

WHITEBOX ADVISORS LLC
Form SC 13G/A
February 13, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No. 1)*

Avatar Holdings Inc.

(Name of Issuer)

Common Stock

(Title of Class of Securities)

53494100

(CUSIP Number)

December 31, 2008

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

Rule 13d-1(b)

Rule 13d-1(c)

Rule 13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page. The information required in the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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

SEC 1745 (2-02)

CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Advisors, LLC

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

633,355

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

633,355

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

633,355 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

6.8%

12 TYPE OF REPORTING PERSON*

IA

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Combined Advisors, LLC

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

238,864

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

238,864

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

238,864 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

2.6%

12 TYPE OF REPORTING PERSON*

IA

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Combined Partners, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

238,864

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

238,864

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

238,864 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

2.6%

12 TYPE OF REPORTING PERSON*

PN

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Combined Fund, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

238,864

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

238,864

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

238,864 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

2.6%

12 TYPE OF REPORTING PERSON*

PN

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Combined Fund, Ltd.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands

5 SOLE VOTING POWER

NUMBER OF

0

SHARES 6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

238,864

EACH 7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

238,864

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

238,864 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

2.6%

12 TYPE OF REPORTING PERSON*

CO

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Convertible Arbitrage Advisors, LLC

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

219,517

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

219,517

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

219,517 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

2.4%

12 TYPE OF REPORTING PERSON*

IA

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Convertible Arbitrage Partners, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

219,517

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

219,517

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

219,517 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

2.4%

12 TYPE OF REPORTING PERSON*

PN

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Convertible Arbitrage Fund, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

219,517

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

219,517

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

219,517 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

2.4%

12 TYPE OF REPORTING PERSON*

PN

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Convertible Arbitrage Fund, Ltd.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

219,517

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

219,517

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

219,517 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

2.4%

12 TYPE OF REPORTING PERSON*

CO

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Diversified Convertible Arbitrage Advisors, LLC

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

40,608

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

40,608

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

40,608 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

0.4%

12 TYPE OF REPORTING PERSON*

IA

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Diversified Convertible Arbitrage Partners, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Cayman Islands

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

40,608

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

40,608

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

40,608 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

0.4%

12 TYPE OF REPORTING PERSON*

PN

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Diversified Convertible Arbitrage Fund, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

40,608

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

40,608

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

40,608 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

0.4%

12 TYPE OF REPORTING PERSON*

PN

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Diversified Convertible Arbitrage Fund, Ltd.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Cayman Islands

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

40,608

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

40,608

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

40,608 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

0.4%

12 TYPE OF REPORTING PERSON*

CO

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Intermarket Advisors, LLC

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

462

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

462

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

462 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

.005%

12 TYPE OF REPORTING PERSON*

IA

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Intermarket Partners, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

462

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

462

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

462(see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

.005%

12 TYPE OF REPORTING PERSON*

PN

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Intermarket Fund, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

462

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

462

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

462 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

.005%

12 TYPE OF REPORTING PERSON*

PN

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Intermarket Fund, Ltd.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

462

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

462

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

462 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

.005%

12 TYPE OF REPORTING PERSON*

CO

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Pandora Select Advisors, LLC

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

64,970

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

64,970

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

64,970 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

.7%

12 TYPE OF REPORTING PERSON*

IA

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Pandora Select Partners, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

64,970

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

64,970

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

64,970 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

0.7%

12 TYPE OF REPORTING PERSON*

PN

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Pandora Select Fund, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

64,970

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

64,970

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

64,970 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

0.7%

12 TYPE OF REPORTING PERSON*

PN

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Pandora Select Fund, Ltd.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

64,970

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

64,970

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

64,970 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

0.7%

12 TYPE OF REPORTING PERSON*

CO

***SEE INSTRUCTION BEFORE FILLING OUT!**

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Special Opportunities Advisors, LLC

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

45,249

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

45,249

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

45,249 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

.5%

12 TYPE OF REPORTING PERSON*

IA

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CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Special Opportunities Partners, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

45,249

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

45,249

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

45,249 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

.5%

12 TYPE OF REPORTING PERSON*

PN

***SEE INSTRUCTION BEFORE FILLING OUT!**

Page 24 of 29

CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Special Opportunities Fund, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

45,249

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

45,249

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

45,249 (see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

.5%

12 TYPE OF REPORTING PERSON*

PN

***SEE INSTRUCTION BEFORE FILLING OUT!**

Page 25 of 29

CUSIP No. 53494100

13G

1 NAMES OF REPORTING PERSONS

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

Whitebox Special Opportunities Fund, Ltd.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP*

(a)

(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

British Virgin Islands

5 SOLE VOTING POWER

NUMBER OF

0

SHARES

6 SHARED VOTING POWER

BENEFICIALLY

OWNED BY

45,249

EACH

7 SOLE DISPOSITIVE POWER

REPORTING

PERSON

0

8 SHARED DISPOSITIVE POWER

WITH:

45,249

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

45,249 see Item 4)

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES*

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

.5%

12 TYPE OF REPORTING PERSON*

CO

***SEE INSTRUCTION BEFORE FILLING OUT!**

Page 26 of 29

- Item 1.** (a) Name of Issuer
Avatar Holdings Inc. (the Company)
- (b) Address of Issuer's Principal Executive Offices
201 Alhambra Circle

Coral Gables, Florida 33134

- Item 2.** (a) Name of Person Filing

This statement is filed by:

- (i) Whitebox Advisors, LLC, a Delaware limited liability company (WA);
 - (ii) Whitebox Combined Advisors, LLC a Delaware limited liability company (WCA);
 - (iii) Whitebox Combined Partners, L.P. a British Virgin Islands limited partnership (WCP);
 - (iv) Whitebox Combined Fund, L.P. a Delaware limited liability company (WCFLP);
 - (v) Whitebox Combined Fund, Ltd. a British Virgin Islands limited partnership (WCFLTD);
 - (vi) Whitebox Convertible Arbitrage Advisors, LLC, a Delaware limited liability company (WCAA);
 - (vii) Whitebox Convertible Arbitrage Partners, L.P., a British Virgin Islands limited partnership (WCAP);
 - (viii) Whitebox Convertible Arbitrage Fund, L.P., a Delaware limited partnership (WCAFLP);
Whitebox Convertible Arbitrage Fund, Ltd., a British Virgin Islands business company
 - (ix) (WCAFLTD);
Whitebox Diversified Convertible Arbitrage Advisors, LLC, a Delaware limited liability company
 - (x) (WDCAA);
Whitebox Diversified Convertible Arbitrage Partners, L.P., a Cayman Islands limited partnership
 - (xi) (WDCAP);
Whitebox Diversified Convertible Arbitrage Fund, L.P., a Delaware limited partnership
 - (xii) (WDCAFLP);
Whitebox Diversified Convertible Arbitrage Fund, Ltd., a Cayman Islands exempted company
 - (xiii) (WDCAFLTD);
 - (xiv) Pandora Select Advisors, LLC, a Delaware limited liability company (PSA);
 - (xv) Pandora Select Partners, L.P., a British Virgin Islands limited partnership (PSP);
 - (xvi) Pandora Select Fund, L.P., a Delaware limited partnership (PSFLP); and
 - (xvii) Pandora Select Fund, Ltd., a British Virgin Islands business company (PSFLTD);
 - (xviii) Whitebox Intermarket Advisors, LLC a Delaware limited liability company (WIA);
 - (xix) Whitebox Intermarket Partners, L.P. a British Virgin Islands limited partnership (WIP);
 - (xx) Whitebox Intermarket Fund, L.P. a Delaware limited liability company (WIFLP);
 - (xxi) Whitebox Intermarket Fund, Ltd. a British Virgin Islands limited partnership (WIFLTD);
 - (xxii) Whitebox Special Opportunities Advisors, LLC a Delaware limited liability company (WSOA);
 - (xxiii) Whitebox Special Opportunities Partners, L.P. a British Virgin Islands limited partnership (WSOP);
 - (xxiv) Whitebox Special Opportunities Fund, L.P. a Delaware limited liability company (WSOFLP);
 - (xxv) Whitebox Special Opportunities Fund, Ltd. a British Virgin Islands limited partnership (WSOFLTD);
- (b) Address of Principal Business Office or, if none, Residence
The address of the business office of WA, WCA, WCFLP, WIA, WIFLP, WSOA, WSOFLP, WCAA, WCAFLP, WDCAA, WDCAFLP, PSA, and PSFLP is:

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3033 Excelsior Boulevard

Suite 300

Minneapolis, MN 55416

The address of the business office of WCAP, WCP, WCAFLTD, WCFLTD, WIP, WIFLTD, WSOP, WSOFLTD, PSP, and PSFLTD is:

Trident Chambers, P.O. Box 146

Waterfront Drive, Wickhams Cay

Road Town, Tortola, British Virgin Islands

The address of the business office of WDCAP and WDCAFLTD is:

One Capital Place

P.O. Box 847

Grand Cayman KY1-1103

Cayman Islands

(c) Citizenship

WA, WCA, WCFLP, WIA, WIFLP, WSOA, WSOFLP, WCAA, WCAFLP, WDCAA, WDCAFLP, PSA, and PSFLP are organized under the laws of the State of Delaware; WCAP, WCP, WCFLTD, WIP, WIFLTD, WSOP, WSOFLTD, WCAFLTD, PSP, and PSFLTD are organized under the laws of the British Virgin Islands; WDCAP and WDCAFLTD are organized under the laws of the Cayman Islands.

(d) Title of Class of Securities

Common Stock

(e) CUSIP Number

53494100

Item 3. If this statement is filed pursuant to §§ 240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

- (a) Broker or dealer registered under section 15 of the Act.
- (b) Bank as defined in section 3(a)(6) of the Act.
- (c) Insurance company as defined in section 3(a)(19) of the Act.
- (d) Investment company registered under section 8 of the Investment Company Act of 1940.
- (e) An investment adviser in accordance with § 240.13d-1(b)(1)(ii)(E).
- (f) An employee benefit plan or endowment fund in accordance with § 240.13d-1(b)(1)(ii)(F).

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- (g) " A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G).
- (h) " A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act.
- (i) " A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940.
- (j) " Group, in accordance with § 240.13d-1(b)(1)(ii)(J).

In addition to the investment advisers on behalf of whom this statement is filed pursuant to § 240.13d-1(b), this statement is also filed on behalf of the following persons pursuant to § 240.13d-1(c): WCAFLP, WDCAFLP, WCFLP, WIFLP, WSOFLP, PSFLP, WCAP WDCAP, PSP, WCAFLTD, WDCAFLTD, and PSFLTD.

Item

4. Ownership

(a) Amount Beneficially Owned

WA, acting as investment adviser to its clients, is deemed to beneficially own 633,355 shares of Common Stock of the Company.

WCA, acting as investment adviser to its clients, is deemed to beneficially own 238,864 Shares of Common Stock of the company.

WCP is deemed to beneficially own 238,864 shares of Common Stock of the as a result of its indirect ownership of convertible bonds of the Company.

WCFLP is deemed to beneficially own 238,864 shares of Common Stock of the as a result of its indirect ownership of convertible bonds of the company.

WCFLTD is deemed to beneficially own 238,864 shares of Common Stock of the as a result of its indirect ownership of convertible bonds of the company.

WCAA, acting as investment adviser to its clients, is deemed to beneficially own 219,517 shares of Common Stock of the Company.

WCAP is deemed to beneficially own 219,517 shares of Common Stock of the Company as a result of its direct ownership of convertible bonds of the Company.

WCAFLP is deemed to beneficially own 219,517 shares of Common Stock of the Company as a result of its indirect ownership of convertible bonds of the Company.

WCAFLTD is deemed to beneficially own 219,517 shares of Common Stock of the Company as a result of its indirect ownership of convertible bonds of the Company.

WDCAA, acting as investment adviser to its clients, is deemed to beneficially own 40,608 shares of Common Stock of the Company.

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WDCAP is deemed to beneficially own 40,608 shares of Common Stock of the Company as a result of its direct ownership of convertible bonds of the Company.

WDCAFLP is deemed to beneficially own 40,608 shares of Common Stock of the Company as a result of its indirect ownership of convertible bonds of the Company.

WDCAFLTD is deemed to beneficially own 40,608 shares of Common Stock of the Company as a result of its indirect ownership of convertible bonds of the Company.

PSA, acting as investment adviser to its clients, is deemed to beneficially own 64,970 shares of Common Stock of the Company.

PSP is deemed to beneficially own 64,970 shares of Common Stock of the Company as a result of its direct ownership of convertible bonds of the Company.

PSFLP is deemed to beneficially own 64,970 shares of Common Stock of the Company as a result of its indirect ownership of convertible bonds of the Company.

PSFLTD is deemed to beneficially own 64,970 shares of Common Stock of the Company as a result of its indirect ownership of convertible bonds of the Company.

