

Merriman Curhan Ford Group, Inc.
Form 10-Q
November 10, 2008

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

FORM 10-Q

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

For the quarterly period ended September 30, 2008

**.. 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: 1-15831

**MERRIMAN CURHAN FORD GROUP, INC.
(Exact Name of Registrant as Specified in its Charter)**

**Delaware
(State or Other Jurisdiction of
Incorporation or Organization)**

**11-2936371
(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)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

x No ..

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares of Registrant's common stock outstanding as of October 31, 2008 was 12,891,862.

Merriman Curhan Ford Group, Inc.
Index

	Page No.
PART I FINANCIAL INFORMATION	
ITEM 1. Financial Statements (unaudited)	
Consolidated Statements of Operations For the Three Months and Nine Months Ended September 30, 2008 and 2007	3
Consolidated Statements of Financial Condition as of September 30, 2008 and December 31, 2007	4
Consolidated Statements of Cash Flows For the Nine Months Ended September 30, 2008 and 2007	5
Notes to Consolidated Financial Statements	6
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	27
ITEM 4. Controls and Procedures	28
PART II OTHER INFORMATION	
ITEM 1. Legal Proceedings	29
ITEM 1A. Risk Factors	31
ITEM 6. Exhibits	32
Signatures	33
Certifications	

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements (unaudited)**

MERRIMAN CURHAN FORD GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Revenue:				
Commissions	\$ 7,992,614	\$ 7,923,963	\$ 24,353,696	\$ 22,807,243
Principal transactions	(5,384,303)	2,478,297	(5,280,550)	10,804,073
Investment banking	1,600,260	5,616,491	9,423,666	15,480,518
Primary research	1,431,154	1,165,428	4,471,092	2,116,490
Advisory and other fees	341,810	476,015	581,410	1,147,363
Total revenue	5,981,535	17,660,194	33,549,314	52,355,687
Operating expenses:				
Compensation and benefits	8,743,732	12,096,131	34,016,942	35,673,505
Brokerage and clearing fees	558,344	627,223	2,042,828	1,921,920
Cost of primary research services	548,943	555,185	1,743,236	950,403
Professional services	3,987,874	518,045	7,290,374	1,603,163
Occupancy and equipment	650,678	499,459	1,877,288	1,395,048
Communications and technology	702,654	921,853	2,653,501	2,618,799
Depreciation and amortization	308,220	193,284	614,390	556,332
Amortization of intangible assets	116,536	264,771	349,607	485,414
Travel and entertainment	674,161	635,353	2,645,964	1,789,971
Other	1,388,335	1,277,519	3,505,583	2,993,878
Impairment of goodwill and intangible assets			2,601,516	
Total operating expenses	17,679,477	17,588,823	59,341,229	49,988,433
Operating (loss) income	(11,697,942)	71,371	(25,791,915)	2,367,254
Interest income	195,283	132,965	325,703	362,919
Interest expense	(22,665)	(15,876)	(61,673)	(97,087)
(Loss)/income before taxes	(11,525,324)	188,460	(25,527,885)	2,633,089
Income tax (expense) benefit	(198,014)		1,640,730	(55,000)
Net (loss) income	\$ (11,723,338)	\$ 188,460	\$ (23,887,155)	\$ 2,578,089
Basic net (loss) income per share:				
Net (loss) income	\$ (0.93)	\$ 0.02	\$ (1.91)	\$ 0.23
Diluted net (loss) income per share:				
Net (loss) income	\$ (0.93)	\$ 0.01	\$ (1.91)	\$ 0.21
Weighted average common shares outstanding:				
Basic	12,672,598	11,999,656	12,498,687	11,337,346
Diluted	12,672,598	13,139,384	12,498,687	12,499,544

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

MERRIMAN CURHAN FORD GROUP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(unaudited)

	September 30, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents	\$ 7,914,755	\$ 31,962,201
Securities owned:		
Marketable, at fair value	7,725,069	14,115,022
Not readily marketable, at estimated fair value	1,156,724	2,250,668
Other	1,336,628	2,254,120
Restricted cash	1,131,032	689,157
Due from clearing broker	1,256,548	1,251,446
Accounts receivable, net	1,855,856	4,008,729
Prepaid expenses and other assets	1,500,150	1,716,814
Equipment and fixtures, net	1,639,475	1,245,692
Intangible assets	1,207,427	1,949,815
Goodwill	1,129,281	3,129,667
Total assets	\$ 27,852,945	\$ 64,573,331
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 746,619	\$ 957,969
Commissions and bonus payable	6,141,989	17,517,032
Accrued expenses	6,086,363	6,351,598
Due to clearing and other brokers	13,233	6,865
Securities sold, not yet purchased	1,204	3,804,558
Capital lease obligation	1,218,036	890,272
Convertible notes payable, net		197,416
Notes payable		41,573
Total liabilities	14,207,444	29,767,283
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, Series A—\$0.0001 par value; 2,000,000 shares authorized; 0 shares issued and outstanding as of September 30, 2008 and December 31, 2007, respectively; aggregate liquidation preference of \$0		
Preferred stock, Series B—\$0.0001 par value; 12,500,000 shares authorized; 1,250,000 shares issued and 0 shares outstanding as of September 30, 2008 and December 31, 2007; aggregate liquidation preference of \$0		
Preferred stock, Series C—\$0.0001 par value; 14,200,000 shares authorized; 1,685,714 shares issued and 0 shares outstanding as of September 30, 2008 and December 31, 2007; aggregate liquidation preference of \$0		
Common stock, \$0.0001 par value; 300,000,000 shares authorized; 12,794,563 and 12,310,886 shares issued and 12,768,125 and 12,284,448 shares outstanding as of September 30, 2008 and December 31, 2007, respectively	1,281	1,232
Additional paid-in capital	126,736,842	124,010,283
Treasury stock	(125,613)	(125,613)
Accumulated deficit	(112,967,009)	(89,079,854)
Total stockholders' equity	13,645,501	34,806,048
Total liabilities and stockholders' equity	\$ 27,852,945	\$ 64,573,331

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

MERRIMAN CURHAN FORD GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended	
	September 30,	
	2008	2007
Cash flows from operating activities:		
Net (loss) income	\$ (23,887,155)	\$ 2,578,089
Adjustments to reconcile net (loss) income to cash provided by (used in) operating activities:		
Depreciation and amortization	614,390	556,332
Amortization of intangible assets	349,607	485,414
Stock-based compensation	1,897,033	2,146,436
Amortization of discounts on convertible notes payable	2,584	7,749
Impairment of goodwill	2,208,735	
Impairment of intangible assets	392,781	
Common stock received for services	(1,713,361)	
Unrealized loss (gain) on securities owned	8,105,058	(4,807,990)
Provision for bad debt	156,300	368,272
Other		72,229
Changes in operating assets and liabilities:		
Securities owned	(1,793,662)	(3,970,569)
Restricted cash	(441,875)	(58,584)
Due from clearing broker	(5,102)	(582,609)
Accounts receivable	1,981,574	938,143
Prepaid expenses and other assets	216,664	99,178
Accounts payable	(211,350)	172,239
Commissions and bonus payable	(11,375,042)	1,053
Accrued expenses	(265,235)	1,022,867
Due to clearing and other brokers	6,368	5,619
Net cash used in operating activities	(23,761,688)	(966,132)
Cash flows from investing activities:		
Purchase of equipment and fixtures	(202,398)	(291,687)
Investment in MedPanel		(24,585)
Investment in Catalyst		163,219
Net cash used in investing activities	(202,398)	(153,053)
Cash flows from financing activities:		
Proceeds from the exercise of stock options and warrants	436,225	172,996
Proceeds from the issuance of common stock		185,041
Debt service principal payments	(519,585)	(514,725)
Net cash used in financing activities	(83,360)	(156,688)
Decrease in cash and cash equivalents	(24,047,446)	(1,275,873)
Cash and cash equivalents at beginning of period	31,962,201	13,746,590
Cash and cash equivalents at end of period	\$ 7,914,755	\$ 12,470,717
Supplementary disclosure of cash flow information:		
Cash paid during the period:		
Interest	\$ 59,089	\$ 72,023
Income taxes	\$ 574,497	\$ 38,400

