

RODMAN & RENSHAW CAPITAL GROUP, INC.  
Form 10-Q  
November 15, 2010

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

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended September 30, 2010

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

001-33737  
(Commission File Number)

---

**RODMAN & RENSHAW CAPITAL GROUP, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction of Incorporation  
Or Organization)

84-1374481  
(I.R.S. Employer Identification No.)

---

1251 Avenue of the Americas  
New York, New York 10020

---

(Address of principal executive offices)

Registrant's telephone number: (212) 356-0500

---

Edgar Filing: RODMAN & RENSHAW CAPITAL GROUP, INC. - Form 10-Q

**(Former Name, Former Address and Former Fiscal Year, if Changes Since Last Report)**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

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

As of November 5, 2010, there were 33,738,094 shares of the registrant's common stock outstanding.

---

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act) and the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect the current view about future events and financial performance based on certain assumptions. They include opinions, forecasts, projections, assumptions, guidance, expectations, beliefs or other statements that are not statements of historical fact. In some cases, forward-looking statements can be identified by words such as may, can, will, should, could, expects, hopes, believes, anticipates, estimates, predicts, projects, potential, intends, approximates or the negative or other variation of such terms and other combinations of such terms. Forward-looking statements in this report may include statements about:

- future financial and operating results, including projections of revenues, income, expenditures, cash balances and our capital requirements and the need for additional financing;
- our ability to secure new client engagements;
- our ability to successfully consummate financing and merger and acquisition transactions on behalf of our clients;
- our ability to execute our growth, expansion and acquisition strategies;
- the outcome of various regulatory and legal proceedings in which we are currently involved;
- the performance of any of our financial products and their potential to generate revenues;
- development of new financial products;
- current and future economic and political conditions;
- overall industry and market performance and trends;
- competition;
- management's goals and plans for future operations;
- the impact of increased regulatory scrutiny on future operations;
- the revenue and profit volatility stemming from our operations;
- the performance of service providers upon which our operations rely;
- the additional risks and uncertainties stemming from entry into new businesses;
- our ability to protect our intellectual property rights and secure the right to use other intellectual property that we own;
- the impact of expanded corporate governance on the number of available business opportunities;
- the impact of legal liability on future operations;
- the impact of employee misconduct on future operations;
- the increased risk of financial liability and reputational harm resulting from adverse regulatory action;
- the impact of the Investment Company Act of 1940 on future operations; and
- other assumptions described in this prospectus underlying or relating to any forward-looking statements.

The forward-looking statements in this report are only predictions. Actual results could, and likely will, differ materially from these forward-looking statements for many reasons, including the risks described under Risk Factors and elsewhere in this report. No guarantee about future results, performance or achievements can be made. These forward-looking statements are made only as of the date hereof, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	<u>Page</u>
<b><u>Part I. Financial Information</u></b>	
<u>Item 1.</u> <u>Consolidated Financial Statements (Unaudited)</u>	1
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
<u>Item 4.</u> <u>Controls and Procedures</u>	29
<b><u>Part II. Other Information</u></b>	
<u>Item 1.</u> <u>Legal Proceedings</u>	29
<u>Item 1A.</u> <u>Risk Factors</u>	30
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
<u>Item 6.</u> <u>Exhibits</u>	30
<u>Signatures</u>	31

RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES

PART I  
FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

	<u>Page</u>
<u>Consolidated Statements of Financial Condition as of September 30, 2010 (unaudited) and December 31, 2009</u>	2
<u>Consolidated Statements of Operations for the three and nine month periods ended September 30, 2010 and 2009 (unaudited)</u>	3
<u>Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income for the nine month periods ended September 30, 2010 (unaudited) and for the year ended December 31, 2009</u>	4
<u>Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2010 and 2009 (unaudited)</u>	5
<u>Notes to Consolidated Financial Statements (unaudited)</u>	6

## RODMAN &amp; RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Condition as of September 30, 2010 (Unaudited) and December 31, 2009  
Dollars in Thousands, Except Per Share Amounts

	September 30, 2010	December 31, 2009
	<u>                    </u>	<u>                    </u>
<b>Assets</b>		
Cash and cash equivalents:		
Unrestricted	\$ 8,228	\$ 12,603
Restricted	1,447	2,943
	<u>                    </u>	<u>                    </u>
Total cash and cash equivalents	9,675	15,546
Financial instruments owned, at fair value:		
Corporate equity securities	10,559	6,493
Merchant banking investments	9,719	22,251
Warrants	13,810	22,945
Notes	2,499	1,920
Investments in shell companies	1,654	1,654
Other investments	617	893
	<u>                    </u>	<u>                    </u>
Total financial instruments owned, at fair value	38,858	56,156
Private placement and other fees receivable	3,732	4,798
Receivable from brokers, dealers & clearing agencies	1,484	5,735
Prepaid expenses	866	781
Property and equipment, net	3,376	2,773
Other assets	12,004	7,136
Goodwill and other intangible assets, net	687	1,961
	<u>                    </u>	<u>                    </u>
<b>Total Assets</b>	<b>\$ 70,682</b>	<b>\$ 94,886</b>
	<u>                    </u>	<u>                    </u>
<b>Liabilities and Stockholders Equity</b>		
Accrued compensation payable	\$ 12,307	\$ 10,098
Accounts payable and accrued expenses	5,025	6,217
Acquisitions related payables	806	2,826
Financial instruments sold, not yet purchased, at fair value	35	304
	<u>                    </u>	<u>                    </u>
<b>Total Liabilities</b>	<b>18,173</b>	<b>19,445</b>
	<u>                    </u>	<u>                    </u>
Commitments and contingencies (See Note 6)		
<b>Stockholders Equity</b>		
Common stock, \$0.001, par value; 100,000,000 shares authorized; 34,029,469 and 35,918,222 issued as of September 30, 2010 and December 31, 2009, respectively	34	36
Preferred stock, \$0.001 par value; 1,000,000 authorized; none issued		
Additional paid-in capital	70,973	75,989
Treasury stock, 62,500 shares in 2010, 534,500 shares in 2009	(139)	(1,034)
Accumulated deficit	(18,359)	(11,609)
	<u>                    </u>	<u>                    </u>
Total common stockholders equity	52,509	63,382
	<u>                    </u>	<u>                    </u>
Non-controlling interest		12,059
	<u>                    </u>	<u>                    </u>
<b>Total Stockholders Equity</b>	<b>52,509</b>	<b>75,441</b>

<b>Total Liabilities and Stockholders Equity</b>	<u>\$ 70,682</u>	<u>\$ 94,886</u>
--	------------------	------------------

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

## RODMAN &amp; RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES

**Consolidated Statements of Operations for the  
Three and Nine Month Periods Ended September 30, 2010 and 2009 (Unaudited)**  
Amounts in Thousands, Except Per Share Amounts

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Revenues:</b>				
Investment banking	\$ 15,101	31,253	65,152	65,129
Merchant banking	76	28,628	1,316	28,628
Commissions	919	1,642	2,905	3,155
Conference fees	2,279	1,579	3,158	1,579
Principal transactions	(1,044)	2,400	(11,204)	6,073
Interest and other income	31	48	151	220
Total revenues	17,362	65,550	61,478	104,784
<b>Operating expenses:</b>				
Compensation and benefits	13,530	25,470	40,546	49,381
Conference expense	3,916	3,211	9,932	3,211
Professional and consulting	1,464	2,210	5,165	5,050
Occupancy and equipment rentals	778	764	2,332	2,341
Advertising and marketing	179	740	1,256	1,140
Communication and market research	969	715	2,600	2,018
Depreciation and amortization	377	516	1,231	1,891
Business development	1,095	468	3,630	1,491
Office supplies	187	186	485	446
Impairment of goodwill / other intangibles			933	1,327
Bad debt expense	181		666	
Other	713	688	2,361	2,252
Total operating expenses	23,389	34,968	71,137	70,548
Operating income (loss)	(6,027)	30,582	(9,659)	34,236
Income tax expense (benefit)	(1,754)	42	(2,909)	51
Net income (loss)	(4,273)	30,540	(6,750)	34,185
Less: Net income to non-controlling interest		(15,000)		(15,000)
Net income (loss) to common stockholders	\$ (4,273)	15,540	(6,750)	19,185
<b>Net income (loss) per common share:</b>				
Basic	\$ (0.12)	0.44	(0.19)	0.54
Diluted	\$ (0.12)	0.40	(0.19)	0.51
<b>Weighted average common shares outstanding:</b>				
Basic	36,113	35,645	36,338	35,373



Edgar Filing: RODMAN & RENSHAW CAPITAL GROUP, INC. - Form 10-Q

Diluted	36,113	38,522	36,338	37,379
---------	--------	--------	--------	--------

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

## RODMAN &amp; RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES

**Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income for the  
Nine Month Period Ended September 30, 2010 (Unaudited) and the Year Ended December 31, 2009**  
Dollars in Thousands

	Nine Months Ended September 30, 2010	Year Ended December 31, 2009
	<u>          </u>	<u>          </u>
<b>Common stock:</b>		
Balance, beginning of the period	\$ 36	35
Issuance of common stock		1
Treasury stock retirement	(2)	
	<u>          </u>	<u>          </u>
Balance, end of the period	\$ 34	36
	<u>          </u>	<u>          </u>
<b>Additional paid-in-capital:</b>		
Balance, beginning of the period	\$ 75,989	70,441
Stock based compensation	(517)	5,799
Treasury stock retirement	(4,419)	
Other	(80)	(251)
	<u>          </u>	<u>          </u>
Balance, end of the period	\$ 70,973	75,989
	<u>          </u>	<u>          </u>
<b>Accumulated deficit:</b>		
Balance, beginning of the period	\$ (11,609)	(38,907)
Net (loss) income	(6,750)	27,298
	<u>          </u>	<u>          </u>
Balance, end of the period	\$ (18,359)	(11,609)
	<u>          </u>	<u>          </u>
<b>Treasury stock, at cost:</b>		
Balance, beginning of the period	\$ (1,034)	(1,034)
Treasury stock purchases	(3,526)	
Treasury stock retirement	4,421	
	<u>          </u>	<u>          </u>
Balance, end of the period	\$ (139)	(1,034)
	<u>          </u>	<u>          </u>
<b>Non-controlling interest:</b>		
Balance, beginning of the period	\$ 12,059	
Deconsolidation of Aceras BioMedical	(12,059)	
Net income to non-controlling interest		18,695
Distribution to non-controlling interest		(6,636)
	<u>          </u>	<u>          </u>
Balance, end of the period	\$	12,059
	<u>          </u>	<u>          </u>
<b>Total stockholders' equity</b>	<b>\$ 52,509</b>	<b>75,441</b>
	<u>          </u>	<u>          </u>

