

Merriman Curhan Ford Group, Inc.  
Form 10-K/A  
April 30, 2009

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-K/A

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(Mark One)

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

For the Fiscal Year ended December 31, 2008

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

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MERRIMAN CURHAN FORD GROUP, 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)

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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

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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

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

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

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

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

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

The aggregate market value of the 12,684,106 shares of common stock of the Registrant issued and outstanding as of June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter, excluding 1,239,822 shares of common stock held by affiliates of the Registrant was \$14,534,241. This amount is based on the closing price of the common stock on NASDAQ of \$1.27 per share on June 30, 2008.

The number of shares of Registrant's common stock outstanding as of March 25, 2009 was 12,733,296

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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,” “will,” “should,” “seeks,” “approximately,” “intend,” “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, 2008, originally filed on March 31, 2009 (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, 2008. 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, 2008 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 provides equity research, capital markets services, corporate and venture services, investment banking, asset management and primary research through our operating subsidiaries, Merriman Curhan Ford & Co., MCF Asset Management, LLC and Panel Intelligence, LLC.

Merriman Curhan Ford & Co. is an investment bank and securities broker-dealer focused on fast-growing companies and institutional investors. Our mission is to become a leader in the researching, advising, financing, trading and investing in fast-growing companies under \$2 billion in market capitalization. We provide equity research, brokerage and trading services primarily to institutions, as well as investment banking and advisory services to corporate clients. We are attempting to gain market share by originating differentiated research for our institutional investor clients and providing specialized and integrated services for our fast-growing corporate clients.

Panel Intelligence, LLC was acquired in April 2007. It offers custom and published primary research to industry clients and investment professionals through online panel discussions, quantitative surveys and an extensive research library. Panel Intelligence, LLC provides greater access, compliance, insights and productivity to clients in the health

care, CleanTech and financial industries. In January 2009, the majority of the assets of Panel Intelligence, LLC were sold to an investor group that included certain members of its management team. For financial reporting purposes we have listed the operations of the business as part of discontinued operations.

MCF Asset Management, LLC manages absolute return investment products for institutional and high-net worth clients. We are the sub-advisor for the MCF Focus fund. In an effort to refocus the holding company back to its core investment banking/ broker-dealers services, management has decided to begin the process of liquidating the funds under management and returning investments to the investors in the fourth quarter of 2008. As a result of such, we have eliminated positions at MCF Asset Management, LLC, reducing our expenses beginning in 2008. This has been included in the reductions in force disclosed under Management Discussion and Analysis. As of December 31, 2008, assets under management across our three fund products had been partially liquidated to \$11 million from \$56 million in 2007.

We are headquartered in San Francisco, with additional offices in New York, NY and Cambridge, MA. As of December 31, 2008, we had 128 employees. Merriman Curhan Ford & Co. is registered with the Securities and Exchange Commission as a broker-dealer and is a member of Financial Industry Regulatory Authority ("FINRA") and the Securities Investors Protection Corporation. MCF Asset Management, LLC is registered with the Securities and Exchange Commission.

#### Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

During the year ended December 31, 2008, the Company incurred a net loss of \$30,274,000 and used \$24,945,000 in net cash from operating activities. At December 31, 2008, the Company had cash and cash equivalents of \$6,358,000, marketable securities of \$4,623,000 and receivables from clearing broker of \$1,753,000. The Company had liabilities of \$11,150,000. The Company's ability to generate profits is highly dependent on stock market trading volumes and the general economic environment. As a result, the ability of the Company to meet its forward obligations and the ability to continue as a going concern may be in question.

The Company is in the process of implementing a plan to increase its operating flexibility and extend its cash reserves. The plan primarily consists of four steps which are more fully described below:

1. Reduce operating costs
2. Shed non-essential operations
3. Negotiate a settlement of pending litigations
4. Raise additional capital

During 2008 and early 2009, the Company implemented significant expense control and cost reduction programs focused on reducing cash losses and increasing operational flexibility in which it has eliminated more than \$10 million in annual operating expenses. The primary contributor to these savings has been the elimination of more than 50% of the Company's workforce, as well as salary reductions. The CEO, the Head of Institutional Securities and the Head of Professional Services voluntarily eliminated their salaries. They will be remunerated based on month-to-month profitability. The Board of Directors has, as of early 2009, also voluntarily eliminated its compensation. The Company believes that it has been able to execute these reductions with limited impact to its ability to generate and execute new business in the current market environment. With these measures largely complete, the company believes that it has increased its ability to meet its obligations during 2009 and beyond.

As a part of the four-step plan mentioned above, in January of 2009, the Company shed non-essential operations or those requiring substantial cash infusions. First, the Company sold Panel Intelligence, LLC on January 30, 2009. This subsidiary required a cash injection of \$1,131,000 during 2008 and was projected to reach breakeven only in late 2009. Also in January 2009, the Company sold its operations known as Institutional Cash Distributors to a group of its employees. While this business was profitable, management was able to reach a deal that substantially increases the near-term flow of capital. Finally, the Company is in the process of shutting down MCF Asset Management, another subsidiary which had been costing the Company considerable capital during 2008. The result of these actions has been to reduce operating losses and increase available cash.

The Company has entered into a process of mediation to reach a settlement with a majority of the civil litigants resulting from the alleged fraud by its former customer William Del Biaggio III and its terminated employee Scott Cacchione. The Company is focused on reducing its potential liability in these legal proceedings and the resources required to fight the allegations. In addition, it is also aiming to free up valuable management resources needed to face challenging market and economic conditions. At present, there is no indication that these negotiations will be successful and whether it will serve the Company's aims and should a settlement result, it is not yet estimable.

The Company is assessing interest of potential investors in providing additional capital to the business. While the Company does not have a definitive agreement from any investor, preliminary discussions have yielded some interest subject to the completion of the three steps outlined above. There are no assurances that the Company will be successful in completing its plans outlined above and ultimately in raising additional capital.

The Company's ability to meet its going concern obligations is highly dependent on market and economic conditions. Even if it is successful in executing its four-step plan, it will not be capable of sustaining losses such as those incurred in 2008. However, it is worth noting that 2008 was an unprecedented year both in terms of stock market volatility and general economic challenges. Furthermore, the large number of civil litigations and resulting SEC investigation was a significant drain on corporate resources. The Company believes that its reduced cost structure and shedding of non core business has increased its operating runway. However, if operating conditions worsen in 2009 or if the company receives adverse judgments in its pending litigations, it may not have the resources to meet its financial obligations as a going concern.

These financial statements do not reflect adjustments in the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. These adjustments could be material.

#### Principal Services

We currently have two business segments: the investment bank / broker-dealer and asset management. Our investment bank / broker-dealer segment provides three service offerings: investment banking, brokerage and equity research. Our asset management segment manages investment products for investors. In January 2009 we sold the majority of the assets and liabilities of our primary research subsidiary, Panel Intelligence, LLC, or Panel, which was our third business segment. The results from this segment are presented as discontinued operations, which was a third business segment.

#### 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. As of December 31, 2008, we had 16 professionals in our investment banking group.

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 drive 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 that we believe will be supportive, long-term investors. Additionally, we draw

upon our contacts 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 Services

We provide institutional sales, sales trading and trading services to more than 490 institutional accounts in the United States. We execute securities transactions for money managers, mutual funds, hedge funds, insurance companies, 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 helping our institutional clients to invest profitably, to grow their portfolios and ultimately their businesses. We understand the importance of building long-term relationships with our clients who we believe 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 be involved with 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 clients execute trades rapidly, efficiently and accurately.

**Institutional Sales.** Our sales professionals focus on communicating investment ideas to our clients and executing trades in securities of companies in our target growth sectors. By actively trading in these securities, we endeavor to couple the capital market information flow with the fundamental information flow provided by our analysts. We believe that this combined information flow is the underpinning of getting our clients favorable execution of investment strategies. Sales professionals work closely with our research analysts to provide up-to-date information to our institutional clients. We interface actively with our clients and plan to be involved with our clients 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 NASDAQ, stock exchanges and ECNs, and service the trading desks of institutions in the United States. Our trading professionals have direct access to the major stock exchanges, including the New York Stock Exchange and the American Stock Exchange. As of December 31, 2008, we were a market maker in 148 securities.



The customer base of our institutional brokerage business includes mutual funds, hedge funds, and private investment firms. We believe this group of clients and potential clients 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 will from time to time take significant positions in fast-growing companies that we feel are undervalued in the marketplace. We believe that our window into these opportunities, due to the types of companies we research, offers us a significant competitive advantage.

**Corporate & Executive Services.** We offer brokerage services to corporations including corporate cash management and stock repurchase programs through our Corporate & Executive Services group. We also serve the needs of company executives with restricted stock transactions, cashless exercise of options, hedging and diversification strategies, 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.** Merriman Curhan Ford & Co. 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 2002 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. Merriman Curhan Ford & Co. was the first investment bank to achieve DAD and PAL designations and currently is the sponsor of 12 out of 52 issuers listed on OTCQX.

**Institutional Marketing Services (IMS)** is a new program launched in late 2008 by Merriman Curhan Ford & Co. to help companies develop better liquidity in their stock and expand their institutional ownership. Designed as a customized suite of services for a select group of high-quality, high-growth companies with small market capitalizations, IMS applies a full range of Merriman's institutional capabilities to help clients achieve their objectives in the capital markets.

**Capital Access Group.** We raise capital for institutional hedge funds, venture capital and private equity clients for a fee through our Capital Access Group. We believe fee-based capital raising is an underserved area of the institutional brokerage industry.

**Institutional Cash Distributors (ICD).** ICD is a broker of money market funds serving the short-term investing needs of corporate finance departments at companies throughout the United States and Europe. Companies using ICD's services receive access to over 40 fund families through ICD's one-stop process that includes one application, one wire and one statement that consolidates reporting regardless of the number of funds utilized. As of December 31, 2008, ICD clients have invested over \$42 billion in money market funds from which ICD earns brokerage fees. ICD is a division of Merriman Curhan Ford & Co. In January, 2009, we sold the primary assets related to the ICD operations to a group of investors which included some of our employees. However, until the new company is able to form its own broker-dealer which is anticipated to be in 2009, the business will continue operating under Merriman Curhan Ford & Co.

Equity Research

A key part of our strategy is to originate specialized and in-depth research. Our analysts cover a universe of approximately 100 companies in our focus industry sectors. We leverage the ideas generated by our research teams, using them to attract and retain institutional brokerage clients.

Supported by the firm's institutional sales and trading capabilities, our analysts deliver timely recommendations to clients on innovative investment opportunities. In an effort to make money for our investor clients, our analysts are driven to find undiscovered opportunities in fast-growing companies that are not widely held and 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. As of February 27, 2009, approximately 90% of the companies covered by our research professionals had market capitalizations of \$1 billion or less.

Our 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 to our clients.

Our objective is to build long lasting relationships with our clients 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 research analysts are in a unique position to maintain close, ongoing communication with our institutional clients.

The industry sectors covered by our 7 equity research analysts include:

CleanTech

- Energy Storage and Efficiency
- Next-Generation Energy
- Smart-Grid Technologies

Health Care

- Biotechnology/Life Sciences
- Oncology and Inflammatory Diseases

Tech/Telecom

- Emerging Data Center & Enterprise Technologies

Consumer /Internet/Media

- Branded Consumer
- China Consumer
- Internet Applications, Software and Services
- Media & Entertainment

After initiating coverage on a company, our analysts seek to effectively communicate new developments to our institutional sales and trading professionals as well as our institutional investors. 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 clients through the use of daily morning meeting notes, real-time electronic mail and other forms of immediate communication. Our clients 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](http://www.merrimanco.com).

Our equity research group annually hosts several conferences targeting fast-growing companies and investors, including our Investor Summit and various industry sector conferences. We use these events to showcase innovative and fast-growing companies to institutional investors focused on investing in these growth sectors.

#### Asset Management

MCF Asset Management, LLC creates investment products for both institutional and high-net worth clients. Through the corporate and professional resources of Merriman Curhan Ford Group, Inc., we had developed an institutional-standard investment management platform.

The year 2008 was highly unfavorable for equity investments. The Dow Jones Industrial Average declined from about 14,000 in October 2007 to near 7,000 at the end of February 2009. The resulting market volatility and negative investor sentiment has made it very challenging to attract new assets to our funds. It is much less cost-effective to manage small amounts of funds while competing with larger firms in the current environment. Consequently, in order to reduce our cost structure, management decided to liquidate the funds under management by MCF Asset Management in late 2008. We expect to exit this business in 2009.

## Primary Research

Panel offers an online primary research platform that provided health care and CleanTech industry clients and investment professionals with deeper insights and better efficiency for investment decisions, product development and marketing. By leveraging its proprietary methodology and vast network of health care and CleanTech experts, we believe we can quickly provide independent market data and information to clients.

Our primary research product and service offerings arise from the intelligent application of our core technology and research platform. Our staff guides clients in the development of highly targeted customized quantitative and/or qualitative research instruments designed to address business issues important to the client. In addition, we have developed proprietary research products which we market to multiple clients. These reports provide timely, consistent and cross-comparable data on a regular basis to subscribing clients.

In January 2009 we sold the majority of the assets and liabilities of our primary research subsidiary, Panel Intelligence, LLC to a group of investors which included key management of Panel. This separation will help lower our expenses.

## Competition

Merriman Curhan Ford is engaged in the highly competitive financial services and investment industries. We compete with other Wall Street 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.

This trend by competitors to reduce services creates an opportunity for us as many highly qualified individuals have lost their jobs, expanding the pool of experienced employees to hire. However, the economic environment in 2008 has also exacerbated the negative secular trends in the traditional investment banking/brokerage business. Many of our buy-side clients have merged, gone out of business or have sharply reduced their commission flow. The reduction in these clients also has also lowered the number of potential buyers for our investment banking product.

Many remaining competitors have greater personnel and financial resources than we do. Larger competitors may have a greater number and variety of distribution outlets for their products. Some competitors have much more extensive investment banking activities than we do and therefore, may possess a relative advantage with regard to access to deal flow and capital.

For a further discussion of the competitive factors affecting our business, see “Item 1A. Risk Factors—The markets for securities brokerage and investment banking services are highly competitive.”

## 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. We believe that future growth will require implementation of new and enhanced communications and information systems and training of our personnel to operate such systems. Despite the challenges that we are experiencing, we are implementing such enhancements.

### 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 that 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 as necessary policies, procedures and risk limits;
- 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 clients' funds, conduct of directors, officers and employees, record-keeping and reporting requirements, supervisory and organizational procedures intended to ensure compliance with securities laws and to prevent improper trading on material nonpublic information, employee-related matters, including qualification and licensing of supervisory and sales personnel, limitations on extensions of credit in securities transactions, requirements for the registration, underwriting, sale and distribution of securities, and rules of the SROs designed to promote high standards of commercial honor and just and equitable principles of trade. A particular focus of the applicable regulations concerns the relationship between broker-dealers and their 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 Securities and Exchange Commission, or SEC, and as a member firm of Financial Industry Regulatory Authority, or FINRA, we are subject to the net capital requirements of the SEC and FINRA. These capital requirements specify minimum levels of capital, computed in accordance with regulatory requirements that each firm is 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), 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-dealers. Certain "Material Associated Persons" (as defined in the Risk Assessment Rules) of the broker-dealers and the activities conducted by such Material Associated Persons may also be subject to regulation by the SEC. In addition, the possibility exists that, on the basis of the information it obtains under the Risk Assessment Rules, the SEC could seek authority over our unregulated subsidiary either directly or through its existing authority over our regulated subsidiary.

In the event of non-compliance by us or one of our subsidiaries 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 Curhan Ford Group, 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. We have several international clients, most of which are Australian companies listed on the Australian Securities Exchange.

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

#### Available Information

Our website address is [www.merrimanco.com](http://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 Securities and Exchange Commission. 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, our industry and 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 maintain a positive cash flow and profitability.

Our ability to maintain 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 maintain profitability if we fails to do any of the following:

- establish, maintain and increase our client base;
- manage the quality of our services;
- compete effectively with existing and potential competitors;
- further develop our business activities;
- manage expanding operations; and
- attract and retain qualified personnel.

We cannot be certain that we will be able to sustain or increase a positive cash flow and profitability on a quarterly or annual basis in the future. Our inability to maintain 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

Because we are a developing company, the factors upon which we are able to base our estimates as to the gross revenue and the number of participating clients that will be required for us to maintain a positive cash flow and any additional financing that may be needed for this purpose are unpredictable. For these and other reasons, we cannot assure you that we will not require higher gross revenue, and an increased number of clients, securities brokerage and investment banking transactions, and/or more time in order for us to complete the development of our business that we believe we need to be able to cover our operating expenses, or obtain the funds necessary to finance this development. 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.

The actions of a former customer, William Del Biaggio III, and a former employee, Scott Cacchione, have given rise to many 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 is 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.

Unrelated to the actions of Del Biaggio and Cacchione, 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 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 that company. Such litigation is expensive and diverts management's attention and resources. We can not 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 as a going concern

The Company incurred significant losses in 2008. Even if we are successful in executing our plans, we will not be capable of sustaining losses such as those incurred in 2008. The Company's ability to meet its going concern obligations is highly dependent on market and economic conditions. If operating conditions worsen in 2009 or if the Company receives adverse judgments in its pending litigations, we may not have the resources to meet our financial obligations as a going concern. If the Company is not able to continue in business as a going concern, 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 ability to conduct our business

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

Merriman Curhan Ford & Co., 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, Merriman Curhan Ford & Co. is subject to laws that authorize regulatory bodies to block or reduce the flow of funds from it to Merriman Curhan Ford Group, Inc. As a holding company, Merriman Curhan Ford Group, Inc. depends on distributions and other payments from its subsidiaries to fund all payments on its obligations. As a result, regulatory actions could impede access to funds that Merriman Curhan Ford Group, 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. This risk may be intensified by our focus on growth companies in the CleanTech, Consumer/Internet/Media, Health Care and Tech/Telecom sectors, as the market for securities of these companies has experienced significant variations in the number and size of equity offerings. Recently, there have been very few initial public offerings. More companies initiating the process of an initial public offering are 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 Chief Executive Officer, 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 encounter 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 member 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, protect our market share or retain assets under management, each of which, in turn, could materially adversely affect our business and results of operations.

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 is 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 2008, the potential pool was determined by a number of components including revenue production, key operating milestones and profitability. There is a potential that we could pay individuals for revenue production despite the business having negative cash flows and/or net losses in order to ensure retention of key employees.

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 clients 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.

Changes in laws and regulations governing brokerage and research activities could also adversely affect our brokerage business.

In July 2006, the SEC published interpretive guidance regarding the scope of permitted brokerage and research services in connection with “soft dollar” practices (i.e., arrangements under which an investment adviser directs client brokerage transactions to a broker in exchange for research products or services in addition to brokerage services) and solicited further public comment regarding soft dollar practices involving third-party providers of research. The July 2006 SEC interpretive guidance may affect our brokerage business and laws or regulations may prompt brokerage customers to revisit or alter the manner in which they pay for research or brokerage services. The industry has put in place commission sharing arrangements under which an institutional client will execute trades with a limited number of brokers and instruct those brokers to allocate a portion of the commissions generated directly to other broker-dealers or to independent research providers in exchange for research and other permissible products and services. As such arrangements are entered into by our clients with us and/or other brokerage firms, it may further increase the competitive pressures within the brokerage business and/or reduce the value our clients place on high quality research.

In 2005 the SEC promulgated Regulation NMS, which made dramatic changes to the National Market System, and one of the most significant of those changes, the “Order Protection Rule” recently became effective. Under the Order Protection Rule, commonly known as the “trade-through rule,” broker-dealers that trade at a price higher than the inside offer (or lower than the inside bid) of a market center’s best quotation will be required to “take out”, or execute against, that market’s quotation. We cannot fully predict the effect that the implementation of the Order Protection Rule may have on our brokerage business.



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 trading 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. 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, investment banking and asset management 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. Competitive factors with respect to our asset management activities include the amount of firm capital we can invest in new products and our ability to increase assets under management, including our ability to attract capital for new investment funds. 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 approximately 128 employees as of December 31, 2008 and revenue less than \$40 million in 2008. 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 and more established relationships with clients than we have. These larger and better capitalized competitors may be better able to respond to changes in the brokerage, investment banking and asset management 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 have the ability to offer a wider range of products than we do, which may enhance 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 and in the recent past and may incur losses in the future.

The Company recorded net losses of \$30,274,000 for the year ended December 31, 2008 and \$8,220,000 for the year ended December 31, 2006. 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.

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.



A significant portion of our brokerage revenue is generated from a relatively small number of institutional clients.

A significant portion of our brokerage revenue is generated from a relatively small number of institutional clients. For example, in 2008 we generated 37% of our brokerage revenue, or approximately 25% of our total revenue, from our ten largest brokerage clients. Similarly, in 2007 we generated 26% of our brokerage revenue, or approximately 9% of our total revenue, from our ten largest brokerage clients. If any of our key clients departs or reduces its business with us and we fail to attract new clients that are capable of generating significant trading volumes, our business and results of operations will 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. As a clearing member firm, we finance our customer positions and could be held responsible for the defaults or misconduct of our customers. 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, trading activities or asset management 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 businesses are 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 an impairment to our liquidity, financial loss, a disruption of our businesses, liability 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 effect 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 close 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.

We have a limited operating history upon which to evaluate our business and prospects. As a relatively young enterprise, we are subject to the risks and uncertainties that face a company during its formative development. Some of these risks and uncertainties relate to our ability to attract and retain 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.

We are subject to an IRS audit.

The United States Internal Revenue Service is auditing our 2006 corporate tax return. The IRS audit may result in additional tax payments by us together with interest and penalties, the amount of which may be material, but will not be known until the IRS audit is finalized. Any such payments could have a material adverse effect on our financial condition and results of operations.

#### Risks Related to Our Industry

Risks associated with volatility and losses in the financial markets.

The U.S. financial markets in 2008 suffered unprecedented volatility and losses. Several mortgage-related financial institutions and large, reputable investment banks were not able to continue operating their businesses.

As a company, we cannot identify sources of cash that would ensure our ability to continue as a going concern beyond December 31, 2009 under present economic and financial market conditions. Should these conditions improve from 2008 levels in the short-term, and should we be successful in negotiating a settlement with litigants who are plaintiffs in legal actions against us, we may secure sources of cash ensuring our ability to continue as a going concern, but we cannot be assured of such an outcome.

The legal proceedings against us and the investigations of our actions, policies and procedures have resulted in a significant cash drain in the form of legal expenses. The cash drain has impaired our cash reserves which could otherwise have been used as investments in our business or in normal operations.

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

In addition to our experience with our former employee Scott Cacchione, there have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, 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 and 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 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, 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 subject 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.



### Risks Related to Ownership of Our Common Stock

A significant percentage of our outstanding common stock is owned or controlled by our senior professionals 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 10% of our outstanding common stock including exercise of their options and 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 37,450,000 shares of preferred stock, without approval from our stockholders. Of these, 6,150,000 have already been authorized by our Board of Directors and may be issued by management. The balance would require authorization by our Board. There are no plans to issue preferred 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 our takeover. 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, acquisitions;
- relationships with other companies;
- ability to obtain needed capital commitments;
- additions or departures of key personnel;
- sales of common 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
- fluctuation in stock market price and 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.

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.

We have a significant number of outstanding stock options and warrants. During 2008, shares issuable upon the exercise of these options and warrants, at prices ranging currently from approximately \$0.50 to \$49.00 per share, represent approximately 7% of our total outstanding stock on a fully diluted basis using the treasury stock method. In October 2008, our senior management and certain employees gave back approximately 3 million shares of stock options in order to expand the number of shares that can be granted to employees without diluting our shareholders.

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.

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

Although our common stock is currently traded on the Nasdaq Stock Market, 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 in the foreseeable future.

We intend to retain any future earnings to fund the operation and expansion of our business and, therefore, we do not anticipate paying cash dividends in the foreseeable future. Accordingly, our shareholders must rely on sales of their shares of common stock after price appreciation, which may never occur, as the only way to realize any future gains on an investment in our common stock. Investors seeking cash dividends should not purchase our common stock.

#### Item 1b. Unresolved Staff Comments

None.

#### Item 2. Properties

As of December 31, 2008, all of our properties are leased. Our principal executive offices are located in San Francisco, California. We lease two additional offices to support our various business activities. These offices are located in New York, NY and Cambridge, MA. We believe the facilities we are now using are adequate and suitable for business requirements.

In January, 2009, we sold the assets related to Panel Intelligence, the subsidiary which occupied the Cambridge, MA facilities. As part of the sale, we subleased the office space to the new acquiring entity.

### Item 3. Legal Proceedings

The Company responded to a Grand Jury subpoena from the U.S. Attorney's Office for the Northern District of California for documents relating to the activities of a former retail broker of the Company, David Scott Cacchione, and one of his customers, William Del Biaggio III. Cacchione's activities under investigation relate primarily to the apparent misuse of various client accounts as collateral for loans to Del Biaggio. Cacchione purportedly signed "account control agreements" in which he purported to act on behalf of the Company to authorize the use of various client accounts as security for loans to the customer from various third-party lenders.

Cacchione appears to have improperly provided client account statements to third-party lenders or to Del Biaggio for the purpose of representing to the lenders that the accounts belonged to Del Biaggio. The retail client account statements were altered so that the accounts appear to belong to Del Biaggio when in fact some of the accounts belonged to other Merriman Curhan Ford & Co. retail clients. Del Biaggio is no longer a customer of the Company and recently pleaded guilty to securities fraud in the United States District Court, Northern District of California.

Cacchione was terminated. The Company's internal investigation found no evidence that any of Cacchione's supervisors or any member of management was aware of these activities until they were uncovered. The Company cooperated fully with the Grand Jury inquiry and produced the documents called for by the subpoena.

The Company was also subject to a formal investigation commenced by the Securities and Exchange Commission ("SEC"). The SEC investigation appeared to relate in part to the subject matter of the Grand Jury inquiry, i.e., Cacchione's misuse of client accounts as collateral for loans to the customer. It also appeared to relate to other possible violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder by Cacchione in the handling of his client accounts. The SEC investigation further appeared to relate to the Company's trading activities in the stock of various issuers in possible violation of Rule 10b-5 as well as to a failure to adequately supervise its personnel with a view toward preventing violations of the federal securities laws. The Company cooperated fully with the SEC in its investigation. The SEC has not indicated that it has concluded its investigation.

