MCF CORP
Form 10-K
February 15, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the Fiscal Year ended December 31, 2006

o 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

MCF CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**11-2936371** (I.R.S. Employer Identification No.)
600 California Street, 9th Floor **San Francisco, CA** (Address of Principal Executive Offices)	**94108** (Zip Code)

(415) 248-5600
(Registrant's Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, $0.0001 per share

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 o No x

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

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

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. o

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 o Accelerated filer x Non-accelerated filer o

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

The aggregate market value of the 9,694,647 shares of common stock of the Registrant issued and outstanding as of June 30, 2006, the last business day of the registrant's most recently completed second fiscal quarter, excluding 841,827 shares of common stock held by affiliates of the Registrant was $69,898,405. This amount is based on the closing price of the common stock on the American Stock Exchange of $7.21 per share on June 30, 2006.

The number of shares of Registrant's common stock outstanding as of February 13, 2007 was 10,591,309.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain portions of the Registrant's proxy statement for its 2007 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 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 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 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 banking, equity research, institutional brokerage and asset management through our operating subsidiaries, Merriman Curhan Ford & Co. and MCF Asset Management, LLC. We focus on providing a full range of specialized and integrated services to institutional investors and corporate clients.

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 and trading of 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.

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, 2006, assets under management across our three fund products were nearly $30 million.

We acquired Catalyst Financial Planning & Investment Management, Inc. in February 2005. Catalyst, a Registered Investment Advisor, provides investment advice to clients that have invested approximately $130 million of assets. In January 2007, we sold Catalyst in order to focus on other recurring-revenue businesses, such as primary research and asset management, which we believe are faster growing and more profitable opportunities.

In November 2006, we signed a definitive agreement to acquire MedPanel, Inc., a privately-held company based in Cambridge, Massachusetts. Upon the closing of this acquisition, we will begin offering primary research services to top biotechnology, pharmaceutical, medical device, and financial services companies. Clients will pay subscription fees directly to MedPanel for access to its online research platform, providing clients with greater strategic direction for investment decisions, product development, and marketing.

We are headquartered in San Francisco, with additional offices in New York City, Newport Beach and Portland, Oregon. As of December 31, 2006, we had 166 employees. Merriman Curhan Ford & Co. is registered with the

Securities and Exchange Commission as a broker-dealer and is a member of the National Association of Securities Dealers, Inc. and the Securities Investors Protection Corporation. MCF Asset Management, LLC is registered with the Securities and Exchange Commission.

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Principal Services

We have three business segments: the investment bank and securities broker-dealer, asset management and wealth management. Our investment bank and broker-dealer provides three service offerings: investment banking, brokerage and equity research. 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. We will add primary research as an additional business segment upon the closing of the MedPanel, Inc. acquisition.

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, 2006, we had 29 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 550 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.

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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, 2006, we were a market maker in approximately 970 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 2006 by adding new customers, and increasing the penetration of existing institutional customers that use our equity research and trading services in their investment process.

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 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, 2006, ICD clients have invested over $12 billion in money market funds from which ICD earns brokerage fees. ICD is a division of Merriman Curhan Ford & Co.

Capital Access Group. During 2006, we began raising 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 200 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, 2006, approximately 75% 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.

In December 2006, Merriman Curhan Ford & Co. was ranked by *The Motley Fool's* new research performance database, CAPS, which tracks the outperform and underperform stock ratings from professional and individual investors. Among professional analysts, Merriman Curhan Ford & Co. ranked fourth out of 116 firms tracked, with 72 percent stock picking accuracy.

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 research analysts include:

Telecommunications	**Next-Generation Energy**	**Health Care**
• Communications Technology • Communications Services • Wireless Technology	• Next-Generation Energy • Industry Technology	• Aging and Aesthetics • Infectious Disease and Oncology • Pain, Lifestyle and Stress
Technology		**Consumer**
• Internet Applications and Services • Digital Consumer Semiconductors • Semiconductor Capital Equipment • Semiconductor Assembly and Test Outsourcing • Computer Hardware and Networking		• Gaming • Media and Entertainment • Restaurants • Retail and Apparel • Branded Consumer • Retail: Specialty

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.

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. 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 market place and we plan to launch additional products in 2007.

Primary Research

In November 2006, we signed a definitive agreement to acquire MedPanel, Inc. Upon the closing of this acquisition, we will begin offering primary research services. MedPanel offers customized qualitative, quantitative and syndicated health care and medical research, and is best known for its in-depth, customized online focus groups. MedPanel, Inc. offers an online research platform providing clients across the globe greater strategic direction for investment decisions, product development, and marketing. By leveraging its proprietary methodology and vast network of medical experts, we believe we can quickly provide independent market data and information to clients in the biotechnology, pharmaceutical, medical device, and financial industries.

MedPanel's product and service offerings arise from the intelligent application of its core technology and research platform. MedPanel's 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, MedPanel has developed proprietary research products which it markets to multiple clients. These reports provide timely, consistent and cross-comparable data on a regular basis to subscribing clients.

