

MCF CORP  
Form 10-K  
February 12, 2008

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 10-K**

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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, 2007

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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**MCF CORPORATION**

(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(b) of the Act:

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

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 11,157,574 shares of common stock of the Registrant issued and outstanding as of June 30, 2007, the last business day of the registrant's most recently completed second fiscal quarter, excluding 976,446 shares of common stock held by affiliates of the Registrant was \$56,011,021. This amount is based on the closing price of the common stock on the American Stock Exchange of \$5.02 per share on June 30, 2007.

The number of shares of Registrant's common stock outstanding as of February 11, 2008 was 12,317,940.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Part III of this Form 10-K incorporates by reference certain portions of the Registrant's proxy statement for its 2008 annual meeting of stockholders to be filed with the Commission not later than 120 days after the end of the fiscal year covered by this report.

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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,” “intends,” “plans,” “estimates” or “anticipates” or the negative of those words or other comparable terminology. Forward-looking statements involve risks and uncertainties. You should be aware that a number of important factors could cause our actual results to differ materially from those in the forward-looking statements. We will not necessarily update the information presented or incorporated by reference in this Annual Report on Form 10-K if any of these forward-looking statements turn out to be inaccurate. Risks affecting our business are described throughout this Form 10-K and especially in the section “Risk Factors.” This entire Annual Report on Form 10-K, including the consolidated financial statements and the notes and any other documents incorporated by reference into this Form 10-K should be read for a complete understanding of our business and the risks associated with that business.*

## **PART I**

### **Item 1. Business**

#### **Overview**

We are a financial services holding company that provides investment 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 gaining market share by originating differentiated research for our institutional investor clients and providing specialized and integrated services for our fast-growing corporate clients.

In April 2007, we acquired MedPanel, Inc. (now Panel Intelligence, LLC) and began offering custom and published primary research to industry clients and investment professionals through online panel discussions, quantitative surveys and an extensive research library. Panel Intelligence is positioned to provide greater access, compliance, insights and productivity to clients in the healthcare, clean technology (“CleanTech”), technology, media and telecommunications (“TMT”) and financial industries.

MCF Asset Management, LLC manages absolute return investment products for institutional and high-net worth clients. During 2006, we introduced the MCF Navigator fund and MCF Voyager fund. Additionally, we are the sub-advisor for the MCF Focus fund. As of December 31, 2007, assets under management across our three fund products exceeded \$56 million.

We are headquartered in San Francisco, with additional offices in New York, NY, Cambridge, MA, Newport Beach, CA and Portland, OR. As of December 31, 2007, we had 198 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.

#### **Principal Services**

We have three business segments: the investment bank / broker-dealer, primary research and asset management. Our investment bank / broker-dealer segment provides three service offerings: investment banking, brokerage and equity research. Our primary research segment offers custom, independent primary research services to health care and Clean Technology companies, as well as financial services firms that invest in these companies. Our asset management segment manages investment products for investors. We sold our wealth management subsidiary, Catalyst Financial Planning & Investment Management Corporation, or Catalyst, in January 2007. The results from this segment have been treated as discontinued operations.

### ***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. Over the last three years, we have focused on growing our investment banking business through the hiring of increasingly senior investment bankers and support professionals. As of December 31, 2007, we had 33 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 590 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 that 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 NASDAQ and other securities, trade listed securities 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, 2007, we were a market maker in over 1,200 securities.

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The customer base of our brokerage business is primarily institutional, including mutual funds and hedge funds, as well as smaller, private investment firms and certain high net worth individuals. We believe this group of clients and potential clients to number over 4,000. We grew our business during 2007 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. We have generated attractive returns on our capital by deploying this strategy since the inception of our firm.

*Corporate and Venture Services.* We offer brokerage services to corporations including corporate cash management and stock repurchase programs through our Corporate and Venture Services group. We also serve the needs of venture capital investors and company executives with restricted stock transactions, cashless exercise of options, hedging and diversification strategies, and liquidity strategies. Additionally, the Venture Services team provides sales distribution for capital raises for private companies via the introduction to venture capital and private equity investors.

