Merriman Holdings, Inc
Form 10-K/A
April 28, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year ended December 31, 2010

OR

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

For the transition period from _______ to ________

Commission File Number 001-15831

MERRIMAN HOLDINGS, INC.
(Exact Name of Registrant as Specified in its Charter)

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

600 California Street, 9th Floor
San Francisco, CA 94108
(Address of principal executive offices)(Zip Code)

(415) 248-5600
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No x

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

Yes ¨ No x

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

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

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

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

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

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

The aggregate market value of the 1,634,429 shares of common stock of the Registrant issued and outstanding as of June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter, excluding 373,362 shares of common stock held by affiliates of the Registrant was $6,292,552. This amount is based on the closing price of the common stock on NASDAQ of $3.85 per share on June 30, 2010.

The number of shares of Registrant's common stock outstanding as of March 25, 2011 was 2,482,408.

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

Explanatory Note

This Amendment No. 1 on Form 10-K/A (this “Amendment”) amends the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, originally filed on March 30, 2011 (the “Original Filing”). The Company is filing this Amendment to include the information required by Items 10, 11, 12, 13 and 14 to Part III because the Company’s proxy statement will not be filed within 120 days of the end of the Company’s fiscal year ended December 31, 2010. In addition, in connection with the filing of this Amendment and pursuant to the rules of the Securities and Exchange Commission, the Company is including with this Amendment certain currently dated certifications.

Except as described above, no other changes have been made to the Original Filing. This Amendment continues to speak as of the date of the Original Filing or as of December 31, 2010 as required by the context, and the registrant has not updated the disclosures contained in the Original Filing to reflect any events which occurred at a date subsequent to the filing of the Original Filing. The filing of this Form 10-K/A is not a representation that any statements contained in items of Form 10-K other than Part III Items 10 through 14 are true or complete as of any date subsequent to the date of the Original Filing.

PART I

Item 1. Business

Overview

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

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

We are headquartered in San Francisco, CA, with additional offices in New York, NY. As of December 31, 2010, we had 77 employees. Merriman Capital, Inc. is registered with the Securities and Exchange Commission (SEC) as a broker-dealer and is a member of Financial Industry Regulatory Authority (FINRA) and the Securities Investors Protection Corporation (SIPC).

Liquidity

Merriman Holdings, Inc. (the Company) incurred substantial losses in 2010 and 2009. The Company had net losses of $5,338,000 and $5,462,000 in 2010 and 2009, respectively, and negative operating cash flows of $1,525,000 in 2010 and $12,648,000 in 2009. As of December 31, 2010, the Company had a accumulated deficit of $130,154,000. While the Company believes its current funds will be sufficient to enable it to meet its planned expenditures through at least January 1, 2012, if anticipated operating results are not achieved, management has the intent and believes it has the ability to delay or reduce expenditures so as not to require additional financing sources. 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.

During March 2011, the Company began offering debt which is scheduled to mature three years from the date of issuance and carries an interest rate of 10%, payable quarterly in arrears. In connection with this debt, the Company will also issue warrants to purchase common stock of the Company. These warrants will have a strike price equal to 15% less than the price per share of the Company's common stock on the closing date of the debt offering, which is anticipated to be in April 2011. Each $1 million of debt will be issued with 86,000 warrant shares. As of March 30, 2011, the Company has raised $2 million under this offering.

Principal Services

Our investment banking / broker-dealer line of business provides three service offerings: investment banking, institutional brokerage and equity research. We provide traditional research-based financial services to companies with market capitalizations up to $1 billion, which we believe is an underserved sector in the financial services industry.

Investment Banking

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

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

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

Institutional Brokerage

We provide institutional sales, sales trading and execution services to institutional customers around the world. We execute securities transactions for money managers, mutual funds, hedge funds, insurance companies, and pension and profit-sharing plans. Institutional investors normally purchase and sell securities in large quantities, which require the distribution and trading expertise we provide.

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

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

Sales Trading. Our sales traders are experienced in the industry and possess in-depth knowledge of both the markets for fast-growing company securities and the institutional traders who buy and sell them.

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

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

Proprietary Trading. We frequently take significant positions in fast-growing companies that we feel are undervalued in the marketplace. We believe that our insights into these opportunities, due to the types of companies we research, offer us a significant competitive advantage.

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

Venture Services. The Venture Services team provides sales distribution for capital raises for private companies via the introduction to venture capital and private equity investors. Our venture services include distribution and liquidity programs, portfolio company advisory services, research dissemination and best-execution trading.

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

Equity Research

A key part of our strategy is to originate specialized and in-depth research. We leverage the ideas generated by our research teams, using them to attract and retain institutional brokerage customers. Supported by the firm's institutional sales and trading capabilities, our research analysts deliver timely recommendations to customers on innovative investment opportunities. In an effort to make money for our investor customers, our analysts are driven to find undiscovered opportunities in fast-growing companies that we believe are undervalued. Given the contrarian and undiscovered nature of many of our research ideas, we, as a firm, specialize in serving sophisticated, aggressive institutional investors.

Our equity research focuses on bottom-up, fundamental analysis of fast-growing companies in selected growth sectors. Our analysts' expertise in these categories of companies, along with their intensive industry knowledge and contacts, provides us with the ability to deliver timely, accurate and value-added information.

Our objective is to build long lasting relationships with our institutional customers by providing investment recommendations that directly equate to enhanced performance of their portfolios. Further, given our approach and focus on quality service, we believe our equity research analysts, and institutional sales people and sales traders, are in a unique position to maintain close, ongoing communication with our customers.

The industry sectors covered by our equity research analysts include:

- Clean Technology
  - Clean Energy Semiconductors
  - Infrastructure Technologies and Efficiencies

- Consumer, Media & Internet
  - Branded Consumer
  - Media/Entertainment
  - Internet Media and Infrastructure

- Technology
  - Advanced Communications and Industrial Technologies
  - Communications - Wireless Technology
  - Emerging Data Center and Enterprise Technologies
  - Cloud Computing Service Providers

After initiating coverage on a company, our analysts seek to effectively communicate new developments to our institutional customers through our sales and trading professionals. We produce full-length research reports, notes and earnings estimates on the companies we cover. We also produce comprehensive industry sector reports. In addition, our analysts distribute written updates on these issuers both internally and to our customers through the use of daily morning meeting notes, real-time electronic mail and other forms of immediate communication. Our customers can also receive analyst comments through electronic media, and our sales force receives intra-day updates at meetings and through regular announcements of developments. All of the above is also available through a password protected searchable database of our daily and historical research archives found on our website at www.merrimanco.com.
Our Equity Research Group annually hosts conferences targeting fast-growing companies and institutional investors, including our annual Investor Summit and other industry sector conferences. We use these events to primarily showcase our equity research to the institutional investment community.

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Competition

Merriman Capital, Inc. is engaged in the highly competitive financial services and investment industries. We compete with other securities firms - from large U.S.-based firms, securities subsidiaries of major commercial bank holding companies and U.S. subsidiaries of large foreign institutions, to major regional firms, smaller niche players, and those offering competitive services via the Internet. Long term developments in the brokerage industry, including decimalization and the growth of electronic communications networks, or ECNs, have reduced commission rates and profitability in the brokerage industry. Many large investment banks have responded to lower margins within their equity brokerage divisions by reducing research coverage, particularly for smaller companies, consolidating sales and trading services, and reducing headcount of more experienced sales and trading professionals. The trend by competitors to reduce services to address these challenges has created an opportunity for us as many highly qualified individuals have been dislocated, expanding the pool of experienced employees which we might hire.