MedPanel has experienced five consecutive years of revenue growth, recognizing approximately $5 million in revenue during 2006. We believe that once our firms have combined, MedPanel's revenue growth from financial services clients, such as mutual fund managers and hedge fund mangers, will accelerate due to the ability of the combined company to market MedPanel research through our existing institutional sales force. MedPanel has recently expanded their target market from biotechnology and pharmaceutical companies to investment managers and had not expended significant resources in that area. 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.

Wealth Management (Discontinued)

In February 2005, we acquired Catalyst Financial Planning & Investment Management, Inc. Catalyst is a Registered Investment Advisor registered with the SEC. Catalyst provides investment advice to clients that have invested approximately $130 million of assets. In January 2007, we sold Catalyst in order to focus on other recurring-revenue businesses, such as primary research and asset management, which we believe are faster growing and more profitable opportunities. While we currently do not have any specific plans, we do intend to pursue a wealth management strategy at some future date.

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. See "Item 1A. Risk Factors—Our business is dependent on the services of skilled professionals…" and—"Our business may suffer if we lose the services..."

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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 the National Association of Securities Dealers, Inc., or NASD, we are subject to the net capital requirements of the SEC and the NASD. 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 the NASD.

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 NASD 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, NASD 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. 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

Investing in our securities involves a high degree of risk. In addition to the other information contained in this annual report, including reports we incorporate by reference, you should consider the following factors before investing in our securities.

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.

The markets for securities brokerage and investment banking services are highly competitive. If we are not able to compete successfully against current and future competitors, our business and results of operations will be adversely affected.

We are engaged in the highly competitive financial services and investment industries. We compete with large Wall Street securities firms, securities subsidiaries of major commercial bank holding companies, U.S. subsidiaries of large foreign institutions, major regional firms, smaller niche players, and those offering competitive services via the Internet. 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.

Increased pressure created by any current or future competitors, or by our competitors collectively, could materially and adversely affect our business and results of operations. Increased competition may result in reduced revenue and loss of market share. Further, as a strategic response to changes in the competitive environment, we may from time to time make certain pricing, service or marketing decisions or acquisitions that also could materially and adversely affect our business and results of operations. We cannot assure you that we will be able to compete successfully against current and future competitors. In addition, new technologies and the expansion of existing technologies may increase the competitive pressures on us.

We may experience reduced revenue due to declining market volume, securities prices and liquidity, which can also cause counterparties to fail to perform.

Our revenue may decrease in the event of a decline in the market volume of securities transactions, prices or liquidity. Declines in the volume of securities transactions and in market liquidity generally result in lower revenue from trading activities and commissions. Lower price levels of securities may also result in a reduction in our revenue from corporate finance fees, as well as losses from declines in the market value of securities held by us in trading. Sudden sharp declines in market values of securities can result in illiquid markets and the failure of counterparties to perform their obligations, as well as increases in claims and litigation, including arbitration claims from customers. In such markets, we may incur reduced revenue or losses in our principal trading, market-making, investment banking, and advisory services activities.

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

We conduct 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.

We may experience significant fluctuations in our quarterly operating results due to the nature of our business and therefore may fail to meet profitability expectations.

Our revenue and operating results may fluctuate from quarter to quarter and from year to year due to a combination of factors, including:

- the level of institutional brokerage transactions and the level of commissions we receive from those transactions;
- the valuations of our principal investments;
- the number of capital markets transactions completed by our clients, and the level of fees we receive from those transactions; and
- variations in expenditures for personnel, consulting and legal expenses, and expenses of establishing new business units, including marketing and technology expenses.

We record revenue from a capital markets advisory transaction only when we have rendered the services, the client is contractually obligated to pay and collection is probable; generally, most of the fee is earned only upon the closing of a transaction. Accordingly, the timing of our recognition of revenue from a significant transaction can materially affect our quarterly operating results.

We have registered one of our subsidiaries as a securities broker-dealer and, as such, are subject to substantial regulations. If we fail to comply with these regulations, our business will be adversely affected.

Because we have registered Merriman Curhan Ford & Co. with the Securities and Exchange Commission, or SEC, and the National Association of Securities Dealers, Inc., or NASD, as a securities broker-dealer, we are subject to extensive regulation under federal and state laws, as well as self-regulatory organizations. The principal purpose of regulation and discipline of broker-dealers is the protection of customers and the securities markets rather than protection of creditors and stockholders of broker-dealers. The Securities and Exchange Commission is the federal agency charged with administration of the federal securities laws. Much of the regulation of broker-dealers, however, has been delegated to self-regulatory organizations, such as the NASD and national securities exchanges. The NASD is our primary self-regulatory organization. These self-regulatory organizations adopt rules, which are subject to SEC approval, that govern the industry and conduct periodic examinations of member broker-dealers. Broker-dealers are also subject to regulation by state securities commissions in the states in which they are registered. The regulations to which broker-dealers are subject cover all aspects of the securities business, including net capital requirements, sales methods, trading practices among broker-dealers, capital structure of securities firms, record keeping and the conduct of directors, officers and employees. The SEC and the self-regulatory bodies may conduct administrative proceedings, which can result in censure, fine, suspension or expulsion of a broker-dealer, its officers or employees. If we fail to comply with these rules and regulations, our business may be materially and adversely affected.

The regulatory environment in which we operate is also subject to change. Our business 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 the NASD. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and the NASD.

Our business may suffer if we lose the services of our executive officers or operating personnel.