*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, 2007, ICD clients have invested over \$18 billion in money market funds from which ICD earns brokerage fees. ICD is a division of Merriman Curhan Ford & Co.

*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 a 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.

*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.

### ***Equity Research***

A key part of our strategy is to originate specialized and in-depth research. Our analysts cover a universe of approximately 186 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 December 31, 2007, approximately 78% 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 15 equity research analysts include:

CleanTech/Next-Generation Energy<sup>SM</sup>

- Energy Storage and Efficiency
- Environmental Technologies
- Next-Generation Energy

Health Care

- Infectious Disease and Oncology
  - Medical Technologies
  - Pain & Lifestyle

Tech/Media/Telecom

- Communications Technology
- Internet Applications, Software and Services
- Semiconductors/Capital Equipment Enterprise/Data Center Connectivity
  - Telecom and Data Services
  - Wireless Communications

Consumer/Retail

- Branded Athletic Lifestyle and Specialty Retail
  - Branded Consumer - Sin Redefined
  - Consumer Health and Wellness
  - Specialty Retail - Hardline

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/research](http://www.merrimanco.com/research).

Our equity research group annually hosts several conferences targeting fast growing companies and investors, including our Investor Summit, Next-Generation Energy Conference and IP Video Conference. Additionally, we host one day Round Robin events in which 12-15 fast growing companies present to institutional investors in one-on-one meetings. 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 MCF Corporation, we have developed an institutional-standard investment management platform.

The 1990's were a decade of broad stock market appreciation. Investors were handsomely rewarded for buying exposure to the stock market by investing in long only mutual funds, market indices or individual stocks. So far this decade, equity returns have not been as strong or as consistent as throughout the 1990's. As a result, interest in alternative investment strategies, such as long/short equity, market neutral, convertible arbitrage, currency arbitrage and real estate, have grown in popularity. Investing in alternative investment strategies will ideally produce absolute returns that are not correlated with broad stock market indices and represent a diversification of risk for investors.

More importantly, we believe both institutions and wealthy individuals have reached that same conclusion and will continue to shift more of their investment dollars into alternative asset class strategies. It is our intent to help our clients in their investment process by offering access to alternative investment strategies, as well as certain niche based long-only strategies. We have established our own alternative investment products and evaluate opportunities to acquire and partner with managers of alternative asset investments. We currently have three active funds in the marketplace.

### ***Primary Research***

In April 2007, we acquired MedPanel, Inc. and began offering primary research services through our new subsidiary, Panel Intelligence, LLC. Panel Intelligence offers an online primary research platform that provides healthcare, CleanTech and TMT 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 healthcare, CleanTech and TMT 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.

We believe that primary research revenue growth from financial services clients, such as mutual fund managers and hedge fund managers, will accelerate due to the ability of the combined company to market primary research through our existing institutional sales force. Part of MedPanel's rationale for seeking a merger partner was to expand its financial services customer base through an established sales force as well as take advantage of the future growth potential of a larger, publicly-held company with a greater depth of technologies, marketing opportunities and financial and operating resources.

### **Competition**

We are engaged in the highly competitive financial services and investment industries. We compete with 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. 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. 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.

In addition to competing for customers and investments, we compete with other companies in the financial services and investment industries to attract and retain experienced and productive investment professionals.

Many competitors have greater personnel and financial resources than we do. Larger competitors are able to advertise their products and services on a national or regional basis and may have a greater number and variety of distribution outlets for their products, including retail distribution. Discount and Internet brokerage firms market their services through aggressive pricing and promotional efforts. In addition, 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.

Recent rapid advancements in computing and communications technology, particularly the Internet, are substantially changing the means by which financial services and information are delivered. These changes are providing consumers with more direct access to a wide variety of financial and investment services, including market information and on-line trading and account information. Advances in technology also create demand for more sophisticated levels of client services. We are committed to using technological advancements to provide a high level of client service to our target markets. Provision of these services may entail considerable cost without an offsetting source of revenue.