**Comprehensive income (loss):**

Edgar Filing: RODMAN & RENSHAW CAPITAL GROUP, INC. - Form 10-Q

Net (loss) income	\$ (6,750)	27,298
Total comprehensive (loss) income	\$ (6,750)	27,298

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

## RODMAN &amp; RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES

**Consolidated Statements of Cash Flows for the  
Nine month periods ended September 30, 2010 and 2009 (Unaudited)  
Dollars in Thousands**

	Nine Months Ended September 30,	
	2010	2009
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (6,750)	34,185
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,231	1,891
Restricted cash	1,496	2,333
Stock based compensation	(517)	5,588
Impairment of goodwill and other intangible assets	933	1,327
Changes in operating assets and liabilities:		
Financial instruments owned, at fair value	5,439	(47,896)
Private placement and other fees receivable	1,066	(5,723)
Receivable from brokers, dealers & clearing agencies	4,251	(156)
Prepaid expenses	(85)	(136)
Other assets	(4,868)	(445)
Financial instruments sold not yet purchased, at fair value	(269)	315
Accrued compensation payable	2,209	16,894
Accounts payable and accrued expenses	(1,272)	(1,544)
Net cash provided by operating activities	2,864	6,633
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(1,372)	(1,698)
Acquisitions related earn-out payments	(2,141)	(2,917)
Merchant banking investments	(200)	(1,367)
Net cash used in investing activities	(3,713)	(5,982)
<b>Cash provided by (used in) financing activities:</b>		
Purchase of treasury stock	(3,526)	
Net cash used in financing activities	(3,526)	
Net increase (decrease) in cash and cash equivalents	(4,375)	651
<b>Cash and cash equivalents beginning of period</b>	12,603	18,383
<b>Cash and cash equivalents end of period</b>	\$ 8,228	19,034
<b>Supplemental disclosures of cash flow information:</b>		
Income taxes paid	\$ 3,600	1
Change in fair value of financial instruments owned due to the deconsolidation of Aceras BioMedical	\$ 12,059	

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



**RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 1 - Organization, Nature of Operations and Basis of Presentation**

**General**

Rodman & Renshaw Capital Group, Inc. ( RRCG ) is a Delaware holding company that is engaged in the investment banking business through its various subsidiaries. The Company's principal operating subsidiary is Rodman & Renshaw, LLC ( R&R ), a Delaware limited liability company formed on June 20, 2002. R&R is a registered broker-dealer with the Financial Industry Regulatory Authority, Inc. ( FINRA ). RRCG and its subsidiaries, including R&R, are collectively referred to herein as the Company .

On July 10, 2007 Rodman & Renshaw Holding, LLC ( Holding ) consummated a reverse acquisition through an exchange transaction (the Exchange ) with its subsidiary, Enthrust Financial Services, Inc. ( Enthrust ), which was a non-operating public shell company. For accounting purposes, Holding is treated as the continuing reporting entity and the acquisition has been treated as a recapitalization of Enthrust with Holding as the acquirer. On August 31, 2007, Enthrust changed its name to Rodman & Renshaw Capital Group, Inc.

**NOTE 2 - Summary of Significant Accounting Policies**

**Interim Financial Statements**

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ( GAAP ) for interim financial information. In the opinion of management, the unaudited consolidated financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position as of September 30, 2010, the results of operations for the three and nine months ended September 30, 2010 and 2009, the changes in stockholders' equity and comprehensive income (loss) for the nine months ended September 30, 2010 and the year ended December 31, 2009 and cash flows for the nine months ended September 30, 2010 and 2009. The results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for any subsequent quarter or the full fiscal year ending December 31, 2010.

Certain information and footnote disclosures normally included in financial statements that are prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission (the SEC ).

These unaudited Consolidated Financial Statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2009 as filed with the SEC.

**Principles of Consolidation**

The Company's policy is to consolidate all entities in which it owns more than 50% of the outstanding voting stock and has control. In addition, the Company consolidates entities which lack characteristics of an operating entity or business for which it is the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. In situations where the Company has significant influence but not control of an entity that does not qualify as a variable interest entity, the Company applies the equity method of accounting. In those cases where its investment is less than 20% and significant influence does not exist, the investments are carried at fair value. Significant influence generally is deemed to exist when the Company owns 20% to 50% of the voting equity of an entity or when it holds at least 3% of a limited partnership interest. If the Company does not consolidate an entity or applies the equity method of accounting, it accounts for the investment at fair value.

All material intercompany accounts and transactions are eliminated in consolidation.

**RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Financial Instruments at Fair Value**

Fair value generally is based on quoted market prices. If quoted market prices are not available, fair value is determined based on other relevant factors, including dealer price quotations, price activity for equivalent instruments and valuation pricing models. Among the factors considered in determining the fair value of financial instruments are discount margins, weighted average spreads, discounted anticipated cash flows, the terms and liquidity of the instrument, the financial condition, operating results and credit ratings of the issuer or underlying company, the quoted market price of publicly traded securities with similar duration and yield, as well as other measurements. Certain financial instruments have bid and ask prices that can be observed in the marketplace. For financial instruments whose inputs are based on bid-ask prices, mid-market pricing is applied and adjusted to the point within the bid-ask range that meets the Company's best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

The valuation process for financial instruments may include the use of valuation models and other techniques. Adjustments to valuations derived from valuation models may be made when, in management's judgment, either the size of the position in the financial instrument in a non-active market or other features of the financial instrument such as its complexity, or the market in which the financial instrument is traded require that an adjustment be made to the value derived from the models. An adjustment may be made if a financial instrument is subject to sales restrictions that would result in a price less than the quoted market price. Adjustments from the price derived from a valuation model reflect management's judgment that other participants in the market for the financial instrument being measured at fair value would also consider in valuing that same financial instrument and are adjusted for assumptions about risk uncertainties and market conditions. Results from valuation models and valuation techniques in one period may not be indicative of future period fair value measurements.

Financial instruments owned and financial instruments sold, not yet purchased are stated at fair value, with related changes in unrealized appreciation or depreciation reflected in principal transactions, net in the accompanying Consolidated Statements of Operations. Equity interests in certain private equity securities and limited partnership interests are reflected in the Consolidated Financial Statements at fair value, which is often represented at initial cost until significant transactions or developments indicate that a change in the carrying value of the securities is appropriate. This represents the Company's best estimate of exit price. Generally, the carrying values of these securities will be increased or decreased based on company performance in those instances where market values are readily ascertainable by reference to substantial transactions occurring in the marketplace or quoted market prices.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company utilizes assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial instrument assets and liabilities carried at fair value have been classified and disclosed in one of the following three categories:

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as listed equities.

Level 2 includes those financial instruments that are valued using models or other valuation methodologies calibrated to observable market inputs. These models are primarily industry-standard models that consider various assumptions, including discount margins, credit spreads, discounted anticipated cash flows, the terms and liquidity of the instrument, the financial condition, operating results and credit ratings of the issuer or underlying company, the quoted market price of publicly traded securities with similar duration and yield, time value, yield curve, default rates, as well as other measurements. In order to be classified as Level 2, substantially all of these assumptions would need to be observable in the marketplace or able to be derived from observable data or supported by observable levels at which transactions are executed in the marketplace.

Level 3 is comprised of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are unobservable from objective sources. Included in this category are warrants, private securities, convertible notes and loans receivable received in conjunction with our investment banking and merchant banking activities and limited partnership interests.

**RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Value of Underwriter and Placement Agent Warrants**

As a part of the Company's compensation for its activities as underwriter or placement agent, it may receive warrants exercisable to purchase securities similar to those that are offered and sold in the financing transaction. The Company values such warrants using the Black-Scholes Option Pricing Model ( "Black-Scholes" ). The model requires management to use five inputs: price, risk-free interest rate, exercise price, time remaining on the warrant and price volatility. When the Company initially receives a warrant in connection with, or prior to an initial public offering, its calculated volatility factor is based on the volatility of an index of comparable companies, since there is no price history for new publicly traded or private companies. As each warrant approaches its expiration date, its volatility factor is derived primarily from the historical prices of its underlying common stock. Management cannot assure that it ultimately will be able to liquidate any of the warrants received in a way that will realize the value attributed to the warrants in the financial statements through the application of Black-Scholes.

The fair value of warrants is recorded in financial instruments owned, at fair value on the Company's Consolidated Statements of Financial Condition. When a warrant is received, its fair value is included in investment banking revenue as of the close of the date on which it is earned. Subsequently, any change in fair value is recorded as principal transactions. When a warrant is exercised, the fair value is adjusted to reflect the value of the securities purchased, net of the exercise price, and the adjustment amount is recorded as income or loss for the relevant period. If a warrant expires unexercised, the fair value is adjusted to zero and the decrease is recorded as a loss in the relevant period.

**Value of Merchant Banking Assets**

The value of the Company's investment in Aceras BioMedical's assets was determined based on a valuation performed as of September 30, 2010, taking into consideration cash received, cost of the investment, market participant inputs, estimated cash flows based on entity specific criteria, purchase multiples paid in other comparable third-party transactions, market conditions, liquidity, operating results and other qualitative and quantitative factors. The values at which the Company's investments are carried on its books are adjusted to estimated fair value at the end of each quarter taking into account general economic and stock market conditions and those characteristics specific to the underlying investments.

