Merriman Curhan Ford Group, Inc.
Form 10-K
March 18, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year ended December 31, 2009

OR

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

For the transition period from _______ to ________

Commission File Number 001-15831

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

Delaware	11-2936371
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

600 California Street, 9th Floor
San Francisco, CA 94108
(Address of principal executive offices)(Zip Code)

(415) 248-5600
(Registrant's telephone number, including area code)

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yeso Nox

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

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

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

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

The aggregate market value of the 12,554,779 shares of common stock of the Registrant issued and outstanding as of June 30, 2009, the last business day of the registrant's most recently completed second fiscal quarter, excluding 1,272,827 shares of common stock held by affiliates of the Registrant was $5,076,878. This amount is based on the closing price of the common stock on NASDAQ of $0.45 per share on June 30, 2009.

The number of shares of Registrant's common stock outstanding as of March 15, 2010 was 12,824,294

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This Annual Report on Form 10-K and the information incorporated by reference in this Form 10-K include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Some of the forward-looking statements can be identified by the use of forward-looking words such as “believes,” “expects,” “may,” “should,” “seeks,” “approximately,” “intends,” “pla “estimates” or “anticipates,” or the negative of those words or other comparable terminology. Forward-looking statements involve risks and uncertainties. You should be aware that a number of important factors could cause our actual results to differ materially from those in the forward-looking statements. We will not necessarily update the information presented or incorporated by reference in this Annual Report on Form 10-K if any of these forward-looking statements turn out to be inaccurate. Risks affecting our business are described throughout this Form 10-K and especially in the section “Risk Factors.” This entire Annual Report on Form 10-K, including the consolidated financial statements and the notes and any other documents incorporated by reference into this Form 10-K, should be read for a complete understanding of our business and the risks associated with that business.

PART I

Item 1. Business

Overview

We are a financial services holding company that provides equity research, capital markets services, corporate and venture services, and investment banking through our primary operating subsidiary, Merriman Curhan Ford & Co. (“MCF”). In 2009, we sold the operating assets of Panel Intelligence, LLC, which had been our subsidiary dedicated to primary research, and discontinued operations of MCF Asset Management, our subsidiary which managed investment products.

MCF 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 $1 billion in market capitalization. We provide equity research, brokerage and trading services primarily to institutions, as well as investment banking and advisory services to corporate clients. We are attempting to gain market share by originating differentiated research for our institutional investor clients and providing specialized and integrated services for our fast-growing corporate clients.

Institutional Cash Distributors (“ICD”) is a division of MCF which brokers money market funds serving the short-term investing needs of corporate finance departments at companies throughout the United States and Europe. In January 2009, we sold the primary assets related to the ICD operations to a group of investors which included some of our employees. To assist in the transition of operations to the new owners, we are providing substantial services to ICD, including collecting its revenues. When ICD receives its broker-dealer license, we will no longer provide such services and record ICD revenues.

Panel Intelligence, LLC was acquired in April 2007. It offered custom and published primary research to industry clients and investment professionals through online panel discussions, quantitative surveys and an extensive research library. Panel Intelligence, LLC provided greater access, compliance, insights and productivity to clients in the health care, CleanTech and financial industries. In January 2009, the majority of the assets of Panel Intelligence, LLC were sold to an investor group that included certain members of its management team. For financial reporting purposes, we have listed the operations of the business as part of discontinued operations.

MCF Asset Management, LLC managed absolute return investment products for institutional and high-net worth clients. We were the sub-advisor for the MCF Focus fund. In an effort to refocus the holding company back to its core investment banking/ broker-dealers services, management liquidated the funds under management and returned investments to the investors in the fourth quarter of 2008. We no longer have, for all practical purposes, a subsidiary dedicated to asset management. At December 31, 2009, we held an immaterial amount of illiquid assets and were in the process of distributing these to investors.

We are headquartered in San Francisco, with additional offices in New York, NY. As of December 31, 2009, we had 94 employees, including employees of our Institutional Cash Distributor division (ICD), whose assets we sold in January 2009. Merriman Curhan Ford & Co. is registered with the Securities and Exchange Commission (“SEC”) as a broker-dealer and is a member of Financial Industry Regulatory Authority (“FINRA”) and the Securities Investors Protection Corporation (“SIPC”).

Liquidity

We incurred substantial losses and negative cash flows from operations in 2009 and 2008. We had net losses of $5,462,000 and $30,274,000 in 2009 and 2008, respectively, and negative operating cash flows of $12,648,000 and $24,945,000 for the same respective years. As of December 31, 2009, we had retained deficit of $124,815,000. While we believe our current funds will be sufficient to enable us to meet our planned expenditures through at least January 1, 2011, if anticipated operating results are not achieved, management has the intent and believes it has the ability to delay or reduce expenditures if not to raise additional capital. Failure to generate sufficient cash flows from operations, raise additional capital or reduce certain discretionary spending could have a material adverse effect on our ability to achieve our intended business objectives.

Principal Services

Our investment bank / broker-dealer segment provides three service offerings: investment banking, brokerage and equity research. We provide traditional research-based financial services to companies with market capitalizations up to $1 billion, which we believe is an underserved sector in the financial services industry.

Investment Banking

Our investment bankers provide a full range of corporate finance and strategic advisory services. Our corporate finance practice is comprised of industry coverage investment bankers that are focused on raising capital for fast-growing companies in selected industry sectors. Our strategic advisory practice tailors solutions to meet the specific needs of our clients at various points in their growth cycle. As of December 31, 2009, we had 8 professionals in our investment banking group.

Corporate Finance. Our corporate finance practice advises on and structures capital raising solutions for our corporate clients through public and private offerings of primarily equity and convertible debt securities. Our focus is to provide fast-growing companies with the capital necessary to drive them to the next level of growth. We offer a wide range of financial services designed to meet the needs of fast-growing companies, including initial public offerings, secondary offerings, private investments in public equity, or PIPEs, and private placements. Our equity capital markets team executes underwritten securities offerings, assists clients with investor relations advice and introduces companies seeking to raise capital to investors who we believe will be supportive, long-term investors. Additionally, we draw upon our contacts throughout the financial and corporate world, expanding the options available for our corporate clients.

Strategic Advisory. Our strategic advisory services include transaction-specific advice regarding mergers and acquisitions, divestitures, spin-offs and privatizations, as well as general strategic advice. Our commitment to long-term relationships and our ability to meet the needs of a diverse range of clients has made us a reliable source of advisory services for fast-growing public and private companies. Our strategic advisory services are also supported by our capital markets professionals, who provide assistance in acquisition financing in connection with mergers and acquisitions transactions.

Institutional Brokerage Services

We provide institutional sales, sales trading and trading services to about 324 institutional accounts in the United States. We execute securities transactions for money managers, mutual funds, hedge funds, insurance companies, and pension and profit-sharing plans. Institutional investors normally purchase and sell securities in large quantities, which require the distribution and trading expertise we provide.

We provide integrated research and trading solutions centered on helping our institutional clients to invest profitably, to grow their portfolios and ultimately their businesses. We understand the importance of building long-term relationships with our clients who look to us for the professional resources and relevant expertise to provide answers for their specific situations. We believe it is important for us to be involved with public companies early in their corporate life cycles. We strive to provide unique investment opportunities in fast-growing, relatively undiscovered companies and to help our clients execute trades rapidly, efficiently and accurately.

Institutional Sales. Our sales professionals focus on communicating investment ideas to our clients and executing trades in securities of companies in our target growth sectors. By actively trading in these securities, we endeavor to couple the capital market information flow with the fundamental information flow provided by our analysts. We believe that this combined information flow is the underpinning of getting our clients favorable execution of investment strategies. Sales professionals work closely with our research analysts to provide up-to-date information to our institutional clients. We interface actively with our clients and plan to be involved with our clients over the long term.

Sales Trading. Our sales traders are experienced in the industry and possess in-depth knowledge of both the markets for fast-growing company securities and the institutional traders who buy and sell them.

Trading. Our trading professionals facilitate liquidity discovery in equity securities. We make markets in securities traded on NASDAQ, stock exchanges and ECNs, and service the trading desks of institutions in the United States. Our trading professionals have direct access to the major stock exchanges, including the New York Stock Exchange and the American Stock Exchange. As of December 31, 2009, we were a market maker in 163 securities.

The customer base of our institutional brokerage business includes mutual funds, hedge funds, and private investment firms. We believe this group of potential clients to number over 4,000. We grow our business by adding new customers and increasing the penetration of existing institutional customers that use our equity research and trading services in their investment process.

Proprietary Trading. We will from time to time take significant positions in fast-growing companies that we feel are undervalued in the marketplace. We believe that our window into these opportunities, due to the types of companies we research, offers us a significant competitive advantage.

Corporate & Executive Services. We offer brokerage services to corporations for purposes such as stock repurchase programs. We also serve the needs of company executives with restricted stock transactions, cashless exercise of options, and liquidity strategies.

Venture Services. The Venture Services team provides sales distribution for capital raises for private companies via the introduction to venture capital and private equity investors. Our venture services include distribution and liquidity programs, portfolio company advisory services, research dissemination and best-execution trading.

OTCQX Advisory. Merriman Curhan Ford & Co. began offering services to sponsor companies on the International and Domestic OTCQX markets in 2007. In 2008, we solidified our position as the leading investment bank sponsor in this market. We enable non-U.S. and domestic companies to obtain greater exposure to U.S. institutional investors without the expense and regulatory burdens of listing on traditional U.S. exchanges. The International and Domestic OTCQX market tiers do not require full SEC registration and are not subject to the Sarbanes Oxley Act of 2002. Listing on the market requires the sponsorship of a qualified investment bank called a Principal American Liaison (PAL) for non-U.S. companies or a Designated Advisor for Disclosure (DAD) for domestic companies. Merriman Curhan Ford & Co. was the first investment bank to achieve DAD and PAL designations and currently is the sponsor of 10 out of 91 issuers listed on OTCQX.

Institutional Cash Distributors (ICD). ICD is a broker of money market funds serving the short-term investing needs of corporate finance departments at companies throughout the United States and Europe. Companies using ICD's services receive access to over 40 fund families through ICD's one-stop process that includes one application, one wire and one statement that consolidates reporting regardless of the number of funds utilized. In January 2009, we sold the primary assets related to the ICD operations to a group of investors which included some of our employees. However, until the new company is able to form its own broker-dealer, which is anticipated to be in 2010, the business will continue operating under Merriman Curhan Ford & Co. and its financial results included in our consolidated financial statements.

Equity Research

A key part of our strategy is to originate specialized and in-depth research. Our analysts cover a universe of approximately 114 companies in our focus industry sectors. We leverage the ideas generated by our research teams, using them to attract and retain institutional brokerage clients.

Supported by the firm's institutional sales and trading capabilities, our analysts deliver timely recommendations to clients on innovative investment opportunities. In an effort to make money for our investor clients, our analysts are driven to find undiscovered opportunities in fast-growing companies that we believe are undervalued. Given the contrarian and undiscovered nature of many of our research ideas, we, as a firm, specialize in serving sophisticated, aggressive institutional investors.

As of February 12, 2010, approximately 67% of the companies covered by our research professionals had market capitalizations of $1 billion or less.

Our equity research focuses on bottom-up, fundamental analysis of fast-growing companies in selected growth sectors. Our analysts' expertise in these categories of companies, along with their intensive industry knowledge and contacts, provides us with the ability to deliver timely, accurate and value-added information.

Our objective is to build long lasting relationships with our institutional clients by providing investment recommendations that directly equate to enhanced performance of their portfolios. Further, given our approach and focus on quality service, we believe our equity research analysts are in a unique position to maintain close, ongoing communication with our clients.

