approved (1) an amendment to provide for dividends to be paid only when, if and as declared by the Board of Directors and such dividends will accumulate and compound until paid; (2) an amendment to decrease the “full ratchet” anti-dilution provision of the Series D Certificate of Designation to an amount equal to two times the AP, as applicable to the conversion of the Secured Promissory Notes and Unsecured Promissory Notes.

This amendment effectively reduces the Company’s Series D Convertible Preferred Stock annual dividend requirement by approximately \$500,000 unless such dividends are declared by the Board of Directors.

On December 30, 2011, the Company issued 2,531,744 shares of Series E Convertible Preferred Stock at \$0.63 per share plus warrants to purchase 1,265,874 shares of the Company’s common stock with an exercise price of \$0.63 per share. The warrants expire five years from the effective date. All Series E Convertible Preferred shareholders are directors of the Company.

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

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

Your ownership percentage may be diluted by warrants issued in connection with our convertible notes financing.

The investors of the convertible notes issued on May 29, 2009 and June 1, 2009 received warrants to purchase an aggregate of 133,928 shares of the Common Stock of the Company at \$3.50 per share on a post-reverse split basis. The investor and guarantors of the Note issued on July 31, 2009 received warrants to purchase an aggregate of 332,225 shares of the Common Stock of the Company at \$4.55 per share on a post-reverse split basis. While the convertible notes and the note are no longer outstanding, the warrants issued in conjunction with them are, and exercise of these warrants would dilute the ownership percentage of existing shareholders in the Company.

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

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

The table below represents a list of potentially dilutive securities outstanding as of March 26, 2012:

| | Potentially Dilutive Securities Outstanding | Weighted-Average Exercise Price or Conversion Price |
|---|--|--|
| Series D convertible preferred stock warrants | 3,388,677 | \$ 4.55 |
| Series E convertible preferred stock warrants | 1,345,239 | 0.63 |
| Conversion of Series D preferred stock | 6,358,872 | - |
| Conversion of Series E preferred stock | 2,690,474 | - |
| Stock options | 929,646 | 6.18 |
| Other outstanding warrants | 1,030,909 | 3.57 |
| Potentially dilutive securities | 15,743,817 | 1.63 |

In addition to the potentially dilutive securities listed above, the total number of common shares outstanding as of March 26, 2012 was 6,471,839.

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

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

Our executive officers and directors, and entities affiliated with them, currently control approximately 44% of our outstanding common stock including exercise of their options and Series D and E Preferred Stock and associated warrants. These shareholders, if they act together, will be able to exercise substantial influence over all matters requiring approval by our shareholders, including the election of directors and approval of significant corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change in control of us and might affect the market price of our common stock.

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

Our Articles of Incorporation authorize our Board of Directors to issue additional shares of preferred stock, without approval from our shareholders. This preferred stock, often called “blank check” preferred stock, could have conversion terms that would allow one share of preferred stock to convert into multiple shares of common stock. It could also have voting rights and other rights advantageous to holders of that preferred stock, but disadvantageous to holders of the Company’s common stock.

If you hold our common stock, this means that our Board of Directors has the right, without your approval as a common shareholder, to fix the relative rights and preferences of the preferred stock. This would affect your rights as a common shareholder regarding, among other things, dividends and liquidation. We could also use the preferred stock to deter or delay a change in control of our Company that may be opposed by our management even if the transaction might be favorable to you as a common shareholder.

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

The market price of our common stock may decline.

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

- variations in quarterly operating results;

- announcements of significant contracts, milestones, and acquisitions;

- relationships with other companies;

- ability to obtain needed capital commitments;

- additions or departures of key personnel;

- sales of common and preferred stock, conversion of securities convertible into common stock, exercise of options and warrants to purchase common stock, or termination of stock transfer restrictions;

- general economic conditions, including conditions in the securities brokerage and investment banking markets;

- changes in financial estimates by securities analysts; and

- fluctuations in stock market price and trading volume.

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

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

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

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

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

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

If our CEO leaves the Company, additional warrants will be issued, which may further dilute the ownership percentage of the holders of the Company's Common Stock

If D. Jonathan Merriman ceases to serve as Chief Executive Officer of the Company prior to August 27, 2012, the Company agreed in connection with the issuance of the Series D Convertible Preferred Stock to issue additional warrants (the "Merriman Warrants") to the holders of the Series D Preferred Stock to purchase shares of the Company's Common Stock. The Merriman Warrants would be exercisable for a total of 3,388,677 shares of common stock, with an exercise price of \$4.55 per share and a term of five years. Exercise of the Merriman Warrants would dilute the ownership percentage of existing holders of Common Stock. If Mr. Merriman is deceased, is terminated without "Cause" or resigns with "Good Reason," these warrants will not be issuable. "Cause" and "Good Reason" are defined in the Investors Rights Agreement entered into in connection with the issuance of the Series D Preferred Stock, which was filed as Exhibit 10.48 to the Company's Amended Current Report on Form 8-K/A on September 2, 2009.

Item 1b. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2011, all of our real estate properties are leased. Our principal executive offices are located in San Francisco, CA and New York City, NY. We believe the facilities we are now using are adequate and suitable for business requirements.

Item 3. Legal Proceedings

Del Biaggio/Cacchione Matters

A number of lawsuits have been filed against the Company and its broker dealer subsidiary, MC (collectively, “Merriman Parties”), in connection with the actions of William Del Biaggio III (Del Biaggio), a former customer of the Company and David Scott Cacchione (Cacchione), a former retail broker of the Company. Del Biaggio and Cacchione pled guilty to securities fraud and were subsequently imprisoned.

Lawsuits against the Company in connection with Cacchione’s activities are as follows:

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

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

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

Complaints were filed in the San Francisco County Superior Court, California, by Henry Khachaturian in January 2011, by Chuck Peterson in February 2010 and by Dolores Salvi in October 2010. The complaints also named as defendants the Company’s officers and former officers D. Jonathan Merriman, Gregory Curhan, and Robert Ford. Messrs Curhan and Ford were dropped from the case in January 2011. The complaints were consolidated into one case in March 2011. The complaints allege that plaintiffs were convinced by the Company to purchase shares of a small, risky stock in which the Company held a position. It further alleges that the Company’s broker dealer subsidiary, Merriman Capital, Inc. did not permit plaintiffs to sell the shares when the stock’s price fell. The complaints seek

unspecified compensatory and punitive damages. The Company believes it has meritorious defenses and intends to contest these claims vigorously. Since the Company believes that the likelihood of an unfavorable outcome in the case is remote, management has not provided an accrual for this lawsuit.

Don Arata and Gary Thronhill, et al. v. Merriman Capital, Inc. et al.

In July 2008, the Company and its broker dealer subsidiary, MC were served with complaints filed in the San Francisco County, California Superior Court by several plaintiffs who invested money with Del Biaggio and related entities. In March 2009, the Company and MC were served with an amended consolidated complaint on behalf of 39 plaintiffs which consolidated several similar pending actions filed by the same law firm. Plaintiffs allege, among other things, fraud based on Cacchione's alleged assistance to Del Biaggio in connection with the fraudulent investments and the Company's failure to discover and stop the continuing fraud. Plaintiffs in this lawsuit seek damages of over \$9 million. The Merriman Parties responded to the amended consolidated complaint in June 2009 denying all liability. Although we believed that the Merriman Parties had meritorious defenses, the Company and MC signed separate comprehensive settlement agreements with the plaintiffs on May 9, 2011. MC was dismissed from the case with prejudice in May 2011. The Company was dismissed from the case with prejudice in January 2012.

Pacific Capital Bank v. Merriman Capital, Inc.

In October 2008, MC was served with a complaint filed in the San Francisco County Superior Court by Pacific Capital Bank. Plaintiff alleges, among other things, fraud based on Cacchione having induced plaintiff into making loans to Del Biaggio. Plaintiff in this lawsuit alleges damages of \$1.84 million. MC settled all claims in this case on January 28, 2011.

Other Litigation

Other legal cases not arising out of the Del Biaggio/Cacchione matters are as follows:

Spare Backup v. Merriman Capital, Inc. (Settled)

In April 2008, MC entered into an engagement to provide investment banking services to Spare Backup, Inc. MC completed a bridge financing for Spare Backup, Inc. in the amount of \$1,300,000 in June 2008. As a result of closing the financing transaction, MC was entitled to reimbursement of its expenses, a convertible note with principal valued at \$161,100 and 370,370 shares of Spare Backup, Inc.'s common stock. As of November 2008, these transaction fees had not been paid to MC. We hired counsel to seek payment of the fees and to proceed to arbitration, as is specified in

the engagement letter. In January 2009, MC filed a petition to compel arbitration in the San Francisco County Superior Court. In response to the petition to compel arbitration, Spare Backup filed a complaint in the Riverside County Superior Court, Indio Branch, for fraud and declaratory relief alleging that MC fraudulently induced it to execute the investment banking engagement letter. The petition for arbitration was granted in May of 2009 and the Indio action was stayed for all purposes pending the outcome of arbitration. The parties settled the case by mutual agreement on March 22, 2011.

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

The expenses incurred by the Company for the years ended December 31, 2011 and 2010 for legal services and litigation settlements amounted to \$711,000 and \$3,411,000, respectively. Of the total legal settlement and professional fees incurred for the year ended December 31, 2010, \$606,000 was settled in common stock, of which \$461,675 were issued in 2011.

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

Our common stock had been quoted on the NASDAQ Stock Market, Inc. under the symbol "MERR" since February 12, 2008. Prior to this time, it traded on the American Stock Exchange under the symbol "MEM." Since November 2011, our common stock was listed on the OTCQX, where it currently trades under the symbol "MERR." The following table sets forth the range of the high and low sales prices per share of our common stock for the fiscal quarters indicated.

| | High | Low |
|----------------|--------|--------|
| 2011 | | |
| Fourth Quarter | \$1.47 | \$0.41 |
| Third Quarter | 2.60 | 1.40 |
| Second Quarter | 3.05 | 2.15 |
| First Quarter | 4.06 | 2.00 |
| 2010 | | |
| Fourth Quarter | \$3.03 | \$1.90 |
| Third Quarter | 4.13 | 2.35 |
| Second Quarter | 6.37 | 3.43 |
| First Quarter | 7.28 | 4.90 |

The closing sale price for the common stock on March 26, 2012 was \$0.59. The market price of our common stock has fluctuated significantly and may be subject to significant fluctuations in the future. See Item 1A – "Risk Factors."

According to the records of our transfer agent, we had 625 stockholders of record as of December 31, 2011. Since many shares are held by brokers and other institutions on behalf of shareholders, we are unable to estimate the total number of beneficial shareholders represented by these record holders.

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

Securities Authorized for Issuance Under Equity Compensation Plans

The following table gives information about the Company's common stock that may be issued upon the exercise of options and warrants under all of our existing equity compensation plans as of December 31, 2011.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options and Warrants | Weighted-Average Price of Outstanding Options and Warrants | Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans |
|--|---|--|--|
| Equity compensation plans approved by stockholders: | | | |
| 1999 Stock Option Plan (expired 12/30/08) | 8,162 | \$ 31.63 | - |
| 2000 Stock Option and Incentive Plan (expired 2/28/10) | 16,657 | \$ 5.90 | - |
| 2001 Stock Option and Incentive Plan | 19,342 | \$ 11.01 | - |
| 2003 Stock Option and Incentive Plan | 274,994 | \$ 4.62 | - |
| 2009 Stock Incentive Plan | 666,978 | \$ 5.79 | 820,765 |
| 2006 Directors' Stock Option and Incentive Plan | 14,118 | \$ 3.01 | - |
| Equity compensation not approved by stockholders | - | \$ - | - |

Equity compensation not approved by shareholders includes shares in a Non-Qualified option plan approved by the Board of Directors of NetAmerica.com Corporation (now known as Merriman Holdings, Inc.) in 1999 and a Non-Qualified option plan approved by the Board of Directors in 2004 that is consistent with the exchange guidelines at the time of listing.

Recent Sale of Unregistered Securities

On September 29, 2010, the Company borrowed \$1,000,000 from nine individual lenders, all of whom were directors, officers or employees of the Company at the time of issuance, pursuant to a series of unsecured promissory notes (Subordinated Notes). The Subordinated Notes are for a term of three years and provide for interest comprising two components: (i) six percent (6.0%) per annum to be paid in cash monthly; and (ii) eight percent (8.0%) per annum to be accrued and paid in cash upon maturity. Additional consideration was paid to the lenders at closing comprising a number of shares of common stock of the Company equal to: (A) 30% of the principal amount lent; divided by (B) \$3.01 per share. A total of 99,663 shares of common stock were issued.

On November 1, 2010, the Company issued \$300,000 in Unsecured Promissory Notes to four of its Series D Convertible Preferred Stock investors with a maturity date of the earlier of January 31, 2011 or the consummation of a qualified financing, as defined. The Unsecured Promissory Notes provide for interest of twelve percent (12%) per annum to be paid in cash at maturity. Additional consideration was paid to the lenders at closing comprising a number of shares of common stock of the Company equal to 55% of the principal amount lent divided by \$3.01 per share. A total of 54,817 shares of common stock were issued.

Secured Promissory Note

On November 17, 2010, the Company issued \$1,050,000 in Secured Promissory Note to Ronald L. Chez, its Co-Chairman of the Board of Directors. The Secured Promissory Note is secured by certain accounts receivable which were purchased by the Company from its broker dealer subsidiary, MC, with the proceeds of the transaction being used for such purchase. The Secured Promissory Note is due and payable in two tranches as the accounts receivable become due, with \$950,000 due on January 19, 2011 and \$100,000 due on February 28, 2011. It provides for interest of 29.2% per annum and additional consideration comprising two components (i) 50,000 shares of the Company's Series D Preferred Stock (which is convertible into 7,142 shares of our Common Stock); and (ii) a cash fee of \$15,000. The proceeds were used to supplement underwriting capacity of MC. The Company paid off \$720,000 of the Secured Promissory Note on December 22, 2010. As of December 31, 2010, the Secured Promissory Note of \$330,000 remains outstanding and is included in notes payable to related parties – short term in the Company's consolidated statement of financial condition. For the year ended December 31, 2010, the Company incurred \$48,000 as fees on the Secured Promissory Notes (included in cost of underwriting capital in the Company's consolidated statement of operations), which remain outstanding as of December 31, 2010 and is included in accrued expenses and other in the consolidated statements of financial position. On January 21, 2011, this Secured Promissory Note was amended to extend the maturity date to April 15, 2011 and change the 50,000 Series D Convertible Preferred Stock consideration to cash compensation of \$21,000.

In April 2011, the Company raised \$2,770,000 from 24 investors, of which 11 were directors, officers, consultants or employees of the Company at the time of issuance, pursuant to a series of secured promissory notes (Secured

Promissory Notes). The Secured Promissory Notes are for a term of three years and provide for interest of ten percent (10.0%) per annum to be paid in cash quarterly. Additional consideration was paid to the lenders at closing comprising warrants to purchase shares of the common stock of the Company at a price per share equal to 85% of the Company's stock price at the closing date (the Warrants). 86 Warrants were issued for each \$1,000 invested. A total of 238,220 Warrants were issued. The Warrants issued to directors, officers, consultants and employees (Insider Warrants) of the Company provide that the Insider Warrants will not be exercisable unless first approved by the Company's stockholders. These notes are secured by a security interest in and right of setoff against all of such the Company's right, title and interest in, to all of the capital stock of MC, together with all proceeds, rents, profits and returns of and from any of the foregoing. Also, beginning on the date which is one year from the issuance date, if there is an equity financing of the Company resulting in gross proceeds of at least \$15,000,000 in new money, holders shall have the option to put 50% of Secured Promissory Notes originally purchased back to the Company, for an amount equal to the principal plus accrued but unpaid interest, on 30 days written notice. The Secured Promissory Notes were issued in two tranches, one closed on April 7, 2011 for \$2,470,000 and the other closed on April 21, 2011 for \$300,000.

On November 16, 2011, the Company entered into exchange agreements with certain Secured Promissory Note investors whereby the investors agree to exchange the Secured Promissory Notes and Warrants for shares of common stock and new warrants to purchase shares of common stock of the Company as follows.

(a) For the Secured Promissory Notes, a number of new shares of common stock equal to (i) the total amount of principal plus accrued but unpaid interest of the Secured Promissory Notes submitted for cancellation divided by (ii) an amount equal to 80% of the average closing price per share of common stock as quoted on the exchange on which it principally trades for the 30 day period ending two days prior to the closing date (the AP); plus

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

Fifteen investors agreed to exchange \$1,750,000 principal balance of the Secured Promissory Notes plus \$22,000 accrued interest for 2,373,505 shares of common stock and 188,126 warrants.

The Company accounted for this transaction in accordance with ASC 470, *Debt*, as an extinguishment of debt, whereby a gain or loss was calculated as the difference between the reacquisition price and net carrying value of the debt. The reacquisition price was determined as the sum of the fair value of the common stock and new warrants less the fair value of the original Warrants. The warrants were valued using the Black-Scholes fair value model. A loss of \$1,134,000 was recorded on the transaction based on a reacquisition price of \$2,688,000 and net carrying value, including interest, of \$1,554,000.

Series E Convertible Preferred Stock

On December 30, 2011, the Company issued 2,531,744 shares of Series E Convertible Preferred Stock at \$0.63 per share plus warrants to purchase 1,265,874 shares of the Company's common stock with an exercise price of \$0.63 per share. The warrants expire five years from the effective date. The total proceeds of \$1,595,000 were allocated between the Series E Convertible Preferred Stock and the related warrants based on the relative fair values of each instrument at the time of issuance. All Series E Convertible Preferred shareholders are directors of the Company.

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

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

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

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

Overview

Merriman Holdings, Inc. (formerly Merriman Curhan Ford Group, Inc.) is a financial services company that primarily provides investment banking, sales and trade execution, and equity research through our primary operating subsidiary, Merriman Capital, Inc. (“MC”).

MC is an investment bank and securities broker-dealer focused on fast-growing companies and institutional investors. 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 brokerage and trading services primarily to institutional investors, as well as investment banking and advisory services to our fast-growing corporate clients.