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

Corporate Support

Accounting, Administration and Operations

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

Compliance, Legal, Risk Management and Internal Audit

Our compliance, legal and risk management personnel (together with other appropriate personnel) are responsible for our compliance with legal and regulatory requirements of our investment banking business and our exposure to market, credit, operations, liquidity, compliance, legal and reputation risk. In addition, our compliance personnel test and audit for compliance with our internal policies and procedures. Our general counsel also provides legal service throughout our company, including advice on managing legal risk. The supervisory personnel in these areas have direct access to senior management and to the Audit Committee of our Board of Directors to ensure their independence in performing these functions. In addition to our internal compliance, legal, and risk management personnel, we retain outside consultants and attorneys for their particular functional expertise.

Risk Management

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

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

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

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

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

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

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

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

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

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

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

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

Regulation

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

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

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

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

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

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

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

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

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

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

Geographic Area

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

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

Available Information

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

Item 1a. Risk Factors

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

Risks Related to Our Business

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

Our ability to achieve a positive cash flow and profitability depends on our ability to generate and maintain greater revenue while incurring reasonable expenses. This, in turn, depends, among other things, on the development of our investment banking and securities brokerage business, and we may be unable to achieve profitability if we fail to do any of the following:

- establish, maintain, and increase our customer base;
- manage the quality of our services;
- compete effectively with existing and potential competitors;
- further develop our business activities;
- attract and retain qualified personnel;
- limit operating costs;
- settle pending litigation, and
- maintain adequate working capital

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

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

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

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

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

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

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

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

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

We may not be able to continue operating our business

The Company incurred significant losses in 2010, 2009 and 2008. Even if we are successful in executing our plans, we will not be capable of sustaining losses such as those incurred in 2010. The Company's ability to meet its financial obligations is highly dependent on market and economic conditions. We also recorded net losses in certain quarters within other past fiscal years. If operating conditions worsen in 2011 or if the Company receives material adverse judgments in its pending litigations, we may not have the resources to meet our financial obligations. If the Company is not able to continue in business, the entire investment of our common stockholders may be at risk, and there can be no assurance that any proceeds stockholders would receive in liquidation would be equal to their investment in the

Company, or even that stockholders would receive any proceeds in consideration of their common stock.

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

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

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

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

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

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

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

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

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

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

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

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

Historically, the industry has been able to attract and retain investment banking, research, and sales and trading professionals in part because the business models have provided for lucrative compensation packages. Compensation and benefits are our largest expenditure and the variable compensation component, or bonus, has represented a significant proportion of this expense. The Company's bonus compensation is discretionary. For 2010, the potential pool was determined by a number of components including revenue production, key operating milestones, and profitability. There is a potential, in order to ensure retention of key employees, that we could pay individuals for revenue production despite the business having negative cash flows and/or net losses.

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

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

In addition, we face pressure from larger competitors, which may be better able to offer a broader range of complementary products and services to brokerage customers in order to win their trading business. As we are committed to maintaining our comprehensive research coverage in our target sectors to support our brokerage business, we may be required to make substantial investments in our research capabilities. If we are unable to compete effectively with our competitors in these areas, brokerage revenue may decline and our business, financial condition, and results of operations may be adversely affected.

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

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

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

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

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

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

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

We face strong competition from larger firms.

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

We are a relatively small investment bank with 77 employees as of December 31, 2010 and revenues of approximately $31million in 2010. Many of our competitors in the investment banking and brokerage industries have a broader range of products and services, greater financial and marketing resources, larger customer bases, greater name recognition, more senior professionals to serve their clients' needs, greater global reach, have more established relationships with clients than we have, and some operate under less restrictive capital requirements. These larger and better capitalized competitors may be better able to respond to changes in the brokerage and investment banking industries, to compete for skilled professionals, to finance acquisitions, to fund internal growth, and to compete for market share generally.

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

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

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

The Company recorded net losses of $5,338,000 for the year ended December 31, 2010 and $5,462,000 for the year ended December 31, 2009. We also recorded net losses in certain quarters within other past fiscal years. We may incur losses in future periods. If we are unable to finance future losses, those losses may have a significant effect on our liquidity as well as our ability to operate.

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

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

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

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

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

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

Our operations and infrastructure may malfunction or fail.

Our business is highly dependent on our ability to process, on a daily basis, a large number of increasingly complex transactions across diverse markets. Our financial, accounting, or other data processing systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including a disruption of electrical or communications services or our inability to occupy one or more of our buildings. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. If any of these systems do not operate properly or are disabled or if there are other shortcomings or failures in our internal processes, people, or systems, we could suffer impairment to our liquidity, a financial loss, a disruption of our businesses, liabilities to clients, regulatory intervention, or reputation damage.

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

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

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

Strategic investments or acquisitions and joint ventures may result in additional risks and uncertainties in our business.

We may grow our business through both internal expansion and through strategic investments, acquisitions or joint ventures. To the extent we make strategic investments or acquisitions or enter into joint ventures, we face numerous risks and uncertainties combining or integrating businesses, including integrating relationships with customers, business partners, and internal data processing systems. In the case of joint ventures, we are subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputation damage relating to systems, controls, and personnel that are not under our control. In addition, conflicts or disagreements between us and our joint venture partners may negatively impact our businesses.

Future acquisitions or joint ventures by us could entail a number of risks, including problems with the effective integration of operations, the inability to maintain key pre-acquisition business relationships and integrate new relationships, the inability to retain key employees, increased operating costs, exposure to unanticipated liabilities, risks of misconduct by employees not subject to our control, difficulties in realizing projected efficiencies, synergies and cost savings, and exposure to new or unknown liabilities.

Any future growth of our business may require significant resources and/or result in significant unanticipated losses, costs, or liabilities. In addition, expansions, acquisitions or joint ventures may require significant managerial attention, which may be diverted from our other operations.

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

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

Risks Related to Our Industry

Risks associated with volatility and losses in the financial markets.

In the last 3 years, the U.S. financial markets have experienced tremendous volatility and uncertainty. Several mortgage-related financial institutions and large, reputable investment banks were not able to continue operating their businesses. In the event that the securities and financial industries face similar or greater volatility, there can be no assurance that we will be able to continue our operations.

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

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

Risks associated with regulatory impact on capital markets.

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

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

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

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

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

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

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

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

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

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

Risks Related to Ownership of Our Common Stock

We have issued Series D Convertible Preferred Stock with rights preferences and privileges that are senior to those of our Common Stock. The exercise of some or all of these Series D Convertible Preferred Stock rights may have a detrimental effect on the rights of the holders of the Common Stock.

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

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

We have since remedied the noncompliance with the NASDAQ listing rules by amending the warrants to remove the full ratchet anti-dilution provision and thus removed the resulting stockholders' deficit. At December 31, 2009, we no longer carried warrant liabilities on our Statement of Financial Condition. In consideration for such amendment, the Company has agreed to pay the holders of the warrants $0.035 per warrant share in cash on a post-reverse split basis, which was paid in February 2011.

The Series D Convertible Preferred Stock has a number of rights, preferences, and privileges that are superior to those of the Common Stock. Holders of the Series D Convertible Preferred Stock are entitled to a 6% annual dividend payable monthly in arrears. For the year ended December 31, 2010, the Company recorded cash dividends of $591,125. The Company is prohibited from paying any dividends on the Common Stock until all accrued dividends on the Series D Convertible Preferred Stock are first paid.