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

- Clean Energy
  - Natural Resources and related sectors

- Consumer, Media & Internet
  - Branded Consumer
  - China Consumer
  - Media/Entertainment
  - Internet Media and Infrastructure

- Health Care
  - Biotechnology - Life Sciences

- Technology
  - Clean Energy Semiconductors
  - Communications - Wireless Technology
  - Defense Electronics/Advanced Communications
  - Emerging Data Center/Enterprise Technologies
  - Cloud Computing Service Providers

Research Coverage by Industry

As of 2/2/10

After initiating coverage on a company, our analysts seek to effectively communicate new developments to our institutional clients through our sales and trading professionals. We produce full-length research reports, notes and earnings estimates on the companies we cover. We also produce comprehensive industry sector reports. In addition, our analysts distribute written updates on these issuers both internally and to our clients through the use of daily morning meeting notes, real-time electronic mail and other forms of immediate communication. Our clients can also receive analyst comments through electronic media, and our sales force receives intra-day updates at meetings and through regular announcements of developments. All of the above is also available through a password protected searchable database of our daily and historical research archives found on our website at www.merrimanco.com.

Our Equity Research Group annually hosts several conferences targeting fast-growing companies and institutional investors, including our annual Investor Summit and various industry sector conferences. We use these events to primarily showcase our equity research to the institutional investment community.

Competition

Merriman Curhan Ford is engaged in the highly competitive financial services and investment industries. We compete with other securities firms - from large U.S.-based firms, securities subsidiaries of major commercial bank holding companies and U.S. subsidiaries of large foreign institutions, to major regional firms, smaller niche players, and those offering competitive services via the Internet. Long term developments in the brokerage industry, including decimalization and the growth of electronic communications networks, or ECNs, have reduced commission rates and profitability in the brokerage industry. Many large investment banks have responded to lower margins within their equity brokerage divisions by reducing research coverage, particularly for smaller companies, consolidating sales and trading services, and reducing headcount of more experienced sales and trading professionals.

This trend by competitors to reduce services creates an opportunity for us as many highly qualified individuals have lost their jobs, expanding the pool of experienced employees to hire. The economic environment in 2009 has marked a bottom of the negative secular trends experienced by financial institutions in 2008 and the beginning of 2009. During the period, many of our buy-side clients have merged, gone out of business or have sharply reduced their commission flow. The reduction in the number of these clients also has lowered the number of potential buyers for our investment banking product.

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

For a further discussion of the competitive factors affecting our business, see “We face strong competition from larger firms,” under “Item 1A - Risk Factors.”

Corporate Support

Accounting, Administration and Operations

Our accounting, administration and operations personnel are responsible for financial controls, internal and external financial reporting, human resources and personnel services, office operations, information technology and telecommunications systems, the processing of securities transactions, and corporate communications. With the exception of payroll processing, which is performed by an outside service bureau, and customer account processing, which is performed by our clearing broker, most data processing functions are performed internally. We believe that future growth will require implementation of new and enhanced communications and information systems, and training of our personnel to operate such systems. Despite the challenges that we experienced, we have implemented such enhancements in 2009 and expect to continue in 2010.

Compliance, Legal, Risk Management and Internal Audit

Our compliance, legal and risk management personnel (together with other appropriate personnel) are responsible for our compliance with legal and regulatory requirements of our investment banking business and our exposure to market, credit, operations, liquidity, compliance, legal and reputation risk. In addition, our compliance personnel test and audit for compliance with our internal policies and procedures. Our general counsel also provides legal service throughout our company, including advice on managing legal risk. The supervisory personnel in these areas have direct access to senior management and to the Audit Committee of our Board of Directors to ensure their independence in performing these functions. In addition to our internal compliance, legal, and risk management personnel, we retain outside consultants and attorneys for their particular functional expertise.

Risk Management

In conducting our business, we are exposed to a range of risks including:

Market risk is the risk to our earnings or capital resulting from adverse changes in the values of assets resulting from movement in equity prices or market interest rates.

Credit risk is the risk of loss due to an individual customer’s or institutional counterparty’s unwillingness or inability to fulfill its obligations.

Operations risk is the risk of loss resulting from systems failure, inadequate controls, human error, fraud or unforeseen catastrophes.

Liquidity risk is the potential that we would be unable to meet our obligations as they come due because of an inability to liquidate assets or obtain funding. Liquidity risk also includes the risk of having to sell assets at a loss to generate liquid funds, which is a function of the relative liquidity (market depth) of the asset(s) and general market conditions.

Compliance risk is the risk of loss, including fines, penalties and suspension or revocation of licenses by self-regulatory organizations, or from failing to comply with federal, state or local laws pertaining to financial services activities.

Legal risk is the risk that arises from potential contract disputes, lawsuits, adverse judgments, or adverse governmental or regulatory proceedings that can disrupt or otherwise negatively affect our operations or condition.

Reputation risk is the potential that negative publicity regarding our practices, whether factually correct or not, will cause a decline in our customer base, costly litigation, or revenue reductions.

We have a risk management program that sets forth various risk management policies, provides for a risk management committee and assigns risk management responsibilities. The program is designed to focus on the following:

- Identifying, assessing and reporting on corporate risk exposures and trends;
- Establishing and revising policies, procedures and risk limits, as necessary;
- Monitoring and reporting on adherence with risk policies and limits;
- Developing and applying new measurement methods to the risk process as appropriate; and
- Approving new product developments or business initiatives.

We cannot provide assurance that our risk management program or our internal controls will prevent or mitigate losses attributable to the risks to which we are exposed.

For a further discussion of the risks affecting our business, see “Item 1A Risk Factors.”

Regulation

As a result of federal and state registration and self-regulatory organization, or SRO, memberships, we are subject to overlapping layers of regulation that cover all aspects of our securities business. Such regulations cover matters including capital requirements; uses and safe-keeping of clients’ funds; conduct of directors; officers and employees; record-keeping and reporting requirements; supervisory and organizational procedures intended to ensure compliance with securities laws and to prevent improper trading on material nonpublic information; employee-related matters, including qualification and licensing of supervisory and sales personnel; limitations on extensions of credit in securities transactions; requirements for the registration, underwriting, sale and distribution of securities; and rules of the SROs designed to promote high standards of commercial honor and just and equitable principles of trade. A particular focus of the applicable regulations concerns the relationship between broker-dealers and their customers. As a result, many aspects of the broker-dealer customer relationship are subject to regulation including, in some instances, “suitability” determinations as to certain customer transactions, limitations on the amounts that may be charged to customers, timing of proprietary trading in relation to customers' trades, and disclosures to customers.

As a broker-dealer registered with the Securities and Exchange Commission ("SEC"), and as a member firm of Financial Industry Regulatory Authority ("FINRA"), we are subject to the net capital requirements of the SEC (Rule 15c3-1 of the Securities Exchange Act of 1934) as regulated and enforced by FINRA. These capital requirements specify minimum levels of capital, computed in accordance with regulatory requirements that each firm is required to maintain and also limit the amount of leverage that each firm is able to obtain in its respective business.

"Net capital" is essentially defined as net worth (assets minus liabilities, as determined under accounting principles generally accepted in the United States ("U.S. GAAP"), plus qualifying subordinated borrowings, less the value of all of a broker-dealer's assets that are not readily convertible into cash (such as furniture, prepaid expenses, and unsecured receivables), and further reduced by certain percentages (commonly called "haircuts") of the market value of a broker-dealer's positions in securities and other financial instruments. The amount of net capital in excess of the regulatory minimum is referred to as "excess net capital."

The SEC's capital rules also (i) require that broker-dealers notify it, in writing, two business days prior to making withdrawals or other distributions of equity capital or lending money to certain related persons if those withdrawals would exceed, in any 30-day period, 30% of the broker-dealer's excess net capital, and that they provide such notice within two business days after any such withdrawal or loan that would exceed, in any 30-day period, 20% of the broker-dealer's excess net capital; (ii) prohibit a broker-dealer from withdrawing or otherwise distributing equity capital or making related party loans if, after such distribution or loan, the broker-dealer would have net capital of less than $300,000 or if the aggregate indebtedness of the broker-dealer's consolidated entities would exceed 1,000% of the broker-dealer's net capital in certain other circumstances; and (iii) provide that the SEC may, by order, prohibit withdrawals of capital from a broker-dealer for a period of up to 20 business days, if the withdrawals would exceed, in any 30-day period, 30% of the broker-dealer's excess net capital and if the SEC believes such withdrawals would be detrimental to the financial integrity of the firm or would unduly jeopardize the broker-dealer's ability to pay its customer claims or other liabilities.

Compliance with regulatory net capital requirements could limit those operations that require the intensive use of capital, such as underwriting and trading activities, and also could restrict our ability to withdraw capital from our broker-dealer, which in turn could limit our ability to pay interest, repay debt, and redeem or repurchase shares of our outstanding capital stock.

We believe that at all times we have been in compliance with the applicable minimum net capital rules of the SEC and FINRA.

The failure of a U.S. broker-dealer to maintain its minimum required net capital would require it to cease executing customer transactions until it came back into compliance, and could cause it to lose its FINRA membership, its registration with the SEC or require its liquidation. Further, the decline in a broker-dealer's net capital below certain "early warning levels," even though above minimum net capital requirements, could cause material adverse consequences to the broker-dealer.

We are also subject to "Risk Assessment Rules" imposed by the SEC, which require, among other things, that certain broker-dealers maintain and preserve certain information, describe risk management policies and procedures, and report on the financial condition of certain affiliates whose financial and securities activities are reasonably likely to have a material impact on the financial and operational condition of the broker-dealers. Certain "Material Associated Persons" (as defined in the Risk Assessment Rules) of the broker-dealers and the activities conducted by such Material Associated Persons may also be subject to regulation by the SEC. In addition, the possibility exists that, on the basis of the information it obtains under the Risk Assessment Rules, the SEC could seek authority over our unregulated subsidiary either directly or through its existing authority over our regulated subsidiary.

In the event of non-compliance by us or our subsidiary with an applicable regulation, governmental regulators and one or more of the SROs may institute administrative or judicial proceedings that may result in censure, fine, civil penalties (including treble damages in the case of insider trading violations), the issuance of cease-and-desist orders, the deregistration or suspension of the non-compliant broker-dealer, the suspension or disqualification of officers or employees, or other adverse consequences. The imposition of any such penalties or orders on us or our personnel could have a material adverse effect on our operating results and financial condition.

Additional legislation and regulations, including those relating to the activities of our broker-dealer, changes in rules promulgated by the SEC, FINRA, or other United States, state, or foreign governmental regulatory authorities and SROs or changes in the interpretation or enforcement of existing laws and rules, may adversely affect our manner of operation and our profitability. Our businesses may be materially affected not only by regulations applicable to us as a financial market intermediary, but also by regulations of general application.

Geographic Area

Merriman Curhan Ford Group, Inc. is domiciled in the United States and most of our revenue is attributed to United States and Canadian customers. In 2007, through our broker-dealer subsidiary, we began advising both international and domestic companies on listing on OTCQX, a prime tier of Pink Sheets. We have several international clients, most of which are Australian companies listed on the Australian Securities Exchange.

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

Available Information

Our website address is www.merrimanco.com. You may obtain free electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports on the "Investor Relations" portion of our website, under the heading "SEC Filings." These reports are available on our website as soon as reasonably practicable after we electronically file them with the SEC. We are providing the address to our Internet site solely for the information of investors. We do not intend the address to be an active link or to otherwise incorporate the contents of the website into this report.

Item 1a. Risk Factors

We face a variety of risks in our business, many of which are substantial and inherent in our business and operations. The following are risk factors that could affect our business which we consider material to our industry and to holders of our common stock. Other sections of this Annual Report on Form 10-K, including reports which are incorporated by reference, may include additional factors which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Risks Related to Our Business

We may not be able to maintain a positive cash flow and profitability.