Supplementary non-cash information:

Conversion of note payable into common stock	\$	200,000
Property acquired through capitalized leases	\$	805,776

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

MERRIMAN CURHAN FORD GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Significant Accounting Policies

Basis of Presentation

The interim financial statements included herein for Merriman Curhan Ford Group, Inc. (formerly MCF Corporation), or the Company, have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the financial statements included in this report reflect all normal recurring adjustments that the Company considers necessary for the fair presentation of the results of operations for the interim periods covered and the financial position of the Company at the date of the interim statement of financial condition. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to understand the information presented. The operating results for interim periods are not necessarily indicative of the operating results for the entire year. These financial statements should be read in conjunction with the Company's 2007 audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Securities Owned

"Securities owned" and "Securities sold, but not yet purchased" are reflected in the consolidated statements of financial condition on a trade-date basis. Related unrealized gains or losses are generally recognized in "Principal transactions revenue" in the consolidated statements of operations. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Instruments that the Company owns (long positions) are marked to bid prices, and instruments that the Company has sold, but not yet purchased (short positions), are marked to offer prices. Fair value measurements are not adjusted for transaction costs.

Investment Banking Revenue

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

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

reflect actual expenses in the period in which the Company receives the final settlement, typically 90 days following the closing of the transaction.

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

6

MERRIMAN CURHAN FORD GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(unaudited)

1. Significant Accounting Policies - Continued

Commissions and Principal Transactions Revenue

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

Share-Based Compensation Expense

The Company measures and recognizes compensation expense based on estimated fair values for all share-based awards made to employees and directors, including stock options, non-vested stock, and participation in the Company's employee stock purchase plan. The Company estimates fair value of share-based awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense in the Company's consolidated statements of operations over the requisite service periods. Share-based compensation expense recognized in the Company's consolidated statement of operations 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, and (ii) subsequent to December 31, 2005. Compensation expense for all share-based awards subsequent to December 31, 2005 is recognized using the straight-line single-option method. Because share-based compensation expense is based on awards that are ultimately expected to vest, share-based compensation expense has been reduced to account for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

To calculate option-based compensation, the Company uses the Black-Scholes option pricing model, which is affected by the Company's stock price as well as assumptions regarding a number of subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. No tax benefits were attributed to the share-based compensation expense because a valuation allowance was maintained for all net deferred tax assets.

Income Taxes

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

Segment Reporting

The Company organizes its operations into three operating segments for the purpose of making operating decisions and assessing performance. These operating segments are organized along operating subsidiaries, Merriman Curhan Ford & Co., MCF Asset Management, LLC and Panel Intelligence, LLC. Accordingly, the Company operated in three reportable operating segments in the United States during 2008.

Use of Estimates

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

MERRIMAN CURHAN FORD GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(unaudited)

1. Significant Accounting Policies - Continued

New Accounting Pronouncements

SFAS 141(R). In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS 141(R) expands the definition of transactions and events that qualify as business combinations; requires that the acquired assets and liabilities, including contingencies, be recorded at the fair value determined on the acquisition date and changes thereafter reflected in revenue, not goodwill; changes the recognition timing for restructuring costs; and requires acquisition costs to be expensed as incurred. Adoption of SFAS 141(R) is required for combinations after December 15, 2008. Early adoption and retroactive application of SFAS 141(R) to fiscal years preceding the effective date are not permitted. The Company is evaluating the impact of adoption on its consolidated financial statements.

2. Fair Value of Assets and Liabilities

Securities owned, and securities sold but not yet purchased, are presented at fair value. Fair value is defined as the price at which an asset would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. Assets and liabilities recorded at fair value in the consolidated statement of financial condition are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by SFAS 157 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

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

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

Level 3 — Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Generally, assets carried at fair value and included in this category include stock warrants for which market-based implied volatilities are not available.

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

MERRIMAN CURHAN FORD GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(unaudited)

2. Fair Value of Assets and Liabilities (continued)

	Assets at Fair Value at September 30, 2008			
	Level 1	Level 2	Level 3	Total
Corporate equities	\$ 5,251,397	\$ 25,000	\$ 422,838	\$ 5,699,235
Stock warrants	—	—	3,052,184	3,052,184
Underwriters' purchase option	—	—	130,266	130,266
Preferred stock	108	—	—	108
	\$ 5,251,505	\$ 25,000	\$ 3,605,288	\$ 8,881,793

	Assets at Fair Value at December 31, 2007			
	Level 1	Level 2	Level 3	Total
Corporate equities	\$ 13,696,019	\$ —	\$ 489,453	\$ 14,185,472
Stock warrants	—	—	1,756,580	1,756,580
Underwriters' purchase option	—	—	194,957	194,957
Convertible notes	228,456	—	—	228,456
Preferred stock	225	—	—	225
	\$ 13,924,700	\$ —	\$ 2,440,990	\$ 16,365,690

Liabilities measured at fair value on a recurring basis consisted of Securities sold, not yet purchased which are categorized as Level 1. The fair value of Securities sold, not yet purchased as of September 30, 2008 and December 31, 2007 was approximately \$1,200 and \$3,805,000, respectively.

The following summarizes the change in carrying values associated with Level 3 financial instruments for the nine months ended September 30, 2008:

	Corporate Equities	Stock Warrants	Underwriters' Purchase Option	Total
Balance at December 31, 2007	\$ 489,453	\$ 1,756,580	\$ 194,957	\$ 2,440,990
Purchases, issuances and settlements	607,221	1,222,748	—	1,829,969
Net transfers in / (out)	(574,457)	—	—	(574,456)
Gains / (losses)				
Realized	—	—	—	—
Unrealized	(99,379)	72,856	(64,691)	(91,214)
Balance at September 30, 2008	\$ 422,838	\$ 3,052,184	\$ 130,266	\$ 3,605,288

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

MERRIMAN CURHAN FORD GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(unaudited)

3. Goodwill and Intangible Assets

Goodwill is related to the acquisition of MedPanel, Inc. Goodwill, totaling \$3,130,000, was allocated to the Primary Research segment pursuant to SFAS No. 142, “Goodwill and Other Intangible Assets”. Goodwill represents the excess cost of a business acquisition over the fair value of the net assets acquired at the acquisition date. Identifiable intangible assets capitalized in connection with the acquisition of MedPanel included customer relationships, customer backlog, technology platform and the database of registered panelists. The estimated fair market value of these amortizable intangible assets at the date of acquisition amounting to \$1,990,000 is being amortized over periods ranging from 8 months to 56 months. In addition, an indefinite lived intangible asset was recorded for the acquired tradename in the amount of \$710,000.