We depend on the continued services and performance of D. Jonathan Merriman, our Chairman and Chief Executive Officer, for our future success. In addition to Mr. Merriman, we are currently managed by a small number of key management and operating personnel. Our future success depends, in part, on the continued service of our key executive, management and technical personnel, and our ability to attract highly skilled employees. Our business could be harmed if any key officer or employee were unable or unwilling to continue in his or her current position. From time to time we have experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees. Competition for employees in our industry is significant. If we are unable to retain our key employees or attract, integrate or retain other highly qualified employees in the future, such failure may have a material adverse effect on our business and results of operations.

Our business is dependent on the services of skilled professionals, and may suffer if we can not recruit or retain such skilled professionals.

During 2006, no sales professional accounted for more than 10% of our revenue. We have a number of revenue producers employed by our securities brokerage and investment banking subsidiary. We do not have employment contracts with these employees. The loss of one or more of these employees could adversely affect our business and results of operations.

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.

We may be dependent on a limited number of customers for a significant portion of our revenue.

During 2006, no single customer accounted for more than 10% of our revenue. However, we have been dependent on one customer or on a small number of customers, for a large percentage of our revenue at some times in the past and we cannot assure you that we will not become so dependent again in the future. If we do become dependent on a single customer or small group of customers, the loss of one or more large customers could materially adversely affect our business and results of operations.

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 may be unable to effectively manage rapid growth that we may experience, which could place a continuous strain on our resources and, accordingly, adversely affect our business.

We plan to expand our operations. Our growth, if it occurs, will impose significant demands on our management, financial, technical and other resources. We must adapt to changing business conditions and improve existing systems or implement new systems for our financial and management controls, reporting systems and procedures and expand, train and manage a growing employee base in order to manage our future growth. We may not be able to implement improvements to our internal reporting systems in an efficient and timely manner and may discover deficiencies in existing systems and controls. 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. Furthermore, we may acquire existing companies or enter into strategic alliances with third parties, in order to achieve rapid growth. For us to succeed, we must make our existing business and systems work effectively with those of any strategic partners without undue expense, management distraction or other disruptions to our business. We may be unable to implement our business plan if we fail to manage any of the above growth challenges successfully. Our financial results may suffer and we could be materially and adversely affected if that occurs.

Our business and operations would suffer in the event of system failures.

Our success, in particular our ability to successfully facilitate securities brokerage transactions and provide high-quality customer service, largely depends on the efficient and uninterrupted operation of our computer and communications systems. Our systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunication failures, break-ins, earthquake and similar events. Despite the implementation of network security measures, redundant network systems and a disaster recovery plan, our servers are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays, loss of data or the inability to accept and fulfill customer orders. Additionally, computer viruses may cause our systems to incur delays or other service interruptions, which may cause us to incur additional operating expenses to correct problems we may experience. Any of the foregoing problems could materially adversely affect our business or future results of operations.

We are highly dependent on proprietary and third-party systems; therefore, system failures could significantly disrupt our business.

Our business is highly dependent on communications and information systems, including systems provided by our clearing brokers. Any failure or interruption of our systems, the systems of our clearing broker or third party trading systems could cause delays or other problems in our securities trading activities, which could have a material adverse effect on our operating results.

In addition, our clearing brokers provide our principal disaster recovery system. We cannot assure you that we or our clearing brokers will not suffer any systems failure or interruption, including one caused by an earthquake, fire, other natural disaster, power or telecommunications failure, act of God, act of war or otherwise, or that our or our clearing brokers' back-up procedures and capabilities in the event of any such failure or interruption will be adequate.

Our common stock price may be volatile, which could adversely affect the value of your shares.

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.

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.

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, and 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. 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.

We could be sued in a securities class action lawsuit.

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.

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 American Stock Exchange, 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.

Anti-takeover provisions of the Delaware General Corporation Law could discourage a merger or other type of corporate reorganization or a change in control even if it could be favorable to the interests of our stockholders.

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.

Because our Board of Directors can issue common stock without stockholder approval, you could experience substantial dilution.

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.

Our ability to issue additional preferred stock may adversely affect your rights as a common stockholder and could be used as an anti take-over device.

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.

Our officers and directors exercise significant control over our affairs, which could result in their taking actions of which other stockholders do not approve.

Our executive officers and directors, and entities affiliated with them, currently control approximately 26% 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.

Any exercise of outstanding stock options and warrants will dilute then-existing stockholders' percentage of ownership of our common stock.

We have a significant number of outstanding stock options and warrants. During 2006, shares issuable upon the exercise of these options and warrants, at prices ranging currently from approximately $0.35 to $49.00 per share, represent approximately 11% 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have filed Amendment No. 2 to our Registration Statement on Form S-4 with the Securities and Exchange Commissions on January 18, 2007 in connection with our acquisition of MedPanel, Inc. There are currently eight unresolved comments from the SEC, seven of which pertain to specific disclosures in the registration statement document and one comment regarding MedPanel's accounting policy for revenue recognition. There are no unresolved comments from the SEC related to our accounting or periodic disclosures.