WIA, acting as investment advisor to its clients, is deemed to beneficially own 462 Shares of Common Stock of the Company.

WIP is deemed to beneficially own 462 shares of Common Stock of the as a result of its indirect ownership of convertible bonds of the Company.

WIFLP is deemed to beneficially own 462 shares of Common Stock of the as a result of its indirect ownership of convertible bonds of the Company.

WIFLTD is deemed to beneficially own 462 shares of Common Stock of the as a result of its indirect ownership of convertible bonds of the Company.

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WSOA, acting as investment advisor to its clients, is deemed to beneficially own 45,249 Shares of Common Stock of the Company.

WSOP is deemed to beneficially own 45,249 shares of Common Stock of the as a result of its indirect ownership of convertible bonds of the Company.

WSOFLP is deemed to beneficially own 45,249 shares of Common Stock of the as a result of its indirect ownership of convertible bonds of the Company.

WSOFLTD is deemed to beneficially own 45,249 shares of Common Stock of the as a result of its indirect ownership of convertible bonds of the Company.

As a result of the relationships described in this statement, each of WA, WCA, WCP, WCFLP, WCFLTD, WCAA, WCAFLP, WCAFLTD, WCA, WCP, WCFLP, WCFLTD, WIA, WIP, WIFLP, WIFLTD, PSA, PSFLP, PSFLTD, WSOA, WSOP, WSOFLP and WSOFLTD may be deemed to possess indirect beneficial ownership of the shares of Common Stock issuable upon the conversion of convertible bonds held by one or more of WCAP, WDCAP, PSP, and other investment advisory clients. WA, WCA, WCP, WCFLP, WCFLTD, WCAA, WCAFLP, WCAFLTD, WDCAA, WDCAFLP, WDCAFLTD, WIA, WIP, WIFLP, WIFLTD, PSA, PSFLP, PSFLTD, WSOA, WSOP, WSOFLP and WSOFLTD each disclaim indirect beneficial ownership of the shares of Common Stock except to the extent of their pecuniary interest in such shares.

Based on the relationships described herein, these entities may be deemed to constitute a group within the meaning of Rule 13d-5(b)(1) under the Securities Exchange Act of 1934. The filing of this statement shall not be construed as an admission that WA, WCA, WCP, WCFLP, WCFLTD, WCAA, WDCAA, PSA, WCAP, WDCAP, PSP, WSOA, WSOP, WSOFLP and WSOFLTD, WCAFLP, WDCAFLP, PSFLP, WDCAFLTD, WCAFLTD, WCA, WCP, WCFLP, WCFLTD, WCA, WCP, WCFLP, WCFLTD, PSFLTD, WCA, WCP, WCFLP, WCFLTD, WSOA, WSOP, WSOFLP and WSOFLTD are a group, or have agreed to act as a group.

(b) Percent of Class

WA is deemed to beneficially own 6.8% of the Company's Common Stock.

WCA is deemed to beneficially own 2.6% of the Company's Common Stock.

WCP is deemed to beneficially own 2.6% of the Company's Common Stock.

WCFLP is deemed to beneficially own 2.6% of the Company's Common Stock.

WCFLTD is deemed to beneficially own 2.6% of the Company's Common Stock.

WCAA is deemed to beneficially own 2.4% of the Company's Common Stock.

WCAP is deemed to beneficially own 2.4% of the Company's Common Stock.

WCAFLP is deemed to beneficially own 2.4% of the Company's Common Stock.

WCAFLTD is deemed to beneficially own 2.4% of the Company's Common Stock.

WDCAA is deemed to beneficially own .4% of the Company's Common Stock.

WDCAP is deemed to beneficially own .4% of the Company's Common Stock.

WDCAFLP is deemed to beneficially own .4% of the Company's Common Stock.

WDCAFLTD is deemed to beneficially own .4% of the Company's Common Stock.

PSA is deemed to beneficially own 0.7% of the Company's Common Stock.

PSP is deemed to beneficially own 0.7% of the Company's Common Stock.

PSFLP is deemed to beneficially own 0.7% of the Company's Common Stock.

PSFLTD is deemed to beneficially own 0.7% of the Company's Common Stock.

WIA is deemed to beneficially own .005% of the Company's Common Stock.

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WIP is deemed to beneficially own .005% of the Company's Common Stock.

WIFLP is deemed to beneficially own .005% of the Company's Common Stock.

WIFLTD is deemed to beneficially own .005% of the Company's Common Stock.

WSOA is deemed to beneficially own .5% of the Company's Common Stock.

WSOP is deemed to beneficially own .5% of the Company's Common Stock.

WSOFLP is deemed to beneficially own .5% of the Company's Common Stock.

WSOFLTD is deemed to beneficially own .5% of the Company's Common Stock.

The percentage of Common Stock reportedly owned by each entity herein is based on 9,335,175 shares of outstanding Common Stock of the Company, which is the total number of shares issued and outstanding on 10/31/2008.

(c) Number of shares as to which such person has:

(i) Sole power to vote or to direct the vote

0

(ii) Shared power to vote or to direct the vote

WA has shared voting power with respect to 633,355 shares of the Company's Common Stock.

WCA, WCP, WCFLP, and WCFLTD have shared voting power with respect to 238,864 Shares of the Company's Common Stock.

WCAA, WCAP, WCAFLP, and WCAFLTD have shared voting power with respect to 219,517 shares of the Company's Common Stock.

WDCAA, WDCAP, WDCAFLP, and WDCAFLTD have shared voting power with respect to 40,608 shares of the Company's Common Stock.

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PSA, PSP, PSFLP, and PSFLTD have shared voting power with respect to 64,970 shares of the Company's Common Stock.

WIA, WIP, WIFLP, and WIFLTD have shared voting power with respect to 462 Shares of the Company's Common Stock.

WSOA, WSOP, WSOFLP, and WSOFLTD have shared voting power with respect to 45,249 Shares of the Company's Common Stock.

(iii) Sole power to dispose or to direct the disposition of

0

(iv) Shared power to dispose or to direct the disposition of

WA has shared power to direct the disposition of 633,355 shares of the Company's Common Stock.

WCA, WCP, WCFLP, and WCFLTD have shared power to direct the disposition of 238.86 Shares of the Company's Common Stock.

WCAA, WCAP, WCAFLP, and WCAFLTD have shared power to direct the disposition of 219,517 shares of the Company's Common Stock.

WDCAA, WDCAP, WDCAFLP, and WDCAFLTD have shared power to direct the disposition of 40,608 shares of the Company's Common Stock.

