

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:

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

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

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.

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.”

## **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.

|                | High    | Low     |
|----------------|---------|---------|
| 2007           |         |         |
| Fourth Quarter | \$ 5.50 | \$ 3.90 |
| Third Quarter  | 5.45    | 3.44    |
| Second Quarter | 6.15    | 3.86    |
| First Quarter  | 5.79    | 3.95    |
|                |         |         |
| 2006           |         |         |
| 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.

*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.

## 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       | —            |



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|                                    |              |              |              |   |
|------------------------------------|--------------|--------------|--------------|---|
| Common stock received for services | (400,875)    | —            | —            | — |
| Total                              | \$ 4,368,257 | \$ 6,545,069 | \$ 3,054,195 |   |

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**Investment Banking Revenue**

Our investment banking activity includes the following:

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

The following table sets forth our revenue and transaction volumes from our investment banking activities during the three years ended December 31, 2007:

|                                     | 2007           | 2006           | 2005           |
|-------------------------------------|----------------|----------------|----------------|
| <b>Revenue:</b>                     |                |                |                |
| Capital raising                     | \$ 26,996,283  | \$ 15,939,480  | \$ 13,396,781  |
| Financial advisory                  | 3,142,500      | 5,251,306      | 1,420,033      |
| Total investment banking revenue    | \$ 30,138,783  | \$ 21,190,786  | \$ 14,816,814  |
| <b>Transaction Volumes:</b>         |                |                |                |
| Public offerings:                   |                |                |                |
| Capital underwritten participations | \$ 234,596,000 | \$ 156,500,000 | \$ 71,238,000  |
| Number of transactions              | 13             | 15             | 8              |
| Private placements:                 |                |                |                |
| Capital raised                      | \$ 331,480,000 | \$ 173,101,000 | \$ 253,939,000 |
| Number of transactions              | 26             | 15             | 14             |
| Financial advisory:                 |                |                |                |
| Transaction amounts                 | \$ 129,161,000 | \$ 169,423,000 | \$ 21,321,000  |
| Number of transactions              | 1              | 1              | 1              |

Our investment banking revenue amounted to \$30,138,783, or 34% of our revenue during 2007, representing a 42% increase compared to \$21,191,000 recognized in 2006. Revenue growth was driven by equity underwritten transactions which increased by 95% in 2007 as compared to the prior year. Average fees per investment banking transaction grew to \$710,000 in 2007 from \$600,000 in 2006.

Our investment banking revenue amounted to \$21,191,000, or 41% of our revenue during 2006, representing a 43% increase compared to \$14,817,000 recognized in 2005. We expanded our public underwriting and financial advisory transactions during 2006 which we believe is valuable to us building our long-term franchise. We participated in 15 equity underwriting transactions and lead our first initial public offering during 2006.

During each of the three years ended December 31, 2007, no single investment banking customer accounted for more than 10% of our revenue.

**Commissions and Principal Transactions Revenue**

Our broker-dealer activity includes the following:

- *Commissions* - Commissions include revenue resulting from executing stock trades for exchange-listed securities, over-the-counter securities and other transactions as agent, as well as revenue from brokering money market mutual funds by our Institutional Cash Distributors group.

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

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

|                                                                        | 2007          | 2006          | 2005          |
|------------------------------------------------------------------------|---------------|---------------|---------------|
| <b>Revenue:</b>                                                        |               |               |               |
| Commissions:                                                           |               |               |               |
| Institutional equities                                                 | \$ 25,312,803 | \$ 26,348,811 | \$ 25,240,317 |
| Institutional Cash Distributors                                        | 6,368,760     | 3,756,274     | 1,752,110     |
| Total commissions revenue                                              | \$ 31,681,563 | \$ 30,105,085 | \$ 26,992,427 |
| Principal transactions:                                                |               |               |               |
| Customer principal transactions, proprietary trading and market making | \$ 18,380,237 | \$ (207,779)  | \$ 308,764    |
| Investment portfolio                                                   | 1,736,155     | 36,724        | 1,058,174     |
| Total principal transactions revenue                                   | \$ 20,116,392 | \$ (171,055)  | \$ 1,366,938  |
| <b>Equity research:</b>                                                |               |               |               |
| Publishing analysts                                                    | 15            | 14            | 14            |
| Companies covered                                                      | 186           | 194           | 136           |
| <b>Transaction Volumes:</b>                                            |               |               |               |
| Number of shares traded                                                | 1,160,782,000 | 937,005,000   | 983,755,000   |
| Number of active clients                                               | 597           | 564           | 614           |

Commissions amounted to \$31,682,000, or 36%, of our revenue during 2007, representing a 5% increase over \$30,105,000 recognized during 2006. The growth in commissions revenue was attributed to higher assets brokered by our Institutional Cash Distributors group during 2007. Commissions revenue from our institutional equities trading business was down slightly during 2007 due to a decrease in average commissions per share, partially offset by higher average daily trading volume.

Commissions amounted to \$30,105,000, or 58%, of our revenue during 2006, representing an 11% increase over \$26,992,000 recognized during 2005. The higher commissions can be attributed to the increase in the number of companies in our selected growth sectors that are covered by our research analysts from 136 at December 31, 2005 to 194 at December 31, 2006. The increase in revenue during 2006 was also due to an increase in average commissions per share, partially offset by a slight decrease in our average daily trading volume in equity securities. Finally, assets brokered by our Institutional Cash Distributors group have more than doubled during 2006.

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

Principal transactions amounted to \$20,116,000, or 23%, of our revenue during 2007, while principal transactions decreased revenue by \$171,000 during 2006. Of the 2007 revenue, \$14,164,000 resulted from our concentrated position in Points International Ltd (PTSEF.OB). Merriman Curhan Ford & Co. had accumulated a 5,000,000 share position in this security during 2006. During 2007, the price of this security appreciated significantly resulting in a large gain for our firm. We sold approximately 3,000,000 shares of Points during the fourth quarter of 2007. This significant principal transactions gain in 2007 may not be recurring in future periods as we cannot predict overall market conditions. Other components of principal transactions revenue during 2007 included principal trades for customers, realized and unrealized gains from our investment portfolio and trading gains from making markets in equity securities.

During 2006, we incurred \$2,255,000 in losses resulting primarily from an unrealized loss from our position in Points International Ltd. This loss was partially offset by revenue from principal trades for customers.

During the three years ended December 31, 2007, no single brokerage customer accounted for more than 10% of our revenue.

***Primary Research Revenue***

Primary research revenue represents the operating results of Panel Intelligence from the date of the MedPanel acquisition, April 17, 2007, through December 31, 2007. We are now offering independent market data and information to clients in the biotechnology, pharmaceutical, medical device, clean tech and financial industries.

**Compensation and Benefits Expenses**

Compensation and benefits expense represents the majority of our operating expenses and includes incentive compensation paid to sales, trading, research and investment banking professionals, as well as discretionary bonuses, salaries and wages, and stock-based compensation. Incentive compensation varies primarily based on revenue production. Discretionary bonuses paid to research analysts also vary with commissions revenue production but includes other qualitative factors as well. Salaries, payroll taxes and employee benefits tend to vary based on overall headcount.

The following table sets forth the major components of our compensation and benefits for the three years ended December 31, 2007:

|                                                            | 2007          | 2006          | 2005          |
|------------------------------------------------------------|---------------|---------------|---------------|
| Incentive compensation and discretionary bonuses           | \$ 34,681,099 | \$ 26,563,425 | \$ 17,990,288 |
| Salaries and wages                                         | 14,627,800    | 9,076,815     | 8,995,642     |
| Stock-based compensation                                   | 2,824,107     | 3,836,781     | 1,959,329     |
| Payroll taxes, benefits and other                          | 3,968,881     | 3,363,410     | 2,714,229     |
| Total compensation and benefits                            | \$ 56,101,887 | \$ 42,840,431 | \$ 31,659,488 |
| Total compensation and benefits as a percentage of revenue | 64%           | 83%           | 73%           |
| Cash compensation and benefits as a percentage of revenue  | 61%           | 75%           | 69%           |

The increase in compensation and benefits expense of \$13,261,000, or 31%, from 2006 to 2007 was due primarily to higher incentive compensation which is directly correlated to revenue production. Cash compensation is equal to total compensation and benefits expense excluding stock-based compensation, which is a non-cash expense. Cash compensation and benefits expense as a percentage of revenue decreased to 61% during 2007 as compared to 75% during 2006. This improvement in 2007 was largely attributed to our overall revenue growth which was 69% higher than 2006 and our extraordinary principal transactions revenue as this activity has a low compensation expense ratio.

The increase in compensation and benefits expense of \$11,181,000 or 35%, from 2005 to 2006 was due primarily to higher incentive compensation which is directly correlated to revenue production. Additionally, our stock-based compensation expenses increased by \$1,877,000 during 2006 as a result of adopting SFAS No. 123(R). Cash compensation and benefits expense as a percentage of revenue increased to 75% during 2006 as compared to 69% in 2005. The proprietary trading losses of \$2,255,000 during 2006 added 3% to cash compensation as a percentage of revenue as the losses reduced revenue but did not impact compensation expense. The balance of this variance was caused by our increasing certain incentive payouts during the current year.

Stock-based compensation increased by \$1,877,000 in 2006 as compared to 2005. We adopted SFAS 123(R), “Share-Based Payment,” on January 1, 2006 which requires that we recognize compensation expense for all share-based awards made to employees and directors based on estimated fair values. We used the modified prospective application transition method and, accordingly, have not restated financial statements for prior periods to include the impact of SFAS 123(R). To determine the valuation of share-based awards under SFAS 123(R), we continue to use the Black-Scholes option pricing model that we utilized to determine our pro forma share-based compensation in prior periods. Additional information regarding our adoption of SFAS 123(R) during 2006 is set forth in the notes to the consolidated financial statements and in “Critical Accounting Policies and Estimates”.

Our headcount has increased from 155 at December 31, 2005 to 166 as of December 31, 2006 to 198 at December 31, 2007. No single sales professional accounted for more than 10% of our revenue in 2007 and 2006. One sales

professional accounted for 12% of our revenue during 2005.

### ***Other Operating Expenses***

Brokerage and clearing fees include trade processing expenses that we pay to our clearing broker and execution fees that we pay to floor brokers and electronic communication networks. Merriman Curhan Ford & Co. is a fully-disclosed broker-dealer, which has engaged a third party clearing broker to perform all of the clearance functions. The clearing broker-dealer processes and settles the customer transactions for Merriman Curhan Ford & Co. and maintains the detailed customer records. Security trades are executed by third-party broker-dealers and electronic trading systems. These expenses are almost entirely variable with commissions revenue and the volume of brokerage transactions. The slight increase in brokerage and clearing fees of \$21,000, or 1% from 2006 to 2007 reflected increased market making activity during the latest year. The increase in brokerage and clearing fees of \$302,000, or 13% from 2005 to 2006 was inline with our growth in the brokerage commission activities. We anticipate brokerage and clearing fees for 2008 will increase sequentially over 2007 as we are forecasting a higher level of commissions revenue for 2008.

Costs of primary research revenue principally consist of panelist honorarium and recruitment costs. Medical experts receive cash honoraria for participating in qualitative panels and quantitative surveys. We pay the honoraria to the panelists when the panel or survey has been completed and record this expense as incurred. We closed the acquisition of MedPanel on April 17, 2007 and began recognizing primary research revenue and related expenses since that date.

Professional services expense includes legal fees, accounting fees, expenses related to investment banking transactions and various consulting fees. Many of these expenses, such as legal and accounting fees, are to a large extent fixed in nature. The increase of \$382,000, or 16%, from 2006 to 2007 reflected higher legal fees for litigation defense and corporate matters, as well as higher accounting and consulting fees mostly in connection with the integration of the MedPanel acquisition. The increase of \$454,000 or 23%, from 2005 to 2006 included higher legal fees in connection with investment banking transactions, costs involved with introducing our new investment products and litigation related costs. We anticipate professional services expense for 2008 will increase slightly as compared to 2007.

Occupancy and equipment includes rental costs for our office facilities and equipment, as well as equipment, software and leasehold improvement expenses. Occupancy expense is largely fixed in nature while equipment expense tends to increase as we hire additional employees. The increase of \$197,000, or 12%, from 2006 to 2007 and the increase of \$143,000, or 9%, from 2005 to 2006 resulted mostly from expansion of our offices as well as computer equipment purchases resulting from the hiring of additional investment banking, research, sales and trading professionals. During 2007, we added the office lease in Cambridge, MA as a result of our MedPanel acquisition. During 2006, we leased additional space in San Francisco. We anticipate occupancy and equipment expense in 2008 will increase by approximately \$1 million over 2007 as our office lease in New York expires in March 2008 and current office rents are substantially higher than our existing lease.

Communications and technology expense includes market data and quote services, voice, data and Internet service fees, and data processing costs. Historically, these costs have increased as we hire additional employees. The increase of \$514,000, or 17%, from 2006 to 2007 and the increase of \$1,051,000, or 55%, from 2005 to 2006 was primarily due to upgrading our trading order management system in June 2006, as well as the increase in market data and quote services as we continue to expand our market maker activities. We anticipate communications and technology expense for 2008 will increase by approximately 10% sequentially over 2007.