**Cash and Cash Equivalents**

The Company generally invests its excess cash in money market funds. Restricted cash is due to an escrow account in connection with the Company's office lease agreement and cash held at financial institutions for capital purposes.

**Revenue Recognition**

*Investment Banking.* Underwriting and placement agent revenues and fees from mergers and acquisitions and other financial advisory assignments are recognized in the Consolidated Statements of Operations when the services related to the underlying transaction are completed under the terms of the engagement. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded. Underwriting and placement agent revenues are presented net of related expenses.

When the Company receives warrants as a component of its compensation for investment banking services, revenue is recognized based on the fair value of those instruments. Revenue from the receipt of warrants is recognized, as of the close of the date on which it is earned, based on the estimated fair value of the securities received using Black-Scholes, which takes into account the exercise price, remaining life of the warrant, the current price and expected price volatility of the underlying stock, expected dividends on the stock and the risk-free interest rate for the remaining term of the warrant. The following provides details of the Company's investment banking revenue for the three and nine month periods ended September 30, 2010 and 2009 (in thousands of dollars):



**RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Private placements	\$ 3,613	17,128	32,095	33,900
Warrants	498	8,960	9,313	19,985
Strategic advisory	9,105	957	11,810	5,426
Underwriting	1,885	4,208	11,934	5,818
<b>Total investment banking revenue</b>	<b>\$ 15,101</b>	<b>31,253</b>	<b>65,152</b>	<b>65,129</b>

*Merchant Banking Revenue.* Merchant banking revenue, consisting of unrealized gains on investments by the Company's Aceras BioMedical joint venture and other principal investments activity, was \$0.1 million. The value of Aceras BioMedical's assets was determined based on a valuation performed as of September 30, 2010, taking into consideration cash received, cost of the investment, market participant inputs, estimated cash flows based on entity specific criteria, purchase multiples paid in other comparable third-party transactions, market conditions, liquidity, operating results and other qualitative and quantitative factors. The values at which the Company's investments are carried on its books are adjusted to estimated fair value at the end of each quarter taking into account, factors including, general economic and stock market conditions. The unrealized gain recognized in the first nine months of 2010 represents the change in the Aceras BioMedical valuation from December 31, 2009 and other principal investments activity.

*Principal Transactions.* Financial instruments owned and financial instruments sold, but not yet purchased (all of which are recorded on a trade-date basis) are carried at fair value with gains and losses reflected in principal transactions on a trade-date basis.

*Commissions.* The Company's sales and trading business generates revenue from equity securities trading commissions paid by customers. Commissions are recognized on a trade-date basis.

*Conference Fees.* The Company may receive conference deposits from presenters, which are recorded as a liability and then recognized as revenue when the conference is conducted. The Company also makes advance payments for conference facilities, entertainment and related costs, which are recorded as prepaid expenses and then recognized as expenses when the conference is conducted.

### Property and Equipment

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets (generally three to ten years). Leasehold improvements are amortized using the straight-line method over the term of related leases or the estimated useful lives of the assets, whichever is shorter.

### Goodwill and Other Intangible Assets

Goodwill is not amortized; instead, it is reviewed for impairment at least annually and written down when deemed impaired. Goodwill is deemed impaired when the carrying amount of the reporting unit exceeds the implied fair value of the reporting unit.

Intangible assets consist of customer relationships and a trade name. Customer relationships and a trade name acquired in business combinations under the purchase method of accounting are recorded at fair value net of accumulated amortization since the acquisition date. Customer relationships are recorded at cost net of accumulated amortization. Intangible assets are amortized over their useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used. Amortization is calculated using the straight line method over the estimated useful lives at the following annual rates:

Customer relationships	33%
Trade name	10%



**RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

The Company reviews its finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of finite-lived intangible asset may not be recoverable. Recoverability of a finite-lived intangible asset is measured by a comparison of its carrying amount to the undiscounted future cash flows expected to be generated by the asset. If the asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset, which is determined based on discounted cash flows.

**Earnings Per Share**

Basic EPS is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding, which includes restricted stock and restricted stock units ( RSUs ) for which service has been provided. Diluted EPS includes the components of basic EPS and also includes the dilutive effects of restricted stock and RSUs for which service has not yet been provided and employee stock options.

**Income Taxes**

Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. 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. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Management evaluates the realizability of its deferred tax assets quarterly. In determining the possible future realization of deferred tax assets, the future taxable income from the following sources is taken into account: (a) the reversal of taxable temporary differences; (b) future operations exclusive of reversing temporary differences; and (c) tax planning strategies that, if necessary, would be implemented to accelerate taxable income into years in which net operating losses might otherwise expire.

The Income Taxes Topic of FASB ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Management does not believe that the Company has any material uncertain tax position requiring recognition or measurement in accordance with the provisions of Income Taxes Topic of FASB ASC 740-10.

The Company's policy is to classify penalties and interest associated with uncertain tax positions, if required, as a component of its income tax provision. As a result of having no material uncertain tax positions, the Company has no material amounts for associated interest and penalties recorded on the Consolidated Statements of Financial Condition or the Consolidated Statements of Operations.

**Legal Reserves**

The Company recognizes a liability for a contingency when it is probable that a liability has been incurred and when the amount of loss can be reasonably estimated. When a range of probable loss can be estimated, the Company accrues the most likely amount of such loss, and if such amount is not determinable, then the Company accrues the minimum of the range of probable loss.

Reserves related to legal proceedings are established and maintained. The determination of these reserve amounts requires significant judgment on the part of management. The Company's management considers many factors including, but not limited to: the amount of the claim; the basis and validity of the claim; previous results in similar cases; and legal precedents and case law. Each legal proceeding is reviewed with counsel in each accounting period and the reserve is adjusted as deemed appropriate by management. As of September 30, 2010, there were no legal reserves accrued in the Consolidated Statements of Financial Condition.

**Use of Estimates**

The preparation of financial statements is in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.



**RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Concentrations of Credit Risk**

R&R is engaged in trading and provides a broad range of securities brokerage and investment services to institutional clients as well as private placement services to business entities. Counterparties to the R&R's business activities include broker-dealers, clearing organizations, banks, investment banking clients, and other financial institutions.

R&R uses a clearing broker to process transactions and maintain client accounts on a fee basis. R&R permits the clearing firm to extend credit to a client secured by cash and securities in the client's account. R&R's exposure to credit risk associated with the non-performance by its clients and counterparties in fulfilling their contractual obligations can be directly impacted by volatile or illiquid trading markets, which may impair the ability of clients and counterparties to satisfy their obligations to R&R. R&R has agreed to indemnify its clearing broker for losses incurred while extending credit to R&R's clients. R&R's policy is to review, as necessary, the credit standing of its clients and counterparties. Amounts due from clients that are considered uncollectible are charged back to R&R by the clearing brokers when such amounts become determinable.

Financial instruments sold but not yet purchased commit R&R to deliver specified securities at predetermined prices. The transactions may result in market risk since, to satisfy the obligation, R&R must acquire the financial instruments at market prices, which may exceed the values reflected on the Consolidated Statements of Financial Condition.

**Forgivable Loans**

The Company issues forgivable loans as a retention vehicle to certain new and existing employees. These loans are subject to a substantive service requirement by the employees and are amortized over the service period on a straight-line basis. As of September 30, 2010, the net balance of the loans was \$1.6 million, which is included in other assets on the Consolidated Statements of Financial Condition. During the first nine months of 2010, the Company issued an additional \$0.8 million in forgivable loans. The Company recorded \$0.7 million and \$1.9 million of compensation expense related to the amortization of these loans during the three and nine months ended September 30, 2010, respectively, and \$0.5 million and \$1.4 million of compensation expense related to the amortization of these loans during the three and nine months ended September 30, 2009, respectively.

**Stock-Based Compensation**

The Company measures its compensation cost for all stock-based awards at fair value on the date of grant, taking into account any post vesting selling restrictions, and recognizes the compensation expense over the requisite service period. Expenses associated with such grants are generally recognized on a straight-line basis over the requisite service period, net of estimated forfeitures.

Deferred stock based compensation costs with respect to shares of restricted stock and restricted stock units and stock options granted are presented as part of additional paid in capital in the Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income (Loss).

**NOTE 3 - Recent Accounting Pronouncements**

*FASB ASC 810.* The Company adopted further accounting changes described in ASC 810, Consolidation Topic, as of January 1, 2010, which required that the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity consolidate the variable interest entity. The changes to ASC 810, effective as of January 1, 2010, eliminated the quantitative approach previously applied to assessing the consolidation of a variable interest entity and required ongoing reassessments for consolidation. Starting on January 1, 2010, the Company deconsolidated its investment in Aceras BioMedical because its joint venture partner, Aceras Partners, not the Company, most significantly impacts Aceras BioMedical's economic performance.

**RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

ASU 210-06. In January 2010, the FASB issued Accounting Standards Update ( ASU ) 210-06, Improving Disclosures about Fair Value Measurements , which requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. The FASB also clarified existing fair-value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. Some of the new and revised disclosures are required to be implemented in fiscal years beginning after December 15, 2009 and others in fiscal years beginning after December 15, 2010. The Company implemented the required disclosures in 2010.

