

MCF CORP  
Form 10-K  
February 15, 2007

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**SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

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**FORM 10-K**

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

**For the Fiscal Year ended December 31, 2006**

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

**For the Transition Period from to**

**Commission File Number 001-15831**

**MCF CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**11-2936371**

(I.R.S. Employer  
Identification No.)

**600 California Street, 9<sup>th</sup> Floor  
San Francisco, CA**

(Address of Principal Executive  
Offices)

**94108**

(Zip Code)

**(415) 248-5600**

(Registrant's Telephone Number, Including Area Code)

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

**Common Stock, \$0.0001 per share**

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

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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Yes  No

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

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

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III of this Form 10-K incorporates by reference certain portions of the Registrant's proxy statement for its 2007 annual meeting of stockholders to be filed with the Commission not later than 120 days after the end of the fiscal year covered by this report.

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

## **PART I**

### **ITEM 1. BUSINESS**

#### **Overview**

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

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

MCF Asset Management, LLC manages absolute return investment products for institutional and high-net worth clients. During 2006, we introduced the MCF Navigator fund and MCF Voyager fund. Additionally, we are the sub-advisor for the MCF Focus fund. As of December 31, 2006, assets under management across our three fund products were nearly \$30 million.

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

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

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

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

## **Principal Services**

We have three business segments: the investment bank and securities broker-dealer, asset management and wealth management. Our investment bank and broker-dealer provides three service offerings: investment banking, brokerage and equity research. Our asset management segment manages investment products for investors. We sold our wealth management subsidiary, Catalyst Financial Planning & Investment Management Corporation, or Catalyst, in January 2007. The results from this segment have been treated as discontinued operations. We will add primary research as an additional business segment upon the closing of the MedPanel, Inc. acquisition.

### ***Investment Banking***

Our investment bankers provide a full range of corporate finance and strategic advisory services. Our corporate finance practice is comprised of industry coverage investment bankers that are focused on raising capital for fast growing companies in selected industry sectors. Our strategic advisory practice tailors solutions to meet the specific needs of our clients at various points in their growth cycle. Over the last three years, we have focused on growing our investment banking business through the hiring of increasingly senior investment bankers and support professionals. As of December 31, 2006, we had 29 professionals in our investment banking group.

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

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

### ***Institutional Brokerage Services***

We provide institutional sales, sales trading and trading services to more than 550 institutional accounts in the United States. We execute securities transactions for money managers, mutual funds, hedge funds, insurance companies, pension and profit-sharing plans. Institutional investors normally purchase and sell securities in large quantities, which require the distribution and trading expertise that we provide.

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





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

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

*Trading.* Our trading professionals facilitate liquidity discovery in equity securities. We make markets in NASDAQ and other securities, trade listed securities and service the trading desks of institutions in the United States. Our trading professionals have direct access to the major stock exchanges, including the New York Stock Exchange and the American Stock Exchange. As of December 31, 2006, we were a market maker in approximately 970 securities.

The customer base of our brokerage business is primarily institutional, including mutual funds and hedge funds, as well as smaller, private investment firms and certain high net worth individuals. We believe this group of clients and potential clients to number over 4,000. We grew our business during 2006 by adding new customers, and increasing the penetration of existing institutional customers that use our equity research and trading services in their investment process.

*Corporate and Venture Services.* We offer brokerage services to corporations including corporate cash management and stock repurchase programs through our Corporate and Venture Services group. We also serve the needs of venture capital investors and company executives with restricted stock transactions, cashless exercise of options, hedging and diversification strategies, and liquidity strategies. Additionally, the Venture Services team provides sales distribution for capital raises for private companies via the introduction to venture capital and private equity investors.

*Institutional Cash Distributors.* ICD is a broker of money market funds serving the short-term investing needs of corporate finance departments at companies throughout the United States and Europe. Companies using ICD's services receive access to over 40 fund families through ICD's one-stop process that includes one application, one wire and one statement that consolidates reporting regardless of the number of funds utilized. As of December 31, 2006, ICD clients have invested over \$12 billion in money market funds from which ICD earns brokerage fees. ICD is a division of Merriman Curhan Ford & Co.

*Capital Access Group.* During 2006, we began raising capital for institutional hedge funds, venture capital and private equity clients for a fee through our Capital Access Group. We believe fee-based capital raising is an underserved area of the institutional brokerage industry.

### ***Equity Research***

A key part of our strategy is to originate specialized and in-depth research. Our analysts cover a universe of approximately 200 companies in our focus industry sectors. We leverage the ideas generated by our research teams, using them to attract and retain institutional brokerage clients.

Supported by the firm's institutional sales and trading capabilities, our analysts deliver timely recommendations to clients on innovative investment opportunities. In an effort to make money for our investor clients, our analysts are driven to find undiscovered opportunities in fast growing companies that are not widely held and that we believe are undervalued. Given the contrarian and undiscovered nature of many of our research ideas, we, as a firm, specialize in serving sophisticated, aggressive institutional investors. As of December 31, 2006, approximately 75% of the

companies covered by our research professionals had market capitalizations of \$1 billion or less.

