MCF CORP
Form 10-Q/A
September 09, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended June 30, 2003

¨ **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

MCF CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**11-2936371**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
601 Montgomery Street, 18th Floor	
San Francisco, California	**94111**
(Address of Principal Executive Offices)	**(Zip Code)**

(415) 248-5600

(Registrant s Telephone Number, Including Area Code)

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

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

As of August 5, 2003, 26,888,526 shares of the registrant s common stock, $0.0001 par value, were outstanding.

Explanatory Note

This Amendment No. 1 to the Registrant s Report on Form 10-Q for the quarterly period ended June 30, 2003 is being filed to amend the disclosure contained in (i) the Condensed Consolidated Statements of Operations, to present the amount of net income (loss) and earnings per share measures available to common stockholders on the face of the condensed consolidated statements of operations; (ii) the Condensed Consolidated Statements of Cash Flows, to present the non-cash investing and financing activities; (iii) Note 2. to the Condensed Consolidated Financial Statements, to describe a $537,602 charge titled Deemed Dividends for Issuance of Preferred Stock ; and (iv) Management s Discussion and Analysis of Financial Condition and Results of Operations, to expand the financial condition discussion to quantify each of the changes in convertible notes payable and additional paid-in capital. No other changes were made to the Registrant s Report on Form 10-Q for the quarterly period ended June 30, 2003; however, this Amendment No. 1 to Form 10-Q is being filed in its entirety for clarity and completeness.

MCF Corporation

Form 10-Q

For the Six Months Ended June 30, 2003

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

MCF CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Revenue:				
Commissions	$ 1,722,758	$ 1,678,516	$ 3,002,599	$ 2,201,101
Principal transactions	516,183	106,168	731,523	124,776
Investment banking	340,865	220,743	712,740	246,416
Other		3,300		28,827
Total revenue	2,579,806	2,008,727	4,446,862	2,601,120
Operating expenses:				
Compensation and benefits	1,778,884	1,478,743	3,166,820	2,387,334
Brokerage and clearing fees	263,533	238,030	566,053	395,572
Professional services	144,886	129,917	228,975	270,036
Occupancy and equipment	85,809	44,797	159,981	125,220
Communications and technology	200,121	57,008	384,942	88,292
Depreciation and amortization	17,049	100,281	32,279	199,375
Other	343,248	358,180	780,061	537,965
Total operating expenses	2,833,530	2,406,956	5,319,111	4,003,794
Operating loss	(253,724)	(398,229)	(872,249)	(1,402,674)
Interest income	7,633	12,221	11,734	27,717
Interest expense	(1,083,990)	(363,848)	(1,296,061)	(727,620)
Gain on retirement of convertible note payable	3,088,230		3,088,230	
Income (loss) from continuing operations	1,758,149	(749,856)	931,654	(2,102,577)
Loss from discontinued operations				(262,843)
Net income (loss)	$ 1,758,149	$ (749,856)	$ 931,654	$ (2,365,420)
Net income (loss) available to common stockholders:				
Basic	$ 1,177,644	$ (803,138)	$ 309,441	$ (2,501,202)
Diluted	$ 1,254,605	$ (803,138)	$ 323,402	$ (2,501,202)
Basic net income (loss) per share:				
Income (loss) from continuing operations	$ 0.05	$ (0.04)	$ 0.01	$ (0.11)

Income (loss) from discontinued operations	$	$	$	$ (0.01)
Net income (loss)	$ 0.05	$ (0.04)	$ 0.01	$ (0.12)
Net income (loss) available to common stockholders	$ 0.05	$ (0.04)	$ 0.01	$ (0.12)
Diluted net income (loss) per share:				
Income (loss) from continuing operations	$ 0.04	$ (0.04)	$ 0.01	$ (0.11)
Income (loss) from discontinued operations	$	$	$	$ (0.01)
Net income (loss)	$ 0.04	$ (0.04)	$ 0.01	$ (0.12)
Net income (loss) available to common stockholders	$ 0.04	$ (0.04)	$ 0.01	$ (0.12)
Weighted average common shares outstanding:				
Basic	26,120,020	20,292,922	24,827,978	20,111,950
Diluted	32,846,345	20,292,922	27,286,542	20,111,950

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

MCF CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(unaudited)