PSA, PSP, PSFLP, and PSFLTD have shared power to direct the disposition of 64,970 shares of the Company's Common Stock.

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)

Weighted average number of common shares:

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

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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, 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		Add
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Paid Cap
Balance at January 1, 2010	23,720,916	\$ 2,372	1,855,444	\$183	-	\$-	(29,436)	\$(225,613)	\$13
Net loss	-	-	-	-	-	-	-	-	-
Conversion of Series D Convertible Preferred Stock to common stock	(1,662,788)	(166)	237,538	25	-	-	-	-	14
Common stock payable for legal settlement	-	-	-	-	200,000	606,000	-	-	-
Issuance of equity for legal settlement	-	-	47,632	5	(47,632)	(144,325)	-	-	40
Preferred stock dividend	-	-	-	-	-	-	-	-	(5)
Exercise of common stock options	-	-	15,428	2	-	-	-	-	36
Issuance of restricted common stock, net of cancellations	-	-	73,972	8	-	-	-	-	23
Issuance of warrants to board member	-	-	-	-	-	-	-	-	10
Issuance of common stock in connection	-	-	154,485	16	-	-	-	-	31

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with issuance of debt									
Stock-based compensation	-	-	-	-	-	-	-	-	1,2
Balance at December 31, 2010	22,058,128	2,206	2,384,499	239	152,368	461,675	(29,436)	(225,613)	13
Net loss	-	-	-	-	-	-	-	-	-
Issuance of Series E Convertible Preferred Stock	2,531,744	253	-	-	-	-	-	-	1,2
Issuance of warrants in connection with Series E Convertible Preferred Stock	-	-	-	-	-	-	-	-	34
Conversion of Series D Convertible Preferred Stock to common stock	(2,494,922)	(249)	356,415	36	-	-	-	-	21
Issuance of equity for legal settlement	-	-	152,368	15	(152,368)	(461,675)	-	-	46
Preferred stock dividend	-	-	-	-	-	-	-	-	(49
Issuance of restricted common stock, net of cancellations	-	-	67,328	7	-	-	-	-	71
Return of common stock issued in connection with debt	-	-	(54,817)	(5)					(10
Issuance of warrants in connection with issuance of debt	-	-	-	-	-	-	-	-	41
Issuance of common stock	-	-	3,278,022	327	-	-	-	-	3,3

in connection with debt conversion Issuance of warrants in connection with debt conversion	-	-	-	-	-	-	-	-	-	10
Stock-based compensation	-	-	-	-	-	-	-	-	-	64
Balance at December 31, 2011	22,094,950	\$ 2,210	6,183,815	\$619	-	\$-	(29,436)	\$(225,613)	\$14	

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	-

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Payment of preferred stock dividend	(538,759)	(594,700)
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.

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.

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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.

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)
	\$(287,730)	\$868,761	\$561,758	\$(183)	\$1,142,606

Change in unrealized
gains (losses) relating
to instruments still
held at December 31,
2010

- (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

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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
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:

		Options Outstanding at December 31, 2011			Vested Options at December 31, 2011		
Range of Exercise Price	Number	Weighted-Average Remaining Contract Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Number	Weighted-Average Exercise Price	Aggregate Intrinsic Value

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\$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	-
\$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	\$ -

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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.

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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.

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
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.

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.

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.

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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)
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* 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
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* 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

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.

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PART III

Item 10. Directors and Executive Officers of the Registrant

Directors

D. Jonathan Merriman, 51, has served as our Chief Executive Officer from October 2000 to the present and served as Chairman of the Board of Directors from February 2001 to November 2007. In September 2010, Mr. Merriman was appointed co-chairman of the Board of Directors with Mr. Ronald L. Chez. Prior to that period, Mr. Merriman was President and CEO of Ralexchange Corporation, the predecessor company to Merriman Holdings, Inc. Mr. Merriman and his team engineered the transition from Ralexchange, a software trading platform company, into a full-service institutional investment bank, Merriman Capital, Inc. From June 1998 to October 2000, Mr. Merriman was Managing Director and Head of the Equity Capital Markets Group and member of the Board of Directors at First Security Van Kasper. In this capacity, he oversaw the Research, Institutional Sales, Equity Trading, Syndicate and Derivatives Trading departments. From June 1997 to June 1998, Mr. Merriman served as Managing Director and Head of Capital Markets at The Seidler Companies in Los Angeles, where he also served on the firm's Board of Directors. Before Seidler, Mr. Merriman was Director of Equities for Dabney/Resnick/Imperial, LLC. In 1989, Mr. Merriman co-founded the hedge fund company Curhan, Merriman Capital Management, Inc. which managed money for high net worth individuals and corporations. Before Curhan, Merriman Capital Management, Inc., he worked in the Risk Arbitrage Department at Bear Stearns & Co. as a trader. Prior to Bear Stearns, Mr. Merriman worked at Merrill Lynch as a financial analyst and as an institutional equity salesman. Mr. Merriman received his Bachelor of Arts in Psychology from Dartmouth College and completed coursework at New York University's Graduate School of Business. Mr. Merriman has served on several for-profit and nonprofit Boards over the past ten years, including Points International (PCOM), Leading Brands, Inc. (LBIX) and the San Francisco Art Institute, among others.

Ronald L. Chez, 71, has served as a member of our Board of Directors since September 2009 and started his term as the co-chairman of the Board of Directors in September 2010. He also served as the chairman of the Board's Strategic Advisory Committee from September 2009 to September 2010. Mr. Chez also serves as president and sole owner of Ronald L. Chez, Inc., a corporation that deals with financial management consulting, public and private investment, turnaround strategies, structuring of new ventures, and mergers and acquisitions. He is currently chairman of the board of EpiWorks, Inc., and serves on the advisory boards of JP Morgan, Chase and Hambrecht & Quist Access Technology Fund. Mr. Chez's past experience includes: advisor to Motorola's New Ventures Program; board

membership and investment committee member for Abbott Capital; consultant and board member for Motorola Process Control and Motorola Teleprograms; and board member and investor in Travelocity.