Our ability to maintain a positive cash flow and profitability depends on our ability to generate and maintain greater revenue while incurring reasonable expenses. This, in turn, depends, among other things, on the development of our investment banking and securities brokerage business, and we may be unable to maintain profitability if we fail to do any of the following:

- establish, maintain, and increase our client base;
- manage the quality of our services;
- compete effectively with existing and potential competitors;
- further develop our business activities;
- attract and retain qualified personnel;
- limit operating costs;
- settle pending litigation, and
- maintain adequate working capital

We cannot be certain that we will be able to sustain or increase a positive cash flow and profitability on a quarterly or annual basis in the future. Our inability to maintain profitability or positive cash flow could result in disappointing financial results, impede implementation of our growth strategy, or cause the market price of our common stock to decrease. Accordingly, we cannot assure you that we will be able to generate the cash flow and profits necessary to sustain our business.

We have had a number of structural changes to our operations as we divested certain non-core business lines to focus our service and product offerings. Additionally, there have been a number of significant challenges faced by the securities and financial industries in the past 18 months. As a result of our structural changes and the uncertainty of the current economic environment, the factors upon which we are able to base our estimates as to the gross revenue and the number of participating clients that will be required for us to maintain a positive cash flow are unpredictable. For these and other reasons, we cannot assure you that we will not require higher gross revenue and an increased number of clients, securities brokerage, and investment banking transactions, and/or more time in order for us to complete the development of our business that we believe we need to be able to cover our operating expenses. It is more likely than not that our estimates will prove to be inaccurate because actual events more often than not differ from anticipated events. Furthermore, in the event that financing is needed in addition to the amount that is required for this development, we cannot assure you that such financing will be available on acceptable terms, if at all.

There are substantial legal proceedings against us involving claims for significant damages.

The actions of a former customer, William Del Biaggio III (“Del Biaggio”), and a former employee, David Scott Cacchione (“Cacchione”), have given rise to many legal actions against us as described in the Legal Proceedings section below. We selected the lawsuits we believed were of the most threatening in nature and, as of September 8, 2009, settled them in conjunction with our strategic transaction of that date. There are other lawsuits related to these actions of our former employee which we have elected not to settle. If we are found to be liable for the claims asserted in any or all of these legal actions, our cash position may suffer. 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 believe we have meritorious defenses against these claims, but there is no assurance of any favorable outcome.

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

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

Our role as advisor to our clients on important underwriting or mergers and acquisitions transactions involves complex analysis and the exercise of professional judgment, including rendering “fairness opinions” in connection with mergers and other transactions. Therefore, our activities may subject us to the risk of significant legal liabilities to our clients and third parties, including shareholders of our clients who could bring securities class actions against us. Our investment banking engagements typically include broad indemnities from our clients and provisions to limit our exposure to legal claims relating to our services, but these provisions may not protect us or may not be enforceable in all cases.

For example, an indemnity from a client that subsequently is placed into bankruptcy is likely to be of little value to us in limiting our exposure to claims relating to that client. As a result, we may incur significant legal and other expenses in defending against litigation and may be required to pay substantial damages for settlements and adverse judgments. Substantial legal liability or significant regulatory action against us could have a material adverse effect on our results of operations or cause significant reputation harm to us, which could seriously harm our business and prospects.

In the past, following periods of volatility in the market price of a company’s securities, securities class action litigation often has been instituted against that company. Such litigation is expensive and diverts management’s attention and resources. We cannot assure you that we will not be subject to such litigation. If we are subject to such litigation, even if we ultimately prevail, our business and financial condition may be adversely affected.

We may not be able to continue operating our business

The Company incurred significant losses in 2009 and 2008. Even if we are successful in executing our plans, we will not be capable of sustaining losses such as those incurred in 2008. The Company’s ability to meet its financial obligations is highly dependent on market and economic conditions. We also recorded net losses in certain quarters within other past fiscal years. If operating conditions worsen in 2010 or if the Company receives adverse judgments in its pending litigations, we may not have the resources to meet our financial obligations. If the Company is not able to continue in business, the entire investment of our common stockholders may be at risk, and there can be no assurance that any proceeds stockholders would receive in liquidation would be equal to their investment in the Company, or even that stockholders would receive any proceeds in consideration of their common stock.

Limitations on our access to capital and our ability to comply with net capital requirements could impair ability to conduct our business

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

MCF, our broker-dealer subsidiary, is subject to the net capital requirements of the SEC and various self-regulatory organizations of which it is a member. These requirements typically specify the minimum level of net capital a broker-dealer must maintain and also mandate that a significant part of its assets be kept in relatively liquid form. Any failure to comply with these net capital requirements could impair our ability to conduct our core business as a brokerage firm. Furthermore, MCF is subject to laws that authorize regulatory bodies to block or reduce the flow of funds from it to Merriman Curhan Ford Group, Inc. As a holding company, Merriman Curhan Ford Group, Inc. depends on distributions and other payments from its subsidiaries to fund all payments on its obligations. As a result, regulatory actions could impede access to funds that Merriman Curhan Ford Group, Inc. needs to make payments on obligations, including debt obligations.

Our financial results may fluctuate substantially from period to period, which may impair our stock price.

We have experienced, and expect to experience in the future, significant periodic variations in our revenue and results of operations. These variations may be attributed in part to the fact that our investment banking revenue is typically earned upon the successful completion of a transaction, the timing of which is uncertain and beyond our control. In most cases we receive little or no payment for investment banking engagements that do not result in the successful completion of a transaction. As a result, our business is highly dependent on market conditions as well as the decisions and actions of our clients and interested third parties. For example, a client's acquisition transaction may be delayed or terminated because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or shareholder approvals, failure to secure necessary financing, adverse market conditions, or unexpected financial or other problems in the client's or counterparty's business. If the parties fail to complete a transaction on which we are advising or an offering in which we are participating, we will earn little or no revenue from the transaction. This risk may be intensified by our focus on growth companies in the CleanTech, Consumer/Internet/Media, Health Care, and Tech/Telecom sectors, as the market for securities of these companies has experienced significant variations in the number and size of equity offerings. Recently, there have been very few initial public offerings. More companies initiating the process of an initial public offering are simultaneously exploring merger and acquisition opportunities. If we are not engaged as a strategic advisor in any such dual-tracked process, our investment banking revenue would be adversely affected in the event that an initial public offering is not consummated.

As a result, we are unlikely to achieve steady and predictable earnings on a quarterly basis, which could in turn adversely affect our stock price.

Our ability to retain our professionals and recruit additional professionals is critical to the success of our business, and our failure to do so may materially adversely affect our reputation, business, and results of operations.

Our ability to obtain and successfully execute our business depends upon the personal reputation, judgment, business generation capabilities and project execution skills of our senior professionals, particularly D. Jonathan Merriman, our Co-Founder and Chief Executive Officer of the parent company, and the other members of our Executive Committee.

Our senior professionals' personal reputations and relationships with our clients are a critical element in obtaining and executing client engagements. We face intense competition for qualified employees from other companies in the investment banking industry as well as from businesses outside the investment banking industry, such as investment advisory firms, hedge funds, private equity funds, and venture capital funds. From time to time, we have experienced losses of investment banking, brokerage, research, and other professionals and losses of our key personnel may occur in the future. The departure or other loss of Mr. Merriman, other members of our Executive Committee or any other senior professional who manages substantial client relationships and possesses substantial experience and expertise, could impair our ability to secure or successfully complete engagements, or protect our market share, each of which, in turn, could materially adversely affect our business and results of operations. Please see Risk Factor below entitled "If our CEO leaves the Company…" for additional information regarding the consequences of the loss of the services of Mr. Merriman.

If any of our professionals were to join an existing competitor or form a competing company, some of our clients could choose to leave. The compensation plans and other incentive plans we have entered into with certain of our professionals may not prove effective in preventing them from resigning to join our competitors. If we are unable to retain our professionals or recruit additional professionals, our reputation, business, results of operations, and financial condition may be materially adversely affected.

Our compensation structure may negatively impact our financial condition if we are not able to effectively manage our expenses and cash flows.

Historically, the industry has been able to attract and retain investment banking, research, and sales and trading professionals in part because the business models have provided for lucrative compensation packages. Compensation and benefits is our largest expenditure and the variable compensation component, or bonus, has represented a significant proportion of this expense. The Company's bonus compensation is discretionary. For 2009, the potential pool was determined by a number of components including revenue production, key operating milestones, and profitability. There is a potential, in order to ensure retention of key employees, that we could pay individuals for revenue production despite the business having negative cash flows and/or net losses.

Pricing and other competitive pressures may impair the revenue and profitability of our brokerage business.

We derive a significant portion of our revenue from our brokerage business. Along with other brokerage firms, we have experienced intense price competition in this business in recent years. Recent developments in the brokerage industry, including decimalization and the growth of electronic communications networks, or ECNs, have reduced commission rates and profitability in the brokerage industry. We expect this trend toward alternative trading systems to continue. We believe we may experience competitive pressures in these and other areas as some of our competitors seek to obtain market share by competing on the basis of price. In addition, we face pressure from larger competitors, which may be better able to offer a broader range of complementary products and services to brokerage clients in order to win their trading business. As we are committed to maintaining our comprehensive research coverage in our target sectors to support our brokerage business, we may be required to make substantial investments in our research capabilities. If we are unable to compete effectively with our competitors in these areas, brokerage revenue may decline and our business, financial condition, and results of operations may be adversely affected.

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

We conduct active and aggressive securities trading, market making, and investment activities for our own account, which subjects our capital to significant risks. These risks include market, credit, counterparty, and liquidity risks, which could result in losses. These activities often involve the purchase, sale, or short sale of securities as principal in markets that may be characterized as relatively illiquid or that may be particularly susceptible to rapid fluctuations in liquidity and price. Trading losses resulting from such trading could have a material adverse effect on our business and results of operations.

Difficult market conditions could adversely affect our business in many ways.

Difficult market and economic conditions and geopolitical uncertainties have in the past adversely affected and may in the future adversely affect our business and profitability in many ways. Weakness in equity markets and diminished trading volume of securities could adversely impact our brokerage business, from which we have historically generated more than half of our revenue. Industry-wide declines in the size and number of underwritings and mergers and acquisitions also would likely have an adverse effect on our revenue. In addition, reductions in the trading prices for equity securities also tend to reduce the deal value of investment banking transactions, such as underwriting and mergers and acquisitions transactions, which in turn may reduce the fees we earn from these transactions. As we may be unable to reduce expenses correspondingly, our profits and profit margins may decline.

We may suffer losses through our investments in securities purchased in secondary market transactions or private placements.

Occasionally, our Company, its officers and/or employees may make principal investments in securities through secondary market transactions or through direct investment in companies through private placements. In many cases, employees and officers with investment discretion on behalf of our Company decide whether to invest in our account or their personal account. It is possible that gains from investing will accrue to these individuals because investments were made in their personal accounts, and our Company will not realize gains because it did not make an investment. It is possible that gains from investing will accrue to these individuals and /or to the Company, while the Company's brokerage customers do not accrue gains in the same securities due to differences in timing of investment decisions. Conversely, it is possible that losses from investing will accrue to our Company, while these individuals do not experience losses in their personal accounts because the individuals did not make investments in their personal accounts.

We face strong competition from larger firms.

The brokerage and investment banking industries are intensely competitive. We compete on the basis of a number of factors, including client relationships, reputation, the abilities and past performance of our professionals, market focus and the relative quality and price of our services and products. We have experienced intense price competition with respect to our brokerage business, including large block trades, spreads, and trading commissions. Pricing and other competitive pressures in investment banking, including the trends toward multiple book runners, co-managers, and multiple financial advisors handling transactions, have continued and could adversely affect our revenue, even during periods where the volume and number of investment banking transactions are increasing. We believe we may experience competitive pressures in these and other areas in the future as some of our competitors seek to obtain market share by competing on the basis of price.