The investigation relating to client accounts appears to involve only Cacchione's retail accounts. The Company's high-net-worth client retail brokerage business accounted for less than 2% of the Company's revenue in 2008. The Company is phasing out this business and will concentrate on strengthening its core investment banking and institutional brokerage businesses. The Company is also re-examining its compliance policies and procedures as well as the alignment of the supervisory and compliance related functions of various members of management.

Several lawsuits have been filed against Merriman Curhan Ford & Co. in connection with the alleged actions of Del Biaggio, and Cacchione. The total amount of damages sought under such lawsuits is over \$43 million. The Company anticipates at least two additional lawsuits will be filed against Merriman Curhan Ford & Co. by a lender to Del Biaggio on similar facts to the lawsuits described below, with claims believed to be approximately \$12 million. The Company denies any involvement and will defend itself and attempt to ensure that the most favorable outcome of these lawsuits for itself and its shareholders.

In addition, the Company received demand letters after December 31, 2008 from individuals claiming to have suffered damages as a result of Cacchione's actions. The Company believes it has meritorious defenses to all the demands received to date and intends to contest them vigorously. The Company believes they are unlikely to result in adverse outcomes. Should they result in adverse outcomes, it does not believe that the outcomes will have a material effect on its financial position, financial results or cash flows.

Due to the early stages of these legal matters, we cannot estimate the amount of damages if they are resolved unfavorably and accordingly, we have not provided an accrual for these lawsuits. If the Company were to be found

liable in all of these lawsuits and the plaintiffs were to be awarded the damages they seek, it would have a severe impact on the Company's financial condition and the Company might not be able to continue in business. Even if the Company ultimately prevails in all of these lawsuits, it may incur significant legal fees which may have a severe impact on the Company's financial condition.

The Company entered into a process of mediation to reach a settlement with a majority of the civil litigants resulting from the alleged fraud by its former customer William Del Biaggio III and its former employee Scott Cacchione. The Company is focused on reducing its potential liability in these legal proceedings and the resources required to fight the allegations. In addition, it is also aiming to free up valuable management resources needed to face challenging market and economic conditions. At present, there is no indication that these negotiations will be successful, whether a settlement will serve the Company's aims and should a settlement result, the amount involved is not yet estimable. Should the Company's settlement negotiations ultimately prove unsuccessful, the Company believes it has meritorious defenses and intends to contest these claims vigorously.

Cacchione's activities have given rise to a number of lawsuits against the Company. They are as follows:

DGB Investments, Inc. v. Merriman Curhan Ford & Co.

In May 2008, Merriman Curhan Ford & Co. was served with a complaint filed by DGB Investments, Inc. which loaned money to William Del Biaggio III, the former client of the Company, against Del Biaggio, David Scott Cacchione, a former retail broker of Merriman Curhan Ford & Co., and the Company. Plaintiff alleges that Del Biaggio defaulted on a multi-million dollar loan obtained from Plaintiff. The Company had suspended and, effective June 4, 2008, terminated Cacchione's employment. The complaint further alleges that Cacchione, while still employed with Merriman Curhan Ford & Co., signed an account control agreement purporting to pledge a retail client stock account as collateral for the Del Biaggio loan. On the basis of these allegations, Plaintiff asserts various claims against the Company and others. Plaintiff seeks \$3 million in damages. We believe that we have meritorious defenses and intend to contest this claim vigorously. We successfully opposed Plaintiff's petition for pre-judgment writ of attachment.

Heritage Bank of Commerce v. Merriman Curhan Ford & Co.

In May 2008, Merriman Curhan Ford & Co. was served with a complaint filed by Heritage Bank of Commerce, which loaned money to Del Biaggio, against Del Biaggio and the Company. Plaintiff alleges that Del Biaggio defaulted on a multi-million dollar loan obtained from Plaintiff. The complaint further alleges that Cacchione, while still employed with Merriman Curhan Ford & Co., signed an account control agreement purporting to pledge various retail client stock accounts as collateral for the Del Biaggio loan. On the basis of these allegations, Plaintiff asserts various claims against the Company and others. Plaintiff seeks \$ 4 million in damages. We believe that we have meritorious defenses and intend to contest this claim vigorously. We successfully opposed Plaintiff's petition for pre-judgment writ of attachment.

Modern Bank, N.A. v. Merriman Curhan Ford & Co.

In June 2008, Merriman Curhan Ford & Co. was served with a complaint filed by Modern Bank, N.A., which loaned money to Del Biaggio, against Del Biaggio, the Company, and Cacchione, the same former retail broker of the Company named in the lawsuits above. Plaintiff alleges that Del Biaggio defaulted on a multi-million dollar loan obtained from Plaintiff. The complaint further alleges that Cacchione, while still employed with Merriman Curhan Ford & Co., signed an account control agreement purporting to pledge a retail client stock account as collateral for the Del Biaggio loan. On the basis of these allegations, Plaintiff asserts various claims against the Company and others. Plaintiff seeks \$10 million in damages. We believe that we have meritorious defenses and intend to contest this claim vigorously. We successfully opposed Plaintiff's petition for pre-judgment writ of attachment.

Security Pacific Bank v. Merriman Curhan Ford & Co.

In June 2008, Merriman Curhan Ford & Co. was served with a complaint filed by Security Pacific Bank, which loaned money to Del Biaggio, against Del Biaggio, the Company, and Cacchione named in the lawsuits above. Plaintiff alleges that Del Biaggio defaulted on a multi-million dollar loan obtained from Plaintiff. The complaint further alleges that Cacchione, while still employed with Merriman Curhan Ford & Co., signed an account control agreement purporting to pledge retail client stock accounts as collateral for the Del Biaggio loan. On the basis of these allegations, Plaintiff asserts various claims against the Company and others. Plaintiff seeks \$5 million in damages. We believe that we have meritorious defenses and intend to contest this claim vigorously. We successfully opposed Plaintiff's petition for pre-judgment writ of attachment.

AEG Facilities, Inc. v. Merriman Curhan Ford & Co.

In June 2008, Merriman Curhan Ford & Co. was served with a complaint filed by AEG Facilities, Inc. which loaned money to Del Biaggio, against Del Biaggio, the Company, and the same former retail broker of the Company named in the lawsuits above. Plaintiff alleges that Del Biaggio defaulted on a multi-million dollar loan obtained from Plaintiff. The complaint further alleges that Cacchione, while still employed with Merriman Curhan Ford & Co., signed an account control agreement purporting to pledge various retail client stock accounts as collateral for the Del Biaggio loan. On the basis of these allegations, Plaintiff asserts various claims against the Company and others. Plaintiff seeks \$7 million in damages. We believe that we have meritorious defenses and intend to contest this claim vigorously.

Valley Community Bank v. Merriman Curhan Ford & Co.

In June 2008, Merriman Curhan Ford & Co. was served with a complaint filed by Valley Community Bank, which loaned money to Del Biaggio, against Del Biaggio, the Company, and the same former retail broker of the Company named in the lawsuits above. Plaintiff alleges that Del Biaggio defaulted on a multi-million dollar loan obtained from Plaintiff. The complaint further alleges that Cacchione, while still employed with Merriman Curhan Ford & Co., signed account control agreements purporting to pledge various retail client stock accounts as collateral for the Del Biaggio loan. On the basis of these allegations, Plaintiff asserts various claims against the Company and others. Plaintiff seeks over \$4 million in damages. We believe that we have meritorious defenses and intend to contest this claim vigorously.

The Company anticipates at least one additional lawsuit will be filed against it by a lender to Del Biaggio, on similar facts to the lawsuits described above, with a claim believed to be approximately \$10 million.

United American Bank v. Merriman Curhan Ford & Co.

In July 2008, Merriman Curhan Ford & Co. was served with a complaint filed by United American Bank, which loaned money to Del Biaggio alleging that the Company entered into an account control agreement for an account that Del Biaggio had previously pledged to another lender. The account pledged was in the name of Del Biaggio. Plaintiff has brought claims for, among other things, fraud arising out of the failure to disclose the alleged previous pledge. Plaintiff alleges damages in the amount of \$1.75 million. We believe that we have meritorious defenses and intend to contest this claim vigorously.

David Hengehold v. Merriman Curhan Ford & Co.

In June 2008, Merriman Curhan Ford & Co. was served with a complaint filed by David Hengehold. Plaintiff alleges, among other things, fraud based on a former employee of the Company having induced plaintiff into making loans to



an entity associated with Del Biaggio. This plaintiff is a former client of the Company. This matter does not involve account control agreements. Plaintiff in this lawsuit alleges damages of over \$500,000. We believe that we have meritorious defenses and intend to contest this claim vigorously.

Don Arata, et al. v. Merriman Curhan Ford & Co.

In July 2008, Merriman Curhan Ford & Co. and Merriman Curhan Ford Group, Inc. were served with a complaint filed by several plaintiffs who made loans to Del Biaggio and related entities. Plaintiffs allege, among other things, fraud based on Cacchione having induced plaintiff into making loans to Del Biaggio and certain related entities including Sand Hill Capital Partners III. This matter does not involve account control agreements. Plaintiff in this lawsuit alleges damages of \$3,025,000. We believe that we have meritorious defenses and intend to contest this claim vigorously.

The Private Bank of the Peninsula v. Merriman Curhan Ford & Co.

In July 2008, Merriman Curhan Ford & Co. was served with a complaint filed by The Private Bank of the Peninsula. Plaintiff alleges, among other things, fraud based on Cacchione having induced plaintiff into making loans to Del Biaggio. This matter does not involve account control agreements. Plaintiff in this lawsuit alleges damages of \$916,666.65. We believe that we have meritorious defenses and intend to contest this claim vigorously.

Paul Davis, et al. v. Merriman Curhan Ford & Co.

In August 2008, Merriman Curhan Ford & Co. was served with a complaint filed by several plaintiffs who made loans to Del Biaggio and related entities. Plaintiffs allege, among other things, fraud based on Cacchione having induced plaintiff into making loans to Del Biaggio and entities associated with him. This matter does not involve account control agreements. Plaintiffs in this lawsuit allege damages of \$1.65 million. We believe that we have meritorious defenses and intend to contest this claim vigorously.

Gary T. Cook et. al. v. Merriman Curhan Ford & Co.

In September 2008, Merriman Curhan Ford & Co. was served with a complaint filed by several plaintiffs who made loans to Del Biaggio and related entities. Plaintiffs allege, among other things, fraud based on Cacchione having induced plaintiff into making loans to Del Biaggio and entities associated with him. This matter does not involve account control agreements. Plaintiffs in this lawsuit allege damages of \$2.59 million. We believe that we have meritorious defenses and intend to contest this claim vigorously.

Pacific Capital Bank v. Merriman Curhan Ford & Co.

In October 2008, Merriman Curhan Ford & Co. was served with a complaint filed by Pacific Capital Bank. Plaintiff alleges, among other things, fraud based on Cacchione having induced plaintiff into making loans to Del Biaggio. This matter does not involve account control agreements. Plaintiff in this lawsuit alleges damages of \$1.84 million. We believe that we have meritorious defenses and intend to contest this claim vigorously.

Bachelor v. Merriman Curhan Ford & Co.

In December 2008, Merriman Curhan Ford & Co. and Merriman Curhan Ford Group, Inc. were served with a complaint filed by several plaintiffs who made loans to Del Biaggio and related entities. Plaintiffs allege, among other things, fraud based on Cacchione having induced plaintiff into making loans to Del Biaggio and certain related entities including Sand Hill Capital Partners III. This matter does not involve account control agreements. Plaintiffs in this lawsuit allege damages of \$1.15 million. We believe that we have meritorious defenses and intend to contest this claim vigorously.

Thomas O'Shea v. Merriman Curhan Ford & Co.

Unrelated to the Del Biaggio/Cacchione matters, in June 2006, our broker-dealer subsidiary Merriman Curhan Ford & Co. was served with a claim in NASD Arbitration by Thomas O'Shea. Mr. O'Shea is a former at-will employee of Merriman Curhan Ford & Co. and worked in the investment banking department. Mr. O'Shea resigned from Merriman Curhan Ford & Co. in July 2005. Mr. O'Shea alleges breach of an implied employment contract, quantum meruit, and unjust enrichment based on his allegations that he was to be paid more for his work. The matter proceeded to an arbitration hearing in October 2008 and an award was made in favor of O'Shea. The matter was subsequently settled for the amount of \$880,000. As of December 31, 2008, the Company reserved for the amount of the settlement.

Wesley Rusch v. Merriman Curhan Ford & Co.

Unrelated to the Del Biaggio/Cacchione matters, in October 2008, our broker-dealer subsidiary Merriman Curhan Ford & Co. was served with a claim in FINRA Arbitration by Wesley Rusch. Mr. Rusch is a former at-will employee of Merriman Curhan Ford & Co. and worked in the compliance department. We have not been presented with a demand for quantified damages. Mr. Rusch was terminated by Merriman Curhan Ford & Co. in July 2007. Mr. Rusch alleges theories of discrimination and lack of cause for termination. We believe that we have meritorious defenses and contested this claim vigorously at the arbitration before a FINRA arbitration panel in March 2009. We have not yet received a decision from the arbitration panel. However, in the event that we do not prevail, based upon the facts as we know them to date, we do not believe that the outcome will have a material effect on our financial position, financial results or cash flows.

Joy Ann Fell v. Merriman Curhan Ford & Co.

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Unrelated to the Del Biaggio/Cacchione matters, in November 2008, Merriman Curhan Ford & Co. received a demand letter from a former employee, Joy Ann Fell. In January 2009, we received a claim filed by Ms. Fell in FINRA arbitration. Ms. Fell worked in our investment banking department and was terminated in October of 2008, as part of a reduction in force. Ms. Fell alleges claims of breach of an implied employment contract, emotional distress and work-place discrimination. The demand for money damages is approximately \$350,000. We believe that we have meritorious defenses and intend to contest this claim vigorously. We have not yet responded to the claim. An arbitration panel has not yet been selected, nor has a hearing date been assigned.

Peter Marcil v. Merriman Curhan Ford & Co.

Unrelated to the Del Biaggio/Cacchione matters, in January 2009, our broker-dealer subsidiary Merriman Curhan Ford & Co. was served with a claim in FINRA Arbitration by Peter Marcil. Mr. Marcil is a former at-will employee of Merriman Curhan Ford & Co. and worked in the investment banking department. Mr. Marcil resigned from Merriman Curhan Ford & Co. in March of 2007. Mr. Marcil alleges breach of an implied employment contract, wrongful termination, and intentional infliction of emotional distress. Damages are not specified in the arbitration claim. Merriman Curhan Ford & Co. has not replied to the claim and an arbitration hearing date has not been set. We believe that we have meritorious defenses and intend to contest this claim vigorously. However, in the event that we do not prevail, based upon the facts as we know them to date, we do not believe that the outcome will have a material effect on our financial position, financial results or cash flows.

Irving Bronstein et. al. v. Merriman Curhan Ford & Co.

In January 2009, Merriman Curhan Ford & Co. and David Jonathan Merriman were served with a FINRA arbitration claim filed by Irving Bronstein and several other plaintiffs who made loans to Mr. Del Biaggio and related entities. Plaintiffs allege, among other things, fraud based on Mr. Cacchione having induced plaintiff into making loans to Mr. Del Biaggio and certain related entities including Sand Hill Capital Partners III. This matter does not involve account control agreements. Plaintiffs in this lawsuit allege damages in a range of \$2.5 to \$10 million. We believe that we have meritorious defenses and intend to contest this claim vigorously.

Spare Backup v. Merriman Curhan Ford & Co.

Unrelated to the Del Biaggio/Cacchione matters, in April 2008, Merriman Curhan Ford & Co. entered into an engagement to provide investment banking services to Spare Backup, Inc. We were able to close a round of bridge financing in June 2008. As a result of closing the financing transaction, we were entitled to reimbursement of our 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 us. We hired counsel to seek payment of the fees and to proceed to arbitration, as is specified in the engagement letter. In January 2009, we 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 we fraudulently induced it to execute the investment banking engagement letter. We were successful in raising \$1,300,000 in capital for Spare Backup.

In addition, we received a demand letter after the period covered by this report from an individual claiming to have suffered damages as a result of Cacchione's actions. We believe that we have meritorious defenses to all the demands received to date and intend to contest them vigorously. This case is in its early stage. We believe it is unlikely to result in an adverse outcome. However, in the event we do not prevail, we do not believe that the outcome will have a material effect on our financial position, financial results or cash flows.

Additionally, from time to time, we are involved in ordinary routine litigation incidental to our business.

We believe that these cases are either unlikely to result in adverse rulings or are in early stages and the amount of a likely adverse ruling cannot be estimated at present.

## Item 4. Submission of Matters to a Vote of Stockholders

No matters were submitted to a vote of stockholders during the fourth quarter of 2008.

## 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     |
|----------------|---------|---------|
| <b>2008</b>    |         |         |
| Fourth Quarter | \$ 1.02 | \$ 0.40 |
| Third Quarter  | 1.57    | 0.93    |
| Second Quarter | 4.10    | 1.19    |
| First Quarter  | 5.94    | 3.91    |
| <b>2007</b>    |         |         |
| Fourth Quarter | \$ 5.50 | \$ 3.90 |
| Third Quarter  | 5.45    | 3.44    |
| Second Quarter | 6.15    | 3.86    |
| First Quarter  | 5.79    | 3.95    |

The closing sale price for the common stock on March 25, 2009 was \$0.40. 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 676 stockholders of record as of December 31, 2008. 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, 2008.

| 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                              | 77,019 \$   | 4.47  | 273,096  |
| 2000 Stock Option and Incentive Plan                | 174,154 \$  | 5.23  | 398,396  |
| 2001 Stock Option and Incentive Plan                | 103,013 \$  | 2.83  | 412,973  |
| 2003 Stock Option and Incentive Plan                | 798,752 \$  | 4.76  | 3,211,948  |
| 2006 Directors' Stock Option and Incentive Plan     | — \$  | —   | 103,907  |
| 2002 Employee Stock Purchase Plan                   | — \$  | —   | —  |
| Equity compensation not approved by stockholders    | 63,098 \$   | 23.40   | 176,189  |

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 Curhan Ford Group, 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

None.

## Item 6. Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes thereto included in Part II, Item 8 to this Annual Report on Form 10-K.

|   | 2008            | 2007          | 2006           | 2005           | 2004          |
|---|-----------------|---------------|----------------|----------------|---------------|
| <b>Statement of operations data:</b>                |                 |               |                |                |               |
| Revenue   | \$ 36,567,836   | \$ 83,748,265 | \$ 51,818,638  | \$ 43,184,315  | \$ 38,368,310 |
| Operating expenses                                  | 62,979,424      | 70,701,900    | 58,315,930     | 44,912,772     | 36,194,924    |
| Operating (loss) income                             | (26,411,588)    | 13,046,365    | (6,497,292)    | (1,728,457)    | 2,173,386     |
| Loss on retirement of convertible notes payable (1) | —               | —             | (1,348,805)    | —              | —             |
| Interest income                                     | 375,949         | 461,491       | 484,909        | 446,273        | 120,431       |
| Interest expense                                    | (72,304)        | (134,868)     | (535,014)      | (76,103)       | (169,787)     |
| Income tax benefit (expense)                        | 1,635,214       | (2,462,165)   | —              | (142,425)      | (249,744)     |
| (Loss) income from continuing operations            | (24,472,729)    | 10,910,823    | (7,896,202)    | (1,500,712)    | 1,874,286     |
| Loss from discontinued operations                   | (5,801,076)     | (1,587,788)   | (324,213)      | (13,731)       | —             |
| Net (loss) income                                   | \$ (30,273,805) | \$ 9,323,035  | \$ (8,220,415) | \$ (1,514,443) | \$ 1,874,286  |
| Basic (loss) income from continuing operations      | \$ (1.95)       | \$ 0.95       | \$ (0.79)      | \$ (0.16)      | \$ 0.21       |
| Diluted (loss) income from continuing operations    | \$ (1.95)       | \$ 0.86       | \$ (0.79)      | \$ (0.16)      | \$ 0.16       |
| <b>Statement of financial condition data:</b>       |                 |               |                |                |               |
| Cash and cash equivalents                           | \$ 6,358,128    | \$ 31,653,657 | \$ 13,746,590  | \$ 11,138,923  | \$ 17,459,113 |
| Marketable securities owned                         | 4,622,577       | 14,115,022    | 7,492,914      | 8,627,543      | 2,342,225     |
| Total assets  | 18,865,590      | 64,573,331    | 30,498,213     | 27,694,413     | 25,007,824    |
| Capital lease obligations                           | 923,683         | 721,380       | 1,292,378      | 883,993        | 452,993       |
| Notes payable, net                                  | —               | 238,989       | 325,650        | 408,513        | 1,487,728     |
| Stockholders' equity                                | \$ 7,715,201    | \$ 34,806,048 | \$ 16,215,020  | \$ 18,403,001  | \$ 16,733,850 |

- (1) In December 2006, Merriman Curhan Ford Group, Inc. repaid the \$7.5 million variable rate secured convertible note, issued to Midsummer Investment, Ltd, or Midsummer, in March 2006. Midsummer retained the stock warrant to purchase 267,858 shares of our common stock. The loss on repayment of the convertible note consists of the write-off of the unamortized discount related to the stock warrant as well as the write-off the unamortized debt issuance costs.

## 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 Curhan Ford Group, Inc. (formerly MCF Corporation) is a financial services holding company that provides investment banking, capital markets services, corporate and venture services, investment banking, asset management and primary research through its operating subsidiaries, Merriman Curhan Ford & Co., Panel Intelligence, LLC ("Panel") and MCF Asset Management, LLC.

Merriman Curhan Ford & Co. is an investment bank and securities broker-dealer focused on fast-growing companies and institutional investors. Our mission is to become a leader in the researching, advising, financing, trading and investing in fast-growing companies under \$2 billion in market capitalization. We provide equity research, brokerage and trading services primarily to institutions, as well as investment banking and advisory services to corporate clients. We are attempting to gain market share by originating differentiated research for our institutional investor clients and providing specialized and integrated services for our fast-growing corporate clients.

We acquired Panel Intelligence, LLC (formerly MedPanel, Inc. or "Panel") in April 2007. It offers custom and published primary research to industry clients and investment professionals through online panel discussions, quantitative surveys and an extensive research library. Panel Intelligence, LLC provides greater access, compliance, insights and productivity to clients in the health care, CleanTech and financial industries. In January 2009, the majority of the assets of Panel Intelligence were sold to an investor group that included certain members of its management team. We decided to sell the assets in order to reduce our costs and to refocus on our core investment banking and broker-dealer services. For financial reporting purposes we have listed the operations of the business as "discontinued operations."

MCF Asset Management, LLC manages absolute return investment products for institutional and high-net worth clients. We are the sub-advisor for the MCF Focus fund. In an effort to refocus the holding company back to its core investment banking and broker-dealers services and to reduce expenses, management decided to begin the process of liquidating the funds under management and returning investments to the investors. As of December 31, 2008, assets under management across our three fund products, Navigator, Voyager, and Focus, had been liquidated to \$11 million from \$56 million in 2007.

We were formerly as Rateexchange Corporation, NetAmerica.com Corporation and Venture World, Ltd., a Delaware corporation organized on May 6, 1987. Our common stock was listed on the American Stock Exchange in July 2000 and was listed on Nasdaq in February 2008, where it currently trades under the symbol "MERR." Our corporate office is located in San Francisco, California.

Prior to 2002, we were engaged in the creation of liquid marketplaces for bandwidth and other telecommunications products, as well as providing trading strategies in the futures and derivatives markets. This prior business experienced significant net losses that resulted in an accumulated deficit of \$87,731,000 as of December 31, 2001.

In December 2001, we acquired Instream Securities, Inc. and later changed the name of the entity to RTX Securities Corporation, then to Merriman Curhan Ford & Co. We formed MCF Asset Management, LLC in January 2004, MCF Wealth Management, LLC in January 2005, and acquired Panel Intelligence, LLC in April 2007 as wholly owned



subsidiaries. Panel Intelligence, LLC is accounted for as discontinued operations in these consolidated financial statements for the years ended December 31, 2008 and 2007 while MCF Wealth Management, LLC was accounted for as such for the year ended December 31, 2006.

#### Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

During the year ended December 31, 2008, the Company incurred a net loss of \$30,274,000 and used \$24,945,000 in net cash from operating activities. At December 31, 2008, the Company had cash and cash equivalents of \$6,358,000, marketable securities of \$4,623,000 and receivables from clearing broker of \$1,753,000. The Company had liabilities of \$11,150,000. The Company's ability to generate profits is highly dependent on stock market trading volumes and the general economic environment. As a result, the ability of the Company to meet its forward obligations and the ability to continue as a going concern may be in question.

The Company is in the process of implementing a plan to increase its operating flexibility and extend its cash reserves. The plan primarily consists of four steps which are more fully described below:

1. Reduce operating costs
2. Shed non-essential operations
3. Negotiate a settlement of pending litigations
4. Raise additional capital

During 2008 and early 2009, the Company implemented significant expense control and cost reduction programs focused on reducing cash losses and increasing operational flexibility in which it has eliminated more than \$10 million in annual operating expenses. The primary contributor to these savings has been the elimination of more than 50% of the Company's workforce, as well as salary reductions. The CEO, the Head of Institutional Securities and the Head of Professional Services voluntarily eliminated their salaries. They will be remunerated based on month-to-month profitability. The Board of Directors has, as of early 2009, also voluntarily eliminated its compensation. The Company believes that it has been able to execute these reductions with limited impact to its ability to generate and execute new business in the current market environment. With these measures largely complete, the company believes that it has increased its ability to meet its obligations during 2009 and beyond.

As a part of the four-step plan mentioned above, in January of 2009, the Company shed non-essential operations or those requiring substantial cash infusions. First, the Company sold Panel Intelligence, LLC on January 30, 2009. This subsidiary required a cash injection of \$1,131,000 during 2008 and was projected to reach breakeven only in late 2009. Also in January 2009, the Company sold its operations known as Institutional Cash Distributors to a group of its employees. While this business was profitable, management was able to reach a deal that substantially increases the near-term flow of capital. Finally, the Company is in the process of shutting down MCF Asset Management, another subsidiary which had been costing the Company considerable capital during 2008. The result of these actions has been to reduce operating losses and increase available cash.

The Company has entered into a process of mediation to reach a settlement with a majority of the civil litigants resulting from the alleged fraud by its former customer William Del Biaggio III and its terminated employee Scott Cacchione. The Company is focused on reducing its potential liability in these legal proceedings and the resources required to fight the allegations. In addition, it is also aiming to free up valuable management resources needed to face challenging market and economic conditions. At present, there is no indication that these negotiations will be successful and whether it will serve the Company's aims and should a settlement result, it is not yet estimable.

The Company is assessing interest of potential investors in providing additional capital to the business. While the Company does not have a definitive agreement from any investor, preliminary discussions have yielded some interest subject to the completion of the three steps outlined above. There are no assurances that the Company will be successful in completing its plans outlined above and ultimately in raising additional capital.

The Company's ability to meet its going concern obligations is highly dependent on market and economic conditions. Even if it is successful in executing its four-step plan, it will not be capable of sustaining losses such as those incurred in 2008. However, it is worth noting that 2008 was an unprecedented year both in terms of stock market volatility and general economic challenges. Furthermore, the large number of civil litigations and resulting SEC investigation was a significant drain on corporate resources. The Company believes that its reduced cost structure and shedding of non core business has increased its operating runway. However, if operating conditions worsen in 2009 or if the company receives adverse judgments in its pending litigations, it may not have the resources to meet its financial obligations as a going concern.

These financial statements do not reflect adjustments in the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. These adjustments could be material.

#### Executive Summary

Our revenue decreased 56% during 2008 to \$36,568,000, as virtually all product lines were impacted by the industry slow down. Including discontinued operations, net loss was \$30,274,000, or (\$2.41) per diluted share during 2008 which represents a significant reversal from our \$9,323,000 net income in 2007. The substantial operating loss was primarily driven by the decline in top line revenues combined with a rise in operating expenses. While we were able to remove significant cost through the second half of 2008, these gains were offset by a substantial increase in legal expenses resulting from the large number of claims facing the firm. Our focus during 2008 was to manage the growing legal expenses while surviving one of the worst financial markets in U.S. history. We instituted aggressive plans to reduce our operating costs and focus our business back to our core offerings. As a result, we reduced our workforce by over 50% as of the end of February 2009, contributing to an annual savings of more than \$10 million. In addition, management took steps to eliminate non-core businesses such as Panel Intelligence and MCF Asset Management that had consumed a large portion of our operating cash flow. Our focus in 2009 will be to build on our core businesses, further develop our new businesses, including OTCQX and IMS advisory, while capitalizing on the general devastation in the financial markets that we serve.

Investment Banking - The investment banking team had an unfavorable year with a decrease in revenue of 62% in 2008, as compared to 42% revenue growth in 2007. In 2008, we closed 20 corporate financing and strategic advisory transactions during the year with average transaction fees of \$273,000 as compared to 40 corporate financing and strategic advisory transactions in 2007. As a percentage of total revenue, Investment Banking's contribution was 31% in 2008 compared to 36% in 2007. Our challenges in the business were widely experienced by our competition as the new issue market was largely closed.

**Principal Transactions** – Principal transactions produced a substantial loss of \$9,040,218 during 2008 as compared to our record gains of \$20,116,000 experienced in 2007. The 2008 loss was largely driven by a decline in the fair value of the Proprietary and Investment accounts. 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 positions in fast-growing companies that we feel are undervalued in the market place. We believe that our window into these opportunities, due to the types of companies we research, offers us a significant competitive advantage. Over the past few years, we have generated attractive returns on our capital by deploying this strategy.

**Commissions** - Commissions revenue from brokering equity securities to institutional investors increased slightly or by 6.3% to \$33,679,000 in 2008 over the prior year. 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.

**Institutional Cash Distributors (ICD)** - ICD is a broker of money market funds serving the short-term investing needs of corporate finance departments at companies throughout the United States and Europe. Companies using ICD's services receive access to over 40 fund families through ICD's one-stop process that includes one application, one wire and one statement that consolidates reporting regardless of the number of funds utilized. As of December 31, 2008, ICD clients have invested over \$42 billion in money market funds from which ICD earns brokerage fees. ICD is a division of Merriman Curhan Ford & Co. Our Institutional Cash Distributors business continued to expand rapidly in 2008 with average assets brokered nearly doubling over 2007. ICD revenue grew at a rate of 70% in 2007 and 77% in 2008. In January 2009, we sold our ICD assets to three of our employees and will no longer benefit from these revenues when the sale is completed, expected for the second quarter of 2009, when the buyers of the assets will have formed their own broker-dealer.

**Primary Research** - We closed the acquisition of MedPanel, Inc. in April 2007 and began offering custom and published primary research to biotechnology, pharmaceutical and medical device industry clients, as well as institutional investment companies for a subscription fee. In January 2009, we sold the assets related to MedPanel, in order to focus on our core investment banking and broker-dealer businesses and to reduce expenses. The primary research assets have been classified as discontinued operations. Certain Panel assets and liabilities have been reclassified to assets and liabilities held for sale in the consolidated statements of financial condition.

**OTCQX Advisory.** During 2007, Merriman Curhan Ford & Co. began offering services to sponsor companies on the Domestic and International OTCQX markets. This new service 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. Merriman Curhan Ford & Co. was the first U.S. investment bank to achieve DAD and PAL designations.

Employees - Our overall headcount decreased by 36% to 128 during 2008, with further reductions to 89 as of the end of February 2009, after the sale of Panel assets. For 2009, we remain focused on finding the most qualified employee for each position to boost revenue per employee. We expect that we will maintain headcount at below 100 people during 2009, though as always these hiring decisions may be impacted by our actual financial results and the overall capital markets environment.

Business Development - 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. These activities resulted in higher operating expenses in 2008.

While the subprime mortgage crisis has not had any direct impact on our firm, the current economic outlook for 2009 is obscured by credit anxieties, slowing growth, expensive commodities and the decreasing purchasing power of the U.S. dollar which may adversely impact our capital markets activities.

## Business Environment

The equity markets were highly volatile to the downside in 2008, posting the third-worst year in more than a century. Globally, the value of financial assets including stocks, bonds and currencies fell by more than \$50 trillion in 2008, the equivalent to a year of world GDP, according to the Asian Development Bank. Investor psychology was badly shaken, and the year's poor results also placed stocks behind almost every other asset class in terms of 10 year performance. The year was shaped by several landmark events: the serial failure of brand name, "blue chip" institutions, such as Bear Stearns, Lehman Brothers, AIG and Fannie Mae; record market volatility; the cratering of home prices and foreclosure rates skyrocketing; and crude oil trading to a high of \$145 in July then dropping to \$34 in December. Confused and panicked investors sought shelter in government debt obligations, driving the return in T bonds with 30 year maturities to a 41% gain (Merrill Lynch Long-Term Index), an unprecedented price move. The Federal Reserve cut its key interest rate 7 times in 2008, from 4.25% at the start of the year, with the final cut pushing the rate to 0% to .25%, a historic low. In the 4th quarter, some investors were buying short term T bills at a 0% yield, the ultimate flight to safety reflecting a historical extreme of pessimism.

The S&P 500 lost 38.5% for the year, while the NASDAQ Composite fell 40.5%. The decline in the NASDAQ was the worst in its 38 year history. The Russell 2000 index continued its 2007 decline, dropping 34%. High yield bonds as measured by the Merrill Lynch HY index fell 26% on a total return basis, reflecting further flight from risk.

Hedge funds were badly hurt in 2008, with performance across "long-short" funds down 26% on average. The failure of these funds to live up to the billing of thriving in rough markets led to massive redemptions, and many funds went out of business in the 4th quarter of 2008. The hedge fund community is an important component of our business, as they are one of the most active purchasers of our investment banking and research product. Our securities broker-dealer and investment banking activities are inextricably tied to the capital markets through our customer base and its exposure to the stock market. In addition, our business activities are focused in the CleanTech, Consumer/Internet/Media, Health Care and Tech/Telecom sectors. By their nature, these activities are highly competitive and are not only subject to general market conditions, volatile trading markets and fluctuations in the volume of market activity, but also to the conditions affecting the companies and markets in our areas of focus.

The economic environment, and the multiple negative events that were triggered by it, have led to a financial services industry which is under unprecedented pressure. Some of the problems were self created, as the development of many types of derivatives led to unprecedented profits as well as unprecedented risks. These derivative products also enabled mass speculation in the housing market. With leverage ratios in some cases exceeding 30 times at many of the "bulge bracket" brokerage firms there was no room for error. Several such firms, much older, larger and better capitalized than ours, went out of business in 2008 or have been merged away. An estimated 175,000 jobs have been lost by the financial sector worldwide, with many more expected in 2009. The investment banking and M&A markets slowed precipitously in 2008, and these two areas are the primary drivers of profitability for firms in our sector. The diminution of the hedge fund community also decreased the pool of commissions in the "regular way" business, so both origination and distribution sides of the business are being badly squeezed. Cost cutting, shrewd application of capital, and intense focus on ROI, have been the keys to survival in the brokerage business. For many in the investment community, survival will truly be the new success in 2009. We expect aggressive consolidation as firms seek to reduce costs and increase efficiencies, as well as position themselves for their share of a shrinking pool of commissions. Our market segment of sub \$2 billion market cap companies has grown exponentially due to the massive disruption in the capital markets. There are also many companies under \$500MM with no research coverage, advisory relationships or no sponsorship at all. We view this group of potential clients as a huge opportunity and are aggressively adjusting our economic breakeven and approach to the business in order to benefit from this new world economy.

## Results of Operations

The following table sets forth a summary of financial highlights for the three years ended December 31, 2008 and includes the results of the Company's two operating segments, Merriman Curhan Ford & Co., which is the substantial majority of the results, and MCF Asset Management:

|  | 2008            | 2007          | 2006           |
|--|-----------------|---------------|----------------|
| <b>Revenue:</b>  |                 |               |                |
| Commissions  | \$ 33,678,706   | \$ 31,681,563 | \$ 30,105,085  |
| Principal transactions                                       | (9,040,218)     | 20,116,392    | (171,055)      |
| Investment banking   | 11,432,454      | 30,138,783    | 21,190,786     |
| Advisory and other fees                                      | 496,894         | 1,811,527     | 693,822        |
| Total revenue  | 36,567,836      | 83,748,265    | 51,818,638     |
| <b>Operating expenses:</b>                                   |                 |               |                |
| Compensation and benefits                                    | 36,670,457      | 53,669,449    | 42,840,431     |
| Brokerage and clearing fees                                  | 3,042,133       | 2,635,328     | 2,614,513      |
| Professional services  | 9,161,729       | 2,785,414     | 2,441,417      |
| Occupancy and equipment                                      | 2,303,944       | 1,638,353     | 1,665,410      |
| Communications and technology                                | 3,762,954       | 3,405,411     | 2,969,872      |
| Depreciation and amortization                                | 705,883         | 681,756       | 645,129        |
| Travel and business development                              | 2,921,196       | 2,499,768     | 2,738,393      |
| Other  | 4,411,128       | 3,386,421     | 2,400,765      |
| Total operating expenses                                     | 62,976,424      | 70,701,900    | 58,315,930     |
| Operating (loss) income                                      | (26,411,588)    | 13,046,365    | (6,497,292)    |
| Loss on retirement of convertible note payable               | —               | —             | (1,348,805)    |
| Interest income  | 375,949         | 461,491       | 484,909        |
| Interest expense   | (72,304)        | (134,868)     | (535,014)      |
| (Loss) income from continuing operations before income taxes | (26,107,943)    | 13,372,988    | (7,896,202)    |
| Income tax benefit (expense)                                 | 1,635,214       | (2,462,165)   | —              |
| (Loss) income from continuing operations                     | (24,472,729)    | 10,910,823    | (7,896,202)    |
| Loss on discontinued operations                              | (5,801,076)     | (1,587,788)   | (324,213)      |
| Net (loss) income  | \$ (30,273,805) | 9,323,035     | \$ (8,220,415) |

Our revenue during 2008 decreased by \$47,180,000 or 56%, from 2007 reflecting weaknesses across our businesses, with accentuated decline in principal transactions and investment banking transactions. Net loss for 2008 was \$30,274,000 as compared to net income of \$9,323,000 during 2007.

Our net (loss) income during the three years ended December 31, 2008 included the following non-cash items:

|   | 2008         | 2007         | 2006         |
|---|--------------|--------------|--------------|
| Stock-based compensation                        | \$ 2,353,383 | \$ 2,824,107 | \$ 3,836,781 |
| Reversal of FIN 48 Liability                    | (1,838,743)  | —            | —            |
| Impairment of goodwill and intangible assets    | 4,538,945    | —            | —            |
| Amortization of intangible assets               | 466,142      | 750,185      | 138,051      |
| Depreciation and amortization                   | 828,598      | 740,445      | 655,334      |
| Provision for uncollectible accounts receivable | 476,713      | 368,272      | 383,565      |
| Issuance of common stock to consultant          | —            | 75,791       | —            |
| Amortization of discounts on debt               | 2,584        | 10,332       | 146,776      |
| Loss on retirement of convertible note payable  | —            | —            | 1,348,805    |
| Amortization of debt issuance costs             | —            | —            | 35,757       |

|                                    |              |              |              |
|------------------------------------|--------------|--------------|--------------|
| Common stock received for services | (1,752,625)  | (400,875)    |              |
| Total                              | \$ 5,074,997 | \$ 4,368,257 | \$ 6,545,069 |

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## Investment Banking Revenue

Our investment banking activity includes the following:

- Capital Raising - Capital raising includes private placements of equity and debt instruments and underwritten public offerings.
- Financial Advisory - Financial advisory includes advisory assignments with respect to mergers and acquisitions, divestitures, restructurings and spin-offs.

The following table sets forth our revenue and transaction volumes from our investment banking activities during the three years ended December 31, 2008:

|                                     | 2008           | 2007           | 2006           |
|-------------------------------------|----------------|----------------|----------------|
| <b>Revenue:</b>                     |                |                |                |
| Capital raising                     | \$ 9,031,592   | \$ 26,996,283  | \$ 15,939,480  |
| Financial advisory                  | 2,400,862      | 3,142,500      | 5,251,306      |
| Total investment banking revenue    | \$ 11,432,454  | \$ 30,138,783  | \$ 21,190,786  |
| <b>Transaction Volumes:</b>         |                |                |                |
| <b>Public offerings:</b>            |                |                |                |
| Capital underwritten participations | \$ 182,780,000 | \$ 234,596,000 | \$ 156,500,000 |
| Number of transactions              | 3              | 13             | 15             |
| <b>Private placements:</b>          |                |                |                |
| Capital raised                      | \$ 290,380,000 | \$ 331,480,000 | \$ 173,101,000 |
| Number of transactions              | 13             | 26             | 15             |
| <b>Financial advisory:</b>          |                |                |                |
| Transaction amounts                 | \$ 82,600,000  | \$ 129,161,000 | \$ 169,423,000 |
| Number of transactions              | 4              | 1              | 1              |

Our investment banking revenue amounted to \$11,432,000, or 31% of our revenue during 2008, representing a 62% decrease compared to \$30,139,000 recognized in 2007. The decrease in revenue was driven by equity underwritten transactions which decreased by 96% in 2008 as compared to the prior year. Average fees per investment banking transaction decreased to \$273,000 in 2008 from \$710,000 in 2007. Our investment banking revenue of \$30,139,000 amounted to 36% of our revenue during 2007, representing a 42% increase compared to \$21,191,000 recognized in 2006.

During the year ended December 31, 2008, two investment banking clients each accounted for more than 10% of our revenue. No single investment banking client accounted for more than 10% of our revenue in 2007 and 2006.

## 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, as well as revenue from brokering money market mutual funds by our Institutional Cash Distributors group.



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.

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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 activity operations:

|  | 2008           | 2007          | 2006          |
|--|----------------|---------------|---------------|
| <b>Revenue:</b>  |                |               |               |
| <b>Commissions:</b>  |                |               |               |
| Institutional equities   | \$ 22,385,277  | \$ 25,312,803 | \$ 26,348,811 |
| Institutional Cash Distributors  | 11,293,429     | 6,368,760     | 3,756,274     |
| Total commissions revenue  | \$ 33,678,706  | \$ 31,681,563 | \$ 30,105,085 |
| <b>Principal transactions:</b>   |                |               |               |
| Customer principal transactions, proprietary trading and market making | \$ (7,693,703) | \$ 18,380,237 | \$ (207,779)  |
| Investment portfolio   | (1,346,515)    | 1,736,155     | 36,724        |
| Total principal transactions revenue                                   | \$ (9,040,218) | \$ 20,116,392 | \$ (171,055)  |
| <b>Equity research:</b>  |                |               |               |
| Publishing analysts  | 7              | 15            | 14            |
| Companies covered  | 100            | 186           | 194           |
| <b>Transaction Volumes:</b>  |                |               |               |
| Number of shares traded  | 1,281,568,000  | 1,160,782,000 | 937,005,000   |
| Number of active clients   | 491            | 597           | 564           |

Commissions amounted to \$33,679,000, or 92%, of our revenue during 2008, representing a 6% increase over \$31,682,000 recognized during 2007. The growth in commissions revenue was attributed to higher assets brokered by our Institutional Cash Distributors group during 2008. Commissions revenue from our institutional equities trading business was down slightly during 2008 due to a decrease in average commissions per share and a slightly lower average daily trading volume.

Commissions amounted to \$31,682,000, or 38%, of our revenue during 2007, representing a 5% increase over \$30,105,000 recognized during 2006. The growth in commissions revenue was attributed to higher assets brokered by our Institutional Cash Distributors group during 2007. Commissions revenue from our institutional equities trading business was down slightly during 2007 due to a decrease in average commissions per share, partially offset by higher average daily trading volume.

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 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.

Principal transactions decreased revenue by \$9,040,000 in 2008, while principal transactions were \$20,116,000, or 24% of revenue during 2007. Of the 2008 revenue, a substantial portion of the loss resulted from our concentrated positions in two securities which accounted for 52% and 41% of our positions held for proprietary trading as of December 31, 2008.

Other components of principal transactions revenue during 2008 included principal trades for customers, realized and unrealized gains from our investment portfolio and trading gains from making markets in equity securities.

During the year ended December 31, 2008, one brokerage customer accounted for more than 10% of our revenues. During the previous two years, no single brokerage customer accounted for more than 10% of our revenue.



## 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 typically 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 plan. 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 three years ended December 31, 2008:

|  | 2008          | 2007          | 2006          |
|--|---------------|---------------|---------------|
| Incentive compensation and discretionary bonuses           | \$ 17,824,388 | \$ 34,408,271 | \$ 26,563,425 |
| Salaries and wages   | 13,009,535    | 12,756,961    | 9,076,815     |
| Stock-based compensation                                   | 2,353,383     | 2,824,109     | 3,836,781     |
| Payroll taxes, benefits and other                          | 3,483,151     | 3,680,108     | 3,363,410     |
| Total compensation and benefits                            | \$ 36,670,457 | \$ 53,669,449 | \$ 42,840,431 |
| Total compensation and benefits as a percentage of revenue | 100%          | 64%           | 83%           |
| Cash compensation and benefits as a percentage of revenue  | 94%           | 61%           | 75%           |

The decrease in compensation and benefits expense of \$16,999,000, or 32%, from 2007 to 2008 was due primarily to lower incentive compensation which is directly correlated to revenue production. Cash compensation is equal to total compensation and benefits expense excluding stock-based compensation, which is a non-cash expense. Cash compensation and benefits expense as a percentage of revenue increased to 94% during 2008 as compared to 61% during 2007. This increase in 2008 was largely attributed to our overall decrease in revenue which was 56% lower than 2007.

The increase in compensation and benefits expense of \$10,829,000, or 25%, from 2006 to 2007 was due primarily to higher incentive compensation which is directly correlated to revenue production. Cash compensation and benefits expense as a percentage of revenue decreased to 61% during 2007 as compared to 75% during 2006. This improvement in 2007 was largely attributed to our overall revenue growth which was 62% higher than 2006 and our extraordinary principal transactions revenue as this activity has a low compensation expense ratio.

Our headcount increased from 166 at December 31, 2006 to 198 as of December 31, 2007, and decreased to 128 at December 31, 2008. Two single sales professionals each accounted for more than 10% of our revenue in 2008. No single sales professional accounted for more than 10% of our revenue in 2007 and 2006.

## 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. Merriman Curhan Ford & Co. 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 Merriman Curhan Ford & Co. and maintains the detailed customer records. Security trades are executed by third-party broker-dealers and electronic trading systems. These expenses are almost entirely variable with commissions revenue and the volume of brokerage transactions. The increase in brokerage and clearing fees of \$407,000, or 15% from 2007 to 2008 reflected increased per-transaction costs during the latest year, as we added to costs by deploying electronic tools to assist in our trading. The slight increase in brokerage and clearing fees of \$21,000, or 1% from 2006 to 2007 reflected increased market making activity during 2007.

Professional services expense includes legal fees, accounting fees, expenses related to investment banking transactions and various consulting fees. The increase of \$6,376,000, or 229%, from 2007 to 2008 reflected higher legal fees for litigation defense related to the Del Biaggio matters and increased audit fees. The increase of \$344,000, or 14%, from 2006 to 2007 reflected higher legal fees for litigation defense and corporate matters, as well as higher accounting and consulting fees mostly in connection with the integration of the MedPanel acquisition. We anticipate professional services expense for 2009 will decrease substantially as compared to 2008, as the legal expenses in 2008 were unusually high.

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 as we hire additional employees. The increase of \$666,000, or 41%, from 2007 to 2008 resulted mostly from expansion of our offices. The slight decrease of \$27,000, or 2%, from 2006 to 2007 resulted mostly from assets being fully depreciated during the year. During 2008, we relocated our New York office to larger premises. We anticipate occupancy and equipment expense in 2009 will decrease slightly over 2008 as we vacated some premises.

Communications and technology expense includes market data and quote services, voice, data and Internet service fees, and data processing costs. The increase of \$358,000, or 10%, from 2007 to 2008 was due to higher per unit cost and the notice period typically required for cancellations of service contracts to take effect. The increase of \$436,000, or 15%, from 2006 to 2007 was primarily due to upgrading our trading order management system in June 2006, as well as the increase in market data and quote services as we continue to expand our market maker activities. We anticipate communications and technology expense for 2009 will decrease by approximately 10% over 2008.

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 increase of \$24,000, or 4%, from 2007 to 2008 mostly resulted from the depreciation of assets acquired with our expanded New York offices requiring additional equipment and leasehold improvements. The increase of \$37,000, or 6%, from 2006 to 2007 mostly resulted from the expansion of our facilities in San Francisco. We anticipate depreciation and amortization expense for 2009 will be slightly lower as compared to 2008 as some of our fixed assets become fully depreciated.

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 \$421,000, or 17%, from 2007 to 2008 resulted from active sales and marketing efforts in the early part of the year. The decrease of \$239,000, or 9%, from 2006 to 2007 resulted from fewer uncompleted investment banking transactions in 2007 as compared to 2006. Syndicate expenses related to securities offerings in which we act as underwriter or agent are deferred until either the related revenue is recognized or we determine that the security offerings are unlikely to be completed. We anticipate travel and entertainment expense for 2009 will likely be lower than 2008.

The following expenses are included in other operating expenses for the three years ended December 31, 2008:

|   | 2008         | 2007         | 2006         |
|---|--------------|--------------|--------------|
| Investor conferences                            | \$ 817,177   | \$ 918,153   | \$ 947,793   |
| Recruiting                                      | 288,500      | 476,483      | 316,021      |
| Public and investor relations                   | 508,692      | 436,977      | 294,664      |
| Provision for uncollectible accounts receivable | 347,410      | 368,271      | (116,435)    |
| Insurance                                       | 450,872      | 315,186      | 271,725      |
| Supplies  | 335,778      | 297,814      | 300,598      |
| Dues and subscriptions                          | 359,606      | 198,967      | 162,064      |
| Other   | 1,303,092    | 374,570      | 224,335      |
| Total other operating expenses                  | \$ 4,411,128 | \$ 3,386,421 | \$ 2,400,765 |

The significant increase of \$1,025,000, or 30%, from 2007 to 2008 was due primarily to a legal settlement with a former employee as described in the Legal Proceedings section above. In addition, higher costs of dues and subscriptions related to information services and higher insurance premiums partially attributable to our legal matters also contributed to the increase. The increase of \$986,000, or 41%, from 2006 to 2007 was due primarily to one-time events in 2006 that reduced other expense by approximately \$600,000. We anticipate other operating expense for 2009 will decrease over 2008 as we are permitted to cancel services and activities which are less suited to our reduced business levels.

#### Loss on Retirement of Convertible Note Payable

In December 2006, the Company repaid the \$7.5 million variable rate secured convertible note issued to Midsummer Investment, Ltd, or Midsummer, in March 2006. The loss of \$1,349,000 recorded as of December 31, 2006 on repayment of the convertible note consists of the write-off of the unamortized discount related to the stock warrant as well as the write-off the unamortized debt issuance costs. Midsummer retained the stock warrant to purchase 267,857 shares of our common stock.

### Interest Income

Interest income represents interest earned on our cash balances maintained at financial institutions. The decrease of \$86,000, or 19%, from 2007 to 2008 and the decrease of \$23,000, or 5%, from 2006 to 2007 were due to changes in average interest earning assets and average interest rates during these periods.

### Interest Expense

Interest expense for 2008 included \$70,000 for interest expense and \$2,500 for amortization of discounts while 2007 included \$125,000 for interest expense and \$10,000 for amortization of discounts.

### Income Tax Expense

We recorded an income tax benefit of \$1,635,000 in 2008 resulting in an effective tax rate of 5%. Income tax expense was \$2,462,000 in 2007 resulting in an effective tax rate of 21%. The effective tax rate differs from the statutory rate primarily due to the existence and utilization of net operating loss carryforwards which have been offset by a valuation allowance resulting in a tax provision equal to our expected current expense for the year. We historically have had current tax expense primarily related to alternative minimum, state and minimum tax liabilities.

Historically and currently, we have recorded a 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.

We adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109 ("FIN 48") on January 1, 2007. As a result of the implementation of FIN 48, we recognized no adjustment in the liability for unrecognized income tax benefits and no corresponding change in retained earnings. During 2008, we recognized \$1,839,000 of unrecognized tax benefits previously established in 2007. Accordingly, there were no unrecognized tax benefits as of December 31, 2008, and we do not have any material accrued interest or penalties associated with any unrecognized tax benefits. We do not believe it is reasonably possible that our unrecognized tax benefits will significantly change within the next twelve months. We are subject to taxation in the US and various state and foreign jurisdictions. The tax years 2000-2008 remain open in the U.S. and several U.S. state jurisdictions.

### Discontinued Operations

On April 17, 2007, we acquired 100 percent of the outstanding common shares of MedPanel Corp. which we subsequently renamed Panel Intelligence LLC ("Panel") and made into a subsidiary of the Merriman Curhan Ford Group, Inc. The results of Panel's operations have been included in our consolidated financial statements since that date. As a result of the acquisition, we 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.