William J. Febbo, 43, has served as a member of our Board of Director since April 2007. From January 1999 to April 2007, Mr. Febbo was Chief Executive Officer and co-founder of MedPanel, Inc., an online medical market intelligence firm. At MedPanel, Mr. Febbo oversaw the company's sales, marketing, technology, finance and content development organizations. The Company acquired MedPanel, Inc. in April 2007 (and changed its name to Panel Intelligence, LLC) where Mr. Febbo continued his responsibilities. Given the market changes, Mr. Febbo and other investors formed Panel Intelligence, LLC (a Massachusetts corporation) which acquired the assets of Panel Intelligence, LLC (a Delaware corporation) from the Company on January 30, 2009. Mr. Febbo continues to serve on our Board of Directors. Mr. Febbo has been Treasurer on the Board of the United Nations of Greater Boston since November 2004. Prior to founding MedPanel, Inc., Mr. Febbo was Chairman of the Board of Directors of Pollone, a Brazilian manufacturing venture in the automotive industry, from January 1998 to January 1999. From January 1996 to January 1999, Mr. Febbo was with Dura Automotive working in business development and mergers and acquisition overseas. Mr. Febbo received his B.S. degree in international studies, with a focus on economics and Spanish, from Dickinson College.

Dennis G. Schmal, 65, has served as a member of our Board of Directors and as a member of our Audit Committee since August 2003. Mr. Schmal has also served as a member of our Compensation Committee since March 2007 and has served on the Nominations and Corporate Governance Committee since September 2005. From February 1972 to April 1999, Mr. Schmal served as a partner in the audit practice at Arthur Andersen LLP and holds a CPA certificate (retired). Besides serving as chairman of the boards of two private companies, Mr. Schmal also serves on the board of directors of the Genworth GuideMark Mutual Funds (2006) and the Wells Fargo Hedge Funds of Funds (2008), both of which are publicly registered funds under the Investment Company Act of 1940. Until November 2011, he also served on the board for Varian Semiconductor Equipment Associates, Inc. (VSEA), a public company and until 2007, the board of NorthBay Bancorp (NBAN), a public bank holding company, both of which were sold. Mr. Schmal attended California State University, Fresno where he received a Bachelor of Science in Business Administration – Finance and Accounting Option.

Jeffrey M. Soinski, 50, has served as a member of our Board of Directors since August 2008. Mr. Soinski is a Special Venture Partner with Galen Partners, a leading private equity firm focused solely on the healthcare industry. Since September 2009, Mr. Soinski has served as Chief Executive Officer of Medical Imaging Holdings, Inc., a Galen Partners portfolio company, as well as Medical Imaging Holdings' primary operating company Unisyn Medical Technologies, Inc., a national provider of technology-enabled service solutions to the medical imaging industry. Prior to Galen Partners, Mr. Soinski was President and CEO of Specialized Health Products International, Inc., a publicly-traded manufacturer and marketer of proprietary safety medical products that was acquired by C.

R. Bard, Inc. in June 2008. In 2008, Mr. Soinski was named “Utah CEO of the Year” for small public companies by Utah Business magazine. Prior to Specialized Health Products, Mr. Soinski had been President and CEO of ViroTex Corporation, a ventured-backed pharmaceutical company he sold to Atrix Laboratories, Inc. in 1998. Earlier in his career, Mr. Soinski worked as an executive at leading national advertising agencies and was a new product marketing executive at Nabisco Brands. In 2000 and 2001, he led the full-service advertising agency Mad Dogs & Englishmen as Managing Director and CEO. Mr. Soinski holds a B.A. degree from Dartmouth College.

Alex W Seiler, 58, served as Chief Executive Officer of Merriman Capital, Inc. from August 2010 to September 2011 and was a member of our Board of Directors until September 2011. Mr. Seiler was previously Vice-Chairman of Merriman Holdings from February 2010 until he assumed the CEO role. He previously served as a Managing Director at Atlas Capital Management, a multi-state asset management firm, from September 2007 to July 2009. From May 2005 until May 2007, Mr. Seiler was Managing Director at HSBC Securities (USA) Inc., responsible for equity capital market distribution in the Americas. Mr. Seiler was co-founder and CEO of Anchor Point Asset Management, a multi-asset global-macro manager, from January 2003 through May 2005. Prior to that, he served as a Managing Director in Morgan Stanley & Co.'s institutional equity division from March 1994 through January 2003.

Patrick W. O'Brien, 65, has served as a member of our Board of Directors and as a member of our Audit and Compensation Committees since December 2010. Mr. O'Brien is a seasoned executive and business advisor with diverse international experience in private and public companies with an emphasis on financial analysis and business development. From 2002 to 2007 Mr. O'Brien served as a member of the Board of Directors of Factory Card & Party Outlet (FCPO, NASDAQ) until its sale to AAH Holdings. In 2005, Mr. O'Brien was a Senior Vice-President for MTM Luxury Lodging in Kirkland, Washington later in 2005 he joined the Seattle based Bental-Kennedy Associates Real Estate Counsel where he was Vice President-Asset Management representing pension fund ownership interests in hotel

real estate investments nationwide. In 2009, Mr. O'Brien formed Granville Wolcott Advisors where he serves as its Managing Director & Principal to provide business consulting, due diligence, and asset management services for public and private clients. Mr. O'Brien is a graduate of the Eli Broad College of Business at Michigan State University with a BA in Hotel Management.

Executive Officers

D. Jonathan Merriman, 51, has served as our Chief Executive Officer from October 2000 to the present and served as Chairman of the Board of Directors from February 2001 to November 2007. In September 2010, Mr. Merriman was appointed co-chairman of the Board of Directors with Mr. Ronald L. Chez. Prior to that period, Mr. Merriman was President and CEO of Rateexchange Corporation, the predecessor company to Merriman Curhan Ford Group, Inc. Mr. Merriman and his team engineered the transition from Rateexchange, a software trading platform company, into a full-service institutional investment bank, Merriman Curhan Ford. From June 1998 to October 2000, Mr. Merriman was Managing Director and Head of the Equity Capital Markets Group and member of the Board of Directors at First Security Van Kasper. In this capacity, he oversaw the Research,

Institutional Sales, Equity Trading, Syndicate and Derivatives Trading departments. From June 1997 to June 1998, Mr. Merriman served as Managing Director and Head of Capital Markets at The Seidler Companies in Los Angeles, where he also served on the firm's Board of Directors. Before Seidler, Mr. Merriman was Director of Equities for Dabney/Resnick/Imperial, LLC. In 1989, Mr. Merriman co-founded the hedge fund company Curhan, Merriman Capital Management, Inc., which managed money for high net worth individuals and corporations. Before Curhan, Merriman Capital Management, Inc., he worked in the Risk Arbitrage Department at Bear Stearns & Co. as a trader. Prior to Bear Stearns, Mr. Merriman worked at Merrill Lynch as a financial analyst and as an institutional equity salesman. Mr. Merriman received his Bachelor of Arts in Psychology from Dartmouth College and completed coursework at New York University's Graduate School of Business. Mr. Merriman has served on several for-profit and nonprofit Boards over the past ten years, including Points International (PCOM), Leading Brands, Inc. (LBIX) and the San Francisco Art Institute, among others.

