RODMAN & RENSHAW CAPITAL GROUP, INC.
Form 10-Q
May 14, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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______________________________

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 x Smaller Reporting Company o

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 12, 2009, there were 34,822,708 shares of the registrants 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, Section 21E of 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,” “plans,” “anticipates,” “estimates,” “potential,” “intends,” “approximates” or the negative or other variation of such terms and other comparable 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 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 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;
- our ability to execute our growth, expansion and acquisition strategies;
- 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;
- 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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Item 1. Condensed Consolidated Financial Statements

RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition as of March 31, 2009 (Unaudited) and December 31, 2008

	March 31, 2009 (Unaudited)	December 31, 2008
Assets		
Cash and cash equivalents		
Unrestricted	$ 7,557,424	$ 18,383,224
Restricted	1,196,695	3,371,108
Total cash and cash equivalents	8,754,119	21,754,332
Financial instruments owned, at fair value	12,813,174	13,872,184
Private placement and other fees receivable	1,380,450	1,974,571
Due from clearing broker	1,035,264	2,713,594
Prepaid expenses	424,315	439,377
Property and equipment, net	1,898,166	1,389,705
Other assets	4,148,723	2,632,256
Due from affiliate	109,934	-
Other intangible assets, net	2,616,756	2,906,436
Total Assets	$ 33,180,901	$ 47,682,455
Liabilities and Stockholders' Equity		
Accrued compensation payable	$ 3,402,076	$ 4,882,422
Accounts payable and accrued expenses	2,163,393	5,556,374
Acquisitions related payables	4,991,535	4,950,000
Financial instruments sold, not yet purchased, at fair value	7,897	1,360,767
Due to affiliate, net	-	398,169
Total Liabilities	10,564,901	17,147,732
Commitments and contingencies (See note 6)		
Stockholders' Equity		
Common stock, $0.001, par value; 100,000,000 shares authorized; 35,357,208 and 35,044,670 issued as of March 31, 2009 and December 31, 2008, respectively	35,250	35,045
Preferred stock, $0.001 par value; 1,000,000 authorized; none issued	-	-
Additional paid-in capital	74,805,819	70,441,027
Treasury Stock, 534,500 shares	(1,034,409)	(1,034,409)
Accumulated deficit	(51,190,660)	(38,906,940)
Total Stockholders' Equity	22,616,000	30,534,723
Total Liabilities and Stockholders' equity	$ 33,180,901	$ 47,682,455

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

RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations for the Three Month Periods Ended March 31, 2009 and 2008 (Unaudited)

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008
Revenues:		
Investment banking	$ 6,883,095	$ 8,902,176
Principal transactions	(1,962,535)	4,341,699
Commissions	808,176	1,563,365
Interest and other income	110,876	373,772
Total revenues	$ 5,839,612	$ 15,181,012
Operating expenses:		
Compensation and benefits	12,065,752	8,251,226
Other employee benefits	159,210	110,722
Broker dealer commissions	14,026	92,945
Professional and consulting fees	1,537,546	911,039
Business development	537,924	1,025,756
Advertising	303,428	127,332
Communication and market research	653,465	560,127
Office supplies	92,142	125,416
Occupancy and equipment rentals	793,431	317,996
Clearance and execution charges	133,132	76,854
Depreciation and amortization	634,526	137,239
Impairment of goodwill	682,672	1,065,000
Other	529,571	294,632
Total operating expenses	18,136,825	13,096,284
(Loss) Income before income taxes	(12,297,213)	2,084,728
Income tax benefit (expense)	13,493	(987,285)
Net (loss) income	$ (12,283,720)	$ 1,097,443
Weighted average common shares outstanding:		
Basic	34,794,518	32,930,516
Diluted	34,794,518	33,126,852
Earnings per common share		
Net (loss) income per share basic	$ (0.35)	$ 0.03
Net (loss) income per share diluted	$ (0.35)	$ 0.03

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

RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Changes in Stockholders Equity and Comprehensive Income for the Three Month Period Ended March 31, 2009 (Unaudited) and the Year Ended December 31, 2008