Depreciation and amortization expense primarily relate to the depreciation of our computer equipment and leasehold improvements. Depreciation and amortization is mostly fixed in nature. The increase of \$95,000, or 15%, from 2006 to 2007 mostly resulted from the depreciation of assets acquired with MedPanel. The increase of \$155,000, or 32%, from 2005 to 2006 was due to increased capital expenditures, including additional leasehold improvements to our San Francisco office during 2006. We anticipate depreciation and amortization expense for 2008 will be slightly higher as compared to 2007.





Identifiable intangible assets capitalized in connection with the acquisition of MedPanel included customer relationships, customer backlog, technology platform and the database of registered panelists. The estimated fair market value of these amortizable intangible assets amounting to \$1,990,000 will be amortized over periods ranging from 8 months to 56 months. Amortization of intangible assets expense for 2007 was \$750,000. We anticipate amortization of intangible assets expense for 2008 will be approximately \$500,000

Travel and business development expenses are incurred by each of our lines of business and include business development costs by our investment bankers, travel costs for our research analysts to visit the companies that they cover and non-deal road show expenses. Non-deal road shows represent meetings in which management teams of our corporate clients present directly to our institutional investors. The decrease of \$131,000, or 5%, from 2006 to 2007 resulted from fewer uncompleted investment banking transaction in 2007 as compared to 2006. The increase of \$1,015,000, or 59%, from 2005 to 2006, was due a greater level of uncompleted investment banking transactions and to our continued effort to extend our penetration with our active clients and seeking new business opportunities with potential clients. Syndicate expenses related to securities offerings in which we act as underwriter or agent are deferred until either the related revenue is recognized or we determine that the security offerings are unlikely to be completed. We anticipate travel and entertainment expense for 2008 will likely be higher than 2007.

The following expenses are included in other operating expenses for the three years ended December 31, 2007:

|                                                 | 2007         | 2006         | 2005         |
|-------------------------------------------------|--------------|--------------|--------------|
| Investor conferences                            | \$ 920,186   | \$ 947,793   | \$ 831,652   |
| Recruiting                                      | 548,051      | 316,021      | 452,139      |
| Public and investor relations                   | 512,589      | 294,664      | 242,543      |
| Provision for uncollectible accounts receivable | 368,271      | (116,435)    | 556,493      |
| Insurance                                       | 315,286      | 271,725      | 273,845      |
| Supplies                                        | 311,523      | 300,598      | 221,729      |
| Dues and subscriptions                          | 218,113      | 162,064      | 152,961      |
| Other                                           | 401,039      | 224,335      | 567,490      |
| Total other operating expenses                  | \$ 3,595,058 | \$ 2,400,765 | \$ 3,298,852 |

The increase of \$1,194,000, or 50%, was due primarily to one-time events in 2006 that reduced other expense by approximately \$600,000. The increase also reflected higher public and investor relations as well as recruiting fees. The decrease of \$898,000 or 27%, from 2005 to 2006 was primarily due to the reversal of \$500,000 of bad debt expense from 2005 related to the note receivable from Ascend Services Ltd. We collected the full balance of the Ascend note receivable in 2006. The decrease in 2006 also reflects the receipt of a favorable legal judgment to the firm related to a brokerage activity claim, as well as decrease in recruiting expense. The 2005 expense also includes the write-off of the \$500,000 note receivable from Ascend. We anticipate other operating expense for 2008 will increase sequentially over 2007.

#### ***Loss on Retirement of Convertible Note Payable***

In March 2006, we raised \$7.5 million in a private placement of a five year convertible debenture with a detachable stock warrant. We raised the capital so that we could invest the proceeds as general partner in the MCF Navigator fund. In December 2006, we repaid the \$7.5 million secured convertible note. The proceeds to repay the \$7.5 million convertible note were provided by redemption from the MCF Navigator fund. The investor, Midsummer Investment, Ltd., retained the stock warrant to purchase 267,858 shares of common stock. The Company recorded a loss on the repayment of the convertible note in the amount of \$1,349,000, which consisted of \$1,154,000 for the write-off of the unamortized discount related to the stock warrant and \$195,000 for the write-off the unamortized debt issuance costs. Midsummer reinvested the \$7.5 million directly into the MCF Voyager fund and MCF Navigator fund as limited

partner.

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### ***Interest Income***

Interest income represents interest earned on our cash balances maintained at financial institutions. The decrease of \$23,000, or 5%, from 2006 to 2007 and the increase of approximately \$39,000, or 9%, from 2005 to 2006 were due to changes in average interest earning assets and average interest rates during these periods.

### ***Interest Expense***

Interest expense for 2007 included \$128,000 for interest expense and \$10,000 for amortization of discounts while 2006 included \$352,000 for interest expense and \$183,000 for amortization of discounts and debt issuance costs. The 2006 expense included interest and amortization expenses from the note payable to Midsummer Investments, Ltd.

### ***Income Tax Expense***

Income tax expense was \$2,462,000 in 2007 resulting in an effective tax rate of 21%. We did not record income tax expense in 2006. The effective tax rate differs from the statutory rate primarily due to the existence and utilization of net operating loss carryforwards which have been offset by a valuation allowance resulting in a tax provision equal to our expected current expense for the year. We historically have had current tax expense primarily related to alternative minimum, state and minimum tax liabilities.

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

We adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109 ("FIN 48") on January 1, 2007. As a result of the implementation of FIN 48, we recognized no adjustment in the liability for unrecognized income tax benefits and no corresponding change in retained earnings. We do not have any material accrued interest or penalties associated with any unrecognized tax benefits. We do not believe it is reasonably possible that our unrecognized tax benefits will significantly change within the next twelve months. There were no unrecognized tax benefits as of December 31, 2007. We are subject to taxation in the US and various state and foreign jurisdictions. The tax years 2002-2006 remain open in several jurisdictions, none of which have individual significance.

### **Critical Accounting Policies and Estimates**

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

### ***Revenue Recognition***

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

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

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

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

Primary research revenue is recognized on a proportional performance basis as services are provided.

### ***Valuation of Securities Owned***

“Securities owned” and “Securities sold, but not yet purchased” in our consolidated statements of financial condition consist of financial instruments carried at fair value or amounts that approximate fair value, with related unrealized gains or losses recognized in our results of operations. The use of fair value to measure these financial instruments, with related unrealized gains and losses recognized immediately in our results of operations, is fundamental to our financial statements and is one of our most critical accounting policies. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair values of our financial instruments are generally obtained from quoted market prices in active markets, broker or dealer price quotations, or alternative pricing sources with reasonable levels of price transparency. To the extent certain financial instruments trade infrequently or are non-marketable securities and, therefore, have little or no price transparency, we value these instruments based on management's estimates. The fair value of these securities is subject to a high degree of volatility and may be susceptible to significant fluctuation in the near term. Securities that contain restrictions are stated at a discount to the value of readily marketable securities. Stock warrants are carried at a discount to fair value as determined by using the Black-Scholes Option Pricing model.



### ***Stock-Based Compensation***

On January 1, 2006, we adopted SFAS 123(R), "Share-Based Payment," which requires the measurement and recognition of compensation expense, based on estimated fair values, for all share-based awards, made to employees and directors, including stock options, non-vested stock, and participation in our employee stock purchase plan. Share-based compensation expense recognized in our consolidated statement of operations for the two years ended December 31, 2007 includes compensation expense for share-based awards granted (i) prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123, and (ii) subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R).

We estimate the fair value of stock options granted using the Black-Scholes option pricing method. This option pricing model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding. The Company calculated the expected term using the lattice model with specific assumptions about the suboptimal exercise behavior, post-vesting termination rates and other relevant factors. The expected stock price volatility was determined using the historical volatility of our common stock. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

Because share-based compensation expense is based on awards that are ultimately expected to vest, it has been reduced to account for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our share-based compensation.

### ***Deferred Tax Valuation Allowance***

We account for income taxes in accordance with the provision of SFAS No. 109, Accounting for Income Taxes, which requires the recognition of deferred tax assets and liabilities at tax rates expected to be in effect when these balances reverse. Future tax benefits attributable to temporary differences are recognized to the extent that the realization of such benefits is more likely than not. We have concluded that it is more likely than not that our deferred tax assets as of December 31, 2007 and 2006 will not be realized based on the scheduling of deferred tax liabilities and projected taxable income. The amount of the deferred tax assets actually realized, however, could vary if there are differences in the timing or amount of future reversals of existing deferred tax liabilities or changes in the actual amounts of future taxable income. Should we determine that we will be able to realize all or part of the deferred tax asset in the future, an adjustment to the deferred tax asset will be recorded in the period such determination is made.

### ***Goodwill***

Goodwill is related to the acquisitions of MedPanel, Inc. Goodwill, totaling \$3,130,000, was allocated to the Primary Research segment pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets". Goodwill represents the excess cost of a business acquisition over the fair value of the net assets acquired. In accordance with this pronouncement, indefinite-life intangible assets and goodwill are not amortized. Rather, they are subject to impairment testing on an annual basis, or more often if events or circumstances indicate there may be impairment. This test involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying amount. If the fair value is less than the carrying amount, a further test is required to measure the amount of the impairment.

When available, we use recent, comparable transactions to estimate the fair value of the respective reporting unit. We calculate an estimated fair value based on multiples of revenue, earnings, and book value of comparable transactions.

However, when such comparable transactions are not available or have become outdated, we use discounted cash flow scenarios to estimate the fair value of the reporting units. As of December 31, 2007, we noted no indicators of impairment of goodwill. However, changes in current circumstances or business conditions could result in an impairment of goodwill. As required, we will perform impairment testing on an annual basis or when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.



## Liquidity and Capital Resources

Historically, we have satisfied our liquidity and regulatory capital needs through the issuance of equity and debt securities. As of December 31, 2007, liquid assets consisted primarily of cash and cash equivalents of \$31,962,000 and marketable securities of \$14,115,000, for a total of \$46,077,000, which is \$24,837,000 higher than \$21,240,000 in liquid assets as of December 31, 2006.

Cash and cash equivalents increased by \$18,216,000 during 2007. Cash provided by our operating activities for 2007 was \$18,216,000 which consists of our net income of \$9,323,000 adjusted for non-cash expenses including stock-based compensation of \$2,824,000, net unrealized gain on securities owned of \$6,764,000 depreciation and amortization of \$740,000, provision for doubtful accounts of \$368,000, amortization of intangible assets of \$750,000, partially offset by the increase in commissions and bonus payable of \$9,618,000. Cash used in investing activities amounted to \$32,000 during 2007 which included (i) net proceeds in connection with our sales of Catalyst and (ii) our purchase of equipment and fixtures. Cash used in our financing activities was \$324,000. Our financing activities included proceeds from the issuance of common stock in connection with our employee stock purchase plan, partially offset by debt service payments.

Merriman Curhan Ford & Co., as a broker-dealer, is subject to Rule 15c3-1 of the Securities Exchange Act of 1934, which specifies uniform minimum net capital requirements, as defined, for their registrants. As of December 31, 2007, Merriman Curhan Ford & Co. had regulatory net capital of \$17,848,000, which exceeded the required amount by \$16,419,000.

We believe that our existing cash balances and investments will be sufficient to meet our liquidity and capital spending requirements, both for the next twelve months as well as for the long-term. However, we may require additional capital investment to fund our working capital if we incur future operating losses. We cannot be certain that additional debt or equity financing will be available when required or, if available, that we can secure it on terms satisfactory to us.

The following is a table summarizing our significant commitments as of December 31, 2007, consisting of debt payments related to convertible and non-convertible notes payable and capital leases and future minimum lease payments under all non-cancelable operating leases with initial or remaining terms in excess of one year.

|                   | Notes<br>Payable | Operating<br>Leases | Capital<br>Leases |
|-------------------|------------------|---------------------|-------------------|
| 2008              | \$ 243,573       | \$ 2,628,402        | \$ 563,526        |
| 2009              | —                | 2,444,011           | 341,674           |
| 2010              | —                | 2,019,930           | 50,880            |
| 2011              | —                | 1,923,516           | —                 |
| 2012              | —                | 1,174,323           | —                 |
| Thereafter        | —                | 572,000             | —                 |
| Total commitments | \$ 243,573       | \$ 10,762,182       | \$ 956,080        |

## Off-Balance Sheet Arrangements

We were not a party to any off-balance sheet arrangements during the three years ended December 31, 2007. In particular, we do not have any interest in so-called limited purpose entities, which include special purpose entities and structured finance entities.



## **Newly Issued Accounting Standards**

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On February 6, 2008, the FASB deferred the effective date of Statement 157 for one year for all nonfinancial assets and nonfinancial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS 157 did not have a material impact on our consolidated financial statements.

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

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

## **Item 7a. Quantitative and Qualitative Disclosures about Market Risk**

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

### ***Equity Price Risk***

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

### ***Interest Rate Risk***

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

Our long term debt obligations bear interest at a fixed rate. Accordingly, an immediate 10% increase or decrease in current interest rates would not have an impact on our interest expense or cash flows. The fair market value of our long term fixed interest rate debt is subject to interest rate risk. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. We would not expect an immediate 10% increase or decrease in current interest rates to have a material impact on the fair market value of our long term debt obligations.