**NOTE 4 - Financial Instruments, at Fair Value**

The following is a summary of the Company's financial assets and liabilities that are accounted for at fair value as of September 30, 2010 and December 31, 2009 by level within the fair value hierarchy (in thousands of dollars):

	September 30, 2010			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Financial instruments owned:				
Corporate equity securities	\$ 9,110		1,449	10,559
Merchant banking investments			9,719	9,719
Warrants			13,810	13,810
Notes			2,499	2,499
Investments in shell companies			1,654	1,654
Other investments			617	617
<b>Total financial instruments owned</b>	<b>\$ 9,110</b>		<b>29,748</b>	<b>38,858</b>
<b>Liabilities:</b>				
Financial instruments sold, not yet purchased	\$ 35			35
<b>Total financial instruments sold, not yet purchased</b>	<b>\$ 35</b>			<b>35</b>
<b>December 31, 2009</b>				
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Financial instruments owned:				
Corporate equity securities	\$ 5,180		1,313	6,493
Merchant banking investments			22,251	22,251
Warrants			22,945	22,945
Notes			1,920	1,920
Investments in shell companies			1,654	1,654
Other investments			893	893
<b>Total financial instruments owned</b>	<b>\$ 5,180</b>		<b>50,976</b>	<b>56,156</b>

**Liabilities:**

Financial instruments sold, not yet purchased	\$	304			304
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total financial instruments sold, not yet purchased	\$	304			304
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Financial instruments are assessed on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by ASC Topic 820. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the end of the reporting period. There were no material transfers between Level 1, Level 2 and Level 3 classified instruments during the three months and nine months ended September 30, 2010.

## Edgar Filing: RODMAN & RENSHAW CAPITAL GROUP, INC. - Form 10-Q

The following is a description of the valuation basis, including valuation techniques and inputs, used in measuring the Company's financial assets and liabilities that are accounted for at fair value on a recurring basis:

### *Corporate Equity Securities.*

**Exchange Traded Equity Securities:** Exchange-traded equity securities are measured based on quoted exchange prices, which are generally obtained from pricing services, and are categorized as Level 1 in the fair value hierarchy.

**Non-exchange Traded Equity Securities:** Non-exchange traded equity securities are categorized as Level 3 financial instruments and measured using valuation techniques involving quoted prices of or market data for comparable companies, similar company ratios and multiples (e.g., price/EBITDA, price/book value), discounted cash flow analyses and transaction prices observed for subsequent financing or capital issuance by the company. When using pricing data of comparable companies, judgment must be applied to adjust the pricing data to account for differences between the measured security and the comparable security (e.g., issuer market capitalization, yield, dividend rate, geographical concentration).

### *Merchant Banking Investments.*

The value of the Company's investment in Aceras BioMedical's assets is categorized as Level 3 financial instruments and was determined based on a valuation performed as of September 30, 2010, taking into consideration cash received, cost of the investment, market participant inputs, estimated cash flows based on entity specific criteria, purchase multiples paid in other comparable third-party transactions, market conditions, liquidity, operating results and other qualitative and quantitative factors. The values at which the Company's investments are carried on its books are adjusted to estimated fair value at the end of each quarter taking into account general economic and stock market conditions.

### *Warrants.*

As a part of the Company's compensation for its activities as underwriter or placement agent, it may receive warrants exercisable to purchase securities similar to those that are offered and sold in the financing transaction. The Company values such warrants using Black-Scholes. The model requires management to use five inputs: price, risk-free interest rate, exercise price, time remaining on the warrant and price volatility. These warrants are categorized as Level 3 financial instruments.

### *Notes.*

Notes categorized within Level 3 are valued based on estimates of future cash flow incorporating assumptions regarding creditor default and recovery rates and consideration of the issuer's capital structure.

### *Investments in Shell Companies.*

Investments in shell companies are categorized as Level 3 financial instruments and are valued at cost, which for this type of instrument approximates fair value.

### *Other Investments.*

Other investments mostly consist of corporate loans categorized as Level 3 financial instruments. The loans are valued based on estimates of future cash flow incorporating assumptions regarding creditor default and recovery rates and consideration of the issuer's capital structure.



**RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

The following is a summary of changes in fair value of the Company's financial assets and liabilities that have been classified as Level 3 for the three and nine months ended September 30, 2010 and September 30, 2009 (in thousands of dollars):

**Three Months Ended September 30, 2010**

	<b>Corporate Equity Securities</b>	<b>Merchant Banking</b>	<b>Warrants</b>	<b>Notes</b>	<b>Shells</b>	<b>Other</b>	<b>Total</b>
Balance, June 30, 2010	\$ 1,313	9,495	14,950	2,771	1,654	758	30,941
Purchases / issuances	136	200	89	19			444
Sales / settlements			(417)	(50)			(467)
Realized and unrealized gains/(losses) (1)		24	(812)	(241)		(141)	(1,170)
<b>Balance, September 30, 2010</b>	<b>\$ 1,449</b>	<b>9,719</b>	<b>13,810</b>	<b>2,499</b>	<b>1,654</b>	<b>617</b>	<b>29,748</b>
Change in unrealized gains/(losses) relating to instruments still held at September 30, 2010	\$	24	(783)	(242)		(141)	(1,142)

(1) Reported in Principal transactions in the Consolidated Statements of Operations.

**Nine Months Ended September 30, 2010**

	<b>Corporate Equity Securities</b>	<b>Merchant Banking</b>	<b>Warrants</b>	<b>Notes</b>	<b>Shells</b>	<b>Other</b>	<b>Total</b>
Balance, December 31, 2009	\$ 1,313	22,251	22,945	1,920	1,654	893	50,976
Purchases / issuances	136	200	8,052	1,051			9,439
Sales / settlements			(4,845)	(550)			(5,395)
Deconsolidation of Aceras BioMedical		(12,821)					(12,821)
Realized and unrealized gains/(losses) (1)		89	(12,342)	78		(276)	(12,451)
<b>Balance, September 30, 2010</b>	<b>\$ 1,449</b>	<b>9,719</b>	<b>13,810</b>	<b>2,499</b>	<b>1,654</b>	<b>617</b>	<b>29,748</b>
Change in unrealized gains/(losses) relating to instruments still held at September 30, 2010	\$	89	(11,728)	77		(276)	(11,838)

(1) Reported in Principal transactions in the Consolidated Statements of Operations.

**Three Months Ended September 30, 2009**

Edgar Filing: RODMAN & RENSHAW CAPITAL GROUP, INC. - Form 10-Q

	<b>Corporate Equity Securities</b>	<b>Merchant Banking</b>	<b>Warrants</b>	<b>Notes</b>	<b>Shells</b>	<b>Other</b>	<b>Total</b>
Balance, June 30, 2009	\$ 627	624	18,241	1,666	1,774	1,056	23,988
Purchases / issuances	618	760	9,072	48			10,498
Sales / settlements			(3,296)				(3,296)
Realized and unrealized gains/(losses) (1)	68	28,628	1,159			69	29,924
<b>Balance, September 30, 2009</b>	<b>\$ 1,313</b>	<b>30,012</b>	<b>25,176</b>	<b>1,714</b>	<b>1,774</b>	<b>1,125</b>	<b>61,114</b>
Change in unrealized gains/(losses) relating to instruments still held at September 30, 2009	\$ 68	28,628	2,499			69	31,264

(1) Reported in Principal transactions in the Consolidated Statements of Operations.

**RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Nine Months Ended September 30, 2009**

	<b>Corporate Equity Securities</b>	<b>Merchant Banking</b>	<b>Warrants</b>	<b>Notes</b>	<b>Shells</b>	<b>Other</b>	<b>Total</b>
Balance, December 30, 2008	\$ 627		5,622	1,917	1,824	762	10,752
Purchases / issuances	618	1,384	20,097	48			22,147
Sales / settlements			(6,426)				(6,426)
Realized and unrealized gains/(losses) (1)	68	28,628	5,883	(251)	(50)	363	34,641
<b>Balance, September 30, 2009</b>	<b>\$ 1,313</b>	<b>30,012</b>	<b>25,176</b>	<b>1,714</b>	<b>1,774</b>	<b>1,125</b>	<b>61,114</b>
Change in unrealized gains/(losses) relating to instruments still held at September 30, 2009	\$ 68	28,628	6,882	(251)	(50)	363	35,640

(1) Reported in Principal transactions in the Consolidated Statements of Operations.

**NOTE 5 - Goodwill and Other Intangible Assets**

The following table represents a summary of the changes to goodwill and other intangible assets from December 31, 2008 to September 30, 2010 (in thousands of dollars):

	<b>Goodwill</b>	<b>Customer</b>	<b>Trademark</b>	<b>Total</b>
Balance, December 31, 2008	\$ 2,906	2,686	220	2,906
Additions	1,540			1,540
Impairment	(1,327)			(1,327)
Amortization		(1,136)	(22)	(1,158)
<b>Balance, December 31, 2009</b>	<b>213</b>	<b>1,550</b>	<b>198</b>	<b>1,961</b>
Additions	121			121
Impairment		(933)		(933)
Amortization		(444)	(18)	(462)
<b>Balance, September 30, 2010</b>	<b>\$ 334</b>	<b>173</b>	<b>180</b>	<b>687</b>

The annual review of goodwill was performed as of September 30, 2010 and the fair value of the reporting unit was determined to be substantially in excess of the carrying value of goodwill.

**NOTE 6 - Commitments and Contingencies**

**Lease Commitments**

The Company leases its headquarters and other office locations under non-cancelable lease agreements which expire between 2011 and 2014. The Company lease for the 20th floor at 1251 Avenue of the Americas, New York, NY expires in October 2013. As of September 30, 2010, there were no significant changes in the Company's lease agreements since December 31, 2009.

**Letter of Credit**

In connection with the lease for the 20th floor at 1251 Avenue of the Americas, New York, NY, the Company issued a letter of credit in favor of the landlord in the sum of \$755,625, as a security deposit. The letter of credit expires in February 2011 but is subject to automatic extension.

**RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Equity Commitment**

The Company, through its wholly owned subsidiary, Rodman Principal Investments, LLC ( RPI ), has made an investment commitment to Aceras Partners to fund operations and the Aceras BioMedical joint venture s principal investments in life science companies. At September 30, 2010, \$12.9 million of this commitment remained unfunded.