ITEM 2. PROPERTIES

As of December 31, 2006, all of our properties are leased. Our principal executive offices are located in San Francisco, California. We lease five additional offices to support our various investment banking and broker-dealer related activities. These offices are located in New York, NY, Cambridge, MA, Los Angeles, CA, 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 meruits, 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 is scheduled for June 2007. 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.

Westerman v. Western Capital Financial Group — NASD Arbitration

In May 2005, our broker-dealer subsidiary Merriman Curhan Ford & Co. was served with a claim in NASD Arbitration by Ms. Westerman. The claim names Western Capital Financial Group as one of several defendants. Western Capital Financial Group is the predecessor name of Merriman Curhan Ford & Co., the California corporation. The Western Capital Financial Group name was effective from September June 26, 1986 to July 14, 1998.

This claim arises from Ms. Westerman’s purchase of a variable annuity product in January 1990 from a predecessor of our broker-dealer subsidiary. MCF Corporation acquired Merriman Curhan Ford & Co. in December 2001. The Claimant alleges that a registered representative improperly recommended that she move her investment to different products on two occasions.

Claimant alleges a theory of predecessor liability against Merriman Curhan Ford & Co. Claimant prays for monetary damages in excess of $300,000 against the eleven named respondents. On May 1, 2006, we reached settlement with Claimant who accepted $8,500 to resolve the dispute. Merriman Curhan Ford & Co. has been dismissed from the arbitration and the matter is resolved.

In re Odimo Incorporated Securities Litigation

Merriman Curhan Ford & Co. was a defendant in a purported class action suit brought in connection with a registered offering involving Odimo Incorporated in which we served as co-manager for the company. The complaint, filed in the 17th Judicial Circuit Court for Broward County in Florida on September 30, 2005, alleged violations of federal securities laws against Odimo and certain of its officers as well as the company’s underwriters, including us, based on alleged misstatements and omissions in the registration statement. Recently, similar cases were consolidated and lead plaintiff’s counsel was assigned. Thereafter, an amended complaint was filed and the underwriters, including Merriman Curhan Ford & Co., were not named as defendants. This matter is now resolved.

Other Matters

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS

No matters were submitted to a vote of stockholders during the fourth quarter of 2006.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock trades 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
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
2005		
Fourth Quarter	$ 8.33	$ 7.07
Third Quarter	8.82	6.65
Second Quarter	10.71	7.98
First Quarter	13.93	9.31

The closing sale price for our common stock on February 13, 2007 was $5.27. The market price of our common stock has fluctuated significantly and may be subject to significant fluctuations in the future. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

According to the records of our transfer agent, we had approximately 276 stockholders of record as of February 13, 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

Information relating to compensation plans under which our equity securities are authorized for issuance is set forth in Note 9 of the Notes to our Consolidated Financial Statements in Part II, Item 8 of the Annual Report on Form 10-K.

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 Item 8. "Financial Statements and Supplementary Data."

	2006	2005	2004	2003	2002
Statement of operations data:					
Revenue	$ 51,818,638	$ 43,184,315	$ 38,368,310	$ 18,306,011	$ 6,469,494
Operating expenses	58,315,930	44,912,772	36,194,924	16,832,676	8,291,735
Operating income (loss)	(6,497,292)	(1,728,457)	2,173,386	1,473,335	(1,822,241)
Gain (loss) on retirement of convertible notes payable(1)	(1,348,805)	—	—	3,088,230	—
Interest income	484,909	446,273	120,431	39,483	45,345
Interest expense(2)	(535,014)	(76,103)	(169,787)	(1,554,901)	(1,364,903)
Income tax expense	—	(142,425)	(249,744)	(74,884)	—
Income (loss) from continuing operations	(7,896,202)	(1,500,712)	1,874,286	2,971,263	(3,141,799)
Loss from discontinued operations	(324,213)	(13,731)	—	—	(262,843)
Net income (loss)	$ (8,220,415)	$ (1,514,443)	$ 1,874,286	$ 2,971,263	$ (3,404,642)
Diluted income (loss) from continuing operations	$ (0.79)	$ (0.16)	$ 0.16	$ 0.39	$ (1.24)
Financial condition data:					
Cash and cash equivalents	$ 13,746,590	$ 11,138,923	$ 17,459,113	$ 6,142,958	$ 1,402,627
Marketable securities owned	7,492,914	8,627,543	2,342,225	608,665	764,421
Total assets	30,498,213	27,694,413	25,007,824	9,703,946	3,769,127
Capital lease obligations	1,292,378	883,993	452,993	24,401	—
Notes payable, net	325,650	408,513	1,487,728	1,927,982	8,455,085
Stockholders' equity (deficit)	$ 16,215,020	$ 18,403,001	$ 16,733,850	$ 5,261,210	$ (5,529,354)

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(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 $13,000 as of December 31, 2006.

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 "Selected Consolidated Financial Data" and our consolidated financial statements and notes thereto included elsewhere in the Annual Report on Form 10-K.

Overview

We are a financial services holding company that provides investment banking, equity research, institutional brokerage and asset management through our operating subsidiaries, Merriman Curhan Ford & Co. and MCF Asset Management, LLC. We focus on providing a full range of specialized and integrated services to institutional investors and corporate clients.

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 and trading of 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.

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, 2006, assets under management across our three fund products were nearly $30 million.