### ***Foreign Currency Risk***

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

**Item 8. Financial Statements and Supplementary Data**

The following financial statements are included in this report:

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

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

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
MCF Corporation and subsidiaries

We have audited the accompanying consolidated statements of financial condition of MCF Corporation and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial condition of MCF Corporation and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 2007 the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." As discussed in Note 2 to the consolidated financial statements, in 2006 the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 11, 2008, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Francisco, California  
February 11, 2008

**MCF CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

|                                                              | Year ended December 31, |                |                |
|--------------------------------------------------------------|-------------------------|----------------|----------------|
|                                                              | 2007                    | 2006           | 2005           |
| Revenue:                                                     |                         |                |                |
| Commissions                                                  | \$ 31,681,563           | \$ 30,105,085  | \$ 26,992,427  |
| Principal transactions                                       | 20,116,392              | (171,055)      | 1,366,938      |
| Investment banking                                           | 30,138,783              | 21,190,786     | 14,816,814     |
| 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 services                            | 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 from discontinued operations                            | —                       | (324,213)      | (13,731)       |
| Net income (loss)                                            | \$ 9,323,035            | \$ (8,220,415) | \$ (1,514,443) |
| Basic net income (loss) per share:                           |                         |                |                |
| Income (loss) from continuing operations                     | \$ 0.81                 | \$ (0.79)      | \$ (0.16)      |
| Loss from discontinued operations                            | \$ —                    | \$ (0.03)      | \$ —           |
| Net income (loss)                                            | \$ 0.81                 | \$ (0.82)      | \$ (0.16)      |
| Diluted net income (loss) per share:                         |                         |                |                |
| Income (loss) from continuing operations                     | \$ 0.74                 | \$ (0.79)      | \$ (0.16)      |
| Loss from discontinued operations                            | \$ —                    | \$ (0.03)      | \$ —           |
| Net income (loss)                                            | \$ 0.74                 | \$ (0.82)      | \$ (0.16)      |
| Weighted average number of common shares:                    |                         |                |                |
| Basic                                                        | 11,528,187              | 9,989,265      | 9,500,748      |
| Diluted                                                      | 12,643,524              | 9,989,265      | 9,500,748      |

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





## MCF CORPORATION

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

|                                                                                                                                                                                                                    | December 31,  |               |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
|                                                                                                                                                                                                                    | 2007          | 2006          |
| <b>ASSETS</b>                                                                                                                                                                                                      |               |               |
| Cash and cash equivalents                                                                                                                                                                                          | \$ 31,962,201 | \$ 13,746,590 |
| Securities owned:                                                                                                                                                                                                  |               |               |
| Marketable, at fair value                                                                                                                                                                                          | 14,115,022    | 7,492,914     |
| Not readily marketable, at estimated fair value                                                                                                                                                                    | 4,504,788     | 1,489,142     |
| Restricted cash                                                                                                                                                                                                    | 689,157       | 629,427       |
| Due from clearing broker                                                                                                                                                                                           | 1,251,446     | 551,831       |
| Accounts receivable, net                                                                                                                                                                                           | 4,008,729     | 2,715,271     |
| Prepaid expenses and other assets                                                                                                                                                                                  | 1,716,814     | 1,971,445     |
| Equipment and fixtures, net                                                                                                                                                                                        | 1,245,692     | 1,586,630     |
| Intangible assets                                                                                                                                                                                                  | 1,949,815     | 314,963       |
| Goodwill                                                                                                                                                                                                           | 3,129,667     | —             |
| Total assets                                                                                                                                                                                                       | \$ 64,573,331 | \$ 30,498,213 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                                                        |               |               |
| Accounts payable                                                                                                                                                                                                   | \$ 957,969    | \$ 1,121,623  |
| Commissions and bonus payable                                                                                                                                                                                      | 17,517,032    | 7,711,805     |
| Accrued expenses                                                                                                                                                                                                   | 6,351,598     | 2,285,670     |
| Due to clearing and other brokers                                                                                                                                                                                  | 6,865         | 11,114        |
| Securities sold, not yet purchased                                                                                                                                                                                 | 3,804,558     | 1,534,953     |
| Capital lease obligation                                                                                                                                                                                           | 890,272       | 1,292,378     |
| Convertible notes payable, net                                                                                                                                                                                     | 197,416       | 187,079       |
| Notes payable                                                                                                                                                                                                      | 41,573        | 138,571       |
| Total liabilities                                                                                                                                                                                                  | 29,767,283    | 14,283,193    |
| Commitments and contingencies                                                                                                                                                                                      |               |               |
| Stockholders' equity:                                                                                                                                                                                              |               |               |
| Convertible Preferred stock, Series A—\$0.0001 par value; 2,000,000 shares authorized; 0 shares issued and outstanding as of December 31, 2007 and 2006, respectively; aggregate liquidation preference of \$0     | —             | —             |
| Convertible Preferred stock, Series B—\$0.0001 par value; 12,500,000 shares authorized; 1,250,000 shares issued and 0 shares outstanding as of December 31, 2007 and 2006; aggregate liquidation preference of \$0 | —             | —             |
| Convertible Preferred stock, Series C—\$0.0001 par value; 14,200,000 shares authorized; 1,685,714 shares issued and 0 shares outstanding as of December 31, 2007 and 2006; aggregate liquidation preference of \$0 | —             | —             |
| Common stock, \$0.0001 par value; 300,000,000 shares authorized; 12,310,886 and 10,602,720 shares issued and 12,284,448 and 10,602,720 shares outstanding as of December 31, 2007 and 2006, respectively           | 1,232         | 1,061         |
| Additional paid-in capital                                                                                                                                                                                         | 124,010,283   | 114,616,848   |
| Treasury stock                                                                                                                                                                                                     | (125,613)     | —             |
| Accumulated deficit                                                                                                                                                                                                | (89,079,854)  | (98,402,889)  |
| Total stockholders' equity                                                                                                                                                                                         | 34,806,048    | 16,215,020    |

|                                            |    |            |    |            |
|--------------------------------------------|----|------------|----|------------|
| Total liabilities and stockholders' equity | \$ | 64,573,331 | \$ | 30,498,213 |
|--------------------------------------------|----|------------|----|------------|

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

## MCF CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

|                                                                                     | Preferred Stock | Common Stock |          | Treasury Stock |        | Additional      | Deferred       | Accumulated     | Total         |
|-------------------------------------------------------------------------------------|-----------------|--------------|----------|----------------|--------|-----------------|----------------|-----------------|---------------|
|                                                                                     | Amount          | Shares       | Amount   | Shares         | Amount | Paid-in Capital | Compensation   | Deficit         |               |
| Balance at December 31, 2004                                                        | \$—             | 9,806,946    | \$ 981   |                | \$—    | \$ 108,564,776  | \$ (3,163,876) | \$ (88,668,031) | \$ 16,733,850 |
| Net loss                                                                            | —               | —            | —        | —              | —      | —               | —              | (1,514,443)     | (1,514,443)   |
| Issuance of common stock                                                            | —               | 220,899      | 22       | —              | —      | 1,217,846       | —              | —               | 1,217,846     |
| Issuance of restricted common stock                                                 | —               | 181,743      | 18       | —              | —      | 1,954,274       | (1,954,292)    | —               | —             |
| Options with intrinsic value to employees                                           | —               | —            | —        | —              | —      | (12,000)        | 12,000         | —               | —             |
| Stock-based compensation                                                            | —               | —            | —        | —              | —      | —               | 1,959,329      | —               | 1,959,329     |
| Tax benefits from employee stock option plans                                       | —               | —            | —        | —              | —      | 6,397           | —              | —               | 6,397         |
| Balance at December 31, 2005                                                        | \$—             | 10,209,588   | \$ 1,021 |                | \$—    | \$ 111,731,293  | \$ (3,146,839) | \$ (90,182,474) | \$ 18,403,001 |
| Net loss                                                                            | —               | —            | —        | —              | —      | —               | —              | (8,220,415)     | (8,220,415)   |
| Issuance of common stock                                                            | —               | 247,808      | 25       | —              | —      | 713,062         | —              | —               | 713,087       |
| Issuance of restricted common stock                                                 | —               | 52,465       | 6        | —              | —      | (6)             | —              | —               | —             |
| Exercise of stock warrants                                                          | —               | 92,859       | 9        | —              | —      | 191,991         | —              | —               | 192,000       |
| Removal of opening deferred stock compensation balance upon adoption of SFAS 123(R) | —               | —            | —        | —              | —      | (3,146,839)     | 3,146,839      | —               | —             |
| Stock-based compensation                                                            | —               | —            | —        | —              | —      | 3,836,781       | —              | —               | 3,836,781     |
| Issuance of stock warrants                                                          | —               | —            | —        | —              | —      | 1,290,566       | —              | —               | 1,290,566     |
| Balance at December 31,                                                             | \$—             | 10,602,720   | \$ 1,061 |                | \$—    | \$ 114,616,848  | \$             | \$ (98,402,889) | \$ 16,215,020 |

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|                                                   |                          |           |          |              |                |           |                           |               |           |
|---------------------------------------------------|--------------------------|-----------|----------|--------------|----------------|-----------|---------------------------|---------------|-----------|
| 2006                                              |                          |           |          |              |                |           |                           |               |           |
| Net income                                        | —                        | —         | —        | —            | —              | —         | —                         | 9,323,035     | 9,323,035 |
| Issuance of common stock for MedPanel acquisition | —                        | 1,500,120 | 150      | —            | —              | 6,090,337 | —                         | —             | 6,090,487 |
| Issuance of common stock                          | —                        | 56,857    | 5        | —            | —              | 235,076   | —                         | —             | 235,081   |
| Issuance of restricted common stock               | —                        | 120,126   | 12       | —            | —              | 25,739    | —                         | —             | 25,751    |
| Exercise of stock warrants                        | —                        | 83,939    | 9        | —            | —              | 172,987   | —                         | —             | 172,996   |
| Common stock returned from Catalyst Shareholder   | —                        | (52,876)  | (5)      | (26,438)     | (125,613)      | 5         | —                         | —             | (125,613) |
| Tax benefits from employee stock option plans     | —                        | —         | —        | —            | —              | 45,184    | —                         | —             | 45,184    |
| Stock-based compensation                          | —                        | —         | —        | —            | —              | 2,824,107 | —                         | —             | 2,824,107 |
| Balance at December 31, 2007                      | <del>\$</del> 12,310,886 | \$ 1,232  | (26,438) | \$ (125,613) | \$ 124,010,283 | \$        | <del>—</del> (89,079,854) | \$ 34,806,048 |           |

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

**MCF CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|                                                                                                    | Year ended December 31, |                |                |
|----------------------------------------------------------------------------------------------------|-------------------------|----------------|----------------|
|                                                                                                    | 2007                    | 2006           | 2005           |
| Cash flows from operating activities:                                                              |                         |                |                |
| Net income (loss)                                                                                  | \$ 9,323,035            | \$ (8,220,415) | \$ (1,514,443) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                         |                |                |
| Depreciation and amortization                                                                      | 740,445                 | 655,334        | 493,672        |
| Stock-based compensation                                                                           | 2,824,107               | 3,836,781      | 1,959,329      |
| Issuance of common stock to consultant                                                             | 75,791                  | —              | —              |
| Tax benefits from employee stock option plans                                                      | 45,184                  | —              | 6,397          |
| Amortization of discounts on convertible notes payable                                             | 10,332                  | 146,776        | 10,335         |
| Amortization of debt issuance costs                                                                | —                       | 35,757         | —              |
| Amortization of intangible asset                                                                   | 750,185                 | 138,051        | 34,366         |
| Loss on retirement of convertible note payable                                                     | —                       | 1,348,805      | —              |
| Bad debt expense related to Ascend                                                                 | —                       | —              | 556,493        |
| Loss on disposal of equipment and fixtures                                                         | 5,553                   | 14,196         | —              |
| Provision for uncollectible accounts receivable                                                    | 368,272                 | 383,565        | —              |
| Common stock received for services                                                                 | (400,875)               | —              | —              |
| Unrealized (gain) loss on securities owned                                                         | (6,763,635)             | 2,172,407      | (1,491,688)    |
| Changes in operating assets and liabilities:                                                       |                         |                |                |
| Marketable and non-marketable securities owned                                                     | (203,639)               | (203,536)      | (5,558,454)    |
| Restricted cash                                                                                    | (59,730)                | (1,821)        | (2,606)        |
| Due from clearing broker                                                                           | (699,615)               | 421,307        | (185,276)      |
| Accounts receivable                                                                                | (649,560)               | (789,908)      | (550,295)      |
| Prepaid expenses and other assets                                                                  | 404,769                 | (786,306)      | (474,907)      |
| Accounts payable                                                                                   | (740,825)               | 220,485        | 468,387        |
| Commissions and bonus payable                                                                      | 9,617,504               | 2,975,913      | 78,657         |
| Accrued liabilities                                                                                | 3,928,196               | 84,171         | 956,932        |
| Due to clearing and other brokers                                                                  | (4,249)                 | (107,684)      | 19,593         |
| Net cash provided by (used in) operating activities                                                | 18,571,245              | 2,323,878      | (5,193,508)    |
| Cash flows from investing activities:                                                              |                         |                |                |
| Purchase of equipment and fixtures                                                                 | (170,541)               | (78,216)       | (203,665)      |
| Acquisition of Catalyst                                                                            | —                       | (58,558)       | (353,882)      |
| Proceeds from sale of Catalyst                                                                     | 163,219                 | —              | —              |
| Investment in MCF Navigator fund                                                                   | —                       | (7,500,000)    | —              |
| Redemption from MCF Navigator fund                                                                 | —                       | 7,500,000      | —              |
| Acquisition of MedPanel                                                                            | 670,027                 | —              | —              |
| Increase in intangible assets                                                                      | (694,612)               | —              | —              |
| Net cash used in investing activities                                                              | (31,907)                | (136,774)      | (557,547)      |
| Cash flows from financing activities:                                                              |                         |                |                |
| Proceeds from the issuance of common stock                                                         | 185,041                 | 603,070        | 591,648        |
| Proceeds from the exercise of stock options and warrants                                           | 172,996                 | 302,017        | 126,220        |
| Proceeds from convertible debenture and stock warrant                                              | —                       | 7,500,000      | —              |