We paid \$6.1 million in common stock for Panel. The value of the 1,547,743 shares of common shares issued was determined based on the average market price of the our common stock over the period including three days before and after the terms of the acquisition were agreed to and announced. The selling stockholders were also entitled to additional consideration on the third anniversary from the closing which is based upon Panel Intelligence achieving specific revenue and profitability milestones.

In December 2008, we determined that the sale of Panel would reduce investments required to develop Panel's business. Its sale would also generate capital necessary for our core business. We determined that the plan of sale criteria in FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," had been met. Accordingly, the carrying value of the Panel assets was adjusted to their fair value less costs to sell. As a result, an impairment loss in the amount of \$1,937,000 was recorded and is included in "Other expenses" in the table in Note 8. In January 2009, we sold Panel to Panel Intelligence, LLC (Newco) for \$1,000,000 and shares of our common stock in the amount of \$100,000.

#### Critical Accounting Policies and Estimates

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



## Revenue Recognition

Investment banking revenue includes underwriting and private placement agency fees earned through our 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 we act 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. This generally is the point at which all of the following have occurred: (i) the issuer's registration statement has become effective with the SEC, or other offering documents are finalized, (ii) we have made a firm commitment for the purchase of the shares or debt from the issuer, and (iii) we have been informed of the exact number of shares or the principal amount of debt that it has been allotted.

Syndicate expenses related to securities offerings in which we act 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 our 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 reduces the revenue that is recognized as co-manager. Such amounts are adjusted to reflect actual expenses in the period in which we receive 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.

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

Primary research revenue is recognized on a proportional performance basis as services are provided. It is reported in our financial statements under captions labeled "Discontinued Operations".

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. Securities owned and securities sold, not yet purchased are stated at fair value, with any related changes in unrealized appreciation or depreciation reflected in Principal Transactions in the consolidated statements of operations. Financial instruments carried at contract amounts include cash and cash equivalents and amounts due from and to brokers, dealers and clearing brokers.

## Fair Value Measurement—Definition and Hierarchy

The Company adopted the provisions of SFAS No. 157, Fair Value Measurements (SFAS No. 157), effective January 1, 2008. Under this standard, 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 SFAS 157 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 — Inputs are unadjusted, quoted prices 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 — 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 that are generally included in this category are stock warrants for which there are market-based implied volatilities, unregistered common stock and thinly traded common stock.

Level 3 — Inputs 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. Generally, assets carried at fair value and included in this category include stock warrants for which market-based implied volatilities are not available.

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

## Stock-Based Compensation

On January 1, 2006, the company adopted SFAS 123(R), "Share-Based Payment," which requires the measurement and recognition of compensation expense, based on estimated fair values, for all share-based awards, made to employees and directors, including stock options, non-vested stock, and participation in our employee stock purchase plan. Share-based compensation expense recognized in our consolidated statement of operations for the three years ended December 31, 2008 includes compensation expense for share-based awards granted (i) prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123, and (ii) subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R).

The company estimates the fair value of stock options granted using the Black-Scholes option pricing method. This option pricing model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding. The Company calculated the expected term using the lattice model with specific assumptions about the suboptimal exercise behavior, post-vesting termination rates and other relevant factors. The expected stock price volatility was determined using the historical volatility of our common 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. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our share-based compensation.

## Deferred Tax Valuation Allowance

We account for income taxes in accordance with the provision of SFAS No. 109, Accounting for Income Taxes, which requires the recognition of deferred tax assets and liabilities at tax rates expected to be in effect when these balances reverse. Future tax benefits attributable to temporary differences are recognized to the extent that the realization of such benefits is more likely than not. We have concluded that it is more likely than not that our deferred tax assets as of December 31, 2008 and 2007 will not be realized based on the scheduling of deferred tax liabilities and projected taxable income. The amount of the deferred tax assets actually realized, however, could vary if there are differences in the timing or amount of future reversals of existing deferred tax liabilities or changes in the actual amounts of future taxable income. Should we determine that we will be able to realize all or part of the deferred tax asset in the future, an adjustment to the deferred tax asset will be recorded in the period such determination is made.

## Goodwill and Intangible Assets

In accordance with SFAS 142, indefinite-life intangible assets and goodwill are not amortized. Rather, they are subject to impairment testing on an annual basis or more often if events or circumstances indicate there may be impairment. This test involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying amount. If the fair value is less than the carrying amount, a further test is required to measure the amount of the impairment. When available, we use recent, comparable transactions to estimate the fair value of the respective reporting unit. We calculate an estimated fair value based on multiples of revenue, earnings, and book value of comparable transactions. However, when such comparable transactions are not available or have become outdated, we use discounted cash flow scenarios to estimate the fair value of the reporting units.

The goodwill and intangible assets we recorded are related to Panel assets, classified as held for sale in our financial statements. In the year ended December 31, 2008, we recorded impairments to goodwill and intangible assets in the amounts of \$3,338,000 and \$1,301,000, respectively. At December 31, 2008, the assets held for sale included no remaining goodwill and \$283,000 of intangible assets after impairment and depreciation.

## Liquidity and Capital Resources

As of December 31, 2008, liquid assets consisted primarily of cash and cash equivalents of \$6,358,000 and marketable securities of \$4,623,000, for a total of \$10,981,000, which is \$34,788,000 lower than \$45,769,000 in liquid assets as of December 31, 2007.

Cash and cash equivalents decreased by \$25,296,000 during 2008. Cash used in our operating activities for 2008 was \$24,945,000 which consists of our net loss of \$30,274,000 adjusted for non-cash expenses including unrealized loss on securities owned of \$9,775,000, partially offset by the decrease in commissions and bonus payable of \$14,223,000, net stock-based compensation of \$2,353,000, depreciation and amortization of \$829,000, provision for doubtful accounts of \$477,000, and amortization of intangible assets of \$466,000. Cash used in investing activities amounted to \$204,000 during 2008 which reflects our purchase of equipment and fixtures. Cash used in our financing activities was \$232,000. Our financing activities included debt service payments partially offset by proceeds from the exercise of stock options by our employees.

Merriman Curhan Ford & Co., 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, 2008, Merriman Curhan Ford & Co. had regulatory net capital of \$2,899,000, which exceeded the required amount by \$1,899,000.

During the year ended December 31, 2008, the Company incurred a net loss of \$30,274,000 and used \$24,945,000 in net cash from operating activities. At December 31, 2008, the Company had cash and cash equivalents of \$6,358,000, marketable securities of \$4,623,000 and receivables from clearing broker of \$1,753,000. The Company had liabilities of \$11,150,000. The Company's ability to generate profits is highly dependent on stock market trading volumes and the general economic environment. As a result, the ability of the Company to meet its forward obligations and the ability to continue as a going concern may be in question.

We believe that our existing cash balances and investments could be sufficient to meet our liquidity and capital spending requirements depending on the successful implementation of the plan to increase the Company's operating flexibility and extend its cash reserves, the settlement of our legal proceedings, the stability of financial markets and the economic environment. The company may require additional capital investment to fund our working capital. We cannot be certain that additional debt or equity financing will be available when required or, if available, that we can secure it on terms satisfactory to us.

The following is a table summarizing our significant commitments as of December 31, 2008, consisting of capital leases and future minimum lease payments under all non-cancelable operating leases with initial or remaining terms in excess of one year.

|                          | Operating<br>Leases | Capital<br>Leases   |
|--------------------------|---------------------|---------------------|
| 2009                     | 1,772,554           | 634,968             |
| 2010                     | 1,720,897           | 319,733             |
| 2011                     | 1,658,148           | 146,647             |
| 2012                     | 1,095,440           | —                   |
| 2013                     | 616,000             | —                   |
| Thereafter               | —                   | —                   |
| <b>Total commitments</b> | <b>\$ 6,863,039</b> | <b>\$ 1,101,347</b> |
| Interest                 | —                   | (66,441)            |
| <b>Net commitments</b>   | <b>\$ 6,863,039</b> | <b>\$ 1,034,906</b> |

Off-Balance Sheet Arrangements

We were not a party to any off-balance sheet arrangements during the three years ended December 31, 2008. In particular, we do not have any interest in so-called limited purpose entities, which include special purpose entities and structured finance entities.

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## Newly Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, Fair Value Measurements (“SFAS No. 157”), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On February 6, 2008, the FASB deferred the effective date of SFAS No. 157 for one year for all nonfinancial assets and nonfinancial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 did not have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, Fair Value Option for Financial Assets and Financial Liabilities (“SFAS No. 159”), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company did not adopt SFAS No. 159 on any individual instrument as of January 1, 2008.

In May 2007, the FASB issued FASB Staff Position (“FSP”) FIN No. 46R-7, Application of FASB Interpretation No. 46(R) to Investment Companies (“FSP FIN 46R-7”), which amends the scope of the exception to FIN No. 46R to state that investments accounted for at fair value in accordance with the specialized accounting guidance in the American Institute of Certified Public Accountants Audit and Accounting Guide, Investment Companies, are not subject to consolidation under FIN No. 46R. This interpretation is effective for fiscal years beginning on or after December 15, 2007. The adoption of FSP FIN No. 46R-7 did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (“SFAS 141R”), which requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS 141R applies to all transactions or other events in which the Company obtains control of one or more businesses, including those sometimes referred to as “true mergers” or “mergers of equals” and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 141R will have a material impact on its consolidated financial position or results of operations.

Also in December 2007, SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51 (“SFAS 160”), which requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. SFAS 160 applies to all fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented. The Company does not expect the adoption of SFAS 160 will have a material effect on its consolidated financial statements.

In February 2008, the FASB issued FSP FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (“FSP FAS 157-1”), which amends SFAS 157 to exclude its

applicability to leases, except if the lease asset is acquired or lease liability is assumed as part of a merger or business combination. FSP FAS 157-1 was effective upon the initial adoption of SFAS No. 157. The adoption of FSP FAS 157-1 did not have a material impact on the Company's consolidated financial statements.

In October 2008, the FASB issued FSP 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active ("FSP 157-3"), which clarifies the application SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective immediately upon issuance and includes prior period financial statements that have not yet been issued, and therefore the Company is subject to the provisions of FSP-157-3 effective September 30, 2008. The implementation of FSP 157-3 did not affect the Company's fair value measurements of financial assets as of December 31, 2008 and had no impact on its consolidated results of operations or financial condition.



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 Curhan Ford Group, Inc.

We have audited the accompanying consolidated statements of financial condition of Merriman Curhan Ford Group, Inc. (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Merriman Curhan Ford Group, Inc. at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 3, the Company has incurred recurring operating losses and is facing significant litigation as discussed more fully in Note 14. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters also are described in Note 3. The 2008 financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Merriman Curhan Ford Group, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 30, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Francisco, California  
March 30, 2009

## MERRIMAN CURHAN FORD GROUP, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

|  | Year ended December 31, |               |                |
|--|-------------------------|---------------|----------------|
|  | 2008                    | 2007          | 2006           |
| <b>Revenue:</b>  |                         |               |                |
| Commissions  | \$ 33,678,706           | \$ 31,681,563 | \$ 30,105,085  |
| Principal transactions                                       | (9,040,218)             | 20,116,392    | (171,055)      |
| Investment banking   | 11,432,454              | 30,138,783    | 21,190,786     |
| Advisory and other fees                                      | 496,894                 | 1,811,527     | 693,822        |
| Total revenue  | 36,567,836              | 83,748,265    | 51,818,638     |
| <b>Operating expenses:</b>                                   |                         |               |                |
| Compensation and benefits                                    | 36,670,457              | 53,669,449    | 42,840,431     |
| Brokerage and clearing fees                                  | 3,042,133               | 2,635,328     | 2,614,513      |
| Professional services  | 9,161,729               | 2,785,414     | 2,441,417      |
| Occupancy and equipment                                      | 2,303,944               | 1,638,353     | 1,665,410      |
| Communications and technology                                | 3,762,954               | 3,405,411     | 2,969,872      |
| Depreciation and amortization                                | 705,883                 | 681,756       | 645,129        |
| Travel and business development                              | 2,921,196               | 2,499,768     | 2,738,393      |
| Other  | 4,411,128               | 3,386,421     | 2,400,765      |
| Total operating expenses                                     | 62,979,424              | 70,701,900    | 58,315,930     |
| Operating (loss) income                                      | (26,411,588)            | 13,046,365    | (6,497,292)    |
| Loss on retirement of convertible note payable               | —                       | —             | (1,348,805)    |
| Interest income  | 375,949                 | 461,491       | 484,909        |
| Interest expense   | (72,304)                | (134,868)     | (535,014)      |
| (Loss) income from continuing operations before income taxes | (26,107,943)            | 13,372,988    | (7,896,202)    |
| Income tax benefit (expense)                                 | 1,635,214               | (2,462,165)   | —              |
| (Loss) income from continuing operations                     | (24,472,729)            | 10,910,823    | (7,896,202)    |
| Loss from discontinued operations                            | (5,801,076)             | (1,587,788)   | (324,213)      |
| Net (loss) income  | \$ (30,273,805)         | \$ 9,323,035  | \$ (8,220,415) |
| <b>Basic net income (loss) per share:</b>                    |                         |               |                |
| (Loss) income from continuing operations                     | \$ (1.95)               | \$ 0.95       | \$ (0.79)      |
| Loss from discontinued operations                            | \$ (0.46)               | \$ (0.14)     | \$ (0.03)      |
| Net (loss) income  | \$ (2.41)               | \$ 0.81       | \$ (0.82)      |
| <b>Diluted net (loss) income per share:</b>                  |                         |               |                |
| (Loss) income from continuing operations                     | \$ (1.95)               | \$ 0.86       | \$ (0.79)      |
| Loss from discontinued operations                            | \$ (0.46)               | \$ (0.12)     | \$ (0.03)      |
| Net (loss) income  | \$ (2.41)               | \$ 0.74       | \$ (0.82)      |
| <b>Weighted average number of common shares:</b>             |                         |               |                |
| Basic  | 12,550,872              | 11,528,187    | 9,989,265      |
| Diluted  | 12,550,872              | 12,643,524    | 9,989,265      |

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

## MERRIMAN CURHAN FORD GROUP, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

|   | December 31,  |               |
|---|---------------|---------------|
|   | 2008          | 2007          |
| <b>ASSETS</b>   |               |               |
| Cash and cash equivalents   | \$ 6,358,128  | \$ 31,653,657 |
| Securities owned:   |               |               |
| Marketable, at fair value   | 4,622,577     | 14,115,022    |
| Not readily marketable, at estimated fair value   | 366,061       | 2,275,668     |
| Other   | 185,065       | 2,229,120     |
| Restricted cash   | 1,131,182     | 689,157       |
| Due from clearing broker  | 1,752,535     | 1,251,446     |
| Accounts receivable, net  | 612,234       | 2,940,959     |
| Prepaid expenses and other assets   | 619,759       | 1,651,051     |
| Equipment and fixtures, net   | 1,260,011     | 995,880       |
| Assets held for sale  | 1,958,038     | 6,771,371     |
| Total assets  | \$ 18,865,590 | \$ 64,573,331 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |               |               |
| Accounts payable  | \$ 712,591    | \$ 579,097    |
| Commissions and bonus payable   | 3,182,941     | 17,346,304    |
| Accrued expenses  | 3,637,345     | 5,541,501     |
| Due to clearing and other brokers   | 28,022        | 6,865         |
| Securities sold, not yet purchased  | 903,217       | 3,804,558     |
| Deferred revenue  | 709,691       | 119,999       |
| Capital lease obligation  | 923,683       | 721,380       |
| Convertible notes payable, net  | —             | 197,416       |
| Notes payable   | —             | 41,573        |
| Liabilities held for sale   | 1,052,899     | 1,408,590     |
| Total liabilities   | 11,150,389    | 29,767,283    |
| Commitments and contingencies   |               |               |
| 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, 2008 and 2007, respectively; 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, 2008 and 2007; 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, 2008 and 2007; aggregate liquidation preference of \$0             | —             | —             |
| Common stock, \$0.0001 par value; 300,000,000 shares authorized; 12,756,656 and 12,310,886 shares issued and 12,730,218 and 12,284,448 shares outstanding as of December 31, 2008 and 2007, respectively                        | 1,278         | 1,232         |
| Additional paid-in capital  | 127,193,195   | 124,010,283   |
| Treasury stock  | (125,613)     | (125,613)     |

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|  |               |               |
|--|---------------|---------------|
| Accumulated deficit                        | (119,353,659) | (89,079,854)  |
| Total stockholders' equity                 | 7,715,201     | 34,806,048    |
| Total liabilities and stockholders' equity | \$ 18,865,590 | \$ 64,573,331 |

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

## MERRIMAN CURHAN FORD GROUP, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

|   | Preferred Stock<br>Shares | Preferred Stock<br>Amount | Common Stock<br>Shares | Common Stock<br>Amount | Treasury Stock<br>Shares | Treasury Stock<br>Amount | Additional<br>Paid-in<br>Capital | Deferred<br>Compensation | Accumulated<br>Deficit | Total         |
|---|---------------------------|---------------------------|------------------------|------------------------|--------------------------|--------------------------|----------------------------------|--------------------------|------------------------|---------------|
| Balance at<br>December 31,<br>2005  | —                         | —                         | 10,209,588             | \$ 1,021               | —                        | —                        | \$ 111,731,293                   | \$ (3,146,839)           | \$ (90,182,474)        | \$ 18,403,001 |
| Net loss  | —                         | —                         | —                      | —                      | —                        | —                        | —                                | —                        | (8,220,415)            | (8,220,415)   |
| Issuance of<br>Common stock   | —                         | —                         | 247,808                | 25                     | —                        | —                        | 713,062                          | —                        | —                      | 713,087       |
| Issuance of<br>Restricted common<br>stock   | —                         | —                         | 52,465                 | 6                      | —                        | —                        | (6)                              | —                        | —                      | —             |
| Exercise of stock<br>warrants   | —                         | —                         | 92,859                 | 9                      | —                        | —                        | 191,991                          | —                        | —                      | 192,000       |
| Removal of<br>unrecognized deferred<br>stock<br>compensation<br>balance upon<br>adoption of SFAS<br>13(R) | —                         | —                         | —                      | —                      | —                        | —                        | (3,146,839)                      | 3,146,839                | —                      | —             |
| Stock-based<br>compensation   | —                         | —                         | —                      | —                      | —                        | —                        | 3,836,781                        | —                        | —                      | 3,836,781     |
| Issuance of stock<br>warrants   | —                         | —                         | —                      | —                      | —                        | —                        | 1,290,566                        | —                        | —                      | 1,290,566     |
| Balance at<br>December 31,<br>2006  | —                         | —                         | 10,602,720             | \$ 1,061               | —                        | —                        | \$ 114,616,848                   | \$ —                     | \$ (98,402,889)        | \$ 16,215,020 |
| Net income  | —                         | —                         | —                      | —                      | —                        | —                        | —                                | —                        | 9,323,035              | 9,323,035     |
| Issuance of<br>Common stock for<br>Acquisition  | —                         | —                         | 1,500,120              | 150                    | —                        | —                        | 6,090,337                        | —                        | —                      | 6,090,487     |
| Issuance of<br>Common stock   | —                         | —                         | 56,857                 | 5                      | —                        | —                        | 235,076                          | —                        | —                      | 235,081       |
| Issuance of<br>Restricted common<br>stock   | —                         | —                         | 120,126                | 12                     | —                        | —                        | 25,739                           | —                        | —                      | 25,751        |
| Exercise of stock<br>warrants   | —                         | —                         | 83,939                 | 9                      | —                        | —                        | 172,987                          | —                        | —                      | 172,996       |
| Common stock<br>returned from<br>Investment<br>banker   | —                         | —                         | (52,876)               | (5)                    | (26,438)                 | (125,613)                | 5                                | —                        | —                      | (125,613)     |
|   | —                         | —                         | —                      | —                      | —                        | —                        | 45,184                           | —                        | —                      | 45,184        |





## MERRIMAN CURHAN FORD GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year ended December 31, |              |                |
|---|-------------------------|--------------|----------------|
|   | 2008                    | 2007         | 2006           |
| <b>Cash flows from operating activities:</b>  |                         |              |                |
| Net (loss) income   | \$ (30,273,805)         | \$ 9,323,035 | \$ (8,220,415) |
| <b>Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:</b> |                         |              |                |
| Reversal of FIN 48 liability  | (1,838,743)             | —            | —              |
| Depreciation and amortization   | 828,598                 | 740,445      | 655,334        |
| Stock-based compensation  | 2,353,383               | 2,824,107    | 3,836,781      |
| Issuance of common stock to consultant  | —                       | 75,791       | —              |
| Tax benefits (expense) from employee stock option plans   | (34,078)                | 45,184       | —              |
| Amortization of discounts on convertible notes payable  | 2,584                   | 10,332       | 146,776        |
| Impairment of goodwill  | 3,338,016               | —            | —              |
| Impairment of intangible assets   | 1,200,929               | —            | —              |
| Impairment of securities  | 230,556                 | —            | —              |
| Amortization of debt issuance costs   | —                       | —            | 35,757         |
| Amortization of intangible asset  | 466,142                 | 750,185      | 138,051        |
| Loss on retirement of convertible note payable  | —                       | —            | 1,348,805      |
| Loss on disposal of equipment and fixtures  | 2,921                   | 5,553        | 14,196         |
| Provision for uncollectible accounts receivable   | 820,417                 | 368,272      | 383,565        |
| Common stock received for services  | (1,752,625)             | (400,875)    | —              |
| Unrealized loss (gain) on securities owned  | 9,774,573               | (6,763,635)  | 2,172,407      |
| <b>Changes in operating assets and liabilities:</b>   |                         |              |                |
| Securities owned and sold, but not purchased  | 2,292,261               | (203,639)    | (203,536)      |
| Restricted cash   | (442,025)               | (59,730)     | (1,821)        |
| Due from clearing broker  | (501,089)               | (699,615)    | 421,307        |
| Accounts receivable   | 1,458,397               | (649,560)    | (789,908)      |
| Prepaid expenses and other assets   | 910,840                 | 404,769      | (786,306)      |
| Accounts payable  | (18,166)                | (740,825)    | 220,485        |
| Commissions and bonus payable   | (14,223,458)            | 9,617,504    | 2,975,913      |
| Accrued liabilities   | 437,960                 | 3,928,196    | 84,171         |
| Due to clearing and other brokers   | 21,157                  | (4,249)      | (107,684)      |
| Net cash (used in) provided by operating activities   | (24,945,255)            | 18,571,245   | (2,323,878)    |
| <b>Cash flows from investing activities:</b>  |                         |              |                |
| Purchase of equipment and fixtures  | (203,566)               | (170,541)    | (78,216)       |
| Acquisition of Catalyst   | —                       | —            | (58,558)       |
| Proceeds from sale of Catalyst  | —                       | 163,219      | —              |
| Investment in MCF Navigator fund  | —                       | —            | (7,500,000)    |
| Redemption from MCF Navigator fund  | —                       | —            | 7,500,000      |
| Acquisition of MedPanel   | —                       | 670,027      | —              |
| Increase in intangible assets   | —                       | (694,612)    | —              |
| Net cash used in investing activities   | (203,566)               | (31,907)     | (136,774)      |
| <b>Cash flows from financing activities:</b>  |                         |              |                |
| Proceeds from the issuance of common stock  | —                       | 185,041      | 603,070        |
| Proceeds from the exercise of stock options and warrants  | 470,303                 | 172,996      | 302,017        |

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|   |              |               |               |
|---|--------------|---------------|---------------|
| Proceeds from convertible debenture and stock warrant | —            | —             | 7,500,000     |
| Repayment of convertible debenture                    | —            | —             | (7,500,000)   |
| Debt service principal payments                       | (702,663)    | (681,764)     | (484,524)     |
| Net cash (used in) provided by financing activities   | (232,360)    | (323,727)     | 420,563       |
| Increase (decrease) in cash and cash equivalents      | (25,381,181) | 18,215,611    | (2,607,667)   |
| Cash and cash equivalents at beginning of year        | 31,962,201   | 13,746,590    | 11,138,923    |
| Cash and cash equivalents, assets held for sale       | (222,892)    | (308,544)     |               |
| Cash and cash equivalents at end of year              | \$ 6,358,128 | \$ 31,653,657 | \$ 13,746,590 |

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

MERRIMAN CURHAN FORD GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

|   | Year ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2008                    | 2007       | 2006       |
| <b>Supplementary disclosure of cash flow information:</b> |                         |            |            |
| <b>Cash paid during the year:</b>                         |                         |            |            |
| Interest  | \$ 79,941               | \$ 121,331 | \$ 323,345 |
| Income taxes  | \$ 565,959              | \$ 120,400 | \$ 18,800  |
| <b>Non-cash investing and financing activities:</b>       |                         |            |            |
| Conversion of note payable into common stock              | \$ 200,000              | \$ —       | \$ —       |
| Purchase of equipment and fixtures through capital lease  | \$ 805,776              | \$ 182,665 | \$ 799,709 |
| Issuance of common stock for MedPanel                     | \$ 193,350              | \$ —       | \$ —       |

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

MERRIMAN CURHAN FORD GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Merriman Curhan Ford Group, Inc. (formerly MCF Corporation) is a financial services holding company that provides investment banking, capital markets services, corporate and venture services, investment banking, asset management and primary research through its operating subsidiaries, Merriman Curhan Ford & Co., Panel Intelligence, LLC (“Panel”) and MCF Asset Management, LLC. In the fourth quarter of 2008, Merriman Curhan Ford Group, Inc. decided to begin the process of liquidating the funds under management by MCF Asset Management, LLC and is still consolidated in the accompanying financial statements as of and for the years ended December 31, 2008 and 2007. In January 2009, Merriman Curhan Ford Group, Inc. sold its primary research business, Panel Intelligence, LLC, and has presented its results of operations as discontinued operations, see Note 8 for further discussion. Merriman Curhan Ford & Co. is an investment bank and securities broker-dealer focused on fast-growing companies and institutional investors. MCF Asset Management, LLC manages absolute return investment products for institutional and high-net worth clients. Panel Intelligence offers primary research services to biotechnology, pharmaceutical, medical device, clean technology and financial services companies. Merriman Curhan Ford & Co. is registered with the Securities and Exchange Commission as a broker-dealer and is a member of the Financial Industry Regulatory Authority and Securities Investor Protection Corporation.