In accordance with SFAS No. 142, indefinite-life intangible assets and goodwill are not amortized. Rather, they are subject to impairment testing on an annual basis, or more often if events or circumstances indicate there may be impairment. This test involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying amount. If the fair value is less than the carrying amount, a further test is required to measure the amount of the impairment.

When available, the Company uses recent, comparable transactions to estimate the fair value of the respective reporting unit. The Company calculates an estimated fair value based on multiples of revenue, earnings, and book value of comparable transactions. However, when such comparable transactions are not available or have become outdated, the Company uses discounted cash flow scenarios to estimate the fair value of the reporting units. As of April 30, 2008, the Company performed its annual impairment testing and recorded an impairment loss of \$2,602,000 related to goodwill and tradename in its consolidated statement of operations for the three months ended June 30, 2008. For the three months ended September 30, 2008, no additional impairment was recorded.

4. Share-Based Compensation Expense

Stock Options

As of September 30, 2008, there were 6,961,430 shares authorized for issuance under the Option Plans, and 612,858 shares authorized for issuance outside of the Option Plans. As of September 30, 2008, 1,313,276 shares were available for future option grants under the Option Plans. There were no shares available for future option grants outside of the Options Plans. Compensation expense for stock options during the three months and nine months ended September 30, 2008 was \$421,000 and \$1,204,000, respectively. Compensation expense for stock options during the three months and nine months ended September 30, 2007 was \$368,000 and \$1,017,000, respectively.

The following table is a summary of the Company’s stock option activity for the nine months ended September 30, 2008:

	Options Outstanding	Weighted Average Exercise Price
Balance as of December 31, 2007	4,066,259	\$ 6.00
Granted	707,280	3.46
Exercised	(64,628)	(2.36)
Canceled	(432,182)	(6.25)

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Balance as of September 30, 2008	4,276,729	\$	5.61
Exercisable as of September 30, 2008	3,078,766	\$	6.16

10

MERRIMAN CURHAN FORD GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(unaudited)

4. Share Based Compensation Expense (continued)

The following table summarizes information with respect to stock options outstanding at September 30, 2008:

Range of Exercise Price	Number	Options Outstanding			Vested Options		
		Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$ 0.00 - \$ 3.50	2,071,878	4.81	\$ 2.93	\$	1,902,633	\$ 3.02	\$
\$ 3.51 - \$ 7.00	1,513,387	7.94	\$ 4.41		524,033	4.37	
\$ 7.01 - \$14.00	395,796	5.55	\$ 9.28		356,432	9.39	
\$14.01 - \$28.00	256,381	2.10	\$ 22.04		256,381	22.04	
\$28.01 - \$49.00	39,287	1.40	\$ 49.00		39,287	49.00	
	4,276,729	5.79	\$ 5.61	\$	3,078,766	\$ 6.16	\$

As of September 30, 2008, total unrecognized compensation expense related to unvested stock options was \$3,193,000. This amount is expected to be recognized as expense over a weighted-average period of 1.42 years.

Non-Vested Stock

At the date of grant, the recipients of non-vested stock have most of the rights of a stockholder other than voting rights, subject to certain restrictions on transferability and a risk of forfeiture. Non-vested shares typically vest over a two to four year period beginning on the date of grant. The fair value of non-vested stock is equal to the market value of the shares on the date of grant. The Company recognizes the compensation expense for non-vested stock on a straight-line basis over the requisite service period. Compensation expense for non-vested stock during the three months and nine months ended September 30, 2008 was \$160,000 and \$693,000, respectively. Compensation expense for non-vested stock during the three months and nine months ended September 30, 2007 was \$298,000 and \$986,000, respectively.

The following table is a summary of the Company's non-vested stock activity for the nine months ended September 30, 2007:

	Non-Vested Stock Outstanding	Weighted Average Grant Date Fair Value	Intrinsic Value at September 30, 2008
Balance as of December 31, 2007	180,620	\$ 7.51	
Granted	62,392	2.84	
Vested	(124,106)	(5.53)	
Canceled	(10,716)	(7.66)	
Balance as of September 30, 2008	108,190	\$ 7.07	\$ 101,699

As of September 30, 2008, total unrecognized compensation expense related to non-vested stock was \$398,000. This expense is expected to be recognized over a weighted-average period of 0.75 years.

MERRIMAN CURHAN FORD GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(unaudited)

4. Share-Based Compensation Expense (continued)

2002 Employee Stock Purchase Plan

The Company issued all shares previously available under the Employee Stock Purchase Plan, or ESPP, to its employees through August 15, 2007. As of September 30, 2008, there are no shares available under the ESPP plan and the Company has no plan to request additional shares from the stockholders for this program. Compensation expense for ESPP during each of the three months and nine months ended September 30, 2008 was \$0. Compensation expense for the ESPP during the three months and nine months ended September 30, 2007 were \$28,000 and \$143,000, respectively.

Fair Value and Assumptions Used to Calculate Fair Value

The weighted average fair value of each stock option granted for the three months and nine months ended September 30, 2008 was \$0.64 and \$2.19, respectively. The weighted average fair value of each stock option granted for the three months and nine months ended September 30, 2007 was \$2.84 and \$2.67, respectively. The fair value of each option award is estimated on the date of grant using the Black-Scholes stock option pricing model, with the following assumptions for the nine months ended September 30, 2008 and 2007:

	Nine months Ended	
	September 30,	
	2008	2007
Expected volatility	69.54%	63.81%
Expected life (years)	6.30	4.20
Risk-free interest rate	3.11%	4.66%
Expected dividend yield	0%	0%

The weighted average fair value of the non-vested stock granted under the Company's stock option plans for the three months and nine months ended September 30, 2008 was \$1.27 and \$2.84 per share, respectively. The weighted average fair value of the non-vested stock granted under the Company's stock option plans for the three months and nine months ended September 30, 2007 was \$4.32 and \$4.66 per share, respectively. The fair value of the non-vested stock award is estimated on the date of grant using the intrinsic value method.

5. Income Taxes

Income tax expense is a result of applying the estimated annual effective tax rate to cumulative income before taxes adjusted for certain discrete items which are fully recognized in the period they occur. For the three months and nine months ended September 30, 2008, the Company recorded an income tax expense of \$198,000 and (\$1,641,000), respectively. The Company's tax rate is affected by recurring items, which it expects to be fairly consistent in the near term, and by discrete items that are not consistent from year to year. The effective tax rate for the nine months ended September 30, 2008 is 7.03%, which is mainly attributable to the release of the FIN 48 liability due to the approval of an accounting method change for federal tax purposes.

Historically and currently, the Company has recorded a valuation allowance on the deferred tax assets, a significant component of which relates to net operating loss carryforwards. Management continually evaluates the realizability of its deferred tax assets based upon negative and positive evidence available. Based on the evidence available at this

time, the Company continues to conclude that it is not “more likely than not” that we will be able to realize the benefit of our deferred tax assets in the future.

The Company adopted Interpretation No. 48 on January 1, 2007. Upon the adoption of FIN 48, the Company recognized no adjustment in the liability for unrecognized income tax benefits and no corresponding change in retained earnings. At the end of the fiscal year 2007, the Company recorded a liability for an uncertain tax position related to certain investments in the amount of \$1,839,000. This entire amount has been derecognized as of September 30, 2008 due to an Internal Revenue service approved accounting method change.