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|                                                     |               |               |               |
|-----------------------------------------------------|---------------|---------------|---------------|
| Repayment of convertible debenture                  | —             | (7,500,000)   | —             |
| Debt service principal payments                     | (681,764)     | (484,524)     | (1,287,003)   |
| Net cash provided by (used in) financing activities | (323,727)     | 420,563       | (569,135)     |
| Increase (decrease) in cash and cash equivalents    | 18,215,611    | 2,607,667     | (6,320,190)   |
| Cash and cash equivalents at beginning of year      | 13,746,590    | 11,138,923    | 17,459,113    |
| Cash and cash equivalents at end of year            | \$ 31,962,201 | \$ 13,746,590 | \$ 11,138,923 |

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

**MCF CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)**

|                                                               | <b>Year ended December 31,</b> |             |              |
|---------------------------------------------------------------|--------------------------------|-------------|--------------|
|                                                               | <b>2007</b>                    | <b>2006</b> | <b>2005</b>  |
| Supplementary disclosure of cash flow information:            |                                |             |              |
| Cash paid during the year:                                    |                                |             |              |
| Interest                                                      | \$ 121,331                     | \$ 323,345  | \$ 99,442    |
| Income taxes                                                  | \$ 120,400                     | \$ 18,800   | \$ 179,147   |
| Non-cash investing and financing activities:                  |                                |             |              |
| Issuance of restricted stock                                  | \$ —                           | \$ —        | \$ 1,954,292 |
| Issuance / cancellation of stock options with intrinsic value | \$ —                           | \$ —        | \$ 12,000    |
| Purchase of equipment and fixtures with capital lease         | \$ 182,665                     | \$ 799,709  | \$ 625,445   |
| Acquisition of Catalyst                                       | \$ —                           | \$ —        | \$ 74,940    |

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

## **MCF CORPORATION**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **1. Description of Business**

MCF Corporation is a financial services holding company that provides investment banking, capital markets services, corporate and venture services, investment banking, asset management and primary research through its operating subsidiaries, Merriman Curhan Ford & Co., 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. MCF Asset Management, LLC manages absolute return investment products for institutional and high-net worth clients. Panel Intelligence offers primary research services to biotechnology, pharmaceutical, medical device, clean technology and financial services companies. Merriman Curhan Ford & Co. is registered with the Securities and Exchange Commission as a broker-dealer and is a member of the Financial Industry Regulatory Authority and Securities Investor Protection Corporation.

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

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

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

#### **2. Summary of Significant Accounting Policies**

##### **Principles of Consolidation**

As of December 31, 2007, MCF Corporation wholly owned three U.S. subsidiaries that have been consolidated in the accompanying financial statements. The subsidiaries are Merriman Curhan Ford & Co., MCF Asset Management, LLC and Panel Intelligence, LLC. All significant inter-company accounts and transactions have been eliminated.

##### **Reverse Stock Split**

In November 2006, the Company effected a one-for-seven reverse stock split of the Company's common stock. All references to share and per share data for all periods presented have been retroactively adjusted to give effect to the one-for-seven reverse stock split.

##### **Cash and Cash Equivalents**

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





**MCF CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies - (continued)**

**Restricted Cash**

Restricted cash includes cash deposited with our clearing broker and cash collateral for a stand-by letter of credit with a commercial bank.

**Securities Owned**

“Securities owned” and “Securities sold, but not yet purchased” in the consolidated statements of financial condition consist of financial instruments carried at fair value or amounts that approximate fair value, with related unrealized gains or losses recognized in the results of operations. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair values of the financial instruments are generally obtained from quoted market prices in active markets, broker or dealer price quotations, or alternative pricing sources with reasonable levels of price transparency. To the extent certain financial instruments trade infrequently or are non-marketable securities and, therefore, have little or no price transparency, the Company values these instruments based on management's estimates. The fair value of these securities is subject to a high degree of volatility and may be susceptible to significant fluctuation in the near term. Securities that contain resale restrictions are stated at a discount to the value of readily marketable securities. Stock warrants are carried at a discount to fair value as determined by using the Black-Scholes Option Pricing model due to illiquidity.

**Accounts Receivable**

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

**Equipment and Fixtures**

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

**Long-Lived Assets**

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

the lower of the carrying amount or fair value less costs to sell.

### **Discontinued Operations and Assets Held For Sale**

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

## MCF CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 2. Summary of Significant Accounting Policies - (continued)

##### Goodwill and Intangible Assets

Goodwill is related to the acquisition of MedPanel, Inc. Goodwill, totaling \$3,130,000, was allocated to the Primary Research segment pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets". Goodwill represents the excess cost of a business acquisition over the fair value of the net assets acquired. In accordance with this pronouncement, indefinite-life intangible assets and goodwill are not amortized. Rather, they are subject to impairment testing on an annual basis, or more often if events or circumstances indicate there may be impairment. This test involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying amount. If the fair value is less than the carrying amount, a further test is required to measure the amount of the impairment.

When available, the Company uses recent, comparable transactions to estimate the fair value of the respective reporting unit. The Company calculates an estimated fair value based on multiples of revenue, earnings, and book value of comparable transactions. However, when such comparable transactions are not available or have become outdated, the Company uses discounted cash flow scenarios to estimate the fair value of the reporting units. As of December 31, 2007, the Company noted no indicators of impairment of goodwill. However, changes in current circumstances or business conditions could result in an impairment of goodwill. As required, the Company will perform impairment testing on an annual basis or when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

##### Investment Banking Revenue

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

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

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

transactions are recorded as expenses as incurred.

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**MCF CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies - (continued)**

**Commissions and Principal Transactions Revenue**

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

**Primary Research Revenue**

Revenue from primary research services is recognized on a proportional performance basis as services are provided.

**Cost of Primary Research Services**

Direct costs associated with generating primary research revenue principally consist of panelist honorarium and recruitment costs. Medical experts receive cash honoraria for participating in qualitative panels and quantitative surveys. The Company pays the honoraria to the panelists when the panel or survey has been completed and records this expense as incurred.

**Share-Based Compensation Expense**

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

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

Prior to the adoption of SFAS 123(R), the Company accounted for share-based awards to employees and directors using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," as allowed under SFAS 123, "Accounting for Stock-Based Compensation." Share-based compensation expense for the year ended December 31, 2005 was solely related to non-vested stock awards and stock options granted with intrinsic value that the Company had been recognizing in its consolidated statements of operations in accordance with the provisions set forth above. In accordance with the intrinsic value method, no

share-based compensation expense was otherwise recognized in the Company's consolidated statements of operations because the exercise price of nearly all of the Company's stock options granted to employees and directors equaled the fair market value of the underlying stock at the grant date.

**MCF CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies - (continued)**

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

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

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

**Income Taxes**

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded to reduce deferred tax assets to an amount whose realization is more likely than not. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date. MCF Corporation adopted FIN No. 48 on January 1, 2007.

**Earnings (Loss) Per Share**

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted earnings per share is calculated for the year ended December 31, 2007 by dividing net income by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares outstanding. Diluted loss per share is unchanged from basic loss per share for the years ended December 31, 2006 and 2005, because the addition of common shares that would be issued assuming exercise or conversion would



be anti-dilutive.

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**MCF CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. Summary of Significant Accounting Policies - (continued)**

**Concentrations**

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

As of December 31, 2007, the Company owned 1,743,900 shares of Points International in its proprietary trading account with a fair market value of \$7,264,000. The stock price of Points International is volatile and has declined since December 31, 2007.

During 2007 and 2006, no sales professional accounted for more than 10% of revenue, while one sales professional accounted for 12% of revenue in 2005. During the three years ended December 31, 2007, no single customer accounted for more than 10% of revenue.

**Fair Value of Financial Instruments**

The carrying amounts of the Company's financial instruments, which include securities owned, cash deposited with the Company's clearing organization, receivables, accounts payable, and other accrued expenses, approximate their fair values.

**Segment Reporting**

The Company organizes its operations into three operating segments for the purpose of making operating decisions and assessing performance. These operating segments are organized along operating subsidiaries, Merriman Curhan Ford & Co., MCF Asset Management, LLC and Panel Intelligence, LLC. Accordingly, the Company operated in three reportable operating segments in the United States during 2007. In January 2007, the Company sold its wealth management business and has presented its results of operations as discontinued operations.

**Use of Estimates**

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

**Newly Issued Accounting Standards**

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



**MCF CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****2. Summary of Significant Accounting Policies - (continued)**

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

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

**3. Securities Owned**

The Company trades equity and debt securities for clients in a broker or dealer capacity. While trading activities are primarily generated by client order flow, the Company also takes selective proprietary positions based on expectations of future market movements and conditions. As of December 31, 2007 and 2006, fair value of marketable equity securities owned by the Company was approximately \$14,115,000 and \$7,493,000, respectively.

Securities owned that are not readily marketable consisted of notes receivable, convertible notes receivable, unregistered common stock and stock warrants. As of December 31, 2007 and 2006, the discounted fair value of the securities owned that are not readily marketable was approximately \$4,505,000 and \$1,489,000, respectively, based on management estimates.

**4. Equipment and Fixtures**

Equipment and fixtures consisted of the following:

|                               | <b>December 31,</b> |              |
|-------------------------------|---------------------|--------------|
|                               | <b>2007</b>         | <b>2006</b>  |
| Computer equipment            | \$ 831,190          | \$ 723,751   |
| Furniture and equipment       | 1,236,606           | 1,051,994    |
| Software                      | 219,367             | 151,821      |
| Leasehold improvements        | 1,018,203           | 1,023,729    |
|                               | 3,305,366           | 2,951,295    |
| Less accumulated depreciation | (2,059,674)         | (1,364,665)  |
|                               | \$ 1,245,692        | \$ 1,586,630 |

Equipment and fixtures purchased with capital lease financing during 2007 and 2006 were \$183,000 and \$800,000, respectively.



**MCF CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****5. Notes Payable, Convertible Notes Payable and Lines of Credit**

Notes payable and convertible notes payable outstanding at December 31, 2007 and 2006 consisted of the following amounts, presented net of certain discounts:

|                                          | <b>December 31,</b> |             |
|------------------------------------------|---------------------|-------------|
|                                          | <b>2007</b>         | <b>2006</b> |
| Convertible notes payable issued in 2003 | \$ 197,416          | \$ 187,079  |
| Note payable issued to Donald Sledge     | \$ 41,573           | \$ 138,571  |

Interest payable in connection with the notes described below is included with accrued liabilities balance in the statements of financial condition. As of December 31, 2007 and 2006, interest payable amounted to \$1,500 and \$29,000, respectively.

**Convertible Notes Payable Issued in 2003**

In April 2003, the Company completed a private placement financing that included convertible notes payable with aggregate principal of \$1,000,000, due April 2008. The notes bear interest at 3% per annum payable quarterly on January 1, April 1, July 1 and October 1 beginning July 1, 2003. The notes can be converted to common stock at a rate of \$1.40 per share. In connection with the private placement, the Company issued warrants to purchase 178,300 shares of common stock with an exercise price of \$2.10 per share and a five-year term. The convertible notes were recorded in the statements of financial condition net of discounts resulting from the relative fair value of the stock warrants and beneficial conversion feature totaling \$258,000. The discount is being amortized over the five-year term. In October 2003, notes payable with a face amount of \$500,000 were converted under their original terms into 51,021 shares of common stock resulting in the accelerated amortization of discounts in the amount of \$118,000. In December 2004, notes payable with a face amount of \$300,000 were converted under their original terms into 30,613 shares of common stock resulting in the accelerated amortization of discounts in the amount of \$50,000. Amortization of discounts during 2007 and 2006 was approximately \$10,000 and \$10,000, respectively. The remaining unamortized discount as of December 31, 2007 was \$3,000.

**Note Payable Held By Donald Sledge**

During 2001, the Company renegotiated the severance terms included in its employment agreement with Donald Sledge, the former Chairman and CEO of the Company. Upon his leaving the Company in May 2001, the Company issued to Mr. Sledge a 7% convertible note, in an aggregate principal amount of \$400,000, due May 2003. Interest was payable at the maturity of the two-year term. In May 2003, the Company and Mr. Sledge agreed to convert the principal and interest due at maturity into a fully amortizing note payable over five years using an effective interest rate of 4.0%. Mr. Sledge was a member of the Company's Board of Directors until March 2007.