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.”

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## **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.

### ***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 the legal and regulatory requirements of our investment banking and asset management businesses 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 assure 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, 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**

MCF Corporation is domiciled in the United States and all of our revenue is attributed to United States and Canadian customers. 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 securities brokerage and investment banking business, and we may be unable to maintain profitability if we fail to do any of the following:

- establish, maintain and increase our client base;
- manage the quality of our services;
- compete effectively with existing and potential competitors;
- further develop our business activities;
- 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 expectations, which makes our ability to successfully implement our business plan uncertain.

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.

**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 technology, healthcare, clean technology and consumer sectors, as the market for securities of these companies has experienced significant variations in the number and size of equity offerings. Recently, 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, any 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 use the services of that competitor instead of our services. The compensation arrangements, non-competition agreements and lock-up agreements we have entered into with certain of our professionals may not prove effective in preventing them from resigning to join our competitors and the non-competition agreements may not be upheld if we were to seek to enforce our rights under these agreements.

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.**

We are able to recruit and retain investment banking, research and sales and trading professionals, in part because our business model provides that we pay our revenue producing employees a percentage of their earned revenue. Compensation and benefits is our largest expenditure and this variable compensation component represents a significant proportion of this expense. Compensation for our employees is derived as a percentage of our revenue regardless of our profitability. Therefore, we may continue to pay individual revenue producers a significant amount of cash compensation as the overall business experiences negative cash flows and/or net losses. We may not be able to recruit or retain revenue producing employees if we modify or eliminate the variable compensation component from our business model.

**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 our 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. We and firms that compete with us have or may 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 for us. 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. Also, difficult market conditions would likely decrease the value of assets under management in our asset management business, which would decrease the amount of asset-based fees we receive, and may also affect our ability to attract additional or retain existing assets under management within this business. 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 company's 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 and we expect them to remain so. 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 198 employees as of December 31, 2007 and revenue less than \$90 million in 2007. Many of our competitors in the brokerage, investment banking and asset management 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 brokerage and investment banking 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 in the recent past and may incur losses in the future.**

We have incurred losses in the recent past. We recorded net losses of \$8,220,000 for the year ended December 31, 2006 and \$1,514,000 for the year ended December 31, 2005. We also recorded net losses in certain quarters within other past fiscal years. We may incur losses in any of our 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, we may incur significant expenses in connection with initiating new business activities or in connection with any expansion of our underwriting, brokerage, primary research or asset management businesses. We may also engage in strategic acquisitions and investments for which we may incur significant expenses. Accordingly, we will need to increase our revenue at a rate greater than our expenses to achieve and maintain profitability. If our revenue do not increase sufficiently, or even if our revenue increase but we are unable to manage our expenses, we will not achieve and maintain profitability in future periods.

**Our 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 2007 we generated 27% of our brokerage revenue, or approximately 8% of our total revenue, from our ten largest brokerage clients. Similarly, in 2006 we generated 22% of our brokerage revenue, or approximately 13% 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.

**Poor investment performance, pricing pressure and other competitive factors may reduce our asset management revenue or result in losses.**

As part of our strategy, we are investing in the expansion of our asset management business. Our revenue from this business is primarily derived from management fees which are based on assets under management and incentive fees, which are earned if the return of our investment funds exceeds certain threshold returns. Our ability to maintain or increase assets under management is subject to a number of factors, including investors' perception of our past performance, market or economic conditions, competition from other fund managers and our ability to negotiate terms with investors.

Investment performance is one of the most important factors in retaining existing clients and competing for new asset management business and our historical performance may not be indicative of future results. Poor investment performance and other competitive factors could reduce our revenue and impair our growth in many ways:

- existing clients may withdraw funds from our asset management business in favor of better performing products;
  - our incentive fees could decline or be eliminated entirely;
- our capital investments in our investment funds may diminish in value or may be lost; and
- our key employees in the business may depart, whether to join a competitor or otherwise.

To the extent our future investment performance is perceived to be poor in either relative or absolute terms, our asset management revenue will likely be reduced and our ability to raise new funds will likely be impaired. Even when market conditions are generally favorable, our investment performance may be adversely affected by our investment style and the particular investments that we make.

**Limitations on our access to capital could impair our liquidity and our ability to conduct our businesses.**

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 MCF Corporation. As a holding company, MCF Corporation depends on distributions and other payments from its subsidiaries to fund all payments on its obligations, including debt obligations. As a result, regulatory actions could impede access to funds that MCF Corporation needs to make payments on obligations, including debt obligations.

**Our risk management policies and procedures may leave us exposed 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 reputational 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 we are 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, New York, Cambridge, Newport Beach and Portland, 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 and 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 intend to 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 reputational 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.

**Risks Related to Our Industry**

**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 be public 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 our business.

**Financial services firms have been subject to increased scrutiny over the last several years, increasing the risk of financial liability and reputational 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 reputational harm to us, which could seriously harm our business prospects.

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

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

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

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



Our role as advisor to our clients on important underwriting or mergers and acquisitions transactions involves complex analysis and the exercise of professional judgment, including rendering “fairness opinions” in connection with mergers and other transactions. Therefore, our activities may subject us to the risk of significant legal liabilities to our clients and aggrieved third parties, including 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 reputational harm to us, which could seriously harm our business and prospects.

In the past, following periods of volatility in the market price of a company’s securities, securities class action litigation often has been instituted against 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.

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

There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, 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 reputational or financial harm. 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 reputational harm for any misconduct by our employees.

**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 25% 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 our organizational documents may discourage an acquisition of us.**

Our Articles of Incorporation authorize our Board of Directors to issue up to an additional 27,450,000 shares of preferred stock, without approval from our stockholders. 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;
- our announcements of significant contracts, milestones, acquisitions;
- our relationships with other companies;
- our 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.

**Your 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 2007, shares issuable upon the exercise of these options and warrants, at prices ranging currently from approximately \$1.26 to \$49.00 per share, represent approximately 7% of our total outstanding stock on a fully diluted basis using the treasury stock method.

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**

Not applicable.

**Item 2. Properties**

As of December 31, 2007, all of our properties are leased. Our principal executive offices are located in San Francisco, California. We lease four additional offices to support our various business activities. These offices are located in New York, NY, Cambridge, MA, Newport Beach, CA and Portland, OR. We believe the facilities we are now using are adequate and suitable for business requirements.

### **Item 3. Legal Proceedings**

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

In June 2006, our broker-dealer subsidiary Merriman Curhan Ford & Co. was served with a claim in NASD Arbitration by Mr. 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 is in the discovery stage and an arbitration hearing scheduled for June 2007 is being rescheduled between the parties and the Arbitration Panel. We believe that we have meritorious defenses and intend to contest these claims vigorously. However, in the event that we did 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.

#### **S3 Investment Company, Inc. v. Merriman Curhan Ford & Co. and Qualico Capital, Inc.**

In September 2007, Merriman Curhan Ford & Co. was served with a complaint filed by a former client S3 Investment Company, Inc. ("S3i"). The matter is pending before the Superior Court in the City and County of San Francisco. The plaintiff alleges theories of breach of contract, fraud, negligent misrepresentation, intentional and negligent interference with prospective economic relations. We believe that we have meritorious defenses and intend to contest these claims vigorously. However, in the event that we did 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.

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

No matters were submitted to a vote of stockholders during the fourth quarter of 2007.

**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. The sales prices below have been adjusted retroactively to reflect the one-for-seven reverse stock split of our authorized and outstanding common stock affected on November 16, 2006.

	<b>High</b>	<b>Low</b>
<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
<b>2006</b>		
Fourth Quarter	\$ 4.97	\$ 3.64
Third Quarter	7.35	4.06
Second Quarter	10.29	7.00
First Quarter	10.36	6.72

The closing sale price for our common stock on February 11, 2008 was \$5.69. 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 698 stockholders of record as of December 31, 2007. 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, 2007.