MERRIMAN CURHAN FORD GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(unaudited)

5. Income Taxes (continued)

The Company's tax years 2005-2007 will remain open for three years for examination by the Internal Revenue Service from the date the federal corporation tax returns were filed. The Company's tax years 2003-2007 will remain open for three to four years for examination by state tax authorities from the date the state corporation tax returns were filed. Net operating losses deducted are subject to review and adjustment for three to four years after the net operating losses are deducted on the U.S. and state returns filed.

6. (Loss)/Earnings per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net (loss) income available to stockholders - basic	\$ (11,723,338)	\$ 188,460	\$ (23,887,155)	\$ 2,578,089
Interest on dilutive securities	0	4,084	4,584	12,252
Net (loss) income available to stockholders - diluted	\$ (11,723,338)	\$ 192,544	\$ (23,882,571)	\$ 2,590,341
Weighted-average number of common shares - basic	12,672,598	11,999,656	12,498,687	11,337,346
Weighted-average number of common shares-diluted	12,672,598	13,139,384	12,498,687	12,499,544
Basic net income (loss) per common share:	\$ (0.93)	\$ 0.02	\$ (1.91)	\$ 0.23
Diluted net loss per common share:	\$ (0.93)	\$ 0.01	\$ (1.91)	\$ 0.21

Basic (loss) earnings per share is computed by dividing net (loss) income by the weighted average number of common shares outstanding, excluding shares of non-vested stock. Diluted earnings per share is calculated by dividing net income, plus interest and dividends on dilutive securities, by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares outstanding, including non-vested stock. Diluted loss per share is unchanged from basic loss per share for the three months and nine months ended September 30, 2008 because the addition of common shares that would be issued assuming exercise or conversion would be anti-dilutive.

MERRIMAN CURHAN FORD GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(unaudited)

6. (Loss)/Earnings per Share (continued)

Shares used in the diluted net income per share computation include the dilutive impact of the Company's stock options and warrants. The impact of the Company's stock options and warrants on shares used for the diluted earnings per share computation is calculated based on the average share price of the Company's common stock for each period using the treasury stock method. Under the treasury stock method, the tax-effected proceeds that would be hypothetically received from the exercise of all stock options and warrants with exercise prices below the average share price of the Company's common stock are assumed to be used to repurchase shares of the Company's common stock. Because the Company reported a net loss during the three months and nine months ended September 30, 2008, the Company excluded the impact of all stock options and warrants in the computation of dilutive earnings per share, as their effect would be anti-dilutive.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Stock options and warrants excluded due to the exercise price exceeding the average fair value of the Company's common stock during the period	4,566,130	2,093,089	3,746,387	1,756,224
Weighted average non-vested stock, stock options and stock warrants, calculated using the treasury stock method, that were excluded due to the Company reporting a net loss during the period	86,155		264,782	
Weighted average shares issuable for the period prior to the conversion of the convertible notes payable			62,556	
Total common stock equivalents excluded from diluted net (loss) income per share	4,652,285	2,093,089	4,073,725	1,756,224

7. Regulatory Requirements

Merriman Curhan Ford & Co. is a broker-dealer subject to Rule 15c3-1 of the Securities and Exchange Commission, which specifies uniform minimum net capital requirements, as defined, for their registrants. As of September 30, 2008, Merriman Curhan Ford & Co. had regulatory net capital, as defined, of \$2,053,145, which exceeded the amount required by \$1,053,145. Merriman Curhan Ford & Co. is exempt from Rules 15c3-3 and 17a-13 under the Securities Exchange Act of 1934 because it does not carry customer accounts, nor does it hold customer securities or cash.

MERRIMAN CURHAN FORD GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(unaudited)

8. Business Segments

The Company's business results are categorized into the following three segments: investment bank / broker-dealer, primary research, and asset management. The investment bank / broker-dealer segment includes a broad range of services, such as capital raising and financial advisory services for corporate clients, and brokerage and equity research services for our institutional investor clients. Our primary research segment offers custom, independent primary research services to CleanTech, Consumer/Internet/Media and Health Care companies, as well as financial services firms that invest in these companies. Our asset management segment manages investment products for investors.

The accounting policies of the segments are consistent with those described in the Significant Accounting Policies in Note 2. Revenue generating activities between segments are eliminated from the segments results for reporting purposes. These activities include fees paid by the Asset Management segment to the Primary Research segment for the management of its investment portfolio.

The Company's segment information for the three months and nine months ended September 30, 2008 and 2007 is prepared using the following methodology:

- Revenue and expenses directly associated with each segment are included in determining income.
- Each segment's operating expenses include compensation and benefits expenses and other operating expenses that are incurred directly in support of the segments. These other operating expenses, include brokerage and clearing fees, cost of primary research services, professional services, occupancy and equipment, communications and technology, depreciation and amortization, amortization of intangible assets, travel and business development and other operating expenses.
- Corporate operating expenses include compensation and benefits for corporate support employees as well as operating expenses that are not incurred directly in support of our three segments.

MERRIMAN CURHAN FORD GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(unaudited)

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2008	2007	2008	2007
Broker-Dealer	Revenue	\$ 4,585,876	\$ 16,253,565	\$ 29,499,752	\$ 49,197,978
	Operating expenses	8,992,724	12,986,080	36,067,439	39,044,315
	Operating (loss) income	\$ (4,406,848)	\$ 3,267,485	\$ (6,567,687)	\$ 10,153,663
	Segment assets	\$ 20,673,366	\$ 32,976,207	\$ 20,673,366	\$ 32,976,207
Primary Research	Revenue	1,431,308	1,194,627	\$ 4,471,246	\$ 2,167,930
	Operating expenses	1,893,793	1,955,379	8,391,666	3,401,355
	Operating (loss) income (1)	\$ (462,485)	\$ (760,752)	\$ (3,920,420)	\$ (1,233,425)
	Segment assets	\$ 3,998,874	\$ 7,092,957	\$ 3,998,874	\$ 7,092,957
Asset Management	Revenue	(35,648)	212,001	\$ (421,684)	\$ 989,779
	Operating expenses	414,491	387,954	1,432,053	836,644
	Operating (loss) income	\$ (450,139)	\$ (175,953)	\$ (1,853,737)	\$ 153,135
	Segment assets	\$ 2,096,520	\$ 3,186,896	\$ 2,096,520	\$ 3,186,896
Corporate Support	Operating loss	(6,378,469)	(2,259,410)	(13,450,071)	(6,706,119)
	Assets	1,084,185	918,363	1,084,185	918,363
Consolidated Entity	Revenue	5,981,535	17,660,194	33,549,314	52,355,687
	Operating expenses	17,679,477	17,588,823	59,341,229	49,988,433
	Operating (loss) income	\$ (11,697,942)	\$ 71,371	\$ (25,791,915)	\$ 2,367,254
	Total assets	\$ 27,852,945	\$ 44,174,423	\$ 27,852,945	\$ 44,174,423

(1) Note: The operating loss for the nine months ended September 30, 2008 includes \$2.6 million of non-cash based impairment of goodwill and an intangible asset associated with the acquisition which is a non-cash expense. The impairment was assessed as of April 30, 2008.

