

MCF CORP  
Form 10-Q  
May 08, 2007

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended March 31, 2007

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)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

600 California Street, 9th Floor  
San Francisco, CA  
(Address of Principal Executive Offices)

94108  
(Zip Code)

(415) 248-5600  
(Registrant's Telephone Number, Including Area Code)

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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 x No "

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.

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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 number of shares of Registrant's common stock outstanding as of May 7, 2007 was 12,178,282.

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**Form 10-Q**  
**For the Three Months Ended March 31, 2007**

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

**MCF CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
Revenue:		
Commissions	\$ 7,165,707	\$ 8,698,128
Principal transactions	2,613,124	403,301
Investment banking	4,232,471	2,425,780
Other	311,842	33,093
Total revenue	14,323,144	11,560,302
Operating expenses:		
Compensation and benefits	10,810,287	9,733,773
Brokerage and clearing fees	632,641	682,604
Professional services	381,478	441,323
Occupancy and equipment	442,528	381,821
Communications and technology	812,936	605,933
Depreciation and amortization	181,021	151,949
Travel and entertainment	469,202	518,516
Other	591,944	381,625
Total operating expenses	14,322,037	12,897,544
Operating income (loss)	1,107	(1,337,242)
Interest income	122,493	110,665
Interest expense	(54,344)	(69,091)
Income (loss) from continuing operations before income taxes	69,256	(1,295,668)
Income tax expense		
Income (loss) from continuing operations	69,256	(1,295,668)
Loss from discontinued operations		(53,940)
Net income (loss)	\$ 69,256	\$ (1,349,608)
Basic net income (loss) per share:		
Income (loss) from continuing operations	\$ 0.01	\$ (0.13)
Loss from discontinued operations	\$	\$ (0.01)
Net income (loss)	\$ 0.01	\$ (0.14)
Diluted net income (loss) per share:		
Income (loss) from continuing operations	\$ 0.01	\$ (0.13)
Loss from discontinued operations	\$	\$ (0.01)
Net income (loss)	\$ 0.01	\$ (0.14)
Weighted average common shares outstanding:		
Basic	10,336,328	9,708,657
Diluted	11,459,376	9,708,657

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



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

	March 31, 2007	December 31, 2006
<b>ASSETS</b>		
Cash and cash equivalents	\$ 12,608,622	\$ 13,746,590
Securities owned:		
Marketable, at fair value	7,247,956	7,492,914
Not readily marketable, at estimated fair value	1,428,044	1,489,142
Restricted cash	630,675	629,427
Due from clearing broker	813,727	551,831
Accounts receivable, net	1,937,808	2,715,271
Equipment and fixtures, net	1,399,685	1,586,630
Prepaid expenses and other assets	1,724,569	2,286,408
Total assets	\$ 27,791,086	\$ 30,498,213
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 1,259,833	\$ 1,121,623
Commissions and bonus payable	3,288,085	7,711,805
Accrued expenses	1,866,129	2,285,670
Due to clearing and other brokers	13,465	11,114
Securities sold, not yet purchased	2,820,747	1,534,953
Capital lease obligation	1,136,623	1,292,378
Convertible notes payable, net	189,663	187,079
Notes payable	114,683	138,571
Total liabilities	10,689,228	14,283,193
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, Series A—\$0.0001 par value; 2,000,000 shares authorized; 0 shares issued and outstanding as of March 31, 2007 and December 31, 2006, respectively; aggregate liquidation preference of \$0	—	—
Preferred stock, Series B—\$0.0001 par value; 12,500,000 shares authorized; 1,250,000 shares issued and 0 shares outstanding as of March 31, 2007 and December 31, 2006; aggregate liquidation preference of \$0	—	—
Preferred stock, Series C—\$0.0001 par value; 14,200,000 shares authorized; 1,685,714 shares issued and 0 shares outstanding as of March 31, 2007 and December 31, 2006; aggregate liquidation preference of \$0	—	—
Common stock, \$0.0001 par value; 300,000,000 shares authorized; 10,641,823 and 10,602,720 shares issued and 10,615,385 and 10,602,720 shares outstanding as of March 31, 2007 and December 31, 2006, respectively	1,065	1,061
Additional paid-in capital	115,560,039	114,616,848
Treasury stock	(125,613)	—
Accumulated deficit	(98,333,633)	(98,402,889)
Total stockholders' equity	17,101,858	16,215,020
Total liabilities and stockholders' equity	\$ 27,791,086	\$ 30,498,213

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



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

	Three Months Ended	
	March 31,	
	2007	2006
Cash flows from operating activities:		
Net income (loss)	\$ 69,256	\$ (1,349,608)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	181,021	163,851
Stock-based compensation	737,703	863,816
Contingent share-based compensation for Catalyst acquisition	—	70,325
Amortization of discounts on convertible notes payable	2,583	24,043
Amortization of debt issuance costs	—	1,334
Unrealized (gain) loss on securities owned	(1,378,395)	206,156
Provision for bad debt	10,245	—
Other	5,552	10,456
Changes in operating assets and liabilities:		
Securities owned	2,970,245	(908,048)
Restricted cash	(1,248)	(2,758)
Due from clearing broker	(261,896)	(567,283)
Accounts receivable	756,063	225,091
Prepaid expenses and other assets	222,852	(437,216)
Accounts payable	138,210	195,619
Commissions and bonus payable	(4,423,720)	(1,723,484)
Accrued expenses	(323,997)	(518,817)
Due to clearing and other brokers	2,351	14,447
Net cash used in operating activities	(1,293,175)	(3,732,076)
Cash flows from investing activities:		
Cash restricted for fund investment	—	(8,602,547)
Purchase of equipment and fixtures	(33,862)	(83,646)
Investment in Catalyst	—	(58,558)
Proceeds from sale of Catalyst	163,219	—
Net cash provided by (used in) investing activities	129,357	(8,744,751)
Cash flows from financing activities:		
Proceeds from the exercise of stock options and warrants	102,937	277,462
Proceeds from the issuance of common stock	102,555	339,430
Proceeds from the issuance of note payable (\$6,112,171) and stock warrant (\$1,387,829)	—	7,500,000
Minority interest in fund	—	1,556,554
Debt service principal payments	(179,642)	(112,059)
Net cash provided by financing activities	25,850	9,561,387
Decrease in cash and cash equivalents	(1,137,968)	(2,915,440)
Cash and cash equivalents at beginning of period	13,746,590	11,138,923
Cash and cash equivalents at end of period	\$ 12,608,622	\$ 8,223,483

## Supplementary disclosure of cash flow information:

Cash paid during the period:



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Interest	\$	26,759	\$	19,958
Income taxes	\$	—	\$	1,800

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

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**MCF CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**1. Significant Accounting Policies**

*Basis of Presentation*

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 2006 audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

*Reverse Stock Split*

On August 4, 2006, the Company's Board of Directors approved a one-for-seven reverse stock split of the Company's common stock. The reverse stock split became effective at 11:59 pm, Eastern Time, on November 15, 2006. Pursuant to the reverse stock split, each seven shares of authorized and outstanding common stock was reclassified and combined into one share of new common stock. The reverse stock split did not change the number of authorized shares or the par value per share of common stock or preferred stock designated by the Company's Certificate of Incorporation. Currently, the Company has authorized 300,000,000 shares of common stock and 27,450,000 shares of preferred stock. All references to share and per share data for all periods presented have been retroactively adjusted to give effect to the one-for-seven reverse stock split.

*Securities Owned*

"Securities owned" and "Securities sold, but not yet purchased" in the consolidated statements of financial condition consist of financial instruments carried at fair value or amounts that approximate fair value, with related unrealized gains or losses recognized in the results of operations. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair values of the financial instruments are generally obtained from quoted market prices in active markets, broker or dealer price quotations, or alternative pricing sources with reasonable levels of price transparency. To the extent certain financial instruments trade infrequently or are non-marketable securities and, therefore, have little or no price transparency, the Company values these instruments based on management's estimates. The fair value of these securities is subject to a high degree of volatility and may be susceptible to significant fluctuation in the near term. Securities that contain resale restrictions are stated at a discount to the value of readily marketable securities. Stock warrants are carried at a discount to fair value as determined by using the Black-Scholes Option Pricing model due to illiquidity.

*Commissions and Principal Transactions Revenue*

Commissions revenue includes revenue resulting from executing stock exchange-listed securities, over-the counter securities and other transactions as agent for the Company's clients. Principal transactions consist of a portion of dealer spreads attributed to the Company's securities trading activities as principal in NASDAQ-listed and other securities, and include transactions derived from activities as a market-maker. Additionally, principal transactions include gains and losses resulting from market price fluctuations that occur while holding positions in trading security inventory.

Commissions revenue and related clearing expenses are recorded on a trade-date basis as security transactions occur. Principal transactions in regular-way trades are recorded on the trade date, as if they had settled. Profit and loss arising from all securities and commodities transactions entered into for the account and risk of the Company are recorded on a trade-date basis.

**MCF CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
**(unaudited)**

*Investment Banking Revenue*

Investment banking revenue includes underwriting and private placement agency fees earned through the Company's participation in public offerings and private placements of equity and convertible debt securities and fees earned as financial advisor in mergers and acquisitions and similar transactions. Underwriting revenue is earned in securities offerings in which the Company acts as an underwriter and includes management fees, selling concessions and underwriting fees. Management fees are recorded on the offering date, selling concessions on settlement date, and underwriting fees at the time the underwriting is completed and the related income is reasonably determinable. Syndicate expenses related to securities offerings in which the Company acts as underwriter or agent are deferred until the related revenue is recognized or we determine that it is more likely than not that the securities offerings will not ultimately be completed. Merger and acquisition fees and other advisory service revenue are generally earned and recognized only upon successful completion of the engagement. Underwriting revenue is presented net of related expenses. Unreimbursed expenses associated with private placement and advisory transactions are recorded as expenses as incurred.

As co-manager for registered equity underwriting transactions, management must estimate the Company's share of transaction related expenses incurred by the lead manager in order to recognize revenue. Transaction related expenses are deducted from the underwriting fee and therefore reduces the revenue that is recognized as co-manager. Such amounts are adjusted to reflect actual expenses in the period in which the Company receives the final settlement, typically 90 days following the closing of the transaction.

*Share-Based Compensation Expense*

The Company measures and recognizes compensation expense based on estimated fair values for all share-based awards made to employees and directors, including stock options, non-vested stock, and participation in the Company's employee stock purchase plan. The Company estimates fair value of share-based awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense in the Company's consolidated statements of operations over the requisite service periods. Share-based compensation expense recognized in the Company's consolidated statement of operations includes compensation expense for share-based awards granted (i) prior to, but not yet vested as of December 31, 2005, based on the grant date fair value, and (ii) subsequent to December 31, 2005. Compensation expense for all share-based awards subsequent to December 31, 2005 is recognized using the straight-line single-option method. Because share-based compensation expense is based on awards that are ultimately expected to vest, share-based compensation expense has been reduced to account for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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

*Income Taxes*

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement

carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded to reduce deferred tax assets to an amount whose realization is more likely than not. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date.

**MCF CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
**(unaudited)**

*Segment Reporting*

The Company organizes its operations into two operating segments for the purpose of making operating decisions and assessing performance. These operating segments are organized along operating subsidiaries, Merriman Curhan Ford & Co. and MCF Asset Management, LLC. Accordingly, the Company operated in two reportable operating segments in the United States during 2007 and 2006. However, only Merriman Curhan Ford & Co. produced financial results that were material to the Company. During 2006, the results of operations for MCF Wealth Management, LLC have been treated as discontinued operations.

*Use of Estimates*

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

*New Accounting Pronouncements*

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of this statement could have on its financial condition, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, "Fair Value Option for Financial Assets and Financial Liabilities", which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, that the adoption of SFAS No. 159 will have on its consolidated statements of financial condition, operations and cash flows.

**MCF CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
**(unaudited)**

**2. Share-Based Compensation Expense**

*Stock Options*

As of March 31, 2007, there were 4,991,430 shares authorized for issuance under the Option Plans, and 612,858 shares authorized for issuance outside of the Option Plans. As of March 31, 2007, 362,091 shares were available for future option grants under the Option Plans. There were no shares available for future option grants outside of the Options Plans. Compensation expense for stock options during the three months ended March 31, 2007 and 2006 was \$320,000 and \$322,000, respectively.

The following table is a summary of the Company's stock option activity for the three months ended March 31, 2007:

	<b>Options Outstanding</b>	<b>Weighted Average Exercise Price</b>
Balance as of December 31, 2006	3,570,370	\$ 6.19
Granted	23,150	4.87
Exercised	(39,583)	(2.60)
Canceled	(44,341)	(7.42)
Balance as of March 31, 2007	3,509,596	\$ 6.20
Exercisable as of March 31, 2007	2,955,451	\$ 6.05

The following table summarizes information with respect to stock options outstanding at March 31, 2007:

Range of Exercise Price	Number	Options Outstanding			Vested Options		
		Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$ 0.00 — \$ 3.50	2,038,205	5.83	\$ 2.95	\$ 2,945,818	2,032,486	\$ 2.95	\$ 2,937,552
\$ 3.51 — \$ 7.00	516,819	7.17	\$ 4.52		297,022	4.05	105,354
\$ 7.01 — \$14.00	658,904	7.91	\$ 8.85		330,275	9.36	
\$14.01 — \$28.00	256,381	3.60	\$ 22.04		256,381	22.04	
\$28.01 — \$49.00	39,287	2.91	\$ 49.00		39,287	49.00	
	3,509,596	6.22	\$ 6.20	\$ 2,945,818	2,955,451	\$ 6.05	\$ 3,042,906

As of March 31, 2007, total unrecognized compensation expense related to unvested stock options was \$2,455,000. This amount is expected to be recognized as expense over a weighted-average period of 1.24 years.

*Non-Vested Stock*

At the date of grant, the recipients of non-vested stock have most of the rights of a stockholder other than voting rights, subject to certain restrictions on transferability and a risk of forfeiture. Non-vested shares typically vest over a two to four year period beginning on the date of grant. The fair value of non-vested stock is equal to the market value of the shares on the date of grant. The Company recognizes the compensation expense for non-vested stock on a straight-line basis over the requisite service period. Compensation expense for non-vested stock during the three months ended March 31, 2007 and 2006 was \$361,000 and \$454,000, respectively.



**MCF CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
**(unaudited)**

The following table is a summary of the Company's non-vested stock activity for the three months ended March 31, 2007:

	<b>Non-Vested Stock Outstanding</b>	<b>Weighted Average Grant Date Fair Value</b>	<b>Intrinsic Value at March 31, 2006</b>
Balance as of December 31, 2006	306,009	\$ 10.04	
Granted	45,154	4.96	
Vested	(121,925)	(10.31)	
Canceled	(16,050)	(8.67)	
Balance as of March 31, 2007	213,188	\$ 8.91	\$ 938,027

As of March 31, 2007, total unrecognized compensation expense related to non-vested stock was \$1,426,000. This expense is expected to be recognized over a weighted-average period of 1.03 years.

*2002 Employee Stock Purchase Plan*

The Company offers an Employee Stock Purchase Plan, or ESPP, to its employees. As of March 31, 2007, 21,565 shares were available for issuance under the ESPP. Compensation expense for ESPP during the three months ended March 31, 2007 and 2006 was \$57,000 and \$87,000, respectively.

As of March 31, 2007, unrecognized compensation expense related to the ESPP was \$132,000. This amount is expected to be recognized as expense over a weighted-average period of 0.57 year.

*Fair Value and Assumptions Used to Calculate Fair Value*

The weighted average fair value of each stock option granted for the three months ended March 31, 2007 and 2006 was \$3.02 and \$5.06, respectively. The fair value of each option award is estimated on the date of grant using the Black-Scholes Option Pricing Model, with the following assumptions for the three months ended March 31, 2007 and 2006:

	<b>Three months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Expected volatility	79.21%	86.25%
Expected life (years)	4.17	4.69
Risk-free interest rate	4.64%	4.55%
Expected dividend yield	0%	0%

The weighted average fair value of the non-vested stock granted under the Company's stock option plans for the three months ended March 31, 2007 and 2006 was \$4.96 and 7.35 per share, respectively. The fair value of the non-vested stock award is estimated on the date of grant using the intrinsic value method.



**MCF CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
**(unaudited)**

**3. Discontinued Operations**

In December 2006, the Company decided to sell its Catalyst Financial Planning & Investment Management, Inc., or Catalyst, subsidiary and discontinue its wealth management activities. The sale of Catalyst closed in January 2007. As of December 31, 2006, Catalyst is being accounted for as held for sale in accordance with SFAS 144. As a result, the revenue and expenses of Catalyst and MCF Wealth Management, LLC for 2006 have been reclassified and included in discontinued operations in the consolidated statements of operations.

The following revenue and expenses have been reclassified as discontinued operations for the three months ended March 31, 2006:

Revenue	\$ 210,899
Operating expenses:	
Compensation and benefits	196,172
Professional services	4,164
Occupancy and equipment	20,192
Communications and technology	4,155
Depreciation and amortization	11,902
Travel and entertainment	11,854
Other expenses	17,367
	265,806
Operating loss	(54,907)
Interest income, net	967
Net loss	\$ (53,940)

The following assets and liabilities of operations held for sale have been included in the condensed consolidated statements of financial condition as of December 31, 2006:

Assets:	
Cash and cash equivalents	\$ 68,503
Accounts receivable	11,155
Furniture and equipment	34,234
Intangible assets, net of accumulated amortization of \$172,417	314,963
Prepaid expenses and other assets	24,024
	\$ 452,879
Liabilities:	
Accounts payable	—
Commissions and bonus payable	8,368
Accrued liabilities	87,176
Capital leases	—
	\$ 95,544

**MCF CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
**(unaudited)**

**4. Income Taxes**

At the end of each interim reporting period the Company calculates an effective tax rate based on the Company's estimate of the tax provision (benefit) that will be provided for the full year, stated as a percentage of estimated annual pre-tax income (loss). The tax provision (benefit) for the interim period is determined using this estimated annual effective tax rate. For the three months ended March 31, 2007 and 2006, the Company recorded zero income tax expense.

The effective tax rate differs from the statutory rate primarily due to the existence and utilization of net operating loss carryforwards which have been offset by a valuation allowance resulting in a tax provision equal to the companies expected current expense for the year. The Company historically has had current tax expense primarily related to alternative minimum, state and minimum tax liabilities.

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

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109 ("FIN 48"). FIN 48 is effective for fiscal years beginning after December 15, 2006. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). Under FIN 48, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values. MCF Corporation adopted Interpretation No. 48 on January 1, 2007.

As a result of the implementation of FIN 48, the Company recognized no adjustment in the liability for unrecognized income tax benefits and no corresponding change in retained earnings. The Company does not have any material accrued interest or penalties associated with any unrecognized tax benefits. Other than as discussed below, the Company does not believe it is reasonably possible that the Company's unrecognized tax benefits will significantly change within the next twelve months. The Company's policy is to account for interest, if any, as interest expense and penalties as income tax expense.

There were no unrecognized tax benefits as of March 31, 2007. The Company is subject to taxation in the US and various state and foreign jurisdictions. The tax years 2002-2006 remain open to examination by the federal and most state tax authorities.

**5. Earnings (loss) per Share**

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

**Three Months Ended**  
**March 31,**

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	<b>2007</b>	<b>2006</b>
Net income (loss) available to common stockholders - basic	\$ 69,256	\$ (1,349,608)
Net income (loss) available to common stockholders - diluted	69,256	(1,349,608)
Weighted-average number of common shares - basic	10,336,328	9,708,657
Weighted-average number of common shares - diluted	11,459,376	9,708,657
<b>Basic net income (loss) per common share:</b>		
Income (loss) from continuing operations	\$ 0.01	\$ (0.13)
Loss from discontinued operations	—	(0.01)
Net income (loss)	0.01	(0.14)
<b>Diluted net loss per common share</b>		
Income (loss) from continuing operations	\$ 0.01	\$ (0.13)
Loss from discontinued operations	—	(0.01)
Net income (loss)	0.01	(0.14)

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**MCF CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED**  
**(unaudited)**

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding, excluding shares of non-vested stock. Diluted earnings per share is calculated by dividing net income, plus interest and dividends on dilutive securities, by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares outstanding, including non-vested stock. Diluted loss per share is unchanged from basic loss per share for the three months ended March 31, 2006 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 per share computation include the dilutive impact of the Company's stock options and warrants. The impact of the Company's stock options and warrants on shares used for the diluted earnings per share computation is calculated based on the average share price of the Company's common stock for each period using the treasury stock method. Under the treasury stock method, the tax-effected proceeds that would be hypothetically received from the exercise of all stock options and warrants with exercise prices below the average share price of the Company's common stock are assumed to be used to repurchase shares of the Company's common stock. Because the Company reported a net loss during the three months ended March 31, 2006, the Company excluded the impact of all stock options and warrants in the computation of dilutive earnings per share, as their effect would be anti-dilutive.

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

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Stock options and warrants excluded due to the exercise price exceeding the average fair value of the Company's common stock during the period	1,613,369	1,065,897
Weighted average non-vested stock, stock options and stock warrants, calculated using the treasury stock method, that were excluded due to the Company reporting a net loss during the period	—	2,238,868
Weighted average shares issuable upon conversion of the convertible notes payable	142,858	353,935
Weighted average shares contingently issuable	—	136,123
Total common stock equivalents excluded from diluted net loss per share	1,756,227	3,794,823

## 6. Regulatory Requirements

Merriman Curhan Ford & Co. is a broker-dealer subject to Rule 15c3-1 of the Securities and Exchange Commission, which specifies uniform minimum net capital requirements, as defined, for their registrants. As of March 31, 2007, Merriman Curhan Ford & Co. had regulatory net capital, as defined, of \$4,778,000, which exceeded the amount required by \$3,778,000. Merriman Curhan Ford & Co. is exempt from Rules 15c3-3 and 17a-13 under the Securities Exchange Act of 1934 because it does not carry customer accounts, nor does it hold customer securities or cash.

## 7. Subsequent Event

On April 17, 2007, MCF Corporation completed the acquisition of MedPanel, Inc., or MedPanel, a privately-held company based in Cambridge, Massachusetts, pursuant to the terms of the Agreement and Plan of Merger dated

November 6, 2006, by and among MCF Corporation, MedPanel Acquisition I Corp., Panel Intelligence, LLC, MedPanel, Inc. and William J. Febbo. MedPanel is an online medical market intelligence firm that serves life sciences companies and health care investors through its proprietary methodologies and vast network of leading physicians, medical researchers, allied health professionals and other important healthcare constituencies. Under the terms of this Agreement and Plan of Merger, the Company paid \$6.5 million in common stock for MedPanel. The selling stockholders will be entitled to additional consideration on the third anniversary from the closing which is based upon MedPanel achieving specific revenue and profitability milestones. The payment of the incentive consideration will be 50% in cash and 50% in the Company's common stock and may not exceed \$11,455,000. The Company registered 1,548,119 shares of common stock with the Securities and Exchange Commission on Form S-4, file number 333-138870, originally filed November 21, 2006, as amended.

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

This Quarterly Report on Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements regarding future events and our future results that are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as “may,” “will,” “should,” “expects,” “anticipates,” “targets,” “goals,” “projects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “predicts,” “potential” or “continue,” variations of such words, similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances, are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are referred to risks and uncertainties identified under “Risk Factors” beginning on Page 24 and elsewhere herein. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

### **Overview**

MCF Corporation (AMEX:MEM) is a financial services holding company that provides investment research, capital markets services, corporate and venture services, investment banking, asset management and primary research through its operating subsidiaries, Merriman Curhan Ford & Co., MCF Asset Management, LLC and Panel Intelligence, LLC.

Merriman Curhan Ford & Co. is an investment bank and securities broker-dealer focused on fast growing companies and institutional investors. Our mission is to become a leader in the researching, advising, financing 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 March 31, 2007, assets under management across our three fund products exceeded \$30 million.

In February 2005, we acquired Catalyst Financial Planning & Investment Management, Inc. 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. While we currently do not have any specific plans, we do intend to pursue a wealth management strategy at some future date. The results from this segment have been treated as discontinued operations in the condensed consolidated financial statements.

### **Executive Summary**

We achieved 24% revenue growth over 2006 and reached profitability during the first quarter of 2007. Revenue growth was driven by investment banking and proprietary trading during the quarter, partially offset by lower commissions revenue. We also had higher revenue across many of our recurring revenue activities, including asset management, brokering institutional money funds by our Institutional Cash Distributors division and raising capital for institutional investors through our Capital Access Group. Our profit during the first quarter of 2007 represents an improvement from the \$1,350,000 net loss during the first three months of 2006. Profitability during the most recent quarter was attributed in large part to net gains in our firm trading and market making accounts, including our



proprietary trading activity which represents the company's highest margin business. Compensation and benefits expense included non-cash stock-based compensation expense in the amount of \$738,000 and \$934,000 during the three months ended March 31, 2007 and 2006, respectively.

## Business Environment

U.S. stock prices showed little change during the first quarter of 2007 amid a significant increase in volatility. The S&P 500<sup>®</sup> Index, reflecting large-cap stocks, finished with a 0.64% return, well off its best levels of the quarter. Technology stocks followed a similar pattern, with the Nasdaq Composite<sup>®</sup> Index briefly surpassing the 2,500 mark before ending the quarter with a marginal 0.26% gain. The U.S. dollar rallied early in the quarter but gave up those gains later on, losing ground against most major foreign currencies.

The quarter got off to a positive start, as crude oil prices fell sharply during the first two weeks of January, easing inflation concerns. Despite a subsequent rebound in oil prices and indications that first-quarter earnings might be weaker than forecast, stocks generally continued to advance until late February. At that point, the market contracted, and most of the widely followed stock indexes suffered one-day losses of more than 3%. Investors drove the market down in reaction to a sharp drop in the Chinese stock market and a weak U.S. durable goods report. However, the market rallied in March, triggered in part by hopes that a Fed interest rate cut might be sooner than many previously believed. The Russell 2000<sup>®</sup> Growth Index was up 2.47%. Among S&P 500 sectors, utilities, materials and telecommunication services all recorded solid single-digit gains, while financial stocks were the market's laggard, in large part due to concerns about sub-prime lenders.

Our securities broker-dealer and investment banking activities are linked to the capital markets. In addition, our business activities are focused in the consumer growth, healthcare, specialty growth and technology sectors. By their nature, our business activities are highly competitive and are not only subject to general market conditions, volatile trading markets and fluctuations in the volume of market activity, but also to the conditions affecting the companies and markets in our areas of focus.

Fluctuations in revenue also occur due to the overall level of market activity, which, among other things, affects the flow of investment dollars and the size, number and timing of investment banking transactions. In addition, a downturn in the level of market activity can lead to a decrease in brokerage commissions. Therefore, revenue in any particular period may vary significantly from year to year.

## Results of Operations

The following table sets forth a summary of financial highlights for the three months ended March 31, 2007 and 2006:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
Revenue:		
Commissions	\$ 7,165,707	\$ 8,698,128
Principal transactions	2,613,124	403,301
Investment banking	4,232,471	2,425,780
Other	311,842	33,093
Total revenue	14,323,144	11,560,302
Operating expenses:		
Compensation and benefits	10,810,287	9,733,773
Brokerage and clearing fees	632,641	682,604
Professional services	381,478	441,323
Occupancy and equipment	442,528	381,821
Communications and technology	812,936	605,933
Depreciation and amortization	181,021	151,949

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Travel and entertainment	469,202	518,516
Other	591,944	381,625
Total operating expenses	14,322,037	12,897,544
Operating income (loss)	1,107	(1,337,242)
Interest income	122,493	110,665
Interest expense	(54,344)	(69,091)
Income (loss) from continuing operations before income taxes	69,256	(1,295,668)
Income tax expense	—	—
Income (loss) from continuing operations	69,256	(1,295,668)
Loss from discontinued operations	—	(53,940)
Net income (loss)	\$ 69,256	\$ (1,349,608)

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Our net income (loss) for the three months ended March 31, 2007 and 2006 included the following non-cash items:

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Stock-based compensation expense	\$ 737,703	\$ 934,141
Depreciation and amortization	181,021	151,949
Write-off of uncollectible accounts receivable	10,245	22,861
Amortization of discounts on debt	2,584	25,377
<b>Total</b>	<b>\$ 931,553</b>	<b>\$ 1,134,328</b>

### ***Investment Banking Revenue***

Our investment banking activity includes the following:

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

The following table sets forth our revenue and transaction volumes from our investment banking activities for the three months ended March 31, 2007 and 2006:

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Revenue:</b>		
Capital raising	\$ 4,019,971	\$ 1,904,895
Financial advisory	212,500	520,885
<b>Total investment banking revenue</b>	<b>\$ 4,232,471</b>	<b>\$ 2,425,780</b>
<b>Transaction Volumes:</b>		
Public offerings:		
Capital underwritten participations	\$ 32,488,733	\$ 31,623,000
Number of transactions	3	2
Private placements:		
Capital raised	\$ 63,600,000	\$ 4,000,000
Number of transactions	3	2
Financial advisory:		
Transaction amounts	\$ —	\$ —
Number of transactions	—	—

Our investment banking revenue was \$4,232,000, or 30% of our revenue during 2007, representing a 74% increase compared to \$2,426,000 recognized in 2006. Most of this growth resulted from capital raising through private placements. We led our second initial public offering during the first quarter 2007.

During the first quarter 2007, one investment banking customer accounted for 10% of our revenue. During the first quarter 2006, one investment banking customer accounted for 11% of our revenue from continuing operations.



**Commissions and Principal Transactions Revenue**

Our broker-dealer activity includes the following:

- *Commissions* - Commissions include revenue resulting from executing stock trades for exchange-listed securities, over-the-counter securities and other transactions as agent.
- *Principal Transactions* - Principal transactions consist of a portion of dealer spreads attributed to our securities trading activities as principal in NASDAQ-listed and other securities, and include transactions derived from our activities as a market-maker. Additionally, principal transactions include gains and losses resulting from market price fluctuations that occur while holding positions in our trading security inventory.

The following table sets forth our revenue and several operating metrics which we utilize in measuring and evaluating performance and the results of our trading activity operations:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Revenue:</b>		
Commissions	\$ 7,165,707	\$ 8,698,128
Principal transactions:		
Customer principal transactions, proprietary trading and market making	\$ 2,685,608	\$ 687,932
Investment portfolio	(72,484)	(284,631)
Total principal transactions revenue	\$ 2,613,124	\$ 403,301
<b>Transaction Volumes:</b>		
Number of shares traded	229,671,346	262,748,118
Number of active clients	382	391

Commissions amounted to \$7,166,000, or 50%, of our revenue during the first quarter 2007, representing an 18% decrease from \$8,698,000 recognized during the similar period in 2006. The higher commissions revenue during the first quarter 2006 was attributed to the very robust stock market conditions that facilitated trading of small-cap stocks. The Russell 2000 Index was up 13.9% during the first three months of 2006 as compared to the first quarter of 2007 when the index was less than 2% higher.

Principal transactions increased by \$2,210,000 during 2007 mainly due to the increase in the mark-to-fair market value of positions in our proprietary trading account, as well as our increased profitability in our market making activities. As of March 31, 2007, we made markets in over 1,100 stocks, which has more than doubled from March 31, 2006. We view “intelligent market making” as a key element to differentiating ourselves from our competition in small capitalization equities. Principal transactions revenue consists of four different activities - customer principal trades, market making, trading for our proprietary account, and realized and unrealized gains and losses in our investment portfolio. As a broker-dealer, we account for all of our marketable security positions on a trading basis and as a result, all security positions are marked to fair market value each day. Returns from market making and proprietary trading activities tend to be more volatile than acting as agent or principal for customers.

During 2007 and 2006, no single brokerage customer accounted for more than 10% of our revenue from continuing operations.

**Compensation and Benefits Expenses**

Compensation and benefits expense represents the majority of our operating expenses and includes incentive compensation paid to sales, trading, research and investment banking professionals, as well as discretionary bonuses, salaries and wages, and stock-based compensation. Incentive compensation varies primarily based on revenue production. Discretionary bonuses paid to research analysts also vary with commissions revenue production but includes other qualitative factors as well. Salaries, payroll taxes and employee benefits tend to vary based on overall headcount.

The following table sets forth the major components of our compensation and benefits for the three months ended March 31, 2007 and 2006:

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Incentive compensation and discretionary bonuses	\$ 5,675,235	\$ 4,925,228
Salaries and wages	3,040,145	2,046,083
Stock-based compensation	737,703	934,141
Payroll taxes, benefits and other	1,357,204	1,828,321
<b>Total compensation and benefits</b>	<b>\$ 10,810,287</b>	<b>\$ 9,733,773</b>
Total compensation and benefits as a percentage of revenue	75%	84%
Cash compensation and benefits as a percentage of revenue	70%	76%

The increase in compensation and benefits expense of \$1,077,000 or 11%, from 2006 to 2007 was due primarily to higher incentive compensation which is directly correlated to revenue production. Additionally, we modified compensation for our investment bankers from draws and commissions to salaries and discretionary bonuses which was effective at the beginning of 2007. This change resulted in higher salaries in first quarter 2007 as compared to 2006.

Cash compensation is equal to total compensation and benefits expense excluding stock-based compensation. Cash compensation and benefits expense as a percentage of revenue decreased to 70% during 2007 as compared to 75% in 2006. This decrease was facilitated by proprietary trading gains during 2007 since the gains increased revenue but did not impact compensation and benefits expense.

No single sales professional accounted for more than 10% of our revenue in the first quarter of 2007 and 2006.

Stock-based compensation expense decreased by \$196,000 in first quarter 2007, as compared to 2006. The decline in stock-based compensation expense can be attributed to fewer non-vested restricted shares outstanding in 2007, resulting in a reduction of \$170,000 in stock-based compensation expense as compared to the similar quarter 2006.

### ***Other Operating Expenses***

Brokerage and clearing fees include trade processing expenses that we pay to our clearing broker and execution fees that we pay to floor brokers and electronic communication networks. Merriman Curhan Ford & Co. is a fully-disclosed broker-dealer, which has engaged a third party clearing broker to perform all of the clearance functions. The clearing broker-dealer processes and settles the customer transactions for Merriman Curhan Ford & Co. and maintains the detailed customer records. Additionally, security trades are executed by third-party broker-dealers and electronic trading systems. These expenses are almost entirely variable with commission revenue and the volume of brokerage transactions. Our brokerage and clearing fees decreased by \$50,000, or 7%, during the first quarter of 2007 as compared to the first quarter of 2006. This decrease reflected lower commissions revenue during 2007, partially offset by increased market making activity during first quarter 2007 as compared to first quarter 2006.

Professional services expense includes legal fees, accounting fees, expenses related to investment banking transactions, consulting fees and recruiting fees. Many of these expenses, such as legal and accounting fees, are to a large extent fixed in nature. The decrease of \$60,000 or 14%, from the first quarter of 2006 to the first quarter of 2007 was primarily attributed to lower attorney fees associated with business development activities and lower accounting and auditing expenses.

Occupancy and equipment includes rental costs for our office facilities and equipment, as well as equipment, software and leasehold improvement expenses. These expenses are largely fixed in nature. The increase of \$61,000, or 16%, from the first quarter of 2006 to the first quarter of 2007 resulted mostly from higher hardware and equipment expenses that were incurred in connection with various technology projects.

Communications and technology expense includes market data and quote services, voice, data and Internet service fees, and data processing costs. Historically, these costs have increased as we hire additional employees. The increase of \$207,000, or 34%, from the first quarter of 2006 to the first quarter of 2007 was primarily due to upgrading our trading order management system, as well as the increase in market data and quote services as we continue to expand our market maker activities.

Depreciation and amortization expense primarily relate to the depreciation of our computer equipment and leasehold improvements. Depreciation and amortization is mostly fixed in nature. The increase of \$29,000, or 19%, from the first quarter of 2006 to the first quarter of 2007 was due to increased capital expenditures during 2006, including leasehold improvements to our San Francisco office, to facilitate our growth and expansion.

Travel and entertainment expense results from business development activities across our various businesses. The decrease of \$49,000, or 10%, from the first quarter of 2006 to the first quarter of 2007 was due mostly to our focus to minimize discretionary spending in an effort to improve profitability. Additionally, we did not expense during 2007 any deferred travel costs resulting from investment banking transactions that have not closed. We defer expenses, including travel and entertainment costs, related to securities offerings in which we act as underwriter until the related revenue is recognized or we determine that it is more likely than not that the securities offerings will not ultimately be completed.

Other operating expense includes company events, recruiting fees, professional liability and property insurance, marketing, business licenses and taxes, office supplies and other miscellaneous office expenses. The increase of approximately \$210,000, or 55%, from the first quarter of 2006 to the first quarter of 2007 was due to a one time \$110,000 benefit realized in 2006 attributed to the favorable outcome from a 2003 trading dispute, and costs associated with hosting a technology sector investor conference during the first quarter 2007. We did not host any investor conferences during the first quarter 2006.

### ***Income Tax Expense***



At the end of each interim reporting period we calculate an effective tax rate based on our best estimate of the tax provision (benefit) that will be provided for the full year, stated as a percentage of estimated annual pre-tax income (loss). The tax provision (benefit) for the interim period is determined using this estimated annual effective tax rate. For the three months ended March 31, 2007 and 2006, we recorded zero tax expense.

The effective tax rate differs from the statutory rate primarily due to the existence and utilization of net operating loss carryforwards which have been offset by a valuation allowance resulting in a tax provision equal to the companies expected current expense for the year. We historically have had current tax expense primarily related to alternative minimum, state and minimum tax liabilities.

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

We adopted Interpretation No. 48 on January 1, 2007. As a result of the implementation of FIN 48, we recognized no adjustment in the liability for unrecognized income tax benefits and no corresponding change in retained earnings. We do not have any material accrued interest or penalties associated with any unrecognized tax benefits. Other than as discussed below, we do not believe it is reasonably possible that our unrecognized tax benefits will significantly change within the next twelve months. There were no unrecognized tax benefits as of March 31, 2007. We are subject to taxation in the US and various state and foreign jurisdictions. The tax years 2002-2006 remain open to examination by the federal and most state tax authorities.

### *Loss from Discontinued Operations*

In December 2006, we decided to sell our Catalyst Financial Planning & Investment Management, Inc., or Catalyst, subsidiary and discontinue our wealth management activities. The sale of Catalyst closed in January 2007. As of December 31, 2006, Catalyst is being accounted for as held for sale in accordance with SFAS 144. As a result, the revenue and expenses of Catalyst and MCF Wealth Management, LLC for 2006 have been reclassified and included in discontinued operations in the condensed consolidated statements of operations.

### *Off-Balance Sheet Arrangements*

We were not a party to any off-balance sheet arrangements during the three months ended March 31, 2007 and 2006. In particular, we do not have any interest in so-called limited purpose entities, which include special purpose entities and structured finance entities.

### *Commitments*

The following is a table summarizing our significant commitments as of March 31, 2007, consisting of debt payments related to convertible notes payable, non-convertible notes payable, capital leases and future minimum lease payments under all non-cancelable operating leases with initial or remaining terms in excess of one year.

	<b>Notes Payable</b>	<b>Operating Leases</b>	<b>Capital Leases</b>
2007	\$ 80,081	1,341,958	467,211
2008	243,990	1,071,752	495,773
2009	—	716,016	273,834
2010	—	752,308	—
2011	—	670,311	—
Total commitments	\$ 324,071	\$ 4,552,346	\$ 1,236,818

## **Critical Accounting Policies and Estimates**

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to the valuation of securities owned and deferred tax assets. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

### *Valuation of Securities Owned*

“Securities owned” and “Securities sold, but not yet purchased” in our consolidated statements of financial condition consist of financial instruments carried at fair value or amounts that approximate fair value, with related unrealized gains or losses recognized in our results of operations. The use of fair value to measure these financial instruments, with related unrealized gains and losses recognized immediately in our results of operations, is fundamental to our financial statements and is one of our most critical accounting policies. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair values of our financial instruments are generally obtained from quoted market prices in active markets, broker or dealer price quotations, or alternative pricing sources with reasonable levels of price transparency. To the extent certain financial instruments trade infrequently or are non-marketable securities and, therefore, have little or no price transparency, we value these instruments based on management's estimates. The fair value of these securities is subject to a high degree of volatility and may be susceptible to significant fluctuation in the near term. Securities that contain restrictions are stated at a discount to the value of readily marketable securities. Stock warrants are carried at a discount to fair value as determined by using the Black-Scholes Option Pricing model.

### *Revenue Recognition*

Commissions revenue and related clearing expenses are recorded on a trade-date basis as security transactions occur. Principal transactions in regular-way trades are recorded on the trade date, as if they had settled. Profit and loss arising from all securities and commodities transactions entered into for the account and risk of our company are recorded on a trade-date basis.

Investment banking revenue includes underwriting and private placement agency fees earned through our participation in public offerings and private placements of equity and convertible debt securities and fees earned as financial advisor in mergers and acquisitions and similar transactions. Underwriting revenue is earned in securities offerings in which we act as an underwriter and includes management fees, selling concessions and underwriting fees. Management fees are recorded on the offering date, selling concessions on settlement date, and underwriting fees at the time the underwriting is completed and the related income is reasonably determinable. Syndicate expenses related to securities offerings in which we act as underwriter or agent are deferred until the related revenue is recognized or we determine that it is more likely than not that the securities offerings will not ultimately be completed. Merger and acquisition fees and other advisory service revenue are generally earned and recognized only upon successful completion of the engagement. Underwriting revenue is presented net of related expenses. Unreimbursed expenses associated with private placement and advisory transactions are recorded as expenses as incurred.

As co-manager for registered equity underwriting transactions, management must estimate our share of transaction related expenses incurred by the lead manager in order to recognize revenue. Transaction related expenses are deducted from the underwriting fee and therefore reduces the revenue that is recognized as co-manager. Such amounts are adjusted to reflect actual expenses in the period in which we receive the final settlement, typically 90 days following the closing of the transaction.

### *Stock-Based Compensation*

On January 1, 2006, we adopted SFAS 123(R), "Share-Based Payment," which requires the measurement and recognition of compensation expense, based on estimated fair values, for all share-based awards, made to employees and directors, including stock options, non-vested stock, and participation in our employee stock purchase plan. Share-based compensation expense recognized in our consolidated statement of operations for the three months ended March 31, 2007 and 2006 includes compensation expense for share-based awards granted (i) prior to, but not yet vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123, and (ii) subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R).

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

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

### *Deferred Tax Valuation Allowance*

We account for income taxes in accordance with the provision of SFAS No. 109, *Accounting for Income Taxes*, which requires the recognition of deferred tax assets and liabilities at tax rates expected to be in effect when these balances reverse. Future tax benefits attributable to temporary differences are recognized to the extent that the realization of such benefits is more likely than not. We have concluded that it is more likely than not that our deferred tax assets as of March 31, 2007 and 2006 will not be realized based on the scheduling of deferred tax liabilities and projected taxable income. The amount of the deferred tax assets actually realized, however, could vary if there are differences in the timing or amount of future reversals of existing deferred tax liabilities or changes in the actual amounts of future taxable income. Should we determine that we will be able to realize all or part of the deferred tax asset in the future, an adjustment to the deferred tax asset will be recorded in the period such determination is made.

### **Liquidity and Capital Resources**

Historically, we have satisfied our liquidity and regulatory capital needs through the issuance of equity and debt securities. As of March 31, 2007, liquid assets consisted primarily of cash and cash equivalents of \$12,609,000 and marketable securities of \$7,248,000, for a total of \$19,857,000, which is \$1,383,000 lower than \$21,240,000 in liquid assets as of December 31, 2006.

Cash and cash equivalents decreased by \$1,138,000 during first quarter of 2007. Cash used in our operating activities for 2007 was \$1,293,000 which consisted of payment of 2006 commissions and discretionary bonuses during the first quarter 2007, partially offset by proceeds from the short selling of equity securities and our net income adjusted for non-cash expenses including stock-based compensation, depreciation and amortization. Cash provided by investing activities amounted to \$129,000 during 2007 which consisted of proceeds from the sale of Catalyst, partially offset by purchases of equipment and fixtures. Cash provided by financing activities was \$26,000. Our financing activities

included proceeds from the issuance of common stock in connection with our employee stock purchase plan, partially offset by debt service payments.

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Merriman Curhan Ford & Co., as a broker-dealer, is subject to Rule 15c3-1 of the Securities Exchange Act of 1934, which specifies uniform minimum net capital requirements, as defined, for their registrants. As of March 31, 2007, Merriman Curhan Ford & Co. had regulatory net capital of \$4,778,000 which exceeded the required amount by \$3,778,000.

We believe that our existing cash balances and investments will be sufficient to meet our liquidity and capital spending requirements, both for the next twelve months as well as for the long-term. However, we may require additional capital investment to fund our working capital if we incur future operating losses. We cannot be certain that additional debt or equity financing will be available when required or, if available, that we can secure it on terms satisfactory to us.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

#### *Equity Price Risk*

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

#### *Interest Rate Risk*

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

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

#### *Foreign Currency Risk*

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



**Item 4. Controls and Procedures**

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

Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), the Principal Executive Officer and Principal Financial Officer of the Company have concluded that the disclosure controls and procedures are effective as of March 31, 2007.

**Changes in internal controls** - There was no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) of the Exchange Act) that occurred during the quarter ended March 31, 2007, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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

In June 2006, our broker-dealer subsidiary Merriman Curhan Ford & Co. was served with a claim in NASD Arbitration by Mr. O'Shea. Mr. O'Shea is a former at-will employee of Merriman Curhan Ford & Co. and worked in the investment banking department. Mr. O'Shea resigned from Merriman Curhan Ford & Co. in July 2005. Mr. O'Shea alleges breach of an implied employment contract, quantum meruits, and unjust enrichment based on his allegations that he was to be paid more for his work. The matter is in the discovery stage and an arbitration hearing is scheduled for June 2007. We believe that we have meritorious defenses and intend to contest these claims vigorously. However, in the event that we did not prevail, based upon the facts as we know them to date, we do not believe that the outcome will have a material effect on our financial position, financial results or cash flows.

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

### **Item 1A. Risk Factors**

Investing in our securities involves a high degree of risk. In addition to the other information contained in this quarterly report, including reports we incorporate by reference, you should consider the following factors before investing in our securities.

#### ***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 securities brokerage and investment banking 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;
- manage expanding operations; and
- attract and retain qualified personnel.

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 expectations, which makes our ability to successfully implement our business plan uncertain.

Because we are a developing company, 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 and any

additional financing that may be needed for this purpose 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, or obtain the funds necessary to finance this development. 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.

***The markets for securities brokerage and investment banking services are highly competitive. If we are not able to compete successfully against current and future competitors, our business and results of operations will be adversely affected.***

We are engaged in the highly competitive financial services and investment industries. We compete with large Wall Street securities firms, securities subsidiaries of major commercial bank holding companies, U.S. subsidiaries of large foreign institutions, major regional firms, smaller niche players, and those offering competitive services via the Internet. 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.

Increased pressure created by any current or future competitors, or by our competitors collectively, could materially and adversely affect our business and results of operations. Increased competition may result in reduced revenue and loss of market share. Further, as a strategic response to changes in the competitive environment, we may from time to time make certain pricing, service or marketing decisions or acquisitions that also could materially and adversely affect our business and results of operations. We cannot assure you that we will be able to compete successfully against current and future competitors. In addition, new technologies and the expansion of existing technologies may increase the competitive pressures on us.

***We may experience reduced revenue due to declining market volume, securities prices and liquidity, which can also cause counterparties to fail to perform.***

Our revenue may decrease in the event of a decline in the market volume of securities transactions, prices or liquidity. Declines in the volume of securities transactions and in market liquidity generally result in lower revenue from trading activities and commissions. Lower price levels of securities may also result in a reduction in our revenue from corporate finance fees, as well as losses from declines in the market value of securities held by us in trading. Sudden sharp declines in market values of securities can result in illiquid markets and the failure of counterparties to perform their obligations, as well as increases in claims and litigation, including arbitration claims from customers. In such markets, we may incur reduced revenue or losses in our principal trading, market-making, investment banking, and advisory services activities.

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

We conduct 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 for us. 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.

***We may experience significant fluctuations in our quarterly operating results due to the nature of our business and therefore may fail to meet profitability expectations.***

Our revenue and operating results may fluctuate from quarter to quarter and from year to year due to a combination of factors, including:

- the level of institutional brokerage transactions and the level of commissions we receive from those transactions;

· the valuations of our principal investments;

· the number of capital markets transactions completed by our clients, and the level of fees we receive from those transactions; and

· variations in expenditures for personnel, consulting and legal expenses, and expenses of establishing new business units, including marketing and technology expenses.

We record revenue from a capital markets advisory transaction only when we have rendered the services, the client is contractually obligated to pay and collection is probable; generally, most of the fee is earned only upon the closing of a transaction. Accordingly, the timing of our recognition of revenue from a significant transaction can materially affect our quarterly operating results.

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***We have registered one of our subsidiaries as a securities broker-dealer and, as such, are subject to substantial regulations. If we fail to comply with these regulations, our business will be adversely affected.***

Because we have registered Merriman Curhan Ford & Co. with the Securities and Exchange Commission, or SEC, and the National Association of Securities Dealers, Inc., or NASD, as a securities broker-dealer, we are subject to extensive regulation under federal and state laws, as well as self-regulatory organizations. The principal purpose of regulation and discipline of broker-dealers is the protection of customers and the securities markets rather than protection of creditors and stockholders of broker-dealers. The Securities and Exchange Commission is the federal agency charged with administration of the federal securities laws. Much of the regulation of broker-dealers, however, has been delegated to self-regulatory organizations, such as the NASD and national securities exchanges. The NASD is our primary self-regulatory organization. These self-regulatory organizations adopt rules, which are subject to SEC approval, that govern the industry and conduct periodic examinations of member broker-dealers. Broker-dealers are also subject to regulation by state securities commissions in the states in which they are registered. The regulations to which broker-dealers are subject cover all aspects of the securities business, including net capital requirements, sales methods, trading practices among broker-dealers, capital structure of securities firms, record keeping and the conduct of directors, officers and employees. The SEC and the self-regulatory bodies may conduct administrative proceedings, which can result in censure, fine, suspension or expulsion of a broker-dealer, its officers or employees. If we fail to comply with these rules and regulations, our business may be materially and adversely affected.

The regulatory environment in which we operate is also subject to change. Our business 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 the NASD. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and the NASD.

***Our business may suffer if we lose the services of our executive officers or operating personnel.***

We depend on the continued services and performance of D. Jonathan Merriman, our Chairman and Chief Executive Officer, for our future success. In addition to Mr. Merriman, we are currently managed by a small number of key management and operating personnel. Our future success depends, in part, on the continued service of our key executive, management and technical personnel, and our ability to attract highly skilled employees. Our business could be harmed if any key officer or employee were unable or unwilling to continue in his or her current position. From time to time we have experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees. Competition for employees in our industry is significant. If we are unable to retain our key employees or attract, integrate or retain other highly qualified employees in the future, such failure may have a material adverse effect on our business and results of operations.

***Our business is dependent on the services of skilled professionals, and may suffer if we can not recruit or retain such skilled professionals.***

We have a number of revenue producers employed by our securities brokerage and investment banking subsidiary. We do not have employment contracts with these employees. The loss of one or more of these employees could adversely affect our business and results of operations.

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

We are able to recruit and retain investment banking, research and sales and trading professionals, in part because our business model provides that we pay our revenue producing employees a percentage of their earned revenue. Compensation and benefits is our largest expenditure and this variable compensation component represents a significant proportion of this expense. Compensation for our employees is derived as a percentage of our revenue

regardless of our profitability. Therefore, we may continue to pay individual revenue producers a significant amount of cash compensation as the overall business experiences negative cash flows and/or net losses. We may not be able to recruit or retain revenue producing employees if we modify or eliminate the variable compensation component from our business model.

***We may be dependent on a limited number of customers for a significant portion of our revenue.***

During the three months ended March 31, 2007, one customer accounted for 10% of our revenue. We have been dependent on one customer or on a small number of customers, for a large percentage of our revenue at some times in the past and we cannot assure you that we will not become so dependent again in the future. If we do become dependent on a single customer or small group of customers, the loss of one or more large customers could materially adversely affect our business and results of operations.

***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 company's 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. 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 may be unable to successfully integrate acquired businesses into our existing business and operations.***

From time to time, we may buy one or more other businesses. If we are unable to successfully integrate such businesses into our existing business and operations in the future, our business and results of operations could be materially adversely affected.

***We may be unable to effectively manage rapid growth that we may experience, which could place a continuous strain on our resources and, accordingly, adversely affect our business.***

We plan to expand our operations. Our growth, if it occurs, will impose significant demands on our management, financial, technical and other resources. We must adapt to changing business conditions and improve existing systems or implement new systems for our financial and management controls, reporting systems and procedures and expand, train and manage a growing employee base in order to manage our future growth. We may not be able to implement improvements to our internal reporting systems in an efficient and timely manner and may discover deficiencies in existing systems and controls. 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. Furthermore, we may acquire existing companies or enter into strategic alliances with third parties, in order to achieve rapid growth. For us to succeed, we must make our existing business and systems work effectively with those of any strategic partners without undue expense, management distraction or other disruptions to our business. We may be unable to implement our business plan if we fail to manage any of the above growth challenges successfully. Our financial results may suffer and we could be materially and adversely affected if that occurs.

***Our business and operations would suffer in the event of system failures.***

Our success, in particular our ability to successfully facilitate securities brokerage transactions and provide high-quality customer service, largely depends on the efficient and uninterrupted operation of our computer and communications systems. Our systems and operations are vulnerable to damage or interruption from fire, flood, power loss, telecommunication failures, break-ins, earthquake and similar events. Despite the implementation of network security measures, redundant network systems and a disaster recovery plan, our servers are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays, loss of data or the inability to accept and fulfill customer orders. Additionally, computer viruses may cause our systems to incur delays or other service interruptions, which may cause us to incur additional operating expenses to correct problems we may experience. Any of the foregoing problems could materially adversely affect our business or future results of operations.

***We are highly dependent on proprietary and third-party systems; therefore, system failures could significantly disrupt our business.***



Our business is highly dependent on communications and information systems, including systems provided by our clearing brokers. Any failure or interruption of our systems, the systems of our clearing broker or third party trading systems could cause delays or other problems in our securities trading activities, which could have a material adverse effect on our operating results.

In addition, our clearing brokers provide our principal disaster recovery system. We cannot assure you that we or our clearing brokers will not suffer any systems failure or interruption, including one caused by an earthquake, fire, other natural disaster, power or telecommunications failure, act of God, act of war or otherwise, or that our or our clearing brokers' back-up procedures and capabilities in the event of any such failure or interruption will be adequate.

***Our common stock price may be volatile, which could adversely affect the value of your shares.***

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;
- our announcements of significant contracts, milestones, acquisitions;
- our relationships with other companies;
- our ability to obtain needed capital commitments;
- additions or departures of key personnel;
- sales of common 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 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.

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.

***Our risk management policies and procedures may leave us exposed 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, and 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. 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.

***We could be sued in a securities class action lawsuit.***

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 can not 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.

***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 American Stock Exchange, 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.

***Anti-takeover provisions of the Delaware General Corporation Law could discourage a merger or other type of corporate reorganization or a change in control even if it could be favorable to the interests of our stockholders.***

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.

***Because our Board of Directors can issue common stock without stockholder approval, you could experience substantial dilution.***

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.

***Our ability to issue additional preferred stock may adversely affect your rights as a common stockholder and could be used as an anti take-over device.***

Our Articles of Incorporation authorize our Board of Directors to issue up to an additional 27,450,000 shares of preferred stock, without approval from our stockholders. 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.

***Our officers and directors exercise significant control over our affairs, which could result in their taking actions of which other stockholders do not approve.***

Our executive officers and directors, and entities affiliated with them, currently control approximately 26% of our outstanding common stock including exercise of their options and 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.

***Any exercise of outstanding stock options and warrants will dilute then-existing stockholders' percentage of ownership of our common stock.***

We have a significant number of outstanding stock options and warrants. For the three months ended March 31, 2007, shares issuable upon the exercise of these options and warrants, at prices ranging currently from approximately \$1.26 to \$49.00 per share, represent approximately 8% of our total outstanding stock on a fully diluted basis using the treasury stock method.

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.

**Item 6. Exhibits**

- 2.1 Stock Purchase Agreement dated January 2, 2007 by and among MCF Corporation and Mallory Acquisition Corp.
- 31.1 Certification of Principal Executive Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant To Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

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

MCF CORPORATION

May 7, 2007

By:

/s/ D. JONATHAN MERRIMAN

D. Jonathan Merriman,  
Chairman of the Board and Chief Executive  
Officer  
(Principal Executive Officer)

May 7, 2007

By:

/s/ JOHN D. HIESTAND

John D. Hiestand  
Chief Financial Officer  
(Principal Financial Officer)

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