

MCF CORP  
Form 10-Q  
November 09, 2004  
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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 10-Q

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

For the quarterly period ended September 30, 2004

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 1-15831

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# MCF CORPORATION

(Exact Name of Registrant as Specified in its Charter)

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Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

11-2936371  
(I.R.S. Employer  
Identification No.)

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**601 Montgomery Street, 18th Floor**

**San Francisco, CA**  
**(Address of Principal Executive Offices)**

**94111**  
**(Zip Code)**

**(415) 248-5600**

**(Registrant's Telephone Number, Including Area Code)**

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

The number of shares of Registrant's common stock outstanding as of November 9, 2004 was 66,190,471.

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**For the Nine Months Ended September 30, 2004**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (unaudited)****MCF CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
<b>Revenue:</b>				
Commissions	\$ 4,805,372	\$ 2,757,379	\$ 15,770,617	\$ 5,759,313
Principal transactions	155,602	261,132	1,264,122	992,655
Investment banking	1,340,750	4,752,164	9,478,007	5,464,904
Other	1,623	1,646	23,595	2,311
<b>Total revenue</b>	<b>6,303,347</b>	<b>7,772,321</b>	<b>26,536,341</b>	<b>12,219,183</b>
<b>Operating expenses:</b>				
Compensation and benefits	5,170,358	4,824,660	18,953,618	7,991,480
Brokerage and clearing fees	588,099	375,849	1,887,754	941,903
Professional services	346,151	288,019	979,198	516,994
Occupancy and equipment	219,511	100,585	596,383	260,566
Communications and technology	383,015	227,193	984,774	612,135
Depreciation and amortization	38,780	24,823	96,641	57,102
Other	1,015,887	429,554	2,254,516	1,209,615
<b>Total operating expenses</b>	<b>7,761,801</b>	<b>6,270,683</b>	<b>25,752,884</b>	<b>11,589,795</b>
<b>Operating income (loss)</b>	<b>(1,458,454)</b>	<b>1,501,638</b>	<b>783,457</b>	<b>629,388</b>
Interest income	24,428	7,300	60,145	19,034
Interest expense	(20,451)	(122,057)	(97,648)	(1,418,118)
Gain on retirement of convertible note payable				3,088,230
<b>Income (loss) before income taxes</b>	<b>(1,454,477)</b>	<b>1,386,881</b>	<b>745,954</b>	<b>2,318,534</b>
Income tax benefit (expense)	425,630		(37,715)	
<b>Net income (loss)</b>	<b>\$ (1,028,847)</b>	<b>\$ 1,386,881</b>	<b>\$ 708,239</b>	<b>\$ 2,318,534</b>
<b>Net income (loss) per share:</b>				
Basic	\$ (0.02)	\$ 0.05	\$ 0.01	\$ 0.06
Diluted	\$ (0.02)	\$ 0.02	\$ 0.01	\$ 0.05

Weighted average common shares outstanding:

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Basic	59,919,209	27,629,195	57,094,385	25,771,978
Diluted	59,919,209	66,384,215	76,958,136	37,546,365

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

**Table of Contents****MCF CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(unaudited)**

	<b>September 30, 2004</b>	<b>December 31, 2003</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 14,273,852	\$ 6,142,958
Securities owned:		
Marketable, at fair value	1,568,936	608,665
Not readily marketable, at estimated fair value	197,683	637,533
Restricted cash	775,000	500,000
Due from clearing broker	1,254,620	775,697
Accounts receivable, net	571,544	498,236
Equipment and fixtures, net	458,918	192,421
Prepaid expenses and other assets	849,914	348,436
<b>Total assets</b>	<b>\$ 19,950,467</b>	<b>\$ 9,703,946</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Accounts payable	\$ 455,928	\$ 179,620
Commissions payable	1,468,167	1,006,192
Accrued liabilities	1,460,667	1,149,321
Due to clearing and other brokers	109,738	154,995
Securities sold, not yet purchased	67,476	225
Capital lease obligation	335,165	24,401
Convertible notes payable, net	409,549	520,612
Notes payable	1,343,159	1,407,370
<b>Total liabilities</b>	<b>5,649,849</b>	<b>4,442,736</b>
<b>Commitments and contingencies</b>		
<b>Stockholders equity:</b>		
Preferred stock, Series A \$0.0001 par value; 2,000,000 shares authorized; 0 and 657,201 shares issued and outstanding as of September 30, 2004 and December 31, 2003, respectively; aggregate liquidation preference of \$0		66
Preferred stock, Series B \$0.0001 par value; 12,500,000 shares authorized; 8,750,000 shares issued and 0 shares outstanding as of September 30, 2004 and December 31, 2003; aggregate liquidation preference of \$0		
Preferred stock, Series C \$0.0001 par value; 14,200,000 shares authorized; 11,800,000 shares issued and 0 shares outstanding as of September 30, 2004 and December 31, 2003; aggregate liquidation preference of \$0		
Common stock, \$0.0001 par value; 300,000,000 shares authorized; 65,911,625 and 55,951,675 shares issued; and 65,831,625 and 55,871,675 shares outstanding as of September 30, 2004 and December 31, 2003, respectively	6,583	5,587
Treasury stock	(363,653)	(363,653)
Additional paid-in capital	107,428,104	95,870,008
Deferred compensation	(3,167,191)	(1,244,490)
Accumulated deficit	(89,603,225)	(89,006,308)

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Total stockholders' equity	14,300,618	5,261,210
Total liabilities and stockholders' equity	\$ 19,950,467	\$ 9,703,946

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

**Table of Contents****MCF CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2004</b>	<b>2003</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 708,239	\$ 2,318,534
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Gain on retirement of convertible note payable		(3,088,230)
Depreciation and amortization	96,641	57,102
Stock-based compensation	795,839	233,198
Common Stock issued for services		121,449
Amortization of discounts on convertible notes payable	38,938	579,047
Amortization of debt issuance costs	23,340	588,604
Unrealized (gain) loss on securities owned	115,685	(64,825)
Common stock and stock warrants received for advisory services	(461,933)	(1,250)
Other	22,652	
<b>Changes in operating assets and liabilities:</b>		
Marketable securities owned	(106,922)	15,477
Restricted cash	(275,000)	110,240
Due from clearing broker	(478,923)	(300,853)
Accounts receivable	(73,308)	(25,139)
Prepaid expenses and other assets	(513,818)	(224,004)
Accounts payable	276,308	120,967
Commissions payable	461,975	602,988
Accrued liabilities	311,346	815,627
Due to clearing and other brokers	(45,257)	44,007
<b>Net cash provided by operating activities</b>	<b>895,802</b>	<b>1,902,939</b>
<b>Cash flows from investing activities:</b>		
Investment in affiliate	(11,000)	
Purchase of equipment and fixtures	(44,831)	(166,302)
<b>Net cash used in investing activities</b>	<b>(55,831)</b>	<b>(166,302)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from the issuance of common stock	6,273,316	
Proceeds from the issuance of Series B preferred stock		1,750,000
Proceeds from the issuance of Series C preferred stock		250,000
Proceeds from the issuance of convertible notes payable		1,000,000
Proceeds from the exercise of stock options and warrants	798,911	208,884
Cash used to retire convertible notes payable		(500,000)