9. Contingencies

Several lawsuits have recently been filed against our subsidiary, Merriman Curhan Ford & Co. (including one which also names the parent company as the defendant) in connection with the alleged actions of a former client of the Company (the "Customer"), and a former retail broker of Merriman Curhan Ford & Co. The total amount of damages

sought under such lawsuits is over \$43 million. The Company anticipates at least two additional lawsuits will be filed against Merriman Curhan Ford & Co. by a lender to the Customer on similar facts to the lawsuits described below, with claims believed to be approximately \$12 million. The Company denies any involvement and will vigorously contest the lawsuits, which are in their early stages. Due to the early stages of these legal matters, we cannot estimate the amount of damages if they are resolved unfavorably and accordingly, we have not provided an accrual for these lawsuits. If Merriman Curhan Ford & Co. were to be found liable in all of these lawsuits and the plaintiffs were to be awarded the damages they seek, it may have a severe impact on the Company's financial condition. Even if the Company ultimately prevails in all of these lawsuits, it may incur significant legal fees which may have a severe impact on the Company's financial condition.

Unrelated to the actions of the former client, the Company is in arbitration with regards to an action brought by a former at-will employee of the Company who worked in the investment banking department. No decision has yet been rendered. The former employee resigned from Merriman Curhan Ford & Co. in July 2005. The former employee alleges breach of an implied employment contract, quantum meruit, and unjust enrichment based on his allegations that he was to be paid more for his work. In the event the former employee prevails, the Company will be liable, but the amount of the liability is not estimable at present.

10. Reduction in Force

During the third quarter 2008, the Company took substantial measures to align its cost structure with its revenue expectations, market demand, and areas of focus. These measures focused on headcount reductions, salary reductions, better alignment of certain businesses and general spending controls. The measures involved the elimination of approximately 20% of the company's workforce, bringing headcount to about 150 employees company-wide and 92 in the broker-dealer. Severance and related costs were \$216,000 which was expensed in the third quarter as Compensation and Benefits. Merriman Curhan Ford & Co., the broker-dealer, incurred \$156,000 of the costs while Panel Intelligence incurred \$42,000 and MCF Asset Management incurred \$18,000.

MERRIMAN CURHAN FORD GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(unaudited)

11. Subsequent Events

Restructuring and Severance Charges

As the market continued to be adverse for the financial services industry, the Company took additional actions. In October, the Company continued its efforts to focus the business and manage non-core expenses. The Company executed another reduction in force in face of persistent and worsening market conditions. Among other measures, the plan involved the elimination of another 10% of the Company's workforce, bringing the headcount to about 130 employees company-wide. Severance and related costs are estimated to be under \$200,000 which will largely be expensed in the fourth quarter. The Company will continue to focus on growing its recurring revenue business lines, as well as strengthen its core institutional brokerage and investment banking businesses.

Employee Stock Option Give-Back

On October 27, 2008, the Company established a program whereby its employees could give back employee stock options that had been granted in prior periods. There was no *quid pro quo* for any stock options given back. In addition, the employees were notified that those giving stock options back could not be granted new stock options for a period of at least six months.

It is expected that the number of stock options given back will be significant. This will enable the Company to grant new stock options under the existing limits of the current stock option plans. These limits are established and modified by the Company's stockholders.

ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements regarding future events and our future results that are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as “may,” “will,” “should,” “expects,” “anticipates,” “targets,” “goals,” “projects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “predicts,” “potential” or “continue,” variations of such words, similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances, are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are referred to risks and uncertainties identified under “Risk Factors” on Page 31 and elsewhere herein. We undertake no obligation to revise or update publicly any forward-looking statements for any reason. Numbers expressed herein may be rounded to thousands of dollars.

Overview

We are a financial services holding company that provides investment research, capital markets services, corporate and executive services, investment banking, venture services, asset management and primary research through our operating subsidiaries, Merriman Curhan Ford & Co., MCF Asset Management, LLC and Panel Intelligence, LLC.

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

Panel Intelligence, LLC provides custom and published primary research to industry clients and investment professionals through online panel discussions, quantitative surveys and an extensive research library. Panel Intelligence is positioned to provide greater access, compliance, insights and productivity to clients in the Company's three growth industry sectors: CleanTech, Consumer/Internet/Media, and Health Care.

MCF Asset Management, LLC manages absolute return investment products for institutional and high-net worth clients. As of September 30, 2008, assets under management across our fund products were approximately \$33 million.

Executive Summary

Revenue declined by 66% in the latest quarter relative to the third quarter 2007 during the most tumultuous capital market environment in current history. Our commission revenue grew 1% year-over-year, supported by continued growth with our Institutional Cash Distributors money fund business as well as high market volatility which drove solid customer trading activity. Investment banking revenue declined 64% sequentially from the second quarter and declined 72% year-over-year as very few companies have come to market during the first nine months of 2008, particularly in the third quarter. Principal Transactions swung to a loss of \$5,384,000 after posting gains during the second quarter 2008 and third quarter 2007.

Business Environment

Stocks declined sharply to date during 2008, reflecting a U.S. recession marked by two consecutive quarters of shrinking GDP and multiple bank failures. The aggressive interventions by the Federal Reserve Board, including engineering the rescue of AIG, multiple reductions of key target short-term interest rates as well as the government's willingness to intervene did not help stabilize stock or bond prices toward the end of the third quarter, which saw unprecedented volatility. The overall credit market, which had staged a slight recovery in April and May, nearly collapsed as prices of mortgage securities and corporate bonds fell. Market sentiment took a big hit as the Dow dropped 17% year-to-date at the close of the quarter. Eight days later, it proceeded to drop by 29% year-to-date. The high degree of volatility has led many funds to freeze activity to cope with massive redemptions which has a direct impact on our corporate financing activity levels. Overall, the environment for small and micro cap stocks to date in 2008 was perceived by many market participants as the most difficult they had ever experienced.

Our securities broker-dealer and investment banking activities are linked to the capital markets. In addition, our business activities are focused in three growth industry sectors: CleanTech, Consumer/Internet/Media and Health Care. 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.

Results of Operations

The following table sets forth the results of operations for the three months and nine months ended September 30, 2008 and 2007:

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Revenue:				
Commissions	\$ 7,992,614	\$ 7,923,963	\$ 24,353,696	\$ 22,807,243
Principal transactions	(5,384,303)	2,478,297	(5,280,550)	10,804,073
Investment banking	1,600,260	5,616,491	9,423,666	15,480,518
Primary research	1,431,154	1,165,428	4,471,092	2,116,490
Advisory and other fees	341,810	476,015	581,410	1,147,363
Total revenue	5,981,535	17,660,194	33,549,314	52,355,687
Operating expenses:				
Compensation and benefits	8,743,732	12,096,131	34,016,942	35,673,505
Brokerage and clearing fees	558,344	627,223	2,042,828	1,921,920
Cost of primary research services	548,943	555,185	1,743,236	950,403
Professional services	3,987,874	518,045	7,290,374	1,603,163
Occupancy and equipment	650,678	499,459	1,877,288	1,395,048
Communications and technology	702,654	921,853	2,653,501	2,618,799
Depreciation and amortization	308,220	193,284	614,390	556,332
Amortization of intangible assets	116,536	264,771	349,607	485,414
Travel and entertainment	674,161	635,353	2,645,964	1,789,971
Other	1,388,335	1,277,519	3,505,583	2,993,878
Impairment of goodwill	—	—	2,601,516	—
Total operating expenses	17,679,477	17,588,823	59,341,229	49,988,433
Operating (loss) income	(11,697,942)	71,371	(25,791,915)	2,367,254
Interest income	195,283	132,965	325,703	362,919
Interest expense	(22,665)	(15,876)	(61,673)	(97,087)
(Loss) income before taxes	(11,525,324)	188,460	(25,527,885)	2,633,089
Income tax expense	(198,014)	—	1,640,730	(55,000)
Net (loss) income	\$ (11,723,338)	\$ 188,460	\$ (23,887,155)	\$ 2,578,089