	June 30, 2003	December 31, 2002
ASSETS		
Cash and cash equivalents	$ 2,989,759	$ 1,402,627
Securities owned:		
Marketable, at fair value	1,233,512	764,421
Not readily marketable, at estimated fair value	22,903	16,067
Restricted cash	610,240	610,240
Due from clearing broker	172,198	124,053
Accounts receivable, net	54,549	27,661
Equipment and fixtures, net	150,781	49,216
Debt issuance costs	74,396	612,673
Prepaid expenses and other assets	367,479	162,169
Total assets	$ 5,675,817	$ 3,769,127
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Accounts payable	$ 320,871	$ 112,041
Commissions payable	563,310	325,351
Accrued liabilities	728,428	342,454
Due to clearing and other brokers	22,345	63,550
Securities sold, not yet purchased	176,595	
Deferred revenue	25,000	
Capital lease obligation	4,456	
Convertible notes payable, net	1,142,159	8,055,085
Notes payable	1,449,122	400,000
Total liabilities	4,432,286	9,298,481
Commitments and contingencies		
Stockholders equity (deficit):		
Preferred stock, Series A - $0.0001 par value; 2,000,000 shares authorized; 619,999 and 499,999 shares issued and outstanding as of June 30, 2003 and December 31, 2002, respectively; aggregate liquidation preference of $1,899,010 as of June 30, 2003	62	50
Preferred stock, Series B - $0.0001 par value; 12,500,000 shares authorized; 8,750,000 shares issued and outstanding as of June 30, 2003; aggregate liquidation preference of $13,125 as of June 30, 2003	875	
Preferred stock, Series C - $0.0001 par value; 14,200,000 shares authorized; 11,800,000 shares issued and outstanding as of June 30, 2003; aggregate liquidation preference of $1,875 as of June 30, 2003	1,180	
Common stock, $0.0001 par value; 300,000,000 shares authorized; 26,673,526 and 23,521,580 shares issued and outstanding as of June 30, 2003 and December 31, 2002, respectively	2,667	2,352
Additional paid-in capital	92,617,727	86,156,666
Accumulated deficit	(91,015,327)	(91,324,769)
Treasury stock	(363,653)	(363,653)
Total stockholders equity (deficit)	1,243,531	(5,529,354)

Total liabilities and stockholders equity (deficit)	$ 5,675,817	$ 3,769,127

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

MCF CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six Months Ended June 30,	
	2003	**2002**
Cash flows from operating activities:		
Net income (loss)	$ 931,654	$ (2,365,420)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Gain on retirement of convertible note payable	(3,088,230)	
Depreciation and amortization	32,279	199,375
Common stock issued for services		83,338
Stock options and warrants granted or modified	76,381	363,192
Amortization of discounts on convertible notes payable	523,959	201,967
Amortization of debt issuance costs	538,277	34,060
Gain on securities owned		(7,298)
Common stock received for advisory services	(1,250)	(11,000)
Changes in operating assets and liabilities:		
Assets and liabilities of discontinued operations		63,149
Marketable securities owned	(298,082)	(220,948)
Due from clearing broker	(48,145)	(726,540)
Accounts receivable	(26,888)	(67,500)
Prepaid expenses and other assets	(240,535)	61,218
Accounts payable	208,830	150,014
Commissions payable	237,959	436,896
Accrued liabilities	321,974	153,231
Due to clearing and other brokers	(41,205)	89,640
Deferred revenue	25,000	30,833
Net cash used in operating activities	(848,022)	(1,531,793)
Cash flows from investing activities:		
Purchase of equipment and fixtures	(129,293)	(3,109)
Proceeds from sale of discontinued operations		300,000
Net cash provided by (used in) investing activities	(129,293)	296,891
Cash flows from financing activities:		
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	71,420	
Cash used to retire convertible notes payable	(500,000)	
Debt service payments	(6,973)	
Debt issuance costs		(22,500)
Net cash provided by (used in) financing activities	2,564,447	(22,500)
Increase (decrease) in cash and cash equivalents	1,587,132	(1,257,402)
Cash and cash equivalents at beginning of period	1,402,627	4,358,091
Cash and cash equivalents at end of period	$ 2,989,759	$ 3,100,689