Merriman Curhan Ford Group, Inc., also referred to as the Company, formerly Ralexchange Corporation, NetAmerica.com Corporation and Venture World, Ltd., is a Delaware corporation organized on May 6, 1987. The Company’s common stock was listed on the American Stock Exchange in July 2000 and was listed on Nasdaq in February 2008, where it currently trades under the symbol “MERR.” The Company’s corporate office is located in San Francisco, California.

Prior to 2002, the Company was engaged in the creation of liquid marketplaces for bandwidth and other telecommunications products, as well as providing trading strategies in the futures and derivatives markets. This prior business experienced significant net losses that resulted in an accumulated deficit of \$87,731,000 as of December 31, 2001.

In December 2001, the Company acquired Instream Securities, Inc. and later changed the name of the entity to RTX Securities Corporation, then to Merriman Curhan Ford & Co. The Company formed MCF Asset Management, LLC in January 2004, MCF Wealth Management, LLC in January 2005, and acquired Panel Intelligence, LLC in April 2007 as wholly owned subsidiaries. Panel Intelligence, LLC is accounted for as discontinued operations in these consolidated financial statements for the years ended December 31, 2008 and 2007 while MCF Wealth Management, LLC was accounted for as such for the year ended December 31, 2006.

2. Summary of Significant Accounting Policies

Principles of Consolidation

As of December 31, 2008, Merriman Curhan Ford Group, Inc. wholly owned three U.S. subsidiaries. The subsidiaries Merriman Curhan Ford & Co. and MCF Asset Management, LLC have been consolidated in the accompanying financial statements. In January 2009, Merriman Curhan Ford Group, Inc. sold its third subsidiary, Panel Intelligence, LLC, and has presented its results of operations as discontinued operations. All significant inter-company accounts and transactions have been eliminated.

Cash and Cash Equivalents

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

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MERRIMAN CURHAN FORD GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies - (continued)

Restricted Cash and Letters of Credit

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

Securities Owned

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

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. Securities owned and securities sold, not yet purchased are stated at fair value, with any related changes in unrealized appreciation or depreciation reflected in Principal Transactions in the consolidated statements of operations. The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, restricted cash, securities owned, due from clearing broker, accounts receivable, assets held for sale, accounts payable, commissions and bonus payable, accrued expenses, due to clearing and other brokers, liabilities held for sale and securities sold, not yet purchased, approximate their fair values.

Fair Value Measurement—Definition and Hierarchy

The Company adopted the provisions of SFAS No. 157, Fair Value Measurements (SFAS No. 157), effective January 1, 2008. Under this standard, 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 SFAS 157 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 — Inputs are unadjusted, quoted prices 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 — 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 that are generally included in this category are stock warrants for which there are market-based implied volatilities, unregistered common stock and thinly traded common stock.

Level 3 — Inputs 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. Generally, assets carried at fair value and included in this category include stock warrants for which market-based implied volatilities are not available.

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

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

MERRIMAN CURHAN FORD GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies - (continued)

Accounts Receivable

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

We recorded \$733,000 and \$57,000 as of December 31, 2008 and 2007, respectively, as an allowance for uncollectible accounts.

Equipment and Fixtures

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

Long-Lived Assets

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

Discontinued Operations and Assets Held For Sale

For those businesses where management has committed to a plan to divest, each business is valued at the lower of its carrying amount or estimated fair value less estimated cost to sell. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized. For businesses classified as discontinued operations, statement of operations results are reclassified from their historical presentation to discontinued operations in the consolidated statements of operations for all periods presented. The gains or losses associated with these divested businesses are recorded in (loss) income from discontinued operations in the consolidated statements of operations. Additionally, segment information does not include the results of businesses classified as discontinued operations.



MERRIMAN CURHAN FORD GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies - (continued)

Goodwill and Intangible Assets

In accordance with SFAS 142, indefinite-life intangible assets and goodwill are not amortized. Rather, they are subject to impairment testing on an annual basis or more often if events or circumstances indicate there may be impairment. This test involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying amount. If the fair value is less than the carrying amount, a further test is required to measure the amount of the impairment. When available, recent, comparable transactions are used to estimate the fair value of the respective reporting unit. The Company calculates an estimated fair value based on multiples of revenue, earnings, and book value of comparable transactions. However, when such comparable transactions are not available or have become outdated, discounted cash flow scenarios are used to estimate the fair value of the reporting units.

The goodwill and intangible assets recorded by the Company are related to its acquisition of Panel. These are more discussed more fully in Note 8.

Investment Banking Revenue

Investment banking revenue includes underwriting and private placement agency fees earned through the Company's participation in public offerings and private placements of equity and convertible debt securities and fees earned as financial advisor in mergers and acquisitions and similar transactions. Underwriting revenue is earned in securities offerings in which the Company acts as an underwriter and includes management fees, selling concessions and underwriting fees. Fee revenue relating to underwriting commitments is recorded when all significant items relating to the underwriting cycle have been completed and the amount of the underwriting revenue has been determined. This generally is the point at which all of the following have occurred: (i) the issuer's registration statement has become effective with the SEC, or other offering documents are finalized, (ii) the Company has made a firm commitment for the purchase of the shares or debt from the issuer, and (iii) the Company has been informed of the exact number of shares or the principal amount of debt that it has been allotted.

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 reduces 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.



MERRIMAN CURHAN FORD GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies - (continued)

Commissions and Principal Transactions Revenue

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

Primary Research Revenue

Revenue from primary research services is recognized on a proportional performance basis as services are provided. It is reported in the consolidated statement of operations as a part of the loss from discontinued operations.

Cost of Primary Research Services

Direct costs associated with generating primary research revenue principally consist of panelist honorarium and recruitment costs. Medical experts receive cash honoraria for participating in qualitative panels and quantitative surveys. The Company pays the honoraria to the panelists when the panel or survey has been completed and records this expense as incurred. These are reported in the consolidated statements of financial condition as a part of the loss from discontinued operations.

Share-Based Compensation Expense

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) 123 (Revised 2004), "Share-Based Payment," or SFAS 123(R), which requires the measurement and recognition of compensation expense, based on estimated fair values, for all share-based awards, made to employees and directors, including stock options, non-vested stock, and participation in the Company's employee stock purchase plan. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 107 relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective application transition method, as of January 1, 2006, the first day of the Company's fiscal year 2006. The Company's consolidated financial statements as of and for the year ended December 31, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective application transition method, the Company's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

Prior to the adoption of SFAS 123(R), the Company accounted for share-based awards to employees and directors using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," as allowed under SFAS 123, "Accounting for Stock-Based Compensation." Share-based

compensation expense for the year ended December 31, 2005 was solely related to non-vested stock awards and stock options granted with intrinsic value that the Company had been recognizing in its consolidated statements of operations in accordance with the provisions set forth above. In accordance with the intrinsic value method, no share-based compensation expense was otherwise recognized in the Company's consolidated statements of operations because the exercise price of nearly all of the Company's stock options granted to employees and directors equaled the fair market value of the underlying stock at the grant date.

MERRIMAN CURHAN FORD GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies - (continued)

SFAS 123(R) requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense in the Company's consolidated statements of operations over the requisite service periods. Share-based compensation expense recognized in the Company's consolidated statement of operations for the years ended December 31, 2008 and December 31, 2007 includes compensation expense for share-based awards granted (i) prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123, and (ii) subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Compensation expense for all share-based awards subsequent to December 31, 2005 is recognized using the straight-line single-option method. Because share-based compensation expense is based on awards that are ultimately expected to vest, share-based compensation expense has been reduced to account for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under SFAS 123 for periods prior to fiscal 2006, the Company accounted for forfeitures as they occurred.

To calculate option-based compensation under SFAS 123(R), the Company used the Black-Scholes option pricing model, which it had previously used for valuation of option-based awards for its pro forma information required under SFAS 123 for periods prior to fiscal 2006. The Company's determination of fair value of option-based awards on the date of grant using the Black-Scholes model is affected by the Company's stock price as well as assumptions regarding a number of subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors.

No tax benefits were attributed to the share-based compensation expense because a valuation allowance was maintained for all net deferred tax assets.

#### Deferred Revenue

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

Deferred revenue mainly represents customer billings made in advance to certain clients for due diligence services, and annual support contract for providing services as their Principal American Liaison (PAL) if a non-U.S. company or a Designated Advisor for Disclosure (DAD), if a U.S. company. The revenue for due diligence work is recognized at its completion, typically a three-month period. The revenue for advisory services is recognized on a monthly basis in the period after due diligence is completed and before the end of the engagement term.

#### 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. Merriman Curhan Ford Group, Inc. adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement 109, on January 1, 2007.

#### Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted earnings per share is calculated for the year ended December 31, 2007 by dividing net income by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares outstanding. Diluted loss per share is unchanged from basic loss per share for the years ended December 31, 2008 and 2006, because the addition of common shares that would be issued assuming exercise or conversion would be anti-dilutive.

MERRIMAN CURHAN FORD GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies - (continued)

Concentrations

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

As of December 31, 2008, the Company held concentrated positions in two securities with a total value in the amount of \$2,749,000. The stock prices of these equity securities are highly volatile and they are relatively illiquid. The weighted average price of these concentrated positions in two securities declined by 12% subsequent to December 31, 2008.

During 2008, two sales professionals accounted for 21% and 20% of total revenue, respectively. During 2007 and 2006, no sales professional accounted for more than 10% of revenue. During the year ended December 31, 2008, one customer accounted for 18% of total revenue. During the years ended December 31, 2007 and 2006, no single customer accounted for more than 10% of revenue.

Segment Reporting

The Company organizes its operations into two operating segments for the purpose of making operating decisions and assessing performance. These operating segments are organized along operating subsidiaries, Merriman Curhan Ford & Co. and MCF Asset Management, LLC. Accordingly, the Company operated in two reportable operating segments in the United States during 2008. In January 2009, the Company sold its primary research business, Panel Intelligence, LLC, and has presented its results of operations as discontinued operations, see Note 8 for further discussion.

Use of Estimates

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

Newly Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, Fair Value Measurements ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On February 6, 2008, the FASB deferred the effective date of SFAS No. 157 for one year for all nonfinancial assets and nonfinancial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 did not have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, Fair Value Option for Financial Assets and Financial Liabilities ("SFAS No. 159"), which permits entities to choose to measure many financial instruments and certain other items at

fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company did not adopt SFAS No. 159 on any individual instrument as of January 1, 2008.

In May 2007, the FASB issued FASB Staff Position (“FSP”) FIN No. 46R-7, Application of FASB Interpretation No. 46(R) to Investment Companies (“FSP FIN 46R-7”), which amends the scope of the exception to FIN No. 46R to state that investments accounted for at fair value in accordance with the specialized accounting guidance in the American Institute of Certified Public Accountants Audit and Accounting Guide, Investment Companies, are not subject to consolidation under FIN No. 46R. This interpretation is effective for fiscal years beginning on or after December 15, 2007. The adoption of FSP FIN No. 46R-7 did not have a material impact on the Company’s consolidated financial statements.



MERRIMAN CURHAN FORD GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies - (continued)

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (“SFAS 141R”), which requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose to investors and other users all of the information needed to evaluate and understand the nature and financial effect of the business combination. SFAS 141R applies to all transactions or other events in which the Company obtains control of one or more businesses, including those sometimes referred to as “true mergers” or “mergers of equals” and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 141R will have a material impact on its consolidated financial position or results of operations.

Also in December 2007, SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51 (“SFAS 160”), which requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. SFAS 160 applies to all fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented. The Company does not expect the adoption of SFAS 160 will have a material effect on its consolidated financial statements.

In February 2008, the FASB issued FSP FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (“FSP FAS 157-1”), which amends SFAS 157 to exclude its applicability to leases, except if the lease asset is acquired or lease liability is assumed as part of a merger or business combination. FSP FAS 157-1 was effective upon the initial adoption of SFAS No. 157. The adoption of FSP FAS 157-1 did not have a material impact on the Company’s consolidated financial statements.

In October 2008, the FASB issued FSP 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (“FSP 157-3”), which clarifies the application SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective immediately upon issuance and includes prior period financial statements that have not yet been issued, and therefore the Company is subject to the provisions of FSP-157-3 effective September 30, 2008. The implementation of FSP 157-3 did not affect the Company’s fair value measurements of financial assets as of December 31, 2008 and had no impact on its consolidated results of operations or financial condition.

3. Going Concern

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

During the year ended December 31, 2008, the Company incurred a net loss of \$30,274,000 and used \$24,945,000 in net cash from operating activities. At December 31, 2008, the Company had cash and cash equivalents of \$6,358,000, marketable securities of \$4,623,000 and receivables from clearing broker of \$1,753,000. The Company had liabilities of \$11,150,000. The Company's ability to generate profits is highly dependent on stock market trading volumes and the general economic environment. As a result, the ability of the Company to meet its forward obligations and the ability to continue as a going concern may be in question.

The Company is in the process of implementing a plan to increase its operating flexibility and extend its cash reserves. The plan primarily consists of four steps which are more fully described below:

1. Reduce operating costs
2. Shed non-essential operations
3. Negotiate a settlement of pending litigations
4. Raise additional capital

During 2008 and early 2009, the Company implemented significant expense control and cost reduction programs focused on reducing cash losses and increasing operational flexibility in which it has eliminated more than \$10 million in annual operating expenses. The primary contributor to these savings has been the elimination of more than 50% of the Company's workforce, as well as salary reductions. The CEO, the Head of Institutional Securities and the Head of Professional Services voluntarily eliminated their salaries. They will be remunerated based on month-to-month profitability. The Board of Directors has, as of early 2009, also voluntarily eliminated its compensation. The Company believes that it has been able to execute these reductions with limited impact to its ability to generate and execute new business in the current market environment. With these measures largely complete, the company believes that it has increased its ability to meet its obligations during 2009 and beyond.

As a part of the four-step plan mentioned above, in January of 2009, the Company shed non-essential operations or those requiring substantial cash infusions. First, the Company sold Panel Intelligence, LLC on January 30, 2009. This subsidiary required a cash injection of \$1,131,000 during 2008 and was projected to reach breakeven only in late 2009. Also in January 2009, the Company sold its operations known as Institutional Cash Distributors to a group of its employees. While this business was profitable, management was able to reach a deal that substantially increases the near-term flow of capital. Finally, the Company is in the process of shutting down MCF Asset Management, another subsidiary which had been costing the Company considerable capital during 2008. The result of these actions has been to reduce operating losses and increase available cash.

MERRIMAN CURHAN FORD GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Going Concern - (continued)

The Company has entered into a process of mediation to reach a settlement with a majority of the civil litigants resulting from the alleged fraud by its former customer William Del Biaggio III and its terminated employee Scott Cacchione. The Company is focused on reducing its potential liability in these legal proceedings and the resources required to fight the allegations. In addition, it is also aiming to free up valuable management resources needed to face challenging market and economic conditions. At present, there is no indication that these negotiations will be successful and whether it will serve the Company's aims and should a settlement result, it is not yet estimable.

The Company is assessing interest of potential investors in providing additional capital to the business. While the Company does not have a definitive agreement from any investor, preliminary discussions have yielded some interest subject to the completion of the three steps outlined above. There are no assurances that the Company will be successful in completing its plans outlined above and ultimately in raising additional capital.

The Company's ability to meet its going concern obligations is highly dependent on market and economic conditions. Even if it is successful in executing its four-step plan, it will not be capable of sustaining losses such as those incurred in 2008. However, it is worth noting that 2008 was an unprecedented year both in terms of stock market volatility and general economic challenges. Furthermore, the large number of civil litigations and resulting SEC investigation was a significant drain on corporate resources. The Company believes that its reduced cost structure and shedding of non core business has increased its operating runway. However, if operating conditions worsen in 2009 or if the company receives adverse judgments in its pending litigations, it may not have the resources to meet its financial obligations as a going concern.

These financial statements do not reflect adjustments in the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. These adjustments could be material.

4. Fair Value of Assets and Liabilities

Fair value is defined as the price at which an asset would sell for or an amount paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). 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. A description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value on a recurring basis follows.

Securities Owned

Corporate Equities

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

based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied and they are categorized in Level 1 of the fair value hierarchy.

#### Stock Warrants

Stock warrants represent warrants to purchase equity in a publicly traded company. Such positions are considered illiquid and do not have readily determinable fair values, and therefore require significant management judgment or estimation. For these securities, the Company uses the Black-Scholes valuation methodology or similar techniques. They are classified within Level 3 of the fair value hierarchy.

#### Underwriters' Purchase Options

Underwriters' purchase options represent the overallotment of units for a publicly traded company for which the Company acted as an underwriter. Such positions are considered illiquid and do not have readily determinable fair values, and therefore require significant management judgment or estimation. For these securities, the Company uses the Black-Scholes valuation methodology. They are classified within Level 3 of the fair value hierarchy.

## MERRIMAN CURHAN FORD GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 4. Fair Value of Assets and Liabilities - (continued)

## Preferred Stock

Preferred stock represents preferred equity in a publicly traded company. The preferred stock owned by the Company is convertible at the Company's discretion. For these securities, the Company uses the exchange-quoted price of the common stock to value the security. They are classified within Level 1 of the fair value hierarchy.

## Securities Sold, Not Yet Purchased

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

In accordance with SFAS 157, assets measured at fair value on a recurring basis are categorized in the table below based upon the lowest level of significant input to the valuations.

|                                    | Assets at Fair Value at December 31, 2008 |            |                  |                  |
|------------------------------------|---|------------|------------------|------------------|
|                                    | Level 1                                   | Level 2    | Level 3          | Total            |
| <b>Assets:</b>                     |   |            |                  |                  |
| <b>Securities owned:</b>           |   |            |                  |                  |
| Corporate equities                 | \$ 3,353,784                              | \$ 650     | \$ 695           | \$ 3,355,129     |
| Stock warrants                     | —   | —          | 1,605,451        | 1,605,451        |
| Underwriters' purchase option      | —   | —          | 27,995           | 27,995           |
| Preferred stock                    | 63  | —          | —                | 63               |
| <b>Total securities owned</b>      | <b>3,353,847</b>                          | <b>650</b> | <b>1,634,141</b> | <b>4,988,638</b> |
| <b>Liabilities:</b>                |   |            |                  |                  |
| Securities sold, not yet purchased | 903,217                                   | —          | —                | 903,217          |

The following table presents additional information about Level 3 assets measured at fair value on a recurring basis for fiscal 2008. The unrealized gains or (losses) during the period for assets and liabilities within the Level 3 category presented in the table below may include changes in fair value during the period that were attributable to both observable and unobservable inputs.

|  | Corporate<br>Equities | Stock<br>Warrants   | Underwriters'<br>Purchase Option | Total               |
|--|-----------------------|---------------------|----------------------------------|---------------------|
| Balance at December 31, 2007                 | \$ 489,453            | \$ 1,756,580        | \$ 194,957                       | \$ 2,440,990        |
| Purchases, issuances, settlements, and sales | 920,412               | 807,449             | —                                | 1,727,861           |
| Net transfers in / (out)                     | (1,299,696)           | —                   | —                                | (1,299,696)         |
| Gains / (losses)                             |                       |                     |                                  |                     |
| Realized                                     | —                     | 107,310             | —                                | 107,310             |
| Unrealized                                   | (109,474)             | (1,065,888)         | (166,962)                        | (1,342,324)         |
| <b>Balance at December 31, 2008</b>          | <b>\$ 695</b>         | <b>\$ 1,605,451</b> | <b>\$ 27,995</b>                 | <b>\$ 1,634,141</b> |

|  |             |              |              |               |
|--|-------------|--------------|--------------|---------------|
| Change in unrealized gains/ (losses) relating to instruments still held at December 31, 2008 | \$ (54,716) | \$ (891,369) | \$ (166,962) | \$(1,113,047) |
|--|-------------|--------------|--------------|---------------|

Gains/(losses) (both realized and unrealized) for Level 3 financial instruments are a component of Principal transactions revenue in the statements of income.

## MERRIMAN CURHAN FORD GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 5. Equipment and Fixtures

Equipment and fixtures consisted of the following:

|                               | December 31, |             |
|-------------------------------|--------------|-------------|
|                               | 2008         | 2007        |
| Computer equipment            | \$ 568,116   | \$ 776,578  |
| Furniture and equipment       | 1,223,050    | 1,045,220   |
| Software                      | 183,098      | 164,690     |
| Leasehold improvements        | 1,641,497    | 1,010,378   |
|                               | 3,615,761    | 2,996,866   |
| Less accumulated depreciation | (2,355,750)  | (2,000,986) |
|                               | \$ 1,260,011 | \$ 995,880  |

Equipment and fixtures purchased with capital lease financing during 2008 and 2007 were \$806,000 and \$183,000, respectively. See Note 14 for additional information on capital leases.

## 6. Notes Payable and Convertible Notes Payable

## Convertible Notes Payable Issued in 2003

In April 2003, the Company completed a private placement financing that included convertible notes payable with aggregate principal of \$1,000,000, due April 2008. The notes bear interest at 3% per annum payable quarterly on January 1, April 1, July 1 and October 1 beginning July 1, 2003. The notes could be converted to common stock at a rate of \$1.40 per share. In connection with the private placement, the Company issued warrants to purchase 178,300 shares of common stock with an exercise price of \$2.10 per share and a five-year term. The convertible notes were recorded in the statements of financial condition net of discounts resulting from the relative fair value of the stock warrants and beneficial conversion feature totaling \$258,000. The discount was being amortized over the five-year term. In October 2003, notes payable with a face amount of \$500,000 were converted under their original terms into 51,021 shares of common stock resulting in the accelerated amortization of discounts in the amount of \$118,000. In December 2004, notes payable with a face amount of \$300,000 were converted under their original terms into 30,613 shares of common stock resulting in the accelerated amortization of discounts in the amount of \$50,000. Amortization of discounts during 2007 and 2006 was approximately \$10,000 and \$10,000, respectively.

In April 2008, the remaining balance of \$200,000 was converted in the Company's common stock in the amount of 142,858 shares. There is no remaining unamortized discount or warrants exercisable as of December 31, 2008.

## Note Payable Held By Donald Sledge

During 2001, the Company renegotiated the severance terms included in its employment agreement with Donald Sledge, the former Chairman and CEO of the Company. Upon his leaving the Company in May 2001, the Company issued to Mr. Sledge a 7% convertible note, in an aggregate principal amount of \$400,000, due May 2003. Interest was payable at the maturity of the two-year term. In May 2003, the Company and Mr. Sledge agreed to convert the principal and interest due at maturity into a fully amortizing note payable over five years using an effective interest

rate of 4.0%. Mr. Sledge was a member of the Company's Board of Directors until March 2007.

In May 2008, the remaining balance of the convertible note was paid off. As of December 31, 2008, there is no balance on the note.

#### Convertible Note Payable Issued in 2006

In March 2006, the Company completed a \$7.5 million private placement of a variable rate secured convertible debenture with a detachable stock warrant. The issue was placed with Midsummer Investment, Ltd ("Midsummer"). The Company invested the proceeds in one of the proprietary funds managed by MCF Asset Management, LLC, a wholly owned subsidiary. The debenture bore interest at a variable rate based on the annual investment performance of the investment in the proprietary funds managed by MCF Asset Management, LLC. The maturity date of the note was December 31, 2010.



MERRIMAN CURHAN FORD GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Notes Payable and Convertible Notes Payable - (continued)

In December 2006, the Company repaid the \$7.5 million variable rate secured convertible note. The proceeds to repay the \$7.5 million convertible note were provided by redemption from the MCF Navigator fund. Midsummer retained the stock warrant to purchase 267,858 shares of common stock. The Company recorded a loss on the repayment of the convertible note in the amount of \$1,349,000 which consisted of \$1,154,000 for the write-off of the unamortized discount related to the stock warrant and \$195,000 for the write-off the unamortized debt issuance costs. All of the 267,858 warrants issued are still outstanding as of December 31, 2008.

Interest payable in connection with the notes described above is included with accrued liabilities balance in the statements of financial condition. As of December 31, 2008 and 2007, interest payable amounted to \$0 and \$1,500, respectively.

7. Stockholders' Equity

Reverse Stock Split

On August 4, 2006, the Company's Board of Directors approved a one-for-seven reverse stock split of the Company's common stock. The reverse stock split became effective at 11:59 pm, Eastern Time, on November 15, 2006. Pursuant to the reverse stock split, each seven shares of authorized and outstanding common stock was reclassified and combined into one share of new common stock. The reverse stock split did not change the number of authorized shares or the par value per share of common stock or preferred stock designated by the Company's Certificate of Incorporation. Currently, the Company has authorized 300,000,000 shares of common stock and 60,000,000 shares of preferred stock. All references to share and per share data for all periods presented have been retroactively adjusted to give effect to the one-for-seven reverse stock split.

## MERRIMAN CURHAN FORD GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 8. Discontinued Operations

## Panel Intelligence

On April 17, 2007, Merriman Curhan Ford Group, Inc. acquired 100 percent of the outstanding common shares of MedPanel Corp. which was subsequently renamed Panel Intelligence LLC (“Panel”) and made into a subsidiary of the Company. The results of Panel’s operations have been included in the consolidated financial statements since that date. 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.

The Company paid \$6.1 million in common stock for Panel. The value of the 1,547,743 shares of common shares issued was determined based on the average market price of the Company’s common stock over the period including three days before and after the terms of the acquisition were agreed to and announced. The selling stockholders were also entitled to additional consideration on the third anniversary from the closing which is based upon Panel Intelligence achieving specific revenue and profitability milestones.

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 FASB Statement No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” had been met. Accordingly, the carrying value of the Panel assets was adjusted to their fair value less costs to sell. As a result, an impairment loss in the amount of \$1,937,000 was recorded and is included in “Other expenses” shown in the table below. 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.

The revenue and expenses of Panel Intelligence has been reclassified and included in discontinued operations in the consolidated statements of operations. Certain assets and liabilities of Panel have been reclassified and included in assets and liabilities for sale in the consolidated statements of financial condition.