Our net (loss) income for the three months and nine months ended September 30, 2008 and 2007 included the following non-cash expenses:

Three Months Ended

Nine Months Ended

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	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Stock-based compensation	\$ 580,428	694,574	\$ 1,897,033	\$ 2,146,436
Depreciation and amortization	308,220	193,284	614,390	556,332
Amortization of intangible assets	116,536	264,771	349,607	485,414
Provision for uncollectible accounts receivable (1)	(124,243)	140,105	156,300	368,272
Impairment of goodwill and intangible assets	—	—	2,208,735	—
Amortization of discounts on debt	—	2,583	2,584	7,749
Total	\$ 880,941	1,295,317	\$ 5,028,649	\$ 3,564,203

Note (1): The provision for uncollectible accounts receivable was negative due to collection of an item previously reserved and written off.

Investment Banking Revenue

Our investment banking activity includes the following:

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

The following table sets forth our revenue and transaction volumes from our investment banking activities for the three months and nine months ended September 30, 2008 and 2007:

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2008	2007	2008	2007
Revenue:				
Capital raising	\$ 1,379,382	\$ 3,881,491	\$ 8,862,067	\$ 13,028,018
Financial advisory and other	220,878	1,735,000	561,599	2,452,500
Total investment banking revenue	\$ 1,600,260	\$ 5,616,491	\$ 9,423,666	\$ 15,480,518
Transaction Volumes:				
Public offerings:				
Capital underwritten participations	\$ 0	\$ 8,505,000	\$ 8,153,000	\$ 113,744,000
Number of transactions	0	1	2	7
Private placements:				
Capital raised	\$ 19,100,000	\$ 101,210,000	\$ 94,800,000	\$ 187,795,000
Number of transactions	1	8	11	15

Our investment banking revenue was \$1.6 million or 27% of our revenue during third quarter 2008, representing a 62% decrease from the similar quarter in 2007. Third quarter of 2008 represented a different operating environment where the ability to execute virtually any type of transactions was more challenging than what we have experienced in the second quarter of 2008 as well as all of 2007. During the quarter we completed only one private transaction versus a total of 8 deals, including 2 public transaction in the second quarter and 9 deals in the same period in 2007.

During the nine months ended September 30, 2008, we had one investment banking client that accounted for 20% of our revenue, while no single investment banking client accounted for more than 10% of our revenue during the same period in 2007.

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:

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Revenue:				
Commissions	\$ 7,992,614	\$ 7,923,963	\$ 24,353,696	\$ 22,807,243
Principal transactions:				
Customer principal transactions, proprietary trading and market making	\$ (2,217,319)	\$ 1,888,770	\$ (5,889,424)	\$ 9,243,523
Investment portfolio	(3,166,984)	589,527	608,874	1,560,550
Total principal transactions revenue	\$ (5,384,303)	\$ 2,478,297	\$ (5,280,550)	\$ 10,804,073
Transaction Volumes:				
Number of shares traded	321,882,832	315,936,384	1,094,758,300	793,084,262
Number of active clients	291	374	475	537

Commissions amounted to \$7,993,000, representing a 1% increase from the similar period in 2007. Lower brokerage commissions were offset by higher revenue for brokering institutional money funds by our Institutional Cash Distributors division.

Principal transactions produced a substantial loss of \$5,384,000 during the third quarter 2008 versus our record gains experienced in 2007. The 2008 loss was largely driven by a decline in the fair value of the Proprietary and Investment accounts. As of September 30, 2008, we made markets in 1,406 stocks, which increased from 1,100 stocks as of September 30, 2007. We view “intelligent market making” in small cap stocks as a key element to differentiating ourselves from our competition. Principal transactions revenue consists of four different activities - customer principal trades, market making, trading for our proprietary account, and realized and unrealized gains and losses in our investment portfolio. As a broker-dealer, we account for all of our marketable security positions on a trading basis and as a result, all security positions are marked to fair market value each day. Returns from market making and proprietary trading activities tend to be more volatile than acting as agent or principal for customers.

During 2008 and 2007, no single brokerage customer accounted for more than 10% of our revenue from continuing operations.

Primary Research Revenue

Panel Intelligence provides primary market research to corporate and financial clients in the Health Care and CleanTech growth industry sectors. The predecessor business which was called MedPanel was acquired April 17, 2007. For the quarter ended September 30, 2008, Panel revenues were up 24% to \$1,431,000 versus the same period in 2007. The growth has been primarily driven by increased business in the Health Care industry. However, we have not seen the acceleration in the financial services industry that was originally estimated when we acquired the business. We believe this is more related to the current challenging market environment and not a reduction in opportunity.

Compensation and Benefits Expenses

Compensation and benefits expense represents the largest component 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 vary based on overall headcount.

The following table sets forth the major components of our compensation and benefits for the three months ended September 30, 2008 and 2007:

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Incentive compensation and discretionary bonuses	\$ 3,446,193	\$ 6,566,759	\$ 15,801,261	\$ 19,950,445
Salaries and wages	3,967,160	3,928,087	12,519,535	10,527,878
Stock-based compensation	580,428	694,574	1,897,033	2,146,436
Payroll taxes, benefits and other	749,951	906,711	3,799,113	3,048,746
Total compensation and benefits	\$ 8,743,732	\$ 12,096,131	\$ 34,016,942	\$ 35,673,505
Total compensation and benefits as a percentage of revenue	146%	68%	101%	68%
Cash compensation and benefits as a percentage of revenue	136%	65%	96%	64%

The decrease in compensation and benefits expense of \$3,352,000 or 27%, from the third quarter 2007 to the third quarter 2008 represents lower incentive compensation, which is directly correlated to revenue production and reduced headcount. Cash compensation is equal to total compensation and benefits expense excluding stock-based compensation, which is a non-cash expense. Cash compensation and benefits expense as a percentage of revenue increased to 146% during the three months ended September 30, 2008 as compared to 68% during the similar period in 2007. The increase was largely attributed to lower than anticipated revenues during the three months ended September 30, 2008 versus same period in 2007. As revenues decrease, the fixed portion of the compensation base becomes a larger impact on the percentage of total revenues.

No single sales professional accounted for more than 10% of our revenue during the three months ended September 30, 2008. For the three months ended September 30, 2007, one sales professional accounted for over 10% of our revenues.

Stock-based compensation expense decreased by \$114,146 during the third quarter 2008, as compared to the similar quarter in 2007. The decline in stock-based compensation expense was due in part to fewer non-vested restricted shares outstanding in 2008.

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. Additionally, security trades are executed by third-party broker-dealers

and electronic trading systems. These expenses are almost entirely variable with commission revenue and the volume of brokerage transactions. Our brokerage and clearing fees decreased by \$69,000 during the third quarter of 2008 as compared to the third quarter of 2007. The decrease was primarily due to a shift in the mix of types of trades and reduction of some costs, such as traders' subscriptions to information services.