**NOTE 7 - Net Capital Requirements**

R&R is subject to various regulatory requirements, including the SEC s Uniform Net Capital Rule (SEC Rule 15c3-1). These regulations place limitations on certain transactions, such as repaying subordinated borrowings, paying cash dividends, and making loans to a parent, affiliates or employees. Broker-dealers are prohibited from such transactions which would result in a reduction of its total net capital to less than 120% of its required minimum net capital. Moreover, broker-dealers are required to notify the SEC before entering into any such transactions, which if executed, would result in a reduction of 30% or more of its excess net capital (net capital less the minimum requirement). The SEC has the ability to prohibit or restrict such transactions if the result is detrimental to the financial integrity of the broker-dealer.

At September 30, 2010, R&R had net capital of \$6.2 million, which was \$5.3 million in excess of its required net capital of \$0.9 million.

**NOTE 8 - Income Taxes**

Management evaluates the realizability of its deferred tax assets quarterly. In determining the possible future realization of deferred tax assets, the future taxable income from the following sources is taken into account: (a) the reversal of taxable temporary differences; (b) future operations exclusive of reversing temporary differences; and (c) tax planning strategies that, if necessary, would be implemented to accelerate taxable income into years in which net operating losses might otherwise expire. The Company recorded a valuation allowance against all of its deferred tax asset as of March 31, 2009, after considering all available evidence and potential tax-planning strategies related to the amount of the tax asset that is more likely than not to be realized. Substantially all of the valuation allowance was reversed in the fourth quarter of 2009 after considering all of the available evidence.

Management evaluated the realizability of its deferred tax assets as of September 30, 2010 and determined that a valuation allowance was not necessary due to future operations and the reversal of taxable temporary differences.

The Company does not anticipate any change in the amount of unrecognized tax benefits within the next twelve months. The Company files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. The Company is not currently under examination by any taxing jurisdictions. The Company is no longer subject to federal, state, local or non-U.S. income tax examinations by tax authorities for years before 2006. Tax years 2006 through 2010 remain open to examination by the U.S. federal, state, and foreign tax authorities.

**NOTE 9 - Stock-Based Compensation**

The Company recorded \$0.4 million of stock-based compensation and a net \$0.5 million reversal of stock-based compensation for the three and nine month periods ended September 30, 2010, respectively, and \$0.7 million and \$5.6 million of stock-based compensation for the three and nine month periods ended September 30, 2009, respectively. The unamortized deferred stock-based compensation balance as of September 30, 2010 was \$1.4 million and will be fully amortized through 2013.

**RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

There were no stock option grants in the first nine months of 2010. A summary of stock options outstanding as of September 30, 2010 is as follows (shares in thousands):

**Stock Options**

	Number of Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2009	4,107	\$ 4.07	\$ 0.96		
No activity					
Outstanding at September 30, 2010	4,107	\$ 4.07	\$ 0.96	1.7 years	\$ 0.0 million
Exercisable at September 30, 2010	4,087	\$ 4.07	\$ 0.95	1.7 years	\$ 0.0 million

Total compensation cost associated with stock options was \$10,000 and \$86,000 for the three and nine months ended September 30, 2010, respectively, and \$53,000 and \$1.3 million for the three and nine months ended September 30, 2009, respectively.

The following table details the activity of restricted stock (shares in thousands):

**Restricted Stock**

	Number of Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2009	193	\$ 2.33
Forfeited	(3)	2.28
Vested	(97)	2.33
Balance at September 30, 2010	93	\$ 2.33

Total compensation cost associated with the grant of restricted stock was \$55,000 and \$0.2 million for the three and nine months ended September 30, 2010, respectively, and \$56,000 and \$0.2 million for the three and nine months ended September 30, 2009, respectively.

The following tables detail the activity of RSUs (shares in thousands):

**Restricted Stock Units**

Shares		Weighted Average Grant Date Fair Value	
Future Service Required	No Future Service Required (1)	Future Service Required	No Future Service Required

Edgar Filing: RODMAN & RENSHAW CAPITAL GROUP, INC. - Form 10-Q

Balance at December 31, 2009	2,667	2,506	\$ 1.00	\$ 1.02
Granted	1,538		1.12	
Forfeited	(1,162)	(1,917)	1.05	0.97
Vested	(1,177)	1,177	1.06	1.06
Distribution of underlying shares		(1)		2.28
	<u>1,866</u>	<u>1,765</u>	<u>\$ 1.04</u>	<u>\$ 1.11</u>

(1) Represents fully vested RSUs which are still subject to transferability restrictions.

Total compensation cost associated with the grant of RSUs was \$0.3 million and a net \$0.8 million reversal for the three and nine months ended September 30, 2010, respectively, and \$0.6 million and \$4.1 million for the three and nine months ended September 30, 2009, respectively.

**RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 10 - Weighted Average Shares Outstanding**

The table below reconciles weighted average number of common shares outstanding, basic and diluted, for the three and nine month periods ended September 30, 2010 and 2009 (weighted average shares in thousands):

		Three months ended September 30,		Nine months ended September 30,	
		2010	2009	2010	2009
Shares outstanding	(1)	34,509	35,381	35,039	34,936
Unearned restricted stock	(2)	(93)	(192)	(110)	(244)
Earned restricted stock units	(3)	1,697	456	1,409	681
		36,113	35,645	36,338	35,373
Stock options	(4)				51
Non-vested restricted stocks and RSUs	(4)		2,877		1,955
		36,113	38,522	36,338	37,379

- 
- (1) Shares outstanding represents shares issued less shares repurchased in treasury stock.
- (2) As restricted stock is contingent upon a future service condition, unearned shares are removed from shares outstanding in the calculation of basic EPS as the Company's obligation to issue these shares remains contingent.
- (3) As earned restricted stock units are no longer contingent upon a future service condition and are issuable upon a certain date in the future, earned restricted stock units are added to shares outstanding in the calculation of basic EPS.
- (4) Calculated under the treasury stock method. The treasury stock method assumes the issuance of only a net incremental number of shares as proceeds from issuance are assumed to be used to repurchase shares at the average stock price for the period.

**NOTE 11 Segment Reporting**

The Company operates in two business segments, Capital Markets and Merchant Banking. The Capital Markets reportable segment includes the Company's investment banking, sales and trading activities and research. The Capital Markets reportable segment is managed as a single operating segment that provides the following principal sources of revenue:

investment banking fees, which are derived from corporate finance activities and strategic advisory services;  
realized and unrealized gains with respect to securities held for the Company's own account;  
commissions on sales and trading activities;  
conference fees; and  
other miscellaneous sources of revenues, such as interest.

Although the Company has multiple sources of revenue derived within Capital Markets, most of its revenue is derived from investment banking services and consists of private placement, underwriting and strategic advisory fees earned upon the successful completion of financing or other types of corporate transactions, such as mergers, acquisitions and dispositions.

The Merchant Banking segment is primarily comprised of operating activities related to Aceras BioMedical. On May 12, 2008, the Company formed Aceras BioMedical, a joint venture through which it, in partnership with Aceras Partners, LLC, makes principal investments in early-stage biotechnology and life sciences companies. In conjunction with the establishment of the joint venture, the Company formed a new



wholly-owned subsidiary, RPI, which holds a 50% stake in Aceras BioMedical and serves as the holding vehicle for all of its principal-related businesses. At September 30, 2010, \$12.9 million of this commitment remained unfunded. RPI receives 50% of Aceras BioMedical's economic interest in all investments made.

**RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

The Company's net revenues, expenses, and total assets by segment are summarized below (in millions of dollars):

	<u>Capital Markets</u>	<u>Merchant Banking</u>	<u>Non-Controlling Interest</u>	<u>Total</u>
<b>2010</b>				
<b>Three Months Ended September 30,</b>				
Net revenues	\$ 17.3	0.1		17.4
Expenses	\$ 22.8	0.6		23.4
Segment assets	\$ 61.0	9.7		70.7
<b>Nine Months Ended September 30,</b>				
Net revenues	\$ 60.2	1.3		61.5
Expenses	\$ 68.6	2.5		71.1
Segment assets	\$ 61.0	9.7		70.7
<b>2009</b>				
<b>Three Months Ended September 30,</b>				
Net revenues	\$ 36.9	13.6	15.0	65.5
Expenses	\$ 29.3	5.7		35.0
Segment assets	\$ 71.5	15.0	15.0	101.5
<b>Nine Months Ended September 30,</b>				
Net revenues	\$ 76.2	13.6	15.0	104.8
Expenses	\$ 63.3	7.2		70.5
Segment assets	\$ 71.5	15.0	15.0	101.5

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion should be read in conjunction with our unaudited consolidated financial statements and the related notes included elsewhere in this report.*

**Overview**

We are a full-service investment bank dedicated to providing corporate finance, strategic advisory and related services to public and private companies across multiple sectors and regions. We also provide research and sales and trading services primarily to institutional investors. We are the leader in the PIPE (private investment in public equity) and RD (registered direct offering) transaction markets. We have been ranked the #1 Placement Agent by deal volume of PIPE and RD financing transactions completed every year since 2005. The sectors that we currently serve include life science/healthcare, energy, metals/mining, financial services and cleantech and the primary regions we currently serve include the United States and China. Our primary product and service offerings include financing transactions, including private placements and public offerings. We also provide research and sales and trading services to institutional investors.

**Business Environment**

Market conditions and valuations for companies in the life science sector and other sectors in which we are active, as well as general market conditions, can materially affect our financial performance. On May 6, 2010, the market experienced its "flash crash", with the Dow Jones Industrial Average declining 1,000 points, and from that day on the equity markets have been generally performing poorly. Between May 6, 2010 and September 30, 2010, many of our clients and target companies have experienced volatility in their stock prices. When the stock markets are in a downturn or in a period of volatility it is challenging to generate investment banking revenue from capital markets activity.

## Business Segments

We operate in two business segments, Capital Markets and Merchant Banking. The Capital Markets reportable segment includes our investment banking, sales and trading activities and research. The Capital Markets reportable segment is managed as a single operating segment that provides the following principal sources of revenue:

- investment banking fees, which are derived from corporate finance activities and strategic advisory services;
- realized and unrealized gains with respect to securities held for our own account;
- commissions on sales and trading activities;
- conference fees; and
- other miscellaneous sources of revenues, such as interest.