Peter V. Coleman, 43, served as Chief Executive Officer of Merriman Capital, Inc. since June 2009 to September 2010, and Chief Financial Officer for Merriman Holdings, Inc. since May 2008 to January 2011, and Chief Operating Officer since January 2009 to January 2011. Prior to that, Mr. Coleman was with ThinkPanmure, an investment bank, where he served as CFO since March 2007, COO since November 2006, Director of Research from September 2005 until November 2006, Head of Brokerage from June 2006 until June 2007, and was a member of the Board of Directors since April 2007. Prior to ThinkPanmure, he was a principal and senior research analyst at Schwab SoundView, an investment bank, focusing on technology from May 2002 to November 2004.

Alex W Seiler, 58, served as Chief Executive Officer of Merriman Capital, Inc. from August 2010 to September 2011 and was a member of our Board of Directors until September 2011. Mr. Seiler was previously Vice-Chairman of Merriman Holdings from February 2010 until he assumed the CEO role. He previously served as a Managing Director at Atlas Capital Management, a multi-state asset management firm, from September 2007 to July 2009. From May 2005 until May 2007, Mr. Seiler was Managing Director at HSBC Securities (USA) Inc., responsible for equity capital market distribution in the Americas. Mr. Seiler was co-founder and CEO of Anchor Point Asset Management, a multi-asset global-macro manager, from January 2003 through May 2005. Prior to that, he served as a Managing Director in Morgan Stanley & Co.'s institutional equity division from March 1994 through January 2003.

Jack A. Thrift, 46, served as Chief Financial Officer from January 2011 to January 2012. Mr. Thrift was previously Managing Director of Operations of White Oak Global Advisors, an SEC registered investment advisor, from July 2008 until October 2010. Mr. Thrift was also Chief Financial Officer of White Oak's investment banking division. Prior to that, Mr. Thrift was Chief Financial Officer of Pacific Growth Equities, LLC, an investment banking firm and Chief Operating Officer of Pacific Growth Equity Management, LLC, an SEC registered investment advisor from February 2005 until June 2008. Mr. Thrift received his B.S. degree in accountancy from the University of Southern California and is a CPA

(inactive) in the state of California.

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William J. Febbo, 43, has served as a member of our Board of Director since April 2007 and as Chief Operating Officer since January 2012. From January 1999 to April 2007, Mr. Febbo was Chief Executive Officer and co-founder of MedPanel, Inc., an online medical market intelligence firm. At MedPanel, Mr. Febbo oversaw the company's sales, marketing, technology, finance and content development organizations. The Company acquired MedPanel, Inc. in April 2007 (and changed its name to Panel Intelligence, LLC) where Mr. Febbo continued his responsibilities. Given the market changes, Mr. Febbo and other investors formed Panel Intelligence, LLC (a Massachusetts corporation) which acquired the assets of Panel Intelligence, LLC (a Delaware corporation) from the Company on January 30, 2009. Mr. Febbo continues to serve on our Board of Directors. Mr. Febbo has been Treasurer on the Board of the United Nations of Greater Boston since November 2004. Prior to founding MedPanel, Inc., Mr. Febbo was Chairman of the Board of Directors of Pollone, a Brazilian manufacturing venture in the automotive industry, from January 1998 to January 1999. From January 1996 to January 1999, Mr. Febbo was with Dura Automotive working in business development and mergers and acquisition overseas. Mr. Febbo received his B.S. degree in international studies, with a focus on economics and Spanish, from Dickinson College.

There is no family relationship among any of the foregoing officers or between any of the foregoing executive officers and any Director of the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers to file reports with the SEC on Forms 3, 4 and 5 for the purpose of reporting their ownership of and transactions in the Company's equity securities.

Financial Code of Ethics

The Company has adopted and annually reviews its "Code of Ethics for Senior Financial Officers," a code of ethics that applies to our Chief Executive Officer and Chief Financial Officer. The finance code of ethics is publicly available on our website at www.merrimanco.com. If we make any substantive amendments to the finance code of ethics or grant any waiver, including any implicit waiver, from a provision of the code to our Chief Executive Officer or Chief Financial Officer, we will disclose the nature of such amendment or waiver on that website or in a report on Form 8-K.

Audit Committee

The Company has a standing audit committee whose members are Dennis G. Schmal, Patrick O'Brien, and Jeffrey M. Soinski.

Audit Committee Financial Expert

The Board of Directors has determined that Dennis G. Schmal is an “audit committee financial expert” and “independent” as defined under applicable SEC and NASDAQ rules. The Board’s affirmative determination for Dennis G. Schmal was based, among other things, upon his 27 years at Arthur Andersen LLP, most of those years as a partner in the audit practice.

Item 11. Executive Compensation**SUMMARY 2011 COMPENSATION TABLE**

The following table sets forth the compensation earned by our Chief Executive Officer, our two other most highly compensated executive officers, and one individual for whom disclosure would have been provided but for the fact that he was not serving as an executive officer for the two years ended December 31, 2011, whom we refer to as our named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Total (\$)
(b)	(c)	(d) (1)	(e)	(f)	(g)	(g)
D. Jonathan Merriman	2011	200,000	111,535	49,999	-	361,534
Chief Executive Officer	2010	231,698	-	-	-	231,698
Mark Green	2011	150,000	337,500	112,500	-	600,000
Head of Investment Banking Meriman Capital, Inc.	2010	150,000	200,000	-	-	350,000
Michael Doran	2011	280,000	-	-	-	280,000
General Counsel Meriman Capital, Inc.	2010	280,000	-	-	-	280,000
Michael Marrus (2)	2011	159,090	225,000	84,999	88,675	557,764
Head of Investment Banking Meriman Capital, Inc.	2010	162,680	-	105,910	-	268,590

The amounts included in column (d) are bonuses awarded under Executive and Management Bonus Plan (“EMB”), designed to reward our named executive officers and other employees to the extent that the Company achieves or exceeds its business plan for a particular year. The EMB provides for a bonus pool to be established based on achieving the Company’s annual business plan, with the Committee retaining discretion (1) to allocate the bonus pool. If the Company’s business plan with respect to a calendar year is not met, only small amounts will be paid under the EMB for that year. While the amount of the total bonus pool that is available for awards under the EMB is based on the Company achieving certain performance targets, the actual amount to be paid to each of our named executive officers is determined by the Compensation Committee of our Board and our Board, based on their discretion.

(2) Mr. Marrus resigned as Head of Investment Banking in October 2011.

The Black Scholes model assumptions (averaged over each year) are as follows:

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

Compensation awarded to our named executive officers was determined by the compensation committee of our Board.

Pursuant to its practice, the Company provides Mr. Merriman and Mr. Doran, with parking at the Company's principal offices.

	OUTSTANDING EQUITY AWARDS AT 2011 FISCAL YEAR-END				Stock Awards	
	Option Awards Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Option Exercise Price (\$/Sh) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (g)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (h)
D. Jonathan Merriman	78,421	43,006	3.01	5/8/2019	—	—
	186,011	171,131	8.40	11/11/2019		
Michael Doran	10,446	8,124	10.99	9/21/2019	—	—
Mark Green	7,142	7,143	6.02	12/23/2019	202,465	87,060

DIRECTOR COMPENSATION IN 2011

The following table sets forth information about the compensation earned by members of our Board of Directors during the fiscal year ended December 31, 2011. Mr. D. Jonathan Merriman, who served as Chief Executive Officer and as Co-Chairman of the Board of Directors and Mr. Ronald L. Chez who served as Co-Chairman of the Board of Directors did not receive any compensation for their service as directors.

For the year ended December 31, 2011, directors did not receive any compensation in the form of participation in non-equity incentive or pension plans, or any other form of compensation other than awards of cash, stock, and stock options. The Company's director compensation program for 2011 took into consideration service on committees of the Board. For service on the Board and attendance at the four scheduled quarterly meetings, each of our independent directors was awarded, on an annual basis, a cash award, a number of fully vested shares, and shares of stock options immediately exercisable. The number of shares and of stock options awarded was determined by a value established by the Board prior to the beginning of the year and the price of the Company's share of common stock on the grant date. However, starting the second quarter of 2010, compensation to the Board members was only provided in the form of cash. As the Board and each committee have four scheduled meetings each year, one-fourth of each Director's award was granted on each of the scheduled meeting dates, provided the Director attended. Additional meetings (whether by phone or in person) were scheduled as necessary for which no additional compensation was awarded. Directors who served on any of the Board's committees were

awarded an additional number of shares for each committee.

Accordingly, the compensation earned by our Directors in 2011 was as follows:

Name (a)	Fees Earned or Paid in				Total (\$)(f)
	Cash (\$)(b)	Stock Awards (\$)(c)(1)	Option Awards (\$)(d)	All Other Compensation (\$)(e)	
Ronald L. Chez, Chair (2)	—	—	—	—	—
William J. Febbo (5)	30,000	—	—	—	30,000
D. Jonathan Merriman (3)	—	—	—	—	—
Dennis G. Schmal	30,000	—	—	—	30,000
Jeffrey M. Soinski	30,000	—	—	—	30,000
Patrick O'Brien	30,000	—	—	—	30,000
Alex Seiler (4)	—	—	—	—	—

(1) The amounts in this column reflect the value of the shares of stock awarded, calculated by multiplying the closing price of a share of our common stock on the applicable grant date by the number of shares awarded on such date. All grants were made on the day of the Board meeting, were immediately vested and any restrictions were removed.

(2) Mr. Chez has served as Co-Chairman of the Board of Directors since September 2010.

Mr. Merriman is also the Chief Executive Officer of the Company for which compensation is not included in this table. In accordance to Company practice,
 (3) employees of the Company and its subsidiaries do not receive additional compensation for service on the Board. Mr. Merriman has served as Co-Chairman of the Board of Directors since September 2010.

Mr. Alex Seiler served as the Chief Executive Officer of the Company's operating subsidiary, Merriman Capital, Inc. until September 2011, for which compensation is not (4) included in this table. In accordance with Company practice, employees of the Company and its subsidiaries do not receive additional compensation for service on the Board.

(5) Mr. Febbo also serves as the Chief Operating Officer since January 2012.

The Board of Directors annually reviews the Company's director compensation program.

Item 12. Security Ownership of Certain Beneficial Owners and Management

EQUITY COMPENSATION PLAN INFORMATION

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 including the 1999 Stock Option Plan, the 2000 Stock Option and Incentive Plan, the 2001 Stock Option and Incentive Plan, the 2003 Stock Option and Incentive Plan, the 2009 Stock Incentive Plan, the 2006 Directors' Stock Option and Incentive Plan, and the 2002 Employee Stock Purchase Plan.

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	-

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2003 Stock Option and Incentive Plan	274,994	\$ 4.62	-
2009 Stock Incentive Plan	666,978	\$ 6.48	820,765
2006 Directors' Stock Option and Incentive Plan	14,118	\$ 3.01	-
Equity compensation not approved by stockholders	-	\$ -	-

Equity compensation not approved by stockholders includes shares in a Non-Qualified option plan approved by the Board of Directors of Ratexchange Corporation (now known as Merriman Curhan Ford Group, Inc.) in 1999 and a Non-Qualified option plan that is consistent with the American Stock Exchange Member Guidelines, Rule 711, approved by the Board of Directors in 2004. The American Stock Exchange guidelines require that grants from the option plan be made only as an inducement to a new employee, that the grant be approved by a majority of the independent members of the Compensation Committee and that a press release is issued promptly disclosing the terms of the option grant. The Non-Qualified option plan that was established in accordance with the American Stock Exchange guidelines is considered a pre-existing plan, and is thus considered acceptable under the NASDAQ Stock Market guidelines. The Company's common stock was listed on NASDAQ under the symbol MERR until November 2011. Since November 2011, it has been listed on the OTXQX under the same symbol.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding beneficial ownership of each class of our voting securities as of March 31, 2012, by (a) each person who is known by us to own beneficially more than five percent of each of our outstanding classes of voting securities, (b) each of our directors, (c) each of the named executive officers and (d) all directors and executive officers as a group.

Name of Beneficial Owner	Common Stock		Series D Convertible Preferred Stock (1)		Series E Convertible Preferred Stock (2)	
	Beneficially Owned	Percent	Beneficially Owned (3)	Percent	Beneficially Owned	Percent
D. Jonathan Merriman	1,469,948	20 %	268,922	1 %	396,825	12 %
Ronald L. Chez (4)	3,828,058	41 %	8,085,007	43 %	1,984,126	61 %
Dennis G. Schmal	214,940	3 %	116,279 *	*	79,365	2 %
Jeffrey M. Soinski	29,678 *	*	116,279 *	*	15,873 *	*
William J. Febbo	67,011 *	*	116,279 *	*	15,873 *	*
Patrick O'Brien	93,030	1 %	—	—	39,682	1 %
All directors and executive officers as a group [11 persons] (5)	5,702,665	58 %	8,702,766	47 %	2,531,744	78 %

* Less than one percent.