Non-cash investing and financing activities:				
Conversion of notes payable to Series C preferred stock	$	2,700,000	$	
Conversion of notes payable to common stock	$	350,000	$	
Common stock issued to retire note payable	$	400,000	$	
Common stock issued to settle accrued liabilities	$		$	37,000
Stock warrants issued to note payable investor	$	129,215	$	
Stock warrants issued to preferred stock investors	$	231,801	$	
Maturity of note payable	$	400,000	$	
Issuance of note payable	$	456,000	$	
Purchase of equipment and fixtures with capital lease	$	4,551	$	
Preferred stock dividends	$	84,611	$	135,782

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

MCF CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Significant Accounting Policies

Basis of Presentation

On July 22, 2003, Ratexchange Corporation changed its name to MCF Corporation. The interim financial statements included herein for MCF Corporation, or the Company, have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the financial statements included in this report reflect all normal recurring adjustments that the Company considers necessary for the fair presentation of the results of operations for the interim periods covered and the financial position of the Company at the date of the interim statement of financial condition. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to understand the information presented. The operating results for interim periods are not necessarily indicative of the operating results for the entire year. These financial statements should be read in conjunction with the Company s 2002 audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2002.

Commissions and Principal Transactions Revenue

Our institutional brokerage activities derive revenue from agency commissions and principal transactions. Agency commission revenue includes revenue resulting from executing stock exchange-listed securities, over-the counter securities and other transactions as agent. Principal transactions consist of a portion of dealer spreads attributed to the Company s securities trading activities as principal in NASDAQ-listed and other securities, and include transactions derived from activities as a market-maker. Additionally, principal transactions include gains and losses resulting from market price fluctuations that occur while holding positions in trading security inventory. Revenue generated from institutional brokerage transactions and related expenses are recorded on a trade date basis.

Investment Banking Revenue

Investment banking revenue represents fees earned from private placement offerings, mergers and acquisitions, financial restructuring and other advisory services provided to clients. Investment banking fees are recorded as revenue when the related service has been rendered and the client is contractually obligated to pay. Certain fees received in advance of services rendered are recognized as revenue over the service period.

Stock-Based Compensation

The Company uses the intrinsic value-based method in accordance with Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees*, to account for employee stock-based compensation. Accordingly, compensation cost is recorded on the date of grant to the extent the fair value of the underlying share of common stock exceeds the exercise price for a stock option or the purchase price for a share of common stock. Such compensation cost is amortized on a straight-line basis over the vesting period of the individual award. Pursuant to Statement of Financial Accounting Standards, or SFAS, No. 123, *Accounting for Stock-Based Compensation*, the Company discloses the pro forma effect of using the fair value method of accounting for employee stock-based compensation. Stock-based awards granted to nonemployees are accounted for pursuant to the fair value method in SFAS No. 123 and Issue No. 96-18 of the Emerging Issues Task Force. The associated expense is measured and recognized by the Company over the period the services are performed by the nonemployee.

In December 2002, the Financial Accounting Standards Board, or FASB, issued SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. SFAS 148 amends SFAS 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS 148 is effective for financial statements for fiscal years ending after December 15, 2002.

The Company has elected to continue to account for its stock-based compensation in accordance with the provisions of APB 25 and present the pro forma disclosures required by SFAS 123 as amended by SFAS 148. Stock-based employee compensation for the three months and six months ended June 30, 2003 and 2002 was accounted for under the intrinsic value method and, therefore, no compensation expense was recognized for those stock options that had no intrinsic value at the date of grant.

If the Company was to recognize compensation expense over the relevant service period under the fair value method with respect to stock options granted for the three months and six months ended June 30, 2003 and all prior periods, net income (loss) would have changed, resulting in pro forma net income (loss) and pro forma net income (loss) per share as presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income (loss), as reported	$ 1,758,149	$ (749,856)	$ 931,654	$ (2,365,420)
Add: Stock-based employee compensation expense included in the reported net income (loss)	31,250	97,250	62,500	151,046
Less: Stock-based employee compensation expense determined under fair value method for all awards	(633,925)	(720,795)	(1,366,193)	(1,955,370)
Pro forma net income (loss)	$ 1,155,474	$ (1,373,401)	$ (372,039)	$ (4,169,744)
Net income (loss) per share, as reported:				
Basic	$ 0.05	$ (0.04)	$ 0.01	$ (0.12)
Diluted	$ 0.04	$ (0.04)	$ 0.01	$ (0.12)
Net income (loss) per share, pro forma:				
Basic	$ 0.02	$ (0.07)	$ (0.04)	$ (0.21)
Diluted	$ 0.02	$ (0.07)	$ (0.04)	$ (0.21)

Newly Issued Accounting Standards

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The statement requires that contracts with comparable characteristics be accounted for similarly and clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, except in certain circumstances, and for hedging relationships designated after June 30, 2003. The Company does not expect that the adoption of this standard will have a material effect on its financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This Statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after

June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. The Company does not expect that the adoption of this standard will have a material effect on its financial position or results of operations.

In November 2002, the Emerging Issues Task Force, or EITF, reached a consensus on Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Management does not believe the adoption of this Standard will have a material effect on the Company s financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation, or FIN, No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* FIN No. 45

clarifies the requirements of SFAS No. 5, *Accounting for Contingencies*, relating to the guarantor s accounting for and disclosures of certain guarantees issued. The initial recognition and measurement provisions of the Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor s fiscal year-end. The adoption of this Interpretation did not have a material effect on the Company s financial position or results of operations.

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities*. FIN No. 46 clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or in which equity investors do not bear the residual economic risks. The Interpretation applies to variable interest entities, or VIEs, created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. It applies in the fiscal year or interim period beginning after June 15, 2003, to VIEs in which an enterprise holds a variable interest that was acquired before February 1, 2003. Management does not believe the adoption of this Interpretation will have a material effect on the Company s financial position or results of operations.

Reclassification

Certain prior year amounts have been reclassified to conform to current year consolidated financial statement presentation.

2. Earnings (Loss) per Share

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2003	**2002**	**2003**	**2002**
Net income (loss)	$ 1,758,149	$ (749,856)	$ 931,654	$ (2,365,420)
Deemed dividend for issuance of preferred stock	(537,602)		(537,602)	
Preferred stock dividends	(42,903)	(53,282)	(84,611)	(135,782)
Net income (loss) available to common stockholders basic	1,177,644	(803,138)	309,441	(2,501,202)
Interest and dividends on dilutive common shares	76,961		13,961	
Net income (loss) available to common stockholders - diluted	$ 1,254,605	$ (803,138)	$ 323,402	$ (2,501,202)
Weighted-average number of common shares basic	26,120,020	20,292,922	24,827,978	20,111,950
Exercise or conversion of all potentially dilutive common shares outstanding	6,726,325		2,458,564	
Weighted-average number of common shares diluted	32,846,345	20,292,922	27,286,542	20,111,950
Basic net income (loss) per common share	$ 0.05	$ (0.04)	$ 0.01	$ (0.12)

Diluted net income (loss) per common share	$	0.04	$	(0.04)	$	0.01	$	(0.12)

The investors in the Company s Series B and Series C convertible preferred stock received detachable stock warrants. Deemed dividend for issuance of preferred stock represents the relative fair value assigned to the stock warrants together with the relative fair value of the beneficial conversion feature inherent with the convertible preferred stock. These amounts were charged to accumulated deficit during the three and six months ended June 30, 2003. All preferred stock dividends, including the deemed dividend described above, are added back to net income (loss) to arrive at net income (loss) available to common stockholders.

Basic earnings (loss) per share is computed by dividing net income (loss), less accrued dividends on preferred stock, by the weighted average number of common shares outstanding. Diluted earnings per share is calculated for the three and six months ended June 30, 2003 by dividing net income, less accrued dividends on preferred stock, by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares outstanding. Diluted loss per share is unchanged from basic loss per share for the three and six month ended June 30, 2002, because the addition of common shares that would be issued assuming exercise or conversion would be anti-dilutive.

Shares used in the diluted net income (loss) per share computation in the above table include the dilutive impact of the Company s stock options and warrants. The impact of the Company s stock options and warrants on shares used for the diluted earnings per share computation is calculated based on the average share price of the Company s common stock for each period using the treasury stock method. Under the treasury stock method, the tax-effected proceeds that would be hypothetically received from the exercise of all stock o