BROADPOINT GLEACHER SECURITIES GROUP, INC.
Form 10-Q
August 14, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2009**

-or-

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to**

Commission file number 014140
BROADPOINT GLEACHER SECURITIES GROUP, I N C.
(Exact name of registrant as specified in its charter)

New York	**22-2655804**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
12 East 49th Street, New York, New York	**10017**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code (212) 273-7100
Broadpoint Securities Group, Inc.
(Former name, former address and former fiscal year, if changed 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 þ 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 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.

Large Accelerated Filer o	Accelerated Filer o	Non-accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company þ

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.
117,873,453 shares of Common Stock were outstanding as of the close of business on August 3, 2009

BROADPOINT GLEACHER SECURITIES GROUP, INC. AND SUBSIDIARIES
FORM 10-Q
INDEX

Table of Contents

BROADPOINT GLEACHER SECURITIES GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

Part I Financial Information

Item 1. Financial Statements

(In thousands of dollars except for per share amounts and shares outstanding)	Three Months Ended June 30 2009	Three Months Ended June 30 2008	Six Months Ended June 30 2009	Six Months Ended June 30 2008
Revenues:				
Principal transactions	$ 65,264	$ 20,867	$ 117,305	$ 34,805
Commissions	4,693	971	9,595	1,251
Investment banking	8,199	3,529	12,459	3,824
Investment banking revenue from related party	4,837	5,755	5,767	6,130
Investment gains	991	162	982	237
Interest	11,504	3,176	22,152	7,851
Fees and other	1,679	629	3,169	1,153
Total revenues	97,167	35,089	171,429	55,251
Interest expense	4,422	1,009	8,124	3,828
Net revenues	92,745	34,080	163,305	51,423
Expenses (excluding interest):				
Compensation and benefits	63,537	26,126	115,944	43,279
Clearing, settlement and brokerage	1,169	667	1,981	1,054
Communications and data processing	2,653	2,239	4,940	3,899
Occupancy and depreciation	1,939	1,549	3,727	3,106
Selling	1,510	1,016	2,794	2,087
Restructuring		869		2,063
Other	2,922	1,867	5,568	4,663
Total expenses (excluding interest)	73,730	34,333	134,954	60,151
Income (loss) from continuing operations before income taxes	19,015	(253)	28,351	(8,728)
Income tax expense	2,880	763	7,237	1,536
Income (loss) from continuing operations	16,135	(1,016)	21,114	(10,264)
Income (loss) from discontinued operations, (net of taxes) (see Discontinued Operations note)	(14)	(79)	28	(74)
Net income (loss)	$ 16,121	$ (1,095)	$ 21,142	$ (10,338)

Per share data:				
Basic earnings:				
Continuing operations	$ 0.19	$ (0.02)	$ 0.27	$ (0.16)
Discontinued operations				
Net income (loss) per share	$ 0.19	$ (0.02)	$ 0.27	$ (0.16)
Diluted earnings:				
Continuing operations	$ 0.18	$ (0.02)	$ 0.25	$ (0.16)
Discontinued operations				
Net income (loss) per share	$ 0.18	$ (0.02)	$ 0.25	$ (0.16)
Weighted average common and common equivalent shares outstanding:				
Basic	83,325,632	70,888,424	79,157,920	65,972,687
Diluted	90,221,391	70,888,424	85,105,004	65,972,687

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

BROADPOINT GLEACHER SECURITIES GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

(In thousands of dollars, except for per share amounts and shares outstanding) As of	June 30 2009	December 31 2008
Assets		
Cash and cash equivalents	$ 20,191	$ 7,377
Cash and securities segregated for regulatory purposes	100	470
Receivables from:		
Brokers, dealers and clearing agencies	13,971	3,465
Customers, net of allowance for doubtful accounts of $48 and $48 at June 30, 2009 and December 31, 2008, respectively	365	
Related party	767	232
Others	7,886	4,490
Securities owned, at fair value (includes assets pledged of $652,740 and $602,454 at June 30, 2009 and December 31, 2008, respectively)	670,284	618,822
Investments	16,687	15,398
Office equipment and leasehold improvements, net	1,916	1,691
Goodwill	104,996	23,283
Intangible assets	22,404	8,239
Other assets	11,404	10,804
Total Assets	$ 870,971	$ 694,271
Liabilities and Stockholders Equity		
Liabilities		
Payables to:		
Brokers, dealers and clearing agencies	$ 551,941	$ 511,827
Related party	15,532	1,365
Others	1,429	1,423
Securities sold, but not yet purchased, at fair value	16,893	15,228
Accounts payable	2,216	2,172
Accrued compensation	50,011	31,939
Accrued expenses	6,017	6,178
Income taxes payable	9,261	
Mandatory redeemable preferred stock	24,303	24,187
Total Liabilities	677,603	594,319
Commitments and Contingencies		
Subordinated Debt	1,197	1,662
Stockholders Equity		
Preferred stock; $1.00 par value; authorized 1,500,000 shares; issued 1,000,000 (Mandatory Redeemable) shares		