We are headquartered in San Francisco, with an additional office in New York, NY. As of December 31, 2011, we had 35 employees. MC is registered with the Securities and Exchange Commission (SEC) as a broker-dealer and is a member of Financial Industry Regulatory Authority (FINRA) and the Securities Investors Protection Corporation (SIPC).

Executive Summary

Our total revenues decreased 28% in 2011 to \$21,949,000, primarily due to decreases in our investment banking and principal transaction revenues, resulting in a 48% increase in our net loss. Our net cash used in operating activities increased by approximately \$2,900,000 primarily due to reduction in commission and bonus payables and accrued liabilities.

Commissions – Commission revenue from institutional brokerage business decreased by 10% to \$13,411,000 in 2011 from \$14,938,000 in 2010. The decrease was primarily due to the fact that we had fewer producers in 2011. The brokerage business continues to face increasing challenges, including the proliferation of electronic communication networks which have reduced commission rates and profitability in the brokerage industry. Many large investment banks have responded to lower margins within their equity brokerage divisions by reducing research coverage, particularly for smaller companies, consolidating sales and trading services, and reducing headcount of sales and trading professionals.

Principal Transactions – Principal transaction revenue amounted to a loss of \$777,000 in 2011, a 144% decrease as compared to a gain of \$1,785,000 in 2010 primarily due to market volatility. Principal transaction revenue consists of customer principal trades, profits from our market making and proprietary trading activities, and unrealized gain/(loss) on trading inventory and securities received in connection with certain investment banking transactions.

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

Investment Banking – Our investment banking revenues, including Riverbank's, decreased 37% to \$8,440,000 in 2011 from \$13,413,000 in 2010 consisting of a decrease of \$8,143,000 or 61% in investment banking revenues, partially offset by an increase in Riverbank's revenues of \$3,199,000. Decrease in investment banking revenues was primarily due to the decrease in number of deals closed. The number of large deals (over \$250,000 in fees), excluding Riverbank's, closed in 2011 was 7 versus 15 in 2010.

Other Revenues – During 2007, MC began offering services to sponsor companies on the Domestic and International OTCQX markets. This offering has been designed to enable domestic and non-U.S. companies to obtain greater exposure to U.S. institutional investors without the expense and regulatory burdens of listing on traditional U.S. exchanges. The Domestic and International OTCQX market tiers do not require full SEC registration or Sarbanes Oxley compliance. Listing on the market requires the sponsorship of a qualified investment bank called a Designated Advisor for Disclosure (DAD) for domestic companies or a Principal American Liaison (PAL) for non-U.S.

companies. MC was the first U.S. investment bank to achieve DAD and PAL designations. Revenues earned from these activities increased 65% to \$876,000 in 2011 from \$531,000 in 2010 primarily due to increase in the number of clients, 29 in 2011 versus 13 in 2010.

Employees –During 2011, our headcount was reduced in an effort to eliminate certain unprofitable revenue activities. At December 31, 2011 and 2010, the Company had 35 and 77 employees, respectively.

Business Developments – We continue to invest in business areas that we believe will increase the awareness of our franchise and contribute to future revenue opportunities such as hosting investor conferences, introducing management teams of fast-growing companies to institutional investors, marketing, and other business development activities. We continue to implement cost cutting measures in 2011. We expect significant improvements in our operating results to be primarily driven by increases in our various revenue sources.

Results of Operations

The following table sets forth the results of operations for the years ended December 31, 2011 and 2010:

| | 2011 | 2010 |
|---|----------------|----------------|
| Revenues: | | |
| Commissions | \$13,411,312 | \$14,937,938 |
| Principal transactions | (777,495) | 1,784,868 |
| Investment banking | 8,439,569 | 13,412,832 |
| Other revenues | 875,894 | 530,673 |
| Total revenues | 21,949,280 | 30,666,311 |
| Operating expenses: | | |
| Compensation and benefits | 17,164,221 | 19,078,084 |
| Stock-based compensation | 725,179 | 1,636,100 |
| Brokerage and clearing fees | 1,395,820 | 1,483,436 |
| Professional services | 1,359,004 | 1,404,195 |
| Occupancy and equipment | 1,912,617 | 1,910,553 |
| Communications and technology | 1,954,384 | 2,006,615 |
| Depreciation and amortization | 125,726 | 401,346 |
| Travel and business development | 894,959 | 1,226,378 |
| Legal services and litigation settlement expense | 710,841 | 3,410,914 |
| Cost of underwriting capital | 97,625 | 1,068,520 |
| Other | 1,898,884 | 2,351,864 |
| Total operating expenses | 28,239,260 | 35,978,005 |
| Operating loss | (6,289,980) | (5,311,694) |
| Other income | 51,601 | 25,418 |
| Interest income | 6,249 | 13,576 |
| Interest expense | (378,239) | (84,793) |
| Amortization of debt discount | (93,269) | (81,035) |
| Loss on early extinguishment of debt | (1,183,917) | - |
| Loss from continuing operations before income taxes | (7,887,555) | (5,438,528) |
| Income tax benefit | (6,107) | 5,005 |
| Loss from continuing operations | (7,893,662) | (5,433,523) |
| Income from discontinued operations | - | 95,104 |
| Net loss | \$(7,893,662) | \$(5,338,419) |

| | | |
|--|-----------------|-----------------|
| Net loss attributable to common shareholders | \$ (8,384,996) | \$ (5,929,544) |
|--|-----------------|-----------------|

Our total revenues in 2011 decreased by \$8,717,000 or 28%, from 2010. Of the total decrease in revenues,

\$8,143,000 or 61% was due to investment banking, partially offset by \$3,199,000 Riverbank's revenues for a net decrease of \$4,973,000 or 37%. Other contributing factors were a decrease in commission revenue of \$1,527,000 or 10% and a decrease in principal revenue of \$2,562,000 or 143%, partially offset by an increase in OTCQX revenue of \$345,000 or 65%.

Investment Banking Revenue

Our investment banking activity includes the following:

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

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

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

| | 2011 | 2010 |
|-------------------------------------|---------------|---------------|
| Revenue: | | |
| Capital raising | \$6,580,948 | \$12,596,123 |
| Financial advisory | 1,858,621 | 816,709 |
| Total investment banking revenue | \$8,439,569 | \$13,412,832 |
| Transaction Volumes: | | |
| Public offerings: | | |
| Capital underwritten participations | \$356,964,000 | \$780,800,000 |
| Number of transactions | 9 | 11 |
| Private placements: | | |
| Capital raised | \$652,300,000 | \$312,396,000 |
| Number of transactions | 12 | 13 |
| Financial advisory: | | |
| Transaction amounts | \$160,000,000 | \$43,029,000 |
| Number of transactions | 3 | 4 |

Our investment banking revenues, including Riverbank's, decreased 37% to \$8,440,000 in 2011 from \$13,413,000 in 2010 consisting of a decrease of \$8,143,000 or 61% in investment banking revenues, partially offset by an increase in Riverbank 's revenues of \$3,199,000. Decrease in investment banking revenues was primarily due to the decrease in number of deals closed. The number of large deals (over \$250,000 in fees), excluding Riverbank's, closed in 2011 was 7 versus 15 in 2010. As a percentage of total revenues, investment banking revenues, including Riverbank's, contributed 38% in 2011 comparing to 44% in 2010.

During the year ended December 31, 2010, there was one investment banking client that accounted for more than 10% of our total revenues. During 2011, no one single investment banking client accounted for more than 10% of our total revenues.

Commissions and Principal Transactions Revenue

Our broker-dealer activities include the following:

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

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

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

| | 2011 | 2010 |
|--|--------------|---------------|
| Revenue: | | |
| Commissions on institutional equities | \$13,411,312 | \$14,937,938 |
| Principal transactions: | | |
| Customer principal transactions, proprietary trading and market making | \$188,559 | \$760,000 |
| Investment portfolio | (966,054) |) 1,024,867 |
| Total principal transactions revenue | \$(777,495) |) \$1,784,867 |

Transaction Volumes:

Number of shares traded

538,327,146

676,504,648

Commissions amounted to \$13,411,000 or 61% of our revenue in 2011, representing a 10% decrease from that in 2010. The decrease was primarily due to the fact that we had fewer producers in 2011.

Principal transaction revenue amounted to a loss of \$777,000 in 2011, a 144% decrease as compared to a gain of \$1,785,000 in 2010 primarily due to market volatility. Principal transaction revenue consists of customer principal trades, profits from our market making and proprietary trading activities, and unrealized gain/(loss) on trading inventory and securities received in connection with certain investment banking transactions.

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

For the year ended December 31, 2011, one customer accounted for more than 10% of total revenues. No one single customer accounted for more than 10% of total revenues for the year ended December 31, 2010.

Compensation and Benefit Expenses

Compensation and benefits expenses represent the majority of our operating expenses and include commissions, base salaries, discretionary bonuses and stock-based compensation. Sales professionals are paid commissions based on their production. Historically, sales employees have not been eligible for discretionary bonuses. Investment banking, research and support staff and executives are paid base salaries and may participate in the discretionary bonus plans. The bonus pool is funded based on a number of criteria including revenue production, profitability and other key metrics. However, the total bonus pool is evaluated by management and the Board of Directors and can be adjusted at their discretion.

The following table sets forth the major components of our compensation and benefits for the two years ended December 31, 2011 and 2010:

| | 2011 | 2010 |
|--|-------------|-------------|
| Incentive compensation and discretionary bonuses | \$9,871,572 | \$9,973,704 |
| Salaries and wages | 5,888,225 | 7,204,046 |
| Stock-based compensation | 725,179 | 1,636,100 |
| Payroll taxes, benefits and other | 1,404,424 | 1,900,334 |

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| | | | | |
|--|--------------|--------------|----|---|
| Total compensation and benefits | \$17,889,400 | \$20,714,184 | | |
| Total compensation and benefits as a percentage of revenue | 82 | % | 68 | % |
| Cash compensation and benefits as a percentage of revenue | 78 | % | 62 | % |

Total compensation and benefits decreased \$2,825,000 or 14% from 2010 to 2011, consisting of \$1,914,000 or 10% and \$911,000 or 56% decrease in cash compensation and benefits and stock-based compensation, respectively. The decrease in cash compensation and benefits was due to lower revenue and headcount reduction partially offset by separation costs. Our headcount went from 82 at December 31, 2009 to 77 at December 31, 2010 and further decreased to 35 at December 31, 2011. The decrease in stock-based compensation was primarily due to headcount reduction.

Total cash compensation and benefits as a percentage of revenue increased to 78% in 2011 from 62% in 2010 primarily due to separation costs. We continue to focus on decreasing the ratio of total cash compensation and benefits as a percentage of revenue and anticipate a lower metric in 2012.

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

One sales professional accounted for more than 10% of total revenue in 2011 and 2010.

Other Operating Expenses

Brokerage and clearing fees include trade processing fees paid to our clearing broker and execution fees paid to floor brokers and electronic communication networks. MC is a fully-disclosed broker-dealer and has contracted a third-party clearing firm to perform all of the trade clearance functions. The third-party clearing firm processes, settles trade transactions and maintains detailed customer records for MC. Security trades are executed by third-party broker-dealers and electronic trading systems. These fees directly correlate to commission revenue and brokerage transaction volume. Brokerage and clearing fees decreased \$88,000 or 6% from prior year as a result from lower commission revenue.

Professional services include audit, tax and various consulting fees which decreased \$45,000 or 3% from prior year.

Occupancy and equipment include rents and related costs of our office premises, equipment, software and leasehold improvements. Occupancy expense is largely fixed in nature while equipment expense can vary somewhat in relation to our business operations. Occupancy and equipment expenses remained flat form prior year due to contractual obligations.

Communications and technology includes market data, voice and internet service fees. The expenses remained fairly flat form prior year with a slight decrease of \$52,000 or 3%.

Depreciation and amortization relate to the depreciation of our fixed assets and amortization of leasehold improvements. Depreciation and amortization are mostly fixed in nature. The decrease of \$276,000 or 69% was due to the fact that many assets have become fully depreciated during 2011.

Travel and business development expenses include business development costs by our sales professionals, investment bankers and non-deal road show expenses. Non-deal road shows are meetings in which management teams of our corporate clients present directly to our institutional investors. The decrease of \$331,000 or 27% directly related to the decrease in number of banking deals closed and headcount reduction in 2011.

Legal services and litigation settlement expenses relate to our ongoing litigations. The decrease of \$2,700,000 or 79% from prior year was due to the fact that a number of litigations were settled in 2010.

Cost of underwriting capital directly relates to borrowed capital to underwrite investment banking deals as required by FINRA regulations.

The following expenses are included in other operating expenses for the two years ended December 31, 2011 and 2010:

| | 2011 | 2010 |
|---|-------------|-------------|
| Insurance | \$807,228 | \$658,778 |
| Regulatory printing & filing | 320,571 | 265,742 |
| Recruiting | 215,455 | 15,517 |
| Taxes - Other | 196,603 | 94,177 |
| Supplies | 69,336 | 100,284 |
| Public and investor relations | 58,171 | 207,304 |
| Provision for uncollectible accounts receivable | 53,332 | 448,022 |
| Dues and subscriptions | 50,490 | 89,481 |
| Company events | - | 219,946 |
| Other | 127,698 | 252,613 |
| Total other operating expenses | \$1,898,884 | \$2,351,864 |

Other operating expenses decreased \$440,000 or 19% as a result of: 1) a decrease of \$150,000 in public and investor relations due to the fact that a marketing and rebranding campaign was launched in 2010, 2) a decrease of \$395,000 in provision for uncollectible accounts receivable due to the write-off of certain investment banking receivables, 3) a decrease of \$220,000 in company events due to our annual investor conference being re-scheduled to 2012, and 4) a decrease of \$125,000 in other due to the write-off of reimbursable expenses from certain investment banking deals, partially offset by 5) an increase of \$148,000 in insurance due to claim experience in prior year, 6) an increase of \$200,000 in recruiting due to the hiring of a sales team in the last quarter of 2011, and 7) an increase of \$102,000 in taxes due to an unanticipated prior commercial rent tax assessment.

Interest Income

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

Amortization of Debt Discounts

In 2011 and 2010, we issued various debts with stocks or warrants, for which total proceeds were allocated to individual instruments based on the relative fair values of each instrument at the time of issuance. The value of the stocks or warrants was recorded as discount on the debt and amortized over the term of the respective debt using the effective interest method.

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

Income Tax Expense

We recorded an income tax expense and benefit of \$6,100 and \$5,000 in 2011 and 2010, respectively, resulting in a zero effective tax rate for both years. The effective tax rate differs from the statutory rate primarily due to the net operating loss carry-forwards offset by a 100% valuation allowance resulting in a tax provision equal to our expected current benefit for the year.

Historically and currently, we have recorded a 100% valuation allowance on our deferred tax assets, the significant component of which relates to net operating loss tax carry-forwards. Management continually evaluates the realizability of its deferred tax assets based upon evidence available. Based on the evidence available at this time, we conclude that it is not "more likely than not" that we will be able to realize the benefit of our deferred tax assets in the near future.

As a result of the implementation of Accounting Standards Codification (ASC) 740, the Company recognized no adjustment in the liability for unrecognized income tax benefits and no corresponding change in retained earnings. The Company does not have any material accrued interest or penalties associated with any unrecognized tax benefits. The Company does not believe it is reasonably possible that the unrecognized tax benefits will significantly change

within the next twelve months.

Discontinued Operations

Panel Intelligence, LLC

On April 17, 2007, Merriman Holdings, Inc. acquired 100% of the outstanding common shares of MedPanel Corp. which was subsequently renamed Panel Intelligence, LLC (“Panel”) and operated as a subsidiary of the Company. As a result of the acquisition, the Company began providing independent market data and information to clients in the biotechnology, pharmaceutical, medical device, and financial industries by leveraging Panel’s proprietary methodology and vast network of medical experts.

In December 2008, the Company determined that the sale of Panel would reduce investments required to develop Panel’s business. Its sale would also generate capital necessary for its core business. The Company determined that the plan of sale criteria in ASC 360, *Property, Plant and Equipment*, had been met. As a result, the revenue and expenses of Panel have been reclassified and included in discontinued operations in the consolidated statements of operations. Accordingly, the carrying value of the Panel assets was adjusted to their fair value less costs to sell in 2008. In January 2009, the Company sold Panel to Panel Intelligence, LLC (Newco) for \$1,000,000 and shares of the Company’s common stock in the amount of \$100,000.

For the year ended December 31, 2010, income from discontinued operations related to Panel was \$33,000.

Institutional Cash Distributors

On January 16, 2009, the Company entered into an agreement to sell the assets of ICD, a division of MC, for \$2,000,000 to a group of investors who were also its employees in order to raise capital. The assets sold included MC's rights in trademark, copyright, and other intellectual property used in the business, customer lists, marketing materials, and books and records, which did not have any carrying values. In accordance ASC 605, "Revenue Recognition", the Company recognized \$2,000,000 as other income in the consolidated statement of operations during the year ended December 31, 2009. In the second quarter of 2010, ICD, LLC, formed by the new group of investors, started supporting its operations fully and as such, did not require significant assistance from MC. The Company terminated all employees supporting ICD business, and did not have significant involvement going forward. The Company determined that the criteria for discontinued operations under the guidance of ASC 205, had been met as of June 30, 2010. As a result, the revenue and expenses of ICD have been included in discontinued operations in the consolidated statements of operations.

For the year ended December 31, 2010, income from discontinued operations related to ICD was \$62,000.

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

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

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

Fair Value of Financial Instruments

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

Fair Value Measurement—Definition and Hierarchy

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

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

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

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

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

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

Stock-Based Compensation

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

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

Income Taxes

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

Liquidity and Capital Resources

MC is a broker-dealer subject to Rule 15c3-1 of the Securities Exchange Act of 1934, which specifies uniform minimum net capital requirements, as defined, for their registrants. As of December 31, 2011, MC had regulatory net capital, as defined, of \$1,894,000, which exceeded the amount required by \$1,644,000.

