RODMAN & RENSHAW CAPITAL GROUP, INC.
Form 10-Q
May 13, 2011

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

(Mark One)

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

For the quarterly period ended March 31, 2011

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 May 2, 2011, there were 35,402,699 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 other financial items;
- 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 deem to be essential to the conduct of our business;
- 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

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RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Condition as of March 31, 2011 (Unaudited) and December 31, 2010
Dollars in Thousands, Except Per Share Amounts

	March 31, 2011	December 31, 2010
Assets		
Cash and cash equivalents:		
Unrestricted	$ 15,845	$ 13,350
Restricted	1,449	1,448
Total cash and cash equivalents	17,294	14,798
Financial instruments owned, at fair value:		
Corporate equity securities	4,889	7,497
Merchant banking investments	10,866	10,557
Warrants	11,613	15,570
Notes	2,531	2,197
Investments in shell companies	1,654	1,654
Other investments	418	505
Total financial instruments owned, at fair value	31,971	37,980
Private placement and other fees receivable	3,827	3,598
Receivable from brokers, dealers & clearing agencies	544	7,706
Prepaid expenses	2,462	2,549
Property and equipment, net	3,160	3,263
Deferred tax asset	8,388	6,801
Other assets	1,062	3,807
Goodwill and other intangible assets, net	515	601
Total Assets	$ 69,223	$ 81,103
Liabilities and Stockholders Equity		
Accrued compensation payable	$ 11,131	$ 19,287
Accounts payable and accrued expenses	5,314	4,947
Acquisitions related payables	564	690
Financial instruments sold, not yet purchased, at fair value	5	3,918
Total Liabilities	17,014	28,842
Commitments and contingencies (See Note 5)		
Stockholders Equity		
Common stock, $0.001, par value; 100,000,000 shares authorized; 33,117,498 and 33,484,098 issued as of March 31, 2011 and December 31, 2010, respectively	33	33
Preferred stock, $0.001 par value; 1,000,000 authorized; none issued		
Additional paid-in capital	69,655	69,654
Treasury stock, 60,000 shares in 2011, 97,500 shares in 2010	(127)	(260)
Accumulated deficit	(17,352)	(17,166)
Total common stockholders equity	52,209	52,261
Non-controlling interest		

Total Stockholders Equity	52,209	52,261
Total Liabilities and Stockholders Equity	$ 69,223	$ 81,103

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 Month Periods Ended March 31, 2011 and 2010 (Unaudited)
Amounts in Thousands, Except Per Share Amounts

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Revenues:		
Investment banking	$ 27,471	$ 29,268
Merchant banking	566	177
Commissions	1,162	1,014
Conference fees	446	
Principal transactions	(2,315)	(2,810)
Interest and other income	15	78
Total revenues	27,345	27,727
Operating expenses:		
Compensation and benefits	17,863	13,496
Conference expense	2,907	3,117
Professional and consulting	1,574	1,561
Occupancy and equipment rentals	773	768
Advertising and marketing	307	652
Communication and market research	914	761
Depreciation and amortization	397	520
Business development	1,299	995
Office supplies	161	208
Bad debt expense	37	485
Hudson acquisition related expense	418	
Other	984	837
Total operating expenses	27,634	23,400
Operating income (loss)	(289)	4,327
Income tax expense (benefit)	(103)	2,233
Net income (loss)	$ (186)	2,094
Net income (loss) per common share:		
Basic	$ (0.01)	0.06
Diluted	$ (0.01)	0.06
Weighted average common shares outstanding:		
Basic	35,208	36,149
Diluted	35,208	37,818

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 Loss for the Three Month Period Ended March 31, 2011 (Unaudited) and the Year Ended December 31, 2010
Dollars in Thousands