Cost of primary research revenue principally consists of panelist honorarium and recruitment costs. Technical experts (mostly in the medical field but including those in the CleanTech and technology fields) receive cash honoraria for participating in qualitative panels and quantitative surveys. We pay the honoraria to the panelists when the panel or survey has been completed and record this expense as incurred. We closed the acquisition of MedPanel on April 17, 2007 and began recognizing primary research revenue and related expenses since that date.

Professional services expense includes legal, audit, consulting fees, as well as expenses related to investment banking transactions. The increase of \$3,469,829 from the third quarter of 2007 to the third quarter of 2008 was primarily attributed to higher legal fees associated with defending the Company in the litigations in which it is involved and with various projects, as well as higher business development costs associated with investment banking transactions. We believe that the third quarter 2008 represents the peak in legal spending and we anticipate declines in the fourth quarter of 2008.

Occupancy and equipment includes rental costs for our office facilities and equipment, as well as equipment, software and leasehold improvement expenses. These expenses are largely fixed in nature. The increase of \$151,000 or 30%, from the third quarter of 2007 to the third quarter of 2008 was in part due to inclusion of expenses from Panel Intelligence and a subsequent move to a new office location in August of 2007, as well as higher costs associated with a new lease for our New York office, which commenced in March 2008.

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 decrease of \$219,000, or 24%, from the third quarter of 2007 to the third quarter of 2008 was primarily due to a decline in the number of employees and the reduced associated costs, such as subscriptions to information services.

Depreciation and amortization expense primarily relate to the depreciation of our computer equipment and leasehold improvements. The increase of \$115,000, or 59%, from the third quarter of 2007 to the third quarter of 2008 was due to additional equipment purchased and leasehold improvements made in connection with the Company's new facilities in New York City.

As of April 30, 2008, the Company determined there was an impairment to the goodwill and intangible assets related to the acquisition of MedPanel, Inc. (currently its subsidiary Panel Intelligence, LLC). The Company calculates an estimated fair value based on multiples of revenue, earnings, and book value of comparable transactions. However, when such comparable transactions are not available or have become outdated, the Company uses discounted cash flow scenarios to estimate the fair value of the reporting units. As of April 30, 2008, the Company performed its annual impairment testing and recorded an impairment loss of \$2,600,000 in its consolidated statement of operations for the three months ended June 30, 2008 related to the goodwill and tradename. No additional impairment was recorded in the three months ended September 30, 2008. The impairment is a non-cash expense item.

Travel and entertainment expense results from business development activities across our various businesses. The increase of \$39,000 or 6%, from the third quarter of 2007 to the third quarter of 2008 was due mostly to increased costs associated with non-deal related roadshows, client visits, and business development.

Other operating expense includes company events, recruiting fees, professional liability and property insurance, marketing, business licenses and taxes, office supplies and other miscellaneous office expenses. The increase of approximately \$111,000 or 9%, from the third quarter of 2007 to the third quarter of 2008 was partly due to increased marketing expenses somewhat offset by lower recruiting fees.

Income Tax Expense

At the end of each interim reporting period the Company calculates an effective tax rate based on the Company's estimate of the tax provision (benefit) that will be provided for the full year, stated as a percentage of estimated annual pre-tax income (loss). The tax provision (benefit) for the interim period is determined using this estimated annual effective tax rate. For the three months and nine months ended September 30, 2008, the Company recorded \$198,000 and \$(1,641,000) of income tax expense, respectively. The effective tax rate for the nine months ended September 30, 2008 is 7.03%, which is mainly attributable to the release of the FIN 48 liability due to the approval of an accounting method change for federal tax purposes.

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

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

Off-Balance Sheet Arrangements

We were not a party to any off-balance sheet arrangements during the nine months ended September 30, 2008 and 2007. In particular, we do not have any interest in so-called limited purpose entities, which include special purpose entities and structured finance entities.

Commitments

The following table summarizes our significant commitments as of September 30, 2008, consisting of payments related to capital leases and future minimum lease payments under all non-cancelable operating leases with initial or remaining terms in excess of one year.

	Operating Leases	Capital Leases
2008	\$ 780,215	\$ 201,648
2009	2,624,011	634,968
2010	2,019,930	319,733
2011	1,923,516	146,647
2012	1,174,323	—
Thereafter	704,000	—
Total commitments	\$ 9,225,994	\$ 1,302,995

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” are reflected in the consolidated statements of financial condition on a trade-date basis. Related unrealized gains or losses are generally recognized in “Principal transactions revenue” in the consolidated statements of operations. The use of fair value to measure financial instruments 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 that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Instruments that the Company owns (long positions) are marked to bid prices, and instruments that the Company has sold, but not yet purchased (short positions), are marked to offer prices. Fair value measurements are not adjusted for transaction costs. 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 Company has categorized its financial instruments measured at fair value into a three-level classification in accordance with SFAS 157. Level 1 fair value measurements of financial instruments uses quoted prices in active markets for identical assets or liabilities. Fair value measurements of financial instrument with inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life are categorized as Level 2. Finally, fair value measurements of financial instruments that have no direct observable levels are generally categorized as Level 3. The lowest level input that is significant to the fair value measurement of a financial instrument is used to categorize the instrument and reflects the judgment of management.

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 services 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), "Share-Based Payment," which requires the measurement and recognition of compensation expense, based on estimated fair values, for all share-based awards made to employees and directors, including stock options, non-vested stock, and participation in our employee stock purchase plan. Share-based compensation expense recognized in our consolidated statement of operations for the three months and nine months ended September 30, 2008 and 2007 includes compensation expense for share-based awards granted (i) prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123, and (ii) subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R).

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

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

Deferred Tax Valuation Allowance

We account for income taxes in accordance with the provision of SFAS No. 109, *Accounting for Income Taxes*, which requires the recognition of deferred tax assets and liabilities at tax rates expected to be in effect when these balances reverse. Future tax benefits attributable to temporary differences are recognized to the extent that the realization of such benefits is more likely than not. We have concluded that it is more likely than not that our deferred tax assets as of September 30, 2008 and 2007 will not be realized based on the scheduling of deferred tax liabilities and projected taxable income. The amount of the deferred tax assets actually realized, however, could vary if there are differences in the timing or amount of future reversals of existing deferred tax liabilities or changes in the actual amounts of future taxable income. Should we determine that we will be able to realize all or part of the deferred tax asset in the future, an adjustment to the deferred tax asset will be recorded in the period such determination is made.

Liquidity and Capital Resources

Historically, we have satisfied our liquidity and regulatory capital needs through the generation of operating profits and the issuance of equity and debt securities, although we have not accessed the capital markets since 2004. As of September 30, 2008, liquid assets consisted primarily of cash and cash equivalents of \$7,914,755 and marketable securities, net of securities sold not yet purchased, of \$7,723,865, for a total of \$15,638,620.

Cash and cash equivalents decreased by \$24,047,446 during the nine months ended September 30, 2008 primarily due to the payment of higher employee bonuses in February 2008 for the Company's 2007 performance and growing operating losses in 2008. The Company's performance in 2007 was better than in 2006 for which bonus was paid in the same period 2007. Cash used in operating activities for the nine months ending September 30, 2008 were \$23,761,688 which consisted of our net income adjusted for non-cash expenses including stock-based compensation, depreciation and amortization. In addition realized losses were more than offset by unrealized gains in the firm's various investment accounts. Cash used in investing activities amounted to \$202,398 for the nine months ending September 30, 2008 which consisted primarily of purchase of equipment and fixtures. Cash used in financing activities was \$83,360. Our financing activities included capital lease activity.

