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)

x **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

o **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	**84-1374481**
(State or Other Jurisdiction of Incorporation Or Organization)	**(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

(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 x No o

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 o No o

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 o Accelerated Filer o Non-Accelerated Filer o Smaller Reporting Company x

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

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 con expressions. 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
- 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

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

RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES

PART I
FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

	Page
Consolidated Statements of Financial Condition as of September 30, 2010 (unaudited) and December 31, 2009	2
Consolidated Statements of Operations for the three and nine month periods ended September 30, 2010 and 2009 (unaudited)	3
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	4
Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2010 and 2009 (unaudited)	5
Notes to Consolidated Financial Statements (unaudited)	6

RODMAN & 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
Assets		
Cash and cash equivalents:		
Unrestricted	$ 8,228	$ 12,603
Restricted	1,447	2,943
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
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
Total Assets	$ 70,682	$ 94,886
Liabilities and Stockholders Equity		
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
Total Liabilities	18,173	19,445
Commitments and contingencies (See Note 6)		
Stockholders Equity		
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)
Total common stockholders equity	52,509	63,382
Non-controlling interest		12,059
Total Stockholders Equity	52,509	75,441

Total Liabilities and Stockholders Equity	$ 70,682	$ 94,886

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

RODMAN & 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
Revenues:				
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
Operating expenses:				
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
Net income (loss) per common share:				
Basic	$ (0.12)	0.44	(0.19)	0.54
Diluted	$ (0.12)	0.40	(0.19)	0.51
Weighted average common shares outstanding:				
Basic	36,113	35,645	36,338	35,373

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

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

RODMAN & 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
Common stock:		
Balance, beginning of the period	$ 36	35
Issuance of common stock		1
Treasury stock retirement	(2)	
Balance, end of the period	$ 34	36
Additional paid-in-capital:		
Balance, beginning of the period	$ 75,989	70,441
Stock based compensation	(517)	5,799
Treasury stock retirement	(4,419)	
Other	(80)	(251)
Balance, end of the period	$ 70,973	75,989
Accumulated deficit:		
Balance, beginning of the period	$ (11,609)	(38,907)
Net (loss) income	(6,750)	27,298
Balance, end of the period	$ (18,359)	(11,609)
Treasury stock, at cost:		
Balance, beginning of the period	$ (1,034)	(1,034)
Treasury stock purchases	(3,526)	
Treasury stock retirement	4,421	
Balance, end of the period	$ (139)	(1,034)
Non-controlling interest:		
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)
Balance, end of the period	$	12,059
Total stockholders equity	$ 52,509	75,441

Comprehensive income (loss):

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 & 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	Nine Months Ended September 30, 2009
Cash flows from operating activities:		
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
Cash flows from investing activities:		
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)
Cash provided by (used in) financing activities:		
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
Cash and cash equivalents beginning of period	12,603	18,383
Cash and cash equivalents end of period	$ 8,228	19,034
Supplemental disclosures of cash flow information:		
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.

5

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
Total investment banking revenue	$ 15,101	31,253	65,152	65,129

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**
Assets:				
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
Total financial instruments owned	$ 9,110		29,748	38,858
Liabilities:				
Financial instruments sold, not yet purchased	$ 35			35
Total financial instruments sold, not yet purchased	$ 35			35

	December 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
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
Total financial instruments owned	$ 5,180		50,976	56,156

Liabilities:				
Financial instruments sold, not yet purchased	$ 304			304
Total financial instruments sold, not yet purchased	$ 304			304

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.

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							
		Corporate Equity Securities	Merchant Banking	Warrants	Notes	Shells	Other	Total
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)
Balance, September 30, 2010	$	1,449	9,719	13,810	2,499	1,654	617	29,748
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							
		Corporate Equity Securities	Merchant Banking	Warrants	Notes	Shells	Other	Total
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)
Balance, September 30, 2010	$	1,449	9,719	13,810	2,499	1,654	617	29,748
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

	Corporate Equity Securities	Merchant Banking	Warrants	Notes	Shells	Other	Total
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
Balance, September 30, 2009	$ 1,313	30,012	25,176	1,714	1,774	1,125	61,114
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							
		Corporate Equity Securities	Merchant Banking	Warrants	Notes	Shells	Other	Total
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
Balance, September 30, 2009	$	1,313	30,012	25,176	1,714	1,774	1,125	61,114
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):

		Goodwill	Customer	Trademark	Total
Balance, December 31, 2008	$		2,686	220	2,906
Additions		1,540			1,540
Impairment		(1,327)			(1,327)
Amortization			(1,136)	(22)	(1,158)
Balance, December 31, 2009		213	1,550	198	1,961
Additions		121			121
Impairment			(933)		(933)
Amortization			(444)	(18)	(462