The Company incurred substantial losses in 2011 and 2010. The Company had net losses attributable to common shareholders of \$8,385,000 and \$5,930,000 in 2011 and 2010, respectively, and negative operating cash flows of \$4,467,000 and \$1,525,000 in 2011 and 2010, respectively. As of December 31, 2011, the Company had an accumulated deficit of \$138,048,000. While the Company believes its current funds will be sufficient to enable it to meet its planned expenditures through at least January 1, 2013, if anticipated operating results are not achieved, management has the intent and believes it has the ability to delay or reduce expenditures. Failure to generate sufficient cash flows from operations, raise additional capital, or reduce certain discretionary spending could have a material adverse effect on the Company's ability to achieve its intended business objectives.

In the fourth quarter, the Company decided to shift its strategic focus away from the traditional broker dealer model of research and institutional sales toward a capital markets advisory and platform revenue model. This represents a more scalable, predictable and profitable model in today's environment. Management believes this business model will result in reduced fixed operating costs and higher operating profit margin. Given the Company's track record in investment banking and institutional sales, we will continue to assist firms raise the capital needed to fuel innovation.

Commitments

The following is a table summarizing our significant commitments as of December 31, 2011, consisting of non-cancellable payments under operating agreements and leases and capital leases with initial or remaining terms in excess of one year.

| | Notes Payable | Operating Commitments | Operating Leases | Total |
|-------------------|------------------|--------------------------|---------------------|--------------|
| 2012 | \$ 175,063 | \$ 1,467,813 | \$ 1,774,002 | \$ 3,416,878 |
| 2013 | 1,381,580 | 360,520 | 1,327,563 | 3,069,663 |
| 2014 | 967,907 | 65,000 | - | 1,032,907 |
| Total commitments | 2,524,550 | 1,893,333 | 3,101,565 | 7,519,448 |
| Interest | (604,550) | - | - | (604,550) |
| Net commitments | \$ 1,920,000 | \$ 1,893,333 | \$ 3,101,565 | \$ 6,914,898 |

Off-Balance Sheet Arrangements

We were not a party to any off-balance sheet arrangements during the two years ended December 31, 2011. In particular, we do not have any interest in so-called limited purpose entities, which include special purpose entities and structured finance entities.

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-05, “*Comprehensive Income (Topic 220): Presentation of Comprehensive Income*,” that will require a company to present components of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. There are no changes to the components that are recognized in net income or other comprehensive income under current GAAP. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with early adoption permitted. The Company does not expect the adoption of ASU 2011-05 to have a material effect on its consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, “*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*.” The amendments in this ASU generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U. S. GAAP and International Financial Reporting Standards (“IFRS”). The amendments are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. Early application is not permitted. The Company does not expect the adoption of ASU 2011-04 to have a material impact on its consolidated financial statements.

Related Party Transactions

Sale of Convertible Notes Receivable

On December 30, 2010, the Company sold its convertible note receivable from a corporate issuer, Digital Display Networks, Inc., with a face value of \$50,000, including any accrued interest, to Peter Coleman, the Company's previous Chief Financial Officer and Ronald L. Chez, its Co-Chairman of the Board of Directors, for a total selling price of \$50,000. The convertible note receivable accrued interest at an annual rate of 12%. As of December 31, 2010, the convertible note receivable was no longer included in the Company's consolidated statement of financial condition. In relation to the sale, the Company incurred an immaterial loss, which is included in other income, net in the Company's consolidated statement of operations.

Temporary Subordinated Borrowings

On January 31, 2011, the Company borrowed \$2,800,000 from Ronald L. Chez, its Co-Chairman of the Board of Directors. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. The Company incurred \$56,000 in loan fees, which amount was included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and related fees were paid in full on February 7, 2011.

On September 28, 2010, the Company borrowed \$4,000,000 from DGB Investment, Inc. (DGB). DGB is controlled by Douglas G. Bergeron, who was a previous member of the Board of Directors. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. Interest on the loan was \$60,000 for each 10-day period. For the year ended December 31, 2010, the Company incurred of \$60,000 in loan fees, which amount was included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and related fees were paid in full in October 2010.

On April 23, 2010, the Company borrowed \$1,000,000 from DGB and \$6,000,000 from Ronald L. Chez. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. The Company incurred \$230,000 in loan fees, which amount was included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and related fees were paid in full in May 2010.

On January 20, 2010, the Company borrowed \$11,000,000 from DGB and the Bergeron Family Trust, both controlled by Douglas G. Bergeron. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1

of the Securities Exchange Act of 1934. The Company incurred \$731,000 in loan fees, which amount was included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and related fees were paid in full in February 2010.

Subordinated Notes Payable to Related Parties

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

The total proceeds of \$1,000,000 raised in the transaction above were accounted for as an issuance of debt with stock. The total proceeds of \$1,000,000 have been allocated to these individual instruments based on the relative fair values of each instrument. Based on such allocation method, the value of the stocks issued in connection with the Subordinated Notes was \$206,000, which was recorded as a discount on the debt and applied against the Subordinated Notes. The Company paid off \$720,000 of the Secured Promissory Note on December 22, 2010. As of December 31, 2010, the Subordinated Notes of \$809,000, net of \$191,000 discount, remained outstanding and is included in notes payable to related parties in the Company's consolidated statements of financial condition.

As of December 31, 2011, \$830,000 of the Subordinated Notes, net of \$120,000 discount, remain outstanding and is included in notes payable to related parties in the Company's consolidated statements of financial condition. The remaining Subordinated Notes held by parties no longer related to the Company of \$44,000, net of \$6,000 discount, are included in notes payable in the Company's consolidated statements of financial condition. The discount on the note is amortized over the term of the loan using the effective interest method. For the year ended December 31, 2011, the Company incurred \$140,000 in interest on the Subordinated Notes. Total interest of \$105,000 remains outstanding as of December 31, 2011 and is included in accrued expenses and other in the consolidated statements of financial condition.

2010 Chez Secured Promissory Note

On November 17, 2010, the Company borrowed \$1,050,000 from Ronald L. Chez, its Co-Chairman of the Board of Directors, pursuant to a secured promissory note (2010 Chez Secured Promissory Note). The 2010 Chez Secured Promissory Note is secured by certain accounts receivable which were purchased by the Company from MC with the proceeds of the transaction being used for such purchase. The 2010 Chez Secured Promissory Note is due and payable in two tranches as the accounts receivable became due, with \$950,000 due on January 19, 2011 and \$100,000 due on February 28, 2011. It provides for interest of 29.2% per annum and additional consideration comprising two components (i) 50,000 shares of the Company's Series D Preferred Stock (which is convertible into 7,142 shares of our Common Stock); and (ii) a cash fee of \$15,000. The proceeds were used to supplement underwriting capacity for

MC. As of December 31, 2010, the 2010 Chez Secured Promissory Note of \$330,000 remained outstanding and is included in notes payable to related parties in the Company's consolidated statements of financial condition.

On January 21, 2011, the 2010 Chez Secured Promissory Note was amended to extend the maturity date to April 15, 2011 and change the 50,000 Series D Convertible Preferred Stock consideration to cash compensation of \$21,000. For the year ended December 31, 2011, the Company incurred \$42,000 in fees, composed of \$15,000 and \$21,000 in cash fees, and \$6,000 of interest at 29.2% per annum. On March 24, 2011, all principal and related fees were paid and no balance remains outstanding.

2011 Chez Secured Promissory Note

On April 7, 2011, Ronald L. Chez, the Company's Co-Chairman of the Board of Directors, invested \$330,000 in a three year secured promissory note (2011 Chez Secured Promissory Note) at an interest rate of six percent (6%) per annum payable quarterly. This note is secured by a security interest in and right of setoff against all of such the Company's right, title and interest in, to all of the capital stock of Merriman Capital Inc., together with all proceeds, rents, profits and returns of and from any of the foregoing. Also, beginning on the date which is one year from the issuance date, if there is an equity financing of the Company resulting in gross proceeds of at least \$15,000,000 in new money, holders shall have the option to put 50% of Secured Promissory Notes originally purchased back to the Company, for an amount equal to the principal plus accrued but unpaid interest, on 30 days written notice.

On November 16, 2011, the 2011 Chez Secured Promissory Note plus accrued interest of \$3,000 was exchanged for 445,299 shares of common stock of the Company calculated as (i) the total amount of principal plus accrued but unpaid interest divided by (ii) an amount equal to 80% of the average closing price per share of common stock as quoted on the exchange on which it principally trades for the 30 day period ending two days prior to the closing date.

The Company accounted for this transaction in accordance with ASC 470, *Debt*, as an extinguishment of debt, whereby a gain or loss was calculated as the difference between the reacquisition price and net carrying value of the debt. The reacquisition price was determined as the sum of the fair value of the common stock and new warrants. The warrants were valued using the Black-Scholes fair value model. A loss of \$157,000 was recorded on the transaction based on a reacquisition price of \$490,000 and net carrying value, including interest, of \$333,000.

For the year ended December 31, 2011, the Company incurred \$12,000 in interest in relation to this note.

Secured Promissory Notes

In April 2011, the Company raised \$2,770,000 from 24 investors, of which 11 were directors, officers, consultants or employees of the Company at the time of issuance, pursuant to a series of secured promissory notes (Secured Promissory Notes). The Secured Promissory Notes are for a term of three years and provide for interest of ten percent (10.0%) per annum to be paid in cash quarterly. Additional consideration was paid to the lenders at closing comprising warrants to purchase shares of the common stock of the Company at a price per share equal to 85% of the Company's stock price at the closing date (the Warrants). 86 Warrants were issued for each \$1,000 invested. A total of 238,220 Warrants were issued. The Warrants issued to directors, officers, consultants and employees (Insider Warrants) of the Company provide that the Insider Warrants will not be exercisable unless first approved by the Company's stockholders. These notes are secured by a security interest in and right of setoff against all of such the Company's right, title and interest in, to all of the capital stock of MC, together with all proceeds, rents, profits and returns of and from any of the foregoing. Also, beginning on the date which is one year from the issuance date, if there is an equity financing of the Company resulting in gross proceeds of at least \$15,000,000 in new money, holders shall have the option to put 50% of Secured Promissory Notes originally purchased back to the Company, for an amount equal to the principal plus accrued but unpaid interest, on 30 days written notice. The Secured Promissory Notes were issued in two tranches, one closed on April 7, 2011 for \$2,470,000 and the other closed on April 21, 2011 for \$300,000.

The total proceeds raised in the transaction above were accounted for as an issuance of debt with warrants. The total proceeds of \$2,770,000 have been allocated to these 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 Secured Promissory Notes received was \$420,000, which was recorded as a discount on the debt and applied against the Secured Promissory Notes.

On October 11, 2011, the Company repurchased the \$100,000 Secured Promissory Note from a former officer and director in connection with his separation from the Company.

On November 16, 2011, the Company entered into exchange agreements with certain Secured Promissory Note investors whereby the investors agree to exchange the Secured Promissory Notes and Warrants for shares of common stock and new warrants to purchase shares of common stock of the Company as follows.

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

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

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

Fifteen investors agreed to exchange \$1,750,000 principal balance of the Secured Promissory Notes plus \$22,000 accrued interest for 2,373,505 shares of common stock and 188,126 warrants.

The Company accounted for this transaction in accordance with ASC 470, *Debt*, as an extinguishment of debt, whereby a gain or loss was calculated as the difference between the reacquisition price and net carrying value of the debt. The reacquisition price was determined as the sum of the fair value of the common stock and new warrants less the fair value of the original Warrants. The warrants were valued using the Black-Scholes fair value model. A loss of \$1,134,000 was recorded on the transaction based on a reacquisition price of \$2,688,000 and net carrying value, including interest, of \$1,554,000.

As of December 31, 2011, \$636,000 of the Secured Promissory Notes, net of \$84,000 discount, remain outstanding and are included in notes payable in the Company's consolidated statements of financial condition. The remaining Secured Promissory Notes issued to Insiders of \$176,000, net of \$24,000 discount, are included in notes payable to related parties in the Company's consolidated statements of financial condition.

For the year ended December 31, 2011, the Company incurred \$178,000 in interest in relation to these notes. As of December 31, 2011, \$23,000 of interest remains outstanding and is included in accrued expenses and other in the consolidated statements of financial condition.

Series E Convertible Preferred Stock

On December 30, 2011, the Company issued 2,531,744 shares of Series E Convertible Preferred Stock at \$0.63 per share plus warrants to purchase 1,265,874 shares of the Company's common stock with an exercise price of \$0.63 per share. The warrants expire five years from the effective date. The total proceeds of \$1,595,000 were allocated between the Series E Convertible Preferred Stock and the related warrants based on the relative fair values of each instrument at the time of issuance. All Series E Convertible Preferred shareholders are directors of the Company.

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

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

Series D Convertible Preferred Stock

Three of the investors in the Series D Convertible Preferred Stock transaction, Messrs. Andrew Arno, Douglas Bergeron, and Ronald Chez, have since joined the Company's Board of Directors. In December 2010 and January 2011, Douglas Bergeron and Andrew Arno left as members of the Board of Directors, respectively. In addition, the Company's CEO and former CFO, along with 11 other executives and senior managers of MC, were also investors in the Series D Convertible Preferred Stock transaction. Finally, all five members of the Company's Board of Directors prior to the transaction were investors in the Series D Convertible Preferred Stock transaction.

Board of Directors Compensation

In 2009, the Company formed a Strategic Advisory Committee of the Board of Directors chaired by Ronald L. Chez, the lead investor in the Series D Convertible Preferred Stock strategic transaction. During the first year, the Chairman of the Committee was compensated with five-year warrants to purchase 42,857 shares of the Company's common stock at \$4.55 to be issued pro rata on a monthly basis from September 2009 to September 2010. No other compensation was provided for Mr. Chez's service on the Committee. For the year ended December 31, 2010, the Company issued 29,525 warrants to Mr. Chez and recorded stock-based compensation expense of \$103,000, respectively, based on the calculated fair value of the warrants using the Black-Scholes option valuation model.

On January 21, 2011, the Company entered into an amended agreement with Mr. Chez restricting the exercise of these warrants without prior shareholders' approval. The Company intends to obtain shareholders' approval for these warrants in the next shareholders' meeting.

Due to the modification of the terms of the warrants, the Company recorded a decrease in the stock-based compensation expense of \$176,000 for the year ended December 31, 2011. As of December 31, 2011, the Company recorded accrued expenses of \$11,000 as the Company's best estimate of the services performed by Mr. Chez as the Chairman of the Strategic Advisory Committee until the warrants are approved by the shareholders.

Other Related Party Transactions

From time to time, officers and employees of the Company may invest in private placements which the Company arranges and for which the Company charges investment banking fees.

The Company's employees may, at times, provide certain services and supporting functions to its affiliate entities. The Company is not reimbursed for any costs related to providing those services.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

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

Equity Price Risk

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

Interest Rate Risk

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

Foreign Currency Risk

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

Item 8. Financial Statements and Supplementary Data

The following financial statements are included in this report:

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

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Merriman Holdings, Inc.

We have audited the accompanying consolidated statements of financial condition of Merriman Holdings, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2011. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years ended December 31, 2011 and 2010 in conformity with accounting principles generally accepted in the United States of America.

/s/ Burr Pilger Mayer, Inc.

San Francisco, California
March 29, 2012

MERRIMAN HOLDINGS, INC.**CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Year Ended December 31, | |
|---|-------------------------|----------------|
| | 2011 | 2010 |
| Revenues: | | |
| Commissions | \$13,411,312 | \$14,937,938 |
| Principal transactions | (777,495) | 1,784,868 |
| Investment banking | 8,439,569 | 13,412,832 |
| Other | 875,894 | 530,673 |
| Total revenues | 21,949,280 | 30,666,311 |
| Operating expenses: | | |
| Compensation and benefits | 17,164,221 | 19,078,084 |
| Stock-based compensation | 725,179 | 1,636,100 |
| Brokerage and clearing fees | 1,395,820 | 1,483,436 |
| Professional services | 1,359,004 | 1,404,195 |
| Occupancy and equipment | 1,912,617 | 1,910,553 |
| Communication and technology | 1,954,384 | 2,006,615 |
| Depreciation and amortization | 125,726 | 401,346 |
| Travel and entertainment | 894,959 | 1,226,378 |
| Legal services and litigation settlement expense | 710,841 | 3,410,914 |
| Cost of underwriting capital | 97,625 | 1,068,520 |
| Other | 1,898,884 | 2,351,864 |
| Total operating expenses | 28,239,260 | 35,978,005 |
| Operating loss | (6,289,980) | (5,311,694) |
| Other income | 51,601 | 25,418 |
| Interest income | 6,249 | 13,576 |
| Interest expense | (378,239) | (84,793) |
| Amortization of debt discount | (93,269) | (81,035) |
| Loss on early extinguishment of debt | (1,183,917) | - |
| Loss from continuing operations before income taxes | (7,887,555) | (5,438,528) |
| Income tax (expense) benefit | (6,107) | 5,005 |
| Loss from continuing operations | (7,893,662) | (5,433,523) |
| Income from discontinued operations | - | 95,104 |
| Net loss | (7,893,662) | (5,338,419) |
| Preferred stock cash dividend | (491,334) | (591,125) |
| Net loss attributable to common shareholders | \$(8,384,996) | \$(5,929,544) |
| Basic and diluted net loss per share: | | |
| Loss from continuing operations | \$(2.70) | \$(2.71) |
| Income from discontinued operations | - | 0.05 |
| Net loss | \$(2.70) | \$(2.66) |
| Net loss attributable to common shareholders | \$(2.87) | \$(2.96) |

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Weighted average number of common shares:

| | | |
|-------------------|-----------|-----------|
| Basic and diluted | 2,919,316 | 2,002,305 |
|-------------------|-----------|-----------|