Common stock; $.01 par value; authorized 200,000,000 and 100,000,000 shares, respectively; issued 103,957,958 and 81,556,246 shares, respectively; and outstanding 103,275,164 and 79,829,492 shares, respectively	1,040	815
Additional paid-in capital	308,162	236,824
Deferred compensation	534	954
Accumulated deficit	(116,920)	(138,062)
Treasury stock, at cost (682,794 shares and 1,726,754 shares, respectively)	(645)	(2,241)
Total Stockholders Equity	192,171	98,290
Total Liabilities and Stockholders Equity	$ 870,971	$ 694,271

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

Table of Contents

BROADPOINT GLEACHER SECURITIES GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six-months Ended June 30	
(In thousands of dollars)	2009	2008
Cash flows from operating activities:		
Net income (loss)	$ 21,142	$ (10,338)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	427	683
Amortization of debt issuance costs	200	
Amortization of intangible assets	755	80
Amortization of discount of mandatory redeemable preferred stock	116	
Amortization of stock compensation	4,782	3,164
Reduction of deferred tax valuation allowance	(5,991)	
Unrealized investment (gains), net	(1,066)	(298)
Realized losses (gains) on investments	83	(75)
Disposal of office equipment and leasehold improvements	15	
Changes in operating assets and liabilities:		
Cash and securities segregated for regulatory purposes	370	650
Net receivables from customers	(365)	3,168
Net payables to related party	828	(800)
Securities owned, at fair value	(51,462)	(106,665)
Other assets	(430)	(5,206)
Net payable to brokers, dealers and clearing agencies	29,608	117,278
Net receivable from others	(4,663)	(956)
Securities sold, but not yet purchased, at fair value	1,665	(46,747)
Accounts payable and accrued expenses	15,925	2,330
Net increase (decrease) in drafts payable	(123)	57
Income taxes payable, net	9,261	
Net cash providing by (used in) operating activities	21,077	(43,675)
Cash flows from investing activities:		
Purchases of office equipment and leasehold improvements	(522)	(700)
Payment for purchase of Debt Capital Markets Group		(809)
Payment for purchase of Gleacher Partners Inc., net of cash acquired	(6,560)	
Payment to sellers of American Technology Holdings, Inc.	(410)	
Capital contributions investments	(306)	
Proceeds from sale of investments		136
Net cash used in investing activities	(7,798)	(1,373)
Cash flows from financing activities:		
Proceeds from issuance of mandatory redeemable preferred stock and warrant		25,000

Payment of expenses for issuance of mandatory redeemable preferred stock		(671)
Repayment of subordinated debt	(465)	(1,300)
Proceeds from issuance of common stock		19,670
Payment of expenses for issuance of common stock		(185)
Net cash (used in) provided by financing activities	(465)	42,514
Increase (decrease) in cash	12,814	(2,534)
Cash at beginning of the period	7,377	31,747
Cash at the end of the period	$ 20,191	$ 29,213

Non Cash Investing and Financing Activities

During the six-months ended June 30, 2009, Goodwill increased by $80.0 million and Intangible assets increased by $14.9 million for the acquisition of Gleacher Partners Inc. Goodwill also increased by $1.7 million associated with earn-out payments related to the acquisition of American Technology Research Holdings, Inc.

During the six-months ended June 30, 2009 and 2008, the Company distributed $0.4 million and $0.6 million, respectively, of the Company s stock from the employee stock trust to satisfy deferred compensation liabilities payable to employees (see Stockholders Equity note).