We are a relatively small investment bank with approximately 94 employees as of December 31, 2009 and revenue less than $50 million in 2009. Many of our competitors in the investment banking and brokerage industries have a broader range of products and services, greater financial and marketing resources, larger customer bases, greater name recognition, more senior professionals to serve their clients' needs, greater global reach, and more established relationships with clients than we have. These larger and better capitalized competitors may be better able to respond to changes in the brokerage, investment banking, and asset management industries, to compete for skilled professionals, to finance acquisitions, to fund internal growth, and to compete for market share generally.

The scale of our competitors has increased in recent years as a result of substantial consolidation among companies in the investment banking and brokerage industries. In addition, a number of large commercial banks, insurance companies, and other broad-based financial services firms have established or acquired underwriting or financial advisory practices and broker-dealers or have merged with other financial institutions. These firms have the ability to offer a wider range of products than we do, which may enhance their competitive position. They also have the ability to support investment banking with commercial banking, insurance, and other financial services in an effort to gain market share, which has resulted, and could further result, in pricing pressure in our businesses. In particular, the ability to provide financing has become an important advantage for some of our larger competitors and, because we do not provide such financing, we may be unable to compete as effectively for clients in a significant part of the brokerage and investment banking market.

If we are unable to compete effectively with our competitors, our business, financial condition, and results of operations will be adversely affected.

We have incurred losses for the period covered by this report and in the recent past and may incur losses in the future.

The Company recorded net losses of $5,462,000 for the year ended December 31, 2009 and $30,274,000 for the year ended December 31, 2008. We also recorded net losses in certain quarters within other past fiscal years. We may incur losses in future periods. If we are unable to finance future losses, those losses may have a significant effect on our liquidity as well as our ability to operate.

In addition, the Company may incur significant expenses in connection with initiating new business activities or in connection with any expansion of our underwriting, brokerage, or other businesses. We may also engage in strategic acquisitions and investments for which we may incur significant expenses. Accordingly, we may need to increase our revenue at a rate greater than our expenses to achieve and maintain profitability. If our revenue does not increase sufficiently, or even if our revenue does increase but we are unable to manage our expenses, we will not achieve and maintain profitability in future periods.

Capital markets and strategic advisory engagements are singular in nature and do not generally provide for subsequent engagements.

Our investment banking clients generally retain us on a short-term, engagement-by-engagement basis in connection with specific capital markets or mergers and acquisitions transactions, rather than on a recurring basis under long-term contracts. As these transactions are typically singular in nature and our engagements with these clients may not recur, we must seek out new engagements when our current engagements are successfully completed or are terminated. As a result, high activity levels in any period are not necessarily indicative of continued high levels of activity in any subsequent period. If we are unable to generate a substantial number of new engagements and generate fees from those successful completion of transactions, our business and results of operations would likely be adversely affected.

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

A significant portion of our brokerage revenue is generated from a relatively small number of institutional clients. For example, in 2009 we generated 14% of our brokerage revenue, or approximately 12% of our total revenue, from our ten largest brokerage clients. Similarly, in 2008 we generated 37% of our brokerage revenue, or approximately 25% of our total revenue, from our ten largest brokerage clients. If any of our key clients departs or reduces its business with us and we fail to attract new clients that are capable of generating significant trading volumes, our business and results of operations will be adversely affected.

Our risk management policies and procedures could expose us to unidentified or unanticipated risk.

Our risk management strategies and techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk.

We are exposed to the risk that third parties that owe us money, securities, or other assets will not perform their obligations. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure, breach of contract, or other reasons. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. As a clearing member firm, we finance our customer positions and could be held responsible for the defaults or misconduct of our customers. Although we regularly review credit exposures to specific clients and counterparties and to specific industries and regions that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee. In addition, concerns about, or a default by, one institution could lead to significant liquidity problems, losses, or defaults by other institutions, which in turn could adversely affect us. Also, risk management policies and procedures that we utilize with respect to investing our own funds or committing our capital with respect to investment banking or trading activities may not protect us or mitigate our risks from those activities. If any of the variety of instruments, processes, and strategies we utilize to manage our exposure to various types of risk are not effective, we may incur losses.

Our operations and infrastructure may malfunction or fail.

Our businesses are highly dependent on our ability to process, on a daily basis, a large number of increasingly complex transactions across diverse markets. Our financial, accounting, or other data processing systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including a disruption of electrical or communications services or our inability to occupy one or more of our buildings. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. If any of these systems do not operate properly or are disabled or if there are other shortcomings or failures in our internal processes, people, or systems, we could suffer an impairment to our liquidity, financial loss, a disruption of our businesses, liability to clients, regulatory intervention, or reputation damage.

We also face the risk of operational failure of any of our clearing agents, the exchanges, clearing houses, or other financial intermediaries we use to facilitate our securities transactions. Any such failure or termination could adversely affect our ability to effect transactions and to manage our exposure to risk.

In addition, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which located. This may include a disruption involving electrical, communications, transportation, or other services used by us or third parties with which we conduct business, whether due to fire, other natural disaster, power or communications failure, act of terrorism or war or otherwise. Nearly all of our employees in our primary locations, including San Francisco and New York, work in proximity to each other. If a disruption occurs in one location and our employees in that location are unable to communicate with or travel to other locations, our ability to service and interact with our clients may suffer and we may not be able to implement successfully contingency plans that depend on communication or travel. Insurance policies to mitigate these risks may not be available or may be more expensive than the perceived benefit. Further, any insurance that we may purchase to mitigate certain of these risks may not cover our loss.

Our operations also rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Our computer systems, software, and networks may be vulnerable to unauthorized access, computer viruses, or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize our or our clients' or counterparties' confidential and other information processed by, stored in, and transmitted through our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties', or third parties' operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

Strategic investments or acquisitions and joint ventures may result in additional risks and uncertainties in our business.

We may grow our business through both internal expansion and through strategic investments, acquisitions or joint ventures. To the extent we make strategic investments or acquisitions or enter into joint ventures, we face numerous risks and uncertainties combining or integrating businesses, including integrating relationships with customers, business partners, and internal data processing systems. In the case of joint ventures, we are subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputation damage relating to systems, controls, and personnel that are not under our control. In addition, conflicts or disagreements between us and our joint venture partners may negatively impact our businesses.

Future acquisitions or joint ventures by us could entail a number of risks, including problems with the effective integration of operations, the inability to maintain key pre-acquisition business relationships and integrate new relationships, the inability to retain key employees, increased operating costs, exposure to unanticipated liabilities, risks of misconduct by employees not subject to our control, difficulties in realizing projected efficiencies, synergies and cost savings, and exposure to new or unknown liabilities.

Any future growth of our business may require significant resources and/or result in significant unanticipated losses, costs, or liabilities. In addition, expansions, acquisitions or joint ventures may require significant managerial attention, which may be diverted from our other operations.

Evaluation of our prospects may be more difficult in light of our limited operating history.

As a result of the volatile economic conditions faced by the securities and financial industries, and the restructuring of our business lines, there have been a number of changes to our operations. Given these changes, we can no longer rely upon prior operating history to evaluate our business and prospects. Additionally, we are subject to the risks and uncertainties that face a Company in the process of restructuring its business in the midst of uncertain economic environment. Some of these risks and uncertainties relate to our ability to attract and retain clients on a cost-effective basis, expand and enhance our service offerings, raise additional capital, and respond to competitive market conditions. We may not be able to address these risks adequately, and our failure to do so may adversely affect our business and the value of an investment in our Common Stock.

Risks Related to Our Industry

Risks associated with volatility and losses in the financial markets.

The U.S. financial markets in 2008 and early 2009 suffered unprecedented volatility and losses. Several mortgage-related financial institutions and large, reputable investment banks were not able to continue operating their businesses. In the event that the securities and financial industries face similar or greater volatility, there can be no assurance that we will be able to continue our operations.

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

There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years. Our experience with our former employee Scott Cacchione hurt our business significantly, and we run the risk that employee misconduct could occur at our company. For example, misconduct by employees could involve the improper use or disclosure of confidential information, which could result in regulatory sanctions and serious reputation or financial harm to us. It is not always possible to deter employee misconduct. The precautions we take to detect and prevent this activity may not be effective in all cases and we may suffer significant reputation harm for any misconduct by our employees.

Risks associated with regulatory impact on capital markets.

Highly publicized financial scandals in recent years have led to investor concerns over the integrity of the U.S. financial markets and have prompted Congress, the SEC, the NYSE, and FINRA to significantly expand corporate governance and public disclosure requirements. To the extent that private companies, in order to avoid becoming subject to these new requirements, decide to forgo initial public offerings, our equity underwriting business may be adversely affected. In addition, provisions of the Sarbanes-Oxley Act of 2002 and the corporate governance rules imposed by self-regulatory organizations have diverted many companies' attention away from capital market transactions, including securities offerings and acquisition and disposition transactions. In particular, companies that are or are planning to register their securities with the SEC or to become subject to the reporting requirements of the Securities Exchange Act of 1934 are incurring significant expenses in complying with the SEC and accounting standards relating to internal control over financial reporting, and companies that disclose material weaknesses in such controls under the new standards may have greater difficulty accessing the capital markets. These factors, in addition to adopted or proposed accounting and disclosure changes, may have an adverse effect on the business.

Financial services firms have been subject to increased scrutiny over the last several years, increasing the risk of financial liability and reputation harm resulting from adverse regulatory actions.

Firms in the financial services industry have been operating in a difficult regulatory environment. The industry has experienced increased scrutiny from a variety of regulators, including the SEC, the NYSE, FINRA and state attorneys general. Penalties and fines sought by regulatory authorities have increased substantially over the last several years. This regulatory and enforcement environment has created uncertainty with respect to a number of transactions that had historically been entered into by financial services firms and that were generally believed to be permissible and appropriate. We may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. We also may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other United States or foreign governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. Among other things, we could be fined, prohibited from engaging in some of our business activities or subject to limitations or conditions on our business activities. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputation harm to us, which could seriously harm our business prospects.

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

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

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

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

Our role as advisor to our clients on important underwriting or mergers and acquisitions transactions involves complex analysis and the exercise of professional judgment, including rendering “fairness opinions” in connection with mergers, and other transactions. Therefore, our activities may subject us to the risk of significant legal liabilities to our clients and aggrieved third parties, including stockholders of our clients who could bring securities class actions against us. Our investment banking engagements typically include broad indemnities from our clients and provisions to limit our exposure to legal claims relating to our services, but these provisions may not protect us or may not be enforceable in all cases.

For example, an indemnity from a client that subsequently is placed into bankruptcy is likely to be of little value to us in limiting our exposure to claims relating to that client. As a result, we may incur significant legal and other expenses in defending against litigation and may be required to pay substantial damages for settlements and adverse judgments. Substantial legal liability or significant regulatory action against us could have a material adverse effect on our results of operations or cause significant reputational harm to us, which could seriously harm our business and prospects.

In the past, following periods of volatility in the market price of a company’s securities, securities class action litigation often has been instituted against that company. Such litigation is expensive and diverts management’s attention and resources. We cannot assure you that we will not be subject to such litigation. If we are subject to such litigation, even if we ultimately prevail, our business and financial condition may be adversely affected.

Risks Related to Ownership of Our Common Stock

We have issued Series D Convertible Preferred Stock with rights preferences and privileges that are senior to those of our Common Stock. The exercise of some or all of these Series D Convertible Preferred Stock rights may have a detrimental effect on the rights of the holders of the Common Stock.