**Convertible Note Payable Issued in 2006**

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

investment in the proprietary funds managed by MCF Asset Management, LLC. The maturity date of the note was December 31, 2010.

**MCF CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. Notes Payable, Convertible Notes Payable and Lines of Credit - (continued)**

The debenture was convertible into the Company's common stock at a conversion price of \$9.87 per share, subject to certain anti-dilutive adjustments. The Company could have redeemed all or part of the debenture after three years at 110% of the principal amount being redeemed. The Company could have elected to force conversion of the debenture into common stock if the Company's common stock trades above \$34.58 for 20 consecutive trading days. The debenture contained covenants that could have precluded the Company from issuing additional debt over a specified limit, entering into certain new liens on company assets, repurchasing stock or paying dividends when the debenture remains outstanding with balance of at least \$2 million. Stock warrants to purchase 267,858 shares of common stock at \$9.87 per share were also issued to the investor. The stock warrants have a six year term.

The \$7,500,000 raised in the transaction described above was accounted for under generally accepted accounting principles, primarily APB 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants", SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", EITF Issue 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios", and EITF Issue 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock". The Company accounted for this transaction as the issuance of convertible debt, an embedded derivative referred to as a participation interest obligation, and a detachable stock warrant. The \$7,500,000 was allocated to the derivative using its fair value with the balance allocated to the debt and the stock warrant based on their relative fair value as determined by management. During the third quarter of 2006, the Company obtained an appraisal from a third party to support the fair market values used to allocate the proceeds. Management's initial estimates were adjusted to the appraisal amounts.

The fair value of the stock warrant of \$1,291,000 was recorded as a discount to the convertible debenture and an increase to additional paid-in capital. The fair value of the participation interest obligation of \$2,276,000 was also treated as a discount to the convertible debenture and was based on a forecast of future cash flows to be paid to the lender discounted at a risk adjusted yield. The discount to the convertible debenture of \$3,567,000 was amortized to interest expense using the level yield method over the term of the debenture.

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

**Line of Credit**

The Company has a line of credit with a commercial bank that provides borrowing availability up to \$3,000,000. The line of credit is secured by the assets of the Company and is due upon demand. The interest rate on amounts borrowed is payable monthly at the prime interest rate. As of December 31, 2007 and 2006, there was no borrowing under this line of credit.



## **MCF CORPORATION**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **6. Stockholders' Equity**

##### **Reverse Stock Split**

On August 4, 2006, the Company's Board of Directors approved a one-for-seven reverse stock split of the Company's common stock. The reverse stock split became effective at 11:59 pm, Eastern Time, on November 15, 2006. Pursuant to the reverse stock split, each seven shares of authorized and outstanding common stock was reclassified and combined into one share of new common stock. The reverse stock split did not change the number of authorized shares or the par value per share of common stock or preferred stock designated by the Company's Certificate of Incorporation. Currently, the Company has authorized 300,000,000 shares of common stock and 27,450,000 shares of preferred stock. All references to share and per share data for all periods presented have been retroactively adjusted to give effect to the one-for-seven reverse stock split.

##### **Common Stock**

On January 2, 2007, the Company completed the sale of Catalyst Financial Planning & Investment Management Company back to the founder of Catalyst (see Note No. 9). As part of the sale agreement, the Company received 26,438 shares of MCF Corporation common stock previously issued to the founder of Catalyst in February 2006. These shares were returned to the Company's treasury and classified as treasury stock with a value of \$126,000 as of December 31, 2007.

In May 2005, the Company issued 51,369 shares of common stock in exchange for a promissory note with a face value of \$500,000. In December 2005, the Company learned that the counter-party would not have the financial resources to repay the Company's \$500,000 note receivable at maturity. As a result, the Company recorded a charge to other operating expense in 2005 to write-off the \$500,000 note receivable balance. In April 2006, the Company entered into a settlement agreement with the counter-party. As a result, the Company reversed the \$500,000 charge to write-off the note receivable balance upon the receipt of \$500,000 in April 2006.

#### **7. Acquisition of MedPanel, Inc.**

On April 17, 2007, MCF Corporation acquired 100 percent of the outstanding common shares of MedPanel, Inc. The results of MedPanel's operations have been included in the consolidated financial statements since that date. As a result of the acquisition, the Company began providing independent market data and information to clients in the biotechnology, pharmaceutical, medical device, and financial industries by leveraging MedPanel's proprietary methodology and vast network of medical experts.

The Company paid \$6.1 million in common stock for MedPanel. The value of the 1,547,743 shares of common shares issued was determined based on the average market price of MCF Corporation's common stock over the period including three days before and after the terms of the acquisition were agreed to and announced. The selling stockholders may also be entitled to additional consideration on the third anniversary from the closing which is based upon MedPanel achieving specific revenue and profitability milestones. The payment of the incentive consideration will be 50% in cash and 50% in the Company's common stock and may not exceed \$11,455,000. The Company registered 1,548,119 shares of common stock with the Securities and Exchange Commission on Form S-4, file number 333-138870, originally filed November 21, 2006, as amended.



**MCF CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****7. Acquisition of MedPanel, Inc. - (continued)**

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The allocation of the purchase price is subject to refinement.

|                                                                    | <b>As of<br/>April 17, 2007</b> |
|--------------------------------------------------------------------|---------------------------------|
| Cash and cash equivalents                                          | \$ 670,028                      |
| Accounts receivable                                                | 1,023,325                       |
| Equipment and fixtures                                             | 86,088                          |
| Prepaid expenses and other assets                                  | 174,162                         |
| Intangible assets not subject to amortization:                     |                                 |
| Registered trademarks                                              | 710,000                         |
| Intangible assets subject to amortization:                         |                                 |
| Customer relationships (56 month weighted-average useful life)     | 990,000                         |
| Customer backlog (8 month weighted-average useful life)            | 420,000                         |
| Technology platform (30 month weighted-average useful life)        | 360,000                         |
| Database of registered panelists (24 weighted-average useful life) | 220,000                         |
| Goodwill                                                           | 3,129,667                       |
| <b>Total assets acquired</b>                                       | <b>7,783,270</b>                |
| Accounts payable                                                   | (577,171)                       |
| Accrued expenses                                                   | (420,999)                       |
| <b>Total liabilities assumed</b>                                   | <b>(998,170)</b>                |
| <b>Net assets acquired</b>                                         | <b>\$ 6,785,100</b>             |

The \$3,130,000 of goodwill was assigned to our Primary Research segment. Amortization expense for intangible assets amounted to \$750,000 for the year ended December 31, 2007. The estimated aggregate amortization expense for the years ended December 31, 2008, 2009, 2010 and 2011 are \$466,000, \$358,000, \$221,000 and \$203,000, respectively.

The following unaudited pro forma results of our operations for the years ended December 31, 2007 and 2006 assume the MedPanel acquisition occurred as of January 1, 2006. The pro forma results give effect to certain adjustments, including depreciation, amortization of intangible assets and related income tax effects. The pro forma results have been prepared for comparative purposes only and do not purport to indicate the results of operations which would actually have occurred had the combinations been in effect on the dates indicated or which may occur in the future.

|                                             | <b>2007</b>   | <b>2006</b>    |
|---------------------------------------------|---------------|----------------|
| Total revenue                               | \$ 89,784,394 | \$ 56,829,345  |
| Total operating expenses                    | 78,731,991    | 64,694,049     |
| Operating income (loss)                     | 11,052,403    | (7,864,704)    |
| Net income (loss)                           | \$ 8,916,254  | \$ (9,603,798) |
| Basic net income (loss) per share           | \$ 0.75       | \$ (0.84)      |
| Diluted net income (loss) per share         | \$ 0.68       | \$ (0.84)      |
| Weighted average common shares outstanding: |               |                |
| Basic                                       | 11,963,838    | 11,489,385     |

|         |            |            |
|---------|------------|------------|
| Diluted | 13,103,163 | 11,489,385 |
|---------|------------|------------|

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**MCF CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**8. Goodwill**

The Company has \$3,130,000 of goodwill recorded on the Consolidated Statements of Financial Condition that relates to the Company's acquisition of MedPanel, Inc. (now Panel Intelligence) in April 2007. Goodwill is reviewed for possible impairment at least annually, consistent with valuation methodologies pursuant to FAS 142.

A two-step test is used to determine whether goodwill is impaired. The first step is to compare the carrying value of Panel Intelligence with the fair value of Panel Intelligence. If the carrying value exceeds the fair value, the second step is applied. The second step is to compare the carrying amount of the goodwill with the implied fair value of the goodwill as determined in accordance with FAS 142. Goodwill impairment is recognized if its carrying value exceeds its implied fair value. The determination of fair value includes considerations of projected cash flows and revenue multiples of comparable exchange listed corporations. As of December 31, 2007, the Company noted no indicators of impairment of goodwill.

**9. Discontinued Operations**

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

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

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

As of December 31, 2006, Catalyst is being accounted for as held for sale in accordance with SFAS 144. As a result, the revenue and expenses of Catalyst and MCF Wealth Management, LLC for 2006 and 2005 have been reclassified and included in discontinued operations in the consolidated statements of operations.

**MCF CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****9. Discontinued Operations - (continued)**

The following revenue and expenses have been reclassified as discontinued operations for the years ended December 31, 2006 and 2005:

|                               | <b>2006</b>  | <b>2005</b> |
|-------------------------------|--------------|-------------|
| Revenue                       | \$ 865,808   | \$ 654,405  |
| Operating expenses:           |              |             |
| Compensation and benefits     | 736,536      | 462,720     |
| Professional services         | 34,834       | 10,722      |
| Occupancy and equipment       | 121,794      | 63,781      |
| Communications and technology | 15,410       | 11,094      |
| Depreciation and amortization | 56,137       | 37,873      |
| Travel and entertainment      | 72,260       | 35,104      |
| Other expenses                | 156,563      | 48,166      |
|                               | 1,193,534    | 669,460     |
| Operating loss                | (327,726)    | (15,055)    |
| Interest income, net          | 3,513        | 1,324       |
| Net loss                      | \$ (324,213) | \$ (13,731) |

The following assets and liabilities of operations held for sale have been included in the consolidated statements of financial condition as of December 31, 2006 and 2005:

|                                                                 | <b>December 31,</b> |             |
|-----------------------------------------------------------------|---------------------|-------------|
|                                                                 | <b>2006</b>         | <b>2005</b> |
| Assets:                                                         |                     |             |
| Cash and cash equivalents                                       | \$ 68,503           | \$ 164,118  |
| Accounts receivable                                             | 11,155              | 374         |
| Furniture and equipment                                         | 34,234              | 8,710       |
| Intangible assets, net of accumulated amortization of \$172,417 | 314,963             | 394,456     |
| Prepaid expenses and other assets                               | 24,024              | 27,128      |
|                                                                 | \$ 452,879          | \$ 594,786  |
| Liabilities:                                                    |                     |             |
| Accounts payable                                                | —                   | 9,874       |
| Commissions and bonus payable                                   | 8,368               | 11,652      |
| Accrued liabilities                                             | 87,176              | 180,953     |
| Capital leases                                                  | —                   | 1,273       |
|                                                                 | \$ 95,544           | \$ 203,752  |

**10. Share-Based Compensation Expense****Stock Options**

The 1999 Stock Option Plan, 2000 Stock Option and Incentive Plan, 2001 Stock Option and Incentive Plan, 2003 Stock Option and Incentive Plan, 2004 Non-Qualified Stock Option and Inducement Plan and 2006 Directors' Stock

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

As of December 31, 2007, there were 5,5591,430 shares authorized for issuance under the Option Plans, and 612,858 shares authorized for issuance outside of the Option Plans. As of December 31, 2007, 270,050 shares were available for future option grants under the Option Plans. There were no shares available for future option grants outside of the Options Plans. Compensation expense for stock options during the three years ended December 31, 2007 was \$1,373,000, \$1,336,000, and \$75,000, respectively.

## MCF CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The following table is a summary of the Company's stock option activity for the three years ended December 31, 2007:

|                                  | 2007      |                              | 2006      |                              | 2005      |                              |
|----------------------------------|-----------|------------------------------|-----------|------------------------------|-----------|------------------------------|
|                                  | Shares    | Wtd-Avg<br>Exercise<br>Price | Shares    | Wtd-Avg<br>Exercise<br>Price | Shares    | Wtd-Avg<br>Exercise<br>Price |
| Outstanding at beginning of year | 3,570,370 | \$ 6.19                      | 3,324,358 | \$ 6.24                      | 3,078,001 | \$ 6.25                      |
| Granted                          | 736,640   | 4.82                         | 398,538   | 6.27                         | 460,538   | 8.77                         |
| Exercised                        | (83,939)  | (2.06)                       | (52,819)  | (2.08)                       | (33,938)  | (2.77)                       |
| Canceled                         | (156,812) | (6.76)                       | (99,707)  | (10.38)                      | (180,243) | (13.55)                      |
| Outstanding at end of year       | 4,066,259 | \$ 6.00                      | 3,570,370 | \$ 6.19                      | 3,324,358 | \$ 6.24                      |
| Exercisable at end of year       | 3,084,852 | \$ 6.16                      | 2,934,029 | \$ 6.00                      | 2,677,958 | \$ 6.02                      |

The total intrinsic value of options exercised during the year ended December 31, 2007 was \$190,000.