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

The Series D Convertible Preferred Stock has antidilution protection, including a full ratchet provision for certain new issuances of Company Stock, as specified in the Certificate of Designation of Series D Convertible Preferred Stock which is incorporated herein by reference. If such antidilution protection is triggered, the holders of Common Stock may have their ownership in the Company diluted.

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

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

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

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

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

Your ownership percentage may be diluted by warrants issued in connection with our subsequent debt financing.

During March 2011, the Company began offering debt which is scheduled to mature three years from the date of issuance and carries an interest rate of 10%, payable quarterly in arrears. In connection with this debt, the Company will also issue warrants to purchase common stock of the Company. These warrants will have a strike price equal to 15% less than the price per share of the Company's common stock on the closing date of the debt offering, which is anticipated to be in April 2011. Each $1 million of debt will be issued with 86,000 warrant shares. As of March 30, 2011, the Company has raised $2 million under this offering.

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

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

The table below represents a list of potentially dilutive securities outstanding as of March 25, 2011:

	Potentially Dilutive Securities Outstanding	Weighted-Average Exercise Price or Converion Price
Series D convertible preferred stock warrants	3,388,677	$ 4.55
Conversion of Series D preferred stock	3,151,161	-
Stock options	1,665,083	5.85
Other outstanding warrants	802,139	4.48
Common stock payable for legal settlement	152,368	-
Potentially dilutive securities	9,159,428	3.14

In addition to the potentially dilutive securities listed above, the total number of common shares outstanding as of March 25, 2011 was 2,482,408.

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

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

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

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

Our Articles of Incorporation authorize our Board of Directors to issue up to an additional 13,729,083 shares of preferred stock, without approval from our stockholders. This preferred stock, often called “blank check” preferred stock, could have conversion terms that would allow one share of preferred stock to convert into multiple shares of common stock. It could also have voting rights and other rights advantageous to holders of that preferred stock, but disadvantageous to holders of the Company’s common stock.

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

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

The market price of our common stock may decline.

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

- variations in quarterly operating results;
- announcements of significant contracts, milestones, and acquisitions;
- relationships with other companies;
- ability to obtain needed capital commitments;
- additions or departures of key personnel;
- sales of common and preferred stock, conversion of securities convertible into common stock, exercise of options and warrants to purchase common stock, or termination of stock transfer restrictions;
- general economic conditions, including conditions in the securities brokerage and investment banking markets;
- changes in financial estimates by securities analysts; and
- fluctuations in stock market price and trading volume.

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

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

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

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

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

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

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

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

Item 1b. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2010, all of our real estate properties are leased. Our principal executive offices are located in San Francisco, California and New York City, NY. We believe the facilities we are now using are adequate and suitable for business requirements.

Item 3. Legal Proceedings

Del Biaggio/Cacchione Matters

A number of lawsuits were been filedagainst the Company's wholly owned broker-dealer subsidiary and the Company, 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. During 2009 and 2010, the Company settled or had dismissed 10 cases against the Company with aggregate damages claimed in excess of $50 million in connection with the Del Biaggio / Caccione matters. Other cases resulted from the actions of Cacchione, apparently without Del Biaggio's involvement.

Don Arata and Gary Thornhill, et al. v. Merriman Capital, Inc. and Merriman Holdings, Inc. (Settlement Pending)

In July 2008, MC and the Company 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, MC and the Company 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 MC's failure to discover and stop the continuing fraud. Plaintiffs in this lawsuit seek damages of over $9 million. MC and the Company responded to the amended consolidated complaint in June 2009 denying all liability. Subsequent to December 31, 2010, the Company reached a settlement agreement with the plaintiffs in this claim and is proceeding with the administrative procedures necessary to finalize this agreement.   (The Davis, Cook, Bachelor, Hengehold and Thornhill cases, originally filed as separate claims, are now are part of the consolidated cases.)

Pacific Capital Bank v. Merriman Capital, Inc. and Merriman Holdings, Inc.(Settled)

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.

John Zarich v. Merriman Capital, Inc. and Merriman Holdings, Inc. (Closed)

In or around April 2009, John Zarich filed an arbitration claim with FINRA naming MC. The statement of claim alleges that Zarich was convinced by Cacchione to purchase shares of a small, risky stock in which MC held a position. It further alleges that Cacchione convinced Zarich not to sell the shares when the stock's price fell. The statement seeks $265,000 in compensatory damages plus punitive damages of $200,000 and 10% interest beginning January 2, 2008. This case was arbitrated on November 5 and November 8, 2010 which resulted in an immaterial award for damages to Mr. Zarich.

Khachuturian, Peterson and Salvi v. Merriman Capital, Inc. and Merriman Holdings, Inc (Ongoing).

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 names as defendants officers and former officers D. Jonathan Merriman, Gregory Curhan, and Robert Ford. Messrs Curhan and Ford were dropped from the case in January 2010. The complaints were consolidated into one case in March 2010. The complaints allege that plaintiffs were convinced by MC to purchase shares of a small, risky stock in which MC held a position. It further alleges that MC 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 it intends to contest these claims vigorously.

Other Litigation

There have been other legal cases that are not primarily arising out of the Del Biaggio/Cacchione matters. They are as follows:

Midsummer Investment, Ltd., v. Merriman Holdings, Inc. (Settled)

On November 6, 2009, Midsummer Investment, Ltd. ("Midsummer") filed a complaint in federal court, Southern District of New York, alleging that Midsummer was denied an anti-dilution adjustment to a warrant issued by the Company to them, and that the Company refused to honor an exercise of that warrant. The Company believed that Midsummer was not entitled to any anti-dilution adjustment and its attempted exercise was not accompanied by proper payment. The Company settled all claims in this case in November 2010.

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

In April 2008, the Company entered into an engagement to provide investment banking services to Spare Backup, Inc. The Company was able to close a round of bridge financing in June 2008. The Company was successful in raising $1,300,000 in capital for Spare Backup. As a result of closing the financing transaction, the Company was entitled to reimbursement of its expenses, a convertible note with principal valued at $161,100 and 370,370 shares of Spare Backup common stock. As of November 2008, these transaction fees had not been paid to the Company. We hired counsel to seek payment of the fees and to proceed to arbitration, as is specified in the engagement letter. In January 2009, the Company 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 the Company 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. In March 2011, the case was settled by mutual agreement.

The Company denies any liability to the claims previously mentioned and is vigorously contesting the remaining lawsuits and arbitrations against the Company. At this point, the Company cannot estimate the amount of damages for any unfavorable outcomes if they are resolved unfavorably or does not believe that the cases will result in unfavorable outcomes and accordingly, management has not provided an accrual for these lawsuits and arbitrations, except as otherwise noted.

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, 2010 and 2009 for legal services and litigation settlements amounted to $3,411,000 and $7,739,000.

PART II

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

Our common stock has been quoted on The Nasdaq Stock Market, Inc. ("Nasdaq") under the symbol "MERR" since February 12, 2008. Prior to this time, our common stock traded on the American Stock Exchange under the symbol "MEM." The following table sets forth the range of the high and low sales prices per share of our common stock for the fiscal quarters indicated.

	High	Low
2010		
Fourth Quarter	$ 3.03	$ 1.90
Third Quarter	4.13	2.35
Second Quarter	6.37	3.43
First Quarter	7.28	4.90
2009		
Fourth Quarter	$ 11.41	$ 4.69
Third Quarter	12.60	2.66
Second Quarter	4.34	2.10
First Quarter	4.55	1.68

The closing sale price for the common stock on March 25, 2011 was $3.11. The market price of our common stock has fluctuated significantly and may be subject to significant fluctuations in the future. See Item 1A - "Risk Factors."

According to the records of our transfer agent, we had 681 stockholders of record as of December 31, 2010. Because many shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial stockholders represented by these record holders.

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

Securities Authorized for Issuance Under Equity Compensation Plans

The following table gives information about the Company's common stock that may be issued upon the exercise of options and warrants under all of our existing equity compensation plans as of December 31, 2010.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options and Warrants	Weighted-Average Exercise 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)	8,530	$	32.38	-
2000 Stock Option and Incentive Plan (expired 2/28/10)	36,329	$	6.51	-
2001 Stock Option and Incentive Plan	31,232	$	8.32	-
2003 Stock Option and Incentive Plan	411,470	$	5.76	-
2009 Stock Incentive Plan	1,174,206	$	5.64	153,026
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 NetAmerica.com Corporation (now known as Merriman Holdings, Inc.) in 1999 and a Non-Qualified option plan approved by the Board of Directors in 2004 that is consistent with the exchange guidelines at the time of listing.

Recent Sale of Unregistered Securities

On September 29, 2010, we borrowed $1,000,000 from nine individual lenders, all of whom are directors, officers or employees of the Company, pursuant to a series of Unsecured Promissory Notes (the “September Notes”). The September 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 (the “Current Interest”); and (ii) Eight (8.0%) per annum to be accrued and paid in cash upon maturity. Additional consideration was paid to the lenders at closing comprising a number of shares of common stock of the Company equal to: (A) 30% of the principal amount lent; divided by (B) $3.01 per share. A total of 99,663 shares of Common Stock were issued pursuant to the September Notes.

On November 1, 2010, we borrowed $300,000 from four lenders pursuant to a series of Unsecured Promissory Notes (the “November Notes”). The September Notes were initially due on January 31, 2011, but were amended on January 31, 2011 to extend the maturity date until December 31, 2011. The November Notes provide for interest of Twelve (12.0%) per annum to be accrued and paid 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) 55% of the principal amount lent; divided by (B) $3.01 per share. A total of 54,817 shares of Common Stock were issued pursuant to the November Notes.

Secured Promissory Note

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

On November 12, 2010, Merriman Holdings, Inc. settled claims brought by Midsummer Investment, Ltd. (“Midsummer”) relating to a warrant exercise. On November 6, 2009, Midsummer filed a complaint in federal court, Southern District of New York, alleging that Midsummer was denied an anti-dilution adjustment to a warrant issued by the Company to them, and that the Company refused to honor an exercise of that warrant. Pursuant to a written settlement agreement, the Company will issue to Midsummer 200,000 shares of common stock in 12 monthly installments of 16,666 shares. Of this amount 185,700 shares are being issued upon a cashless exercise of warrants acquired by Midsummer in connection with an investment in the Company in 2006, and will be saleable immediately as they are issued over the coming 12 months. The remaining 14,300 shares will be restricted.

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

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

Overview

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

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

We are headquartered in San Francisco, with additional offices in New York, NY. As of December 31, 2010, we had 77 employees. Merriman Capital, Inc. is registered with the Securities and Exchange Commission (SEC) as a broker-dealer and is a member of Financial Industry Regulatory Authority (FINRA) and the Securities Investors Protection Corporation (SIPC).

Executive Summary

Our total revenues increased 43% during 2010 to $30,666,000, which was primarily attributable to increases in our brokerage operations, investment banking and principal transactions. Our net loss from continuing operations decreased by $143,000 to $5,434,000 for the year ended December 31, 2010 as compared to the prior year. Additionally, our net cash used in operating activities decreased by approximately $11,123,000 due to the fact that the Company settled the preponderance of claims associated with the Del Biaggio/Cacchione litigation.

Commissions – Commissions revenue from brokering equity securities to institutional investors increased by 21% to $14,938,000 from $12,391,000 in 2009. This increase was primarily due to improved securities market conditions during the year as compared to 2009. However, this business continues to face increasing challenges, including the proliferation of electronic communications networks which have reduced commission rates and profitability in the brokerage industry. Many large investment banks have responded to lower margins within their equity brokerage divisions by reducing research coverage, particularly for smaller companies, consolidating sales and trading services, and reducing headcount of sales and trading professionals. We believe that we can grow our institutional brokerage revenue by producing differentiated equity research on relatively undiscovered, fast-growing companies within our selected growth sectors and providing this research to small and mid-sized traditional and alternative investment managers for whom these companies comprise an important part of their investment portfolios.

Principal Transactions – Principal transactions produced a gain of $1,785,000 during 2010 as compared to a loss of $19,000 in 2009. The 2010 gain was driven by profitable trading for the firm's proprietary account and by the securities we received in connection with certain investment banking transactions completed during the year. Principal transactions revenue consists of four different activities: customer principal trades, market making, trading for our proprietary account, and realized and unrealized gains and losses in our investment portfolio. As a broker-dealer, we account for all of our marketable security positions on a trading basis and as a result, all security positions are marked to fair market value each day. Returns from market making and proprietary trading activities tend to be more volatile than acting as agent or principal for customers.

We will from time to time take significant trading positions in fast-growing companies that we feel are undervalued in the market place.

Investment Banking – Investment banking revenues increased 85% in 2010 as compared to the prior year. In 2010 and 2009, we closed almost the same amount of corporate financing and strategic advisory transactions during both years. However, the deal sizes and average fees earned were higher on a per transaction basis in 2010 as compared to 2009. As a percentage of total revenue, investment banking contributed 44% in 2010 compared to 34% in 2009.

Other Revenues – During 2007, MC began offering services to sponsor companies on the Domestic and International OTCQX markets. This offering has been designed to enable domestic and non-U.S. companies to obtain greater exposure to U.S. institutional investors without the expense and regulatory burdens of listing on traditional U.S. exchanges. The Domestic and International OTCQX market tiers do not require full SEC registration or Sarbanes Oxley compliance. Listing on the market requires the sponsorship of a qualified investment bank called a Designated Advisor for Disclosure (DAD) for domestic companies or a Principal American Liaison (PAL) for non-U.S. companies. MC was the first U.S. investment bank to achieve DAD and PAL designations. The revenues earned from these activities decreased from $1,868,000 during 2009 to $531,000 during 2010, primarily related to the fact that we re-formulated the sales team and pricing structure of this offering during 2010.

Employees – At December 31, 2009, we had 82 employees. During 2010, our headcount was further reduced when ICD obtained its broker-dealer license. At December 31, 2010, the Company had 77 employees.

Business Developments – We continued to invest in areas of our business that we believe will increase the awareness of our franchise and contribute to future revenue opportunities such as hosting investor conferences, introducing management teams of fast-growing companies to institutional investors, marketing, travel and other business development activities. We continue to implement cost cutting measures in 2010. However, we expect further significant improvements in our operating results to be primarily driven by increases in our various revenue sources.

Business Environment

Equity indices rose sharply in 2010 and global equity capital markets mostly recovered to the pre-crisis levels of 2008. However, U.S. capital markets continue to make a fragile comeback. The flow of funds into U.S. equity funds was negative for 2010 and corporate equity-based offerings were modest during the year. Additionally, while the number of IPOs during 2010 was greater than the total number completed during 2009, the average IPO size has decreased dramatically.