On September 8, 2009, we closed a private placement Preferred Stock strategic transaction. We sold 23,720,916 shares of our Series D Convertible Preferred Stock at $0.43 per share and warrants to purchase 23,720,916 share of Common Stock at $0.65 per share to an investor group that includes certain of our officers and directors in addition to outside investors. In connection with this transaction, the Company converted the principal and accrued interest of certain notes issued by the Company between May 2009 and July 2009 into Series D Convertible Stock. The aggregate principal amount from these cancelled notes was $1,425,000.

As the warrants originally contained a full ratchet antidilution provision, we recorded a non-cash warrant liability of approximately $26 million as of September 30, 2009 in accordance with generally accepted accounting principles (“GAAP”), which resulted in a stockholders’ deficit (negative stockholders’ equity). This, in turn, caused us to fall outside of the NASDAQ Listing Rules which require a minimum of $2,000,000 of stockholders’ equity.

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We have since remedied the noncompliance with the NASDAQ listing rules by amending the warrants to remove the full ratchet antidilution provision and thus remove the resulting stockholders' deficit. At December 31, 2009, we no longer carried warrant liabilities on our Statement of Financial Condition. In consideration for such amendment, the Company has agreed to pay the holders of the warrants $0.005 per warrant share in cash, which is anticipated to be paid around August 15, 2010. We believe we are now in full compliance with the NASDAQ minimum shareholders' equity requirements.

The Series D Convertible Preferred Stock has a number of rights, preferences, and privileges that are superior to those of the Common Stock. Holders of the Series D Convertible Preferred Stock are entitled to a 6% annual dividend payable monthly in arrears. As of December 31, 2009, the Company recorded cash dividends payable of $51,000. The Company cannot pay any dividends on the Common Stock until all accrued dividends on the Series D Convertible Preferred Stock are first paid.

The holders of Series D Convertible Preferred Stock are entitled to a "liquidation preference payment" of $0.43 per share of Series D Convertible Preferred Stock plus all accrued but unpaid dividends on such shares prior and in preference to any payment to holders of the Common Stock upon a merger, acquisition, sale of substantially all the assets, or certain other liquidation events of the Company. Any proceeds after payment of the "liquidation preference payment" shall be paid pro rata to the holders of the Series D Convertible Preferred Stock and Common Stock on an as converted to Common Stock basis. As such, holders of Common Stock might receive nothing in liquidation, or receive much less than they would if there were no Series D Convertible Preferred Stock outstanding.

The Series D Convertible Preferred Stock has antidilution protection, including a full ratchet provision for certain new issuances of Company Stock, as specified in the Certificate of Designation of Series D Convertible Preferred Stock which is incorporated herein by reference. If such antidilution protection is triggered, the holders of Common Stock may have their ownership in the Company diluted.

The holders of the Series D Convertible Preferred Stock also have substantial voting power over the Company. Such holders are entitled to elect four of the nine members of our Board of Directors. Additionally, they have certain "protective provisions," as set forth in the Certificate of Designation, requiring us to obtain their approval before we can carry out certain actions. The holders of Series D Convertible Preferred Stock may gain additional voting power if they exercise the warrants or they acquire shares of our Common Stock in the market.

The interests of the holders of the Series D Convertible Preferred Stock might not be aligned with those of the holders of Common Stock, which could result in the Company being sold or liquidated in a transaction in which the holders of Common Stock receive little or nothing.

In connection with the private placement transaction, we entered into an Investors' Rights Agreement with the investors. Under the terms of the Investors' Rights Agreement, if a registration statement relating to the Common Shares underlying the Series D Convertible Preferred Stock and warrants is not declared effective or is not available within time lines provided in the Investors' Rights Agreement (with certain limited exceptions), then we are required to pay the investors, pro rata, in proportion to the number of shares of Series D Convertible Preferred Stock purchased by such investor in the transaction, five year warrants to purchase 150,000 shares of the Company's Common Stock at $0.65 per share, on terms identical to those issued to the investors under the financing transaction (the "Registration Warrants"), as liquidated damages and not as penalty, subject to an overall limit of liquidated damages in the aggregated of 900,000 Registration Warrants. The liquidated damages pursuant to the terms hereof shall apply on a daily pro rata basis for any portion of a month prior to securing an effective registration statement. The foregoing shall in no way limit any equitable remedies available to investors for failure to secure an effective registration statement by the time specified in the Investors' Rights Agreement. Investors shall also be able to pursue monetary damages for failure to secure an effective registration statement by the time specified in the Investors' Rights Agreement. Investors shall also be able to pursue monetary damages for failure to secure an effective registration statement by the agreed upon time but only if such failure is due to the willful or deliberate action or inaction of the Company in breach of the covenants.

Your ownership percentage may be diluted by warrants issued in connection with our convertible notes financing.

The investors of the convertible notes issued on May 29, 2009 and June 1, 2009 received warrants to purchase an aggregate of 937,500 shares of the Common Stock of the Company at $0.50 per share. The investor and guarantors of the Note issued on July 31, 2009 received warrants to purchase an aggregate of 2,326,000 shares of the Common Stock of the Company at $0.65 per share. While the convertible notes and the note are no longer outstanding, the warrants issued in conjunction with them are, and exercise of these warrants would dilute the ownership percentage of existing stockholders in the Company.

A significant percentage of our outstanding common stock is owned or controlled by our senior professionals and other employees and their interests may differ from those of other shareholders.

Our executive officers and directors, and entities affiliated with them, currently control approximately 44% of our outstanding common stock including exercise of their options and D Preferred stock and associated warrants. These stockholders, if they act together, will be able to exercise substantial influence over all matters requiring approval by our stockholders, including the election of directors and approval of significant corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change in control of us and might affect the market price of our common stock.

Provisions of the organizational documents may discourage an acquisition of us.

Our Articles of Incorporation authorize our Board of Directors to issue up to an additional 13,729,083 shares of preferred stock, without approval from our stockholders. This preferred stock, often called "blank check" preferred stock, could have conversion terms that would allow one share of preferred stock to convert into multiple shares of common stock. It could also have voting rights and other rights advantageous to holders of that preferred stock, but disadvantageous to holders of the Company's common stock.

If you hold our common stock, this means that our Board of Directors has the right, without your approval as a common stockholder, to fix the relative rights and preferences of the preferred stock. This would affect your rights as a common stockholder regarding, among other things, dividends and liquidation. We could also use the preferred stock to deter or delay a change in control of our company that may be opposed by our management even if the transaction might be favorable to you as a common stockholder.

In addition, the Delaware General Corporation Law contains provisions that may enable our management to retain control and resist our takeover. These provisions generally prevent us from engaging in a broad range of business combinations with an owner of 15% or more of our outstanding voting stock for a period of three years from the date that such person acquires his or her stock. Accordingly, these provisions could discourage or make more difficult a change in control or a merger or other type of corporate reorganization even if it could be favorable to the interests of our stockholders.

The market price of our common stock may decline.

The market price of our common stock has in the past been, and may in the future continue to be, volatile. A variety of events may cause the market price of our common stock to fluctuate significantly, including:

- variations in quarterly operating results;
- announcements of significant contracts, milestones, and acquisitions;
- relationships with other companies;
- ability to obtain needed capital commitments;
- additions or departures of key personnel;
- sales of common and preferred stock, conversion of securities convertible into common stock, exercise of options and warrants to purchase common stock, or termination of stock transfer restrictions;
- general economic conditions, including conditions in the securities brokerage and investment banking markets;
- changes in financial estimates by securities analysts; and
- fluctuation in stock market price and trading volume.

Many of these factors are beyond our control. Any one of the factors noted herein could have an adverse effect on the value of our common stock. Declines in the price of our stock may adversely affect our ability to recruit and retain key employees, including our senior professionals.

In addition, the stock market in recent years has experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many companies and that often have been unrelated to the operating performance of such companies. These market fluctuations have adversely impacted the price of our common stock in the past and may do so in the future.

Investor interest in our firm may be diluted due to issuance of additional shares of common stock.

Our Board of Directors has the authority to issue up to 300,000,000 shares of common stock and to issue options and warrants to purchase shares of our common stock without stockholder approval in certain circumstances. Future issuance of additional shares of our common stock could be at values substantially below the price at which you may purchase our stock and, therefore, could represent substantial dilution. In addition, our Board of Directors could issue large blocks of our common stock to fend off unwanted tender offers or hostile takeovers without further stockholder approval.

We have a significant number of outstanding stock options and warrants. During 2009, shares issuable upon the exercise of these options and warrants, at prices ranging currently from approximately $0.50 to $49.00 per share, represent approximately 9% of our total outstanding stock on a fully diluted basis using the treasury stock method. Associated with the strategic transaction we closed in September 2009, we issued a total of 23,720,916 shares of Series D Preferred Stock which may convert, at the holders' option, to an equal number of common stock. In addition, we issued warrants to purchase 28,755,791 shares of common stock at per share exercisable at the holders' option. Unrelated to the Series D Preferred Stock transaction, we issued warrants to purchase an additional 1,030,833 shares of common stock in 2009. The Company has a total of 29,023,649 warrants outstanding, with exercise prices from $0.50 to $9.87.

The exercise of the outstanding options and warrants would dilute the then-existing stockholders’ percentage ownership of our common stock. Any sales resulting from the exercise of options and warrants in the public market could adversely affect prevailing market prices for our common stock. Moreover, our ability to obtain additional equity capital could be adversely affected since the holders of outstanding options and warrants may exercise them at a time when we would also wish to enter the market to obtain capital on terms more favorable than those provided by such options and warrants. We lack control over the timing of any exercise or the number of shares issued or sold if exercises occur.

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

Although our common stock is currently traded on the Nasdaq Stock Market, we received a notice from Nasdaq that our common stock is not currently in compliance with the requirements of Nasdaq for continued listing which requires a minimum bid price of $1.00 per share. We have 180 days from the date of notification to regain compliance and may be eligible at the end of that period for an additional 180 days to regain compliance. Even if we regain compliance, an active trading market in our stock has been limited. Accordingly, you may not be able to sell your shares when you want or at the price you want.

We do not expect to pay any cash dividends on our common stock in the foreseeable future.

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

If our CEO leaves the Company, additional warrants will be issued, which may further dilute the ownership percentage of the holders of the Company's Common Stock

If D. Jonathan Merriman ceases to serve as Chief Executive Officer of the Company prior to August 27, 2012, the Company agreed in connection with the issuance of the Series D Convertible Preferred Stock to issue additional warrants (the “Merriman Warrants”) to the holders of the Series D Preferred Stock to purchase shares of the Company’s Common Stock. The Merriman Warrants would be exercisable for a total of 23,720,916 shares of Common Stock, with an exercise price of $0.65 per share and a term of five years. Exercise of the Merriman Warrants would dilute the ownership percentage of existing holders of Common Stock. If Mr. Merriman dies, is terminated without “Cause” or resigns with “Good Reason,” these warrants will not be issuable. “Cause” and “Good Reason” are defined in the Investors Rights Agreement entered into in connection with the issuance of the Series D Preferred Stock, which was filed as Exhibit 10.48 to the Company’s Amended Current Report on Form 8-K/A on September 2, 2009.

Item 1b. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2009, all of our real estate properties are leased. Our principal executive offices are located in San Francisco, California. We lease additional offices to support our business activities. These offices are located in New York, NY. We believe the facilities we are now using are adequate and suitable for business requirements.

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

Item 3. Legal Proceedings

Settlement with the Securities and Exchange Commission

On November 10, 2009, the Securities and Exchange Commission ("SEC") issued an Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b) and 21(c) of the Securities and Exchange Act of 1934, Making Findings and Imposing Remedial Sanctions and a Cease-and-Desist Order as to MCF, D. Jonathan Merriman, and Christopher Aguilar (the "Order"). The Order was issued in connection with the conduct of a former broker of the Company, Cacchione, from approximately March 2006 to April 2008 for violation of the anti-fraud provisions of the federal securities laws. Cacchione was fired in May 2008, shortly after the underlying facts became known.