Although we have multiple sources of revenue derived within Capital Markets, most of our revenue is derived from our investment banking services and consists of private placement, underwriting and strategic advisory fees earned upon the successful completion of financing or other types of corporate transactions, such as mergers, acquisitions and dispositions.

The Merchant Banking segment is primarily comprised of operating activities related to Aceras BioMedical. On May 12, 2008, we formed Aceras BioMedical, a joint venture through which we, in partnership with Aceras Partners, LLC, make principal investments in early-stage biotechnology and life sciences companies. In conjunction with the establishment of the joint venture, we formed a new wholly-owned subsidiary which holds a 50% stake in Aceras BioMedical and serves as the holding vehicle for all of our principal-related businesses. At September 30, 2010, our outstanding investment commitment to Aceras BioMedical to fund operations and the joint venture's principal investments in life science companies was \$12.9 million. We receive 50% of Aceras BioMedical's economic interest in all investments made.

## Critical Accounting Policies

Our Consolidated Financial Statements are prepared in conformity with GAAP, which require management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and related notes. Actual results can and will differ from estimates. These differences could be material to the financial statements.

We believe our application of accounting policies and the estimates required therein are reasonable. These accounting policies and estimates are constantly re-evaluated, and adjustments are made when facts and circumstances dictate a change. Historically, actual results have not differed materially from those determined using necessary estimates.

Our management believes that our critical accounting policies (policies that are both material to the financial condition and results of operations and require management's most difficult subjective or complex judgments) are our valuation of financial instruments, valuation of goodwill and other intangible assets, income taxes and our use of estimates related to compensation and benefits during the year.

### *Valuation of Financial Instruments*

Fair value generally is based on quoted market prices. If quoted market prices are not available, fair value is determined based on other relevant factors, including dealer price quotations, price activity for equivalent instruments and valuation pricing models. Among the factors considered in determining the fair value of financial instruments are discount margins, weighted average spreads, discounted anticipated cash flows, the terms and liquidity of the instrument, the financial condition, operating results and credit ratings of the issuer or underlying company, the quoted market price of publicly traded securities with similar duration and yield, as well as other measurements. Certain financial instruments have bid and ask prices that can be observed in the marketplace. For financial instruments whose inputs are based on bid-ask prices, mid-market pricing is applied and adjusted to the point within the bid-ask range that meets our best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

The valuation process for financial instruments may include the use of valuation models and other techniques. Adjustments to valuations derived from valuation models may be made when, in our judgment, either the size of the position in the financial instrument in a non-active market or other features of the financial instrument such as its complexity, or the market in which the financial instrument is traded require that an adjustment be made to the value derived from the models. An adjustment may be made if a financial instrument is subject to sales restrictions that would result in a price less than the quoted market price. Adjustments from the price derived from a valuation model reflect management's judgment that other participants in the market for the financial instrument being measured at fair value would also consider in valuing that same financial instrument and are adjusted for assumptions about risk uncertainties and market conditions. Results from valuation models and valuation techniques in one period may not be indicative of future period fair value measurements.

Financial instruments owned and financial instruments sold, not yet purchased are stated at fair value, with related changes in unrealized appreciation or depreciation reflected in principal transactions, net in the accompanying Consolidated Statements of Operations. Equity interests in certain private equity securities and limited partnership interests are reflected in the Consolidated Financial Statements at fair value, which is often represented at initial cost until significant transactions or developments indicate that a change in the carrying value of the securities is appropriate. This represents our best estimate of exit price. Generally, the carrying values of these securities will be increased or decreased based on company performance in those instances where market values are readily ascertainable by reference to substantial transactions occurring in the marketplace or quoted market prices.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, we use various methods including market, income and cost approaches. Based on these approaches, we utilize assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, we are required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial instrument assets and liabilities carried at fair value have been classified and disclosed in one of the following three categories:

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as listed equities.

Level 2 includes those financial instruments that are valued using models or other valuation methodologies calibrated to observable market inputs. These models are primarily industry-standard models that consider various assumptions, including discount margins, credit spreads, discounted anticipated cash flows, the terms and liquidity of the instrument, the financial condition, operating results and credit ratings of the issuer or underlying company, the quoted market price of publicly traded securities with similar duration and yield, time value, yield curve, default rates, as well as other measurements. In order to be classified as Level 2, substantially all of these assumptions would need to be observable in the marketplace or able to be derived from observable data or supported by observable levels at which transactions are executed in the marketplace.

Level 3 is comprised of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are unobservable from objective sources. Included in this category are warrants, private securities, convertible notes and loans receivable received in conjunction with our investment banking and merchant banking activities and limited partnership interests.

#### *Compensation and Benefits*

The use of estimates is important in determining compensation and benefits expenses for interim and year end periods. A substantial portion of our compensation and benefits represents discretionary bonuses. In addition to the level of net revenues and pre-tax income, our overall compensation expense in any given year is influenced by prevailing labor markets, revenue mix and our use of equity-based compensation programs. We believe the most appropriate way to allocate estimated annual discretionary bonuses among interim periods is in proportion to net revenues and pre-tax income earned or reasonably expected. Consequently, we generally accrue interim compensation and benefits based on annual targeted compensation amounts and interim revenues received.

#### *Income Taxes*

Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. 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. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

## Edgar Filing: RODMAN & RENSHAW CAPITAL GROUP, INC. - Form 10-Q

Management on an ongoing basis, at least quarterly, evaluates our tax positions and ascertains whether those tax positions that may be uncertain require de-recognition or re-measurement. We do not believe that there are any material uncertain tax position requiring de-recognition or measurement.

### *Third quarter of 2010 compared to third quarter of 2009*

#### **Results of Operations**

The following table sets forth the results of operations for the three months ended September 30, 2010 and 2009 (in thousands of dollars):

	<b>Three Months Ended</b>			
	<b>September 30, 2010</b>		<b>September 30, 2009</b>	
		<b>% of Net Revenue</b>		<b>% of Net Revenue</b>
<b>Revenues:</b>				
Investment banking	\$ 15,101		31,253	
Merchant banking	76		28,628	
Commissions	919		1,642	
Conference fees	2,279		1,579	
Principal transactions	(1,044)		2,400	
Interest and other income	31		48	
	17,362		65,550	
<b>Operating expenses:</b>				
Compensation and benefits	13,530	77.9%	25,470	38.9%
Conference expense	3,916	22.6%	3,211	4.9%
Professional and consulting	1,464	8.4%	2,210	3.4%
Occupancy and equipment rentals	778	4.5%	764	1.2%
Advertising and marketing	179	1.0%	740	1.1%
Communication and market research	969	5.6%	715	1.1%
Depreciation and amortization	377	2.2%	516	0.8%
Business development	1,095	6.3%	468	0.7%
Office supplies	187	1.1%	186	0.3%
Impairment of goodwill / other intangibles		0.0%		0.0%
Bad debt expense	181	1.0%		0.0%
Other	713	4.1%	688	1.0%
	23,389	134.7%	34,968	53.3%
Income (loss) before income taxes	(6,027)	-34.7%	30,582	46.7%
Income tax expense (benefit)	(1,754)		42	
	(4,273)		30,540	
Less: Net income to non-controlling interest			(15,000)	
	\$ (4,273)		15,540	

Our operating income for the three months ended September 30, 2010 and 2009 included the following non-cash expenses (in thousands of dollars):

Three Months Ended

	September 30, 2010	September 30, 2009
Stock-based compensation	\$ 361	665
Amortization of forgivable loans	709	457
Depreciation and amortization	377	516
Total	\$ 1,447	1,638

**Revenues****Merchant Banking Segment**

Merchant banking revenue, consisting of gains on investments by our Aceras BioMedical joint venture and other principal investments activity, was \$0.1 million. The values at which our investments are carried on our books are adjusted to estimated fair value at the end of each quarter taking into account general economic and stock market conditions and those characteristics specific to the underlying investments.

**Capital Market Segment**

Within our Capital Markets segment we derive revenues from two primary sources investment banking and sales and trading.

Total revenue for the three months ended September 30, 2010 was \$17.3 million, representing a decrease of 53% from \$36.9 million in the comparable period of 2009. The decrease was primarily due to a \$16.2 million decrease in investment banking revenues.

**Investment Banking Revenue**

Our investment banking revenue is derived from private placement and underwriting activities and strategic advisory services. The following table sets forth our revenue from our investment banking activities for the three months ended September 30, 2010 and 2009 (in thousands of dollars):

	<b>Three Months Ended</b>	
	<b>September 30, 2010</b>	<b>September 30, 2009</b>
<b>Revenue:</b>		
Private placement and underwriting	\$ 5,996	30,296
Strategic advisory	9,105	957
Total investment banking revenue	\$ 15,101	31,253

Investment banking revenue was \$15.1 million for the three months ended September 30, 2010, which included \$0.5 million related to warrants received as compensation for activities as underwriter or placement agent valued using Black-Scholes, as compared to revenue of \$31.3 million, which included \$9.0 million related to warrants received as compensation for activities as underwriter or placement agent valued using Black-Scholes, in the comparable period of 2009:

Private placement and underwriting revenue for the quarter was \$6.0 million, including \$0.5 million of fair value related to warrants received, compared to \$30.3 million, including \$9.0 million of fair value related to warrants received, in the comparable period of 2009. The decrease in investment banking revenue is a result of a decrease in industry wide capital markets activity.

Strategic advisory fees for the three months ended September 30, 2010 were \$9.1 million, compared to \$1.0 million for comparable period of 2009. The increase in strategic advisory fees is due to the completion of two significant sell side engagements in the metals and mining space and the completion of one large advisory engagement in the oil and gas space.

**Sales and Trading**

Commission revenues decreased by \$0.7 million, or 44%, to \$0.9 million for the three months ended September 30, 2010, compared with \$1.6 million for the three months ended September 30, 2009.

**Principal Transactions**

Principal transactions revenue was a \$1.0 million loss for the three months ended September 30, 2010, compared with a \$2.4 million gain for the three months ended September 30, 2009.