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

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

| | As of December 31, | |
|--|--------------------|---------------------|
| | 2011 | 2010 |
| ASSETS | | |
| Cash and cash equivalents | \$4,003,512 | \$4,898,093 |
| Securities owned: | | |
| Marketable, at fair value | 2,136,352 | 2,401,722 |
| Non-marketable, at estimated fair value | 347,218 | 2,741,452 |
| Restricted cash | 680,028 | 965,000 |
| Due from clearing broker | 124,805 | 34,072 |
| Accounts receivable, net | 359,900 | 1,574,644 |
| Prepaid expenses and other assets | 506,708 | 313,537 |
| Equipment and fixtures, net | 30,537 | 136,706 |
| Total assets | \$8,189,060 | \$13,065,226 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Accounts payable | \$246,040 | \$361,237 |
| Commissions and bonus payable | 986,722 | 3,240,021 |
| Accrued expenses and other | 1,757,342 | 2,514,020 |
| Deferred rent | 236,996 | 319,274 |
| Deferred revenue | 688,074 | 175,712 |
| Capital lease obligation | - | 120,453 |
| Notes payable | 679,454 | 299,997 |
| Notes payable to related parties | 1,006,765 | 1,098,840 |
| Total liabilities | 5,601,393 | 8,129,554 |
| Shareholders' equity: | | |
| Convertible Preferred stock, Series A—\$0.0001 par value; 2,000,000 shares authorized; 2,000,000 shares issued and 0 shares outstanding as of December 31, 2011 and 2010; aggregate liquidation preference of \$0 | - | - |
| Convertible Preferred stock, Series B—\$0.0001 par value; 12,500,000 shares authorized; 8,750,000 shares issued and 0 shares outstanding as of December 31, 2011 and 2010; aggregate liquidation preference of \$0 | - | - |
| Convertible Preferred stock, Series C—\$0.0001 par value; 14,200,000 shares authorized; 11,800,000 shares issued and 0 shares outstanding as of December 31, | - | - |

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| | | |
|---|---------------|---------------|
| 2011 and 2010; aggregate liquidation preference of \$0 | | |
| Convertible Preferred stock, Series D—\$0.0001 par value; 24,000,000 shares authorized, 23,720,916 and 23,720,916 shares issued and 19,563,206 and 22,058,128 shares outstanding as of December 31, 2011 and December 31, 2010, respectively; aggregate liquidation preference of \$8,454,239 prior to conversion, and pari passu with common stock on conversion | 1,957 | 2,206 |
| Convertible Preferred stock, Series E—\$0.0001 par value; 5,000,000 shares authorized, 2,531,744 and 0 shares issued and 2,531,744 and 0 shares outstanding as of December 31, 2011 and December 31, 2010, respectively; aggregate liquidation preference of \$1,594,999 prior to conversion, and pari passu with common stock on conversion | 253 | - |
| Common stock, \$0.0001 par value; 300,000,000 shares authorized; 6,183,815 and 2,384,499 shares issued and 6,154,379 and 2,355,063 shares outstanding as of December 31, 2011 and 2010, respectively | 619 | 239 |
| Common stock payable | - | 461,675 |
| Additional paid-in capital | 140,857,954 | 134,851,006 |
| Treasury stock | (225,613) | (225,613) |
| Accumulated deficit | (138,047,503) | (130,153,841) |
| Total shareholders' equity | 2,587,667 | 4,935,672 |
| Total liabilities and shareholders' equity | \$8,189,060 | \$13,065,226 |

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

MERRIMAN HOLDINGS, INC.**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

| | Preferred Stock | | Common Stock | | Common Stock Payable | | Treasury Stock | | Additional | Ac |
|--|-----------------|----------|--------------|--------|----------------------|-----------|----------------|-------------|----------------|-----|
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | Capital | De |
| Balance at January 1, 2010 | 23,720,916 | \$ 2,372 | 1,855,444 | \$ 183 | - | \$- | (29,436) | \$(225,613) | \$ 133,055,308 | \$(|
| Net loss | - | - | - | - | - | - | - | - | - | (5 |
| Conversion of Series D Convertible Preferred Stock to common stock | (1,662,788) | (166) | 237,538 | 25 | - | - | - | - | 141 | - |
| Common stock payable for legal settlement | - | - | - | - | 200,000 | 606,000 | - | - | - | - |
| Issuance of equity for legal settlement | - | - | 47,632 | 5 | (47,632) | (144,325) | - | - | 401,690 | - |
| Preferred stock dividend | - | - | - | - | - | - | - | - | (591,125) |) |
| Exercise of common stock options | - | - | 15,428 | 2 | - | - | - | - | 36,718 | - |
| Issuance of restricted common stock, net of cancellations | - | - | 73,972 | 8 | - | - | - | - | 233,599 | - |
| Issuance of warrants to board member | - | - | - | - | - | - | - | - | 103,068 | - |
| Issuance of common stock in connection | - | - | 154,485 | 16 | - | - | - | - | 312,182 | - |

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| | | | | | | | | | | |
|--|-------------|-------|-----------|-----|-----------|-----------|----------|-----------|-------------|---|
| with issuance of debt | | | | | | | | | | |
| Stock-based compensation | - | - | - | - | - | - | - | - | 1,299,425 | - |
| Balance at December 31, 2010 | 22,058,128 | 2,206 | 2,384,499 | 239 | 152,368 | 461,675 | (29,436) | (225,613) | 134,851,006 | (|
| Net loss | - | - | - | - | - | - | - | - | - | (|
| Issuance of Series E Convertible Preferred Stock | 2,531,744 | 253 | - | - | - | - | - | - | 1,249,747 | - |
| Issuance of warrants in connection with Series E Convertible Preferred Stock | - | - | - | - | - | - | - | - | 345,000 | - |
| Conversion of Series D Convertible Preferred Stock to common stock | (2,494,922) | (249) | 356,415 | 36 | - | - | - | - | 213 | - |
| Issuance of equity for legal settlement | - | - | 152,368 | 15 | (152,368) | (461,675) | - | - | 461,660 | - |
| Preferred stock dividend | - | - | - | - | - | - | - | - | (491,334) |) |
| Issuance of restricted common stock, net of cancellations | - | - | 67,328 | 7 | - | - | - | - | 71,068 | - |
| Return of common stock issued in connection with debt | - | - | (54,817) | (5) | | | | | (105,759) |) |
| Issuance of warrants in connection with issuance of debt | - | - | - | - | - | - | - | - | 419,637 | - |
| Issuance of common stock | - | - | 3,278,022 | 327 | - | - | - | - | 3,311,597 | - |

| | | | | | | | | | | | |
|--|------------|----------|-----------|-------|---|-----|----------|-------------|---------------|---------|---|
| in connection with debt conversion Issuance of warrants in connection with debt conversion Stock-based compensation | - | - | - | - | - | - | - | - | - | 102,036 | - |
| Balance at December 31, 2011 | 22,094,950 | \$ 2,210 | 6,183,815 | \$619 | - | \$- | (29,436) | \$(225,613) | \$140,857,954 | \$(| |

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

MERRIMAN HOLDINGS, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Year Ended December 31, | |
|---|-------------------------|----------------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net loss | \$(7,893,662) | \$(5,338,419) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 125,726 | 401,346 |
| Stock-based compensation | 714,158 | 1,636,100 |
| Amortization of debt discount and debt issuance costs | 93,269 | 81,035 |
| Noncash legal settlement and professional fees | - | 606,000 |
| (Gain) loss on disposal of equipment and fixtures | 13,359 | (2,987) |
| Loss on early extinguishment of debt | 1,183,917 | - |
| Provision for uncollectible accounts receivable | 73,234 | 448,022 |
| Cashless Exercise | (296,285) | - |
| Securities received for services | (384,833) | (1,440,162) |
| Unrealized (gain) loss on securities owned | 1,984,023 | (1,229,675) |
| Changes in operating assets and liabilities: | | |
| Securities owned | 1,356,700 | 2,434,053 |
| Restricted cash | 284,972 | 107,086 |
| Due from clearing broker | (90,733) | 2,512,509 |
| Accounts receivable | 1,650,320 | (1,601,673) |
| Prepaid expenses and other assets | (213,074) | 488,409 |
| Accounts payable | (67,771) | 18,592 |
| Commissions and bonus payable | (2,253,298) | (893,903) |
| Accrued expenses and other | (747,475) | 249,025 |
| Net cash used in operating activities | (4,467,453) | (1,524,642) |
| Cash flows from investing activities: | | |
| Purchase of equipment and fixtures | (42,916) | (32,230) |
| Proceeds from sale of equipment and fixtures | 10,000 | 3,700 |
| Net cash used in investing activities | (32,916) | (28,530) |
| Cash flows from financing activities: | | |
| Proceeds from the exercise of stock options and warrants | - | 36,720 |
| Proceeds from debt issuance | 5,900,000 | 24,350,000 |
| Payment of debt | (3,230,000) | (22,720,000) |
| Issuance of preferred stock | 1,595,000 | - |
| Payment of preferred stock dividend | (538,759) | (594,700) |

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| | | |
|--|-------------|-------------|
| Debt service principal payments | (120,453) | (277,505) |
| Net cash provided by financing activities | 3,605,788 | 794,515 |
| Decreases in cash and cash equivalents | (894,581) | (758,657) |
| Cash and cash equivalents at beginning of year | 4,898,093 | 5,656,750 |
| Cash and cash equivalents at end of year | \$4,003,512 | \$4,898,093 |

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

MERRIMAN HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

| | Year Ended December 31, | |
|---|-------------------------|--------------|
| | 2011 | 2010 |
| Supplementary disclosure of cash flow information: | | |
| Cash paid during the year: | | |
| Interest and cost of underwriting capital | \$ 426,636 | \$ 1,073,874 |
| Income taxes | \$ 10,290 | \$ 35,000 |
| Noncash investing and financing activities: | | |
| Stocks and warrants issued in connection with legal settlement | \$ - | \$ 401,690 |
| Stocks issued in connection with issuance of debt | \$ 419,637 | \$ 312,198 |
| Cancellation of stock issued in connection with subordinated debt | \$ 105,759 | \$ - |
| Issuance of equity for extinguishment of debt | \$ 2,380,000 | \$ - |

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

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Merriman Holdings, Inc. and subsidiaries, formerly Merriman Curhan Ford Group, Inc. (the Company), is a financial services holding company that provides investment banking, capital markets services, corporate services, and investment banking through its primary operating subsidiary, Merriman Capital, Inc. (hereafter MC). MC is an investment bank and securities broker-dealer focused on fast-growing companies and institutional investors. MC is registered with the Securities and Exchange Commission (SEC) as a broker-dealer and is a member of the Financial Industry Regulatory Authority (FINRA) and Securities Investor Protection Corporation.

Institutional Cash Distributors (ICD) was a division of MC which brokers money market funds serving the short-term investing needs of corporate finance departments at companies throughout the United States and Europe. In January 2009, we sold the primary assets related to ICD operations to a group of investors which included some of our employees. To assist in the transition of operations to the new owners, we provided substantial services to ICD, including collecting its revenues. In the second quarter of 2010, ICD, LLC, formed by the new group of investors, started supporting its operations fully and as such, did not require significant assistance from MC. The Company terminated all employees supporting ICD business, and does not have any significant involvement on ICD. The Company determined that the criteria for discontinued operations under the guidance found in Accounting Standards Codification (ASC) Topic 205, *Discontinued Operations* (ASC 205), were met in 2010. As a result, the revenue and expenses of ICD have been included in discontinued operations in the consolidated statements of operations for the year ended December 31, 2010.

In January 2009, Merriman Holdings, Inc. sold its primary research business, Panel Intelligence, LLC (Panel), and has presented its results of operations as discontinued operations in its consolidated financial statements for the year ended December 31, 2010. Panel offered primary research services to biotechnology, pharmaceutical, medical device, clean technology and financial services companies.

MCF Asset Management, LLC managed absolute return investment products for institutional and high-net worth clients. In the fourth quarter of 2008, Merriman Holdings, Inc. decided to begin the process of liquidating the funds under management by MCF Asset Management, LLC. We no longer have, for all practical purposes, a subsidiary dedicated to asset management. As of December 31, 2010, all assets were effectively distributed to the investors.

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Merriman Holdings, Inc. is a Delaware corporation incorporated on May 6, 1987. The Company's common stock was listed on the American Stock Exchange in July 2000 and on the NASDAQ Stock Market in February 2008. Since November 2011, the Company's common stock was listed on the OTCQX, where it currently trades under the symbol "MERR." The Company's corporate office is located in San Francisco, CA.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business (continued)

Change in Company and Subsidiary Name

At the shareholders' annual meeting on August 10, 2010, the shareholders approved the adoption of an amendment to the Company's Amended Certificate of Incorporation changing the Company's name from Merriman Curhan Ford Group, Inc. to Merriman Holdings, Inc. In September 2010, the Company also changed the name of its subsidiary from Merriman Curhan Ford & Co. to Merriman Capital, Inc.

Reverse Stock Split

At the shareholders' annual meeting on August 10, 2010, the shareholders voted to approve the amendment to the Company's Amended Certificate of Incorporation to affect a one-for-seven reverse stock split. The reverse stock split became effective at 12:01 am, Eastern Time, on August 16, 2010. Pursuant to the reverse stock split, each seven shares of authorized and outstanding common stock was reclassified and combined into one share of new common stock. In addition, upon the effectiveness of the reverse stock split, each seven shares of Series D Convertible Preferred Stock are convertible into one share of common stock of the Company. The reverse stock split did not change the number of authorized shares or the par value per share of common stock or preferred stock designated by the Company's Certificate of Incorporation. Currently, the Company has authorized 300,000,000 shares of common stock. All references to share and per share data for all periods presented have been retroactively adjusted to give effect to the one-for-seven reverse stock split.

Liquidity

The Company incurred substantial losses in 2011 and 2010. The Company had net losses attributable to common shareholders of \$8,385,000 and \$5,930,000 in 2011 and 2010, respectively, and negative operating cash flows of \$4,467,000 and \$1,525,000 in 2011 and 2010, respectively. As of December 31, 2011, the Company had an accumulated deficit of \$138,048,000. While the Company believes its current funds will be sufficient to enable it to

meet its planned expenditures through at least January 1, 2013, if anticipated operating results are not achieved, management has the intent and believes it has the ability to delay or reduce expenditures. Failure to generate sufficient cash flows from operations, raise additional capital, or reduce certain discretionary spending could have a material adverse effect on the Company's ability to achieve its intended business objectives.

In the fourth quarter, the Company decided to shift its strategic focus away from the traditional broker dealer model in and around research and institutional sales toward a model of recurring revenue and platform revenue which represents a more scalable, predictable and profitable model in today's environment and management believes that they will result in reduced fixed operating costs going forward. However, given the Company's historical track recorded in Investment Banking and Institutional Equities and Options we will continue to help firms raise the capital needed to fuel innovation.

2. Summary of Significant Accounting Policies

Basis and Presentation

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

Under Accounting Standards Codification (ASC) 855, *Subsequent Events*, the Company has evaluated all subsequent events until the date these consolidated financial statements were filed with the SEC.

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

Principles of Consolidation

As of December 31, 2011, the Company has two wholly-owned U.S. subsidiaries. The subsidiaries, MC and Merriman Asset Management, Inc. have been consolidated in the accompanying consolidated financial statements. All significant intercompany accounts and transactions have been eliminated.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Segment Reporting

In January 2011, MC formed a new investment banking division, Riverbank Partners (Riverbank), to assist corporate issuers in raising capital through a network of independent investment bankers. Also, in January 2011, the Company repositioned its OTCQX Advisory Services (OTCQX) offering and fee structure. Accordingly, effective January 1, 2011, the Company reorganized its business around three operating segments: MC, Riverbank and OTCQX. The Company's reportable segments are strategic business units that offer products and services which are compatible with our core business strategy.

Use of Estimates

The preparation of financial statements in conformity with U. S. GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements to conform to the presentation of the current year's consolidated financial statements.

Advertising Costs

Advertising costs include expenses associated with investor relations and are expensed as incurred. We recorded \$58,000 and \$207,000 of advertising costs for the years ended December 31, 2011 and 2010, respectively.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Commissions and Principal Transactions Revenue

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

Investment Banking Revenue

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

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

the closing of the transaction.

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

Riverbank Revenues

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

Other Revenues and Deferred Revenue

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

Deferred revenue mainly represents customer billings made in advance to certain clients for due diligence services, and annual support contract for providing services as their Principal American Liaison (PAL) if a non-U.S. company or a Designated Advisor for Disclosure (DAD), if a U.S. company. Effective January 1, 2011, the Company repositioned its service offerings and fee structure for OTCQX. OTCQX Advisory Services revenues are primarily recognized on a straight-line basis from the completion of the due diligence until the end of the engagement term, which is generally one year.

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

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Stock-Based Compensation Expense

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

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

Cost of Underwriting Capital

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

Income Taxes

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

The Company adopted FASB Interpretation ASC 740-10, "Accounting for Uncertainty in Income Taxes" (FIN 48), on January 1, 2008. Prior to adoption, the Company's policy was to establish reserves that reflected the probable outcome of known tax contingencies. The effects of final resolution, if any, were recognized as changes to the effective income tax rate in the period of resolution. ASC 740-10 requires application of a more likely than not threshold to the recognition and de-recognition of uncertain tax positions. ASC 740-10 permits the Company to recognize the amount of tax benefit that has a greater than 50 percent likelihood of being ultimately realized upon settlement. It further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions be recognized in earnings in the quarter of such change.

Loss Per Share

Basic loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding. Diluted loss per share is calculated by dividing net loss by the weighted-average number of common shares used in the basic loss per share calculation plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares outstanding. Diluted loss per share is unchanged from basic loss per share for the years ended December 31, 2011 and 2010, because the addition of common shares and share equivalents that would be issued assuming exercise or conversion would be anti-dilutive.

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, "*Comprehensive Income (Topic 220): Presentation of Comprehensive Income*," that will require a company to present components of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. There are no changes to the components that are recognized in net income or other comprehensive income under current GAAP. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with early adoption permitted. The Company does not expect the adoption of ASU 2011-05 to have a material effect on its consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, "*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*." The amendments in this

ASU generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards (“IFRS”). The amendments are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. Early application is not permitted. The Company does not expect the adoption of ASU 2011-04 to have a material impact on its consolidated financial statements.

Cash and Cash Equivalents

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

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Restricted Cash and Letters of Credit

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

Due From/To Clearing Broker

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

Securities Owned

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

Fair Value of Financial Instruments

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

Fair Value Measurement—Definition and Hierarchy

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

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

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

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

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

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

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

For further information on financial assets and liabilities that are measured at fair value on a recurring and nonrecurring basis, and a description of valuation techniques, see Note 5.

Accounts Receivable

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

Allowance for uncollectible accounts was \$436,000 as of December 31, 2010. No allowance for uncollectible accounts was required as of December 31, 2011.

At December 31, 2010, the Company had \$330,000 outstanding accounts receivable pledged as collateral to secure a promissory note which are included in accounts receivable, net, in the Company's statement of financial condition. Also refer to Note 3 – Issuance of Debt.

Equipment and Fixtures

Equipment and fixtures are reported at historical cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over useful lives of three to five years. Leasehold improvements are amortized using the straight-line method over the lesser of the life of the lease or the service lives of the improvements.

Long-Lived Assets

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

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Discontinued Operations

For those businesses where management has committed to a plan to divest, each business is valued at the lower of its carrying amount or estimated fair value less estimated cost to sell. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized. For businesses classified as discontinued operations, statement of operations results are reclassified from their historical presentation to discontinued operations in the consolidated statements of operations for all periods presented. The gains or losses associated with these divested businesses are recorded in loss from discontinued operations in the consolidated statements of operations.

Warrant Liabilities

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

Concentrations of Risk

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

As of December 31, 2011 and 2010, the Company held concentrated positions in three and two securities with total fair values in the amounts of \$1,343,000 and \$3,563,000, respectively. The prices of these securities are highly

volatile.

As of December 31, 2011 and 2010, the Company held concentrated positions in accounts receivable with three clients, each of which exceeded 10% of total accounts receivable. The clients referred to as of 2010 were not the same ones as the clients as of 2011.

During 2011 and 2010, one sales professional accounted for more than 10% of total revenue and one customer accounted for more than 10% of revenue.

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MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Issuance of Debt

Subordinated Notes Payable

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

The total proceeds of \$1,000,000 raised in the transaction above were accounted for as an issuance of debt with stock. The total proceeds of \$1,000,000 have been allocated to these individual instruments based on the relative fair values of each instrument. Based on such allocation method, the value of the stocks issued in connection with the Subordinated Notes was \$206,000, which was recorded as a discount on the debt and applied against the Subordinated Notes. As of December 31, 2010, the Subordinated Notes of \$809,000, net of \$191,000 discount, remained outstanding and is included in notes payable to related parties in the Company's consolidated statements of financial condition.

As of December 31, 2011, \$830,000 of the Subordinated Notes, net of \$120,000 discount, remain outstanding and is included in notes payable to related parties in the Company's consolidated statements of financial condition. The remaining Subordinated Notes held by parties no longer related to the Company of \$44,000, net of \$6,000 discount, are included in notes payable in the Company's consolidated statements of financial condition. The discount on the note is amortized over the term of the loan using the effective interest method. For the year ended December 31, 2011, the Company incurred \$140,000 in interest on the Subordinated Notes. Total interest of \$105,000 remains outstanding as of December 31, 2011 and is included in accrued expenses and other in the consolidated statements of financial condition.

2010 Chez Secured Promissory Note

On November 17, 2010, the Company borrowed \$1,050,000 from Ronald L. Chez, its Co-Chairman of the Board of Directors, pursuant to a secured promissory note (2010 Chez Secured Promissory Note). The 2010 Chez Secured Promissory Note is secured by certain accounts receivable which were purchased by the Company from MC with the proceeds of the transaction being used for such purchase. The 2010 Chez Secured Promissory Note is due and payable in two tranches as the accounts receivable became due, with \$950,000 due on January 19, 2011 and \$100,000 due on February 28, 2011. It provides for interest of 29.2% per annum and additional consideration comprising two components (i) 50,000 shares of the Company's Series D Preferred Stock (which is convertible into 7,142 shares of our Common Stock); and (ii) a cash fee of \$15,000. The proceeds were used to supplement underwriting capacity for MC. As of December 31, 2010, the 2010 Chez Secured Promissory Note of \$330,000 remained outstanding and is included in notes payable to related parties in the Company's consolidated statements of financial condition.

On January 21, 2011, the 2010 Chez Secured Promissory Note was amended to extend the maturity date to April 15, 2011 and change the 50,000 Series D Convertible Preferred Stock consideration to cash compensation of \$21,000. For the year ended December 31, 2011, the Company incurred \$42,000 in fees, composed of \$15,000 and \$21,000 in cash fees, and \$6,000 of interest at 29.2% per annum. On March 24, 2011, all principal and related fees were paid and no balance remains outstanding.

Unsecured Promissory Notes

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

The total proceeds of \$300,000 raised in the transaction above were accounted for as an issuance of debt with stock. The total proceeds of \$300,000 have been allocated to these individual instruments based on the relative fair values of each instrument at the time of issuance. Based on such allocation method, the value of the stock issued in connection with the Unsecured Promissory Notes was \$106,000, which was recorded as a discount on the debt and applied against the Unsecured Promissory Notes. As of December 31, 2010, Unsecured Promissory Notes of \$260,000, net of \$40,000 discount, remain outstanding and is included in notes payable in the Company's consolidated statements of financial condition.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On January 31, 2011, the Company amended its Unsecured Promissory Notes to extend their maturity dates from January 31, 2011 to December 31, 2011. The interest rate from the amendment date to the maturity date was increased to 13%. Furthermore, the additional common stock consideration was cancelled and returned to the Company, as such \$65,000 of previously amortized discount on debt was reversed. For the year ended December 31, 2011, the Company incurred \$37,000 in interest in relation to this note.

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

(a) For the Unsecured Promissory Notes, a number of new shares of common stock equal to (i) the total amount of principal plus accrued but unpaid interest of the Unsecured Promissory Notes submitted for cancellation divided by (ii) an amount equal to 80% of the average closing price per share of common stock as quoted on the exchange on which it principally trades for the 30 day period ending two days prior to the closing date (the AP); plus

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

On December 14, 2011, the \$300,000 principal balance and \$43,000 accrued interest was converted into 459,218 common shares and 83,496 warrants.

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

Secured Promissory Notes

In April 2011, the Company raised \$2,770,000 from 24 investors, of which 11 were directors, officers, consultants or employees of the Company at the time of issuance, pursuant to a series of secured promissory notes (Secured Promissory Notes). The Secured Promissory Notes are for a term of three years and provide for interest of ten percent (10.0%) per annum to be paid in cash quarterly. Additional consideration was paid to the lenders at closing comprising warrants to purchase shares of the common stock of the Company at a price per share equal to 85% of the Company's stock price at the closing date (the Warrants). 86 Warrants were issued for each \$1,000 invested. A total of 238,220 Warrants were issued. The Warrants issued to directors, officers, consultants and employees (Insider Warrants) of the Company provide that the Insider Warrants will not be exercisable unless first approved by the Company's stockholders. These notes are secured by a security interest in and right of setoff against all of such the Company's right, title and interest in, to all of the capital stock of MC, together with all proceeds, rents, profits and returns of and from any of the foregoing. Also, beginning on the date which is one year from the issuance date, if there is an equity financing of the Company resulting in gross proceeds of at least \$15,000,000 in new money, holders shall have the option to put 50% of Secured Promissory Notes originally purchased back to the Company, for an amount equal to the principal plus accrued but unpaid interest, on 30 days written notice. The Secured Promissory Notes were issued in two tranches, one closed on April 7, 2011 for \$2,470,000 and the other closed on April 21, 2011 for \$300,000.

The total proceeds raised in the transaction above were accounted for as an issuance of debt with warrants. The total proceeds of \$2,770,000 have been allocated to these 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 Secured Promissory Notes received was \$420,000, which was recorded as a discount on the debt and applied against the Secured Promissory Notes.

On October 11, 2011, the Company repurchased the \$100,000 Secured Promissory Note from a former officer and director in connection with his separation from the Company.

On November 16, 2011, the Company entered into exchange agreements with certain Secured Promissory Note investors whereby the investors agree to exchange the Secured Promissory Notes and Warrants for shares of common stock and new warrants to purchase shares of common stock of the Company as follows.

(c) For the Secured Promissory Notes, a number of new shares of common stock equal to (i) the total amount of principal plus accrued but unpaid interest of the Secured Promissory Notes submitted for cancellation divided by (ii) an amount equal to 80% of the average closing price per share of common stock as quoted on the exchange on which it principally trades for the 30 day period ending two days prior to the closing date (the AP); plus

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

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fifteen investors agreed to exchange \$1,750,000 principal balance of the Secured Promissory Notes plus \$22,000 accrued interest for 2,373,505 shares of common stock and 188,126 warrants.

The Company accounted for this transaction in accordance with ASC 470, *Debt*, as an extinguishment of debt, whereby a gain or loss was calculated as the difference between the reacquisition price and net carrying value of the debt. The reacquisition price was determined as the sum of the fair value of the common stock and new warrants less the fair value of the original Warrants. The warrants were valued using the Black-Scholes fair value model. A loss of \$1,134,000 was recorded on the transaction based on a reacquisition price of \$2,688,000 and net carrying value, including interest, of \$1,554,000.

As of December 31, 2011, \$636,000 of the Secured Promissory Notes, net of \$84,000 discount, remain outstanding and are included in notes payable in the Company's consolidated statements of financial condition. The remaining Secured Promissory Notes issued to Insiders of \$176,000, net of \$24,000 discount, are included in notes payable to related parties in the Company's consolidated statements of financial condition.

For the year ended December 31, 2011, the Company incurred \$178,000 in interest in relation to these notes. As of December 31, 2011, \$23,000 of interest remains outstanding and is included in accrued expenses and other in the consolidated statements of financial condition.

2011 Chez Secured Promissory Note

On April 7, 2011, the Company's Co-Chairman of the Board of Directors, Ronald L. Chez, invested \$330,000 in a three year secured promissory note (2011 Chez Secured Promissory Note) at an interest rate of six percent (6%) per annum payable quarterly. This note is secured by a security interest in and right of setoff against all of such the Company's right, title and interest in, to all of the capital stock of Merriman Capital Inc., together with all proceeds, rents, profits and returns of and from any of the foregoing. Also, beginning on the date which is one year from the issuance date, if there is an equity financing of the Company resulting in gross proceeds of at least \$15,000,000 in new money, holders shall have the option to put 50% of Secured Promissory Notes originally purchased back to the Company, for an amount equal to the principal plus accrued but unpaid interest, on 30 days written notice.

On November 16, 2011, the 2011 Chez Secured Promissory Note plus accrued interest of \$3,000 was exchanged for 445,299 shares of common stock of the Company calculated as (i) the total amount of principal plus accrued but unpaid interest divided by (ii) an amount equal to 80% of the average closing price per share of common stock as quoted on the exchange on which it principally trades for the 30 day period ending two days prior to the closing date.

The Company accounted for this transaction in accordance with ASC 470, *Debt*, as an extinguishment of debt, whereby a gain or loss was calculated as the difference between the reacquisition price and net carrying value of the debt. The reacquisition price was determined as the sum of the fair value of the common stock and new warrants. The warrants were valued using the Black-Scholes fair value model. A loss of \$157,000 was recorded on the transaction based on a reacquisition price of \$490,000 and net carrying value, including interest, of \$333,000.

For the year ended December 31, 2011, the Company incurred \$12,000 in interest in relation to this note.

Temporary Subordinated Loan

During the first quarter of 2011, the Company issued a loan in the form of temporary subordinated loans to supplement the Company's net capital and enable it to underwrite initial public offerings, in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. All temporary subordinated loan transactions are disclosed separately in Note 17 – Related Party Transactions.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Shareholders' Equity

Series D Convertible Preferred Stock

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

The Series D Convertible Preferred Stock was issued in a private placement exempt from registration requirements pursuant to Regulation D of the Securities Act of 1933. Effective upon the reverse-stock split as discussed in Note 1, seven shares of Series D Convertible Preferred Stock is convertible into one share of common stock of the Company. For the year ended December 31, 2011, 2,494,922 shares of Series D Convertible Preferred Stock were converted to 356,415 shares of common stock.

The Series D Convertible Preferred Stock carries a dividend rate of 6% per annum, payable monthly in arrears. For the year ended December 31, 2011 and 2010, total Series D Convertible Preferred Stock dividends were \$491,000 and \$591,000, respectively. Of the total dividends recorded, \$0 and \$47,000 remain outstanding as of December 31, 2011 and 2010, respectively, which is included in accounts payable in the consolidated statements of financial condition.

Both the Series D Convertible Preferred Stock and the warrants issued in connection with the Series D Convertible Preferred Stock had, when issued, anti-dilution features including a full ratchet provision so that if the Company pays dividends, splits its common shares forward or reverse, issues additional shares at a lower price than the Series D Convertible Preferred Stock price, or adjusts its shares outstanding due to a combination, the conversion and exercises prices would also adjust proportionally. The full ratchet provision resulted in the warrants being accounted for as derivative instruments, since the exercise price was not fixed and could be lowered if the Company had issued securities at prices lower than the original exercise price of the warrant. On December 28, 2009, 100% of the holders of the warrants issued in connection with the Series D convertible Preferred Stock agreed to amend their warrants to remove the full ratchet provision (see Note 5 for warrant accounting).

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

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

The Company has accounted for this transaction as the issuance of convertible preferred stock and a detachable stock warrant. The total gross proceeds of \$10,200,000, which include \$1,392,000 from conversions of prior notes (see Note 3), have been allocated to these individual instruments based on the residual method. Of the total cash proceeds, \$4,300,000 was used to settle certain legal claims which had an aggregate exposure of \$43,577,000. The remaining cash of \$4,508,000 was used for working capital.

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

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Series E Convertible Preferred Stock

On December 30, 2011, the Company issued 2,531,744 shares of Series E Convertible Preferred Stock at \$0.63 per share plus warrants to purchase 1,265,874 shares of the Company’s common stock with an exercise price of \$0.63 per share. The warrants expire five years from the effective date. The total proceeds of \$1,595,000 were allocated between the Series E Convertible Preferred Stock and the related warrants based on the relative fair values of each instrument at the time of issuance. All Series E Convertible Preferred shareholders are directors of the Company.

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

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

paid pro rata to the holders of the Series D and E Convertible Preferred Stock and Common Stock on an as converted to Common Stock basis.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. 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.

Securities Owned

Corporate Equities

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

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

Typically, the common stock is traded on stock exchanges and most are classified as Level 1 securities. The fair value is based on observed closing stock price at the measurement date.

Certain securities are traded infrequently and therefore do not have observable prices based on actively traded markets. These securities are classified as Level 3 securities, if pricing inputs or adjustments are both significant to the fair value measurement and unobservable. The Company determines the fair value of infrequently traded

securities using the observed closing price at measurement date, discounted for the put option value calculated through the Black-Scholes model or similar valuation techniques. Valuation inputs used in the Black-Scholes model include interest rate, stock volatility, expected term and market price of the underlying stock. As of December 31, 2011, the fair value of this type of securities included in securities owned in the statement of financial condition is \$ 907,000. Had these securities been valued using observed closing prices, the total value of the securities would have been \$ 957,000.

Stock Warrants

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

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

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Fair Value of Assets and Liabilities (continued)

Underwriters' Purchase Options

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

The fair value of the UPO is determined using the Black-Scholes model or similar technique, applied in two stages. The first stage is to determine the value of the warrants contained within the "bundle" which is then added to the fair value of the stock within the bundle. Once the fair value of the underlying "bundle" is established, the Black-Scholes model is used again to estimate a value for the UPO. The fair value of the "bundle" as estimated by Black-Scholes in the first stage is used instead of the price of the underlying stock as one of the inputs in the second stage of the Black-Scholes. The use of the valuation techniques requires significant management assumptions and therefore UPOs are classified as Level 3 securities.

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.

Summary

In accordance with ASC 820, assets measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations.

| | Assets at Fair Value at December 31, 2011 | | | |
|-------------------------------|---|---------|--------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Corporate equities | \$ 886,497 | \$ - | \$ 907,495 | \$ 1,793,992 |
| Stock warrants | - | - | 683,211 | 683,211 |
| Underwriters' purchase option | - | - | 5,972 | 5,972 |
| Preferred stock | - | - | 395 | 395 |
| Total securities owned | \$ 886,497 | \$ - | \$ 1,597,073 | \$ 2,483,570 |

Of the total securities owned as of December 31, 2011, \$1,680,000 of corporate equities and \$ 456,000 of stock warrants and underwriters' purchase options whose underlying stock is freely traded are considered to be marketable.

MERRIMAN HOLDINGS, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****5. Fair Value of Assets and Liabilities (continued)**

| | Assets at Fair Value at December 31, 2010 | | | |
|-------------------------------|---|---------|-------------|-------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Corporate equities | \$1,241,760 | - | \$57,797 | \$1,299,557 |
| Stock warrants | - | - | 2,324,901 | 2,324,901 |
| Underwriters' purchase option | - | - | 1,518,465 | 1,518,465 |
| Preferred stock | - | - | 251 | 251 |
| Total securities owned | \$1,241,760 | \$ - | \$3,901,414 | \$5,143,174 |

Of the total securities owned as of December 31, 2010, \$1,217,000 of corporate equities and preferred stock, and \$1,185,000 of stock warrants and underwriters' purchase options whose underlying stock is freely traded are considered to be marketable.

MERRIMAN HOLDINGS, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****5. Fair Value of Assets and Liabilities (continued)**

The following table presents additional information about Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2011 and 2010.

| | Corporate Equities | Stock Warrants | Underwriters' Purchase Option | Preferred Stock | Total |
|---|-----------------------|-------------------|-------------------------------------|--------------------|---------------|
| Balance at January 1, 2010 | \$21,731 | \$1,575,481 | \$ - | \$ - | \$1,597,212 |
| Purchases or receipt (a) | 96,890 | 316,184 | 956,707 | - | 1,369,781 |
| Sales or exercises | (21,731) | (409,528) | - | - | (431,259) |
| Transfers into | 248,637 (b) | - | - | 434 | 249,071 |
| Gains (losses): | | | | | |
| Unrealized | (287,730) | 842,764 | 561,758 | (183) | 1,116,609 |
| Balance at December 31, 2010 | \$57,797 | \$2,324,901 | \$ 1,518,465 | \$ 251 | \$3,901,414 |
| Purchases or receipt (a) | 2,955 | 754,847 | - | - | 757,802 |
| Sales or exercises | 722,575 | (420,178) | (881,804) | - | (579,407) |
| Transfers out of | (10,658)(c) | - | - | - | (10,658) |
| Gains (losses): | | | | | |
| Realized | (292,278) | (13,342) | - | - | (305,620) |
| Unrealized | 427,104 | (1,963,017) | (630,689) | 144 | (2,166,458) |
| Balance at December 31, 2011 | \$907,495 | \$683,211 | \$ 5,972 | \$ 395 | \$1,597,073 |
| Change in unrealized gains (losses) relating to instruments still held at December 31, 2011 | \$150,938 | \$(1,135,978) | \$(59,187) | \$ 143 | \$(1,044,084) |
| Change in unrealized gains (losses) relating to instruments still held at December 31, 2010 | \$(287,730) | \$868,761 | \$ 561,758 | \$ (183) | \$1,142,606 |

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

(b) Principally reflects transfers from Level 1, due to reduced trading activity, and therefore price transparency, on the underlying instruments

(c) Principally reflects transfer to Level 1, due to availability of market data and therefore more price transparency

MERRIMAN HOLDINGS, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****5. Fair Value of Assets and Liabilities (continued)**

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

6. Equipment and Fixtures

Equipment and fixtures consisted of the following:

| | December 31, | |
|-------------------------------|--------------|-------------|
| | 2011 | 2010 |
| Computer equipment | \$564,906 | \$553,526 |
| Furniture and equipment | 934,882 | 931,955 |
| Software | 191,744 | 191,744 |
| Leasehold improvements | 1,113,769 | 1,113,769 |
| | 2,805,301 | 2,790,994 |
| Less accumulated depreciation | (2,774,764) | (2,654,288) |
| | \$30,537 | \$136,706 |

No equipment or fixtures were purchased through capital lease financing during 2011. At December 31, 2011, there were no outstanding capital leases.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Discontinued Operations

Panel Intelligence, LLC

On April 17, 2007, Merriman Holdings, Inc. acquired 100% of the outstanding common shares of MedPanel Corp. which was subsequently renamed Panel Intelligence, LLC (“Panel”) and made into a subsidiary of the Company. As a result of the acquisition, the Company began providing independent market data and information to clients in the biotechnology, pharmaceutical, medical device, and financial industries by leveraging Panel’s proprietary methodology and vast network of medical experts.

In December 2008, the Company determined that the sale of Panel would reduce investments required to develop Panel’s business. Its sale would also generate capital necessary for the Company’s core business. The Company determined that the plan of sale criteria in ASC 360, *Property, Plant and Equipment*, had been met. As a result, the revenue and expenses of Panel have been reclassified and included in discontinued operations in the consolidated statements of operations. Accordingly, the carrying value of the Panel assets was adjusted to their fair value less costs to sell in 2008. In January 2009, the Company sold Panel to Panel Intelligence, LLC (Newco) for \$1,000,000 and shares of the Company’s common stock in the amount of \$100,000.

For the year ended December 31, 2010, income from discontinued operations related to Panel was \$33,000. As of December 31, 2011 and 2010, there were no assets or liabilities held for sale by the Company that related to Panel that were included in the Company’s consolidated statements of financial condition.

MERRIMAN HOLDINGS, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****7. Discontinued Operations (continued)***Institutional Cash Distributors*

On January 16, 2009, the Company entered into an agreement to sell the assets of ICD, a division of MC, for \$2,000,000 to a group of investors who were also its employees in order to raise capital. The assets sold included MC's rights in trademark, copyright, and other intellectual property used in the business, customer lists, marketing materials, and books and records, which did not have any carrying values. In accordance with SEC Staff Accounting Bulletin (SAB) 104, "Revenue Recognition", the Company recognized \$2,000,000 as other income in the consolidated statement of operations during the year ended December 31, 2009. In the second quarter of 2010, ICD, LLC, formed by the new group of investors, started supporting its operations fully and as such, did not require significant assistance from MC. The Company terminated all employees supporting ICD business, and does not have significant involvement going forward. The Company determined that the criteria for discontinued operations under the guidance of ASC 205, have been met as of June 30, 2010. As a result, the revenue and expenses of ICD have been included in discontinued operations in the consolidated statements of operations.

For the year ended December 31, 2010, income from discontinued operations related to ICD was \$62,000. As of December 31, 2011 and 2010, there were no assets or liabilities held for sale by the Company that related to ICD that were included in the Company's consolidated statements of financial condition.

The following revenue and expenses related to Panel and ICD have been reclassified as discontinued operations for the year ended December 31, 2010:

| | December 31, 2010 |
|-----------------------------|-------------------|
| Revenue | \$ 9,167,983 |
| Operating expenses: | |
| Compensation and benefits | 7,870,502 |
| Brokerage and clearing fees | 27,219 |
| Professional services | 269,932 |

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| | |
|------------------------------|-----------|
| Occupancy and equipment | 180,948 |
| Communication and technology | 213,867 |
| Travel and entertainment | 348,905 |
| Legal services | 75,519 |
| Other expenses | 119,328 |
| | 9,106,220 |
| Operating income | 61,763 |
| Other income | 33,341 |
| Net income | \$ 95,104 |

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Stock-Based Compensation Expense

Stock Options

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

The 2009 Plan, 1999 Stock Option Plan, 2000 Stock Option and Incentive Plan, 2001 Stock Option and Incentive Plan, 2003 Stock Option and Incentive Plan, 2004 Non-Qualified Stock Option and Inducement Plan and 2006 Directors’ Stock Option and Incentive Plan, collectively the Option Plans, permit the Company to grant employees, outside directors, and consultants incentive stock options, nonqualified stock options or stock purchase rights to purchase shares of the Company’s common stock. The Option Plans do not permit the exercise of restricted stock options, and therefore as of December 31, 2011 and 2010, there were no shares subject to repurchase.

As of December 31, 2011 and 2010, there were 2,155,915 shares authorized for issuance under the Option Plans, and 87,551 shares authorized for issuance outside of the Option Plans. As of December 31, 2011 and 2010, 820,765 and 153,026 shares were available for future grants under the Option Plans, respectively. There were no shares available for future grants outside of the Options Plans as of the end of 2011 and 2010.

MERRIMAN HOLDINGS, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****8. Stock-Based Compensation Expense (continued)**

The following table is a summary of the Company's stock option activity for the two years ended December 31, 2011 :

| | 2011 | | 2010 | |
|---|-------------|---------------------------------|------------|---------------------------------|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding at beginning of year | 1,665,083 | \$ 5.85 | 1,364,236 | \$ 8.68 |
| Granted | 277,892 | 2.44 | 629,578 | 3.38 |
| Exercised | - | - | (15,428) | (2.38) |
| Canceled | (1,013,329) | (4.61) | (313,303) | (13.40) |
| Outstanding at end of year | 929,646 | 6.18 | 1,665,083 | 5.85 |
| Exercisable at end of year | 519,478 | \$ 6.48 | 486,952 | \$ 7.00 |
| Vested and expected to vest as of December 31, 2011 | 886,442 | | | |

The following table summarizes information with respect to stock options outstanding at December 31, 2011, based on the Company's closing stock price on December 31, 2011 of \$0.43 per share:

| Range of Exercise Price | Options Outstanding at December 31, 2011 | | | Vested Options at December 31, 2011 | | |
|-------------------------|--|---|---------------------------------|-------------------------------------|---------------------------------|---------------------------|
| | Number | Weighted-Average Remaining Contractual Life (Years) | Weighted-Average Exercise Price | Number | Weighted-Average Exercise Price | Aggregate Intrinsic Value |
| \$0.0000 - \$3.4999 | 435,878 | 7.35 | \$ 2.82 | 247,529 | \$ 2.97 | \$ - |
| \$3.5000 - \$6.9999 | 81,936 | 7.14 | 5.92 | 45,955 | 5.77 | - |

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| | | | | | | | |
|-----------------------|---------|------|---------|------|---------|---------|------|
| \$7.0000 - \$10.4999 | 364,045 | 7.83 | 8.42 | - | 190,619 | 8.42 | - |
| \$10.5000 - \$13.9999 | 24,181 | 6.06 | 11.42 | - | 16,057 | 11.63 | - |
| \$14.0000 - \$27.9999 | 18,365 | 1.62 | 22.35 | - | 14,080 | 20.98 | - |
| \$28.0000 - \$48.9999 | 2,232 | 3.55 | 33.89 | - | 2,229 | 33.89 | - |
| \$49.0000 - \$84.4999 | 3,009 | 2.02 | 67.92 | - | 3,009 | 67.92 | - |
| | 929,646 | 7.35 | \$ 6.18 | \$ - | 519,478 | \$ 6.48 | \$ - |

MERRIMAN HOLDINGS, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****8. Stock-Based Compensation Expense (continued)**

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for 2011 and 2010:

| | 2011 | 2010 |
|-------------------------------|-------|-------|
| Volatility | 123 % | 128 % |
| Average expected term (years) | 3.7 | 3.1 |
| Risk-free interest rate | 1.49% | 1.63% |
| Dividend yield | - | - |

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

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

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

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

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

The weighted-average grant date fair value of stock options granted during 2011 and 2010 was \$2.11 and \$2.56, respectively. Compensation expense for stock options during the years ended December 31, 2011 and 2010 was \$824,000 and \$1,594,000, respectively. Of the total stock compensation expense for the year ended December 31, 2010, \$138,000 was incurred due to acceleration of vesting terms of stock options of three employees upon their termination. As of December 31, 2011, total unrecognized compensation expense related to unvested stock options was \$1,416,000. This amount is expected to be recognized as expense over a weighted-average period of 1.97 years.

MERRIMAN HOLDINGS, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****8. Stock-Based Compensation Expense (continued)***Restricted Stock*

At the date of grant, the recipients of restricted stock have most of the rights of a stockholder other than voting rights, subject to certain restrictions on transferability and a risk of forfeiture. Restricted shares typically vest over a two to four year period beginning on the date of grant. The fair value of each restricted stock award is based on the market value of the Company's stock on the date of grant. The Company recognizes the compensation expense for restricted stock on a straight-line basis over the requisite service period. Compensation expense for restricted stock during the years ended December 31, 2011 and 2010 was \$76,000 and (\$61,000), respectively. We had a negative stock compensation expense for the year ended December 31, 2010 due to cancellation of restricted stock that had been granted to an employee who was terminated in March 2010.

The following table is a summary of the Company's restricted stock activity, based on the Company's closing stock price on December 31, 2011 of \$0.43 per share:

| | Non-Vested Stock Outstanding | Weighted- Average Grant Date Fair Value | Aggregate Intrinsic Value |
|---------------------------------|---|--|--|
| Balance as of January 1, 2010 | 5,522 | 74.07 | \$ 33,629 |
| Granted | 78,694 | 3.17 | |
| Vested | (68,660) | (3.79) | |
| Canceled | (4,725) | (79.53) | |
| Balance as of December 31, 2010 | 10,831 | 6.68 | \$ 23,828 |
| Granted | 199,606 | 2.05 | |
| Vested | (7,526) | (4.01) | |
| Canceled | (132,306) | (2.23) | |
| Balance as of December 31, 2011 | 70,605 | \$ 2.12 | \$ 30,360 |

Vested and expected to vest as of December 31, 2011 54,713

The total fair value of restricted stock that vested during the years ended December 31, 2011 and 2010 was \$30,000 and \$260,000, respectively.

As of December 31, 2011, total unrecognized compensation expense related to restricted stock was \$60,000. This expense is expected to be recognized over a weighted-average period of 1.12 years.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Stock-Based Compensation Expense (continued)

Board of Directors Compensation

In 2009, the Company formed a Strategic Advisory Committee of the Board of Directors chaired by Mr. Ronald Chez, the lead investor in the Series D Convertible Preferred Stock strategic transaction. During the first year, the Chairman of the Committee was compensated with five-year warrants to purchase 42,857 shares the Company's common stock at \$4.55 to be issued pro rata on a monthly basis from September 2009 to September 2010. No other compensation was provided for his service on the Committee. For the year ended December 31, 2010, the Company issued 29,525 warrants to Mr. Chez and recorded stock-based compensation expense of \$103,000, based on the calculated fair value of the warrants using the Black-Scholes option valuation model.

On January 21, 2011, the Company entered into an amended agreement with Mr. Chez restricting the exercise of the 42,857 warrants without prior shareholders' approval. The Company intends to shareholders' approval for these warrants in the next shareholders' meeting.

Due to the modification of the terms of the warrants, the Company recorded a decrease in the stock-based compensation expense of \$176,000 for the year ended December 31, 2011. As of December 31, 2011, the Company recorded accrued expenses of \$11,000 as the Company's best estimate of the services performed by Mr. Chez as the chairman of the Strategic Advisory Committee until the warrants are approved by the shareholders.

In August 2010, the shareholders approved Mr. Chez to be the Co-Chairman of the Board of Directors of the Company. For the first year of his term as co-chairman, Mr. Chez was compensated with 42,857 shares of the Company's common stock and the Company recorded \$135,000 of stock-based compensation expense.

9. Employee Benefit Plans

The Company has a 401(k) defined contribution plan. The 401(k) plan allows eligible employees to contribute up to 15% of their compensation, subject to a statutory prescribed annual limit. Employee contributions and earnings thereon vest immediately. Although the Company may make discretionary contributions to the 401(k) plan, none were made during the two years ended December 31, 2011.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Income Taxes

Income tax expense (benefit) consisted of the following for the two years ended December 31:

| | 2011 | 2010 |
|----------|----------|-----------|
| Current: | | |
| Federal | \$(344) | \$(5,005) |
| State | 6,451 | - |
| Total | \$6,107 | \$(5,005) |

The following table reconciles the federal statutory rate to the effective tax rate of the provision for income taxes for the two years ended December 31:

| | 2011 | 2010 |
|---|--------|--------|
| Federal statutory income tax rate (benefit) | (34)% | (34)% |
| State income taxes | (8) | (7) |
| Stock-based compensation | 2 | 4 |
| Meals & entertainment | 1 | 3 |
| Valuation allowance | 39 | 34 |
| Effective tax rate | 0 % | 0 % |

The effective tax rate is influenced by the Company's performance and tax planning opportunities available in the various jurisdictions in which the Company operates.

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The tax effect of temporary differences that give rise to significant portions of the deferred tax assets as of December 31, 2011 and 2010, are presented as follows:

| | December 31, | |
|-----------------------------------|--------------|--------------|
| | 2011 | 2010 |
| Deferred tax assets: | | |
| Net operating loss carry-forwards | \$12,070,793 | \$9,620,051 |
| Reserves and accruals | 671,646 | 1,251,339 |
| Unrealized gain/ loss | 4,201,193 | 3,293,738 |
| Other | 1,341,841 | 652,033 |
| | | |
| Total deferred tax assets | 18,285,473 | 14,817,161 |
| Valuation allowance | (18,285,473) | (14,817,161) |
| | | |
| Net deferred tax asset | \$- | \$- |

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Income Taxes (continued)

The net change in the valuation allowance for the year ended December 31, 2011 was an increase of \$3,468,000. This increase was primary the result of the addition of net operating loss carry-forward from loss generated in current year. The Company has established a valuation allowance against that portion of deferred tax assets where management was not able to determine that it is more likely than not that the asset will be realized.

As of December 31, 2011, the Company had federal and state operating loss carry-forwards of approximately \$28,528,000 and \$21,854,000, respectively. If not earlier utilized, the federal net operating loss carry-forward will expire between 2021 and 2031 and the state loss carry-forward will expire between 2012 and 2032.

The Tax Reform Act of 1986 and similar state legislation impose substantial restrictions on the utilization of net operating losses and tax credits in the events of an "ownership change" of a corporation. Accordingly, the Company has analyzed the impact of "ownership change" limitations on its ability to utilize net operating losses and credit carry-forwards. As a result, the Company has reduced the net operating losses.

The Company adopted FASB Interpretation ASC 740-10, "Accounting for Uncertainty in Income Taxes" (FIN 48), on January 1, 2008. Prior to adoption, the Company's policy was to establish reserves that reflected the probable outcome of known tax contingencies. The effects of final resolution, if any, were recognized as changes to the effective income tax rate in the period of resolution. ASC 740-10 requires application of a more likely than not threshold to the recognition and de-recognition of uncertain tax positions. ASC 740-10 permits the Company to recognize the amount of tax benefit that has a greater than 50 percent likelihood of being ultimately realized upon settlement. It further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions be recognized in earnings in the quarter of such change.

The Company does not have any material accrued interest or penalties associated with any unrecognized tax benefits. The Company's policy is to account for interest, if any, as interest expense and penalties as income tax expense.

The Company's tax years 2001-2011 will remain open for examination by the U.S. federal tax authorities. The Company's tax years 2001-2011 will remain open for all tax years with loss carry-overs for examination by state tax authorities. Net operating losses deducted are subject to review and adjustment for three to four years after the net operating losses are deducted on the U.S. and state returns filed.

11. Loss per Share

The following is a reconciliation of net loss to net loss attributable to common stockholders:

| | Year Ended December 31, | |
|--|-------------------------|-----------------|
| | 2011 | 2010 |
| Loss from continuing operations | \$ (7,893,662) | \$ (5,433,523) |
| Income from discontinued operations | - | 95,104 |
| Net loss | \$ (7,893,662) | \$ (5,338,419) |
| Convertible preferred stock, series D dividends | (491,334) | (591,125) |
| Net loss attributable to common shareholders - basic and diluted | \$ (8,384,996) | \$ (5,929,544) |
| Weighted-average number of common shares -basic | 2,919,316 | 2,002,305 |
| Assumed exercise or conversion of all potentially dilutive common shares outstanding | - | - |
| Weighted-average number of common shares -diluted | 2,919,316 | 2,002,305 |
| Basic and diluted net income (loss) per share: | | |
| Loss from continuing operations | \$ (2.70) | \$ (2.71) |
| Income from discontinued operations | - | 0.05 |
| Net loss per share | \$ (2.70) | \$ (2.67) |
| Net loss per share attributable to common shareholders | \$ (2.87) | \$ (2.96) |

MERRIMAN HOLDINGS, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****11. Loss per Share (continued)**

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

Shares used in the diluted net income per share computation include the dilutive impact of the Company's stock options and warrants. The impact of the Company's stock options and warrants on shares used for the diluted income per share computation is calculated based on the average share price of the Company's common stock for each period using the treasury stock method. Under the treasury stock method, the tax-effected proceeds that would be hypothetically received from the exercise of all stock options and warrants with exercise prices below the average share price of the Company's common stock are assumed to be used to repurchase shares of the Company's common stock.

The Company excludes all potentially dilutive securities from its diluted net loss per share computation when their effect would be anti-dilutive. The following common stock equivalents were excluded from the earnings per share computation, as their inclusion would have been anti-dilutive:

| | 2011 | 2010 |
|---|-----------|-----------|
| Stock options and warrants excluded due to the exercise price exceeding the average fair value of the Company's common stock during the period | 5,566,720 | 5,135,055 |
| Weighted-average restricted stock, stock options and stock warrants, calculated using the treasury stock method, that were excluded due to the Company reporting a net loss during the period | 51,043 | 48,509 |

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| | | |
|---|------------|-----------|
| Weighted-average shares issuable upon conversion of the Convertible Preferred stock, Series D | 6,856,502 | 3,288,549 |
| Weighted-average shares issuable upon conversion of the Convertible Preferred stock, Series E | 13,873 | - |
| Common stock payable | - | 152,368 |
| Total common stock equivalents excluded from diluted net loss per share | 12,488,138 | 8,624,481 |

As of December 31, 2011, the Company has outstanding warrants of 5,685,459 with a weighted average exercise price of \$3.50 and weighted average remaining term of 3.62 years. As of December 31, 2010, the Company has outstanding warrants of 4,190,816, with a weighted average exercise price of \$4.54 and weighted average remaining term of 4.24 years.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Segment Reporting

Effective January 1, 2011, the Company's business results are categorized into the following three segments: MC, Riverbank and OTCQX. 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 Riverbank segment includes capital raising services through a network of independent investment bankers and OTCQX includes assistance to 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 1. 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 Riverbank or OTCQX.

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.

Corporate items and eliminations include the effects of eliminating transactions between operating segments, and certain non-allocated amounts. Corporate items and eliminations 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 corporate 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.

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

| | Year Ended | |
|--|----------------------|-------------------|
| | December 31, 2011 | December 31, 2010 |
| Revenues | | |
| MC | \$ 18,055,175 | \$ 30,298,295 |
| Riverbank | 3,198,976 | - |
| OTCQX | 667,579 | 392,804 |
| Total segment revenues | 21,921,730 | 30,691,099 |
| Consolidation items and elimination | 27,550 | (24,788) |
| Consolidated revenues | \$ 21,949,280 | \$ 30,666,311 |
| Segment loss | | |
| MC | \$(6,432,813) | \$(1,962,388) |
| Riverbank | 77,427 | - |
| OTCQX | 138,826 | 93,209 |
| Total segment loss | (6,216,560) | (1,869,179) |
| Consolidation items and elimination | (1,677,102) | (3,564,344) |
| Consolidated loss from continuing operations | \$(7,893,662) | \$(5,433,523) |

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

MERRIMAN HOLDINGS, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****13. Commitments and Contingencies**

The following is a table summarizing significant commitments as of December 31, 2011, consisting of notes payable, operating commitments, future minimum lease payments under all non-cancelable operating leases and capital leases with initial or remaining terms in excess of one year.

| | Notes Payable | Operating Commitments | Operating Leases | Total |
|-------------------|------------------|--------------------------|---------------------|--------------|
| 2012 | \$ 175,063 | \$ 1,467,813 | \$ 1,774,002 | \$ 3,416,878 |
| 2013 | 1,381,580 | 360,520 | 1,327,563 | 3,069,663 |
| 2014 | 967,907 | 65,000 | - | 1,032,907 |
| Total commitments | 2,524,550 | 1,893,333 | 3,101,565 | 7,519,448 |
| Interest | (604,550) | - | - | (604,550) |
| Net commitments | \$ 1,920,000 | \$ 1,893,333 | \$ 3,101,565 | \$ 6,914,898 |

The Company leases its San Francisco corporate office and its New York office under non-cancelable operating leases expiring in December 2013 and August 2013, respectively. Future annual minimum lease payments related to its various operating leases are included in the table above. Rent expense was approximately \$1,460,000 in 2011, net of \$158,000 sublease rent received, \$1,324,000 in 2010, net of \$143,000 sublease rent received.

The Company exited its primary research business when it sold the assets of its subsidiary Panel and liquidated the remaining assets under management by MCF Asset Management, LLC during 2010. The Company subleased its Cambridge office to the buyers of Panel Intelligence and subleased the office space in San Francisco, previously occupied by MCF Asset Management, to a third party. The Cambridge lease was assigned to the buyers of Panel Intelligence during 2010. The San Francisco sublease expired in December 2011.

In connection with its underwriting activities, the Company enters into firm commitments for the purchase of securities in return for a fee. These commitments require it to purchase securities at a specified price. Securities underwriting exposes the Company to market and credit risk, primarily in the event that, for any reason, securities purchased by the Company cannot be distributed at anticipated price levels. As December 31, 2011 and 2010, the Company had no open underwriting commitments.

Marketable securities, restricted cash, and cash held by the clearing broker may be used to maintain margin requirements. At December 31, 2011 and 2010, the Company had \$250,000 of cash on deposit with its clearing broker. Furthermore, the marketable securities owned may be hypothecated or borrowed by the clearing broker.

From time to time, the Company may obtain funds through capital leases to purchase furniture and equipment, to replace current ones or for expansion. The Company did not enter into any capital lease agreements in 2011 or 2010.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Commitments and Contingencies (continued)

Legal Proceedings

Del Biaggio/Cacchione Matters

A number of lawsuits have been filed against the Company and its broker dealer subsidiary, MC (collectively, "Merriman Parties"), in connection with the actions of William Del Biaggio III (Del Biaggio), a former customer of the Company and David Scott Cacchione (Cacchione), a former retail broker of the Company. Del Biaggio and Cacchione plead guilty to securities fraud and were subsequently imprisoned.

Lawsuits against the Company in connection with Cacchione's activities are as follows:

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

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

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

Complaints were filed in the San Francisco County Superior Court, California, by Henry Khachaturian in January 2011, by Chuck Peterson in February 2010 and by Dolores Salvi in October 2010. The complaints also named as defendants the Company's officers and former officers D. Jonathan Merriman, Gregory Curhan, and Robert Ford. Messrs Curhan and Ford were dropped from the case in January 2011. The complaints were consolidated into one case in March 2011. The complaints allege that plaintiffs were convinced by the Company to purchase shares of a small, risky stock in which the Company held a position. It further alleges that the Company's broker dealer subsidiary, Merriman Capital, Inc. did not permit plaintiffs to sell the shares when the stock's price fell. The complaints seek unspecified compensatory and punitive damages. The Company believes it has meritorious defenses and intends to contest these claims vigorously. Since the Company believes that the likelihood of an unfavorable outcome in the case is remote, management has not provided an accrual for this lawsuit.

Don Arata and Gary Thronhill, et al. v. Merriman Capital, Inc. et al.

In July 2008, the Company and its broker dealer subsidiary, MC were served with complaints filed in the San Francisco County, California Superior Court by several plaintiffs who invested money with Del Biaggio and related entities. In March 2009, the Company and MC were served with an amended consolidated complaint on behalf of 39 plaintiffs which consolidated several similar pending actions filed by the same law firm. Plaintiffs allege, among other things, fraud based on Cacchione's alleged assistance to Del Biaggio in connection with the fraudulent investments and the Company's failure to discover and stop the continuing fraud. Plaintiffs in this lawsuit seek damages of over \$9 million. The Merriman Parties responded to the amended consolidated complaint in June 2009 denying all liability. Although we believed that the Merriman Parties had meritorious defenses, the Company and MC signed separate comprehensive settlement agreements with the plaintiffs on May 9, 2011. MC was dismissed from the case with prejudice in May 2011. The Company was dismissed from the case with prejudice in January 2012.

Pacific Capital Bank v. Merriman Capital, Inc.

In October 2008, MC was served with a complaint filed in the San Francisco County Superior Court by Pacific Capital Bank. Plaintiff alleges, among other things, fraud based on Cacchione having induced plaintiff into making loans to Del Biaggio. Plaintiff in this lawsuit alleges damages of \$1.84 million. MC settled all claims in this case on January 28, 2011.

Other Litigation

Other legal cases not arising out of the Del Biaggio/Cacchione matters are as follows:

Spare Backup v. Merriman Capital, Inc. (Settled)

In April 2008, MC entered into an engagement to provide investment banking services to Spare Backup, Inc. MC completed a bridge financing for Spare Backup, Inc. in the amount of \$1,300,000 in June 2008. As a result of closing the financing transaction, MC was entitled to reimbursement of its expenses, a convertible note with principal valued at \$161,100 and 370,370 shares of Spare Backup, Inc.'s common stock. As of November 2008, these transaction fees had not been paid to MC. We hired counsel to seek payment of the fees and to proceed to arbitration, as is specified in the engagement letter. In January 2009, MC filed a petition to compel arbitration in the San Francisco County Superior Court. In response to the petition to compel arbitration, Spare Backup filed a complaint in the Riverside County Superior Court, Indio Branch, for fraud and declaratory relief alleging that MC fraudulently induced it to execute the investment banking engagement letter. The petition for arbitration was granted in May of 2009 and the Indio action was stayed for all purposes pending the outcome of arbitration. The parties settled the case by mutual agreement on March 22, 2011.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Commitments and Contingencies (continued)

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

The expenses incurred by the Company for the years ended December 31, 2011 and 2010 for legal services and litigation settlements amounted to \$698,000 and \$3,411,000, respectively. Of the total legal settlement and professional fees incurred for the year ended December 31, 2010, \$606,000 was settled in common stock, of which \$461,675 remain issuable in 2011.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Financial Instruments, Off-Balance Sheet Arrangements and Credit Risk

Financial Instruments

The Company's broker-dealer entity trades securities that are primarily traded in United States markets. As of December 31, 2011 and 2010, the Company had not entered into any transactions involving financial instruments, such as financial futures, forward contracts, options, swaps or derivatives that would expose the Company to significant related off-balance-sheet risk.

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

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

Off-Balance Sheet Arrangements

The Company was not a party to any off-balance sheet arrangements during the two years ended December 31, 2011. In particular, the Company does not have any interest in so-called limited purpose entities, which include special purpose entities and structured finance entities.

Credit Risk

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

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

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Compliance with Listing Requirements

On December 8, 2010, the Company was notified by the NASDAQ Stock Market that it had violated NASDAQ Listing Rule 5635 by issuing warrants to Ronald L. Chez, the Company's Co-Chairman of the Board of Directors, without shareholders' approval. The warrants were issued in August 2009 to purchase 42,857 shares (after adjusting for the Company's 1-for-7 reverse stock split in August 2010) of the Company's common stock, and were for Mr. Chez's service as Chairman of the Strategic Advisory Committee in connection with the Company's Series D Preferred Stock financing.

On January 21, 2011, the Company entered into an amended agreement with Mr. Chez restricting the exercise of these warrants without prior shareholders' approval. The Company intends to obtain shareholders' approval for these warrants in the next shareholders' meeting. On February 8, 2011, the Company was notified by the NASDAQ Stock Market that the matter had been resolved. In connection with such resolution, the Company was issued a Letter of Reprimand in accordance with NASDAQ Listing Rule 5810(c)(4).

On February 8, 2011, the Company was also notified by the NASDAQ Stock Market that Mr. Chez, who served on the Company's Audit Committee from August 10, 2010 to December 21, 2010, was ineligible to do so under NASDAQ Listing Rule 5605(c)(A)(ii). The Company took immediate corrective action and upon Mr. Chez's resignation from the Audit Committee and replacement by an independent director, the Company has since been in compliance with NASDAQ Listing Rules.

16. Regulatory Requirements

MC is a broker-dealer subject to Rule 15c3-1 of the Securities Exchange Act of 1934, which specifies uniform minimum net capital requirements, as defined, for their registrants. As of December 31, 2011, MC had regulatory net capital, as defined, of \$1,894,000, which exceeded the amount required by \$1,644,000. MC complies with the alternative net capital requirement allowed in Appendix E of Rule 15c3-1. MC is exempt from Rules 15c3-3 and 17a-13 under the Securities Exchange Act of 1934 because it does not carry customer accounts, nor does it hold customer securities or cash.

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

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Related Party Transactions

Sale of Convertible Notes Receivable

On December 30, 2010, the Company sold its convertible note receivable from a corporate issuer, Digital Display Networks, Inc., with a face value of \$50,000, including any accrued interest, to Peter Coleman, the Company's previous Chief Financial Officer and Ronald L. Chez, its Co-Chairman of the Board of Directors, for a total selling price of \$50,000. The convertible note receivable accrued interest at an annual rate of 12%. As of December 31, 2010, the convertible note receivable was no longer included in the Company's consolidated statement of financial condition. In relation to the sale, the Company incurred an immaterial loss, which is included in other income, net in the Company's consolidated statement of operations.

Temporary Subordinated Borrowings

On January 31, 2011, the Company borrowed \$2,800,000 from Ronald L. Chez, its Co-Chairman of the Board of Directors. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. The Company incurred \$56,000 in loan fees, which amount was included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and related fees were paid in full on February 7, 2011.

On September 28, 2010, the Company borrowed \$4,000,000 from DGB Investment, Inc. (DGB). DGB is controlled by Douglas G. Bergeron, who was a previous member of the Board of Directors. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. Interest on the loan was \$60,000 for each 10-day period. For the year ended December 31, 2010, the Company incurred of \$60,000 in loan fees, which amount was included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and related fees were paid in full in October 2010.

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On April 23, 2010, the Company borrowed \$1,000,000 from DGB and \$6,000,000 from Ronald L. Chez. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. The Company incurred \$230,000 in loan fees, which amount was included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and related fees were paid in full in May 2010.

On January 20, 2010, the Company borrowed \$11,000,000 from DGB and the Bergeron Family Trust, both controlled by Douglas G. Bergeron. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. The Company incurred \$731,000 in loan fees, which amount was included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and related fees were paid in full in February 2010.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Related Party Transactions (continued)

Subordinated Notes Payable to Related Parties

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

The total proceeds of \$1,000,000 raised in the transaction above were accounted for as an issuance of debt with stock. The total proceeds of \$1,000,000 have been allocated to these individual instruments based on the relative fair values of each instrument. Based on such allocation method, the value of the stocks issued in connection with the Subordinated Notes was \$206,000, which was recorded as a discount on the debt and applied against the Subordinated Notes. As of December 31, 2010, the Subordinated Notes of \$809,000, net of \$191,000 discount, remained outstanding and is included in notes payable to related parties in the Company's consolidated statements of financial condition.

As of December 31, 2011, \$830,000 of the Subordinated Notes, net of \$120,000 discount, remain outstanding and is included in notes payable to related parties in the Company's consolidated statements of financial condition. The remaining Subordinated Notes held by parties no longer related to the Company of \$44,000, net of \$6,000 discount, are included in notes payable in the Company's consolidated statements of financial condition. The discount on the note is amortized over the term of the loan using the effective interest method. For the year ended December 31, 2011, the Company incurred \$140,000 in interest on the Subordinated Notes. Total interest of \$105,000 remains outstanding as of December 31, 2011 and is included in accrued expenses and other in the consolidated statements of financial condition.

2010 Chez Secured Promissory Note

On November 17, 2010, the Company borrowed \$1,050,000 from Ronald L. Chez, its Co-Chairman of the Board of Directors, pursuant to a secured promissory note (2010 Chez Secured Promissory Note). The 2010 Chez Secured Promissory Note is secured by certain accounts receivable which were purchased by the Company from MC with the proceeds of the transaction being used for such purchase. The 2010 Chez Secured Promissory Note is due and payable in two tranches as the accounts receivable became due, with \$950,000 due on January 19, 2011 and \$100,000 due on February 28, 2011. It provides for interest of 29.2% per annum and additional consideration comprising two components (i) 50,000 shares of the Company's Series D Preferred Stock (which is convertible into 7,142 shares of our Common Stock); and (ii) a cash fee of \$15,000. The proceeds were used to supplement underwriting capacity for MC. The Company paid off \$720,000 of the Secured Promissory Note on December 22, 2010. As of December 31, 2010, the 2010 Chez Secured Promissory Note of \$330,000 remained outstanding and is included in notes payable to related parties in the Company's consolidated statements of financial condition.

On January 21, 2011, the 2010 Chez Secured Promissory Note was amended to extend the maturity date to April 15, 2011 and change the 50,000 Series D Convertible Preferred Stock consideration to cash compensation of \$21,000. For the year ended December 31, 2011, the Company incurred \$42,000 in fees, composed of \$15,000 and \$21,000 in cash fees, and \$6,000 of interest at 29.2% per annum. On March 24, 2011, all principal and related fees were paid and no balance remains outstanding.

2011 Chez Secured Promissory Note

On April 7, 2011, Ronald L. Chez, the Company's Co-Chairman of the Board of Directors, invested \$330,000 in a three year secured promissory note (2011 Chez Secured Promissory Note) at an interest rate of six percent (6%) per annum payable quarterly. This note is secured by a security interest in and right of setoff against all of such the Company's right, title and interest in, to all of the capital stock of Merriman Capital Inc., together with all proceeds, rents, profits and returns of and from any of the foregoing. Also, beginning on the date which is one year from the issuance date, if there is an equity financing of the Company resulting in gross proceeds of at least \$15,000,000 in new money, holders shall have the option to put 50% of Secured Promissory Notes originally purchased back to the Company, for an amount equal to the principal plus accrued but unpaid interest, on 30 days written notice.

On November 16, 2011, the 2011 Chez Secured Promissory Note plus accrued interest of \$3,000 was exchanged for 445,299 shares of common stock of the Company calculated as (i) the total amount of principal plus accrued but unpaid interest divided by (ii) an amount equal to 80% of the average closing price per share of common stock as quoted on the exchange on which it principally trades for the 30 day period ending two days prior to the closing date.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company accounted for this transaction in accordance with ASC 470, *Debt*, as an extinguishment of debt, whereby a gain or loss was calculated as the difference between the reacquisition price and net carrying value of the debt. The reacquisition price was determined as the sum of the fair value of the common stock and new warrants. The warrants were valued using the Black-Scholes fair value model. A loss of \$157,000 was recorded on the transaction based on a reacquisition price of \$490,000 and net carrying value, including interest, of \$333,000.