The Order censures and imposes sanctions for the failure of MCF to reasonably supervise Cacchione with a view toward preventing future violations arising out of his disseminating confidential customer information to third parties and executing unauthorized orders for certain customers. Pursuant to the Order, MCF paid a penalty of $100,000 and hired an Independent Consultant to review and make recommendations as needed to MCF's written policies and procedures relating to the supervision of registered representatives.

The Order also imposes sanctions on D. Jonathan Merriman, MCF's former CEO and current CEO of Merriman Curhan Ford Group, Inc., the Company's parent; and Christopher Aguilar, MCF's former Chief Compliance Officer; for failure to adequately supervise Cacchione. Pursuant to the Order, Mr. Merriman paid a penalty of $75,000 and Mr. Aguilar must pay a penalty of $40,000. Both individuals are also suspended from acting in a supervisory capacity for any broker or dealer for a period of twelve months from the date of the Order.

The Order makes no finding or allegation of any fraudulent activity involving anyone in MCF other than Cacchione. MCF, Mr. Merriman, and Mr. Aguilar cooperated fully with the SEC's investigation and consented to the SEC's Order without admitting or denying the findings.

Del Biaggio/Cacchione Matters

A number of lawsuits have been filed against MCF in connection with the actions of William Del Biaggio III ("Del Biaggio"), a former customer of MCF and Cacchione, a former retail broker of MCF. Del Biaggio and Cacchione pleaded guilty to securities fraud and were sentenced to prison terms of 97 and 60 months, respectively.

The claims filed against the Company by DGB Investments, Inc., Craig Leipold, Heritage Bank of Commerce, Modern Bank, Valley Community Bank, AEG Facilities and the Federal Deposit Insurance Company ("FDIC") as receiver for Security Pacific Bank in an aggregate amount of $43,577,000 related to the fraud were settled as of September 8, 2009. The amount for which the claims were settled was $4,300,000, the issuance of 5-year warrants to buy 1,538,461 shares of the Company's common stock at $0.65 each, and the assignment of certain rights to collect potential insurance payments from the Company's insurers.

On February 12, 2010, the Company and MCF settled with the insurers collecting an aggregate amount of $5,750,000. The Company was allocated $325,000, less expenses, of the settlement. The balance of the settlement amount was allocated to the litigants on a pro rata basis. As a result of these proceeds, the Company was obligated to issue 373,563 warrants to purchase shares of the Company's common stock at a price of $0.87 per shares. The warrant expense was accrued as of December 31, 2009. (See Note 21, "Subsequent Events.")

There are additional lawsuits related to the fraud that the Company has elected not to settle. We intend to defend vigorously each case, other than matters we describe as having been settled. Although there can be no assurance as to the ultimate outcome, the Company generally believes it has meritorious defenses and denies liability in all litigation pending against it, including the matters described below. In accordance with applicable accounting guidance, the Company establishes reserves for litigation and regulatory matters when those matters present loss contingencies which are both probable and estimable. When loss contingencies are not both probable and estimable, we do not establish reserves. In the matters described below, loss contingencies are not both probable and estimable in the view of management, and accordingly, reserves have not been established for those matters.

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

In July 2008, MCF and the Company were served with a complaint filed in the San Francisco County, California Superior Court by several plaintiffs who invested money with Del Biaggio and related entities. In March 2009, MCF and the Company were served with an amended consolidated complaint on behalf of 39 plaintiffs which consolidated several similar pending actions filed by the same law firm. Plaintiffs allege, among other things, fraud based on Cacchione's alleged assistance to Del Biaggio in connection with the allegedly fraudulent investments and MCF's failure to discover and stop the continuing fraud. Plaintiffs in this lawsuit seek damages of over $9 million. MCF and the Company responded to the amended consolidated complaint in June 2009 denying all liability. We believe that MCF and the Company have meritorious defenses and intend to contest these claims vigorously. (The previously disclosed Davis, Cook, and Bachelor cases now are part of the consolidated cases.)

David Hengehold v. Merriman Curhan Ford & Co.

In June 2008, the Company and MCF were served with a complaint filed in San Mateo County, California Superior Court by David Hengehold. Plaintiff alleges fraud based on Cacchione having induced plaintiff into making loans to Del Biaggio. Plaintiff in this lawsuit seeks damages of over $500,000. We believe that the Company has meritorious defenses and intends to contest this claim vigorously.

United American Bank v. Merriman Curhan Ford & Co.

In July 2008, MCF was served with a complaint filed in the Santa Clara County Superior Court by United American Bank, which loaned money to Del Biaggio, alleging that MCF 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 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. After ensuring that the proper clearance had been obtained from the court in Del Biaggio's bankruptcy case, MCF turned over the pledged collateral to Plaintiff United American Bank, performing its obligation under the account control agreement. MCF then demanded that it be dismissed from the action, and is continuing to follow up that demand. We believe that MCF has little or no remaining exposure in this matter and intends to contest this claim vigorously.

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

In July 2008, MCF was served with a complaint filed in the Santa Clara County Superior Court 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. Plaintiff in this lawsuit alleges damages of $916,666.65. We believe that MCF has meritorious defenses and intends to contest this claim vigorously.

Pacific Capital Bank v. Merriman Curhan Ford & Co.

In October 2008, MCF was served with a complaint filed in the San Francisco County Superior Court by Pacific Capital Bank. Plaintiff alleges, among other things, fraud based on Cacchione having induced plaintiff into making loans to Del Biaggio. Plaintiff in this lawsuit alleges damages of $1.84 million. We believe that MCF has meritorious defenses and intends to contest this claim vigorously.

Gary Thornhill, et al. v. Merriman Curhan Ford & Co.

In May 2009, a complaint was filed in the San Francisco County Superior Court by Gary Thornhill and several related family members and entities, naming as defendants the Company and MCF. The complaint alleges, , among other things, fraud based on Cacchione's alleged assistance to Del Biaggio in connection with the allegedly fraudulent investments and MCF's failure to discover and stop the continuing fraud. Plaintiffs in this lawsuit seek damages of $230,000. We believe that MCF has meritorious defenses and intend to contest these claims vigorously. (This case was consolidated with the Arata case disclosed above on February 5, 2010. See Note 21, "Subsequent Events.")

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

In early 2009, MCF and D. Jonathan Merriman were served with a FINRA arbitration claim filed by Irving Bronstein and several related family members and entities. Claimants allege, among other things, that MCF benefited from the sale of a particular security it held at the expense of its customers, including the claimants, and fraud based on Cacchione's alleged assistance to Del Biaggio in connection with allegedly fraudulent investments and MCF's failure to discover and stop the fraud. This case was settled on March 1, 2010. (See Note 21, "Subsequent Events").

John Zarich v. Merriman Curhan Ford & Co.

In or around April 2009, John Zarich filed an arbitration claim with FINRA naming MCF. The statement of claim alleges that Zarich was convinced by Cacchione to purchase shares of a small, risky stock in which MCF held a position. It further alleges that Cacchione convinced Zarich not to sell the shares when the stock's price fell. The statement seeks $265,000 in compensatory damages plus punitive damages of $200,000 and 10% interest beginning January 2, 2008. We believe that MCF has meritorious defenses and intends to contest this claim vigorously.

Demand by Shelly Schaffer to Merriman Curhan Ford & Co. for Payment of Attorneys' Fees

On April 24, 2009, former Vice President of Client Services, Shelly Schaffer, through her attorney, Robert Shartsis, made a written demand for payment of attorneys' fees for Ms. Schaffer's defense in a civil action by the Securities and Exchange Commission. Ms. Schaffer, who was hired by MCF on May 25, 2006, retained Mr. Shartsis to respond to an SEC Enforcement action in which it is alleged that Ms. Schaffer violated the antifraud provisions of federal securities laws and applicable regulations. Ms. Schaffer worked for Cacchione prior to their coming to MCF. MCF has denied Ms. Schaffer's requests for payment of her attorneys' fees on the grounds that the accusations against her concern activities that were outside the course and scope of her employment. Ms. Schaffer's attorneys are demanding payment of their fees from MCF in a total amount of approximately $150,000. We believe that MCF has meritorious defenses and intends to contest the claims vigorously.

Other Litigation

There have been a number of legal cases that are unrelated to the Del Biaggio/Cacchione matters. These are as follows:

Spare Backup Inc. v. Merriman Curhan Ford & Co.

In April 2008, MCF entered into an engagement to provide investment banking services to Spare Backup, Inc. ("Spare Backup"). MCF was able to close a round of bridge financing in June 2008. MCF was successful in raising $1,300,000 in capital for Spare Backup. As a result of closing the financing transaction, MCF was entitled to reimbursement of its expenses, a convertible note with principal valued at $161,100 and 370,370 shares of Spare Backup common stock. As of November 2008, these transaction fees had not been paid to MCF. We hired counsel to seek payment of the fees and to proceed to arbitration, as is specified in the engagement letter. In January 2009, MCF filed a petition to compel arbitration in the San Francisco County Superior Court. In response to the petition to compel arbitration, Spare Backup filed a complaint in the Riverside County Superior Court, Indio Branch, for fraud and declaratory relief alleging that MCF fraudulently induced it to execute the investment banking engagement letter. The petition for arbitration was granted in May of 2009 and the Indio action was stayed for all purposes pending the outcome of arbitration. The arbitration date has been set for March 22, 2010.

Joy Ann Fell v. Merriman Curhan Ford & Co.

In November 2008, MCF received a demand letter from a former employee, Joy Ann Fell. In January 2009, MCF received a claim filed by Ms. Fell in FINRA arbitration. Ms. Fell worked in our investment banking department and was terminated in October of 2008, as part of a reduction in force. Ms. Fell alleges claims of breach of an implied employment contract, emotional distress and work-place discrimination. The demand for money damages is approximately $350,000. We believe that MCF has meritorious defenses and intends to contest this claim vigorously. MCF has responded to the claim and the parties have propounded, but not responded to, written discovery. The parties and FINRA have jointly selected an arbitration panel of three New York-based arbitrators: Aaron Tyk, Caryl D. Feldman, and Beth Bird Pocker.

Wesley Rusch v. Merriman Curhan Ford & Co.

In October 2008, MCF was served with a claim in FINRA Arbitration by Wesley Rusch. Mr. Rusch is a former at-will employee of MCF and worked in the compliance department. Mr. Rusch was terminated by MCF in July 2007. Mr. Rusch alleges theories of discrimination and lack of cause for termination. Mr. Rusch filed a Statement of Claim seeking damages of over $1 million. We contested this claim at the arbitration before a FINRA arbitration panel in March 2009 which resulted in a decision in our favor in July 2009. Mr. Rusch requested that the San Francisco Superior Court vacate the decision, and we requested that it be confirmed.

Peter Marcil v. Merriman Curhan Ford & Co.

In January 2009, our broker-dealer subsidiary, MCF, was served with a claim in FINRA Arbitration by Peter Marcil. Mr. Marcil is a former at-will employee of MCF and worked in the investment banking department. Mr. Marcil resigned from MCF in March of 2007. Mr. Marcil alleges breach of an implied employment contract, wrongful termination, and intentional infliction of emotional distress. Damages are not specified in the arbitration claim. MCF has not replied to the claim and an arbitration hearing date has not been set. The parties participated in a mediation with San Francisco Attorney/Mediator Mark Rudy on September 14, 2009 and have agreed to continue settlement negotiations. We believe that MCF has meritorious defenses and it intends to contest this claim vigorously. However, in the event that MCF does 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.

Dow Corning Corporation vs. Merriman Curhan Ford & Co.

In late July and early August 2009, counsel for Dow Corning Corporation (DCC) indicated in correspondence and communications that DCC may have some type of claim against MCF in connection with its purchases of auction rate securities through MCF's ICD Division. Counsel would not furnish any specifics about the purported claim or any purported damages, but requested an agreement tolling any applicable statute of limitations to allow the parties to undertake "settlement discussions." MCF, Institutional Cash Distributors, LLC and certain representatives of MCF's ICD Division entered into such a tolling agreement with DCC for a period of 60 days, which was extended for a further 60 days. MCF's ICD Division has refused to extend the tolling agreement further. No claim has been filed. Accordingly, MCF is not aware of the basis of any purported claim.

Merriman Curhan Ford & Co. and Merriman Curhan Ford Group, Inc. v. XL Specialty Insurance Company

On January 14, 2009, MCF and the Company (collectively "MCF") filed a civil action in the Superior Court for Los Angeles County (the "Coverage Lawsuit") against its directors' and officers' liability insurer, XL Specialty Insurance Company (XL Specialty). In the Coverage Lawsuit, MCF had asserted claims for breach of contract, tortious breach of contract, and declaratory relief, alleging that XL Specialty wrongfully denied coverage for various ongoing third-party claims and government investigations. This case was settled on February 12, 2010. (Please see Note 21, “Subsequent Events.”)

Midsummer Investment, Ltd., v. Merriman Curhan Ford Group, Inc.

On November 6, 2009, Midsummer Investment, Ltd. (“Midsummer”) filed a complaint in federal court, Southern District of New York, alleging that Midsummer was denied an anti-dilution adjustment to a warrant issued by the Company to them, and that the Company refused to honor an exercise of that warrant. The Company believes that Midsummer is not entitled to any anti-dilution adjustment and its attempted exercise was not accompanied by proper payment. We believe that the Company has meritorious defenses and intends to contest this claim vigorously.

The Company and MCF deny any liability and are vigorously contesting these lawsuits and arbitrations. At this point, the Company cannot estimate the amount of damages if they are resolved unfavorably or does not believe that the cases will result in unfavorable outcomes and accordingly, management has not provided an accrual for these lawsuits and arbitrations.

Based on the facts presently known, the Company does not believe the outcome of these proceedings will have a material adverse effect on its financial condition.

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

PART II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

Our common stock has been quoted on The Nasdaq Stock Market, Inc. ("Nasdaq") under the symbol "MERR" since February 12, 2008. Prior to this time, our common stock traded on the American Stock Exchange under the symbol "MEM." The following table sets forth the range of the high and low sales prices per share of our common stock for the fiscal quarters indicated.

	High	Low
2009		
Fourth Quarter	$ 1.63	$ 0.67
Third Quarter	1.80	0.38
Second Quarter	0.62	0.30
First Quarter	0.65	0.24
2008		
Fourth Quarter	$ 1.02	$ 0.40
Third Quarter	1.57	0.93
Second Quarter	4.10	1.19
First Quarter	5.94	3.91

The closing sale price for the common stock on March 15, 2010 was $0.86 The market price of our common stock has fluctuated significantly and may be subject to significant fluctuations in the future. See Item 1A - "Risk Factors."

According to the records of our transfer agent, we had 638 stockholders of record as of December 31, 2009. Because many shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial stockholders represented by these record holders.

Our policy is to reinvest earnings in order to fund future growth. Therefore, we have not paid, and currently do not plan to declare, dividends on our common stock.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table gives information about the Company's common stock that may be issued upon the exercise of options and warrants under all of our existing equity compensation plans as of December 31, 2009.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options and Warrants	Weighted-Average Exercise Price of Outstanding Options and Warrants	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by stockholders:			
1999 Stock Option Plan (expired 12/30/08)	65,865	$ 4.47	-
2000 Stock Option and Incentive Plan (expired 2/28/10)	365,797	$ 1.29	206,753
2001 Stock Option and Incentive Plan	443,243	$ 0.80	50,032
2003 Stock Option and Incentive Plan	3,644,879	$ 1.03	345,025
2009 Stock Incentive Plan	4,945,000	$ 1.16	3,011,462
2006 Directors' Stock Option and Incentive Plan	98,838	$ 0.43	5,069
2002 Employee Stock Purchase Plan	-	$ -	-
Equity compensation not approved by stockholders	25,001	$ 49.00	-

Equity compensation not approved by stockholders includes shares in a Non-Qualified option plan approved by the Board of Directors of NetAmerica.com Corporation (now known as Merriman Curhan Ford Group, Inc.) in 1999 and a Non-Qualified option plan approved by the Board of Directors in 2004 that is consistent with the exchange guidelines at the time of listing.

Recent Sale of Unregistered Securities

On September 8, 2009, the Company closed on the sale and purchase of approximately 23,721,000 shares of Series D Preferred Stock at $0.43 per share, together with warrants to purchase an additional 23,721,000 shares of the Company's common stock at $0.65 per share pursuant to a Series D Preferred Stock Purchase Agreement (the "Series D Financing"). The investor group included approximately fifty individuals and entities, including certain officers, directors and employees of the Company, as well as outside investors. The Series D Preferred Stock was issued in a private placement exempt from registration requirements pursuant to Regulation D of the Securities Act of 1933, as amended. Cash consideration was deposited into escrow. Each share of Series D Preferred Stock is convertible into one share of Common Stock of the Company. The Series D Preferred Stock carries a dividend rate of 6% per annum, payable in cash monthly.

Item 6. Selected Consolidated Financial Data

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

	2009	2008	2007	2006	2005
Statement of operations data:					
Revenue	$ 49,263,042	$ 36,567,836	$ 83,748,265	$ 51,818,638	$ 43,184,315
Operating expenses	62,842,395	62,979,424	70,701,900	58,315,930	44,912,772
Operating (loss) income	(13,579,353)	(26,411,588)	13,046,365	(6,497,292)	(1,728,457)
Loss on retirement of convertible notes payable (1)	-	-	-	(1,348,805)	-
Other income	2,000,000	-	-	-	-
Change in warrant liability	6,910,656	-	-	-	-
Interest income	15,658	375,949	461,491	484,909	446,273
Interest expense	(1,341,753)	(72,304)	(134,868)	(535,014)	(76,103)
Income tax benefit (expense)	627,923	1,635,214	(2,462,165)	-	(142,425)
(Loss) income from continuing operations	(5,366,869)	(24,472,729)	10,910,823	(7,896,202)	(1,500,712)
Loss from discontinued operations	(94,894)	(5,801,076)	(1,587,788)	(324,213)	(13,731)
Net (loss) income	$ (5,461,763)	$ (30,273,805)	$ 9,323,035	$ (8,220,415)	$ (1,514,443)
Basic (loss) income from continuing operations	$ (0.42)	$ (1.95)	$ 0.95	$ (0.79)	$ (0.16)
Diluted (loss) income from continuing operations	$ (0.42)	$ (1.95)	$ 0.86	$ (0.79)	$ (0.16)
Statement of financial condition data:					
Cash and cash equivalents	$ 5,656,750	$ 6,358,128	$ 31,653,657	$ 13,746,590	$ 11,138,923
Marketable securities owned	4,728,940	4,622,577	14,115,022	7,492,914	8,627,543
Total assets	16,123,741	18,865,590	64,573,331	30,498,213	27,694,413
Capital lease obligations	397,958	923,683	721,380	1,292,378	883,993
Notes payable, net	-	-	238,989	325,650	408,513
Stockholders’ equity	8,016,828	7,715,201	34,806,048	16,215,020	18,403,001

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

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Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the notes thereto in Part II, Item 8 to this Annual Report on Form 10-K. This discussion contains forward-looking statements reflecting our current expectations. Actual results and the timing of events may differ significantly from those projected in forward- looking statements due to a number of factors, including those set forth in Item 1A “Risk Factors” of this Annual Report on Form 10-K.

Overview

Merriman Curhan Ford Group, Inc. (formerly MCF Corporation) is a financial services company that provides investment banking, capital markets services, corporate and venture services, and investment banking through its primary operating wholly-owned subsidiary, MCF.

MCF 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 $1 billion in market capitalization. We provide equity research, brokerage and trading services primarily to institutions, as well as investment banking and advisory services to corporate clients. We are attempting to gain market share by originating differentiated research for our institutional investor clients and providing specialized and integrated services for our fast-growing corporate clients. MCF is registered with the Securities and Exchange Commission (“SEC”) as a broker-dealer and is a member of the Financial Industry Regulatory Authority (“FINRA”), and the Securities Investor Protection Corporation (“SIPC”).

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

On January 16, 2009, the Company entered into an agreement to sell the assets of ICD, a division of Merriman Curhan Ford & Co., to a group of investors who are also its employees in order to raise capital. The assets being sold include the Company’s rights in trademark, copyright, and other intellectual property used in the business, customer lists, marketing materials, and books and records. As of December 31, 2009, the Company determined that the discontinued operations criteria in ASC Topic 205, Discontinued Operations, had not been met, as such the revenues and expenses of ICD are still presented as part of continuing operations. In accordance with Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) 104, “Revenue Recognition”, the Company recognized $2,000,000 as Other Income for the year ended December 31, 2009.

To assist in the transition of operations to the new owners, the Company is providing substantial services to ICD, including collecting its revenues. Under guidance provided in ASC Subtopic 605-45, “Principal Agent Considerations,” the Company records ICD’s revenues and expenses at gross levels. In 2010, the Company expects to no longer provide such services and will no longer record ICD revenues.

MCF Asset Management, LLC manages absolute return investment products for institutional and high-net worth clients. We are the sub-advisor for the MCF Focus fund. In an effort to refocus the holding company back to its core investment banking and broker-dealers services and to reduce expenses, management decided to liquidate the funds under management and returning investments to the investors. As of December 31, 2009, we have liquidated all but an immaterial amount of illiquid assets which we are distributing to investors in the Focus fund.

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

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

In December 2001, we acquired Instream Securities, Inc. and later changed the name of the entity to RTX Securities Corporation, then to MCF. We formed MCF Asset Management, LLC in January 2004, MCF Wealth Management, LLC in January 2005, and acquired Panel Intelligence, LLC in April 2007 as wholly owned subsidiaries. Panel Intelligence, LLC is accounted for as discontinued operations in these consolidated financial statements for the years ended December 31, 2009 and 2008.

In 2008 and 2009, we aggressively reduced our cost structure by exiting businesses and eliminating positions which were not essential to generate revenues. We also examined all our expenses and eliminated those deemed to be unessential. We settled all the legal cases we believed were the most threatening. Going into 2010, we believe our current funds are sufficient to enable us to meet our planned expenditures through at least January 1, 2011. If anticipated operating results are not achieved, we intend and we believe we have the ability to delay or reduce expenditures, if not to raise additional financing. Failure to generate sufficient cash flows from operations, raise additional capital or reduce certain discretionary spending could have a material adverse effect on our ability to achieve our intended business objectives.

Executive Summary

In 2009, following the sale of ICD assets, management determined that it would be useful to view the Company’s financial results without ICD’s sizable revenues and expenses. Management’s focus is on operating results, excluding ICD revenues and expenses (which essentially net to zero after signing the asset purchase agreement in January 2009), unrealized gains and losses, and legal expenses related to the Del Biaggio/Cacchione matters. In the Form 10-Q for the three months ended September 30, 2009, we began presenting our operating results excluding these items, which are not according to generally accepted accounting principles (non-GAAP). We also present a reconciliation of these non-GAAP results to our GAAP-based financial results. Management uses the non-GAAP (“pro-forma”) results in addition to GAAP results in its analyses of the business.