*The following discussion combines Capital Markets and Merchant Banking expenses.*

**Expenses**

**Compensation**

Compensation and benefits expense decreased \$11.9 million, or 47%, while total net revenues decreased 66% for the three months ended September 30, 2010 as compared to the comparable 2009 period. The ratio of compensation to net revenues was 78% for the three months ended September 30, 2010 as compared to 50% for the comparable period of 2009. Employee compensation and benefits expense for the third quarter, excluding the \$1.0 million principal transactions loss, represented 74% of transaction related revenue (revenue excluding principal transactions), compared to 53% in the third quarter of 2009. We target a compensation ratio of 55% to 60% of transaction related revenue on a cumulative year to date basis.

**Non-Compensation Expenses**

Non-compensation expense was \$9.9 million for the three months ended September 30, 2010, comparable to the \$9.5 million for the prior year period. The increase was primarily due to the increase in conference expenses. Conference expense was \$3.9 million for the third quarter of 2010 as compared to \$3.2 million for the third quarter of 2009, due to an increase in presenting companies and participants at the fall 2010 conference as compared to the fall 2009 conference. Additionally, a \$0.7 million decrease in professional and consulting expense was significantly offset by a \$0.6 million increase in business development expense.

**Income Taxes**

Income tax benefit for the third quarter was \$1.8 million which represents a 29.1% effective tax rate. The quarterly tax rate was impacted by a tax rate differential due to lower than anticipated 2010 pre-tax income.

First nine months of 2010 compared to first nine months of 2009

## Results of Operations

The following table sets forth the results of operations for the nine months ended September 30, 2010 and 2009 (in thousands of dollars):

	Nine Months Ended			
	September 30, 2010		September 30, 2009	
	\$	% of Net Revenue	\$	% of Net Revenue
<b>Revenues:</b>				
Investment banking	\$ 65,152		65,129	
Merchant banking	1,316		28,628	
Commissions	2,905		3,155	
Conference fees	3,158		1,579	
Principal transactions	(11,204)		6,073	
Interest and other income	151		220	
<b>Total revenues</b>	<b>61,478</b>		<b>104,784</b>	
<b>Operating expenses:</b>				
Compensation and benefits	40,546	66.0%	49,381	47.1%
Conference expense	9,932	16.2%	3,211	3.1%
Professional and consulting	5,165	8.4%	5,050	4.8%
Occupancy and equipment rentals	2,332	3.8%	2,341	2.2%
Advertising and marketing	1,256	2.0%	2,018	1.9%
Communication and market research	2,600	4.2%	1,891	1.8%
Depreciation and amortization	1,231	2.0%	1,491	1.4%
Business development	3,630	5.9%	1,140	1.1%
Office supplies	485	0.8%	446	0.4%
Impairment of goodwill / other intangibles	933	1.5%	1,327	1.3%
Bad debt expense	666	1.1%		0.0%
Other	2,361	3.8%	2,252	2.2%
<b>Total operating expenses</b>	<b>71,137</b>	<b>115.7%</b>	<b>70,548</b>	<b>67.3%</b>
Income (loss) before income taxes	(9,659)	-15.7%	34,236	32.7%
Income tax expense (benefit)	(2,909)		51	
<b>Net income (loss)</b>	<b>(6,750)</b>		<b>34,185</b>	
Less: Net income to non-controlling interest			(15,000)	
<b>Net income (loss) to common stockholders</b>	<b>\$ (6,750)</b>		<b>19,185</b>	

Our operating income for the nine months ended September 30, 2010 and 2009 included the following non-cash expenses (in thousands of dollars):

Nine Months Ended	
September 30, 2010	September 30, 2009

	<u>          </u>	<u>          </u>
Stock-based compensation	\$ (517)	5,588
Amortization of forgivable loans	1,945	1,447
Depreciation and amortization	1,321	1,891
Impairment of goodwill / other intangibles	933	1,327
	<u>          </u>	<u>          </u>
Total	\$ 3,682	10,253
	<u>          </u>	<u>          </u>

**Revenues****Merchant Banking Segment**

Merchant banking revenue, consisting of gains (or losses) on investments by our Aceras BioMedical joint venture and other principal investments activity, was \$1.3 million. The value of Aceras' assets was determined based on a valuation prepared as of September 30, 2010, taking into consideration market prices, cash received, cost of the investment, market participant inputs, estimated cash flows based on entity specific criteria, purchase multiples paid in other comparable third-party transactions, market conditions, liquidity, operating results and other qualitative and quantitative factors. The values at which our investments are carried on our books are adjusted to estimated fair value at the end of each quarter taking into account general economic and stock market conditions and those characteristics specific to the underlying investments. The gain recognized in the first nine months of 2010 represents the change in the Aceras BioMedical valuation from December 31, 2009 and other principal investments activity.

**Capital Market Segment**

Within our Capital Markets segment we derive revenues from two primary sources – investment banking and sales and trading.

Total revenue for the nine months ended September 30, 2010 was \$60.2 million, representing a decrease of 21% from \$76.2 million in the comparable period of 2009. The decrease was primarily due to a \$17.3 million decrease in principal transactions revenues.

**Investment Banking Revenue**

Our investment banking revenue is derived from private placement and underwriting activities and strategic advisory services. The following table sets forth our revenue from our investment banking activities for the nine months ended September 30, 2010 and 2009 (in thousands of dollars):

	<b>Nine Months Ended</b>	
	<b>September 30, 2010</b>	<b>September 30, 2009</b>
<b>Revenue:</b>		
Private placement and underwriting	\$ 53,342	59,703
Strategic advisory	11,810	5,426
<b>Total investment banking revenue</b>	<b>\$ 65,152</b>	<b>65,129</b>

Investment banking revenue was \$65.2 million for the nine months ended September 30, 2010, which included \$9.3 million related to warrants received as compensation for activities as underwriter or placement agent valued using Black-Scholes, as compared to revenue of \$65.1 million, which included \$20.0 million related to warrants received as compensation for activities as underwriter or placement agent valued using Black-Scholes, in the comparable period of 2009:

Private placement and underwriting revenue for the first nine months was \$53.3 million, including \$9.3 million of fair value related to warrants received, compared to \$59.7 million, including \$20.0 million of fair value related to warrants received, in the comparable period of 2009.

Strategic advisory fees for the nine months ended September 30, 2010 were \$11.8 million, compared to \$5.4 million for comparable period of 2009. The increase in strategic advisory fees is due to the completion of two significant sell side engagements in the metals and mining space and the completion of one large advisory engagement in the oil and gas space.

**Sales and Trading**

Commission revenues decreased by \$0.3 million, or 8%, to \$2.9 million for the nine months ended September 30, 2010, compared with \$3.2 million for the nine months ended September 30, 2009.

**Principal Transactions**

Edgar Filing: RODMAN & RENSHAW CAPITAL GROUP, INC. - Form 10-Q

Principal transactions revenue was an \$11.2 million loss for the nine months ended September 30, 2010, compared with a \$6.1 million gain for the nine months ended September 30, 2009. The decline in our portfolio was consistent with the overall market decline in micro-cap China and biotechnology securities.

*The following discussion combines Capital Markets and Merchant Banking expenses.*

## **Expenses**

### **Compensation**

Compensation and benefits expense decreased \$8.8 million, or 18%, while total net revenues decreased 32% for the nine months ended September 30, 2010 as compared to the comparable 2009 period. The ratio of compensation to net revenues was 66% and 55% for the nine months ended September 30, 2010 and 2009, respectively. Employee compensation and benefits expense for the nine months ended September 30, 2010, excluding the \$11.2 million principal transactions loss, represented 56% of transaction related revenue (revenue excluding principal transactions), compared to 59% in the comparable 2009 period. We target a compensation ratio of 55% to 60% of transaction related revenue on a cumulative year to date basis.

### **Non-Compensation Expenses**

Non-compensation expense was \$30.6 million for the nine months ended September 30, 2010, versus \$21.2 million for the prior year period, or 50% of net revenues for the 2010 period versus 24% of net revenues for the comparable period of 2009. The increase in non-compensation was primarily due to expenses related to the China, London and New York conferences held in the first, second and third quarters, respectively.

### **Income Taxes**

Income tax benefit for the first nine months was \$2.9 million which represents a 30.1% effective tax rate. The tax rate was adversely affected by a tax rate differential due to lower than anticipated 2010 pre-tax income.

## **Liquidity and Capital Resources**

We have historically satisfied our capital and liquidity requirements through cash generated internally from operations.

At December 31, 2009, we had liquid assets, consisting of unrestricted cash, restricted cash, Level I assets less Level I liabilities, and current receivables of \$31.0 million. As of September 30, 2010, we had liquid assets of \$26.8 million.

The timing of bonus and retention compensation payments to our employees may significantly affect our cash position and liquidity from period-to-period. While our employees are generally paid salaries and draws on a semi-monthly basis during the year, bonus payments, which make up a significant portion of total compensation, will generally be paid semi-annually.

As a registered securities broker-dealer, we are subject to the net capital requirements of the uniform net capital requirement set forth in Rule 15c3-1 promulgated by the SEC pursuant to the Exchange Act. SEC regulations also provide that equity capital may not be withdrawn or cash dividends paid if certain minimum net capital requirements are not met. At September 30, 2010, we had excess net capital of \$5.3 million. Regulatory net capital requirements may change based on investment and underwriting activities.

Because of the nature of settlement transactions in our investment banking and brokerage business, we regularly monitor our liquidity position, including our cash and net capital positions. In light of the uncertainty with respect to the timing of a market recovery and its potential impact on the timing of our receipt of anticipated funds from operating activities, we regularly explore capital raising alternatives.

## **Cash Flows**

Unrestricted cash and cash equivalents were \$8.2 million at September 30, 2010, a decrease of \$4.4 million from \$12.6 million at December 31, 2009.

Operating activities provided \$2.9 million of cash and cash equivalents during the nine months ended September 30, 2010.