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options and Warrants</b>	<b>Weighted Average Exercise Price of Outstanding Options and Warrants</b>	<b>Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans</b>
Equity compensation plans approved by stockholders:			
1999 Stock Option Plan	356,160	\$ 3.82	28,241
2000 Stock Option and Incentive Plan	535,816	\$ 13.60	4,591
2001 Stock Option and Incentive Plan	505,436	\$ 3.19	14,122
2003 Stock Option and Incentive Plan	2,550,687	\$ 4.60	34,511
2006 Directors' Stock Option and Incentive Plan	—	\$ —	53,172
2002 Employee Stock Purchase Plan	—	\$ —	—
Equity compensation not approved by stockholders	118,160	\$ 20.45	135,413

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 MCF Corporation) 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 member so the Compensation Committee and that a press release is issued promptly disclosing the terms of the option grant.

**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.

	2007	2006	2005	2004	2003
<b>Statement of operations data:</b>					
Revenue	\$ 87,655,992	\$ 51,818,638	\$ 43,184,315	\$ 38,368,310	\$ 18,306,011
Operating expenses	76,194,659	58,315,930	44,912,772	36,194,924	16,832,676
Operating income (loss)	11,461,333	(6,497,292)	(1,728,457)	2,173,386	1,473,335
Gain (loss) on retirement of convertible notes payable (1)	—	(1,348,805)	—	—	3,088,230
Interest income	461,922	484,909	446,273	120,431	39,483
Interest expense(2)	(138,055)	(535,014)	(76,103)	(169,787)	(1,554,901)
Income tax expense	(2,462,165)	—	(142,425)	(249,744)	(74,884)
Income (loss) from continuing operations	9,323,035	(7,896,202)	(1,500,712)	1,874,286	2,971,263
Loss from discontinued operations	—	(324,213)	(13,731)	—	—
Net income (loss)	\$ 9,323,035	\$ (8,220,415)	\$ (1,514,443)	\$ 1,874,286	\$ 2,971,263
Diluted income (loss) from continuing operations	\$ 0.74	\$ (0.79)	\$ (0.16)	\$ 0.16	\$ 0.39
<b>Statement of financial condition data:</b>					
Cash and cash equivalents	\$ 31,962,201	\$ 13,746,590	\$ 11,138,923	\$ 17,459,113	\$ 6,142,958
Marketable securities owned	14,115,022	7,492,914	8,627,543	2,342,225	608,665
Total assets	64,573,331	30,498,213	27,694,413	25,007,824	9,703,946
Capital lease obligations	890,272	1,292,378	883,993	452,993	24,401
Notes payable, net	238,989	325,650	408,513	1,487,728	1,927,982
Stockholders' equity	\$ 34,806,048	\$ 16,215,020	\$ 18,403,001	\$ 16,733,850	\$ 5,261,210

(1) In April 2003, we exercised our right to cancel the convertible promissory note held by Forsythe McArthur & Associates with the principal sum of \$5,949,042. The fair value of the consideration provided to Forsythe was less than the carrying amount of the convertible note payable. The difference between the fair value of the consideration provided to Forsythe and the carrying amount of the note payable, or \$3,088,230, was recorded as a gain. In December 2006, MCF Corporation 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 267,857 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.

(2) Interest expense for 2003 included \$1,291,000 in amortization of discounts and debt issuance costs, while the 2004 amount included \$119,000 for amortization of discounts and debt issuance costs. The higher amortization expense in 2003 was due to the accelerated amortization that occurred as the notes payable were retired or converted to equity instruments during 2003. The total amount of discounts that will be amortized in future periods was \$3,000 as of December 31, 2007.



## **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**

We are a financial services holding company that provides investment 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 gaining market share by originating differentiated research for our institutional investor clients and providing specialized and integrated services for our fast-growing corporate clients.

In April 2007, we acquired MedPanel, Inc. (now Panel Intelligence, LLC) and began offering custom and published primary research to industry clients and investment professionals through online panel discussions, quantitative surveys and an extensive research library. Panel Intelligence is positioned to provide greater access, compliance, insights and productivity to clients in the healthcare, CleanTech, TMT and financial industries.