In February 2005, we acquired Catalyst Financial Planning & Investment Management, Inc. Catalyst, a Registered Investment Advisor, provides investment advice to clients that have invested approximately $130 million of assets. In January 2007, we sold Catalyst in order to focus on other recurring-revenue businesses, such as primary research and asset management, which we believe are faster growing and more profitable opportunities. While we currently do not have any specific plans, we do intend to pursue a wealth management strategy at some future date. The results from this segment have been treated as discontinued operations in the consolidated financial statements.

Executive Summary

Our revenue grew 20% during 2006 to $51,819,000, a record high, with healthy expansion across each of our business lines. We also experienced our largest net loss during the current fiscal year. There were, however, several non-cash items included in the net loss, including the expensing of a stock warrant issued in connection with a financing transaction, stock-based compensation and the decline in value of some security positions held in our trading account. Cash and cash equivalents increased by $2,608,000 during 2006. Our company has consistently grown since we launched Merriman Curhan Ford & Co. at the beginning of 2002. Our focus during 2006 was to expand our revenue and build a stronger franchise through attracting and hiring experienced senior professionals. Our focus during 2007 will be 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. We believe that compensation and benefits expense as a percentage of revenue will decline as our annual revenue exceeds $100 million.

The investment banking team led our overall growth in 2006, with a 43% boost in revenue over 2005. We closed more than 30 corporate financing and strategic advisory transactions during the year. Our success in expanding our investment banking practice in 2006 can be attributed to the investment we have made over the last three years in hiring senior investment bankers and support professionals, our focus on fast growing companies in our target sectors such as next-generation energy, and a favorable business environment primarily during the first and fourth quarters.

Our institutional brokerage revenue continued to grow for the fourth consecutive year despite the increasing challenges facing this business. 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. We believe that we can continue to 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.

During 2006, our asset management group introduced its first absolute return investment products for institutional and high-net worth clients. The MCF Navigator fund and MCF Voyager fund began raising capital during 2006. Additionally, we were engaged as the sub-advisor for the MCF Focus fund. As of December 31, 2006, assets under management across our three fund products were nearly $30 million. We don't expect revenue from managing our investment products to be significant until we can accumulate more than $100 million in assets under management.

We began raising capital for institutional hedge funds, venture capital and private equity clients for a fee through our newly formed Capital Access Group during 2006. We believe fee-based capital raising is an underserved area of the institutional brokerage industry. As of December 31, 2006, we had two professionals dedicated full-time to this effort. The revenue from Capital Access Group was not significant to our overall revenue during 2006, though we believe that this service offering is complimentary to our institutional brokerage business and has the potential for significant future growth.

Our overall headcount increased by 7% to 166 during 2006, which was significantly lower than our 2005 headcount growth rate of 34%. During 2006, we emphasized finding the most qualified employee for each position so that we can increase revenue per employee in future periods. We expect that, outside of the employees that we will assume from our acquisition of MedPanel, we will continue to increase our revenue producing employees at approximately the same rate as 2006 while maintaining our corporate support headcount unchanged.

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 entertainment, and other business development activities. These activities resulted in higher operating expenses in 2006.

During 2006, we began recording the expense associated with our stock options in accordance with SFAS 123(R). The adoption of this accounting pronouncement resulted in approximately $1.9 million in additional non-cash stock-based compensation during 2006 as compared to 2005. Our total non-cash stock-based compensation expense for 2006 was over $3.8 million. Management excludes non-cash stock-based compensation expense from net income (loss) for operational and financial decision making purposes because this expense may not be indicative of our core business operating results.

During 2006, we incurred approximately $2.2 million in losses resulting primarily from a decline in the mark-to-fair market value of positions in our proprietary trading account. Much of these losses were unrealized as of December 31, 2006.

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 primarily non-cash 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.

Business Environment

The equity and commodity markets were highly volatile during 2006. The first quarter started the year with a broad based U.S. and foreign equity market rally that resulted in many major U.S. indices reaching double digit returns, only to reverse in the second quarter and bring most indices to zero or negative year-to-date returns by June 30. During this period, several commodities reached new highs, including crude oil ($73/barrel), gold ($732/oz), silver ($14.7/oz), and unleaded gas above $3/gallon; all contributing to drive U.S. stock prices and investor confidence to year lows. By the beginning of the third quarter, many commodity markets reversed with crude oil dropping more than $20/barrel and gold spot prices dropping over $166/oz from highs reached only a few months earlier. In July, the Federal Reserve Board stopped raising the Federal Funds Discount rate and left it unchanged for the remainder of the year. In August, the U.S. stock market re-started a broad based rally that lasted to the end of the year. NASDAQ recovered from negative returns to end with a positive 9.5% and the Russell 2000 Growth Index was up over 13% in 2006.