	Three Months Ended March 31, 2011	Year Ended December 31, 2010
Common stock:		
Balance, beginning of the period	$ 33	36
Treasury stock retirement		(3)
Balance, end of the period	$ 33	33
Additional paid-in-capital:		
Balance, beginning of the period	$ 69,654	75,989
Stock based compensation	851	(73)
Treasury stock retirement	(769)	(6,031)
Other	(81)	(231)
Balance, end of the period	$ 69,655	69,654
Accumulated deficit:		
Balance, beginning of the period	$ (17,166)	(11,609)
Net loss	(186)	(5,557)
Balance, end of the period	$ (17,352)	(17,166)
Treasury stock, at cost:		
Balance, beginning of the period	$ (260)	(1,034)
Treasury stock purchases	(636)	(5,260)
Treasury stock retirement	769	6,034
Balance, end of the period	$ (127)	(260)
Non-controlling interest:		
Balance, beginning of the period	$	12,059
Deconsolidation of Aceras BioMedical		(12,059)
Balance, end of the period	$	
Total stockholders equity	$ 52,209	52,261
Comprehensive loss:		
Net loss	$ (186)	(5,557)
Total comprehensive loss	$ (186)	(5,557)

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
Three month periods ended March 31, 2011 and 2010 (Unaudited)
Dollars in Thousands

	Three Months Ended March 31,	
	2011	**2010**
Cash flows from operating activities:		
Net income (loss)	$ (186)	2,094
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	397	520
Restricted cash	(1)	1,898
Stock based compensation	851	(1,077)
Changes in operating assets and liabilities:		
Financial instruments owned, at fair value	6,009	(2,425)
Private placement and other fees receivable	(229)	886
Receivable from brokers, dealers & clearing agencies	7,162	746
Prepaid expenses	87	(318)
Deferred tax asset and other assets	1,158	(67)
Financial instruments sold not yet purchased, at fair value	(3,913)	2,262
Accrued compensation payable	(8,156)	3,259
Accounts payable and accrued expenses	286	3,490
Net cash provided by operating activities	3,465	11,268
Cash flows from investing activities:		
Purchases of property and equipment	(208)	(366)
Acquisitions related earn-out payments	(126)	(410)
Net cash used in investing activities	(334)	(776)
Cash provided by (used in) financing activities:		
Purchase of treasury stock	(636)	
Net cash used in financing activities	(636)	
Net increase in cash and cash equivalents	2,495	10,492
Cash and cash equivalents beginning of period	13,350	12,603
Cash and cash equivalents end of period	$ 15,845	23,095
Supplemental disclosures of cash flow information:		
Income taxes paid	$ 204	493
Interest paid	$ 205	
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 April 8, 2011, the Company completed its acquisition of Hudson Holding Corporation (Hudson). The transaction was valued at approximately $5.3 million, based upon the $2.06 per share closing price of the Company s common stock on that date.

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 March 31, 2011and December 31, 2010, the results of operations for the three months ended March 31, 2011 and 2010, the changes in stockholders equity and comprehensive loss for the three months ended March 31, 2011 and the year ended December 31, 2010 and cash flows for the three months ended March 31, 2011 and 2010. The results for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for any subsequent quarter or the full fiscal year ending December 31, 2011.

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, 2010 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, such financial instruments are 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, restricted 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 expected 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 implied volatility of traded options or warrants, when available, or 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 which takes into consideration, when applicable, 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 estimated and recorded when 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 month periods ended March 31, 2011 and 2010 (in thousands of dollars):

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

	Three Months Ended March 31,	
	2011	**2010**
Private placements	$ 10,637	16,821
Warrants	4,346	6,119
Strategic advisory	1,793	4,628
Underwriting	10,695	1,700
Total investment banking revenue	$ 27,471	29,268

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 $0.6 million. The value of Aceras BioMedical s assets was determined based on a valuation which takes into consideration, when applicable, 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 three months of 2011 represents the change in the Aceras BioMedical valuation from December 31, 2010 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.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 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 March 31, 2011, 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.

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 March 31, 2011, the net balance of the loans was $0.4 million, which is included in other assets on the Consolidated Statements of Financial Condition. During the first three months of 2011, the Company issued an additional $0.1 million in forgivable loans. The Company recorded $0.5 million and $0.6 million of compensation expense related to the amortization of these loans during the three months ended March 31, 2011 and 2010, 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 Loss.