During 2010, approximately half of all IPO offerings were completed by companies in the following industrial classifications; technology, media, telecom, energy and consumer. We service companies in these industries and therefore, we participated in a fourth quarter rally in offerings in these verticals. As we continue to examine the opportunities in 2011, we note that the current backlog of companies filing for an IPO includes a preponderance of companies in these industries as well.

More and more securities offerings are being completed within the exemptive provisions of the Securities Acts. We anticipate that this trend will continue as fast-growing companies navigate the most advantaged path to accessing capital markets in the future. We continue to assist companies in private securities transactions and through offerings on the OTCQX.

Finally, many of the institutional investors that we deal with have been able to attract inflows of capital in recognition of the continued improvements in the U.S. equity markets and the availability of liquidity. We expect that this trend will continue during 2011.

Results of Operations

The following table sets forth the results of operations for the years ended December 31, 2010 and 2009:

	2010	2009
Revenues:		
Commissions	$ 14,937,938	$ 12,391,284
Principal transactions	1,784,868	(18,729)
Investment banking	13,412,832	7,236,059
Other revenues	530,673	1,868,398
Total revenues	30,666,311	21,477,012
Operating expenses:		
Compensation and benefits	20,714,184	16,234,001
Brokerage and clearing fees	1,483,436	931,660
Professional services	1,669,937	2,245,304
Occupancy and equipment	1,910,553	2,094,455
Communications and technology	2,006,615	2,790,462
Depreciation and amortization	401,346	477,729
Travel and business development	1,226,378	832,636
Legal services and litigation settlement expense	3,410,914	7,738,555
Cost of underwriting capital	1,068,520	-
Other	2,086,122	1,921,417
Total operating expenses	35,978,005	35,266,219
Operating loss	(5,311,694)	(13,789,207)
Other income	25,418	2,000,000
Change in warrant liability	-	6,910,656
Interest income	13,576	15,658
Interest expense	(165,828)	(1,341,753)
Loss from continuing operations before income taxes	(5,438,528)	(6,204,646)
Income tax benefit	5,005	627,923
Loss from continuing operations	(5,433,523)	(5,576,723)
Income from discontinued operations	95,104	114,960
Net loss	$ (5,338,419)	$ (5,461,763)
Net loss attributable to common shareholders	$ (5,929,544)	$ (10,720,565)

Our total revenues during 2010 increased by $9,189,000 or 43%, from 2009. Of the total increase in revenues, $6,177,000 or 67% was attributable to investment banking and $2,547,000 or 28% was due to higher commission levels. We also experienced $1,804,000 increase in principal transaction gains during 2010 as compared to a loss of $19,000 in 2009. However, other revenues decreased by 72% or $1,338,000. The decrease in other revenues is mostly due to decrease in OTCQX clients during 2010.

Investment Banking Revenue

Our investment banking activity includes the following:

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

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

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

		2010		2009
Revenue:				
Capital raising	$	12,596,123	$	4,921,976
Financial advisory		816,709		2,314,083
Total investment banking revenue	$	13,412,832	$	7,236,059
Transaction Volumes:				
Public offerings:				
Capital underwritten participations	$	780,800,000	$	644,560,000
Number of transactions		11		7
Private placements:				
Capital raised	$	312,396,000	$	98,588,000
Number of transactions		13		12
Financial advisory:				
Transaction amounts	$	43,029,000	$	78,900,000
Number of transactions		4		8

Our investment banking revenue amounted to $13,413,000, or 44% of our total revenue, and represented an 85% increase over 2009. The increase in revenue was primarily attributable to higher average fees earned per investment banking transaction due to the proportionally larger size of the capital raised for these transactions.

During the year ended December 31, 2010, there was one investment banking client that accounted for more than 10% of our total revenue. During 2009, no single investment banking client accounted for more than 10% of our total revenue.

Commissions and Principal Transactions Revenue

Our broker-dealer activity includes the following:

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

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

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

	2010	2009
Revenue:		
Commissions on institutional equities	$ 14,937,938	$ 12,391,284
Principal transactions:		
Customer principal transactions, proprietary trading and market making	$ 760,001	$ 319,078
Investment portfolio	1,024,867	(337,807)
Total principal transactions revenue	$ 1,784,868	$ (18,729)
Equity research:		
Companies covered	105	114
Transaction Volumes:		
Number of shares traded	676,504,648	868,751,782

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Commissions amounted to $14,938,000, or 49%, of our revenue during 2010, representing a 21% increase over 2009. The increase is attributed to the increase in average commissions per share. The average commissions per share were 2.21 cents in 2010 as compared to 1.43 cents in 2009.

Principal transaction revenue consists of four different activities - customer principal trades, market making, trading for our proprietary account, and realized and unrealized gains and losses in our investment portfolio. As a broker-dealer, we account for all of our marketable security positions at fair market value. Returns from market making and proprietary trading activities tend to be more volatile than acting as agent or principal for customers.

Principal transactions gains were $1,785,000 in 2010 compared to a loss of $19,000 during 2009. The increase is attributable to profitable trading for the firm's proprietary account and by warrants and underwriters' purchase options received in relation to our banking activities and the related fair value measurements during the year.

During the years ended December 31, 2010 and 2009, no single brokerage customer accounted for more than 10% of our revenues.

Compensation and Benefits Expenses

Compensation and benefits expense represents the majority of our operating expenses and includes commissions, base salaries, discretionary bonuses and stock-based compensation. Commissions are paid to sales representatives based on their production. Historically, these employees have not been eligible for discretionary bonuses. Investment banking, research, support and executives are salaried and may participate in the discretionary bonus plans. The bonus pool is funded based on a number of criteria including revenue production, profitability and other key metrics. However, the total bonuses pool is considered by management and the Board of Directors and can be adjusted at their discretion. Salaries, payroll taxes and employee benefits tend to vary based on title and overall headcount.

The following table sets forth the major components of our compensation and benefits for the two years ended December 31, 2010 and 2009:

		2010			2009	
Incentive compensation and discretionary bonuses	$	9,973,704		$	6,954,142	
Salaries and wages		7,204,046			6,819,995	
Stock-based compensation		1,636,100			837,822	
Payroll taxes, benefits and other		1,900,334			1,622,042	
Total compensation and benefits	$	20,714,184		$	16,234,001	
Total compensation and benefits as a percentage of revenue		68	%		76	%
Cash compensation and benefits as a percentage of revenue		62	%		72	%

The dollar value of the increase in compensation and benefits expense of $4,480,000, or 28%, from 2009 to 2010 is primarily due to higher revenues earned during the year. However, we continue to focus on decreasing the ratio of total compensation and benefits as a percentage of revenue, as noted by the decrease from 76% in 2009 to 68% in 2010. Incentive compensation is directly correlated to commission revenue earned and discretionary bonuses are also primarily correlated to investment banking revenues earned. Cash compensation is equal to total compensation and benefits expense excluding stock-based compensation, which is a non-cash expense. Stock-based compensation increased 95% or $798,000 from 2009, due to stock option and restricted stock grants made towards the end of 2009 and during 2010, to motivate key employees, as well as modifications of options to key employees during 2010.

Our headcount decreased from 118 at December 31, 2008, to 82 at December 31, 2009 and decreased further to 77 at December 31, 2010. One sales professional accounted for more than 10% of our revenue in 2010. No single sales professional accounted for more than 10% of our revenue in 2009.