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, 2006:

	2006	2005	2004
Revenue:			
Commissions	$ 30,105,085	$ 26,992,427	$ 21,826,628
Principal transactions	(171,055)	1,366,938	2,788,120
Investment banking	21,190,786	14,816,814	13,728,556
Other	693,822	8,136	25,006
Total revenue	51,818,638	43,184,315	38,368,310
Operating expenses:			
Compensation and benefits	42,840,431	31,659,488	26,765,265
Brokerage and clearing fees	2,614,513	2,312,616	2,383,831
Professional services	2,441,417	1,987,317	1,299,540
Occupancy and equipment	1,665,410	1,522,351	960,849
Communications and technology	2,969,872	1,918,693	1,404,702
Depreciation and amortization	645,129	490,165	162,318
Travel and entertainment	2,738,393	1,723,290	1,448,283
Other	2,400,765	3,298,852	1,770,136
Total operating expenses	58,315,930	44,912,772	36,194,924
Operating income (loss)	(6,497,292)	(1,728,457)	2,173,386
Loss on retirement of convertible note payable	(1,348,805)	—	—
Interest income	484,909	446,273	120,431
Interest expense	(535,014)	(76,103)	(169,787)
Income (loss) from continuing operations before income taxes	(7,896,202)	(1,358,287)	2,124,030
Income tax expense	—	(142,425)	(249,744)
Income (loss) from continuing operations	(7,896,202)	(1,500,712)	1,874,286
Loss on discontinued operations	(324,213)	(13,731)	—
Net income (loss)	$ (8,220,415)	$ (1,514,443)	$ 1,874,286

Our revenue during 2006 increased by $8,634,000 or 20%, from 2005 reflecting strong growth in investment banking transactions and continued growth of our brokerage sales and trading activities. We incurred a net loss of $8,220,000 during 2006 as compared to net loss of $1,514,000 during 2005.

Our net loss during 2006 included the following non-cash items:

Stock-based compensation expense	$ 3,836,781
Loss on retirement of convertible note payable	1,348,805
Depreciation and amortization	655,334
Write-off of uncollectible accounts receivable	383,565
Amortization of discounts on debt	146,776
Amortization of intangible assets	138,051
Total	$ 6,509,312

Investment Banking Revenue

Our investment banking activity includes the following:

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

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

The following table sets forth our revenue and transaction volumes from our investment banking activities during the three years ended December 31, 2006:

	2006	2005	2004
Revenue:			
Capital raising	$ 15,939,480	$ 13,396,781	$ 11,845,148
Financial advisory	5,251,306	1,420,033	1,883,408
Total investment banking revenue	$ 21,190,786	$ 14,816,814	$ 13,728,556
Transaction Volumes:			
Public offerings:			
Capital underwritten participations	$ 156,500,000	$ 71,238,000	$ 55,637,000
Number of transactions	15	8	10
Private placements:			
Capital raised	$ 173,101,000	$ 253,939,000	$ 176,822,000
Number of transactions	15	14	13
Financial advisory:			
Transaction amounts	$ 169,423,000	$ 21,321,000	$ 32,800,000
Number of transactions	1	1	2

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 more valuable to us building our long-term franchise over private placements. We participated in 15 equity underwriting transactions and lead our first initial public offering during 2006.

Our investment banking revenue amounted to $14,817,000, or 34% of our revenue during 2005, representing a 8% increase compared to $13,729,000 recognized in 2004. The increase in our investment banking revenue during 2005 can be primarily attributed to the increased awareness of our brand in the market place and a favorable business environment during 2005. We believe that the increase in revenue was partially offset by a senior management transition in the investment banking department. This transition was completed at the beginning of the third quarter 2005 with the hiring of a new head of investment banking.

During each of the three years ended December 31, 2006, 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.

- 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:

	2006	**2005**	**2004**
Revenue:			
Commissions	$ 30,105,085	$ 26,992,427	$ 21,826,628
Principal transactions:			
Customer principal transactions, proprietary trading and market making	$ (207,779)	$ 308,764	$ 1,758,119
Investment portfolio	36,724	1,058,174	1,030,001
Total principal transactions revenue	$ (171,055)	$ 1,366,938	$ 2,788,120
Transaction Volumes:			
Number of shares traded	937,005,000	983,755,000	919,112,000
Number of active clients	564	614	599

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.

Commissions amounted to $26,992,000, or 62%, of our revenue during 2005, representing a 24% increase over $21,827,000 recognized during 2004. The higher commissions were primarily attributed to the hiring of additional sales and research professionals and an increase in the penetration of active client accounts during 2005 as compared to 2004.

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 reduced revenue by $171,000 during 2006 and increased revenue by $1,367,000 during 2005. During 2006, we incurred $2,255,000 in losses resulting from a decline in the mark-to-fair market value of positions in our proprietary trading account. These losses were partially offset by revenue from principal trades for customers.

During 2005, we recognized a $109,000 gain in our proprietary trading account. The $1,058,000 increase in the fair market value of our investment portfolio, which primarily consists of stock warrants and restricted common stock issued by our small and mid-cap clients, during 2005 resulted from gains in our stock warrant portfolio. The value of this portfolio has increased in each of the three years ended December 31, 2006.

During 2006 and 2005, no single brokerage customer accounted for more than 10% of our revenue, while one brokerage customer accounted for 10% of our revenue during 2004.