The following table summarizes information with respect to stock options outstanding at December 31, 2007, based on the Company's closing stock price on December 31, 2007 of \$5.32 per share:

| Options Outstanding at December 31, 2007 |           |                                                    |                                 |                           | Vested Options at December 31, 2007 |                                 |                           |  |
|------------------------------------------|-----------|----------------------------------------------------|---------------------------------|---------------------------|-------------------------------------|---------------------------------|---------------------------|--|
| Range of Exercise Price                  | Number    | Weighted Average Remaining Contractual Life Years) | Weighted Average Exercise Price | Aggregate Intrinsic Value | Number                              | Weighted Average Exercise Price | Aggregate Intrinsic Value |  |
| 1.26 - \$                                |           |                                                    |                                 |                           |                                     |                                 |                           |  |
| \$ 3.50                                  | 1,986,325 | 5.05                                               | \$ 2.99                         | \$ 4,632,309              | 1,986,325                           | \$ 2.99                         | \$ 4,632,309              |  |
| 3.51 - \$                                |           |                                                    |                                 |                           |                                     |                                 |                           |  |
| \$ 7.00                                  | 1,191,228 | 8.20                                               | \$ 4.69                         | 746,781                   | 386,064                             | 4.27                            | 405,367                   |  |
| 7.01 -                                   |           |                                                    |                                 |                           |                                     |                                 |                           |  |
| \$ \$14.00                               | 593,038   | 7.06                                               | \$ 8.94                         | —                         | 416,795                             | 9.20                            | —                         |  |
| 14.01 -                                  |           |                                                    |                                 |                           |                                     |                                 |                           |  |
| \$ \$28.00                               | 256,381   | 2.85                                               | \$ 22.04                        | —                         | 256,381                             | 22.04                           | —                         |  |
| 28.01 -                                  |           |                                                    |                                 |                           |                                     |                                 |                           |  |
| \$ \$49.00                               | 39,287    | 2.15                                               | \$ 49.00                        | —                         | 39,287                              | 49.00                           | —                         |  |
|                                          | 4,066,259 | 6.10                                               | \$ 6.00                         | \$ 5,379,090              | 3,084,852                           | \$ 6.16                         | \$ 5,037,676              |  |

As of December 31, 2007, total unrecognized compensation expense related to unvested stock options was \$3,049,000. This amount is expected to be recognized as expense over a weighted-average period of 1.4 years.



### **Non-Vested Stock**

At the date of grant, the recipients of non-vested stock have most of the rights of a stockholder other than voting rights, subject to certain restrictions on transferability and a risk of forfeiture. Non-vested shares typically vest over a two to four year period beginning on the date of grant. The fair value of non-vested stock is equal to the market value of the shares on the date of grant. The Company recognizes the compensation expense for non-vested stock on a straight-line basis over the requisite service period. Compensation expense for non-vested stock during the three years ended December 31, 2007 was \$1,262,000, \$1,915,000 and \$1,885,000, respectively.

**MCF CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****10. Share-Based Compensation Expense - (continued)**

The following table is a summary of the Company's non-vested stock activity, based on the Company's closing stock price on December 31, 2007 of \$5.32 per share:

|                                 | <b>Non-Vested<br/>Stock<br/>Outstanding</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair Value</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|---------------------------------|---------------------------------------------|-----------------------------------------------------------|------------------------------------------|
| Balance as of December 31, 2004 | 490,893                                     | \$ 7.38                                                   |                                          |
| Granted                         | 324,561                                     | 10.38                                                     |                                          |
| Vested                          | (91,240)                                    | (5.74)                                                    |                                          |
| Canceled                        | (142,802)                                   | (9.91)                                                    |                                          |
| Balance as of December 31, 2005 | 581,412                                     | \$ 7.84                                                   | \$ 4,558,000                             |
| Granted                         | 90,003                                      | 7.16                                                      |                                          |
| Vested                          | (327,900)                                   | (4.19)                                                    |                                          |
| Canceled                        | (37,506)                                    | (10.78)                                                   |                                          |
| Balance as of December 31, 2006 | 306,009                                     | \$ 10.04                                                  | \$ 3,072,000                             |
| Granted                         | 153,828                                     | 4.48                                                      |                                          |
| Vested                          | (257,515)                                   | (7.18)                                                    |                                          |
| Canceled                        | (21,702)                                    | (9.49)                                                    |                                          |
| Balance as of December 31, 2007 | 180,620                                     | \$ 7.51                                                   | \$ 1,356,000                             |

The total intrinsic value of non-vested stock which vested during the year ended December 31, 2007 was \$1,849,000.

As of December 31, 2007, total unrecognized compensation expense related to non-vested stock was \$916,000. This expense is expected to be recognized over a weighted-average period of 1.00 year.

**Employee Stock Purchase Plan**

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

Under the ESPP, eligible employees may enroll in a 24-month offer period during certain open enrollment periods. New offer periods begin February 15 and August 15 of each year. Each offer period consists of four, six-month purchase periods during which employee payroll deductions are accumulated. These deduction amounts, which are subject to certain limitations, are accumulated, and, at the end of each purchase period, are used to purchase shares of common stock. The purchase price of the shares is 15% less than the fair market value on either the first day of an offer period or the last day of a purchase period, whichever is lower. If the fair market value on the purchase date is less than the fair market value on the first day of an offer period, then participants automatically commence a new 24-month offer period. The ESPP has a ten-year term.

**Share-Based Compensation under SFAS 123(R) for 2007 and 2006 and APB 25 for 2005**

On January 1, 2006, the Company adopted SFAS 123(R), which requires the measurement and recognition of compensation expense, based on estimated fair values, for all share-based payments awards made to the Company's employees and directors including stock options, non-vested stock, and stock purchased under the Company's ESPP.

**MCF CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****10. Share-Based Compensation Expense - (continued)**

Prior to the adoption of SFAS 123(R), the Company accounted for share-based awards to employees and directors using the intrinsic value method in accordance with APB 25, as allowed under SFAS 123, "Accounting for Stock-Based Compensation." Share-based compensation expense of \$1,959,000 for the year ended December 31, 2005 was solely related to share-based awards resulting from non-vested stock awards and stock options granted with intrinsic value that the Company had been recognizing in its consolidated statements of operations in accordance with the provisions set forth above. In accordance with the intrinsic value method, no share-based compensation expense was otherwise recognized in the Company's consolidated statements of operations because the exercise price of nearly all of the Company's stock options granted to employees and directors equaled the fair market value of the underlying stock at the grant date.

**Pro Forma Share-Based Compensation under SFAS 123 for Fiscal 2005**

If the Company had recognized compensation expense over the relevant service period under the fair value method consistent with the provisions of SFAS 123, "Accounting for Stock Based Compensation" as amended by SFAS 148, "Accounting for Stock Based Compensation-Transition and Disclosure," with respect to stock options granted for the year ended December 31, 2005, net loss would have changed, resulting in pro forma net loss and pro forma net loss per share as presented below:

|                                                                                                   | <b>2005</b>    |
|---------------------------------------------------------------------------------------------------|----------------|
| Net loss, as reported                                                                             | \$ (1,514,443) |
| Add: Stock-based employee compensation expense included in the reported net loss                  | 74,812         |
| Less: Stock-based employee compensation expense determined under fair value method for all awards | (1,897,647)    |
| Pro forma net loss                                                                                | \$ (3,337,278) |
| Net loss per share, as reported:                                                                  |                |
| Basic                                                                                             | \$ (0.16)      |
| Diluted                                                                                           | \$ (0.16)      |
| Net loss per share, pro forma:                                                                    |                |
| Basic                                                                                             | \$ (0.35)      |
| Diluted                                                                                           | \$ (0.35)      |

The above pro forma disclosures are not necessarily representative of the effects on reported net income or loss for future years.

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

The weighted average fair value of each stock option granted for 2007, 2006 and 2005 was \$2.54, \$3.59 and \$5.55, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for 2007, 2006 and 2005:

|             |             |             |
|-------------|-------------|-------------|
| <b>2007</b> | <b>2006</b> | <b>2005</b> |
|-------------|-------------|-------------|

|                               |       |       |       |
|-------------------------------|-------|-------|-------|
| Volatility                    | 63%   | 81%   | 94%   |
| Average expected term (years) | 4.2   | 4.4   | 3.7   |
| Risk-free interest rate       | 4.55% | 4.75% | 3.85% |
| Dividend yield                | —     | —     | —     |

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**MCF CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**10. Share-Based Compensation Expense - (continued)**

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

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

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

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

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

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

***Assumptions for Option-Based Awards under SFAS 123***

Prior to the first quarter of fiscal 2006, the Company considered the historical volatility of its stock price in determining its expected volatility. The risk-free interest rate was based upon assumption of interest rates appropriate for the term of the Company's employee stock options. The dividend yield assumption was based on the Company's history and expectation of dividend payouts. Forfeitures prior to the first quarter of fiscal 2006 were accounted for as they occurred in accordance with APB No. 25.

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

The fair value of each non-vested stock award is estimated on the date of grant using the intrinsic value method. The weighted average fair value of the non-vested stock granted under the Company's stock option plans for 2007, 2006 and 2005 was \$4.48, \$7.16 and \$10.38 per share, respectively.

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

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

**11. Employee Benefit Plans**

The Company has a 401(k) defined contribution plan. The 401(k) plan allows eligible employees to contribute up to 15% of their compensation, subject to a statutory prescribed annual limit. Employee contributions and earnings thereon vest immediately. Although the Company may make discretionary contributions to the 401(k) plan, none were made during the three years ended December 31, 2007.

## MCF CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 12. Income Taxes

Income tax expense consisted of the following for the three years ended December 31, 2007:

|          | 2007         | 2006 | 2005    |
|----------|--------------|------|---------|
| Current: |              |      |         |
| Federal  | \$ 1,857,783 | \$ — | —       |
| State    | 604,832      | —    | 142,425 |
| Total    | \$ 2,462,165 | \$ — | 142,425 |

The following table reconciles the federal statutory rate to the effective tax rate of the provision for income taxes for the three years ended December 31, 2007:

|                                                 | 2007  | 2006  | 2005  |
|-------------------------------------------------|-------|-------|-------|
| Federal statutory income tax rate (benefit)     | 34%   | (34%) | (34%) |
| State income taxes                              | 8     | (5)   | 3     |
| Loss on retirement of convertible note payable  | —     | 5     | —     |
| Permanent differences                           | 9     | 13    | 10    |
| Losses for which no benefit has been recognized | —     | 21    | 31    |
| Valuation allowance                             | (30%) | —     | —     |
| Effective tax rate                              | 21%   | —%    | 10%   |

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

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets as of December 31, 2007 and 2006 are presented as follows:

|                                         | 2007          | December 31,<br>2006 |
|-----------------------------------------|---------------|----------------------|
| <b>Deferred tax assets:</b>             |               |                      |
| Net operating loss carryforwards        | \$ 16,016,822 | \$ 20,834,803        |
| Stock options and warrants for services | 12,411,225    | 12,771,213           |
| Other                                   | (154,566)     | 26,370               |
| Total deferred tax assets               | 28,273,481    | 33,632,386           |
| Valuation allowance                     | (28,273,481)  | (33,632,386)         |
| Net deferred tax assets                 | \$ —          | \$ —                 |

The net change in the valuation allowance for the year ended December 31, 2007 was a decrease of \$5,359,000. The Company has established a valuation allowance against that portion of deferred tax assets where management was not able to determine that it is more likely than not that the asset will be realized.

As of December 31, 2007, the Company had federal and state operating loss carryforwards of approximately \$42,141,000 and \$21,475,000, respectively. If not earlier utilized, the federal net operating loss carryforward will expire between 2021 and 2027 and the state loss carryforward will expire between 2011 and 2016. Utilization of the



net operating loss carry-forwards and credits is subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation will result in the expiration of a portion of net operating loss carryforwards before utilization.

**MCF CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****12. Income Taxes - (continued)**

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

Upon adoption of FIN 48 on January 1, 2007, the Company recognized no adjustment in the liability for unrecognized income tax benefits and no corresponding change in retained earnings. The Company does not have any material accrued interest or penalties associated with any unrecognized tax benefits. The Company's policy is to account for interest, if any, as interest expense and penalties as income tax expense.

The following is a rollforward of our total gross unrecognized tax benefit liabilities for the year ended December 31, 2007:

|                                        |    |           |
|----------------------------------------|----|-----------|
| Balance as of December 31, 2006        | \$ | -         |
| Tax positions related to current year: |    |           |
| Additions                              |    | 1,838,743 |
| Reductions                             |    | -         |
| Tax positions related to prior year:   |    |           |
| Additions                              |    | -         |
| Reductions                             |    | -         |
| Settlements                            |    | -         |
| Lapses in statutes of limitations      |    | -         |
| Balance as of December 31, 2007        | \$ | 1,838,743 |

The unrecognized benefit arising from current year is due to timing of recognition of principal transaction revenue in 2007. The addition to the above liability affects the Company's effective tax rate in the respective period of change.