The following revenue and expenses have been reclassified as discontinued operations for the years ended December 31, 2008 and 2007:

|  | 2008         | 2007         |
|--|--------------|--------------|
| Revenue                                      | \$ 6,304,420 | \$ 3,907,727 |
| Operating expenses:                          |              |              |
| Compensation and benefits                    | 3,533,175    | 2,432,438    |
| Cost of primary research services            | 2,295,510    | 1,595,502    |
| Professional services                        | 188,157      | 37,978       |
| Occupancy and equipment                      | 354,388      | 223,716      |
| Communications and technology                | 132,384      | 78,342       |
| Depreciation and amortization                | 588,858      | 808,873      |
| Travel and entertainment                     | 140,399      | 107,275      |
| Impairment of goodwill and intangible assets | 4,538,945    | –            |
| Other expenses                               | 323,458      | 208,635      |

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|                       |                |                |
|-----------------------|----------------|----------------|
|                       | 12,095,274     | 5,492,759      |
| Operating loss        | (5,790,854)    | (1,585,032)    |
| Interest expense, net | (10,222)       | (2,756)        |
| Net loss              | \$ (5,801,076) | \$ (1,587,788) |

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## MERRIMAN CURHAN FORD GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 8. Discontinued Operations - (continued)

The assets and liabilities of operations held for sale as of December 31, 2008 and 2007 are as follows :

|  | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2008                | 2007                |
| <b>Assets:</b>                                     |                     |                     |
| Cash and cash equivalents                          | \$ 222,892          | \$ 308,544          |
| Accounts receivable                                | 1,102,681           | 1,067,770           |
| Furniture and equipment                            | 163,505             | 249,811             |
| Intangible assets, net of accumulated amortization | 282,744             | 1,949,815           |
| Prepaid expenses and other assets                  | 186,216             | 3,195,431           |
|  | <b>\$ 1,958,038</b> | <b>\$ 6,771,371</b> |
| <b>Liabilities:</b>                                |                     |                     |
| Accounts payable                                   | 227,213             | 378,872             |
| Commissions and bonus payable                      | 110,632             | 170,728             |
| Accrued liabilities                                | 603,780             | 690,098             |
| Capital leases                                     | 111,274             | 168,892             |
|  | <b>\$ 1,052,899</b> | <b>\$ 1,408,590</b> |

## Goodwill

The Company recorded \$3,130,000 of goodwill on the consolidated statements of financial condition that related to the Company's acquisition of Panel in April 2007. In March 2008, shares were released from escrow pursuant to the acquisition agreement and the value of the goodwill increased to \$3,338,000. In conjunction with the annual impairment testing in April 2008, the Company recorded a total impairment of \$2,209,000. In December 2008, goodwill was further impaired by \$1,129,000 which reduced the goodwill to zero. No goodwill impairment charge was recognized in 2007.

## Intangible Assets

The components of intangible assets, all of which are related to the Panel acquisition, consist of the following

|                                       | As of December 31, |            |
|---------------------------------------|--------------------|------------|
|                                       | 2008               | 2007       |
| <b>Depreciable intangible assets:</b> |                    |            |
| Customer relationships                | \$ 990,000         | \$ 990,000 |
| Database of panelists                 | 220,000            | 220,000    |
| Technology platform                   | 360,000            | 360,000    |
| Customer backlog                      | 420,000            | 420,000    |
|                                       | 1,990,000          | 1,990,000  |
| Less: accumulated amortization        | (1,216,327)        | (750,185)  |
| Less: impairment                      | (490,929)          | -          |
|                                       | 282,744            | 1,239,815  |
| Non-depreciable intangible asset      |                    |            |

|   |            |              |
|---|------------|--------------|
| Tradenames  | 710,000    | 710,000      |
| Less: impairment                                      | (710,000)  |              |
| Total intangible assets, net of amort. and impairment | \$ 282,744 | \$ 1,949,815 |

Total amortization expense for the above intangibles in 2008, 2007 and 2006 were \$466,000, \$750,000, and \$0, respectively. Total impairment loss related to intangible assets in 2008 amounted to \$1,201,000. No impairment loss was recorded in 2007. Annual amortization expense for 2008 for customer relationships, database of panelists, technology platform and customer backlog were \$212,000, \$110,000, \$144,000 and \$0, respectively. The remaining lives of the intangible assets are 36, 4, and 10 months for customer relationships, database of panelists and technology platform, respectively. Customer backlog has been fully amortized as of December 31, 2008.

#### Catalyst

In February 2005, the Company acquired Catalyst Financial Planning & Investment Management, Inc., or Catalyst, a registered investment advisor. The Company paid to the founder of Catalyst, or Catalyst Shareholder, \$330,000 as initial consideration at the closing and placed into escrow 79,314 shares of common stock to be issued over the three year period following the closing date. The issuance of these shares was conditioned upon the Catalyst Shareholder being a full-time employee at the anniversary dates. The Catalyst Shareholder was entitled to additional consideration that would be payable in either cash or common stock at the Catalyst Shareholder's option. The additional consideration would be based on a multiple of revenue growth at the end of the first three anniversary dates from the closing.

## MERRIMAN CURHAN FORD GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 8. Discontinued Operations - (continued)

With the adoption of SFAS 123(R) in January 2006, the Company treated the 79,314 common shares as a non-vested stock grant that vests over three years, subject to performance conditions. The Company initially determined that the issuance of the common stock over the service period was probable and recorded an expense of \$23,000 per month over the three year service period. At the first anniversary date in February 2006, the Company issued 26,438 shares of common stock from escrow and paid \$59,000 to the Catalyst Shareholder for additional consideration that resulted from growth in the Catalyst revenue. The additional consideration was recorded as an increase in the intangible assets acquired.

In December 2006, the Company decided to sell Catalyst to an entity controlled by the Catalyst Shareholder. In January 2007, the Company sold Catalyst to the Mallory Acquisition Corp. for \$282,000 and 79,314 shares of MCF Corporation common stock. An impairment loss was recognized in 2006 in the amount of \$92,000, which is presented as "Other expenses" in the table below to reduce the carrying value of this business to its estimated fair value less costs to sell. During 2006, the Company recorded approximately \$47,000 as stock-based compensation expense resulting from the 26,438 shares issued from escrow in February 2006.

As of December 31, 2006, Catalyst is being accounted for as held for sale in accordance with SFAS 144. As a result, the revenue and expenses of Catalyst and MCF Wealth Management, LLC for 2006 have been reclassified and included in discontinued operations in the consolidated statements of operations.

The following revenue and expenses have been reclassified as discontinued operations for the years ended December 31, 2006:

|                               | 2006         |
|-------------------------------|--------------|
| Revenue                       | \$ 865,808   |
| Operating expenses:           |              |
| Compensation and benefits     | 736,536      |
| Professional services         | 34,834       |
| Occupancy and equipment       | 121,794      |
| Communications and technology | 15,410       |
| Depreciation and amortization | 56,137       |
| Travel and entertainment      | 72,260       |
| Other expenses                | 156,563      |
|                               | 1,193,534    |
| Operating loss                | (327,726)    |
| Interest income, net          | 3,513        |
| Net loss                      | \$ (324,213) |

## MERRIMAN CURHAN FORD GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 9. Share-Based Compensation Expense

## Stock Options

The 1999 Stock Option Plan, 2000 Stock Option and Incentive Plan, 2001 Stock Option and Incentive Plan, 2003 Stock Option and Incentive Plan, 2004 Non-Qualified Stock Option and Inducement Plan and 2006 Directors' Stock Option and Incentive Plan, collectively the Option Plans, permit the Company to grant employees, outside directors, and consultants incentive stock options, nonqualified stock options or stock purchase rights to purchase shares of the Company's common stock. The Option Plans do not permit the exercise of non-vested stock options, and therefore as of December 31, 2008 and 2007 there were no shares subject to repurchase.

As of December 31, 2008, there were 7,091,430 shares authorized for issuance under the Option Plans, and 612,858 shares authorized for issuance outside of the Option Plans. As of December 31, 2008, 4,576,509 shares were available for future option grants under the Option Plans. There were no shares available for future option grants outside of the Options Plans. Compensation expense for stock options during the three years ended December 31, 2008 was \$2,139,000, \$1,373,000, and \$1,336,000, respectively.

The following table is a summary of the Company's stock option activity for the three years ended December 31, 2008:

|                                  | 2008        |                              | 2007      |                              | 2006      |                              |
|----------------------------------|-------------|------------------------------|-----------|------------------------------|-----------|------------------------------|
|                                  | Shares      | Wtd-Avg<br>Exercise<br>Price | Shares    | Wtd-Avg<br>Exercise<br>Price | Shares    | Wtd-Avg<br>Exercise<br>Price |
| Outstanding at beginning of year | 4,066,259   | \$ 6.00                      | 3,570,370 | \$ 6.19                      | 3,324,358 | \$ 6.24                      |
| Granted                          | 717,780     | 3.41                         | 736,640   | 4.82                         | 398,538   | 6.27                         |
| Exercised                        | (64,628)    | (2.36)                       | (83,939)  | (2.06)                       | (52,819)  | (2.08)                       |
| Canceled                         | (3,552,294) | (5.59)                       | (156,812) | (6.76)                       | (99,707)  | (10.38)                      |
| Outstanding at end of year       | 1,167,117   | \$ 5.85                      | 4,066,259 | \$ 6.00                      | 3,570,370 | \$ 6.19                      |
| Exercisable at end of year       | 646,907     | \$ 7.39                      | 3,084,852 | \$ 6.16                      | 2,934,029 | \$ 6.00                      |

The total intrinsic value of options exercised during the year ended December 31, 2008 was \$136,000.

The following table summarizes information with respect to stock options outstanding at December 31, 2008, based on the Company's closing stock price on December 31, 2008 of \$0.60 per share:

| Range of<br>Exercise<br>Price | Options Outstanding at December 31, 2008 |  |  |                                 | Vested Options at December 31, 2008 |  |                                 |
|-------------------------------|--|--|--|---------------------------------|-------------------------------------|--|---------------------------------|
|                               | Number                                   | Weighted<br>Average<br>Remaining<br>Contractual<br>Life Years) | Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value | Number                              | Weighted<br>Average<br>Exercise<br>Price | Aggregate<br>Intrinsic<br>Value |
| \$ 0 - \$ 3.50                | 330,592                                  | 5.35   | \$ 2.47                                  | \$ —                            | 231,847                             | \$ 2.69                                  | \$ —                            |

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|                    |           |      |          |      |         |         |      |
|--------------------|-----------|------|----------|------|---------|---------|------|
| \$ 3.51 - \$ 7.00  | 549,256   | 8.13 | \$ 4.38  | —    | 150,349 | 4.86    | —    |
| \$ 7.01 - \$14.00  | 261,121   | 3.36 | \$ 9.05  | —    | 238,563 | 9.16    | —    |
| \$ 14.01 - \$28.00 | 1,147     | 2.00 | \$ 15.34 | —    | 1,147   | 15.34   | —    |
| \$ 28.01 - \$49.00 | 25,001    | 1.15 | \$ 49.00 | —    | 25,001  | 49.00   | —    |
|                    | 1,167,117 | 6.12 | \$ 5.85  | \$ — | 646,907 | \$ 7.39 | \$ — |

As of December 31, 2008, total unrecognized compensation expense related to unvested stock options was \$919,000. This amount is expected to be recognized as expense over a weighted-average period of 2.7 years.

Non-Vested Stock

At the date of grant, the recipients of non-vested stock have most of the rights of a stockholder other than voting rights, subject to certain restrictions on transferability and a risk of forfeiture. Non-vested shares typically vest over a two to four year period beginning on the date of grant. The fair value of non-vested stock is equal to the market value of the shares on the date of grant. The Company recognizes the compensation expense for non-vested stock on a straight-line basis over the requisite service period. Compensation expense for non-vested stock during the three years ended December 31, 2008 was \$215,000, \$1,262,000, and \$1,915,000, respectively.



## MERRIMAN CURHAN FORD GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 9. Share-Based Compensation Expense - (continued)

The following table is a summary of the Company's non-vested stock activity, based on the Company's closing stock price on December 31, 2008 of \$0.60 per share:

|                                 | Non-Vested<br>Stock<br>Outstanding | Weighted<br>Average<br>Grant Date<br>Fair Value | Aggregate<br>Intrinsic<br>Value |
|---------------------------------|------------------------------------|---|---------------------------------|
| Balance as of December 31, 2005 | 581,412                            | \$ 7.84   | \$ 4,558,000                    |
| Granted                         | 90,003                             | 7.16  |                                 |
| Vested                          | (327,900)                          | (4.19)  |                                 |
| Canceled                        | (37,506)                           | (10.78)   |                                 |
| Balance as of December 31, 2006 | 306,009                            | \$ 10.04  | \$ 3,072,000                    |
| Granted                         | 153,828                            | 4.48  |                                 |
| Vested                          | (257,515)                          | (7.18)  |                                 |
| Canceled                        | (21,702)                           | (9.49)  |                                 |
| Balance as of December 31, 2007 | 180,620                            | \$ 7.51   | \$ 1,356,000                    |
| Granted                         | 79,265                             | 2.34  |                                 |
| Vested                          | (145,610)                          | (5.05)  |                                 |
| Canceled                        | (65,496)                           | (5.00)  |                                 |
| Balance as of December 31, 2008 | 48,779                             | \$ 9.84   | \$ 479,985                      |

The total intrinsic value of non-vested stock which vested during the year ended December 31, 2008 was \$735,000.

As of December 31, 2008, total unrecognized compensation expense related to non-vested stock was \$164,000. This expense is expected to be recognized over a weighted-average period of 0.90 year.

## Employee Stock Purchase Plan

The Company issued all shares previously available under the Employee Stock Purchase Plan, or ESPP, to its employees through August 15, 2007. As of December 31, 2008, there are no shares available under the ESPP and the Company has no plan to request additional shares from the stockholders for this program. Compensation expense for ESPP during the years ended December 31, 2008, 2007 and 2006 was \$0, \$189,000, and \$539,000, respectively. As of December 31, 2008, there was no unrecognized compensation expense related to the ESPP.

## Employee Stock Option Give-Back Program

In October 2008, the Company implemented a Stock Option Give-Back Program which allowed all employees to give back stock options he or she was granted, whether vested or unvested. Employees were notified that there would be no quid-pro-quo and that any employee who elected to give back any shares of stock options would not receive a grant for the period of six months and one day following the end of the program on October 31, 2008.

Sixteen employees elected to participate in the program collectively giving back 3,012,000 shares of stock options granted under the Company's various plans. The Company recorded a compensation expense of \$993,000 related to

the give-back program.

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## MERRIMAN CURHAN FORD GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 9. Share-Based Compensation Expense - (continued)

## Fair Value and Assumptions Used to Calculate Fair Value under SFAS 123(R)

The weighted average fair value of each stock option granted for 2008, 2007, and 2006 was \$2.16, \$2.54, and \$3.59, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for 2008, 2007, and 2006:

|                               | 2008  | 2007  | 2006  |
|-------------------------------|-------|-------|-------|
| Volatility                    | 70%   | 63%   | 81%   |
| Average expected term (years) | 6.3   | 4.2   | 4.4   |
| Risk-free interest rate       | 3.10% | 4.55% | 4.75% |
| Dividend yield                | —     | —     | —     |

MERRIMAN CURHAN FORD GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Share-Based Compensation Expense - (continued)

Assumptions for Option-Based Awards under SFAS 123(R)

Consistent with SFAS 123(R) and SAB 107, the Company considered the historical volatility of its stock price in determining its expected volatility, and, finding this to be reliable, determined that the historical volatility would result in the best estimate of expected volatility. Because the Company does not have any traded options or other traded financial instruments such as convertible debt, implied volatilities are not available.

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

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

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

As share-based compensation expense recognized in the consolidated statement of operations for the years ended December 31, 2008, 2007, and 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures were estimated based on the Company's historical experience.

Assumptions for Non-Vested Stock Awards under SFAS 123(R)

The fair value of each non-vested stock award is estimated on the date of grant using the intrinsic value method. The weighted average fair value of the non-vested stock granted under the Company's stock option plans for 2008, 2007, and 2006 was \$2.34, \$4.48, and \$7.16 per share, respectively.

Assumptions for Employee Stock Purchase Plan Awards under SFAS 123(R)

The fair value is determined as of the grant date, using the graded vesting approach. Under the graded vesting approach, the 24-month ESPP offer period, which consists of four, six-month purchase periods, is treated for valuation purposes as four separate option tranches with individual lives of six, 12, 18 and 24 months, each commencing on the initial grant date. Each tranche is expensed straight-line over its individual life.

10. Employee Benefit Plans

The Company has a 401(k) defined contribution plan. The 401(k) plan allows eligible employees to contribute up to 15% of their compensation, subject to a statutory prescribed annual limit. Employee contributions and earnings thereon vest immediately. Although the Company may make discretionary contributions to the 401(k) plan, none were made during the three years ended December 31, 2008.



## MERRIMAN CURHAN FORD GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 11. Income Taxes

Income tax (benefit) expense consisted of the following for the three years ended December 31, 2008:

|                 | 2008           | 2007         | 2006 |
|-----------------|----------------|--------------|------|
| <b>Current:</b> |                |              |      |
| Federal         | \$ (1,627,734) | \$ 1,857,783 | \$ — |
| State           | (7,480)        | 604,832      | —    |
| Total           | \$ (1,635,214) | \$ 2,462,165 | \$ — |

The following table reconciles the federal statutory rate to the effective tax rate of the provision for income taxes for the three years ended December 31, 2008:

|   | 2008  | 2007  | 2006  |
|---|-------|-------|-------|
| Federal statutory income tax rate (benefit)     | (34)% | 34%   | (34)% |
| State income taxes                              | (7)   | 8     | (5)   |
| Loss on retirement of convertible note payable  | —     | —     | 5     |
| Permanent differences                           | 3     | 9     | 13    |
| Losses for which no benefit has been recognized | —     | —     | 21    |
| Valuation allowance                             | 33%   | (30)% | —     |
| Effective tax rate                              | (5)%  | 21%   | —%    |

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

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets as of December 31, 2008 and 2007 are presented as follows:

|   | December 31,  |               |
|---|---------------|---------------|
|   | 2008          | 2007          |
| <b>Deferred tax assets:</b>             |               |               |
| Net operating loss carryforwards        | \$ 23,149,680 | \$ 16,016,822 |
| Stock options and warrants for services | —             | 12,411,225    |
| Other                                   | 3,148,077     | (154,566)     |
| Total deferred tax assets               | 26,297,757    | 28,273,481    |
| Valuation allowance                     | (26,297,757)  | (28,273,481)  |
| Net deferred tax assets                 | \$ —          | \$ —          |

The net change in the valuation allowance for the year ended December 31, 2008 was a decrease of \$1,976,000. This reduction was primary the result of cancellation of the Company's employee stock options during 2008 and of unrealized losses and gains of securities in the Company's proprietary trading account, both included in Other listed above. The Company has established a valuation allowance against that portion of deferred tax assets where management was not able to determine that it is more likely than not that the asset will be realized.

As of December 31, 2008, the Company had federal and state operating loss carryforwards of approximately \$61,171,000 and \$41,376,000, respectively. If not earlier utilized, the federal net operating loss carryforward will expire between 2021 and 2028 and the state loss carryforward will expire between 2009 and 2018. Utilization of the net operating loss carry-forwards and credits is subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation will result in the expiration of a portion of net operating loss carryforwards before utilization.

## MERRIMAN CURHAN FORD GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 11. Income Taxes - (continued)

The Company adopted the provisions of FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"), on January 1, 2008. Prior to adoption, the Company's policy was to establish reserves that reflected the probable outcome of known tax contingencies. The effects of final resolution, if any, were recognized as changes to the effective income tax rate in the period of resolution. FIN 48 requires application of a more likely than not threshold to the recognition and derecognition of uncertain tax positions. FIN 48 permits the Company to recognize the amount of tax benefit that has a greater than 50 percent likelihood of being ultimately realized upon settlement. It further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions be recognized in earnings in the quarter of such change.

The following is a rollforward of our total gross unrecognized tax benefit liabilities for the year ended December 31, 2008:

|  |              |
|--|--------------|
| Balance as of December 31, 2007        | \$ 1,838,743 |
| Tax positions related to current year: |              |
| Additions                              | -            |
| Reductions                             | (1,838,743)  |
| Tax positions related to prior year:   |              |
| Additions                              | -            |
| Reductions                             | -            |
| Settlements                            | -            |
| Lapses in statutes of limitations      | -            |
| Balance as of December 31, 2008        | \$ -         |

The reduction in the unrecognized benefit in the current year is due to a favorable IRS ruling regarding timing of recognition of principal transaction revenue in 2008.

The Company's tax years 2001-2008 will remain open for three years for examination by the Internal Revenue Service from the date the federal corporation tax returns were filed. The Company's tax years 2000-2008 will remain open for all tax years with loss carryovers for examination by state tax authorities. Net operating losses deducted are subject to review and adjustment for three to four years after the net operating losses are deducted on the U.S. and state returns filed.

## 12. (Loss) Earnings per Share

The following is a reconciliation of the basic and diluted net (loss) income available to common stockholders and the number of shares used in the basic and diluted net (loss) income per common share computations for the periods presented:

|  | 2008            | 2007         | 2006           |
|--|-----------------|--------------|----------------|
| Net (loss) income available to common stockholders — basic   | \$ (30,273,805) | \$ 9,323,035 | \$ (8,220,415) |
| Interest on convertible note payable                         | —               | 16,336       | —              |
| Net (loss) income available to common stockholders — diluted | (30,273,805)    | 9,339,371    | (8,220,415)    |



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|  |            |            |           |
|--|------------|------------|-----------|
| Weighted-average number of common shares — basic                                     | 12,550,872 | 11,528,187 | 9,989,265 |
| Assumed exercise or conversion of all potentially dilutive common shares outstanding | —          | 1,115,337  | —         |
| Weighted-average number of common shares — diluted                                   | 12,550,872 | 12,643,524 | 9,989,265 |
| Basic net (loss) income per share:   |            |            |           |
| (Loss) income from continuing operations   | \$ (1.95)  | \$ 0.95    | \$ (0.79) |
| Loss from discontinued operations  | (0.46)     | (0.14)     | (0.03)    |
| Net (loss) income  | \$ (2.41)  | \$ 0.81    | \$ (0.82) |
| Diluted net (loss) income per share:   |            |            |           |
| (Loss) income from continuing operations   | \$ (1.95)  | \$ 0.86    | \$ (0.79) |
| Loss from discontinued operations  | (0.46)     | (0.12)     | (0.03)    |
| Net (loss) income  | \$ (2.41)  | \$ 0.74    | \$ (0.82) |

Basic (loss) earnings per share is computed by dividing net (loss) income by the weighted average number of common shares outstanding, excluding unvested restricted stock. Diluted earnings per share is calculated for 2007 by dividing net income by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares outstanding, including unvested restricted stock. Diluted loss per share is unchanged from basic loss per share for 2008 and 2006 because the addition of common shares that would be issued assuming exercise or conversion would be anti-dilutive.

Shares used in the diluted net income (loss) per share computation in the above table include the dilutive impact of the Company's stock options and warrants. The impact of the Company's stock options and warrants on shares used for the diluted earnings per share computation is calculated based on the average share price of the Company's common stock for each period using the treasury stock method. Under the treasury stock method, the tax-effected proceeds that would be hypothetically received from the exercise of all stock options and warrants with exercise prices below the average share price of the Company's common stock are assumed to be used to repurchase shares of the Company's common stock. The dilutive impact of the Company's stock options was calculated using an average price of the Company's common stock of \$2.35, \$4.56, and \$6.41 per share for 2008, 2007, and 2006, respectively.

## MERRIMAN CURHAN FORD GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 12. (Loss) Earnings per Share - (continued)

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

|   | 2008      | 2007      | 2006      |
|---|-----------|-----------|-----------|
| Stock options and warrants excluded due to the exercise price exceeding the average fair value of the Company's common stock during the period  | 1,354,525 | 1,799,523 | 1,397,022 |
| Weighted average restricted stock, stock options and stock warrants, calculated using the treasury stock method, that were excluded due to the Company reporting a net loss during the period | 170,665   | —         | 1,833,389 |
| Weighted average shares issuable upon conversion of the convertible notes payable   | 46,576    | —         | 704,960   |
| Weighted average shares contingently issuable   | —         | —         | 73,402    |
| Total common stock equivalents excluded from diluted net income (loss) per share  | 1,571,766 | 1,799,523 | 4,008,773 |

## 13. Business Segments

The Company's business results are categorized into the following two segments: investment bank / broker-dealer and asset management. The investment bank / broker-dealer segment includes a broad range of services, such as capital raising and financial advisory services for corporate clients, and brokerage and equity research services for our institutional investor clients. Our asset management segment manages investment products for investors. We sold our wealth management subsidiary in January 2007 and our primary research subsidiary in January 2009. The results from these segments have been treated as discontinued operations.

The accounting policies of the segments are consistent with those described in the Significant Accounting Policies in Note 2.

Revenue generating activities between segments are eliminated from the segments results for reporting purposes. These activities include fees paid by the Asset Management segment to the Primary Research segment for the management of its investment portfolio.

The Company's segment information for the three years ended December 31, 2008 is prepared using the following methodology:

- Revenue and expenses directly associated with each segment are included in determining income.
- Each segment's operating expenses include compensation and benefits expenses and other operating expenses that are incurred directly in support of the segments. These other operating expenses, include brokerage and clearing fees, cost of primary research services, professional services, occupancy and equipment, communications and technology, depreciation and amortization, amortization of intangible assets, travel and business development and other operating expenses.

- Corporate operating expenses include compensation and benefits for corporate support employees as well as operating expenses that are not incurred directly in support of our three segments.

The Company evaluates segment results based on revenue and segment income.

## MERRIMAN CURHAN FORD GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 13. Business Segments - (continued)

Management believes that the following information provides a reasonable representation of each segment's contribution to revenue, income and assets:

|                     |                                 | 2008            | 2007           | 2006           |
|---------------------|---------------------------------|-----------------|----------------|----------------|
| Broker-Dealer       | Revenue                         | \$ 37,543,942   | \$ 83,089,245  | \$ 51,436,697  |
|                     | Operating expenses              | 43,854,921      | 60,251,106     | 49,720,757     |
|                     | Segment operating (loss) income | \$ (6,310,979)  | \$ 22,838,139  | \$ 1,715,940   |
|                     | Segment assets                  | \$ 15,411,348   | \$ 53,653,805  | \$ 27,501,531  |
| Asset Management    | Revenue                         | \$ (976,106)    | \$ 659,020     | \$ 381,941     |
|                     | Operating expenses              | 2,026,689       | 1,127,413      | 761,805        |
|                     | Segment operating loss          | \$ (3,002,794)  | \$ (468,393)   | \$ (379,864)   |
|                     | Segment assets                  | \$ 577,867      | \$ 3,363,019   | \$ 1,231,842   |
| Corporate Support   | Operating loss                  | \$ (17,097,814) | \$ (9,323,381) | \$ 7,833,368   |
|                     | Segment assets                  | \$ 2,876,375    | \$ 7,556,507   | \$ 1,764,840   |
| Consolidated Entity | Revenue                         | \$ 36,567,836   | \$ 83,748,265  | \$ 51,818,638  |
|                     | Operating expenses              | 62,979,424      | 70,701,900     | 58,315,930     |
|                     | Operating (loss) income         | \$ (26,411,588) | \$ 13,046,365  | \$ (6,497,292) |
|                     | Total assets                    | \$ 18,865,590   | \$ 64,573,331  | \$ 30,498,213  |

## 14. Commitments and Contingencies

The following is a table summarizing significant commitments as of December 31, 2008, consisting of future minimum lease payments under all non-cancelable operating leases and capital leases with initial or remaining terms in excess of one year.

|                   | Operating<br>Leases | Capital<br>Leases |
|-------------------|---------------------|-------------------|
| 2009              | \$ 1,772,554        | \$ 634,968        |
| 2010              | 1,720,897           | 319,733           |
| 2011              | 1,658,148           | 146,647           |
| 2012              | 1,095,440           | —                 |
| 2013              | 616,000             | —                 |
| Thereafter        | —                   | —                 |
| Total commitments | 6,863,039           | 1,101,348         |
| Interest          | —                   | (66,441)          |
| Net commitments   | \$ 6,863,039        | \$ 1,034,907      |

The Company leases its San Francisco corporate office under a noncancelable operating lease which expires in August 2011. Future annual minimum lease payments related to its various operating leases are included in the table above. Rent expense was approximately \$1,587,000, \$973,000 and \$1,043,000 in 2008, 2007 and 2006, respectively.

In connection with its underwriting activities, the Company enters into firm commitments for the purchase of securities in return for a fee. These commitments require it to purchase securities at a specified price. Securities underwriting exposes the Company to market and credit risk, primarily in the event that, for any reason, securities purchased by the Company cannot be distributed at anticipated price levels. As December 31, 2008 and 2007, the Company had no open underwriting commitments.

The marketable securities owned and the restricted cash as well as the cash held by the clearing broker may be used to maintain margin requirements. At December 31, 2008 and 2007, the Company had \$250,000 of cash on deposit with its clearing broker. Furthermore, the marketable securities owned may be hypothecated or borrowed by the clearing broker.

MERRIMAN CURHAN FORD GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Commitments and Contingencies - (continued)

Legal Proceedings

The Company responded to a Grand Jury subpoena from the U.S. Attorney's Office for the Northern District of California for documents relating to the activities of a former retail broker of the Company, David Scott Cacchione, and one of his customers, William Del Biaggio III. Cacchione's activities under investigation relate primarily to the apparent misuse of various client accounts as collateral for loans to Del Biaggio. Cacchione purportedly signed "account control agreements" in which he purported to act on behalf of the Company to authorize the use of various client accounts as security for loans to the customer from various third-party lenders.

Cacchione appears to have improperly provided client account statements to third-party lenders or to Del Biaggio for the purpose of representing to the lenders that the accounts belonged to Del Biaggio. The retail client account statements were altered so that the accounts appear to belong to Del Biaggio when in fact some of the accounts belonged to other Merriman Curhan Ford & Co. retail clients. Del Biaggio is no longer a customer of the Company and recently pleaded guilty to securities fraud in the United States District Court, Northern District of California.

Cacchione has been terminated. The Company's internal investigation thus far has found no evidence that any of Cacchione's supervisors or any member of management was aware of these activities until they were uncovered. The Company cooperated fully with the Grand Jury inquiry and produced the documents called for by the subpoena.

The Company was also subject to a formal investigation commenced by the Securities and Exchange Commission ("SEC"). The SEC investigation appeared to relate in part to the subject matter of the Grand Jury inquiry, i.e., Cacchione's misuse of client accounts as collateral for loans to the customer. It also appeared to relate to other possible violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder by Cacchione in the handling of his client accounts. The SEC investigation further appeared to relate to the Company's trading activities in various stocks in possible violation of Rule 10b-5 as well as to a failure to adequately supervise its personnel with a view toward preventing violations of the federal securities laws. The Company cooperated fully with the SEC in its investigation. The SEC has given no indication it has concluded its investigation.

The investigation relating to client accounts appears to involve only Cacchione's retail accounts. The Company's high-net-worth client retail brokerage business accounted for less than 2 % of the Company's revenue in 2008. The Company is phasing out this business and will concentrate on strengthening its core institutional brokerage and investment banking businesses. The Company also is re-examining its compliance policies and procedures as well as the alignment of the supervisory and compliance related functions of various members of management.

Several lawsuits have been filed against Merriman Curhan Ford & Co. in connection with the alleged actions of Del Biaggio, and Cacchione. The total amount of damages sought under such lawsuits is over \$43 million. The Company anticipates at least two additional lawsuits will be filed against Merriman Curhan Ford & Co. by a lender to the Customer on similar facts to the lawsuits described below, with claims believed to be approximately \$12 million. The Company denies any involvement and will defend itself and attempt to ensure that the most favorable outcome of these lawsuits for itself and its shareholders.

Due to the early stages of these legal matters, the Company cannot estimate the amount of damages if they are resolved unfavorably and accordingly, it has not provided an accrual for these lawsuits. If Merriman Curhan Ford &

Co. were to be found liable in all of these lawsuits and the plaintiffs were to be awarded the damages they seek, it may have a severe impact on the Company's financial condition. Even if the Company ultimately prevails in all of these lawsuits, it may incur significant legal fees which may have a severe impact on the Company's financial condition.

The Company entered into a process of mediation to reach a settlement with a majority of the civil litigants resulting from the alleged fraud by its former customer William Del Biaggio III and its former employee Scott Cacchione. The Company is focused on reducing its potential liability in these legal proceedings and the resources required to fight the allegations. In addition, it is also aiming to free up valuable management resources needed to face challenging market and economic conditions. At present, there is no indication that these negotiations will be successful and whether it will serve the Company's aims and should a settlement result, it is not yet estimable.

In addition, the company received demand letters after December 31, 2008 from individuals claiming to have suffered damages as a result of Cacchione's actions. The Company believes it has meritorious defenses to all the demands received to date and intends to contest them vigorously. This case is in its early stage. The Company believes it is unlikely to result in an adverse outcome. Should it result in an adverse outcome, it does not believe that the outcome will have a material effect on its financial position, financial results or cash flows.

MERRIMAN CURHAN FORD GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Commitments and Contingencies - (continued)

Thomas O'Shea v. Merriman Curhan Ford & Co.

Unrelated to the Del Biaggio/Cacchione matters, in June 2006, our broker-dealer subsidiary Merriman Curhan Ford & Co. was served with a claim in NASD Arbitration by Thomas O'Shea. Mr. O'Shea is a former at-will employee of Merriman Curhan Ford & Co. and worked in the investment banking department. Mr. O'Shea resigned from Merriman Curhan Ford & Co. in July 2005. Mr. O'Shea alleges breach of an implied employment contract, quantum meruit, and unjust enrichment based on his allegations that he was to be paid more for his work. The matter proceeded to an arbitration hearing in October 2008 and an award was made in favor of O'Shea, \$880,000. As of December 31, 2008, the Company reserved for the amount of the settlement.

Peter Marcil v. Merriman Curhan Ford & Co.

Unrelated to the Del Biaggio/Cacchione matters, in January 2009, our broker-dealer subsidiary Merriman Curhan Ford & Co. was served with a claim in FINRA Arbitration by Peter Marcil. Mr. Marcil is a former at-will employee of Merriman Curhan Ford & Co. and worked in the investment banking department. Mr. Marcil resigned from Merriman Curhan Ford & Co. in March of 2007. Mr. O'Shea alleges breach of an implied employment contract, wrongful termination, and intentional infliction of emotional distress. Damages are not specified in the arbitration claim. Merriman Curhan Ford & Co. has not replied to the claim and an arbitration hearing date has not been set. We believe that we have meritorious defenses and intend to contest this claim vigorously. However, in the event that we do not prevail, based upon the facts as we know them to date, we do not believe that the outcome will have a material effect on our financial position, financial results or cash flows.

The Company believes that these cases are either unlikely to result in adverse rulings or are in early stages and the amount of a likely adverse ruling cannot be estimated at present.

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

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

Financial Instruments

The Company's broker-dealer entity trades securities that are primarily traded in United States markets. As of December 31, 2008 and 2007, the Company had not entered into any transactions involving financial instruments, such as financial futures, forward contracts, options, swaps or derivatives that would expose the Company to significant related off-balance-sheet risk.

In addition, the Company, from time to time, has sold securities it does not currently own in anticipation of a decline in the fair value of that security (securities sold, not yet purchased). Securities sold, not yet purchased represent obligations of the Company to deliver the specified security at the contracted price and thereby create a liability to purchase the security in the market at prevailing prices. These transactions result in off-balance sheet risk as the Company's ultimate obligation to purchase such securities may exceed the amount recognized in the consolidated statements of financial condition.



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

MERRIMAN CURHAN FORD GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Financial Instruments, Off-Balance Sheet Arrangements and Credit Risk - (continued)

Off-Balance Sheet Arrangements

The Company was not a party to any off-balance sheet arrangements during the three years ended December 31, 2008. In particular, the Company does not have any interest in so-called limited purpose entities, which include special purpose entities and structured finance entities.

Credit Risk

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

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

16. Reductions in Force

The Company performed two reductions in force (RIFs) in 2008 – one on August 6, 2008 and one on October 15, 2008. The August RIF affected 25 employees and the October RIF affected 16 employees. The one-time termination benefits expensed by the Company for the RIFs were \$216,000 and \$170,000 for August and October, respectively, which have been reported under compensation and benefits in the consolidated statements of operations. In addition, the October RIF had associated contract termination costs related to the lease of office space. That cost was an additional \$56,000 in expense which has been reported under occupancy and equipment in the consolidated statements of operations. There were no assets disposed or any other expenses incurred. These expenses were recorded in the third and fourth quarters of 2008.

17. Regulatory Requirements

Merriman Curhan Ford & Co. is a broker-dealer subject to Rule 15c3-1 of the Securities and Exchange Commission, which specifies uniform minimum net capital requirements, as defined, for their registrants. As of December 31, 2008, Merriman Curhan Ford & Co. had regulatory net capital, as defined, of \$2,899,000, which exceeded the amount required by \$1,899,000. Merriman Curhan Ford & Co. is exempt from Rules 15c3-3 and 17a-13 under the Securities Exchange Act of 1934 because it does not carry customer accounts, nor does it hold customer securities or cash.

18. Related Party Transactions

As described in Note 6, the Company issued a \$400,000 convertible note payable during 2001 to the former Chairman and CEO of the Company in connection with severance terms included in his employment agreement. In May 2003, the Company and Mr. Sledge agreed to convert the principal and interest due at maturity into a five year fully amortizing note payable. As of April 30, 2008, the remaining principal amount of the note payable was converted to common shares of the Company. Mr. Sledge served as a member of the Company's Board of Directors until March 2007. There was no outstanding balance for the convertible note as of December 31, 2008.

From time to time, officers, directors, employees and/or certain large stockholders of the Company may invest in private placements which the Company arranges and for which the Company charges investment banking fees.

#### 19. Quarterly Financial Data (Unaudited)

The table below sets forth the operating results represented by certain items in the Company's consolidated statements of operations for each of the eight quarters in the period ended December 31, 2008. This information is unaudited, but in the Company's opinion reflects all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of such information in accordance with generally accepted accounting principles. The results for any quarter are not necessarily indicative of results for any future period.

## MERRIMAN CURHAN FORD GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 19. Quarterly Financial Data (Unaudited) - (continued)

|   | 2008          |               |              |              |
|---|---------------|---------------|--------------|--------------|
|   | 1st           | 2nd           | 3rd          | 4th          |
| Revenue                                   | \$ 10,211,455 | \$ 14,197,041 | \$ 4,494,943 | \$ 7,664,397 |
| Operating expenses                        | 16,983,595    | 18,180,284    | 15,785,800   | 12,029,745   |
| Operating loss from continuing operations | (6,772,140)   | (3,983,243)   | (11,290,857) | (4,365,348)  |
| Loss from continuing operations           | (6,693,504)   | (2,126,098)   | (11,313,824) | (4,339,302)  |
| Loss from discontinued operations         | (356,469)     | (2,987,748)   | (409,513)    | (2,047,347)  |
| Net loss                                  | (7,049,973)   | (5,113,846)   | (11,723,337) | (6,386,649)  |
| Basic net loss per share:                 |               |               |              |              |
| Loss from continuing operations           | (0.54)        | (0.17)        | (0.90)       | (0.34)       |
| Loss from discontinued operations         | (0.03)        | (0.24)        | (0.03)       | (0.16)       |
| Net loss                                  | \$ (0.57)     | \$ (0.41)     | \$ (0.93)    | \$ (0.50)    |
| Diluted net loss per share:               |               |               |              |              |
| Loss from continuing operations           | (0.54)        | (0.17)        | (0.90)       | (0.34)       |
| Loss from discontinued operations         | (0.03)        | (0.24)        | (0.03)       | (0.16)       |
| Net loss                                  | \$ (0.57)     | \$ (0.41)     | \$ (0.93)    | \$ (0.50)    |

  

|   | 2007          |               |               |               |
|---|---------------|---------------|---------------|---------------|
|   | 1st           | 2nd           | 3rd           | 4th           |
| Revenue                                     | \$ 14,323,144 | \$ 19,399,287 | \$ 16,465,566 | \$ 33,560,268 |
| Operating expenses                          | 14,322,037    | 16,632,455    | 15,633,279    | 24,114,129    |
| Operating income from continuing operations | 1,107         | 2,766,832     | 832,287       | 9,446,139     |
| Income from continuing operations           | 69,256        | 2,791,998     | 949,374       | 7,100,196     |
| Loss from discontinued operations           | —             | (471,625)     | (760,914)     | (355,250)     |
| Net income                                  | 69,256        | 2,320,373     | 188,460       | 6,744,946     |
| Basic net income (loss) per share:          |               |               |               |               |
| Income from continuing operations           | 0.01          | 0.24          | 0.08          | 0.59          |
| Loss from discontinued operations           | —             | (0.04)        | (0.06)        | (0.03)        |
| Net income                                  | \$ 0.01       | \$ 0.20       | \$ 0.02       | \$ 0.56       |
| Diluted net income (loss) per share:        |               |               |               |               |
| Income from continuing operations           | 0.01          | 0.22          | 0.07          | 0.54          |
| Loss from discontinued operations           | —             | (0.04)        | (0.06)        | (0.03)        |
| Net income                                  | \$ 0.01       | \$ 0.18       | \$ 0.01       | \$ 0.51       |

## 20. Subsequent Events

## Sale of a Subsidiary

As mentioned in Note 8 above, on January 30, 2009, the Company sold assets related to Panel Intelligence, LLC, its wholly-owned subsidiary to a group of investors for \$1,000,000 and shares of the Company's common stock in the

amount of \$100,000. As part of the sale agreement, the Company received 175,439 shares of Merriman Curhan Ford Group, Inc. common stock previously issued to the CEO and the COO of Panel Intelligence. These shares were returned to the Company's treasury and classified as treasury stock with a volume-weighted average value of \$100,000 over the 30 days immediately preceding the transaction date of January 30, 2009.

#### Sale of a Line of Business

The Company's broker-dealer subsidiary Merriman Curhan Ford & Co. entered into an agreement dated January 16, 2009 for the sale of one of its lines of business and certain related assets. The business was, at December 31, 2008, integrated with the Company's other broker-dealer operations. The purchaser is Institutional Cash Distributors LLC, a California Limited Liability Company. Tom Newton, Ed Baldry, and Jeff Jellison, employees of the Company, are members of Institutional Cash Distributors LLC.

The assets sold include the Company's rights in trademark, copyright and other intellectual property used in the business, customer lists, marketing materials, and books and records. Consideration for the assets consists of \$2 million payable in cash in monthly installments.

#### Reduction in Force

On January 23, 2009 the Company performed an additional RIF affecting 10 employees. There were one-time termination benefits of \$41,000. There were no disposal of assets nor contract terminations associated with the RIF.

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

The financial statements included in this report have been audited by Ernst & Young LLP, independent auditors, as stated in their audit report appearing herein.

During the year ended December 31, 2008 and through the date of this Annual Report on Form 10-K, there were no disagreements with Ernst & Young LLP on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure which, if not resolved to Ernst & Young LLP's satisfaction, would have caused them to make reference to the subject matter in connection with their report on our consolidated financial statements; and there were no reportable events as set forth in applicable SEC regulations.

Item 9a. Controls and Procedures

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

Based on their evaluation as of December 31, 2008, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

Management's Report on Internal Control Over Financial Reporting - Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control—Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2008.

Changes in internal controls - No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) of the Exchange Act) occurred during the quarter ended December 31, 2008, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9b. Other Information

Not applicable.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of  
Merriman Curhan Ford Group, Inc.

We have audited Merriman Curhan Ford Group, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Merriman Curhan Ford Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Merriman Curhan Ford Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria .

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Merriman Curhan Ford Group, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 of Merriman Curhan Ford Group, Inc. and our report dated March 30, 2009 expressed an unqualified opinion thereon, that included an explanatory paragraph regarding Merriman Curhan Ford Group Inc.'s ability to continue as going concern.

/s/ Ernst & Young LLP

San Francisco, California  
March 30, 2009

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PART III

Item 10. Directors and Executive Officers of the Registrant

Directors

John M. Thompson, 70, has served as Chairman of our Board of Directors since November 2007. An experienced business advisor, Mr. Thompson has chaired several boards of directors, including Arthur D. Little and MedPanel, Inc., and served on others. Mr. Thompson resigned as Chairman of Arthur D. Little in February 2003, upon completion of the sale of the company. Mr. Thompson was Chairman of MedPanel, Inc. from 1999 through April 2007, when MedPanel, Inc. was acquired by Merriman Curhan Ford Group, Inc. In his last executive position, he served as chairman and Chief Executive Officer of CSC Europe, overseeing all European operations for the Computer Sciences Corporation (NYSE: CSC). Mr. Thompson left Computer Sciences Corporation in April 1993. Prior to that, he was Vice Chairman of Index Group, the company that pioneered the concepts of process redesign and business reengineering. Mr. Thompson is well known on both sides of the Atlantic as a management consultant, helping better position firms for stronger growth. In the 1960's he was a co-founder of Interactive Data Corporation (NYSE:IDC). Mr. Thompson has been a guest faculty member at several universities including Harvard, MIT and Wharton, and he holds an M.A. from Cambridge University.

D. Jonathan Merriman, 48, has served as our Chief Executive Officer from October 2000 to the present and served as Chairman of the Board of Directors from February 2001 to November 2007. Prior to that period, Mr. Merriman was President and CEO of Ralexchange Corporation, the predecessor company to Merriman Curhan Ford Group, Inc. Mr. Merriman and his team engineered the transition of Ralexchange, a software trading platform company, into a full-service institutional investment bank, Merriman Curhan Ford. From June 1998 to October 2000, Mr. Merriman was Managing Director and Head of the Equity Capital Markets Group and member of the Board of Directors at First Security Van Kasper. In this capacity, he oversaw the Research, Institutional Sales, Equity Trading, Syndicate and Derivatives Trading departments. From June 1997 to June 1998, Mr. Merriman served as Managing Director and Head of Capital Markets at The Seidler Companies in Los Angeles, where he also served on the firm's Board of Directors. Before Seidler, Mr. Merriman was Director of Equities for Dabney/Resnick/Imperial, LLC. In 1989, Mr. Merriman co-founded the hedge fund company Curhan, Merriman Capital Management, Inc., which managed money for high net worth individuals and corporations. Before Curhan, Merriman Capital Management, Inc., he worked in the Risk Arbitrage Department at Bear Stearns & Co. as a trader. Prior to Bear Stearns, Mr. Merriman worked at Merrill Lynch as a financial analyst and as an institutional equity salesman. Mr. Merriman received his Bachelor of Arts in Psychology from Dartmouth College and completed coursework at New York University's Graduate School of Business. Mr. Merriman has served on the Boards of several organizations and currently holds a seat on the Board of Directors of Leading Brands, Inc.

Patrick H. Arbor, 72, has served as a member of our Board of Directors since February 2001 and has served as a member of the audit committee since April 2001. Mr. Arbor is currently on the Board of Directors of Macquarie Futures USA Inc., First Chicago Bank and Trust Company, and Western New Independent States Enterprise Fund, in addition to ours. He was Chairman of United Financial Holdings Inc., a bank holding company, from 2000 to 2006 and was a principal of the trading firm of Shatkin-Arbor & Co. from 1997 to 2008. He is a longtime member of the Chicago Board of Trade (CBOT), the world's oldest derivatives exchange, serving as the organization's Chairman from 1993 to 1999. During that period, Mr. Arbor also served on the Board of Governors of the Trade Clearing Corporation and on the Board of Directors of the National Futures Association. Prior to that, he served as Vice Chairman of the CBOT for three years and ten years as a Director. Mr. Arbor's other exchange memberships include the Chicago Board Options Exchange, the Mid-America Commodity Exchange and the Chicago Stock Exchange. Mr. Arbor received his undergraduate degree in business and economics from Loyola University.

Steven W. Town, 49, has served as a member of our Board of Directors from October 2000 to present and has served as a member of the compensation committee since April 2001. Mr. Town has served as Co-Chief Executive Officer of the Amerex Natural Gas, Amerex Power and Amerex Bandwidth, Ltd. Mr. Town began his commodities career in 1987 in the retail futures industry prior to joining the Amerex Group of Companies. He began the Amerex futures and forwards brokerage group in natural gas in 1990, in Washington D.C., and moved this unit of Amerex to Houston in 1992. During Mr. Town's tenure as Co-Chief Executive Officer, the Amerex companies became a leading brokerage organization in their respective industries. Mr. Town left Amerex in October 2006, when Amerex was purchased by GFI Group, Inc. (GFIG), with final transaction economics in April 2008. Mr. Town is a graduate of Oklahoma State University.

Raymond J. Minehan, 67, has served as a member of our Board of Directors and as a member of our audit committee and compensation committee since August 2003. Since May 2005, Mr. Minehan has served as Chief Financial Officer for the Conservation and Liquidation Office of the State of California. From February 2002 to May 2005, Mr. Minehan was retired. From February 2001 to February 2002, Mr. Minehan served as the Chief Financial Officer at Memestreams, Inc., a startup company that was developing information management software. From January 1997 to August 2000, he served as the Chief Administrative Officer at Sutro & Co. where he was responsible for all administrative functions including finance, management information systems, telecommunications, operations, human resources and facilities. From 1989 to 1997, he served as Chief Financial Officer at Hambrecht & Quist, Inc. From 1972 to 1989, Mr. Minehan served as a partner with Arthur Andersen LLP. Mr. Minehan served in the United States Air Force as a navigator assigned to the Strategic Air Command as B-52 navigator/electronic warfare officer. He attained the rank of Captain. Mr. Minehan received his Bachelor of Arts degree in Finance from Golden Gate University.

Dennis G. Schmal, 62, has served as a member of our Board of Directors and as a member of our audit committee since August 2003. Mr. Schmal has also served as a member of our compensation committee since March 2007 and has served on the Nominations and Corporate Governance Committee since September 2005. From February 1972 to April 1999, Mr. Schmal served as a partner in the audit practice at Arthur Andersen LLP. As a senior business advisor with special focus in finance, he has extensive knowledge of financial reporting and holds the CPA designation. Besides serving on the boards of two private companies, Mr. Schmal also serves on the Board of Directors for Varian Semiconductor Equipment Associates, Inc. (VSEA), a public company and on the boards of the thirteen mutual funds comprising the AssetMark family of mutual funds. Mr. Schmal also served on the board of NorthBay Bancorp (NBAN), a public bank holding company, until it was sold in 2007. Mr. Schmal attended California State University, Fresno where he received a Bachelor of Science in Business Administration- Finance and Accounting Option.

William J. Febbo, 40, has served as a member of our Board of Director since April 2007. Mr. Febbo was Chief Executive Officer and founder of MedPanel, Inc., an online medical market intelligence firm, from January 1999 to April 2007. At MedPanel, Mr. Febbo oversaw the company's sales, marketing, technology, finance and content development organizations. We acquired MedPanel, Inc. in April 2007 (now Panel Intelligence, LLC), where Mr. Febbo continued his responsibilities. Mr. Febbo and other investors formed Panel Intelligence, LLC (a Massachusetts corporation) which acquired the assets of Panel Intelligence, LLC (Delaware) from the Company on January 30, 2009. Mr. Febbo continues to serve on the Company's Board of Directors but ceased to be an employee of the Company. Mr. Febbo has been Treasurer on the Board of the United Nations of Greater Boston since November 2004. Prior to founding MedPanel, Inc., Mr. Febbo was Chairman of the Board of Directors of Pollone, a Brazilian manufacturing venture in the automotive industry, from January 1998 to January 1999. From January 1996 to January 1999, Mr. Febbo was with Dura Automotive working in business development and mergers and acquisition overseas. Mr. Febbo received his B.S. degree in international studies, with a focus on economics and Spanish, from Dickinson College.

Jeffrey M. Soinski, 47, has served as a member of our Board of Directors since August 2008. Mr. Soinski is a Special Venture Partner with Galen Partners, a leading private equity firm focused solely on the healthcare industry. Prior to joining Galen Partners, Mr. Soinski was President and CEO of Specialized Health Products International, Inc., a publicly-traded manufacturer and marketer of proprietary safety medical products that was acquired by C. R. Bard, Inc. in June 2008. In 2008, Mr. Soinski was named "Utah CEO of the Year" for small public companies by Utah Business magazine. Prior to Specialized Health Products, Mr. Soinski had been President and CEO of ViroTex Corporation, a ventured-backed pharmaceutical company he sold to Atrix Laboratories, Inc. in 1998. Mr. Soinski also has an extensive consumer marketing background, having led the full-service advertising agency Mad Dogs & Englishmen as Managing Director and CEO in 2000 and 2001. Earlier in his career, he worked as a new products marketing executive at Nabisco Brands and provided strategic and marketing services to multinational consumer products companies as an executive at leading advertising agencies in New York and Los Angeles. Mr. Soinski holds a B.A. degree from Dartmouth College.

Robert J. Majteles, 44, served as a member of our Board of Directors from November 2008 to March 2009. Mr. Majteles is founder of the investment firm Treehouse Capital LLC and brings more than 20 years of experience investing in and leading both private and public companies to the board. Mr. Majteles currently serves on the boards of Macrovision Corporation (MVSN), U.S. Auto Parts Network, Inc. (PRTS), Adept Technology, Inc. (ADEP), Comarco, Inc. (CMRO), and Unify Corporation (UNFY). Prior to launching Treehouse eight years ago, Mr. Majteles was a successful CEO of three high-growth technology companies and generated superior investment returns for his shareholders. In addition, he has been an investment banker and a merger and acquisitions attorney. Mr. Majteles is a lecturer at the University of California, Berkeley and received his law degree from Stanford University and a B.A. from Columbia University.

Executive Officers

Gregory S. Curhan, 47, served as our Executive Vice President from January 2002 to January 2009 and served as Chief Financial Officer from January 2002 to January 2004. Previously, he served as Chief Financial Officer of WorldRes.com from May 1999 through June 2001. Prior to joining WorldRes.com, Mr. Curhan served as Director of Global Technology Research Marketing and Managing Director Specialty Technology Institutional Equity Sales at Merrill Lynch & Co. from May 1998 to May 1999. Prior to joining Merrill Lynch, Mr. Curhan was a partner in the investment banking firm of Volpe Brown Whelan & Co., serving in various capacities including Internet research analyst and Director of Equities from May 1993 to May 1998. Mr. Curhan was a founder and principal of the investment advisor Curhan, Merriman Capital Management from July 1988 through December 1992. Prior to founding Curhan, Merriman, Mr. Curhan was a Vice President institutional equity sales for Montgomery Securities from June 1985 through June 1988. From August 1983 to May 1985, Mr. Curhan was a financial analyst in the investment banking group at Merrill Lynch. Mr. Curhan earned his Bachelor of Arts degree from Dartmouth College.

Robert E. Ford, 48, has served as President of Merriman Curhan Ford Group, Inc. since February 2001, and also served as Chief Operating Officer from February 2001 to January 2009. He brings 20 years of executive and operations experience to the Company. Prior to joining Merriman Curhan Ford Group, Inc., from February 2000 to February 2001, Mr. Ford was a co-Founder and CEO of Metacat, Inc., a content management ASP that specialized in enabling supplier catalogs for Global 2000 private exchanges and eMarketplaces. From June 1996 to December 1999, he was President/COO and on the founding team of JobDirect.com, a leading resume and job matching service for university students, which was acquired by Korn Ferry International. Previously, Mr. Ford co-founded and managed an education content company from September 1994 to 1996. Prior to that, from May 1992 to August 1994, he headed up a turnaround and merger as General Manager of a 65 year-old manufacturing and distribution company. Mr. Ford started his career as VP of Business Development at Lazar Enterprises, a technology-consulting firm he helped operate from June 1989 to February 1992. He earned his Masters in International Business and Law from the Fletcher School of Law and Diplomacy in 1989 at Tufts University and a BA with high distinction from Dartmouth College in 1982.

Peter V. Coleman, 40, has served as Chief Financial Officer for Merriman Curhan Ford Group, Inc. since May 2008 and Chief Operating Officer since January 2009. Mr. Coleman was most recently with ThinkPanmure, an investment bank, where he served as CFO since March 2007, COO since November 2006, Director of Research from September 2005 until November 2006, the Head of Brokerage from June 2006 until June 2007, and was a member of the board of directors since April 2007. Prior to that, he was a principal and senior research analyst at Schwab SoundView, an investment bank, focusing on technology from May 2002 to November 2004.

Christopher L. Aguilar, 46, served as General Counsel of Merriman Curhan Ford Group, Inc. from March 2000 to April 2009, General Counsel of Merriman Curhan Ford & Co. until April 2009, and Chief Compliance Officer of Merriman Curhan Ford & Co. until November 2008. From August 1995 to March 2000, Mr. Aguilar was a partner at Bradley, Curley & Asiano, a San Francisco law firm, where he represented the interests of public and private corporations, small businesses and individuals in commercial litigation. Mr. Aguilar has also worked for the San Francisco City Attorney and Alameda County District Attorney's offices. Mr. Aguilar received his juris doctorate degree from the University of California, Hastings College of the Law. He also attended Oxford University as an undergraduate and received his Bachelor of Arts degree from the Integral Program at St. Mary's College of California where he was included in Who's Who among American Colleges and Universities. Mr. Aguilar has served as an adjunct professor at University of California, Hastings College of the Law.

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

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers to file reports with the SEC on Forms 3, 4 and 5 for the purpose of reporting their ownership of and transactions in the Company's equity securities. During 2008, Christopher L. Aguilar, Patrick H. Arbor, Peter V. Coleman, and Scott Potter (who resigned as a director in November 2008) each filed one report on Form 4 late.

#### Financial Code of Ethics

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

8-K.

Audit Committee

The Company has a standing audit committee whose members are Dennis G. Schmal, Raymond J. Minehan and Patrick H. Arbor.

Audit Committee Financial Expert

The Board of Directors has determined that Dennis G. Schmal and Raymond J. Minehan are “audit committee financial experts” and “independent” as defined under applicable SEC and NASDAQ rules. The Board’s affirmative determination for Dennis G. Schmal was based, among other things, upon his 27 years at Arthur Andersen LLP, most of those years as a partner in the audit practice. The Board’s affirmative determination for Raymond J. Minehan was based, among other things, upon his extensive experience as chief administrative officer of Sutro & Co. and, prior to that, as chief financial officer of Hambrecht & Quist, Inc. and, prior to that, as audit partner of Arthur Andersen LLP.

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## Item 11. Executive Compensation

## SUMMARY 2008 COMPENSATION TABLE

The following table sets forth the compensation earned by our Chief Executive Officer and our two other most highly compensated executive officers during the years ended December 31, 2008, 2007 and 2006, whom we refer to as our named executive officers.

| Name and Principal Position (a)       | Year (b) | Salary(\$)<br>(c) | Bonus(\$)<br>(d) (1) | Stock Awards(\$)<br>(e) (2) | Option Awards(\$)<br>(f) (2) | Total(\$)<br>(g) |
|---------------------------------------|----------|-------------------|----------------------|-----------------------------|------------------------------|------------------|
| D. Jonathan Merriman                  | 2008     | 222,917           | —                    | —                           | —                            | 222,917          |
| Chief Executive Officer               | 2007     | 250,000           | 1,315,000            | —                           | 23,970                       | 1,588,970        |
|                                       | 2006     | 250,000           | 119,007              | —                           | 1,204                        | 370,211          |
| Gregory S. Curhan                     | 2008     | 222,917           | —                    | —                           | —                            | 222,917          |
| Executive Vice President              | 2007     | 250,000           | 950,000              | —                           | 22,992                       | 1,222,992        |
|                                       | 2006     | 250,000           | 95,047               | —                           | 683                          | 345,730          |
| Robert E. Ford                        | 2008     | 222,917           | —                    | —                           | —                            | 222,917          |
| President and Chief Operating Officer | 2007     | 250,000           | 830,000              | 61,875                      | 22,992                       | 1,164,867        |
|                                       | 2006     | 250,000           | 71,703               | 61,875                      | —                            | 383,578          |

- (1) The amounts included in column (d) are bonuses awarded under Executive and Management Bonus Plan (“EMB”), designed to reward our named executive officers and other employees to the extent that the Company achieves or exceeds its business plan for a particular year. The EMB provides for a bonus pool to be established based on achieving the Company’s annual business plan, with the Committee retaining discretion to allocate the bonus pool. If the Company’s business plan with respect to a calendar year is not met, only small amounts will be paid under the EMB for that year. While the amount of the total bonus pool that is available for awards under the EMB is based on the Company achieving certain performance targets, the actual amount to be paid to each of our named executive officers is determined by the Compensation Committee of our Board and our Board, based on their discretion. In 2008, by agreement between the executive management and the Compensation Committee, the named executive officers received no bonus, regardless of the EMB.
- (2) The amounts included in columns (e) and (f) are the dollar amounts recognized for financial statement reporting purposes for the fiscal years ended December 31, 2008, 2007 and 2006, and consist of amounts from awards granted prior to 2006 and in 2007. We did not grant any stock options, restricted stock or other equity-based awards to our named executive officers in 2006 or in 2008. In 2007, we made grants of stock options to our named executive officers. The value of options reported in column (f) was calculated using the Black-Scholes model, with the assumptions shown in the table below. For further information, see the note to the financial statements included in the Company’s 10-K entitled “Fair Value and Assumptions Used to Calculate Fair Value under SFAS 123(R) and SFAS 123.” For purposes of determining amounts to be included in this table, in accordance with SEC rules, forfeitures of stock options or other equity-based awards have not been included.

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

|                               | 2008  | 2007  | 2006  |
|-------------------------------|-------|-------|-------|
| Volatility                    | 70%   | 63%   | 81%   |
| Average expected term (years) | 6.3   | 4.2   | 4.4   |
| Risk-free interest rate       | 3.10% | 4.55% | 4.75% |

Dividend yield

— — —



Each of Messrs. Merriman, Curhan and Ford were parties to employment agreements with the Company which expired either on January 1, 2007 or January 9, 2007 and have not yet been renewed. Compensation awarded to our named executive officers was determined by the compensation committee of our Board.

Pursuant to its practice, the Company provides Messrs. Merriman, Curhan and Ford with parking at the Company's principal offices.

OUTSTANDING EQUITY AWARDS AT 2008 FISCAL YEAR-END

|                      | Option Awards (1)   |   | Stock Awards   |  |
|----------------------|---|---|--|--|
|                      | Number of Securities Underlying Unexercised Options (#) Exercisable (b) | Number of Securities Underlying Unexercised Options (#) Unexercisable (c) | Number of Shares or Units of Stock That Have Not Vested (#)(f) | Market Value of Shares or Units of Stock That Have Not Vested (\$) (g) (2) |
| D. Jonathan Merriman | —   | —   | —  | —  |
| Gregory S. Curhan    | —   | —   | —  | —  |
| Robert E. Ford       | —   | —   | 32,143   | 19,286   |

- (1) In October 2008, the Company launched a Stock Option Give-Back Program under which all employees could give back stock options granted to him or her. Employees were notified that there would be no quid-pro-quo for the stock options given back and that those electing to give back any shares of stock option would not receive any grants for a period of 6 months and 1 day following the end of the program. Messrs. Merriman, Curhan and Ford, among others, elected to give back all their outstanding shares of stock options, whether vested or unvested. As a result, they each held no stock options as of December 31, 2008.
- (2) Amounts in this column for Mr. Ford have been calculated by multiplying the closing price of a share of our common stock on December 31, 2008 (\$0.60) by the number of restricted shares that were unvested on such date. Restricted shares vest in full on July 16, 2010.

DIRECTOR COMPENSATION IN 2008

The following table sets forth information about the compensation earned by members of our Board of Directors during the fiscal year ended December 31, 2008. Mr. Jon Merriman, who served as Chief Executive Officer and as a Board member did not receive any compensation for his service as a director. Mr. Will Febbo, who served as the Chief Executive Officer of Panel Intelligence, LLC, a subsidiary of the Company, and as a Board member also did not receive any compensation for his service as a director.

For the year ended December 31, 2008, directors did not receive any compensation in the form of cash fees, stock option awards, participation in non-equity incentive or pension plans, or any other form of compensation other than awards of stock. The Company's director compensation program takes into consideration service on committees of the Board. For service on the Board and attendance at the four scheduled quarterly meetings, each of our independent directors was awarded, on an annual basis, a number of fully vested shares. The number of shares awarded is determined by a value determined by the Board prior to the beginning of the year and the price of the Company's share of common stock on the first day of trading in 2008. As the Board and each committee have four scheduled meetings each year, one-fourth of each Director's award was granted on each of the scheduled meeting dates, provided the Director attended. Additional meetings (whether by phone or in person) were scheduled as necessary and additional shares were awarded to the directors in connection with one of these additional meetings. Directors who served on any

of the Board's committees were awarded an additional number of shares for each committee.

As Chairman, Mr. Thompson's compensation is also in the form of shares of fully vested stock, the number of which is calculated in similar fashion, except the value is higher relative to other directors.

Accordingly, the compensation earned by our Directors in 2008 was as follows:

| Name (a)                | Stock Awards<br>(\$)<br>(b) (1)(2) | Total<br>(\$)<br>(c) |
|-------------------------|------------------------------------|----------------------|
| John M. Thompson, Chair | 58,551                             | 58,551               |
| Patrick H. Arbor        | 23,421                             | 23,421               |
| William J. Febbo(3)     | —                                  | —                    |
| D. Jonathan Merriman(4) | —                                  | —                    |
| Raymond J. Minehan      | 26,351                             | 26,351               |
| Scott Potter (5)        | 21,961                             | 21,961               |
| Dennis G. Schmal        | 27,810                             | 27,810               |
| Jeffrey M. Soinski(6)   | 2,703                              | 2,703                |
| Ronald E. Spears(7)     | —                                  | —                    |
| Steven W. Town          | 24,892                             | 24,892               |

- (1) The amounts in this column reflect the value of the shares of stock awarded, calculated by multiplying the closing price of a share of our common stock on the applicable grant date by the number of shares awarded on such date. All grants were made on the day of the Board meeting, were immediately vested and any restrictions were removed.
- (2) As of December 31, 2007, the following directors had the following aggregate number of stock options outstanding: Mr. Arbor, 17,858; Mr. Spears, 42,858; and Mr. Town, 30,715.
- (3) In 2008, Mr. Febbo was also the Chief Executive Officer of Panel Intelligence LLC, a subsidiary of the Company, for which compensation is not included in this table. In accordance to Company practice, employees of the Company and its subsidiaries do not receive additional compensation for service on the Board.
- (4) Mr. Merriman is also the Chief Executive Officer of the Company for which compensation is not included in this table. In accordance to Company practice, employees of the Company and its subsidiaries do not receive additional compensation for service on the Board.
- (5) Mr. Potter resigned from the Board as of November 15, 2008. His compensation reflects the meetings he attended.
- (6) Mr. Soinski was appointed to the Board as of September 3, 2008. His compensation reflects the meetings he attended.
- (7) Mr. Spears resigned from the Board as of March 5, 2008. His compensation reflects the meetings he attended.

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

## Item 12. Security Ownership of Certain Beneficial Owners and Management

## EQUITY COMPENSATION PLAN INFORMATION

The following table gives information about the Company's common stock that may be issued upon the exercise of options and warrants under all of our existing equity compensation plans as of December 31, 2008 including the 1999 Stock Option Plan, the 2000 Stock Option and Incentive Plan, the 2001 Stock Option and Incentive Plan, the 2003 Stock Option and Incentive Plan, 2006 Directors' Stock Option and Incentive Plan and the 2002 Employee Stock Purchase Plan.

| Plan Category                                       | Number of Securities to be Issued Upon Exercise of Outstanding Options and Warrants | Weighted Average 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                              | 77,019  | \$ 4.47   | 273,096  |
| 2000 Stock Option and Incentive Plan                | 174,154   | \$ 5.23   | 398,396  |
| 2001 Stock Option and Incentive Plan                | 103,013   | \$ 2.83   | 412,973  |
| 2003 Stock Option and Incentive Plan                | 798,752   | \$ 4.76   | 3,211,948  |
| 2006 Directors' Stock Option and Incentive Plan     | —   | —   | 103,907  |
| 2002 Employee Stock Purchase Plan                   | —   | —   | —  |
| Equity compensation not approved by stockholders    | 63,098  | \$ 23.40  | 176,189  |

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

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding beneficial ownership of each class of our voting securities as of March 31, 2009, by (a) each person who is known by us to own beneficially more than five percent of each of our outstanding classes of voting securities, (b) each of our directors, (c) each of the named executive officers and (d) all directors and executive officers as a group.

| Name of Beneficial Owner  | Common Stock       |            |
|---|--------------------|------------|
|   | Beneficially Owned | Percent(1) |
| Patrick H. Arbor (2)  | 85,591             | *          |
| Gregory S. Curhan (3)   | 22,675             | *          |
| William J. Febbo (4)  | 259,271            | 2.0%       |
| Robert E. Ford (5)  | 56,454             | *          |
| Robert J. Majteles (6)  | 0                  | *          |
| D. Jonathan Merriman  | 541,131            | 4.3%       |
| Raymond J. Minehan (7)  | 42,764             | *          |
| Dennis G. Schmal (8)  | 48,287             | *          |
| Jeffrey M. Soinski (9)  | 3,400              | *          |
| John M. Thompson (10)   | 81,977             | *          |
| Steven W. Town (11)   | 82,737             | *          |
| All directors and executive officers as a group [13 persons]<br>(12)                                    | 1,243,797          | 9.8%       |
| Highfields Capital Management LP (13)<br>John Hancock Tower<br>200 Clarendon Street<br>Boston, MA 02116 | 1,146,461          | 9.0%       |

\* Less than one percent.

- (1) Applicable percentage ownership is based on 12,733,296 shares of common stock outstanding as of March 31, 2009. Pursuant to the rules of the Securities and Exchange Commission, shares shown as “beneficially” owned include all shares of which the persons listed have the right to acquire beneficial ownership within 60 days of March 31, 2009, including (a) shares subject to options, warrants or any other rights exercisable within 60 days March 31, 2009, even if these shares are not currently outstanding, (b) shares attainable through conversion of other securities, even if these shares are not currently outstanding, (c) shares that may be obtained under the power to revoke a trust, discretionary account or similar arrangement and (d) shares that may be obtained pursuant to the automatic termination of a trust, discretionary account or similar arrangement. This information is not necessarily indicative of beneficial ownership for any other purpose. Our directors and executive officers have sole voting and investment power over the shares of common stock held in their names, except as noted in the following footnotes.
- (2) Includes Mr. Arbor’s currently exercisable option to purchase 17,858 shares of common stock at \$2.87 per share. Also includes Mr. Arbor’s 34,858 shares of restricted common stock, currently eligible to have their restriction lifted.

- (3) Mr. Curhan served as Executive Vice President from January 2002 to January 2009.
- (4) Includes Mr. Febbo's 255,731 shares of restricted common stock, which are currently eligible to have their restriction lifted.
- (5) Includes Mr. Ford's 32,143 shares of restricted common stock, which are not currently eligible to have their restriction lifted.
- (6) Mr. Majteles served on the Board of Directors from November 2008 to March 2009.
- (7) Includes Mr. Minehan's 36,332 restricted shares of common stock, currently eligible to have their restriction lifted.
- (8) Includes Mr. Schmal's 35,857 restricted shares of common stock, currently eligible to have their restriction lifted.
- (9) Includes Mr. Soinski's 3,400 restricted shares of common stock, currently eligible to have their restriction lifted.
- (10) Includes Mr. Thompson's 61,977 restricted shares of common stock, which are currently eligible to have their restriction lifted.
- (11) Includes Mr. Town's option to purchase 16,429 shares of common stock at \$2.87 per share, all of which are currently exercisable. Also includes Mr. Town's 35,468 restricted shares of common stock, currently eligible to have their restriction lifted.
- (12) The total for directors and executive officers as a group includes 34,350 shares subject to outstanding stock options that are currently exercisable and zero shares subject to outstanding warrants that are currently exercisable. All directors and executive officers have the business address of 600 California Street, 9th Floor, San Francisco, CA 94108.
- (13) According to Schedule 13G/A filed February 17, 2009, Highfields Capital Management, LP is the investment manager to each of three funds: Highfields Capital I LP, Highfields Capital II LP, and Highfields Capital III LP (collectively the "Funds"). The Funds directly own 1,146,461 shares of common stock. Highfields Capital Management, LP; Highfields GP, LLC, the general partner of Highfields Capital Management, LP; Highfields Associates, LLC, the general partner of the Funds; Jonathon S. Jacobson, a Managing Member of Highfields GP and a Senior Managing Member of Highfields Associates; Richard L. Grubman, a Managing Member of Highfields GP and a Senior Managing Member of Highfields Associates are each members of a voting group that have voting power over the shares. Highfields Capital I LP has sole voting power over 117,912 of the shares. Highfields Capital II LP has sole voting power over 225,448 of the shares. Highfields Capital III LP, a Cayman Islands, B.W.I., has sole voting power over 803,101 of the shares. The securities were acquired from the Company as part of a private placement closed on April 3, 2003.

Item 13. Certain Relationships and Related Transactions

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

Recent Events

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

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

Director Independence

The listing standards of The NASDAQ Stock Market, as well as the American Stock Exchange, which the Company voluntarily withdrew its listings from in February 2008, require that a majority of our Board of Directors be comprised of independent directors. The Board has determined that the following Board members are independent, consistent with the guidelines of The NASDAQ Stock Market, as well as the American Stock Exchange: John M. Thompson, Patrick H. Arbor, Steven W. Town, Raymond J. Minehan, Dennis G. Schmal, Jeffrey M. Soinski, Ronald E. Spears (who resigned as a director in March 2008), Scott Potter (who resigned as a director in November 2008), and Robert J. Majteles (who resigned as a director in March 2009). The board based this determination primarily on a review of the responses of our directors and executive officers to questions regarding employment and compensation history, affiliations and family and other relationships and on discussions with the directors. Accordingly, only independent members of the Board constitute its Audit Committee and its Compensation Committee.

Item 14. Principal Accounting Fees and Services

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS' FEES

Ernst & Young, LLP served as the Company's independent registered public accounting firm for the fiscal years ended December 31, 2008 and 2007 and are serving in such capacity for the current fiscal year. Ernst & Young was first engaged to serve as our auditors for the fiscal year ended December 31, 2002. Representatives of Ernst & Young are expected to be available at the Annual Stockholders' Meeting. Such representatives will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

The aggregate fees billed by Ernst & Young LLP for professional services to the Company were \$911,300 in 2008 and \$708,500 in 2007.

**Audit Fees.** The aggregate fees billed by Ernst & Young for professional services rendered for the audit of the Company's annual financial statements, the review of the Company's quarterly financial statements, the audit of management's report on the effectiveness of our company's internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002, and services that are normally provided in connection with statutory and regulatory filings or engagements was approximately \$885,800 in 2008 and \$647,500 in 2007.

**Audit Related Fees.** The aggregate fees billed by Ernst & Young LLP for professional assurance and related services reasonably related to the performance of the audit of the Company's financial statements, but not included under Audit Fees, resulted primarily from review of registration statements filed by the company. The aggregate fees were \$0 in 2008 and \$59,500 in 2007.

**Tax Fees.** The aggregate fees billed by Ernst & Young LLP for professional services for tax compliance, tax advice and tax planning were \$25,500 in 2008 and \$0 in 2007. These fees primarily related to consultation for the preparation of the Company's Federal, state and local tax returns. These fees also related to assisting the Company with analyzing shifts in the ownership of the Company's stock for purposes of determining the application of Section 382 of the Internal Revenue Code to the Company.

**All Other Fees.** The aggregate fees for all other services rendered by Ernst & Young LLP were \$0 in 2008 and \$1,500 in 2007. The 2007 amount represented a subscription to an online accounting and auditing information database provided by Ernst & Young LLP.

The Audit Committee has formal policies and procedures in place with regard to the approval in advance of all professional services provided to the Company by Ernst & Young LLP. With regard to audit fees, the Audit Committee reviews the annual audit plan and approves the estimated annual audit budget in advance. With regard to tax services, the Audit Committee reviews the description and estimated annual budget for tax services to be provided by Ernst & Young LLP in advance. During 2008, the Audit Committee approved all of the independent registered public accountants' fees in advance.



PART IV

Item 15. Exhibits and Financial Statement Schedules

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

2. Financial Statement Schedules

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

3. Exhibits

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



EXHIBIT INDEX

| Exhibit No. | Description  |
|-------------|--|
| 3.1         | Certificate of Incorporation, as amended (incorporated herein by reference to Exhibit 3.1 to MCF's Registration Statement on Form S-1 (Reg. No. 333-37004)).   |
| 3.3         | Amended and Restated Bylaws, as amended. (incorporated by reference to Exhibit 10.3 to MCF's Registration Statement on Form S-1 (Reg. No. 333-53316)).   |
| 3.4         | Certificate of Amendment to the Certificate of Incorporation changing name from MCF Corporation to Merriman Curhan Ford Group, Inc. (incorporated herein by reference to Exhibit 99.2 to MCF's Current Report on Form 8-K filed on May 14, 2008 (Reg. No. 001-15831)).   |
| 4.1         | Form of Convertible Subordinated Note related to MCF private financing, dated November 26, 2001 (incorporated by reference to Exhibit 4.1 to MCF's Form 10-K for the year ended December 31, 2001) (Reg. No. 001-15831).   |
| 4.2         | Form of Class A Redeemable Warrant to Purchase Common Stock of MCF related to Merriman Curhan Ford Group, Inc. private financing, dated November 26, 2001 (incorporated by reference to Exhibit 4.2 to MCF's Form 10-K for the year ended December 31, 2001) (Reg. No. 001-15831).   |
| 10.13+      | Employment Agreement between MCF and D. Jonathan Merriman dated October 5, 2000 (incorporated herein by reference to Exhibit 10.15 to MCF's Registration Statement on Form S-1 (Reg. No. 333-53316)).  |
| 10.15+      | 1999 Stock Option Plan (incorporated herein by reference to Exhibit 4.1 to MCF's Registration Statement on Form S-8 (Reg. No.333-43776)).  |
| 10.16+      | Form of Non-Qualified, Non-Plan Stock Option Agreement dated February 24, 2000 between MCF and Phillip Rice, Nick Cioll, Paul Wescott, Ross Mayfield, Russ Matulich, Terry Ginn, Donald Sledge, Christopher Vizas, Douglas Cole, Ronald Spears and Jonathan Merriman (incorporated by reference to Exhibit 4.2 to MCF's Registration Statement on Forms S-8 (Reg. No. 333-43776)). |
| 10.17+      | Schedule of non-plan option grants made under Non-Qualified, Non-Plan Stock Option Agreements to directors and executive officers (incorporated herein by reference to Exhibit 10.19 to MCF's Registration Statement on Form S-1 (Reg. No. 333-53316)).  |
| 10.18+      | 2000 Stock Option and Incentive Plan, as amended (incorporated herein by reference to Exhibit 10.20 to MCF's Registration Statement on Form S-1 (Reg. No. 333-53316)).   |

- 10.23 Master Equipment Lease Agreement dated March 16, 2000 (incorporated by reference to Exhibit 10.6 to MCF's Registration Statement on Form S-1 (Reg. No. 333-37004)).
- 10.29 Agreement between MCF and BL Partners related to RMG Partners Corporation, dated April 8, 2001 (incorporated by reference to Exhibit 10.1 to MCF's Form 10-Q for the quarter ended June 30, 2001) (Reg. No. 001-15831).

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

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

+ Represents management contract or compensatory plan or arrangement.