	For the Three Months Ended March 31, 2009	For the Year Ended December 31, 2008
Common stock:		
Balance, beginning of the period	$ 35,045	$ 33,750
Issuance of common stock	205	2,950
Conversion of common stock to RSUs	-	(1,655)
Balance, end of period	$ 35,250	$ 35,045
Additional paid-in-capital:		
Balance, beginning of the period	$ 70,441,027	$ 62,345,072
Stock based compensation	4,220,114	5,604,576
Conversion of common stock to RSUs	-	1,655
Additional paid-in-capital	144,678	2,491,261
Issuance of restricted stock	-	(1,470)
Issuance of common stock	-	(67)
Balance, end of period	$ 74,805,819	$ 70,441,027
Accumulated deficit:		
Balance, beginning of the period	$ (38,906,940)	$ (1,469,905)
Net loss	(12,283,720)	(37,437,035)
Balance, end of period	$ (51,190,660)	$ (38,906,940)
Treasury stock, at cost:		
Balance, beginning of the period	$ (1,034,409)	$ -
Purchases	-	(1,034,409)
Balance, end of period	$ (1,034,409)	$ (1,034,409)
Accumulated other comprehensive (loss) income:		
Balance, beginning of the period	$ -	$ (140,757)
Reclassification adjustment for unrealized gains (losses) on investments	-	140,757
Balance, end of period	$ -	$ -
Total Shareholders Equity	$ 22,616,000	$ 30,534,723
Comprehensive Income:		
Net loss	$ (12,283,720)	$ (37,437,035)
Other comprehensive income	-	140,757
Total comprehensive loss	$ (12,283,720)	$ (37,296,278)

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

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RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows for the
Three month periods ended March 31, 2009 and 2008 (Unaudited)

	For the Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities		
Net (loss) income	$ (12,283,720)	$ 1,097,443
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	634,526	137,239
Stock based compensation	4,220,114	1,238,778
Realized gain on available for sale investments	-	140,757
Impairment of goodwill	682,672	1,065,000
Deferred taxes, net	-	717,472
Changes in operating assets and liabilities:		
Restricted cash	2,174,413	-
Financial instruments owned, at fair value	1,075,376	(7,867,792)
Private placement and other fees receivable	544,148	(1,585,301)
Due from clearing broker	1,678,330	893,229
Prepaid expenses	15,062	(1,390,384)
Other assets, net	(1,516,467)	(21,080)
Financial instruments sold not yet purchased, at fair value	(1,352,869)	(123,096)
Accrued compensation payable	(1,480,346)	(3,019,856)
Accounts payable and accrued expenses	(3,443,981)	(1,748,113)
Due to affiliate, net	(508,104)	319,023
Income taxes payable	-	(48,067)
Conferences deposits	-	724,555
Net cash used in operating activities	(9,560,846)	(9,470,193)
Cash flows from investing activities		
Purchases of property and equipment	(853,307)	(29,171)
Acquisition of Miller & Mathis LLC	-	(4,508,065)
Acquisition of COSCO Capital Management LLC	(411,647)	
Net cash used in investing activities	(1,264,954)	(4,537,236)
Cash provided by (used in) financing activities		
Purchase of treasury stock	-	(612,621)
Distributions to members	-	(1,440,000)
Net cash used in financing activities	-	(2,052,621)
Net decrease in cash and cash equivalents	(10,825,800)	(16,060,050)
Cash and cash equivalents beginning of period	18,383,224	54,834,189
Cash and cash equivalents end of period	$ 7,557,424	$ 38,774,139
Supplemental disclosures of cash flow information		
Income taxes paid	$ -	$ 175,000

Non-cash investing and financing activities

Accrued liabilities related to the acquisitions of Miller Mathis and COSCO	$ -	$ 2,950,000
Additional paid-in-capital related to acquisition of COSCO	178,285	-
Issuance of restricted stock to former equity holders of COSCO	205	-
Cancellation of common stock in satisfaction of withholding tax requirements	33,607	-
Issuance of restricted stock to employees	$ -	$ 1,470

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

RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED 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 which, through its various subsidiaries, is engaged in the investment banking business. 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 registered with the Financial Industry Regulatory Authority, Inc. (“FINRA”). RRCG and its subsidiaries, including R&R, are collectively referred to herein as the “Company”.

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

Miller Mathis & Co., LLC Acquisition

On March 24, 2008, the Company acquired Miller Mathis & Co., LLC (“Miller Mathis”), an independent mergers and acquisition advisor to the global steel industry. The total fixed consideration for the acquisition was $7.3 million, with $4.4 million paid in cash at closing, and the balance ($2.9 million) payable on the first anniversary of the closing date. The Company had to pay up to $0.4 of the deferred consideration in cash, and at its election, had the right to pay up to $2.5 million of the deferred consideration in cash or common stock. Up to an additional $2.1 million of purchase price is payable in cash or common stock, or a combination thereof, on the second anniversary of the closing date, upon the achievement of significant growth targets.