For the year ended December 31, 2011, the Company incurred \$12,000 in interest in relation to this note.

Secured Promissory Notes

In April 2011, the Company raised \$2,770,000 from 24 investors, of which 11 were directors, officers, consultants or employees of the Company at the time of issuance, pursuant to a series of secured promissory notes (Secured Promissory Notes). The Secured Promissory Notes are for a term of three years and provide for interest of ten percent (10.0%) per annum to be paid in cash quarterly. Additional consideration was paid to the lenders at closing comprising warrants to purchase shares of the common stock of the Company at a price per share equal to 85% of the Company's stock price at the closing date (the Warrants). 86 Warrants were issued for each \$1,000 invested. A total of 238,220 Warrants were issued. The Warrants issued to directors, officers, consultants and employees (Insider Warrants) of the Company provide that the Insider Warrants will not be exercisable unless first approved by the Company's stockholders. These notes are secured by a security interest in and right of setoff against all of such the Company's right, title and interest in, to all of the capital stock of MC, together with all proceeds, rents, profits and returns of and from any of the foregoing. Also, beginning on the date which is one year from the issuance date, if there is an equity financing of the Company resulting in gross proceeds of at least \$15,000,000 in new money, holders shall have the option to put 50% of Secured Promissory Notes originally purchased back to the Company, for an amount equal to the principal plus accrued but unpaid interest, on 30 days written notice. The Secured Promissory Notes were issued in two tranches, one closed on April 7, 2011 for \$2,470,000 and the other closed on April 21, 2011 for \$300,000.

The total proceeds raised in the transaction above were accounted for as an issuance of debt with warrants. The total proceeds of \$2,770,000 have been allocated to these 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 Secured Promissory Notes received was \$420,000, which was recorded as a discount on the debt and applied against the Secured Promissory Notes.

On October 11, 2011, the Company repurchased the \$100,000 Secured Promissory Note from a former officer and director in connection with his separation from the Company.

On November 16, 2011, the Company entered into exchange agreements with certain Secured Promissory Note investors whereby the investors agree to exchange the Secured Promissory Notes and Warrants for shares of common stock and new warrants to purchase shares of common stock of the Company as follows.

(c) For the Secured Promissory Notes, a number of new shares of common stock equal to (i) the total amount of principal plus accrued but unpaid interest of the Secured Promissory Notes submitted for cancellation divided by (ii) an amount equal to 80% of the average closing price per share of common stock as quoted on the exchange on which it principally trades for the 30 day period ending two days prior to the closing date (the AP); plus

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

Fifteen investors agreed to exchange \$1,750,000 principal balance of the Secured Promissory Notes plus \$22,000 accrued interest for 2,373,505 shares of common stock and 188,126 warrants.

The Company accounted for this transaction in accordance with ASC 470, *Debt*, as an extinguishment of debt, whereby a gain or loss was calculated as the difference between the reacquisition price and net carrying value of the debt. The reacquisition price was determined as the sum of the fair value of the common stock and new warrants less the fair value of the original Warrants. The warrants were valued using the Black-Scholes fair value model. A loss of \$1,134,000 was recorded on the transaction based on a reacquisition price of \$2,688,000 and net carrying value, including interest, of \$1,554,000.

As of December 31, 2011, \$636,000 of the Secured Promissory Notes, net of \$84,000 discount, remain outstanding and are included in notes payable in the Company's consolidated statements of financial condition. The remaining Secured Promissory Notes issued to Insiders of \$176,000, net of \$24,000 discount, are included in notes payable to related parties in the Company's consolidated statements of financial condition.

For the year ended December 31, 2011, the Company incurred \$178,000 in interest in relation to these notes. As of December 31, 2011, \$23,000 of interest remains outstanding and is included in accrued expenses and other in the consolidated statements of financial condition.

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Related Party Transactions (continued)

Series D Convertible Preferred Stock

Three of the investors in the Series D Convertible Preferred Stock transaction, Messrs. Andrew Arno, Douglas Bergeron, and Ronald Chez, joined the Company's Board of Directors. In December 2010 and January 2011, Douglas Bergeron and Andrew Arno left as members of the Board of Directors, respectively. In addition, the Company's CEO and former CFO, along with 11 other executives and senior managers of MC, were also investors in the Series D Convertible Preferred Stock transaction. Finally, all five members of the Company's Board of Directors prior to the transaction were investors in the Series D Convertible Preferred Stock transaction.

Series E Convertible Preferred Stock

On December 30, 2011, the Company issued 2,531,744 shares of Series E Convertible Preferred Stock at \$0.63 per share plus warrants to purchase 1,265,874 shares of the Company's common stock with an exercise price of \$0.63 per share. The warrants expire five years from the effective date. All Series E Convertible Preferred shareholders are directors of the Company.

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

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

to Common Stock basis.

Board of Directors Compensation

In 2009, the Company formed a Strategic Advisory Committee of the Board of Directors chaired by Ronald L. Chez, the lead investor in the Series D Convertible Preferred Stock strategic transaction. During the first year, the Chairman of the Committee was compensated with five-year warrants to purchase 42,857 shares the Company's common stock at \$4.55 to be issued pro rata on a monthly basis from September 2009 to September 2010. No other compensation was provided for Mr. Chez's service on the Committee. For the year ended December 31, 2010, the Company issued 29,525 warrants to Mr. Chez and recorded stock-based compensation expense of \$103,000 based on the calculated fair value of the warrants using the Black-Scholes option valuation model.

On January 21, 2011, the Company entered into an amended agreement with Mr. Chez restricting the exercise of these warrants without prior shareholders' approval. The Company intends to obtain shareholders' approval for these warrants in the next shareholders' meeting.

Due to the modification of the terms of the warrants, the Company recorded a decrease in the stock-based compensation expense of \$176,000 for the year ended December 31, 2011. As of December 31, 2011, the Company recorded accrued expenses of \$11,000 as the Company's best estimate of the services performed by Mr. Chez as the Chairman of the Strategic Advisory Committee until the warrants are approved by the shareholders.

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.

18. Quarterly Financial Data (Unaudited)

The table below sets forth the operating results represented by certain items in the Company's consolidated statements of operations for each of the eight quarters in the two years ended December 31, 2011. This information is unaudited,

but in the Company's opinion, reflects all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of such information in accordance with generally accepted accounting principles. The results for any quarter are not necessarily indicative of results for any future period.

MERRIMAN HOLDINGS, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****18. Quarterly Financial Data (Unaudited) (continued)**

| | 2011 1st | 2nd | 3rd | 4th |
|---|-------------|---------------|---------------|---------------|
| Revenue* | \$9,526,088 | \$5,400,732 | \$4,086,538 | \$2,935,922 |
| Operating expenses* | 9,024,803 | 8,336,680 | 5,770,164 | 5,107,613 |
| Operating income (loss) from continuing operations | 501,285 | (2,935,948) | (1,683,626) | (2,171,691) |
| Income (loss) from continuing operations | 442,766 | (3,025,584) | (1,842,526) | (3,468,318) |
| Income from discontinued operations | - | - | - | - |
| Net income (loss) | \$442,766 | \$(3,025,584) | \$(1,842,526) | \$(3,468,318) |
| Net income (loss) attributable to common shareholders | \$302,694 | \$(3,163,292) | \$(1,971,959) | \$(3,552,439) |
| Basic net income (loss) per share: | | | | |
| Income (loss) from continuing operations | \$0.19 | \$(1.23) | \$(0.69) | \$(0.79) |
| Income from discontinued operations | - | - | - | - |
| Net income (loss) per share | \$0.19 | \$(1.23) | \$(0.69) | \$(0.79) |
| Diluted net income (loss) per share: | | | | |
| Income (loss) from continuing operations | \$0.08 | \$(1.23) | \$(0.69) | \$(0.79) |
| Income from discontinued operations | - | - | - | - |
| Net income (loss) per share | \$0.08 | \$(1.23) | \$(0.69) | \$(0.79) |
| Net income (loss) attributable to common shareholders | \$0.05 | \$(1.28) | \$(0.74) | \$(0.81) |

* Total revenue and operating expenses do not include revenue and operating expenses from discontinued operations

MERRIMAN HOLDINGS, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****18. Quarterly Financial Data (Unaudited) (continued)**

| | 2010 1st | 2nd | 3rd | 4 th |
|---|-------------|---------------|---------------|-----------------|
| Revenue* | \$9,385,917 | \$6,159,621 | \$4,236,826 | \$10,883,947 |
| Operating expenses* | 9,053,178 | 8,653,186 | 8,779,294 | 9,492,347 |
| Operating loss from continuing operations | 332,739 | (2,493,565) | (4,542,468) | 1,391,600 |
| (Loss) income from continuing operations | 305,859 | (2,492,613) | (4,512,696) | 1,265,927 |
| Income (loss) from discontinued operations | 34,487 | 60,617 | - | - |
| Net (loss) income | \$340,346 | \$(2,431,996) | \$(4,512,696) | \$1,265,927 |
| Net (loss) income attributable to common shareholders | \$188,546 | \$(2,579,896) | \$(4,659,096) | \$1,120,902 |
| Basic net (loss) income per share: | | | | |
| (Loss) income from continuing operations | \$0.17 | \$(1.28) | \$(2.22) | \$0.57 |
| Income (loss) from discontinued operations | 0.02 | 0.03 | - | - |
| Net (loss) income per share | \$0.19 | \$(1.25) | \$(2.22) | \$0.57 |
| Diluted net (loss) income per share: | | | | |
| (Loss) income from continuing operations | \$0.05 | \$(1.28) | \$(2.22) | \$0.23 |
| Income (loss) from discontinued operations | - | 0.03 | - | - |
| Net (loss) income per share | \$0.05 | \$(1.25) | \$(2.22) | \$0.23 |
| Net income (loss) attributable to common shareholders | \$0.03 | \$(1.32) | \$(2.29) | \$0.51 |

* Total revenue and operating expenses do not include revenue and operating expenses from discontinued operations

MERRIMAN HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. Subsequent Events

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

Related Party Transactions

On January 26, 2012, the Company borrowed \$2,500,000 from Ronald L. Chez, its Co-Chairman of the Board of Directors. The loan was in the form of a temporary subordinated loan in accordance with Rule 15c3-1 of the Securities Exchange Act of 1934. Total fees incurred were \$110,000. The loan and related fees were paid in full on February 17, 2012.

On February 14, 2012, the Company sold certain trade receivables with a value of \$507,000 at a discount to Mr. Chez for \$500,000. Mr. Chez assumed the risk of collection with respect to the receivables he purchased.

Series E Convertible Preferred Stock

On January 31, 2012, the Company issued 158,730 shares of Series E Convertible Preferred Stock at \$0.63 per share plus warrants to purchase 79,365 shares of the Company's common stock with an exercise price of \$0.63 per share. The investor is not a related party to the Company.

Operating Lease

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On February 22, 2012, the Company signed an amendment to its existing New York office operating lease expiring on July 31, 2013. The amendment extends the term of the lease for a period of 7 years commencing on August 1, 2013 and ending on July 31, 2020 with minimum rent at the following rates:

- (a) \$960,00 per annum (\$80,000 per month) for the first 3 years and 6 months;
- (b) \$1,024,000 per annum (\$85,333 per month) for the remainder of the lease term.

The amendment also provides for \$256,000 of tenant improvement allowance and a six month abatement of minimum rent of \$88,000 per month for June 2012, July 2012, August 2012, April 2013, May 2013 and June 2013.

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

The financial statements included in this report have been audited by Burr Pilger Mayer, Inc. (“BPM”), an independent registered public accounting firm, as stated in its audit report appearing herein.

During the year ended December 31, 2011 and through the date of this Annual Report on Form 10-K, there were no disagreements with BPM on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure which, if not resolved to BPM’s satisfaction, would have caused them to make reference to the subject matter in connection with their report on the Company’s consolidated financial statements; and there were no reportable events as set forth in applicable SEC regulations.

Item 9a. Controls and Procedures

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

Based on their evaluation as of December 31, 2011, the principal executive officer and principal financial officer of the Company have concluded that the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are not effective because of a material weakness in internal controls over financial reporting related to our finance department as described below.

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

Due to its inherent limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. Projections of any evaluation of effectiveness to future periods are subject to the risk that policies and procedures may become inadequate because of changes in conditions, or that the degree of compliance may deteriorate. All internal control systems, no matter how well designed, have inherent

limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. These inherent limitations are taken into consideration in the design of the financial reporting internal control to reduce, though not eliminate, this risk.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2011 and based on that evaluation, they concluded that such internal controls and procedures were not effective based on the material weakness described below.

The material weakness identified related to deficiencies in the accounting research and reporting functions and the closing and reporting process. This material weakness resulted in improper applications of U.S. GAAP to certain equity and debt transactions and the improper valuation of securities. As a result we recorded certain adjustments, including a loss on early extinguishment of debt of \$1,184,000 to correct these errors.

Planned Remediation Efforts to Address Material Weakness

Management has determined that its processes and procedures over the accounting research, accounting close and reporting processes was not adequate due to unexpected personnel turnover in the finance department. As a result the Company has brought in a senior financial person and plans to hire additional qualified personnel to remediate the material weakness discussed above.

Management is committed to improving the Company's internal control over financial reporting processes and will meet frequently with the Audit Committee to monitor and report on the ongoing effectiveness of such remediation activities and controls. The Company expects to complete the required remediation during 2012.

Changes in Internal Controls – Except as otherwise discussed above, 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 quarter ended December 31, 2011, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9b. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information is incorporated by reference to the Company's definitive 2011 Proxy Statement.

Item 11. Executive Compensation

The information is incorporated by reference to the Company's definitive 2011 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information is incorporated by reference to the Company's definitive 2011 Proxy Statement.

Item 13. Certain Relationships and Related Transactions

The information is incorporated by reference to the Company's definitive 2011 Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information is incorporated by reference to the Company's definitive 2011 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

2. Financial Statement Schedules

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

3. Exhibits

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Merriman Holdings, Inc.

March 29, 2012 By: /s/ D. Jonathan Merriman

D. Jonathan Merriman,
Chief Executive Officer

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

| Signature | Title | Date |
|--|---|----------------|
| /s/ D. Jonathan Merriman D. Jonathan Merriman | Chief Executive Officer, and Co-Chairman of the Board of Directors | March 29, 2012 |
| /s/ Ronald L. Chez Ronald L. Chez | Co-Chairman of the Board of Directors | March 29, 2012 |
| /s/ Patrick O'Brien Patrick O'Brien | Director | March 29, 2012 |
| /s/ William J. Febbo William J. Febbo | Director | March 29, 2012 |
| /s/ Dennis G. Schmal Dennis G. Schmal | Director | March 29, 2012 |
| /s/ Jeffrey M. Soinski Jeffrey M. Soinski | Director | March 29, 2012 |

EXHIBIT INDEX

| Exhibit No. | Description |
|-------------|--|
| 3.1 | Certificate of Incorporation, as amended (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Reg. No. 333-37004)). |
| 3.3 | Amended and Restated Bylaws, as amended. (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (Reg. No. 333-53316)). |
| 3.4 | Certificate of Amendment to the Certificate of Incorporation changing name from MC Corporation to Merriman Holdings, Inc. (incorporated herein by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on May 14, 2008 (Reg. No. 001-15831)). |
| 3.5 | Certificate of Designation providing for Series D Preferred Stock (incorporated by Reference to Exhibit 3.5 of the Company's Current Report on Form 8-K filed on August 28, 2009). |
| 3.8 | Amendment to Certificate of Designation amending provisions for Series D Preferred Stock. |
| 3.9 | Amendment to Certificate of Designation further amending provisions for Series D Preferred Stock (incorporated by Reference to Exhibit 3.5 of the Company's Current Report on Form 8-K filed on January 5, 2012). |
| 3.10 | Certificate of Designation providing for Series D Preferred Stock (incorporated by Reference to Exhibit 3.5 of the Company's Current Report on Form 8-K filed on January 5, 2012). |
| 4.1 | Form of Convertible Subordinated Note related to the Company's private financing, dated November 26, 2001 (incorporated by reference to Exhibit 4.1 to the Company's Form 10-K for the year ended December 31, 2001) (Reg. No. 001-15831). |
| 4.2 | Form of Class A Redeemable Warrant to Purchase Common Stock of the Company related to Merriman Holdings, Inc. private financing, dated November 26, 2001 (incorporated by reference to Exhibit 4.2 to the Company's Form 10-K for the year ended December 31, 2001) (Reg. No. 001-15831). |
| 10.13+ | Employment Agreement between the Company and D. Jonathan Merriman dated October 5, 2000 (incorporated herein by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 (Reg. No. 333-53316)). |
| 10.15+ | 1999 Stock Option Plan (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 (Reg. No.333-43776)). |
| 10.16+ | Form of Non-Qualified, Non-Plan Stock Option Agreement dated February 24, 2000 between the Company and Phillip Rice, Nick Cioll, Paul Wescott, Ross Mayfield, Russ Matulich, Terry Ginn, Donald Sledge, Christopher Vizas, Douglas Cole, Ronald Spears and Jonathan Merriman (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Forms S-8 (Reg. No. 333-43776)). |

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- 10.17+ Schedule of non-plan option grants made under Non-Qualified, Non-Plan Stock Option Agreements to directors and executive officers (incorporated herein by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1 (Reg. No. 333-53316)).
- 10.18+ 2000 Stock Option and Incentive Plan, as amended (incorporated herein by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 (Reg. No. 333-53316)).
- 10.23 Master Equipment Lease Agreement dated March 16, 2000 (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (Reg. No. 333-37004)).
- 10.29 Agreement between the Company and BL Partners related to RMG Partners Corporation, dated April 8, 2001 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended June 30, 2001) (Reg. No. 001-15831).

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Exhibit No. Description

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

Exhibit No. Description

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

+Represents management contract or compensatory plan or arrangement.