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

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

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

The industry sectors covered by our research analysts include:

<b>Telecommunications</b>	<b>Next-Generation Energy</b>	<b>Health Care</b>
<ul style="list-style-type: none"> <li>• Communications Technology</li> <li>• Communications Services</li> <li>• Wireless Technology</li> </ul> <p style="text-align: center;"><b>Technology</b></p>	<ul style="list-style-type: none"> <li>• Next-Generation Energy</li> <li>• Industry Technology</li> </ul>	<ul style="list-style-type: none"> <li>• Aging and Aesthetics</li> <li>• Infectious Disease and Oncology</li> <li>• Pain, Lifestyle and Stress</li> </ul>
<ul style="list-style-type: none"> <li>• Internet Applications and Services</li> <li>• Digital Consumer Semiconductors</li> <li>• Semiconductor Capital Equipment</li> <li>• Semiconductor Assembly and Test Outsourcing</li> <li>• Computer Hardware and Networking</li> </ul>		<b>Consumer</b>
		<ul style="list-style-type: none"> <li>• Gaming</li> <li>• Media and Entertainment</li> <li>• Restaurants</li> <li>• Retail and Apparel</li> <li>• Branded Consumer</li> <li>• Retail: Specialty</li> </ul>

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

Our equity research group annually hosts several conferences targeting fast growing companies and investors, including our Investor Summit, Next-Generation Energy Conference and IP Video Conference. We use these events to showcase innovative and fast growing companies to institutional investors focused on investing in these growth sectors.

### ***Asset Management***

MCF Asset Management, LLC creates investment products for both institutional and high-net worth clients. Through the corporate and professional resources of MCF Corporation, we have developed an institutional-standard investment management platform.

The 1990's were a decade of broad stock market appreciation. Investors were handsomely rewarded for buying exposure to the stock market by investing in long only mutual funds, market indices or individual stocks. So far this decade, equity returns have not been as strong or as consistent as throughout the 1990's. As a result, interest in alternative investment strategies, such as long/short equity, market neutral, convertible arbitrage, currency arbitrage and real estate, have grown in popularity. Investing in alternative investment strategies will ideally produce absolute returns that are not correlated with broad stock market indices and represent a diversification of risk for investors.

More importantly, we believe both institutions and wealthy individuals have reached that same conclusion and will continue to shift more of their investment dollars into alternative asset class strategies. It is our intent to help our clients in their investment process by offering access to alternative investment strategies, as well as certain niche based long-only strategies. We have established our own alternative investment products and evaluate opportunities to acquire and partner with managers of alternative asset investments. We currently have three active funds in the market place and we plan to launch additional products in 2007.

### ***Primary Research***

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

MedPanel's product and service offerings arise from the intelligent application of its core technology and research platform. MedPanel's staff guides clients in the development of highly targeted customized quantitative and/or qualitative research instruments designed to address business issues important to the client. In addition, MedPanel has developed proprietary research products which it markets to multiple clients. These reports provide timely, consistent and cross-comparable data on a regular basis to subscribing clients.

MedPanel has experienced five consecutive years of revenue growth, recognizing approximately \$5 million in revenue during 2006. We believe that once our firms have combined, MedPanel's revenue growth from financial services clients, such as mutual fund managers and hedge fund managers, will accelerate due to the ability of the combined company to market MedPanel research through our existing institutional sales force. MedPanel has recently expanded their target market from biotechnology and pharmaceutical companies to investment managers and had not expended significant resources in that area. Part of MedPanel's rationale for seeking a merger partner was to expand its financial services customer base through an established sales force as well as take advantage of the future growth potential of a larger, publicly-held company with a greater depth of technologies, marketing opportunities and financial and operating resources.

### ***Wealth Management (Discontinued)***

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

### **Competition**

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

In addition to competing for customers and investments, we compete with other companies in the financial services and investment industries to attract and retain experienced and productive investment professionals. See "Item 1A. Risk Factors—Our business is dependent on the services of skilled professionals..." and—"Our business may suffer if we lose the services..."



Many competitors have greater personnel and financial resources than we do. Larger competitors are able to advertise their products and services on a national or regional basis and may have a greater number and variety of distribution outlets for their products, including retail distribution. Discount and Internet brokerage firms market their services through aggressive pricing and promotional efforts. In addition, some competitors have much more extensive investment banking activities than we do and therefore, may possess a relative advantage with regard to access to deal flow and capital.

Recent rapid advancements in computing and communications technology, particularly the Internet, are substantially changing the means by which financial services and information are delivered. These changes are providing consumers with more direct access to a wide variety of financial and investment services, including market information and on-line trading and account information. Advances in technology also create demand for more sophisticated levels of client services. We are committed to using technological advancements to provide a high level of client service to our target markets. Provision of these services may entail considerable cost without an offsetting source of revenue.

For a further discussion of the competitive factors affecting our business, see “Item 1A. Risk Factors—The markets for securities brokerage and investment banking services are highly competitive.”

## **Corporate Support**

### **Accounting, Administration and Operations**

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

### **Compliance, Legal, Risk Management and Internal Audit**

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

## **Risk Management**

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

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

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

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

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*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: