

MCF CORP  
Form S-3  
August 31, 2004

As filed with the Securities and Exchange Commission on August 31, 2004

Registration No. 333-

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM S-3  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

MCF CORPORATION  
(Exact name of registrant as specified in charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

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

601 Montgomery Street  
18<sup>th</sup> Floor  
San Francisco, California 94111-2622  
(415) 248-5600  
(Address and telephone number of executive offices and principal place of business)

D. Jonathan Merriman  
Chairman and Chief Executive Officer  
MCF Corporation  
601 Montgomery Street  
18<sup>th</sup> Floor  
San Francisco, California 94111-2622  
(415) 248-5600  
(Name, address and telephone number of agent for service)

*Copies of all communications to:*

Christopher Aguilar, Esq., General Counsel  
MCF Corporation  
601 Montgomery Street, 18<sup>th</sup> Floor  
San Francisco, California 94111-2622  
(415) 248-5634

Michael C. Doran, Esq.  
Tomlinson Zisko LLP  
200 Page Mill Road  
Palo Alto, CA 94303  
(650) 330-4154

Approximate date of proposed sale to the public:  
From time to time or at one time after the effective date of this registration statement.

---

## Edgar Filing: MCF CORP - Form S-3

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Share(2)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, \$0.0001 par value per share	4,822,983	\$ 1.49	\$ 7,186,245 (3)	\$ 910.50
Common Stock, \$0.0001 par value per share, issuable upon exercise of warrants	1,384,616	\$ 1.49	\$ 2,063,078 (4)	\$ 261.39
<b>Total</b>	<b>6,207,599</b>	<b>\$ 1.49</b>	<b>\$ 9,249,323</b>	<b>\$ 1,171.89</b>

(1) Pursuant to Rule 416 under the Securities Act this Registration Statement also covers such additional shares as may hereafter be offered or issued to prevent dilution resulting from stock splits, stock dividends, recapitalizations or certain other capital adjustments.

(2) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) of the Securities Act based upon the average of the high and low price of the shares of common stock of the Registrant reported on the American Stock Exchange on August 30, 2004.

(3) Estimated solely for the purpose of computing the registration fee in accordance with Rule 457(c) of the Securities Act with respect to shares of common stock currently held by selling stockholders and to be sold by them, by multiplying the number of such shares by \$1.49, the average of the high and low price of the shares of common stock of the Registrant reported on the American Stock Exchange on August 30, 2004.

(4) Estimated solely for the purpose of computing the registration fee in accordance with Rule 457(c) of the Securities Act with respect to the shares of common stock to be sold by selling stockholders which are issuable upon exercise of warrants, by multiplying such number of shares by \$1.49, the average of the high and low price of the shares of common stock of the Registrant reported on the American Stock Exchange on August 30, 2004.

**MCF CORPORATION**

**4,822,983 Shares of Common Stock**

**1,384,616 Shares of Common Stock Issuable Upon Exercise of Warrants**

---

The selling stockholders or their successors may sell, from time to time, in one or more offerings:

4,822,983 shares of common stock currently held by them; and

1,384,616 shares of common stock issuable upon exercise of warrants currently held by them.

The registration statement of which this prospectus forms a part relates to the registration for the account of selling stockholders, of shares of common stock held by them and shares of common stock issuable upon exercise of warrants currently held by them. The shares being offered hereby are being registered to permit public secondary trading and the selling stockholders may offer all or part of the shares for resale from time to time pursuant to contractual arrangements whereby we agreed to register the shares of the selling stockholders. However, the selling stockholders are under no obligation to sell all or any portion of such shares nor are the selling stockholders obligated to sell any shares immediately under this prospectus.

We will not receive proceeds from the sale of shares by our stockholders or the resale of our stockholders' shares that are issued when our warrants are exercised. However, we will receive proceeds from the exercise of our warrants, if and when they are exercised, unless they are exercised pursuant to a provision in the warrants which allows for a "cashless exercise" for a smaller number of shares if at any time after August 10, 2005 the registration statement of which this prospectus forms a part is not effective.

---

**Please see the risk factors beginning on page 2 to read about certain factors you should consider before buying shares of our common stock.**

---

Our common stock is listed on the American Stock Exchange under the symbol MEM. The reported last sale price on the American Stock Exchange on August 30, 2004 was \$1.43.

Our principal executive office is located at 601 Montgomery Street, 18th Floor San Francisco California 94111-2622 and our telephone number is (415) 248-5600.

**Neither the Securities and Exchange Commission, nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is August \_\_, 2004

---

**INSIDE FRONT COVER**

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements. All statements regarding

future events,

our financial performance and operating results,

our business strategy, and

our financing plans

are forward-looking statements. In some cases you can identify forward-looking statements by terminology, such as may, will, would, should, could, expect, intend, plan, anticipate, believe, estimate, predict, potential or continue, the negative of such terms, or other common terminology. These statements are only predictions. Known and unknown risks, uncertainties and other factors could cause actual results to differ materially from those contemplated by the statements. In evaluating these statements, you should specifically consider various factors, including the risks described in the Risk Factors section and elsewhere in this prospectus. These factors may cause our actual results to differ materially from any forward-looking statements.