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 September 30, 2008, Merriman Curhan Ford & Co. had regulatory net capital of \$2,053,145 which exceeded the required amount by \$1,053,145.

Depending on the progress and outcome of the lawsuits filed against us, as well as our actual vs. forecasted operating results, we forecast our existing cash balances and investments to be sufficient to meet our liquidity and capital spending requirements for the next twelve months. 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.

Restructuring and Severance Charges

During the third quarter 2008, the company took substantial measures to begin aligning its cost structure with its current revenue expectations, market demand, and areas of focus. These measures focused on headcount reductions, salary reductions, better alignment of certain businesses and general spending controls. The measures involved the

elimination of approximately 20% of the company's workforce, bringing the headcount to about 150 employees company-wide and 92 in the broker-dealer. Severance and related costs were \$216,000 which was expensed in the third quarter under Compensation and Benefits. We originally estimated that these measures would reduce operating expenses by about \$7 million annually. By the end of the third quarter, we believe we have achieved at least \$6 million of those savings and are on track for an additional \$1 million savings by year-end.

In October, the firm continued its efforts to focus the business and manage non-core expenses. The firm executed another reduction in force in face of persistent and worsening market conditions. When the effects of the second reduction in force are fully reflected in our results by the end of the fourth quarter 2008, the action will reduce annual operating expenses by approximately an additional \$3 million. This should bring the savings from cost reductions during 2008 to almost \$10 million in total annual savings. Among other measures, the reduction in force involved the elimination of an additional 10% of the Company's workforce, bringing the headcount to about 130 employees company-wide. Severance and related costs are estimated to be under \$200,000 which will largely be expensed in the fourth quarter. The Company will continue to focus on growing its recurring revenue business lines, as well as strengthen its core institutional brokerage and investment banking business units.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Equity Price Risk

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

Interest Rate Risk

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

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

Foreign Currency Risk

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

Item 4. Controls and Procedures

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

Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), the Principal Executive Officer and Principal Financial Officer of the Company have concluded that the disclosure controls and procedures are effective as of September 30, 2008.

Changes in internal controls - There was no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) of the Exchange Act) that occurred during the quarter ended September 30, 2008, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Cacchione appears to have improperly provided client account statements to third-party lenders or to Del Biaggio for the purpose of representing to the lenders that the accounts belonged to Del Biaggio. The retail client account statements were altered so that the accounts appear to belong to Del Biaggio when in fact some of the accounts belonged to other Merriman Curhan Ford & Co. retail clients. Del Biaggio is no longer a customer of the Company.

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

The Company is also subject to a formal investigation commenced by the Securities and Exchange Commission ("SEC"). The SEC investigation appears to relate in part to the subject matter of the Grand Jury inquiry, *i.e.*, Cacchione's misuse of client accounts as collateral for loans to the customer. It also appears to relate to other possible violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder by Cacchione in the handling of his client accounts. The SEC investigation further appears to relate to the Company's trading activities in various stocks in possible violation of Rule 10b-5 as well as to a failure to adequately supervise its personnel with a view toward preventing violations of the federal securities laws. The Company is cooperating fully with the SEC in its investigation.

The investigation relating to client accounts appears to involve only Cacchione's retail accounts. The Company's high-net-worth client retail brokerage business accounted for less than 1% of the Company's revenue in 2007. The Company is phasing out this business and will concentrate on strengthening its core institutional brokerage and investment banking businesses. The Company also is re-examining its compliance policies and procedures as well as the alignment of the supervisory and compliance related functions of various members of management.

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

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

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

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

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

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

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

Security Pacific Bank v. Merriman Curhan Ford & Co.

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

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

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

Valley Community Bank v. Merriman Curhan Ford & Co.

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

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

United American Bank v. Merriman Curhan Ford & Co.

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

David Hengehold v. Merriman Curhan Ford & Co.

In June 2008, Merriman Curhan Ford & Co. was served with a complaint filed by David Hengehold. Plaintiff alleges, among other things, fraud based on a former employee of the Company having induced plaintiff into making loans to an entity associated with Del Biaggio. This plaintiff is a former client of the Company. This matter does not involve account control agreements. Plaintiff in this lawsuit alleges damages of over \$500,000. We believe that we have

meritorious defenses and intend to contest this claim vigorously.

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

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

30

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

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

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

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

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

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

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

Unrelated to the Del Biaggio/Cacchione matters, in June 2006, our broker-dealer subsidiary Merriman Curhan Ford & Co. was served with a claim in NASD Arbitration by Thomas O'Shea. Mr. O'Shea is a former at-will employee of Merriman Curhan Ford & Co. and worked in the investment banking department. Mr. O'Shea resigned from Merriman Curhan Ford & Co. in July 2005. Mr. O'Shea alleges breach of an implied employment contract, quantum meruit, and unjust enrichment based on his allegations that he was to be paid more for his work. The matter proceeded to an arbitration hearing in October 2008 but we do not yet have a decision. We believe that we have meritorious defenses and contested these claims vigorously. However, in the event that we do not prevail, based upon the facts as we know them to date, we do not believe that the outcome will have a material effect on our financial position, financial results or cash flows.

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, including reports we incorporate by reference, you should carefully consider the risk factors previously disclosed in response to Item 1A to Part 1 of our Annual Report on Form 10-K for the year ended December 31, 2007 and the additional risk factor described below.

Merriman Curhan Ford & Co. is the defendant in numerous large pending lawsuits, and expect more lawsuits to be filed.

Several lawsuits have recently been filed against Merriman Curhan Ford & Co. in connection with the alleged actions of a former client of Merriman Curhan Ford & Co., William Del Biaggio III, and a former retail broker of Merriman Curhan Ford & Co., David Scott Cacchione, as more fully described under the heading "Legal Proceedings in Part II, Item 1". The total amount of damages sought under such lawsuits is over \$43 million. The Company anticipates at

least two additional lawsuits will be filed against Merriman Curhan Ford & Co. by a lender to Del Biaggio, on similar facts to the lawsuits described above, with claims believed to be approximately \$12 million. We can not assure you that we will prevail in any of these lawsuits. We do, however, deny all allegations and will vigorously contest the lawsuits, which are in their early stages. If Merriman Curhan Ford & Co. is found liable in all of these lawsuits and the plaintiffs were to be awarded all of the damages they seek, it is likely that we would not be able to continue in business. If we were to lose a significant portion of these lawsuits, our business and financial condition are likely to be adversely affected. Even if we ultimately prevail in all of these lawsuits, we may incur significant legal fees and diversion of management's time and attention from our core businesses, and our business and financial condition may be adversely affected.

We have been informed that we will be subject to an IRS audit.

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

Item 6. Exhibits

- 31.1 Certification of Principal Executive Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32

SIGNATURES

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

MERRIMAN CURHAN FORD GROUP, INC.

November 10, 2008

By:

/s/ D. JONATHAN MERRIMAN
D. Jonathan Merriman,
Chief Executive Officer
(Principal Executive Officer)

November 10, 2008

By:

/s/ PETER V. COLEMAN
Peter V. Coleman
Chief Financial Officer
(Principal Financial Officer)