The primary components of cash used for the nine months ended September 30, 2010 were: (a) \$3.5 million in treasury stock purchases; (b) \$2.1 million in acquisition related payments; and (c) \$1.4 million in property, equipment and leasehold purchases.

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

Market risk represents the risk of loss that may result from the change in value of a financial instrument due to fluctuations in its market price. Market risk is inherent in all financial instruments. Market risk may be exacerbated in times of trading illiquidity when market participants refrain from transacting in normal quantities and/or at normal bid-offer spreads. Our exposure to market risk is directly related to our role as a financial intermediary in customer trading and to our market-making and investment activities.

We trade in equity securities as an active participant in both listed and OTC equity markets. We maintain securities in inventory to facilitate our market-making activities and customer order flow. Although we do not engage in proprietary trading, we may use a variety of risk management techniques and hedging strategies in the ordinary course of our trading business, including establishing position limits by product type and industry sector, closely monitoring inventory turnover, maintaining long and short positions in related securities, and using exchange-traded equity options and other derivative instruments. We do not use derivatives for speculative purposes.

In connection with our trading business, management also reviews reports appropriate to the risk profile of specific trading activities. Typically, market conditions are evaluated and transaction details and securities positions are reviewed.

These activities seek to ensure that trading strategies are within acceptable risk tolerance parameters, particularly when we commit our own capital to facilitate client trading. Our accounting department is actively involved in ensuring the integrity and clarity of the daily profit and loss statements, to the extent that we maintain trading positions for a period longer than one day. Activities include price verification procedures, position reconciliation and review of transaction booking. We believe that these procedures, which stress timely communications between our traders and senior management, are important elements of the risk management process.

At September 30, 2010, \$13.8 million, or 36% of \$38.9 million of financial instruments owned, at fair value, represented investments in warrants received in conjunction with our investment banking activities. \$9.7 million, or 25% of financial instruments owned is related to our merchant banking activity. The remaining 39% of the financial instruments owned represents listed equity securities, restricted securities and investments in affiliates at fair value and promissory notes received in conjunction with our investment banking activities.

The primary quantifiable market risk associated with our financial instruments is sensitivity to changes in interest rates. Interest rate risk represents the potential loss from adverse changes in market interest rates. The risk management strategies that we employ use various risk sensitivity metrics to measure such risk and to examine behavior under significant adverse market conditions. We use an interest rate sensitivity simulation to assess our interest rate risk exposure. For purposes of presenting the possible earnings effect of a hypothetical, adverse change in interest rates over the 12-month period from our reporting date, we assume that all interest rate sensitive financial instruments will be impacted by a hypothetical, immediate 100 basis point increase in interest rates as of the beginning of the period. The sensitivity is based upon the hypothetical assumption that all relevant types of interest rates that affect our results would increase instantaneously, simultaneously and to the same degree.

The sensitivity analyses of the interest rate sensitive financial instruments are hypothetical and should be used with caution. Changes in fair value based on a 1% or 2% variation in an estimate generally cannot be extrapolated because the relationship of the change in the estimate to the change in fair value may not be linear. Also, the effect of a variation in a particular estimate on the fair value of financial instruments is calculated independent of changes in any other estimate; in practice, changes in one factor may result in changes in another factor, which might magnify or counteract the sensitivities. In addition, the sensitivity analyses do not consider any action that we may take to mitigate the impact of any adverse changes in the key estimates.

Based on our analysis, as of September 30, 2010, the effect of a 100+/- basis point change in interest rates on the value of our warrant portfolio and promissory note and the resultant effect on our pre-tax income is considered immaterial.

The value of Aceras BioMedical's assets in our merchant banking activity was determined based on a valuation performed as of September 30, 2010, taking into consideration the cost of the investment, market participant inputs, non-binding offers made by third parties, estimated cash flows based on entity specific criteria, purchase multiples paid in other comparable third-party transactions, market conditions, liquidity, operating results and other qualitative and quantitative factors. The values at which our investments are carried on our books are adjusted to estimated fair value at the end of each quarter and the instability in general economic conditions, stock markets and regulatory conditions may result in significant changes in the estimated fair value of these investments. The primary quantifiable market risk associated with Aceras BioMedical's assets is sensitivity to changes in interest rates. Based on our analysis as of September 30, 2010 assuming a 100 basis point increase in interest rates, we estimated the reduction of pre-tax income to be immaterial.

#### Item 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e) as of the end of the period covered by this Report (the Evaluation Date). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

#### Item 1. Legal Proceedings

We face significant legal risks in our businesses and, in recent years, the volume of claims and amount of damages sought in litigation and regulatory proceedings against investment banking firms have been increasing. These risks include potential liability under Federal securities and other laws in connection with securities offerings and other transactions, as well as advice and opinions we may provide concerning strategic transactions. In addition, like most investment banking firms, we could be the subject of claims made by current and former employees arising out of their employment or termination of employment with us. These claims often relate to dissatisfaction with an employee's bonus or separation payment, or involve allegations that the employee was the subject of some form of discrimination, retaliation or other unlawful employment practice.

The following constitute our material pending legal proceedings as of the date of this Report:

##### *Rodman & Renshaw, LLC, et al. v. Matthew N. Murray*

In October 2006, we, as claimant, filed a statement of claim with FINRA against Matthew N. Murray (Murray), a former research analyst whom we terminated on March 2, 2006 for engaging in unprofessional conduct (the FINRA Action). The petition asserted claims for defamation, tortious interference with business relations, breach of fiduciary duty, conversion, breach of contract, and prima facie tort. We sought compensatory damages of at least \$10.0 million, plus punitive damages of at least \$15.0 million, together with certain injunctive relief. The claims related to wrongful activities allegedly undertaken by Murray.

Contemporaneously with the FINRA Action, we and our senior officers filed an action (the SDNY Action) in the U.S. Federal District Court for the Southern District of New York (Rodman & Renshaw, LLC, John Borer, Edward Rubin, Michael Vasinkevich, and Wesley K. Clark v. Mathew N. Murray, U.S. District Court, Southern District of New York, 06 CV 8210 (WHP)), alleging various claims for trademark dilution, trademark infringement, cybersquatting, cyberpiracy, and false designation of origin as a result of various websites allegedly created by or at the instance of Murray using, among other things, the given names and surnames of certain of our principals and high ranking employees. The SDNY Action, among other things, sought permanent injunctive relief restraining Murray from continuing the acts complained of, as well as compensatory and punitive damages, each in the amount of at least \$10.0 million. On October 6, 2006, we and the other plaintiffs moved for a temporary restraining order and preliminary injunction seeking an order enjoining Murray from continuing to maintain the offending websites and directing that the sites be taken down and that the domain names be transferred to us and to the other plaintiffs. Murray signed an order on October 10, 2006, effectively agreeing to all of our demands, which document was so-ordered by the Court on October 11, 2006. Murray filed an answer and counterclaims for breach of contract, defamation, and declaratory relief, seeking at least \$1.0 million each in compensatory damages and punitive damages in an amount to be determined at trial. Murray also alleged that he was promised an option to purchase two percent of Rodman for book value. By decision dated December 31, 2006, followed by order dated December 22, 2006, Judge Pauley stayed the SDNY Action and directed that the claims asserted there be brought in the FINRA Action.

In April 2007, the statement of claim in the FINRA Action was amended to include the claims first set forth in the complaint in the SDNY Action and to include the individual plaintiffs in the SDNY Action as additional claimants in the FINRA Action.



## Edgar Filing: RODMAN & RENSHAW CAPITAL GROUP, INC. - Form 10-Q

Trial hearings in the FINRA Action were bifurcated into two phases: liability and damages. Trial hearings in the liability phase of the FINRA Action concluded in August 2009. On September 18, 2009 the FINRA Panel issued its ruling sustaining our claims for defamation, tortious interference with business relations, breach of fiduciary duty, conversion, breach of contract, and prima facie tort and denying each of Murray's claims. Trial hearings in the damages phase of the FINRA Action concluded on March 18, 2010. On August 26, 2010, the FINRA Panel rendered an Award in our favor, granting Rodman \$10.7 million in damages, plus 9% per annum interest for the four-year period of 2006 through 2010.

In October 2010, we filed a Petition to Confirm the FINRA Panel Award with the Supreme Court of the State of New York, County of New York.

### Item 1A. Risk Factors

Information regarding our risk factors appears in Part I, Item 1A. of our annual report on Form 10-K for the fiscal year ended December 31, 2009, as amended. These risk factors describe some of the assumptions, risks, uncertainties and other factors that could adversely affect our business or that could otherwise result in changes that differ materially from our expectations. There have been no material changes to the risk factors contained in our annual report.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

#### *Issuer Purchase of Equity Securities*

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (1)
July 1 - July 31, 2010	205,500	\$ 2.84	205,500	1,479,533
August 1 - August 31, 2010	459,000	\$ 2.28	459,000	1,020,533
September 1 - September 30, 2010	335,000	\$ 2.35	335,000	685,533 (2)
<b>Total</b>	<b>999,500</b>	<b>\$ 2.42</b>	<b>999,500</b>	

(1) On May 25, 2010 we announced a stock repurchase program of up to an aggregate of \$5 million of our common stock.

(2) Based on the closing price per share of our common stock on September 30, 2010 (\$2.15 per share).

### Item 6. Exhibits

Exhibit No.	Description
10.1*	Operating Agreement of Aceras BioMedical LLC, as amended
31.1	Certification of Chief 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 Section 906 of the Sarbanes-Oxley Act of 2002.*

\* Filed herewith.



**SIGNATURES**

Pursuant to the requirements 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.

Date: November 15, 2010

**RODMAN & RENSHAW  
CAPITAL GROUP, INC.**

By: /s/ Edward Rubin

\_\_\_\_\_  
Name: Edward Rubin  
Title: Chief Executive Officer  
(Principal Executive Officer)

By: /s/ David J. Horin

\_\_\_\_\_  
Name: David J. Horin  
Title: Chief Financial Officer  
(Principal Financial Officer)