Our revenue increased 35% during 2009 to $49,263,000, attributable to increased brokerage revenue related to ICD, a business we sold in January 2009. On a pro-forma basis, our revenue declined by 35% during the same period. Including discontinued operations, net loss in 2009 was $5,462,000, or $0.43 per diluted share, compared to $30,274,000, or $2.41 per diluted share, during 2008.

We were able to remove significant costs beginning the second half of 2008 and into 2009, particularly with regards to our legal expenses as we reached settlements with a selected group of litigants and with the SEC. We instituted aggressive plans to reduce our operating costs and focus our business back to our core offerings. In addition, management took steps to eliminate non-core businesses such as Panel and MCF Asset Management LLC that had consumed a large portion of our operating cash flow. Our focus in 2009 was to build on our core businesses, aided by a recovery in the broad financial markets beginning in the Spring of 2009.

Investment Banking – The investment banking team had an unfavorable year with a decrease in revenue of 37% in 2009. In 2009, we closed 27 corporate financing and strategic advisory transactions during the year with lower average transaction fees compared to 20 corporate financing and strategic advisory transactions in 2008. As a percentage of total revenue, on a pro-forma basis, Investment Banking’s contribution was 32% in 2009 compared to 33% in 2008. Throughout 2008 and the first half of 2009, the new issue market was largely closed.

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Principal Transactions – Principal transactions produced a loss of $22,000 in 2009 compared to a loss of $9,040,000 during 2008. The 2008 loss was largely driven by a decline in the fair value of the Proprietary and Investment accounts. Principal transactions revenue consists of four different activities: customer principal trades, market making, trading for our proprietary account, and realized and unrealized gains and losses in our investment portfolio. As a broker-dealer, we account for all of our marketable security positions on a trading basis and as a result, all security positions are marked to fair market value each day. Returns from market making and proprietary trading activities tend to be more volatile than acting as agent or principal for customers.

We will from time to time take significant positions in fast-growing companies that we feel are undervalued in the market place. We believe that our window into these opportunities, due to the types of companies we research, offers us a significant competitive advantage.

Commissions – Commissions revenue from brokering equity securities to institutional investors increased by 19% to $40,180,000 from $33,679,000 in 2008 attributable to increased ICD business. On a pro-forma basis, commissions revenue declined by 45% to $12,391,000 from $22,385,000 due to adverse market conditions. This business continues to face increasing challenges, including the proliferation of electronic communications networks which have reduced commission rates and profitability in the brokerage industry. Many large investment banks have responded to lower margins within their equity brokerage divisions by reducing research coverage, particularly for smaller companies, consolidating sales and trading services, and reducing headcount of sales and trading professionals. We believe that we can grow our institutional brokerage revenue by producing differentiated equity research on relatively undiscovered, fast-growing companies within our selected growth sectors and providing this research to small and mid-sized traditional and alternative investment managers for whom these companies comprise an important part of their investment portfolios.

Institutional Cash Distributors (ICD) – ICD is a broker of money market funds serving the short-term investing needs of corporate finance departments at companies throughout the United States and Europe. Companies using ICD’s services receive access to over 40 fund families through ICD’s one-stop process that includes one application, one wire and one statement that consolidates reporting regardless of the number of funds utilized. ICD is a division of MCF. In January 2009, we sold our ICD assets to three of our employees. We expect we will no longer benefit from these revenues when ICD obtains its broker-dealer license in 2010. We will then cease to provide services to them, including collection of their revenues.

Primary Research – We closed the acquisition of MedPanel, Inc. in April 2007, renamed it Panel Intelligence, LLP (“Panel”) and began offering custom and published primary research to biotechnology, pharmaceutical and medical device industry clients, as well as institutional investment companies for a subscription fee. In January 2009, we sold the assets related to Panel in order to focus on our core investment banking and broker-dealer businesses and to reduce expenses. The primary research revenues and expenses were classified as discontinued operations in our consolidated statements of operations for the year ending December 31, 2008 and certain Panel assets and liabilities were reclassified to assets and liabilities held for sale in the consolidated statements of financial condition at December 31, 2008.

OTCQX Advisory – During 2007, MCF began offering services to sponsor companies on the Domestic and International OTCQX markets. This new service offering has been designed to enable domestic and non-U.S. companies to obtain greater exposure to U.S. institutional investors without the expense and regulatory burdens of listing on traditional U.S. exchanges. The Domestic and International OTCQX market tiers do not require full SEC registration or Sarbanes Oxley compliance. Listing on the market requires the sponsorship of a qualified investment bank called a Designated Advisor for Disclosure (DAD) for domestic companies or a Principal American Liaison (PAL) for non-U.S. companies. MCF was the first U.S. investment bank to achieve DAD and PAL designations.

Employees – We began 2009 with 128 employees after reducing our headcount by 36% in 2008. After the sale of Panel assets, we reduced our headcount further to 89 employees. We have since strategically hired staff and increased our headcount to 94 employees at December 31, 2009. Our headcount will be further reduced when ICD obtains its broker-dealer license and we no longer provide services, including serve as an employer to its staff, expected for 2010. We expect that we will maintain headcount below 100 people during 2010, though as always, these hiring decisions may be impacted by our actual financial results and the overall capital markets environment.

Business Development – We continued to invest in areas of our business that we believe will increase the awareness of our franchise and contribute to future revenue opportunities such as hosting investor conferences, introducing management teams of fast-growing companies to institutional investors, marketing, travel and other business development activities. Our operating expenses in 2009 were slightly lower than in 2008 primarily due to cost cutting measures we implemented.

Business Environment

Equity indices rose sharply in 2009 for the biggest annual gain since 2003, and some commodities, such as copper, headed for their best rally in at least a decade after China pledged to maintain policies that helped pull the world market from recession.

Stocks worldwide have risen the most since 2003 this year on dramatically increased liquidity conditions, with interest rates near zero and increased government spending which may sustain the recovery from the first global recession since World War II. The MSCI World Index plunged 42% in 2008, the most in its 40-year history, hurt by the collapse of the subprime-mortgage market in the U.S. and the bankruptcy of Lehman Brothers Holdings Inc.

The Dow bottomed in March 2009 at 6,547, with the dollar at 1.2607 Euro and oil at $47. The biggest dynamics in the sharp recovery were extremely aggressive easing by China, which drove a significant commodity rally that carried over to the global equity markets. The U.S. government also instituted extremely aggressive liquidity measures which had a powerful impact on all U.S. indices.

At year end, the stimulus policies had not carried over into the small business lending arena or employment. U.S. unemployment remained near its highs, and banks were reluctant to lend, dampening the "real" recovery. The financing markets were very muted despite the impressive stock market rally, with only 49 IPO transactions being completed in 2009, the second lowest annual total volume on record. Small business creation and sustainability remained the primary problem in the 2009 economy. Until small business, which supplies the true engine of U.S. economic growth, comes back, prospects for better employment performance remain low.

Results of Operations

In evaluating our financial performance, management reviews results from operations excluding non-operating revenues and expenses. Such pro-forma results are non-GAAP (Generally Accepted Accounting Principles) performance measures, but we believe it is useful to assist investors in gaining an understanding of the trends and results of our core business. Pro-forma results should be viewed in addition to, not instead of, our reported results under U.S. GAAP.

The following is a reconciliation of U.S. GAAP results to pro-forma results for the periods presented.

	Three Months Ended December 31,							
	2009				2008			
	As Reported	Less ICD	Less Other	Pro-Forma	As Reported	Less ICD	Less Other	Pro-Forma
Revenue:								
Commissions	$ 11,287,720	$ 7,714,682	$ -	$ 3,573,038	$ 9,325,010	$ 4,132,373	$ -	$ 5,192,637
Principal transactions	109,318	(685)	(815,183)	925,186	(3,759,668)	-	(1,669,516)	(2,090,152)
Investment banking	1,824,596	-	-	1,824,596	2,008,788	-	-	2,008,788
Advisory and other fees	250,116	-	-	250,116	90,267	-	-	90,267
Total revenue	13,471,750	7,713,997	(815,183)	6,572,936	7,664,397	4,132,373	(1,669,516)	5,201,540
Operating expenses:								
Compensation and benefits	12,045,620	6,979,109	-	5,066,511	5,465,311	2,535,574	-	2,929,737
Brokerage and clearing fees	202,905	16,923	-	185,982	999,305	39,355	-	959,950
Professional services	718,928	210,286	-	508,642	1,980,129	35,420	1,172,607	772,102
Occupancy and equipment	531,386	12,672	-	518,714	702,839	21,702	-	681,137
Communications and technology	921,192	195,869	-	725,323	1,206,302	213,324	-	992,978
Depreciation and amortization	104,816	-	-	104,816	168,717	-	-	168,717
Travel and entertainment	448,267	147,744	-	300,523	393,113	174,152	-	218,961
Legal and litigation settlement expense	1,140,860	-	717,089	423,771	-	-	-	-
Other expenses	694,661	115,337	-	579,324	1,114,028	29,706	-	1,084,322
Total operating expenses	16,808,635	7,677,940	717,089	8,413,606	12,029,744	3,049,233	1,172,607	7,807,904
Operating income/(loss)	$ (3,336,885)	$ 36,057	$ (1,532,272)	$ (1,840,670)	$ (4,365,347)	$ 1,083,140	$ (2,842,123)	$ (2,606,364)

	Year Ended December 31,							
	2009				2008			
	As Reported	Less ICD	Less Other	Pro-Forma	As Reported	Less ICD	Less Other	Pro-Form
enue:								
nmissions	$ 40,180,288	$ 27,789,003	$ -	$ 12,391,285	$ 33,678,706	$ 11,293,429	$ -	$ 22,385,2
ncipal sactions	(21,702)	(2,973)	(1,295,475)	1,276,746	(9,040,218)	-	(9,774,573)	734,3
estment banking	7,236,059	-	-	7,236,059	11,432,454	-	-	11,432,4
visory and er fees	1,868,397	-	-	1,868,397	496,894	-	-	496,8
al revenue	49,263,042	27,786,030	(1,295,475)	22,772,487	36,567,836	11,293,429	(9,774,573)	35,048,9
erating expenses:								
npensation benefits	41,733,106	25,499,105	-	16,234,001	36,670,457	7,489,738	-	29,180,7
kerage clearing fees	994,312	62,652	-	931,660	3,042,133	101,898	-	2,940,2
fessional services	2,514,224	307,283	-	2,206,941	9,161,729	108,900	4,191,590	4,861,2
cupancy equipment	2,148,733	54,278	-	2,094,455	2,303,944	28,742	-	2,275,2
nmunications and nology	3,364,171	573,709	-	2,790,462	3,762,954	456,501	-	3,306,4
preciation amortization	477,729	-	-	477,729	705,883	-	-	705,8
vel entertainment	1,507,107	674,471	-	832,636	2,921,196	620,016	-	2,301,1
al and litigation lement expense	7,776,918	-	7,707,548	69,370	-	-	-	
er expenses	2,326,095	404,678	-	1,921,417	4,411,128	147,583	-	4,263,5
al rating expenses	62,842,395	27,576,176	7,707,548	27,558,671	62,979,424	8,953,378	4,191,590	49,834,4
erating ome/(loss)	$ (13,579,353)	$ 209,854	$ (9,003,023)	$ (4,786,184)	$ (26,411,588)	$ 2,340,051	$ (13,966,163)	$ (14,785,4

Note – The column headed “Less Other” includes unrealized gains/losses in “Principal transactions” revenues, and legal and litigation settlement expense as related to the Del Biaggio/Cacchione matters in “Litigation settlement”.

Other than the tables immediately above, all other results in our Form 10-K and in the consolidated financial statements are prepared and displayed in accordance with U.S. GAAP.

The following table sets forth a summary of financial highlights for the two years ended December 31, 2009:

	2009	2008
Revenue:		