As of March 1, 2009, the Company effected a modification to the agreements defining the ongoing obligations between Miller Mathis and the Company. Pursuant to the modification agreement, the $2.9 million deferred payment that was due to Miller Mathis on the first anniversary of the closing date was reduced to $1.0 million, which amount was paid on April 1, 2009. The remaining $1.9 million will be paid to Miller Mathis contingent upon future revenues generated by the metals/mining group.

See Note 5 of the Notes to Condensed Consolidated Financial Statements for further explanation.

COSCO Capital Management, LLC Acquisition

On June 2, 2008, the Company consummated the acquisition of all the operating assets of COSCO Capital Management LLC, COSCO Capital Texas LP and Private Energy Securities, Inc. (collectively, “COSCO”), related companies that provide investment banking services to the oil and gas sectors, principally in the United States and Canada.

Under the terms of the acquisition agreement, the fixed purchase price was $10.1 million, $8.1 million of which was paid at closing by the delivery of $6.1 million in cash and 1,121,138 shares of restricted common stock of the Company valued at $2.0 million. The $2.0 million balance of the fixed purchase price was payable over the two year period following the closing. Additionally, Rodman will pay (a) up to a maximum of $4.0 million over the 21 month period following the closing in respect of certain revenue earned, but not yet received, under contracts acquired (of which $3.0 million was paid in cash and restricted stock through March 31, 2009), and (b) certain other incremental payments based upon the acquired business achieving performance targets during the two year period following the closing. In addition, the acquisition of COSCO contained a 21 month contingency for additional contingent consideration to the selling shareholders, based on future revenues. This additional consideration was payable annually in a mix of cash and equity.

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(UNAUDITED)

As of May 1, 2009, the Company effected a modification to the agreements defining the ongoing obligations between COSCO and the Company. Pursuant to the modification agreement, the $2.0 million deferred payment that was due to COSCO in equal installments in June 2009 and 2010 was eliminated. This amount ($2.0 million) will be paid to COSCO contingent upon future revenues generated by the COSCO group. The Company will pay $0.6 million in contingent earn-out payments (based upon revenues generated through March 31, 2009) in May 2009 and will pay the remaining balance of the earn-out payments as future revenues are generated.

See Note 5 of the Notes to Condensed Consolidated Financial Statements for further explanation.

Aceras Partners LLC Formation

On May 12, 2008, the Company formed Aceras BioMedical LLC (“Aceras BioMedical”), a joint venture through which the Company, in partnership with Aceras Partners, LLC (“Aceras Partners”), will make principal investments in early-stage biotechnology and life sciences companies. In conjunction with the establishment of the joint venture, the Company formed a new wholly-owned subsidiary, Rodman Principal Investments, LLC (“RPI”), which holds a 50% stake in Aceras BioMedical and serves as the holding vehicle for all of the Company’s principal-related businesses. RPI has made an initial investment commitment to Aceras BioMedical of up to $30.0 million over five years to fund operations and the joint venture’s principal investments in life science companies. RPI will have a 50% economic interest in all investments made by Aceras.

Under the provisions of Financial Accounting Standard Board (“FASB”) Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (“FIN 46(R)”), the Company determined that Aceras Partners meets the definition of a variable interest entity (“VIE”). See Note 2 of Notes to Condensed Consolidated Financial Statements, Principles of Consolidation, for further explanation. The Company is the primary beneficiary of Aceras BioMedical and therefore has consolidated Aceras BioMedical with these financial statements.

As of May 1, 2009, the Company effected a modification to the agreements defining the ongoing obligations between Aceras BioMedical and the Company. Pursuant to the modification agreement, the annual fixed operating budget was reduced from $2.5 million to $1.0 million and the maximum targeted investment amount in each prospective investee was reduced from $2.0 million to $0.5 million. Potential investments in excess of $0.5 million require consent of the Company. As of May 12, 2009, the Company’s remaining commitment to the joint venture was approximately $17.4 million ($27.6 million and $28.6 million at March 31, 2009 and December 31, 2008, respectively). See Note 6 of the Notes to Condensed Consolidated Financial Statements for further explanation.

NOTE 2 - <u>Summary of Significant Accounting Policies</u>

Interim Financial Statements

The accompanying unaudited condensed 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 condensed 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, 2009, the results of operations for the three months ended March 31, 2009 and 2008, the changes in stockholders’ equity and comprehensive income for the three months ended March 31, 2009 and 2008 and cash flows for the three months ended March 31, 2009 and 2008. The results for the three months ended March 31, 2009 are not necessarily indicative of the results to be expected for any subsequent quarter or the full fiscal year ending December 31, 2009.