The Company's tax years 2004-2006 will remain open for three years for examination by the Internal Revenue Service from the date the federal corporation tax returns were filed. The Company's tax years 2002-2006 will remain open for three to four years for examination by state tax authorities from the date the state corporation tax returns were filed. Net operating losses deducted are subject to review and adjustment for three to four years after the net operating losses are deducted on the U.S. and state returns filed.

## MCF CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 13. Earnings (Loss) per Share

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

|                                                                                      | 2007         | 2006           | 2005           |
|--------------------------------------------------------------------------------------|--------------|----------------|----------------|
| Net income (loss) available to common stockholders — basic                           | \$ 9,323,035 | \$ (8,220,415) | \$ (1,514,443) |
| Interest on convertible note payable                                                 | 16,336       | —              | —              |
| Net income (loss) available to common stockholders — diluted                         | 9,339,371    | (8,220,415)    | (1,514,443)    |
| Weighted-average number of common shares — basic                                     | 11,528,187   | 9,989,265      | 9,500,748      |
| Assumed exercise or conversion of all potentially dilutive common shares outstanding | 1,115,337    | —              | —              |
| Weighted-average number of common shares — diluted                                   | 12,643,524   | 9,989,265      | 9,500,748      |
| Basic net income (loss) per share:                                                   |              |                |                |
| Income (loss) from continuing operations                                             | \$ 0.81      | \$ (0.79)      | \$ (0.16)      |
| Loss from discontinued operations                                                    | —            | (0.03)         | —              |
| Net income (loss)                                                                    | \$ 0.81      | \$ (0.82)      | \$ (0.16)      |
| Diluted net income (loss) per share:                                                 |              |                |                |
| Income (loss) from continuing operations                                             | \$ 0.74      | \$ (0.79)      | \$ (0.16)      |
| Loss from discontinued operations                                                    | —            | (0.03)         | —              |
| Net income (loss)                                                                    | \$ 0.74      | \$ (0.82)      | \$ (0.16)      |

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding, excluding unvested restricted stock. Diluted earnings per share is calculated for 2007 by dividing net income by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares outstanding, including unvested restricted stock. Diluted loss per share is unchanged from basic loss per share for 2006 and 2005 because the addition of common shares that would be issued assuming exercise or conversion would be anti-dilutive.

Shares used in the diluted net income (loss) per share computation in the above table include the dilutive impact of the Company's stock options and warrants. The impact of the Company's stock options and warrants on shares used for the diluted earnings per share computation is calculated based on the average share price of the Company's common stock for each period using the treasury stock method. Under the treasury stock method, the tax-effected proceeds that would be hypothetically received from the exercise of all stock options and warrants with exercise prices below the average share price of the Company's common stock are assumed to be used to repurchase shares of the Company's common stock. The dilutive impact of the Company's stock options was calculated using an average price of the Company's common stock of \$4.56, \$6.41 and \$8.68 per share for 2007, 2006 and 2005, respectively.

**MCF CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****13. Earnings (Loss) per Share - (continued)**

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

|                                                                                                                                                                                               | 2007      | 2006      | 2005      |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|
| Stock options and warrants excluded due to the exercise price exceeding the average fair value of the Company's common stock during the period                                                | 1,799,523 | 1,397,022 | 1,150,239 |
| Weighted average restricted stock, stock options and stock warrants, calculated using the treasury stock method, that were excluded due to the Company reporting a net loss during the period | —         | 1,833,389 | 2,450,587 |
| Weighted average shares issuable upon conversion of the convertible notes payable                                                                                                             | —         | 704,960   | 142,858   |
| Weighted average shares contingently issuable                                                                                                                                                 | —         | 73,402    | 136,376   |
| Total common stock equivalents excluded from diluted net income (loss) per share                                                                                                              | 1,799,523 | 4,008,773 | 3,880,060 |

**14. Business Segments**

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

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

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

The Company's segment information for the three years ended December 31, 2007 is prepared using the following methodology:

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

technology, depreciation and amortization, amortization of intangible assets, travel and business development and other operating expenses.

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

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

## MCF CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 14. Business Segments - (continued)

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

|                     |                          | 2007           | 2006           | 2005           |
|---------------------|--------------------------|----------------|----------------|----------------|
| Broker-Dealer       | Revenue                  | \$ 83,089,485  | \$ 51,436,697  | \$ 43,184,315  |
|                     | Operating expenses       | 60,251,106     | 49,720,757     | 35,566,525     |
|                     | Segment operating income | \$ 22,838,379  | \$ 1,715,940   | \$ 7,617,790   |
|                     | Segment assets           | \$ 53,653,805  | \$ 27,501,531  | \$ 25,743,423  |
| Primary Research    | Revenue                  | \$ 3,848,421   | \$ —           | —              |
|                     | Operating expenses       | 5,492,759      | —              | —              |
|                     | Segment operating loss   | \$ (1,644,338) | \$ —           | —              |
|                     | Segment assets           | \$ 6,771,371   | \$ —           | —              |
| Asset Management    | Revenue                  | \$ 718,086     | \$ 381,941     | —              |
|                     | Operating expenses       | 1,186,479      | 761,805        | 250,695        |
|                     | Segment operating loss   | \$ (468,393)   | \$ (379,864)   | \$ (250,695)   |
|                     | Segment assets           | \$ 3,363,019   | \$ 1,231,842   | \$ 340,838     |
| Corporate Support   | Operating loss           | \$ 9,264,315   | \$ 7,833,368   | \$ 9,095,552   |
| Consolidated Entity | Revenue                  | \$ 87,655,992  | \$ 51,818,638  | \$ 43,184,315  |
|                     | Operating expenses       | 76,194,659     | 58,315,930     | 44,912,772     |
|                     | Operating income (loss)  | \$ 11,461,333  | \$ (6,497,292) | \$ (1,728,457) |
|                     | Total assets             | \$ 64,573,331  | \$ 30,498,213  | \$ 27,694,413  |

## 15. Commitments and Contingencies

The following is a table summarizing significant commitments as of December 31, 2007, consisting of debt service payments related to convertible and non-convertible notes payable and future minimum lease payments under all non-cancelable operating leases and capital leases with initial or remaining terms in excess of one year.

| Notes Payable | Operating Leases | Capital Leases |
|---------------|------------------|----------------|
|---------------|------------------|----------------|

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|                   |    |         |               |            |
|-------------------|----|---------|---------------|------------|
| 2008              | \$ | 243,573 | 2,628,402     | 563,526    |
| 2009              |    | —       | 2,444,011     | 341,674    |
| 2010              |    | —       | 2,019,930     | 50,880     |
| 2011              |    | —       | 1,923,516     | —          |
| 2012              |    | —       | 1,174,323     | —          |
| Thereafter        |    | —       | 572,000       | —          |
| Total commitments | \$ | 243,573 | \$ 10,762,182 | \$ 956,080 |

The Company leases its San Francisco corporate office under a noncancelable operating lease which expires in August 2011. Future annual minimum lease payments related to its various operating leases are included in the table above. Rent expense was approximately \$1,106,000, \$1,043,000 and \$1,006,000 in 2007, 2006 and 2005, respectively.

**MCF CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**15. Commitments and Contingencies - (continued)**

**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.

**Other Matters**

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

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

**Financial Instruments**

The Company's broker-dealer entity trades securities that are primarily traded in United States markets. As of December 31, 2007 and 2006, the Company had not entered into any transactions involving financial instruments, such as financial futures, forward contracts, options, swaps or derivatives that would expose the Company to significant related off-balance-sheet risk.

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



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

**MCF CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Off-Balance Sheet Arrangements**

The Company was not a party to any off-balance sheet arrangements during the three years ended December 31, 2007. In particular, the Company does not have any interest in so-called limited purpose entities, which include special purpose entities and structured finance entities.

**Credit Risk**

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

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

**17. Regulatory Requirements**

Merriman Curhan Ford & Co. is a broker-dealer subject to Rule 15c3-1 of the Securities and Exchange Commission, which specifies uniform minimum net capital requirements, as defined, for their registrants. As of December 31, 2007, Merriman Curhan Ford & Co. had regulatory net capital, as defined, of \$17,848,000, which exceeded the amount required by \$16,419,000. Merriman Curhan Ford & Co. is exempt from Rules 15c3-3 and 17a-13 under the Securities Exchange Act of 1934 because it does not carry customer accounts, nor does it hold customer securities or cash.

**18. Related Party Transactions**

As described in Note 5, the Company issued a \$400,000 convertible note payable during 2001 to the former Chairman and CEO of the Company in connection with severance terms included in his employment agreement. In May 2003, the Company and Mr. Sledge agreed to convert the principal and interest due at maturity into a five year fully amortizing note payable. As of December 31, 2007, the remaining principal amount of the note payable was \$42,000. Mr. Sledge served as a member of the Company's Board of Directors until March 2007.

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

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

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The table below sets forth the operating results represented by certain items in the Company's consolidated statements of operations for each of the eight quarters in the period ended December 31, 2007. This information is unaudited, but in the Company's opinion reflects all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of such information in accordance with generally accepted accounting principles. The results for any quarter are not necessarily indicative of results for any future period.

|                                            | 2007 |             |     |             |     |             |     |            |
|--------------------------------------------|------|-------------|-----|-------------|-----|-------------|-----|------------|
|                                            | 1st  |             | 2nd |             | 3rd |             | 4th |            |
| Revenue                                    | \$   | 14,323,144  | \$  | 20,372,349  | \$  | 17,660,194  | \$  | 35,300,305 |
| Operating expenses                         |      | 14,322,037  |     | 18,077,573  |     | 17,588,823  |     | 26,206,226 |
| Operating income                           |      | 1,107       |     | 2,294,776   |     | 71,371      |     | 9,094,079  |
| Net income                                 |      | 69,256      |     | 2,320,373   |     | 188,460     |     | 6,744,946  |
| Basic net income per common share          | \$   | 0.01        | \$  | 0.20        | \$  | 0.02        | \$  | 0.56       |
| Diluted net income per common share        | \$   | 0.01        | \$  | 0.18        | \$  | 0.01        | \$  | 0.51       |
|                                            | 2006 |             |     |             |     |             |     |            |
|                                            | 1st  |             | 2nd |             | 3rd |             | 4th |            |
| Revenue                                    | \$   | 11,560,302  | \$  | 14,864,866  | \$  | 7,426,490   | \$  | 17,966,980 |
| Operating expenses                         |      | 12,897,544  |     | 15,535,834  |     | 12,717,715  |     | 17,164,837 |
| Operating income (loss)                    |      | (1,337,242) |     | (670,968)   |     | (5,291,225) |     | 802,143    |
| Net income (loss)                          |      | (1,349,608) |     | (1,059,935) |     | (5,109,051) |     | (701,821)  |
| Basic net income (loss) per common share   | \$   | (0.14)      | \$  | (0.11)      | \$  | (0.51)      | \$  | (0.07)     |
| Diluted net income (loss) per common share | \$   | (0.14)      | \$  | (0.11)      | \$  | (0.51)      | \$  | (0.07)     |

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

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

During the year ended December 31, 2007 and through the date of this Annual Report on Form 10-K, there were no disagreements with Ernst & Young LLP on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure which, if not resolved to Ernst & Young LLP's satisfaction, would have caused them to make reference to the subject matter in connection with their report on our consolidated financial statements; and there were no reportable events as set forth in applicable SEC regulations.

### **Item 9a. Controls and Procedures**

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

Based on their evaluation as of December 31, 2007, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

*Management's Report on Internal Control Over Financial Reporting* - Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control—Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2007.

*Changes in internal controls* - No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) of the Exchange Act) occurred during the quarter ended December 31, 2007, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Item 9b. Other Information**

Not applicable.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of  
MCF Corporation and subsidiaries

We have audited MCF Corporation and subsidiaries (the “Company”)’s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of the Company as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2007 of the Company and our report dated February 11, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Francisco, California

February 11, 2008

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**PART III****Item 10. Directors and Executive Officers of the Registrant**

The table below sets forth certain information concerning each of the Directors and executive officers of MCF Corporation:

| <b>Name</b>            | <b>Age</b> | <b>Position</b>                       |
|------------------------|------------|---------------------------------------|
| D. Jonathan Merriman   | 47         | Chief Executive Officer               |
| Gregory S. Curhan      | 46         | Executive Vice President              |
| Robert E. Ford         | 47         | President and Chief Operating Officer |
| John D. Hiestand       | 39         | Chief Financial Officer               |
| Christopher L. Aguilar | 46         | General Counsel                       |
| Patrick H. Arbor       | 71         | Director                              |
| William J. Febbo       | 39         | Director                              |
| Raymond J. Minehan     | 66         | Director                              |
| Scott Potter           | 39         | Director                              |
| Dennis G. Schmal       | 60         | Director                              |
| Ronald E. Spears       | 59         | Director                              |
| John M. Thompson       | 69         | Chairman of the Board of Directors    |
| Steven W. Town         | 47         | Director                              |

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

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

from June 1985 through June 1988. From August 1983 to May 1985, Mr. Curhan was a financial analyst in the investment banking group at Merrill Lynch. Mr. Curhan earned his Bachelor of Arts degree from Dartmouth College.