- (1) Ownership of all Series D Convertible Preferred Stock shares was a result of investment in the Company's strategic transaction of September 8, 2009. Effective upon the amended Series D Certificate of Designation on December 29, 2011, 3.47 shares of Series D Convertible Preferred Stock is convertible into one share of common stock of the Company.
- (2) Ownership of all Series E Convertible Preferred Stock shares was a result of investment in the Company's strategic transaction of December 30, 2011.
- (3) Applicable percentage ownership is based on 7,353,534 shares of common stock outstanding as of March 31, 2012. Pursuant to the rules of the Securities and Exchange Commission, shares shown as "beneficially" owned include all shares of which the persons listed have the right to acquire beneficial ownership within 60 days of March 31, 2012, including (a) shares subject to options, warrants or any other rights

exercisable within 60 days March 31, 2012, even if these shares are not currently outstanding, (b) shares attainable through conversion of other securities, even if these shares are not currently outstanding, (c) shares that may be obtained under the power to revoke a trust, discretionary account or similar arrangement and (d) shares that may be obtained pursuant to the automatic termination of a trust, discretionary account or similar arrangement. This information is not necessarily indicative of beneficial ownership for any other purpose. Our directors and executive officers have sole voting and investment power over the shares of common stock held in their names, except as noted in the following footnotes.

- (4) This aggregate amount showed as owned by Mr. Chez does not include the 42,857 warrants compensated to Mr. Chez as the Chairman of the Strategic Advisory Committee of the Board of Directors that are prohibited from exercise until shareholder approval has been obtained.

- (5) All directors and executive officers have the business address of 600 California Street, 9th Floor, San Francisco, CA 94108.

Item 13. Certain Relationships and Related Transactions

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

William J. Febbo has been a Director of the Company since April 2007. Mr. Febbo was Chief Executive Officer and founder of MedPanel, Inc., or MedPanel, an online medical market intelligence firm, from January 1999 to April 2007. At MedPanel, Mr. Febbo oversaw the company's sales, marketing, technology, finance and content development organizations. Mr. Febbo also owned approximately 18% of the common stock of MedPanel on a fully diluted basis. In April 2007, MedPanel, was acquired by the Company pursuant to an Agreement and Plan of Merger, a binding agreement which was signed in November 2006, and became Panel Intelligence, LLC, a subsidiary of the Company. One of the terms of the Agreement and Plan of Merger was that the Company would use its best efforts to cause Mr. Febbo to be elected to the Company's Board of Directors on which he remains. Under the terms of this Agreement and Plan of Merger, the Company paid \$6.5 million in common stock for MedPanel. The selling stockholders of MedPanel would have been entitled to additional consideration on the third anniversary from the closing based upon Panel Intelligence, LLC (a Delaware corporation) achieving specific revenue and profitability milestones. The payment of the incentive consideration would have been 50% in cash and 50% in the Company's common stock and may not exceed \$11,455,000. The payment of the incentive consideration did not occur as the milestones for additional consideration were deemed unachievable and therefore no longer of value to previous MedPanel Shareholders. (see *Recent Events*, below).

Mr. Febbo and other investors formed Panel Intelligence, LLC (a Massachusetts corporation), which acquired the assets of Panel Intelligence, LLC (a Delaware corporation) from the Company on January 30, 2009. The acquisition consideration was \$1.1 million, consisting of \$1 million in cash and the return of a number of shares of the Company's common stock received in the acquisition MedPanel with a value of \$100,000. Mr. Febbo continues to serve on the Company's Board of Directors. Effective January 2012, Mr. Febbo serves as the Company's Chief Operating Officer.

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.

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.

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.

(e) 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

(f) 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 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.

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.

It is the policy for the Board to review all related party transactions and to secure approval by a majority of disinterested directors. Applying such policy is the responsibility of each disinterested director for each transaction. Such policy regarding related party transactions is not in writing; as such, the General Counsel and the Corporate Secretary are responsible for advising on the application of such policies.

Director Independence

The listing standards of The NASDAQ Stock Market, which the Company was listed on until November 2011, require that a majority of our Board of Directors be comprised of independent directors. The Board has determined that the following Board members are independent, consistent with the guidelines of The NASDAQ Stock Market: Dennis G. Schmal, Jeffrey M. Soinski, Patrick O'Brien and Ronald L. Chez. The Board based this determination primarily on a review of the responses of our directors and executive officers to questions regarding employment and compensation history, affiliations, and family and other relationships, as well as on discussions with the directors. Accordingly, only independent members of the Board constitute its Audit Committee, Nominating and Corporate Governance Committee and its Compensation Committee.

Item 14. Principal Accounting Fees and Service

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS' FEES

Burr Pilger Mayer, Inc. ("BPM") served as the Company's independent registered public accounting firm for the fiscal years ended December 31, 2011 and 2010. Representatives of BPM were available at Annual Stockholders' Meetings in 2011 and are expected to be available in future Annual Stockholders' Meetings. Such representatives will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

The aggregate fees billed by BPM for professional services to the Company were \$206,905 in 2011.

Audit Fees. The aggregate fees billed by BPM for professional services rendered for the audit of the Company's annual financial statements, the review of the Company's quarterly financial statements, and services that are normally provided in connection with statutory and regulatory filings or engagements were approximately \$206,905 in 2011 and \$409,800 in 2010.

Audit Related Fees. There were no aggregate fees billed by BPM for 2011 and 2010 for professional assurance and related services reasonably related to the performance of the audit of the Company's financial statements, but not included under Audit Fees.

Tax Fees. There were no aggregate fees billed by BPM for 2011 and 2010 for professional services for tax compliance, tax advice and tax planning in 2011 and 2010.

All Other Fees. The aggregate fees for all other services rendered by BPM were \$0 in 2011 and \$4,700 in 2010. 100% of these fees were approved in advance by the Audit Committee.

The Audit Committee has formal policies and procedures in place with regard to the approval in advance of all professional services provided to the Company by its independent registered public accountants. With regard to audit fees, the Audit Committee reviews the annual audit plan and approves the estimated annual audit budget in advance. With regard to tax services, the Audit Committee reviews the description and estimated annual budget for tax services to be provided by the Company's tax consultants in advance. During 2011, the Audit Committee approved all of the independent registered public accountants' fees in advance.

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

Jeffrey M. Soinski

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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).

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- 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)).
- 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).

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.