MCF Asset Management, LLC manages absolute return investment products for institutional and high-net worth clients. During 2006, we introduced the MCF Navigator fund and MCF Voyager fund. Additionally, we are the sub-advisor for the MCF Focus fund. As of December 31, 2007, assets under management across our three fund products exceeded \$56 million.

### **Executive Summary**

Our revenue grew 69% during 2007 to \$87,656,000, a record high, with healthy expansion across our business lines. Net income was \$9,323,000, or \$0.74 per diluted share during 2007 which represents a significant turnaround from our \$8,220,000 net loss in 2006. We were profitable in each of the four quarters during 2007 and we have had consecutive year-over-year revenue growth since we launched Merriman Curhan Ford & Co. at the beginning of 2002. We earned \$0.51 per diluted share during the fourth quarter which primarily resulted from strong investment banking revenue and significant gains in our proprietary trading activity. Our focus during 2007 was to grow our revenue per employee, generate meaningful operating cash flows, introduce primary research as a new service offering and closely manage our non-compensation related expenses. Our focus in 2008 will be to build on our recent success in our core businesses, further develop our new businesses, including primary research and OTCQX advisory, while continuing to lower our compensation expense as a percentage of revenue.

*Investment Banking* - The investment banking team had another strong year with 42% revenue growth in 2007, which followed 43% revenue growth in 2006. We closed 40 corporate financing and strategic advisory transactions during the year with average transaction fees of \$710,000. Most of the growth in 2007 was resulted from equity underwritten transaction revenue which nearly doubled over 2006. Our success in expanding of this business in 2007 can be attributed to the seasoning of our senior investment bankers and support professionals and our focus on fast growing companies in our target sectors such as Clean Technology and healthcare. Additionally, we were more selective in the

investment banking assignments that we engaged in 2007 which resulted in a higher transaction closing rate.

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*Principal Transactions* - Our principal transactions activity during 2007 was robust with significant gains in our proprietary trading activity, investment portfolio and profitable market making. We particularly benefited from the significant price appreciation in one equity security position, Points International, that we had filed a Statement of Beneficial Ownership on Schedule 13D with the SEC in 2006. We profitably exited approximately 3 million shares of the position in late 2007 and no longer are required to file our beneficial ownership with the SEC. 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 declined slightly in 2007. 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* - Our Institutional Cash Distributors business continued to expand rapidly in 2007 with average assets brokered nearly doubling over 2006. ICD revenue grew at a rate of 114% in 2006 and 70% in 2007. We expect that ICD revenue will continue to grow in 2008.

*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 September 2007, we launched independent primary research for the Clean Technology vertical, which encompasses technologies that reduce humans' impact on the environment. We have positioned our firm to be an early provider of primary research to both our corporate clients as well as financial service clients who are using our product to facilitate their investment decisions.

*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 a 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 increased by 19% to 198 during 2007, though most of this growth resulted from the MedPanel acquisition. During 2007, we emphasized finding the most qualified employee for each position to boost revenue per employee. We expect that we will continue to increase our employee headcount by 10% to 15% during 2008, 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 2007.

While the subprime mortgage crisis has not had any direct impact on our firm, the current economic outlook for 2008 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. However, the positive financial results from 2007 have strengthened our balance sheet and provided us with significantly more liquidity than we had at the start of fiscal 2007.

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## Business Environment

The equity and commodity markets were highly volatile during 2007 with major U.S. stock indexes ending the year mixed. After a brief sell-off in the first quarter, most U.S. stock indexes advanced in the second quarter and third quarter with many setting record highs. Stocks moved higher based on corporate earnings and later overcame short periods of increased volatility in July and August associated with investor's concerns about soft retail sales, rising interest rates, inflation, the housing market and sub-prime mortgage woes. An active mergers-and-acquisitions market, fueled to a significant degree by buying from private equity funds, was one factor supporting the market. Investors also welcomed two 50 basis point cuts in the fed funds rate and discount rate in late summer. Stocks traded lower in the final quarter of 2007 as ongoing weakness in the housing market, concerns over sub-prime mortgages and crude oil prices that topped \$100 per barrel all undermined investor confidence. The Fed reduced rates by another 50 basis points during the fourth quarter, however this action did little for the market.