Other Operating Expenses

Brokerage and clearing fees include trade processing expenses that we pay to our clearing broker and execution fees that we pay to floor brokers and electronic communication networks. MC is a fully-disclosed broker-dealer, which has engaged a third-party clearing broker to perform all of the clearance functions. The clearing broker-dealer processes and settles the customer transactions for MC and maintains the detailed customer records. Security trades are executed by third-party broker-dealers and electronic trading systems. These expenses are directly correlated with commissions revenue and the volume of brokerage transactions. The increase in brokerage and clearing fees of $552,000, or 59%, from 2009 to 2010 is a result of higher brokerage business and revenues.

Professional services expense includes audit and accounting fees, expenses related to investment banking transactions and various consulting fees. The decrease of $575,000, or 26%, is mostly attributed to lower audit and consulting fees during the year due to lower negotiated fees and reduced scope of work performed in relation to Sarbanes Oxley compliance.

Occupancy and equipment includes rental costs for our office facilities and equipment, as well as equipment, software and leasehold improvement expenses. Occupancy expense is largely fixed in nature while equipment expense tends to increase or decrease in direct relation to the number of employees we have. The decrease of $184,000, or 9%, from 2009 to 2010 is due to the closure of the office in Newport Beach, California during the latter part of 2009 in addition to the subletting of a portion of our office space in the San Francisco office.

Communications and technology expense includes market data and quote services, voice, data and Internet service fees, and data processing costs. The decrease of $784,000, or 28%, is a result of our efforts to reduce non revenue-generating costs.

Depreciation and amortization expense primarily relate to the depreciation of our computer equipment and leasehold improvements. Depreciation and amortization are mostly fixed in nature. The decrease of $76,000 or 16% is a result of fewer purchases of equipment and leasehold improvements, reducing the depreciable base of assets.

Travel and business development expenses are incurred by each of our lines of business and include business development costs by our investment bankers, travel costs for our research analysts to visit the companies that they cover and non-deal road show expenses. Non-deal road shows represent meetings in which management teams of our corporate clients present directly to our institutional investors. The increase of $394,000, or 47%, as compared to 2009, is also correlated to the increase in revenues earned as sales efforts increase.

Legal services and litigation settlement expenses were incurred in connection with our activities in 2010, as well as 2009. In both years, we concluded a number of legal cases and incurred expenses in the settlement and related to other outstanding legal cases.

Cost of underwriting capital includes expenses incurred directly related to underwriting deals, such as cost of borrowing to be able to underwrite offerings as required by FINRA rules.

The following expenses are included in other operating expenses for the two years ended December 31, 2010 and 2009:

	2010	2009
Insurance	$ 658,778	$ 429,030
	448,022	160,073

Provision for uncollectible accounts receivable				
Company events		219,946		374,682
Public and investor relations		207,304		123,585
Supplies		100,284		122,906
Dues and subscriptions		89,481		142,333
Other		362,307		568,808
Total other operating expenses	$	2,086,122	$	1,921,417

The increase in expenses in other operating expenses is primarily the result of higher insurance costs and the write off of expenses related to banking deals which were not consummated.

Interest Income

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

Interest Expense

Interest expense for 2010 included $85,000 for interest expense and $81,000 for amortization of debt discounts while 2009 included $455,000 for interest expense and $886,000 for amortization of debt discounts and debt issue costs. In 2010 and 2009, we issued various debts with stocks or warrants, for which total proceeds were allocated to individual instruments based on the relative fair values of each instrument at the time of issuance. The value of the stocks or warrants was recorded as discount on the debt and amortized over the term of the respective debt using the effective interest method.

Income Tax Expense

We recorded an income tax benefit of $5,000 and $628,000 in 2010 and 2009, respectively. This resulted in an effective tax rate of 0% and 10% in 2010 and 2009, respectively. The effective tax rate differs from the statutory rate primarily due to the net operating loss carryforwards generated, which have been offset by a 100% valuation allowance resulting in a tax provision equal to our expected current benefit for the year. The tax benefit recorded in 2010 and 2009 relates primarily to net operating loss carryback refunds.

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

The Company adopted ASC 740, Income Taxes, on January 1, 2007. As a result of the implementation of ASC 740, the Company recognized no adjustment in the liability for unrecognized income tax benefits and no corresponding change in retained earnings. There were no unrecognized tax benefits as of December 31, 2010 and 2009. The Company does not have any material accrued interest or penalties associated with any unrecognized tax benefits. The Company does not believe it is reasonably possible that the unrecognized tax benefits will significantly change within the next twelve months.

Discontinued Operations

Panel Intelligence, LLC

On April 17, 2007, Merriman Holdings, Inc. acquired 100% of the outstanding common shares of MedPanel Corp. which was subsequently renamed Panel Intelligence, LLC (“Panel”) and 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 its core business. The Company determined that the plan of sale criteria in ASC 360, Property, Plant and Equipment, had been met. As a result, the revenue and expenses of Panel have been reclassified and included in discontinued operations in the consolidated statements of operations. Accordingly, the carrying value of the Panel assets was adjusted to their fair value less costs to sell in

2008. In January 2009, the Company sold Panel to Panel Intelligence, LLC (Newco) for $1,000,000 and shares of the Company's common stock in the amount of $100,000.

For the years ended December 31, 2010 and 2009, income (loss) from discontinued operations related to Panel was $33,000 and ($95,000), respectively.

Institutional Cash Distributors

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

For the years ended December 31, 2010 and 2009, income from discontinued operations related to ICD was $62,000 and $210,000 respectively.

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

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

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

OTCQX revenue is recognized in two parts – Due Diligence and Listing Fees. Due Diligence Fees are recognized at its completion. The Listing Fees are pro-rated monthly from the time the end of the Due Diligence period until the end of the engagement term.

Fair Value of Financial Instruments

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

Fair Value Measurement—Definition and Hierarchy

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

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

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

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

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

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

Stock-Based Compensation

We measure and recognize compensation expense based on estimated fair values at the grant date for all share-based awards made to employees and directors, including stock options, restricted stock, and participation in our employee stock purchase plan. Compensation cost for all share-based awards subsequent to December 31, 2005 is recognized using the straight-line single-option method.

We estimate the fair value of stock options granted using the Black-Scholes option pricing model. This model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

Because share-based compensation expense is based on awards that are ultimately expected to vest, it 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. Changes in inputs and assumptions used in our model, including forfeiture rates, can materially affect the measure of estimated fair value of our share-based compensation.

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates.

Liquidity and Capital Resources

MC, as a broker-dealer, is 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, 2010, MC had regulatory net capital of $3,141,000, which exceeded the amount required by $2,777,000.

During the year ended December 31, 2010, the Company incurred a net loss of $5,338,000 and used $1,525,000 in net cash from operating activities. As of December 31, 2010, liquid assets consisted primarily of cash and cash equivalents of $4,898,000 and marketable securities of $2,402,000, totaling $7,300,000. The Company had liabilities of $8,130,000. The Company's ability to generate profits is highly dependent on stock market trading volumes and the general economic environment.

We believe our current funds are sufficient to enable us to meet our planned expenditures through at least January 1, 2012. If anticipated operating results are not achieved, we intend and we believe we have the ability to delay or reduce expenditures, if not to raise additional financing. Failure to generate sufficient cash flows from operations, raise additional capital or reduce certain discretionary spending could have a material adverse effect on our ability to achieve our intended business objectives.

During March 2011, the Company began offering debt which is scheduled to mature three years from the date of issuance and carries an interest rate of 10%, payable quarterly in arrears. In connection with this debt, the Company will also issue warrants to purchase common stock of the Company. These warrants will have a strike price equal to 15% less than the price per share of the Company's common stock on the closing date of the debt offering, which is anticipated to be in April 2011. Each $1 million of debt will be issued with 86,000 warrant shares. As of March 30, 2011, the Company has raised $2 million under this offering.