---

### Prospectus Summary

Because this is a summary, it may not contain all information that may be important to you. You should read this entire prospectus, including the information incorporated by reference and the financial data and related notes, before making an investment decision. When used in this prospectus, the terms we, our and us refer to MCF and not to the selling stockholders.

#### MCF

We are a securities broker-dealer and investment bank serving fast growing companies and institutional investors. We provide sales and trading services primarily to institutions, as well as advisory and investment banking services to our corporate clients. Our Merriman Curhan Ford & Co. subsidiary is registered with the Securities and Exchange Commission as a broker-dealer and is a member of the National Association of Securities Dealers, Inc. We began actively engaging in providing securities brokerage and investment banking services in January 2002.

Our aim is to fill the void in San Francisco-based investment banking services for fast growing companies by offering research, brokerage, investment banking, advisory and corporate services for our institutional and corporate clients. By the end of the 1990 s, many of the investment banking firms that previously served emerging-growth companies were acquired by large commercial banks and subsequently refocused to serve larger clients and larger transactions. We plan to fill this gap by originating differentiated research for our institutional investor clients and providing specialized services for our emerging-growth corporate clients. The market sectors for our research focus include technology, telecommunications, consumer growth and life technology. Within these sectors, the industries covered include branded consumer, communications and networking, data storage, enterprise software, entertainment and leisure, health enabling technology and service, restaurant, specialty consumer finance and wireless telecommunication. Our mission is to become a leader in the researching, advising, financing and trading of emerging growth companies.

The registration statement of which this prospectus forms a part relates to the registration for the account of selling stockholders, of shares of common stock held by them and shares of common stock issuable upon exercise of warrants currently held by them. The shares being offered hereby are being registered to permit public secondary trading and the selling stockholders may offer all or part of the shares for resale from time to time pursuant to contractual arrangements whereby we agreed to register the shares of the selling stockholders. However, the selling stockholders are under no obligation to sell all or any portion of such shares nor are the selling stockholders obligated to sell any shares immediately under this prospectus.

The mailing address of our principal executive offices is 601 Montgomery Street, 18<sup>th</sup> Floor, San Francisco, California 94111-2622. Our telephone number is (415) 248-5600 and our web site address is [www.merrimanco.com](http://www.merrimanco.com). Information contained on our web site is not part of this prospectus.

---

**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.

*It is difficult to evaluate our business and prospects because we have a limited operating history.*

We began actively engaging in providing securities brokerage and investment banking services in January 2002. This was an entirely new business for us, and was a complete break with our previous business, the bandwidth brokerage business. Accordingly, we have a limited operating history on which to base an evaluation of our business and prospects. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development. We cannot assure you that we will be successful in addressing these risks and our failure to do so could have a material adverse effect on our business and results of operations.

*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.

*We have a history of operating losses and negative cash flow and we anticipate losses and negative cash flow may occur in the foreseeable future. Unless we are able to generate profits and positive cash flow we may not be able to continue operations.*

We have mostly incurred net losses since our inception and financed our operations primarily through sales of equity and debt securities. Although we had a net profit of \$2,971,000 for the year ended December 31, 2003, we incurred net losses of \$3,405,000 and \$30,072,000 for the years ended December 31, 2002 and 2001, respectively, and negative cash flow from operations of \$3,434,000 and \$13,360,000 in 2002 and 2001, respectively. At June 30, 2004, our accumulated deficit since inception was \$87,282,000. We may not sustain or increase a positive cash flow and profitability on a quarterly or annual basis in the future. If we are unable to sustain a positive cash flow and profitability, we may be unable to continue our operations.

*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.

*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.

*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.

## Edgar Filing: MCF CORP - Form S-3

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. We currently have an employment agreement with Mr. Merriman, which ends on January 1, 2007, but can be terminated by either party on 60 days' notice. The agreement contains provisions that obligate us to make certain payments to Mr. Merriman and substantially reduce vesting periods of options granted to him if we should terminate him without cause or certain events resulting in a change of control of our Board were to occur.

In addition to Mr. Merriman, we are currently managed by a small number of key management and operating personnel. We do not maintain key man insurance on any employee. Our future success depends, in part, on the continued service of our key executive, management and technical personnel, many of whom have only recently been hired, 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.*

During the six months ended June 30, 2004, one sales professional accounted for 15% of our revenue. 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 the profitability of the Company. 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 six months ended June 30, 2004, one customer accounted for 10% of our revenue. We cannot assure you that we will not become dependent on one customer, or on a small number of customers, for a large percentage of our revenue 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 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 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.

---

## Edgar Filing: MCF CORP - Form S-3

*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.