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



**John D. Hiestand** joined MCF Corporation as the Controller in January 2002 and became Chief Financial Officer in January 2004. From December 2000 to November 2001, he served as the Controller of the Metro-Switching Division at CIENA Corporation. Mr. Hiestand had come to CIENA through the merger with Cyras Systems, Inc., where he served as the Controller from March 2000 to December 2000. Prior to joining Cyras Systems, Inc., Mr. Hiestand served as a Senior Manager in the audit practice at KPMG LLP in San Francisco. Mr. Hiestand received a Bachelor of Arts in Business from California Polytechnic State University at San Luis Obispo in 1991, and holds the Certified Public Accountant (CPA) and Chartered Financial Analyst (CFA) designations.

**Christopher L. Aguilar** has served as General Counsel of MCF Corporation from March 2000 to present and serves as General Counsel and Chief Compliance Officer of Merriman Curhan Ford & Co. He brings 15 years of legal and regulatory experience to the Company. From August 1995 to March 2000, Mr. Aguilar was a partner at Bradley, Curley & Asiano, a San Francisco law firm, where he represented the interests of public and private corporations, small businesses and individuals in commercial litigation. Mr. Aguilar has also worked for the San Francisco City Attorney and Alameda County District Attorney's offices. Mr. Aguilar received his juris doctorate degree from the University of California, Hastings College of the Law. He also attended Oxford University as an undergraduate and received his Bachelor of Arts degree from the Integral Program at St. Mary's College of California where he was included in Who's Who among American Colleges and Universities. Mr. Aguilar is presently an adjunct professor at University of California, Hastings College of the Law.

**Patrick H. Arbor** has served as a member of our Board of Director since February 2001 and has served as a member of the audit committee since April 2001. Mr. Arbor is currently Chairman of United Financial Holdings Inc., a bank holding company. Mr. Arbor has been a principal of the trading firm of Shatkin-Arbor & Co. from 1997 to the present time. He is a longtime member of the Chicago Board of Trade (CBOT), the world's oldest derivatives exchange, serving as the organization's Chairman from 1993 to 1999. During that period, Mr. Arbor also served on the Board of Directors of the National Futures Association. Prior to that, he served as Vice Chairman of the CBOT for three years and ten years as a Director. Mr. Arbor's other exchange memberships include the Chicago Board Options Exchange, the Mid-America Commodity Exchange and the Chicago Stock Exchange. Mr. Arbor received his undergraduate degree in business and economics from Loyola University.

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

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

the rank of Captain. Mr. Minehan received his Bachelor of Arts degree in Finance from Golden Gate University.

**Scott Potter** became a Director of MCF Corporation in August 2004 and has served as a member of our nominations committee since November 2005. From February 2005 until the present, he has served as a Managing General Partner of San Francisco Equity Partners (SFEP), a private equity firm focused on expansion stage companies within the information technology, media, consumer, and service industries. Prior to founding SFEP in February 2005, Mr. Potter served as Director of LMS Capital, the venture capital arm of London Merchant Securities plc (LON:LMSO) from January 2003 to February 2005, where Mr. Potter oversaw LMS' North American Private Equity portfolio. Prior to joining LMS, Mr. Potter held the position of Senior Vice President, Field Operations at Inktomi Corporation from August 2002 to January 2003 where he had responsibility for Inktomi's sales force, business development, consulting services, and field offices. From January 2000 to August 2002, Mr. Potter served as President and CEO of Quiver, Inc., an enterprise software company funded by some of the world's leading Venture Capital firms. Under Mr. Potter's leadership, Quiver became a leading company in the Information Management space, and ultimately was acquired by Inktomi in August of 2002. Prior to his tenure at Quiver, Mr. Potter was Executive Vice President in charge of business development and corporate development at Worldres, Inc., an online travel technology company. Mr. Potter's career began as an attorney for one of Silicon Valley's leading law firms, Venture Law Group. A frequent speaker at technology industry conferences and investor forums, Mr. Potter holds a BA in Industrial Psychology from the University of California at Berkeley and a JD Degree from UC Berkeley's Boalt Hall School of Law. Mr. Potter currently serves as Chairman of The Guild, Inc. and serves on the board of directors of Method Products, Modviz, Penguin Computing, and Rave Motion Pictures.

**Dennis G. Schmal** has served as a member of our Board of Directors and as a member of our audit committee since August 2003. Mr. Schmal has also served as a member of our compensation committee since March 2007. From February 1972 to April 1999, Mr. Schmal served as a partner in the audit practice at Arthur Andersen LLP. Mr. Schmal now performs a variety of consulting services for a number of companies. As a senior business advisor with special focus in finance, he has extensive knowledge of financial reporting and holds the CPA designation. Besides serving on the boards of two private companies, Mr. Schmal also serves on the Board of Directors for Varian Semiconductor Equipment Associates, Inc. (VSEA), a public company. Mr. Schmal attended California State University, Fresno where he received a Bachelor of Science in Business Administration- Finance and Accounting Option.

**Ronald E. Spears** has served as a member of our Board of Directors from March 2000 to present and served as a member of the Audit Committee from April 2001 to August 2003. Since March 2002, Mr. Spears has served as President of AT&T's Signature Client Group, the sales organization that serves AT&T's largest 325 Global accounts. From October 1990 until joining AT&T in 2002, Mr. Spears served in a number of early stage ventures primarily involved in the development and sale of technology solutions to large corporate enterprises. During this time, he served as Chief Operating Officer of e.Spire Communications, an East Coast CLEC; Chief Executive Officer of CMGI Solutions, an Internet Professional Services firm; and Chief Executive Officer of Vaultus, a wireless software company. In these roles, he led several successful equity and debt offerings for these ventures. Mr. Spears also served in various capacities at MCI Communications from 1979 to 1990; his last position was President of MCI's Midwest Division from 1984 to 1990. A pioneer of the competitive long distance industry, Mr. Spears began his career in telecommunications as a manager at AT&T Long Lines in 1978, following eight years as an officer in the United States Army. He is a graduate of the United States Military Academy at West Point, and also holds a Master's Degree in Public Service from Western Kentucky University.

**John M. Thompson** has served as Chairman of our Board of Directors since November 2007. An experienced business advisor, Mr. Thompson has chaired several boards of directors, including Arthur D. Little and MedPanel, Inc. (now Panel Intelligence, LLC, a wholly owned subsidiary), and served on others. In his last executive position, he served as chairman and Chief Executive Officer of CSC Europe, overseeing all European operations for the Computer Sciences Corporation (NYSE: CSC). Prior to that, he was Vice Chairman of Index Group, the company that pioneered the concepts of process redesign and business reengineering. Mr. Thompson is well known on both sides of the Atlantic as a management consultant, helping better position firms for stronger growth. In the 1960's he was a

co-founder of Interactive Data Corporation (NYSE:IDC). Mr. Thompson has been a guest faculty member at several universities including Harvard, MIT and Wharton, and he holds an M.A. from Cambridge University.

**Steven W. Town** has served as a member of our Board of Directors from October 2000 to present and has served as a member of the compensation committee since April 2001. Mr. Town has served as Co-Chief Executive Officer of the Amerex Natural Gas, Amerex Power and Amerex Bandwidth, Ltd. Mr. Town began his commodities career in 1987 in the retail futures industry prior to joining the Amerex Group of Companies. He began the Amerex futures and forwards brokerage group in natural gas in 1990, in Washington D.C., and moved this unit of Amerex to Houston in 1992. During Mr. Town's tenure as Co-Chief Executive Officer, the Amerex companies have become the leading brokerage organizations in their respective industries. Amerex currently provides energy, power and bandwidth brokerage services to many of the major energy companies. Mr. Town is a graduate of Oklahoma State University.

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

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

The information set forth under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” is incorporated by reference to the Company’s definitive 2008 Proxy Statement.

#### **Audit Committee Financial Expert**

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

#### **Financial Code of Ethics**

The Company has adopted its “Finance Code of Professional Conduct”, a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer and other finance organization employees. The finance code of ethics is publicly available on our website at [www.merrimanco.com](http://www.merrimanco.com). If we make any substantive amendments to the finance code of ethics or grant any waiver, including any implicit waiver, from a provision of the code to our Chief Executive Officer or Chief Financial Officer, we will disclose the nature of such amendment or waiver on that website or in a report on Form 8-K.

#### **Item 11. Executive Compensation**

The information is incorporated by reference to the Company’s definitive 2008 Proxy Statement.

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

The information is incorporated by reference to the Company’s definitive 2008 Proxy Statement.

#### **Item 13. Certain Relationships and Related Transactions**

The information is incorporated by reference to the Company’s definitive 2008 Proxy Statement.

#### **Item 14. Principal Accounting Fees and Services**

The information is incorporated by reference to the Company’s definitive 2008 Proxy Statement.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

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

2. Financial Statement Schedules

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

3. Exhibits

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

**SIGNATURES**

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

**MCF Corporation**

February 12, 2008

By: /s/ D. Jonathan Merriman

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D. Jonathan Merriman,  
Chief Executive Officer

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

| <b>Signature</b>                                 | <b>Title</b>                                                | <b>Date</b>          |
|--------------------------------------------------|-------------------------------------------------------------|----------------------|
| /s/ D. Jonathan Merriman<br>D. Jonathan Merriman | Chief Executive Officer                                     | February 12,<br>2008 |
| /s/ John D. Hiestand<br>John D. Hiestand         | Chief Financial Officer and<br>Principal Accounting Officer | February 12,<br>2008 |
| /s/ John M. Thompson<br>John M. Thompson         | Chairman of the Board of Director                           | February 12,<br>2008 |
| /s/ Patrick H. Arbor<br>Patrick H. Arbor         | Director                                                    | February 12,<br>2008 |
| /s/ William J. Febbo<br>William J. Febbo         | Director                                                    | February 12,<br>2008 |
| /s/ Raymond J. Minehan<br>Raymond J. Minehan     | Director                                                    | February 12,<br>2008 |
| /s/ Scott Potter<br>Scott Potter                 | Director                                                    | February 12,<br>2008 |
| /s/ Dennis G. Schmal<br>Dennis G. Schmal         | Director                                                    | February 12,<br>2008 |
| /s/ Ronald E. Spears<br>Ronald E. Spears         | Director                                                    | February 12,<br>2008 |
| /s/ Steven W. Town<br>Steven W. Town             | Director                                                    | February 12,<br>2008 |





## EXHIBIT INDEX

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                                                                                        |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1         | Certificate of Incorporation, as amended (incorporated herein by reference to Exhibit 3.1 to MCF's Registration Statement on Form S-1 (Reg. No. 333-37004)).                                                                                                                                                                                                                       |
| 3.3         | Amended and Restated Bylaws, as amended. (incorporated by reference to Exhibit 10.3 to MCF's Registration Statement on Form S-1 (Reg. No. 333-53316)).                                                                                                                                                                                                                             |
| 4.1         | Form of Convertible Subordinated Note related to MCF private financing, dated November 26, 2001 (incorporated by reference to Exhibit 4.1 to MCF's Form 10-K for the year ended December 31, 2001) (Reg. No. 001-15831).                                                                                                                                                           |
| 4.2         | Form of Class A Redeemable Warrant to Purchase Common Stock of MCF related to MCF Corporation private financing, dated November 26, 2001 (incorporated by reference to Exhibit 4.2 to MCF's Form 10-K for the year ended December 31, 2001) (Reg. No. 001-15831).                                                                                                                  |
| 10.13+      | Employment Agreement between MCF and D. Jonathan Merriman dated October 5, 2000 (incorporated herein by reference to Exhibit 10.15 to MCF's Registration Statement on Form S-1 (Reg. No. 333-53316)).                                                                                                                                                                              |
| 10.15+      | 1999 Stock Option Plan (incorporated herein by reference to Exhibit 4.1 to MCF's Registration Statement on Form S-8 (Reg. No.333-43776)).                                                                                                                                                                                                                                          |
| 10.16+      | Form of Non-Qualified, Non-Plan Stock Option Agreement dated February 24, 2000 between MCF and Phillip Rice, Nick Cioll, Paul Wescott, Ross Mayfield, Russ Matulich, Terry Ginn, Donald Sledge, Christopher Vizas, Douglas Cole, Ronald Spears and Jonathan Merriman (incorporated by reference to Exhibit 4.2 to MCF's Registration Statement on Forms S-8 (Reg. No. 333-43776)). |
| 10.17+      | Schedule of non-plan option grants made under Non-Qualified, Non-Plan Stock Option Agreements to directors and executive officers (incorporated herein by reference to Exhibit 10.19 to MCF's Registration Statement on Form S-1 (Reg. No. 333-53316)).                                                                                                                            |
| 10.18+      | 2000 Stock Option and Incentive Plan, as amended (incorporated herein by reference to Exhibit 10.20 to MCF's Registration Statement on Form S-1 (Reg. No. 333-53316)).                                                                                                                                                                                                             |
| 10.23       | Master Equipment Lease Agreement dated March 16, 2000 (incorporated by reference to Exhibit 10.6 to MCF's Registration Statement on Form S-1 (Reg. No. 333-37004)).                                                                                                                                                                                                                |
| 10.29       | Agreement between MCF and BL Partners related to RMG Partners Corporation, dated April 8, 2001 (incorporated by reference to Exhibit 10.1 to MCF's Form 10-Q for the quarter ended June 30, 2001) (Reg. No. 001-15831).                                                                                                                                                            |

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

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

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+ Represents management contract or compensatory plan or arrangement.