Commitments

The following is a table summarizing our significant commitments as of December 31, 2010, consisting of non-cancellable payments under operating agreements and leases and capital leases with initial or remaining terms in excess of one year.

	Notes Payable	Operating Commitments	Operating Leases	Capital Leases
2011	$ 776,142	$ 1,279,931	$ 1,577,533	$ 122,205
2012	60,165	166,966	1,077,438	-
2013	1,284,547	-	615,150	-
Total commitments	2,120,854	1,446,897	3,270,121	122,205
Interest	(490,854)	-	-	(1,752)
Net commitments	$ 1,630,000	$ 1,446,897	$ 3,270,121	$ 120,453

Off-Balance Sheet Arrangements

We were not a party to any off-balance sheet arrangements during the two years ended December 31, 2010. In particular, we do not have any interest in so-called limited purpose entities, which include special purpose entities and structured finance entities.

Newly Issued Accounting Standards

ASC 810, Consolidation, as amended in June 2009, is a revision to pre-existing guidance pertaining to the consolidation and disclosures of variable interest entities. Specifically, it changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. This guidance will require a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. This guidance was effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. Early application is not permitted. The adoption of this new guidance did not have an impact on the Company's consolidated financial statements.

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU") No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements," which amends the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance also clarifies the existing disclosure requirements in ASC 820-10 regarding: i) the level of disaggregation of fair value measurements; and ii) the disclosures regarding inputs and valuation techniques. The guidance became effective for the Company with the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for the Company with the reporting period beginning January 1, 2011, with early adoption permitted. Comparative disclosure for earlier reporting periods that ended before initial adoption is encouraged but not required. Effective April 1, 2010, the Company early adopted the guidance in ASU 2010-06 related to the disclosure on the roll forward activities for Level 3 fair value measurements. Other than requiring additional disclosures, the adoption of this new guidance did not have an impact on our consolidated financial statements. (See Note 6 of the Notes to the Consolidated Financial Statements.)

In July 2010, the FASB issued ASU No. 2010-20, "Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" ("ASU 2010-20"). The objective of ASU 2010-20 is to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. Under ASU 2010-20, an entity is required to provide disclosures so that financial statement users can evaluate the nature of the credit risk inherent in the entity's portfolio of financing receivables, how that risk is analyzed and assessed to arrive at the allowance for credit losses, and the changes and reasons for those changes in the allowance for credit losses. ASU 2010-20 is applicable to all entities, both public and non-public and is effective for interim and annual reporting periods ending on or after December 15, 2010. Comparative disclosure for earlier reporting periods that ended before initial adoption is encouraged but not required. However, comparative disclosures are required to be disclosed for those reporting periods ending after initial adoption. In January 2011, the FASB issued ASU No. 2011-01, "Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20" ("ASU 2011-01") which temporarily delays the effective date of the disclosures about troubled debt restructurings required by ASU 2010-20, which is not expected to be effective for interim and annual periods ending after June 15, 2011. The adoption of this new guidance is not expected to have an impact on our consolidated financial statements.

On July 21, 2010, President Barack Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (Wall Street Reform Act). The Wall Street Reform Act permanently exempts small public companies with less than $75 million in market capitalization (nonaccelerated filers) from the requirement to obtain an external audit on the effectiveness of internal financial reporting controls provided in Section 404(b) of the Sarbanes-Oxley Act of 2002 (SOX). Section 404(b) requires a registrant to provide an attestation report on management's assessment of internal controls over financial reporting by the registrant's external auditor. As a result, the Company is not required and is not planning to obtain an attestation report on management's assessment of internal controls over financial reporting from the Company's external auditor as of December 31, 2010. Disclosure of management attestations on internal control over financial reporting under existing Section 404(a) continues to be required for smaller companies.

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, 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 is no longer included in the Company's statement of financial condition. In relation to the sale, the Company incurred an immaterial loss, which is included in other income in the Company's consolidated statement of operations.

Temporary Subordinated Borrowings

On September 28, 2010, the Company borrowed $4,000,000 from DGB Investment, Inc. (DGB). DGB is controlled by Douglas G. Bergeron, who was previously a 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. The loan and fees payable in relation to this loan have been repaid in full in October 2010. For the year ended December 31, 2010, the Company incurred a total of $60,000 in fees on the loan, which is included in cost of underwriting capital in the Company's consolidated statement of operations.

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 a total of $230,000 in fees on the loans from DGB and Ronald L. Chez, and is included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and fees payable in relation to this loan have been repaid 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 paid interest in the amount of $731,000 for this loan, which is included in cost of underwriting capital in the Company's consolidated statement of operations. The loan and fees payable in relation to this loan have been repaid in full in February 2010.

Subordinated Notes Payable to Related Parties

On September 29, 2010, the Company borrowed $1,000,000 from nine individual lenders, all of whom are directors, officers or employees of the Company, pursuant to a series of 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 30% of the principal amount lent divided by $3.01 per share. Proceeds were used to supplement underwriting capacity and working capital for our broker dealer subsidiary.

As of December 31, 2010, Subordinated Notes of $809,000, net of $191,000 discount, remain outstanding and is included in subordinated notes payable to related parties – long term in the Company's consolidated statement of financial condition. For the year ended December 31, 2010, the Company incurred $36,000 as fees (included in interest expense in the Company's consolidated statement of operations), of which $25,000 remain outstanding as of December 31, 2010 and is included in accrued expenses and other in the consolidated statements of financial position.

Secured Promissory Note

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

Unsecured Borrowings

On July 29, 2009, Mr. Jonathan Merriman, the Company's CEO, and Mr. Brock Ganeles, MC's former Head of Brokerage, made short-term loans to the Company in the amounts of $200,000 and $300,000, respectively. Mr. Merriman's loan was repaid on August 5, 2009. Mr. Merriman forgave the interest on his loan. Mr. Ganeles' loan was repaid on August 20, 2009. The Company paid Mr. Ganeles interest in the amount of $9,403 which is included in interest expense in the Company's consolidated statement of operations.

On June 30, 2009, the Company issued $300,000 in unsecured promissory notes to three of its employees at an interest rate of 3.25%. The maturity date of the notes was October 31, 2009, although they were repayable earlier on the occurrence of certain events. These notes were paid in full in cash or transferred into investments in Series D Preferred Stock during September 2009.

Bridge Note

On July 31, 2009, the Company issued Mr. Ronald L. Chez, the lead investor in the Series D Transaction, a Bridge Note in the amount of $500,000 at an annual interest rate of 9.00%. The term of the Bridge Note was three years, redeemable by Mr. Chez upon presentation of written demand. The Bridge Note was guaranteed personally by Messrs. Jonathan Merriman (CEO) and Peter Coleman (former CFO). The Company issued 10-year warrants to purchase 166,113 shares of the Company's common stock at $4.55 per share to Mr. Chez in connection with this transaction. Identical warrants were issued to purchase 83,056 shares of the Company's common stock each to Messrs. Merriman and Coleman for the guarantee. The Bridge Note was converted into the Series D Convertible Preferred Stock on September 8, 2009.