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, 2006:

	2006	2005	2004
Incentive compensation and discretionary bonuses	$ 26,563,425	$ 17,990,288	$ 17,694,420
Salaries and wages	9,076,815	8,995,642	5,801,390
Stock-based compensation	3,836,781	1,959,329	1,115,909
Payroll taxes, benefits and other	3,363,410	2,714,229	2,153,546
Total compensation and benefits	$ 42,840,431	$ 31,659,488	$ 26,765,265
Total compensation and benefits as a percentage of revenue	83%	73%	70%
Cash compensation and benefits as a percentage of revenue	75%	69%	67%

The increase in compensation and benefits expense of $11,181,000 or 35%, from 2005 to 2006 and $4,894,000, or 18%, from 2004 to 2005 were 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 is equal to total compensation and benefits expense excluding stock-based compensation. 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. Cash compensation and benefits expense as a percentage of revenue increased to 69% during 2005 as compared to 67% in 2004. This increase is due in part to higher salaries and wages resulting from increased headcount in anticipation of our revenue growth.

Our headcount has increased from 116 at December 31, 2004 to 155 at December 31, 2005 to 166 as of December 31, 2006. No single sales professional accounted for more than 10% of our revenue in 2006. One sales professional accounted for 12% of our revenue during 2005 and one sales professional accounted for 15% of our revenue during 2004.

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”. The increase in stock-based compensation during 2005 reflects our decision to grant restricted stock to new and existing employees beginning in the second half of 2003. Prior to 2003, we only granted stock options to employees which are accounted for under the intrinsic value method, in accordance with APB No. 25.

Other Operating Expenses

Brokerage and clearing fees include trade processing expenses that we pay to our clearing broker and execution fees that we pay to floor brokers and electronic communication networks. Merriman Curhan Ford & Co. is a fully-disclosed broker-dealer, which has engaged a third party clearing broker to perform all of the clearance functions. The clearing broker-dealer processes and settles the customer transactions for Merriman Curhan Ford & Co. and maintains the detailed customer records. Security trades are executed by third-party broker-dealers and electronic trading systems. These expenses are almost entirely variable with commissions revenue and the volume of brokerage transactions. The increase in brokerage and clearing fees of $302,000, or 13% from 2005 to 2006 was inline with our growth in the brokerage commission activities. The decrease in brokerage and clearing fees of $71,000, or 3% from 2004 to 2005 while increasing commissions revenue during the same period reflects the cost savings that we achieved by negotiating lower fees with our clearing broker during the fourth quarter 2004. We anticipate brokerage and clearing fees for 2007 will increase sequentially over 2006 as we are forecasting a higher level of commissions revenue for 2007.

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 $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 costs. The increase of $688,000 or 53%, from 2004 to 2005 primarily reflected higher legal costs related to various corporate and investment banking activities. We anticipate professional services expense for 2007 will increase slightly as compared to 2006.

Occupancy and equipment expense includes office leases, equipment rental, equipment and leasehold maintenance costs. These expenses are largely fixed in nature and tend to increase as we hire additional employees. The increase of $143,000, or 9%, from 2005 to 2006 and $562,000, or 58%, from 2004 to 2005 resulted mostly from expansion of our offices and computer equipment purchases resulting from the hiring of additional investment banking, research, sales and trading professionals. During 2004, we moved into larger office spaces in San Francisco, New York, Boston, Los Angeles and Portland. During 2006, we leased additional space in San Francisco. We anticipate occupancy and equipment expense for 2007 will increase sequentially over 2006.

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 $1,051,000, or 55%, from 2005 to 2006 was primarily due to upgrading our trading order management system, as well as the increase in market data and quote services as we continue to expand our market maker activities. The increase of $514,000 or 37%, from 2004 to 2005 was due to higher telephone and data service fees incurred in our sales and trading operations. The higher telephone and data service charges are the result of increased headcount and the expansion of our offices, as well as higher costs to upgrade our information technology infrastructure. We anticipate communications and technology expense for 2007 will increase sequentially over 2006.

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 $155,000, or 32%, from 2005 to 2006 and $328,000, or 202%, from 2004 to 2005 were due to increased capital expenditures, including leasehold improvements to our San Francisco and New York offices during 2004, to facilitate our growth and expansion. We incurred additional leasehold improvements to our San Francisco offices during 2006. We anticipate depreciation and amortization expense for 2007 will increase sequentially over 2006.

Travel and entertainment expense primarily consists of business development costs for our investment banking business, travel expenses for client non-deal road shows and costs for our research analysts to visit the companies that they cover. Non-deal road shows represent meetings in which management teams of our corporate clients present directly to our institutional investors. The increase of $1,015,000, or 59%, from 2005 to 2006, and $275,000, or 19% from 2004 to 2005, were due to our continued effort to extend our penetration with our active clients, as well as seeking new business opportunities with potential clients. We anticipate travel and entertainment expense for 2007 will not increase or decrease significantly from 2006.

Other operating expense includes professional liability and property insurance, recruiting, investor conferences, printing, business licenses and taxes, office supplies and other miscellaneous office expenses. The decrease of $898,000 or 27%, from 2005 to 2006 was primarily due to the reversal of $500,000 bad debt write-off 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 increase of $1,529,000, or 86%, from 2004 to 2005 was attributed to higher costs associated with our annual investor conference, recruiting costs, and various business taxes. The 2005 expense also includes the write-off of the $500,000 note receivable from Ascend. We anticipate other operating expense for 2007 will increase sequentially over 2006.

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.

Interest Income

Interest income represents interest earned on our cash balances maintained at financial institutions. The increase of approximately $39,000, or 9%, from 2005 to 2006 and $326,000, or 271% from 2004 to 2005 were due to increases in average interest earning assets and average interest rates during these periods.

Interest Expense

Interest expense for 2006 included $352,000 for interest expense and $183,000 for amortization of discounts and debt issuance costs, while the 2005 amount included $66,000 for interest expense and $10,000 for amortization of discounts and debt issuance costs. The increase in 2006 resulted from interest incurred for the Midsummer debt from March through December of 2006. The higher amortization of discounts and debt issuance costs in 2006 was due to the issuance of notes payable to Midsummer Investment, Ltd.

Income Tax Expense

Income tax expense reflected taxes calculated for federal and state tax purposes. Realization of our deferred tax assets depends upon us generating sufficient taxable income in future years from the reversal of temporary differences and from net operating loss carryforwards. Due to the uncertainty of the timing and amount of such realization, we concluded that a full valuation allowance was required as of December 31, 2006 and 2005.

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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.

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.

Revenue Recognition

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.

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. Management fees are recorded on the offering date, selling concessions on settlement date, and underwriting fees at the time the underwriting is completed and the related income is reasonably determinable. 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. Merger and acquisition fees and other advisory service revenue are generally earned and recognized only upon successful completion of the engagement. Underwriting revenue is presented net of related expenses. Unreimbursed expenses associated with private placement and advisory transactions are recorded as expenses as incurred.

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.

Stock-Based Compensation

On January 1, 2006, we adopted SFAS 123(R), "Shared-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 twelve months ended 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).

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. In our pro forma information required under SFAS 123 for the periods prior to fiscal 2006, we accounted for forfeitures as they occurred. 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, 2006 and 2005 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.

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, 2006, liquid assets consisted primarily of cash and cash equivalents of $13,747,000 and marketable securities of $7,493,000, for a total of $21,240,000, which is $1,473,000 higher than $19,767,000 in liquid assets as of December 31, 2005.

Cash and cash equivalents increased by $2,608,000 during 2006. Cash provided by our operating activities for 2006 was $2,324,000 which consists of our net loss of $8,220,000 adjusted for non-cash expenses including stock-based compensation of $3,837,000, net unrealized loss on securities owned of $2,172,000, loss on retirement of convertible note payable of $1,349,000, depreciation and amortization of $655,000, provision for doubtful accounts of $384,000, amortization of discounts on debt of $147,000 and amortization of intangible assets of $138,000, partially offset by the increase in commissions and bonus payable of $2,976,000. Cash used in investing activities amounted to $137,000 during 2006 which included (i) an earn out payment in connection with our acquisition of Catalyst and (ii) our purchase of equipment and fixtures. Cash provided in our financing activities was $421,000. 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, 2006, Merriman Curhan Ford & Co. had regulatory net capital of $4,593,000, which exceeded the required amount by $3,150,000.

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, 2006, 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 Payable	Operating Leases	Capital Leases
2007	$ 106,775	$ 2,008,017	$ 647,858
2008	243,990	1,263,403	493,075
2009	—	832,568	273,834
2010	—	869,731	—
2011	—	709,898	—
Thereafter	—	—	—
Total commitments	$ 350,765	$ 5,683,617	$ 1,414,767

Off-Balance Sheet Arrangements

We were not a party to any off-balance sheet arrangements during the three years ended December 31, 2006. 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. We are currently evaluating the impact the adoption of this statement could have on our financial condition, results of operations and cash flows.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income* Taxes, which supplements SFAS No. 109 by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. Interpretation No. 48 requires that the tax effects of a position be recognized only if it is “more-likely-than-not” to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold represents a positive assertion by management that a company is entitled to the economic benefits of a tax position. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no benefits of the position are to be recognized. Moreover, the more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. At adoption, companies must adjust their financial statement to reflect only those tax positions that are more-likely-than-not to be sustained as of the adoption date. Any necessary adjustment would be recorded directly to retained earnings in the period of adoption and reported as a change in accounting principle. This Interpretation is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The Company will adopt Interpretation No. 48 on January 1, 2007 and is currently assessing the potential impact on our financial statements.

In February 2006, the FASB issued SFAS 155, "Accounting for Certain Hybrid Financial Instruments" which amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 also clarifies and amends certain other provisions of SFAS 133 and SFAS 140. SFAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. We do not believe the adoption of this statement will have a material impact on our financial condition, results of operations or cash flows.

Quarterly Financial Data

The table below sets forth the operating results represented by certain items in our statements of operations for each of the eight quarters in the period ended December 31, 2006. This information is unaudited, but in our opinion reflects all adjustments (consisting only of normal recurring adjustments) that we consider 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.

	2006			
	1st	**2nd**	**3rd**	**4th**
Revenue	$ 11,553,908	$ 14,871,260	$ 7,426,490	$ 17,966,980
Operating expenses	12,890,718	15,542,660	12,717,715	17,164,837
Operating income (loss)	(1,336,810)	(671,400)	(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)	$ (0.50)	$ (0.07)
Diluted net income (loss) per common share	$ (0.14)	$ (0.11)	$ (0.50)	$ (0.07)

	2005			
	1st	**2nd**	**3rd**	**4th**
Revenue	$			