Refer to Stock-Based Compensation Plans note for non-cash financing activities related to restricted stock.

Refer to Investments note for non-cash investing activities related to the Employee Investment Fund.

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

BROADPOINT GLEACHER SECURITIES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all normal, recurring adjustments necessary for a fair statement of results for such periods. The results for any interim period are not necessarily indicative of those for the full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2008.

Broadpoint Gleacher Securities Group, Inc., formerly Broadpoint Securities Group, Inc. (and including its subsidiaries, the Company), is an independent investment bank that provides corporations and institutional investors with strategic, research-based investment opportunities, capital raising, and financial advisory services, including merger and acquisition, restructuring, recapitalization and strategic alternative analysis services. The Company offers a diverse range of products through the Debt Capital Markets, Investment Banking and Broadpoint DESCAP divisions of Broadpoint Capital, Inc., its new Investment Banking financial advisory subsidiary, Gleacher Partners LLC, its Equity Capital Markets subsidiary, Broadpoint AmTech and its venture capital subsidiary, FA Technology Ventures Inc. The Company is a New York corporation, incorporated in 1985, and is traded on the NASDAQ Global Market (NASDAQ) under the symbol BPSG .

<u>Reclassification</u>

Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation. Certain 2008 amounts on the condensed consolidated statements of cash flows have been reclassified to conform to account for purchase and sale agreements entered into on to-be-announced (TBA) mortgage-backed securities. These TBA s were previously accounted for as Securities owned and Securities sold, but not yet purchased, and are now recorded as derivative transactions. These revisions decreased Securities owned by $1.0 million, decreased Securities sold, but not yet purchased by $77.9 million, and increased net payable to brokers, dealers, and clearing agencies by $76.9 million. There was no impact to the condensed consolidated statement of financial condition. In addition, amounts Payable to related parties of $1.4 million, as of December 31, 2008, have been reclassified from Payables to others to its own separate line item on the condensed consolidated statement of financial condition. The Company also reclassified $0.1 million from Investment gains to Principal transactions for the three months ended June 30, 2008 on the condensed consolidated statement of operations. There was no impact to total revenues related to this reclassification. The Company does not believe these revisions are material to any of the previously issued financial statements, based on the Company s assessment performed in accordance with the SEC s Staff Accounting Bulletin (SAB) No. 99.

<u>Recent Accounting Developments</u>

In December 2007, the FASB issued SFAS 141 (revised 2007), Business Combinations (SFAS 141(R)). Under SFAS 141(R), an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies and contingent consideration measured at their fair value at the acquisition date for any business combination consummated after the effective date. It further requires that acquisition-related costs are to be recognized separately from the acquisition and expensed as incurred. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, the Company applied the provisions of FASB 141(R) to business combinations occurring after January 1, 2009. The adoption of SFAS 141(R) resulted in approximately $0.44 million of certain acquisition related costs that were not otherwise capitalized in 2009, but were recognized separately and expensed as incurred.

In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 requires an entity to clearly identify and present ownership interests in subsidiaries held by parties other than the entity in the consolidated financial statements within the equity section but separate from the entity s equity. It also requires: (i) the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of earnings; (ii) changes in ownership interest be accounted for similarly, as equity transactions; and (iii) when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008 and shall be applied prospectively, except for the presentation and disclosure requirements, which shall be applied retrospectively for all periods. The adoption of SFAS 160 did not have a material effect on the Company s condensed consolidated financial statements.

Table of Contents

BROADPOINT GLEACHER SECURITIES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 amends and expands the disclosure requirements of SFAS 133, Accounting for Derivative Instruments and Hedging Activities , and requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair values and amounts of gains and losses on derivative contracts and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for the fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS 161 did not have a material impact on the Company s condensed consolidated financial statements.

In April of 2008, the FASB issued FSP 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 is intended to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The effective date for FSP 142-3 is for fiscal years beginning after December 15, 2008. The adoption of FSP 142-3 did not impact the Company s condensed consolidated financial statements.

In June 2008, FASB issued EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (EITF 03-6-1). EITF 03-6-1 applies to the calculation of earnings per share under SFAS No. 128 Earnings Per Share for share-based payment awards with rights to dividends or dividend equivalents. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The effective date for EITF 03-6-1 is for fiscal years beginning after December 15, 2008. EITF 03-6-1 was not applicable to the Company for the period ended June 30, 2009.

On October 10, 2008, the FASB issued FAP No 157-3, Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active (FSP 157-3). FSP 157-3 clarifies how SFAS 157, Fair Value Measurements, should be applied when valuing securities in markets that are not active. The adoption of FSP 157-3, effective September 30, 2008, did not have a material impact on the Company s condensed consolidated financial statements.

In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities (FSP FAS 140-4 and FIN 46(R)-8). FSP FAS 140-4 and FIN 46(R)-8 require public entities to provide additional disclosures about transfers of financial assets and require public enterprises to provide additional disclosures about their involvement with variable interest entities. FSP FAS 140-4 and FIN 46(R)-8 were adopted for the Company s year end consolidated financial statements as of December 31, 2008 and did not affect the Company s condensed statement of financial condition, results of operations or cash flows as they require only additional disclosures.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2). Under the FSP FAS 115-2 and FAS 124-2, only the portion of an other-than-temporary impairment on a debt security related to credit loss is recognized in current period earnings, with the remainder recognized in other comprehensive income, if the holder does not intend to sell the security and it is more likely than not that the holder will not be required to sell the security prior to recovery. Currently, the entire other-than-temporary impairment is recognized in current period earnings. FSP FAS 115-2 and FAS 124-2 are effective for periods ending after June 15, 2009. The adoption of FSP No. FAS 115-2 and FAS 124-2 did not have a material impact on the Company s condensed consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 require that the fair value disclosures prescribed by SFAS No. 107, Disclosures about Fair Value of Financial Instruments be included in financial statements prepared for interim periods. FSP FAS 107-1 and APB 28-1 are effective for periods ending after June 15, 2009. The Company adopted the interim disclosure about fair value of financial instruments during the second quarter 2009 and it did not have a material effect on the Company s condensed consolidated financial statements.

BROADPOINT GLEACHER SECURITIES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In April 2009, the FASB issued FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). FSP FAS 157-4 provides guidance for estimating fair value when the volume and level of activity for an asset or liability have decreased significantly. Specifically, FSP No FAS 157-4 lists factors which should be evaluated to determine whether a transaction is orderly, clarifies that adjustments to transactions or quoted prices may be necessary when the volume and level of activity for an asset or liability have decreased significantly, and provides guidance for determining the concurrent weighting of the transaction price relative to fair value indications from other valuation techniques when estimating fair value. The adoption of FSP FAS 157-4 during the second quarter did not have a material impact on the Company s condensed consolidated financial statements.

In May 2009, the FASB issued SFAS 165, Subsequent Events (SFAS 165). SFAS 165 establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending June 15, 2009.

In June 2009, the FASB issued SFAS 166, Accounting for Transfers of Financial Assets , an amendment of FASB No. 140 (SFAS 166). SFAS 166 improves financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. SFAS 166 modifies the financial-components approach used in SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. SFAS 166 also requires that a transferor recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. SFAS 166 is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within the first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently assessing the impact of SFAS 166 on the Company s condensed consolidated financial statements.

In June 2009, The FASB issued SFAS 167, Amendments to FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities (SFAS 167). SFAS 167 amends FASB Interpretation No. 46(R) to require an enterprise to perform an analysis to determine whether the enterprise variable interest or interest give it a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. Additionally, SFAS 167 amends FASB Interpretation No. 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS 167 also amends certain guidance in FASB Interpretation No. 46(R) for determining whether an entity is a variable interest entity and to add an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity s economic performance. SFAS 167 amends FASB Interpretation No. 46(R) to require enhanced disclosures and more transparent information about an enterprise s involvement in a variable interest entity. SFAS 167 is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within the first annual reporting period, and for interim and annual reporting periods thereafter. The Company is currently assessing the impact of SFAS 167 on the Company s condensed consolidated financial statements.

8

BROADPOINT GLEACHER SECURITIES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In June 2009, the FASB issued SFAS 168, The FASB Accounting Standards Codification (Codification) and the Hierarchy of Generally Accepted Accounting Principles, a replacement of SFAS No 162. The Codification will become the source of authoritative United States generally accepted accounting principles (GAAP) recognized by the FASB to be applied to nongovernment entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature included in the Codification will become nonauthoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company is currently assessing the impact of SFAS 168 on the Company s condensed consolidated statement of financial condition and results of operations.