*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 could be significantly adversely affected because our common stock could be delisted from trading on the American Stock Exchange if our stockholders' equity declines by \$4,835,000 during the last six months of 2004.*

We are required to maintain net assets of at least \$2,000,000 in order to comply with listing requirements. If we incur a loss from continuing operations and/or net loss for fiscal 2004, we will be required to maintain net assets of at least \$4,000,000. As of June 30, 2004, we had net assets of approximately \$8,835,000. We cannot assure you that we will be able to satisfy these guidelines on a continuing basis and accordingly, we cannot assure you that our common stock will continue to be listed. If the listing is not retained and our common stock is thereafter quoted only on the OTC Electronic Bulletin Board, a significantly less liquid market than the American Stock Exchange, a stockholder may find it even more difficult to dispose of, or to obtain accurate quotations as to the price of, the common stock. A delisting could also negatively affect our ability to raise additional capital in the future.

*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.*



## Edgar Filing: MCF CORP - Form S-3

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 37,293,000 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 22% 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.

*Sales of the shares being registered hereby could depress the Company's share price.*

A total of 6,207,599 shares are being registered on the registration statement of which this prospectus forms a part. We have no way of knowing how many of these shares will be sold in the public market or when sales of all or any part of these shares might take place. If a large number or all of the shares being registered hereby were to be sold or offered for sale in the public market within a short time period, such offering or sale could severely adversely affect prevailing market prices for our common stock. Even if such shares were offered over a longer time period, their availability could adversely affect prevailing market prices for our common stock or restrain increases in the market price of our common stock.

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

We have a significant number of outstanding options and warrants. As of June 30, 2004, shares issuable upon the exercise of these options and warrants, at prices ranging currently from approximately \$0.18 to \$2.05 per share, represent approximately 22% 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.

### **Dividend Policy**

We have not paid any cash dividends since our inception and do not anticipate paying cash dividends in the foreseeable future.

### **Use of Proceeds**

We will not receive any of the proceeds from the sale of common stock by the selling stockholders or the resale by them of the shares of common stock issuable on exercise of the warrants except for commissions that selling stockholders may pay for sales effected by them through our broker-dealer subsidiary. We will, however, receive proceeds from the exercise of warrants, if and when they are exercised, unless they are exercised pursuant to a provision in the warrants which allows for a "cashless exercise" for a smaller number of shares if at any time after August 10, 2005 the registration statement of which this prospectus forms a part is not effective.

We intend to use any proceeds we receive from warrant exercises for general corporate purposes.

### **Selling Stockholders**

The registration statement, of which this prospectus forms a part, relates to the registration for the account of selling stockholders of an aggregate of 6,207,599 shares of common stock. The following table sets forth the names of the selling stockholders, the number of shares of common stock beneficially owned by them as of August 30, 2004, the number of shares of common stock being offered by them, the number of shares of common stock each selling stockholder will beneficially own if the stockholder sells all of the shares being registered and the selling stockholder's percentage ownership of our common stock if all the shares in the offering are sold. The shares being offered hereby are being registered to permit public secondary trading and the selling stockholders may offer all or part of the shares for resale from time to time. However, the selling stockholders are under no obligation to sell all or any portion of such shares, nor are the selling stockholders obligated to sell any shares immediately, under this prospectus. All information with respect to share ownership has been furnished by the selling stockholders. Because the selling stockholders may sell all or part of their shares, no estimates can be given as to the number of shares of common stock that will be held by the selling stockholders upon termination of any offering made hereby.

The shares being offered for resale by the selling stockholders consist of shares of common stock currently owned by them and common stock issuable upon exercise of their warrants.

Of the 6,207,599 shares of common stock being registered, 4,615,385 shares were issued to LMS Capital (Bermuda) Limited, a Bermuda limited company, or LMS Capital, a subsidiary of London Merchant Securities plc, a UK limited company, or LMS, in a private transaction which closed on August 11, 2004. An additional 1,384,616 shares of common stock are issuable upon exercise of warrants issued to LMS Capital in connection with that transaction. These warrants carry an exercise price of \$1.48 per share and expire if not exercised by August 11, 2008.

Also included in the 6,207,599 shares of common stock being registered are certain of the 138,001 additional shares of common stock issued to certain holders of Series A convertible preferred stock as a result of the application of an anti-dilution clause in the Certificate of Designation of the Series A convertible preferred stock in conjunction with the holders' previous conversion of their Series A convertible preferred into common stock and 80,585 shares of common stock subsequently issued to the remaining holders of our Series A convertible preferred stock as a result of their requests for conversion. There are no longer any issued or outstanding shares of Series A convertible preferred stock because all Series A shares have been converted by their holders.

---

## Edgar Filing: MCF CORP - Form S-3

We believe, based on information supplied by the selling stockholders, that except as may otherwise be indicated in the notes to the table below, each of them has sole voting and investment power with respect to the shares of common stock owned by them and issuable upon exercise of the warrants.

To our knowledge, none of the selling stockholde