The S&P 500 Index, a large-cap benchmark, gained 5.5% for the year while the technology-sensitive Nasdaq Composite Index rose 9.8% in 2007. U.S. small cap stocks performed especially poorly in 2007 with the Russell 2000 Index declining 1.6% for all of 2007.

Our securities broker-dealer and investment banking activities are linked to the capital markets. In addition, our business activities are focused in the technology, telecommunications, next-generation energy, health care and consumer sectors. By their nature, our business 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.

Fluctuations in revenue also occur due to the overall level of market activity, which, among other things, affects the flow of investment dollars and the size, number and timing of investment banking transactions. In addition, a downturn in the level of market activity can lead to a decrease in brokerage commissions. Therefore, revenue in any particular period may vary significantly from year to year.

The financial services industry continues to be affected by an intensifying competitive environment. There has been an increase in the number and size of companies competing for a similar customer base; some of such competitors have greater capital resources and additional associated services with which to pursue these activities.

## Results of Operations

The following table sets forth a summary of financial highlights for the three years ended December 31, 2007:

	2007	2006	2005
Revenue:			
Commissions	\$ 31,681,563	\$ 30,105,085	\$ 26,992,427
Investment banking	30,138,783	21,190,786	14,816,814
Principal transactions	20,116,392	(171,055)	1,366,938
Primary research	3,848,421	—	—
Advisory and other fees	1,870,833	693,822	8,136
Total revenue	87,655,992	51,818,638	43,184,315
Operating expenses:			
Compensation and benefits	56,101,887	42,840,431	31,659,488
Brokerage and clearing fees	2,635,328	2,614,513	2,312,616
Cost of primary research	1,595,502	—	—
Professional services	2,823,391	2,441,417	1,987,317
Occupancy and equipment	1,862,069	1,665,410	1,522,351
Communications and technology	3,483,752	2,969,872	1,918,693
Depreciation and amortization	740,445	645,129	490,165
Amortization of intangible assets	750,185	—	—
Travel and business development	2,607,042	2,738,393	1,723,290
Other	3,595,058	2,400,765	3,298,852
Total operating expenses	76,194,659	58,315,930	44,912,772
Operating income (loss)	11,461,333	(6,497,292)	(1,728,457)
Loss on retirement of convertible note payable	—	(1,348,805)	—
Interest income	461,922	484,909	446,273
Interest expense	(138,055)	(535,014)	(76,103)
Income (loss) from continuing operations before income taxes	11,785,200	(7,896,202)	(1,358,287)
Income tax expense	(2,462,165)	—	(142,425)
Income (loss) from continuing operations	9,323,035	(7,896,202)	(1,500,712)
Loss on discontinued operations	—	(324,213)	(13,731)
Net income (loss)	\$ 9,323,035	\$ (8,220,415)	\$ (1,514,443)

Our revenue during 2007 increased by \$35,837,000 or 69%, from 2006 reflecting growth across our businesses, with particular strength in principal transactions and solid growth in investment banking transactions. Net income for 2007 was \$9,323,000 as compared to net loss of \$8,220,000 during 2006.

Our net income (loss) during the three years ended December 31, 2007 included the following non-cash items:

	2007	2006	2005
Stock-based compensation	\$ 2,824,107	\$ 3,836,781	\$ 1,959,329
Amortization of intangible assets	750,185	138,051	34,366
Depreciation and amortization	740,445	655,334	493,672
Provision for uncollectible accounts receivable	368,272	383,565	556,493
Issuance of common stock to consultant	75,791	—	—
Amortization of discounts on debt	10,332	146,776	10,335
Loss on retirement of convertible note payable	—	1,348,805	—
Amortization of debt issuance costs	—	35,757	—



Common stock received for services	(400,875)	—
Total	\$ 4,368,257	