Resale and Repurchase Agreements

Transactions involving purchases of securities under agreements to resell or sales of securities under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts plus accrued interest. It is the policy of the Company to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate. The Company had no outstanding resale or repurchase agreements as of June 30, 2009 and December 31, 2008.

2. Earnings Per Common Share

The Company calculates its basic and diluted earnings per share in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share . Basic earnings per share are computed based upon weighted-average shares outstanding during the period. Dilutive earnings per share is computed consistently with the basic computation while giving effect to all dilutive potential common shares and common share equivalents that were outstanding during the period. The Company uses the treasury stock method to reflect the potential dilutive effect of unvested stock awards, warrants, and unexercised options. The weighted-average shares outstanding as calculated are as follows:

The weighted-average shares outstanding as calculated are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Weighted average shares for basic earnings per share	83,325,632	70,888,424	79,157,920	65,972,687
Effect of dilutive common equivalent shares	6,895,759		5,947,084	
Weighted average shares and dilutive common stock equivalents for diluted earnings per share	90,221,391	70,888,424	85,105,004	65,972,687

For the three months and six months ended June 30, 2008, the Company excluded approximately 3.2 million and 3.1 million restricted stock units, respectively, in its computation of diluted earnings per share because they were anti-dilutive. Also, for the three and six months ended June 30, 2008, the Company excluded approximately 2.7 million and 2.3 million of options, respectively, in its computation of dilutive earnings per share because they were anti-dilutive. In addition, at June 30, 2009 and June 30, 2008, approximately 6.6 million and 6.2 million shares of restricted stock awards (see Stock-Based Compensation Plans note), respectively, which awards are included in shares outstanding and excluded from weighted average shares, are not included in the basic earnings per share computation because they were not vested as of June 30, 2009 and June 30, 2008, respectively.

Table of Contents

BROADPOINT GLEACHER SECURITIES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

3. Receivables from and Payables to Brokers, Dealers and Clearing Agencies

Amounts receivable from and payable to brokers, dealers and clearing agencies consist of the following:

(In thousands of dollars)	June 30 2009	December 31 2008
Receivable from clearing organizations	$ 9,557	$ 1,809
Syndicate and commissions receivable	3,663	535
Good faith deposits	751	1,121
Total Receivables from brokers, dealers and clearing agencies	$ 13,971	$ 3,465
Payable to clearing organizations	551,941	511,827
Total Payables to brokers, dealers and clearing agencies	$551,941	$511,827

Securities transactions are recorded on trade date basis. The related amounts receivable and payable for unsettled securities transactions are recorded on a net basis in receivables from or payables to brokers, dealers and clearing agencies on the unaudited condensed consolidated statements of financial condition.

The customers of the Company s subsidiaries agency and principal securities transactions are cleared through third party clearing agreements on a fully disclosed basis. Under these agreements, the clearing agents settle these transactions on a fully disclosed basis, collect margin receivables related to these transactions, monitor the credit standing and required margin levels related to these customers and, pursuant to margin guidelines, require the customer to deposit additional collateral with them or to reduce positions, if necessary.

4. Receivables from and Payables to Customers

At June 30, 2009, receivables from customers represent principal due from institutional clients relating to factor changes on mortgage backed securities and aged fails to deliver related to the Company s legacy self clearing business executed with institutional clients which has been fully reserved. Receivables from customers at June 30, 2009 and December 31, 2008 were $0.4 million and $0.0 million, net of allowance for doubtful accounts of $0.05 million and $0.05 million, respectively. There were no payables to customers at June 30, 2009 and December 31, 2008.

The Company s broker-dealer subsidiaries are parties to clearing agreements with clearing agents in connection with their securities trading activities. If the clearing agent incurs a loss, it has the right to pass the loss through to such subsidiaries which, as a result, exposes the Company to off-balance-sheet risk. The subsidiaries have retained the right to pursue collection or performance from customers who do not perform under their contractual obligations and monitors customer balances on a daily basis along with the credit standing of the clearing agent. As the potential amount of losses during the term of this contract has no maximum, the Company believes there is no maximum amount assignable to this indemnification.