Secured Demand Note

On August 12, 2009, the Company obtained a Demand Note in the amount of $1,329,000 from the D. Jonathan Merriman Living Trust as a subordinated loan. The trustee of the Trust, D. Jonathan Merriman, is also the Chief Executive Officer of the Company. The Demand Note was collateralized by securities held in a brokerage account held at a third party by the Trust. The Demand Note was repaid on September 23, 2009 and the securities were transferred back to the Trust. The Company compensated the Trust with total interest and fees in the amount of $179,000 (included in interest expense in the Company's consolidated statement of operations), the majority of which was reinvested in the Series D Convertible Preferred Stock transaction.

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 3,388,702 shares of the Company's common stock at $4.55 per share on 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, as amended. Cash consideration was deposited into escrow on or around August 27, 2009. Each share of Series D Convertible Preferred Stock is convertible into one share of Common Stock of the Company. The Series D Convertible Preferred Stock carries a dividend rate of 6% per annum, payable in cash monthly.

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

Board of Directors Compensation

In 2009, the Company formed a Strategic Advisory Committee of the Board of Directors chaired by Mr. Ronald Chez, the lead investor in the Series D Convertible Preferred Stock strategic transaction. During the first year, the Chair of the Committee will be compensated with warrants to purchase 42,857 shares the Company's common stock at $4.55 on a post-reverse split basis, to be issued pro rata on a monthly basis. No other compensation was provided for his service on the Committee. For the year ended December 31, 2010 and 2009, the Company issued 29,525 and 13,332 warrants to Mr. Chez and recorded stock-based compensation expense of $103,000 and $84,000, respectively, based on the calculated fair value of the warrants using the Black-Scholes option valuation model.   The terms of these warrants were amended subsequent to December 31, 2010. See Note 20 of the Notes to the Consolidated Financial Statements.

In August 2010, the stockholders approved Ronald L. Chez to be the Co-Chairman of the Board of Directors of the Company. During the first year of his term as co-chairman, Mr. Chez was compensated with 42,857 shares of the Company's common stock. For the year ended December 31, 2010, the Company recorded $135,000 of stock-based compensation expense in relation Mr. Chez's compensation.

Other Related Party Transactions

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

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

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

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

Equity Price Risk

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

Interest Rate Risk

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

Foreign Currency Risk

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

Item 8. Financial Statements and Supplementary Data

The following financial statements are included in this report:

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

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Merriman Holdings, Inc.

We have audited the accompanying consolidated statements of financial condition of Merriman Holdings, Inc. (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is 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, 2010 and 2009, and the consolidated results of its operations and its cash flows for the years ended December 31, 2010 and 2009 in conformity with accounting principles generally accepted in the United States of America.

/s/ Burr Pilger Mayer, Inc.

San Francisco, California
March 30, 2011

MERRIMAN HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2010	2009
Revenues:		
Commissions	$14,937,938	$12,391,284
Principal transactions	1,784,868	(18,729)
Investment banking	13,412,832	7,236,059
Other	530,673	1,868,398
Total revenues	30,666,311	21,477,012
Operating expenses:		
Compensation and benefits	20,714,184	16,234,001
Brokerage and clearing fees	1,483,436	931,660
Professional services	1,669,937	2,245,304
Occupancy and equipment	1,910,553	2,094,455
Communications and technology	2,006,615	2,790,462
Depreciation and amortization	401,346	477,729
Travel and entertainment	1,226,378	832,636
Legal services and litigation settlement expense	3,410,914	7,738,555
Cost of underwriting capital	1,068,520	-
Other	2,086,122	1,921,417
Total operating expenses	35,978,005	35,266,219
Operating loss	(5,311,694)	(13,789,207)
Other income	25,418	2,000,000
Change in warrant liability	-	6,910,656
Interest income	13,576	15,658
Interest expense	(165,828)	(1,341,753)
Loss from continuing operations before income taxes	(5,438,528)	(6,204,646)
Income tax benefit	5,005	627,923
Loss from continuing operations	(5,433,523)	(5,576,723)
Income from discontinued operations	95,104	114,960
Net loss	(5,338,419)	(5,461,763)
Preferred stock deemed dividend	-	(5,066,702)
Preferred stock cash dividend	(591,125)	(192,100)
Net loss attributable to common shareholders	$(5,929,544)	$(10,720,565)

Basic and diluted net loss per share:		
Loss from continuing operations	$(2.71)	$(3.08)
Income from discontinued operations	0.04	0.06
Net loss	$(2.67)	$(3.02)
Net loss attributable to common shareholders	$(2.96)	$(5.91)
Weighted average number of common shares:		
Basic and diluted	2,002,305	1,813,378

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

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MERRIMAN HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	As of December 31, 2010	2009
ASSETS		
Cash and cash equivalents	$4,898,093	$5,656,750
Securities owned:		
Marketable, at fair value	2,401,722	4,728,940
Non-marketable, at estimated fair value	2,741,452	272,463
Other	-	67,448
Restricted cash	965,000	1,072,086
Due from clearing broker	34,072	2,546,581
Accounts receivable, net	1,574,644	470,992
Prepaid expenses and other assets	313,537	801,946
Equipment and fixtures, net	136,706	506,535
Total assets	$13,065,226	$16,123,741
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable	$361,237	$346,220
Commissions and bonus payable	3,240,021	4,133,924
Accrued expenses and other	2,833,294	2,763,016
Securities sold, not yet purchased	-	161,461
Deferred revenue	175,712	304,334
Notes payable - short term, net	259,532	-
Notes payable to related parties - short term	330,000	-
Capital lease obligation	120,453	397,958
Subordinated notes payable to related parties - long term, net	809,305	-
Total liabilities	8,129,554	8,106,913
Stockholders' 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, 2010 and 2009; 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, 2010 and 2009; aggregate liquidation preference of $0	-	-
Convertible Preferred stock, Series C–$0.0001 par value; 14,200,000 shares authorized; 11,800,000 shares issued and 0 shares outstanding as of December 31, 2010 and 2009; 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		

22,058,128 and 23,720,916 shares outstanding as of December 31, 2010 and December 31, 2009, respectively; aggregate liquidation preference of $9,484,995 prior to conversion, and pari passu with common stock on conversion	2,206	2,372
Common stock, $0.0001 par value; 300,000,000 shares authorized; 2,384,499 and 1,855,444 shares issued and 2,355,063 and 1,826,008 shares outstanding as of December 31, 2010 and 2009, respectively	239	183
Common stock payable	461,675	-
Additional paid-in capital	134,851,006	133,055,308
Treasury stock	(225,613)	(225,613)
Accumulated deficit	(130,153,841)	(124,815,422)
Total stockholders' equity	4,935,672	8,016,828
Total liabilities and stockholders' equity	$13,065,226	$16,123,741

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

MERRIMAN HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Common Stock Payable		Treasury Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Tota
Balance at January 1, 2009	-	-	1,822,385	$182	-	$-	(4,417)	$(125,613)	$127,194,291	$(119,353,659)	$7,715,2
Net loss	-	-	-	-	-	-	-	-	-	(5,461,763)	(5,461,
Issuance of Series D Convertible Preferred Stock	23,720,916	2,372	-	-	-	-	-	-	-	-	2,372
Issuance of common stock for MedPanel acquisition	-	-	22,112	-	-	-	-	-	-	-	-
Preferred stock dividend	-	-	-	-	-	-	-	-	(5,258,802)	-	(5,258,
Issuance of restricted common stock	-	-	10,947	1	-	-	-	-	83,379	-	83,380
Reclass of warrant liability	-	-	-	-	-	-	-	-	10,072,684	-	10,072
Issuance of warrants to board member	-	-	-	-	-	-	-	-	83,671	-	83,671
Issuance of warrant in connection with issuance of debt	-	-	-	-	-						