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NOTE 3 - 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 March 31, 2011 and December 31, 2010 by level within the fair value hierarchy (in thousands of dollars):

	March 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial instruments owned:				
Corporate equity securities	$ 2,178		2,711	4,889
Merchant banking investments			10,866	10,866
Warrants			11,613	11,613
Notes			2,531	2,531
Investments in shell companies			1,654	1,654
Other investments			418	418
Total financial instruments owned	$ 2,178		29,793	31,971
Liabilities:				
Financial instruments sold, not yet purchased	$ 5			5
Total financial instruments sold, not yet purchased	$ 5			5

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial instruments owned:				
Corporate equity securities	$ 5,700		1,797	7,497
Merchant banking investments			10,557	10,557
Warrants			15,570	15,570
Notes			2,197	2,197
Investments in shell companies			1,654	1,654
Other investments			505	505
Total financial instruments owned	$ 5,700		32,280	37,980
Liabilities:				
Financial instruments sold, not yet purchased	$ 3,918			3,918
Total financial instruments sold, not yet purchased	$ 3,918			3,918

Financial instruments are assessed on a quarterly basis to determine the appropriate classification within the fair value hierarchy, as defined by ASC 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 ended March 31, 2011.

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.

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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 which takes into consideration, when applicable, 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 consist of equity limited partnerships which are categorized as Level 3 financial instruments. The investments are valued based on net asset values.

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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 months ended March 31, 2011 and 2010 (in thousands of dollars):

	Three Months Ended March 31, 2011						
	Corporate Equity Securities	Merchant Banking	Warrants	Notes	Shells	Other	Total
Balance, December 31, 2010	$ 1,797	10,557	15,570	2,197	1,654	505	32,280
Purchases / issuances	788		3,040				3,828
Sales / settlements			(3,921)				(3,921)
Realized and unrealized gains/(losses) (1)	126	309	(3,076)	334		(87)	(2,394)
Balance, March 31, 2011	$ 2,711	10,866	11,613	2,531	1,654	418	29,793
Change in unrealized gains/(losses) relating to instruments still held at March 31, 2011	$ 126	309	(3,771)	336		(87)	(3,087)

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

	Three Months Ended March 31, 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			4,348	1,032			5,380
Sales / settlements			(2,641)	(500)			(3,141)
Deconsolidation of Aceras BioMedical		(6,882)					(6,882)
Realized and unrealized gains/(losses) (1)		66	(4,165)	261		(111)	(3,949)
Balance, March 31, 2010	$ 1,313	15,435	20,487	2,713	1,654	782	42,384
Change in unrealized gains/(losses) relating to instruments still held at March 31, 2010	$	66	(4,562)	261		(111)	(4,346)

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

NOTE 4 Goodwill and Other Intangible Assets

The following table represents a summary of the changes to goodwill and other intangible assets from December 31, 2010 to March 31, 2011 (in thousands of dollars):

	Goodwill	Customer Relationships	Trademark	Total
Balance, December 31, 2010	$ 334	92	175	601
Amortization		(80)	(6)	(86)
Balance, March 31, 2011	$ 334	12	169	515

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NOTE 5 - 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 March 31, 2011, there were no significant changes in the Company s lease agreements since December 31, 2010.

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 2012 but is subject to automatic extension.

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 March 31, 2011, $11.9 million of this commitment remained unfunded.

NOTE 6 - 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 March 31, 2011, R&R had net capital of $14.8 million, which was $13.8 million in excess of its required net capital of $1.0 million.

NOTE 7 - 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.

Management evaluated the realizability of its deferred tax assets as of March 31, 2011 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 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 8 - Stock-Based Compensation

The Company recorded stock-based compensation of $0.9 million and ($1.1 million) for the three month periods ended March 31, 2011 and 2010, respectively. The negative stock-based compensation in the 2010 period was due to several large forfeitures offsetting stock-based compensation expense during the period. The unamortized deferred stock-based compensation balance as of March 31, 2011 was $5.5 million and will be fully amortized through 2016.