Prior to the end of the second quarter of 2008, Broadpoint Capital, Inc. (Broadpoint Capital), one of the Company s broker-dealer subsidiaries, was self-clearing for certain transactions executed with institutional customers. Broadpoint Capital s non-institutional customer securities transactions, including those of officers, directors, employees and related individuals, were cleared through a third party under a clearing agreement. Under this agreement, the clearing agent executed and settled customer securities transactions, collected margin receivables related to these transactions, monitored the credit standing and required margin levels related to these customers and, pursuant to margin guidelines, required the customer to deposit additional collateral with them or to reduce positions, if necessary. In the event the customer was unable to fulfill its contractual obligations, the clearing agent had the option of either purchasing or selling the financial instrument underlying the contract, and as a result might have incurred a loss for which the clearing agent could have sought indemnification from Broadpoint Capital in the manner described in the prior paragraph.

BROADPOINT GLEACHER SECURITIES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

5. Financial Instruments

Substantially all of the Company s financial assets and liabilities are carried at fair value or contractual amounts, which approximate fair value. Financial instruments recorded at contractual amounts approximating fair value consist largely of receivables from and payables to brokers, dealers and clearing organizations, customers, related party and others. Securities owned and securities sold, but not yet purchased are recorded at fair value. Investments are recorded at fair value. Mandatory redeemable preferred stock was recorded at an amount approximating fair value and the financial instrument was valued in conjunction with the underlying warrant at the date of issuance recorded at a discount, which is being amortized over the duration of the debt (see Mandatory Redeemable Preferred Stock note). Management believes the carrying amount approximates fair value, as the yield on a similar instrument issued as of the balance sheet date would approximate the same as the yield on the original date of issuance. The carrying amount of liabilities subordinated to claims of general creditors associated with the Company s deferred compensation plan for key employees has a fair market of approximately $866,000.

The Company adopted the provisions of SFAS No. 157 Fair Value Measurements (SFAS No. 157) effective January 1, 2008. Under this standard, fair value is defined as the price that would be received upon the sale of an asset or paid upon the transfer of a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

SFAS No. 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1: Quoted prices in active markets that the Company has the ability to access at the reporting date, for identical assets or liabilities. Prices are not adjusted for the effects, if any, of the Company holding a large block relative to the overall trading volume (referred to as a blockage factor)

Level 2: Directly or indirectly observable prices in active markets for similar assets or liabilities; quoted prices for identical or similar items in markets that are not active; inputs other than quoted prices (e.g., interest rates, yield curves, credit risks, volatilities); or market corroborated inputs .

Level 3: Unobservable inputs that reflect management s own assumptions about the assumptions market participants would make.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

FSP FAS 157-3 is consistent with the joint press release the FASB issued with the Securities and Exchange Commission on September 30, 2008, which provides general clarification guidance on determining fair value under FASB 157 when markets are inactive. FSP FAS 157-3 specifically addresses the use of judgment in determining whether a transaction in a dislocated market represents fair value, the inclusion of market participant risk adjustments when an entity significantly adjusts observable market data based on unobservable inputs, and the degree of reliance to be placed on broker quotes or pricing services. FSP FAS 157-3 is effective October 10, 2008. The adoption of FSP

FAS 157-3 did not have a material effect on the Company s condensed consolidated financial statements.

11

Table of Contents

BROADPOINT GLEACHER SECURITIES GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly declined. FSP FAS 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted. The Company adopted FSP FAS 157-4 in the second quarter of 2009. The application of FSP FAS 157-4 did not have an impact on the Company s condensed consolidated financial statements.

Fair Valuation Methodology

Cash Instruments These financial assets represent cash in banks or cash invested in liquid money market funds. These investments are valued at par, which represent fair value, and are reported as Level 1.

Securities Owned/Securities Sold But Not Yet Purchased These financial assets represent investments in fixed income and equity securities.

Fixed income securities which are traded in active markets include on the run treasuries, investment grade debt, asset and mortgage backed securities including TBA s, and corporate debt. The on the run treasuries and TBA s are generally traded in active, quoted and highly liquid markets. These assets are generally classified as Level 1. TBA s which are not issued within the next earliest date for issuance are treated as derivatives and are generally classified as Level 1. As there is no quoted market for investment grade debt, asset and mortgage backed securities, and corporate debt, the Company utilizes observable market factors in determining fair value. These financial instruments are reported as Level 2. I