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There were no stock option grants in the first three months of 2011. A summary of stock options outstanding as of March 31, 2011 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, 2010	4,107	$ 4.07	$ 0.96		
Expired					
Outstanding at March 31, 2011	4,107	$ 4.07	$ 0.96	1.2 years	$
Exercisable at March 31, 2011	4,107	$ 4.07	$ 0.96	1.2 years	$

Total compensation cost associated with stock options was $0 and $51,000 for the three months ended March 31, 2011, and 2010, 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, 2010	88	$ 2.33
Forfeited	5	2.28
Vested	(93)	2.33
Balance at March 31, 2011		$

Total compensation cost associated with restricted stock was $37,000 and $55,000 for the three months ended March 31, 2011and 2010, 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**
Balance at December 31, 2010	5,563	1,707	$ 1.28	$ 1.13
Granted	100		1.52	
Forfeited	(1)		0.24	
Vested	(791)	791	1.15	1.15

Balance at March 31, 2011	4,871	2,498	$ 1.31	$ 1.14

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

Total compensation cost associated with RSUs was $0.8 million and ($1.2 million) for the three months ended March 31, 2011 and 2010, respectively. The negative stock-based compensation in the 2010 period was due to several large forfeitures offsetting stock-based compensation expense during the period.

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NOTE 9 - Weighted Average Shares Outstanding

The table below reconciles weighted average number of common shares outstanding, basic and diluted, for the three month periods ended March 31, 2011 and 2010 (weighted average shares in thousands):

		Three months ended March 31,	
		2011	**2010**
Shares outstanding	(1)	33,290	35,366
Unearned restricted stock	(2)	(45)	(144)
Earned restricted stock units	(3)	1,963	927
Shares outstanding, basic		35,208	36,149
Stock options	(4)		375
Non-vested restricted stocks and RSUs	(4)		1,294
Shares outstanding, diluted		35,208	37,818

(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 10 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 Rodman Principal Investments, LLC (RPI), which holds a 50% stake in Aceras BioMedical and serves as the holding vehicle for all of its principal-related businesses. At March 31, 2011, $11.9 million of this commitment remained unfunded. RPI receives 50% of Aceras BioMedical s economic interest in all investments made.

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

		Capital Markets	Merchant Banking	Total
2011				
Three Months Ended March 31				
Total revenues	$	26.7	0.6	27.3
Expenses	$	26.8	0.8	27.6
Operating income	$	(0.1)	(0.2)	(0.3)
Segment assets	$	58.3	10.9	69.2
2010				
Three Months Ended March 31				
Total revenues	$	27.5	0.2	27.7
Expenses	$	22.8	0.6	23.4
Operating income	$	4.7	(0.4)	4.3
Segment assets	$	76.1	16.5	92.6

NOTE 11 Subsequent Event

On April 8, 2011, the Company completed its acquisition of Hudson Holding Corporation (Hudson). The transaction was valued at approximately $5.3 million, based upon the $2.06 per share closing price of the Company s common stock on that date.

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 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 March 31, 2011, our outstanding investment commitment to Aceras BioMedical to fund operations and the joint venture s principal investments in life science companies was $11.9 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, such financial instruments are 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.

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.

First quarter of 2011 compared to first quarter of 2010

Results of Operations

The following table sets forth the results of operations for the three months ended March 31, 2011 and 2010 (in thousands of dollars):

	Three Months Ended			
	March 31, 2011		March 31, 2010	
		% of Net Revenue		% of Net Revenue
Revenues:				
Investment banking	$ 27,471		29,268	
Merchant banking	566		177	
Commissions	1,162		1,014	
Conference fees	446			
Principal transactions	(2,315)		(2,810)	
Interest and other income	15		78	
Total revenues	27,345		27,727	
Operating expenses:				
Compensation and benefits	17,863	65.3%	13,496	48.7%
Conference expense	2,907	10.6%	3,117	11.2%
Professional and consulting	1,574	5.8%	1,561	5.6%
Occupancy and equipment rentals	773	2.8%	768	2.8%
Advertising and marketing	307	1.1%	652	2.4%
Communication and market research	914	3.3%	761	2.7%
Depreciation and amortization	397	1.5%	520	1.9%
Business development	1,299	4.8%	995	3.6%
Office supplies	161	0.6%	208	0.8%
Bad debt expense	37	0.1%	485	1.7%
Hudson acquisition related expense	418	1.5%		0%
Other	984	3.6%	837	3.0%
Total operating expenses	27,634	101.1%	23,400	84.4%
Income (loss) before income taxes	(289)	-1.1%	4,327	15.6%
Income tax expense (benefit)	(103)		2,233	
Net income (loss)	$ (186)		2,094	

Our operating income for the three months ended March 31, 2011 and 2010 included the following non-cash expenses (in thousands of dollars):

	Three Months Ended	
	March 31, 2011	March 31, 2010
Stock-based compensation	$ 851	(1,077)
Amortization of forgivable loans	546	575

Depreciation and amortization	397	520
Total	$ 1,794	18

Revenues

Merchant Banking Segment

Merchant banking revenue, consisting of gains on investments by our Aceras BioMedical joint venture and other principal investments activity, was $0.6 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 March 31, 2011 was approximately $26.7 million, representing a slight decrease from $27.5 million in the comparable period of 2010.

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 March 31, 2011 and 2010 (in thousands of dollars):

	Three Months Ended	
	March 31, 2011	**March 31, 2010**
Revenue:		
Private placement and underwriting	$ 25,678	27,568
Strategic advisory	1,793	1,700
Total investment banking revenue	$ 27,471	29,268

Investment banking revenue was $27.5 million for the three months ended March 31, 2011, which included $4.3 million related to warrants received as compensation for activities as underwriter or placement agent valued using Black-Scholes, as compared to revenue of $29.3 million, which included $6.1 million related to warrants received as compensation for activities as underwriter or placement agent valued using Black-Scholes, in the comparable period of 2010:

§ Private placement and underwriting revenue for the quarter was $25.7 million, including $4.3 million of fair value related to warrants received, compared to $27.6 million, including $6.1 million of fair value related to warrants received, in the comparable period of 2010. The decrease in investment banking revenue is a result of a decrease in China based capital markets activity.

§ Strategic advisory fees for the three months ended March 31, 2011 were $1.8 million, compared to $1.7 million for comparable period of 2010.

Sales and Trading

Commission revenues increased by $0.2 million, or 15%, to $1.2 million for the three months ended March 31, 2011, compared with $1.0 million for the three months ended March 31, 2010.

Principal Transactions

Principal transactions revenue was a $2.3 million loss for the three months ended March 31, 2011, compared with a $2.8 million loss for the three months ended March 31, 2010.

The following discussion combines Capital Markets and Merchant Banking expenses.

Expenses

Compensation

Compensation and benefits expense increased $4.4 million, or 32%, while total net revenues decreased slightly for the three months ended March 31, 2011 as compared to the comparable 2010 period. The ratio of compensation to net revenues was 65% for the three months ended March 31, 2011 as compared to 49% for the comparable period of 2010. Employee compensation and benefits expense for the first quarter of 2011, excluding the $2.3 million principal transactions loss, represented 60% of transaction related revenue (revenue excluding principal transactions), compared to 44% in the first quarter of 2010. Employee compensation and benefits expense for the first quarter of 2010 was impacted by the reversals of stock-based compensation related to several large RSU forfeitures. We target a compensation ratio of 60% of transaction related revenue on a cumulative year to date basis.

Non-Compensation Expenses

Non-compensation expense was $9.8 million for the three months ended March 31, 2011, comparable to the $9.9 million for the prior year period. The first quarter of 2011 includes Hudson acquisition related costs of $0.4 million.

Income Taxes

Income taxes was a $0.1 million benefit and a $2.2 million expense and the effective tax rate was 36% and 52% for the three months ended March 31, 2011 and 2010, respectively. The tax rate for the three months ended March 31, 2010 was adversely affected by a prior period adjustment to write-down a deferred tax asset related to stock based compensation. The effective tax rate, without this item, would have been 40%.

Liquidity and Capital Resources

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

At December 31, 2010, we had liquid assets, consisting of unrestricted cash, restricted cash, Level I assets less Level I liabilities, and current receivables of $30.7 million. As of March 31, 2011, we had liquid assets of $26.0 million. The decrease in liquid assets primarily relates to 2010 year-end bonus payments of $14.7 million and treasury stock purchases of $0.6 million, partially offset by cash inflows from operations.

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 March 31, 2011, we had excess net capital of $13.8 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 approximately $15.8 million at March 31, 2011, an increase of approximately $2.5 million from approximately $13.4 million at December 31, 2010.

Operating activities provided $3.5 million of cash and cash equivalents during the three months ended March 31, 2011.

The primary components of cash used for the three months ended March 31, 2011 were: (a) $0.6 million in treasury stock purchases; (b) $0.2 million in property, equipment and leasehold purchases; and $0.1 million in acquisition related payments.

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 March 31, 2011, $11.6 million, or 36% of $32.0 million of financial instruments owned, at fair value, represented investments in warrants received in conjunction with our investment banking activities. $10.9 million, or 34% of financial instruments owned is related to our merchant banking activity. The remaining 30% 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 March 31, 2011, 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 which takes into consideration, when applicable, 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 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 March 31, 2011 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, as we have expanded, including into China, 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, including public offerings in which we act as underwriter, as well as advice and opinions we may provide concerning strategic transactions. While we are typically indemnified in connection with such claims, indemnification provisions are often difficult to enforce, particularly in circumstances where the indemnifying party s principal assets are located outside of the United States, as is the case in many of our underwritten offerings. 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.

During 2011, we have been named as a party defendant in several litigations brought as class actions relating to underwritten public offering that we participated in involving China based businesses. Each of these actions is in the very preliminary stages and while we believe that we have meritorious defenses, the proceedings are at a far too early stage to effectively evaluate the merits or predict the outcome. There is no assurance that we will not be named in incremental actions brought or that the result of the pending actions or any future actions, or the costs of defense of those actions, will not adversely affect us.

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, 2010, 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)
Jan 1 - Jan 31, 2011	22,500	$ 2.72	22,500	2,271,867
Feb 1 - Feb 28, 2011	40,000	$ 2.14	40,000	2,231,867
Mar 1 - Mar 31, 2011	230,000	$ 2.13	230,000	2,001,867 (2)
Total	292,500	$ 2.17	292,500	

(1) On May 25, 2010 we announced a stock repurchase program covering the purchase of up to an aggregate of $5 million of our common stock in the open market in accordance with rule 10b-18 of the Securities Exchange Act of 1934, as amended. On November 15, 2010 we announced an increase of an additional $5 million to our stock repurchase program.
(2) Based on the closing price per share of our common stock on March 31, 2011 ($2.05 per share).

Item 6. Exhibits

Exhibit No.	Description
2.1	Amended and Restated Agreement and Plan of Merger dated as of January 4, 2011 among Rodman & Renshaw Capital Group, Inc., HHC Acquisition, Inc. and Hudson Holding Corporation (filed on January 31, 2011 as an exhibit to the Registration Statement on Form S-4 (SEC No. 333-171988) and incorporated herein by reference).
10.1**	Employment Agreement, dated April 8, 2011, between Rodman & Renshaw Capital Group, Inc. and Anthony M. Sanfilippo (filed on April 8, 2011 as an exhibit to the Current Report on Form 8-K and incorporated herein by reference).
10.2**	Restricted Stock Unit Agreement, dated April 8, 2011, between Rodman & Renshaw Capital Group, Inc. and Anthony M. Sanfilippo (filed on April 8, 2011 as an exhibit to the Current Report on Form 8-K and incorporated herein by reference).
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 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith.
** This exhibit is a management contract or compensatory plan or agreement.

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: May 13, 2011

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)