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”).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2008 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, in accordance with FIN 46(R), the Company consolidates entities which lack characteristics of an operating entity or business for which it is the primary beneficiary. Under FIN 46(R), the primary beneficiary is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests, directly or implied. 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 a corporation, or when it holds at least 3% of a limited partnership interest. If the Company doesn't 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.

Financial Instruments at Fair Value

The Company adopted Statement of Financial Accounting Standard ("SFAS") 157 *Fair Value Measurements*, as of January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. SFAS 157 defines fair value as "the price that would be received to sell an asset and paid to transfer a liability in an ordinary transaction between market participants at the measurement date." Additionally, SFAS 157 disallows the use of block discounts on positions traded in an active market and nullifies certain guidance in Emerging Issues Task Force No. 02-3 regarding the recognition of inception gains on certain derivative transactions.

Under SFAS 157, fair value generally is based on quoted market prices. If quoted market prices are not available, fair value is determined based on other relevant factors, including dealer price quotations, price activity for equivalent instruments and valuation pricing models. Among the factors considered in determining the fair value of financial instruments are discount margins, weighted average spreads, discounted anticipated cash flows, the terms and liquidity of the instrument, the financial condition, operating results and credit ratings of the issuer or underlying company, the quoted market price of publicly traded securities with similar duration and yield, as well as other measurements. Certain financial instruments have bid and ask prices that can be observed in the marketplace. For financial instruments whose inputs are based on bid-ask prices, mid-market pricing is applied and adjusted to the point within the bid-ask range that meets the Company's best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

The valuation process for financial instruments may include the use of valuation models and other techniques. Adjustments to valuations derived from valuation models may be made when, in management's judgment, either the size of the position in the financial instrument in a nonactive 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.

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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 Condensed Consolidated Statements of Operations. Equity interests in certain private equity securities and limited partnership interests are reflected in the Condensed 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 as used in SFAS 157. 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.

As defined in SFAS 157, 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. Financial instruments in this category include certain warrants received in conjunction with the Company's investment banking activities.

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 and convertible notes received in conjunction with the Company's investment banking activities, private equity securities and limited partnership interests.

Use of Estimates

The preparation of condensed 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 condensed financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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 adoption of SFAS 157 on January 1, 2008 and dynamic market conditions prompted the Company to undertake a comprehensive review of its fair value accounting polices. Upon completion of this review, management determined that the Company's warrants should be valued using the Black-Scholes Option Pricing

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Model (Black-Scholes), rather than a fair value model based on historical entity specific criteria. Management concluded that Black-Scholes provides a measurement tool that is consistent with the definition of fair value in accordance with SFAS 157. The model requires management to use five inputs: price, risk-free interest rate, exercise price, time remaining on the warrant and price volatility. When the Company initially receives a new warrant in connection with, or prior to an initial public offering, its calculated volatility factor is based on the volatility of an index of comparable companies, since there is no price history for new publicly traded or private companies. As each warrant approaches its expiration date, its volatility factor is derived primarily from the historical prices of its underlying common stock. Management cannot assure that it ultimately will be able to liquidate any of the Companys warrants in a way that will realize the value attributed to the warrants in the financial statements through the application of Black-Scholes.

The change in estimate was implemented in the first quarter of 2008. The impact of the change in warrants valuation was accounted for on a prospective basis in accordance with SFAS 154, *Accounting Changes and Error Corrections*. As a result of the Companys change in this valuation technique, it recorded additional principal transaction revenue and investment banking revenue of $9.2 million and $1.5 million, respectively, during the first quarter of 2008.

The fair value of warrants is recorded in financial instruments owned, at fair value on the Companys Condensed Consolidated Statements of Financial Condition. When a new warrant is received, its fair value is included in investment banking revenue on 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.

Short Sales

Beginning in the second quarter of 2008, the Company engaged in short sales through a third party managed fund in order to hedge the market risk associated with its warrant portfolio. Short selling is the practice of selling securities that are borrowed from a third party. The Company is required to return securities equivalent to those borrowed for the short sale at its prime brokers demand. Pending the return of such securities, the Company deposits with the prime broker as collateral the proceeds of the short sale plus additional cash. The amount of the required deposit, which earns interest, is adjusted periodically to reflect any change in the market price of the securities that the Company is required to return to the prime broker. During the first quarter of 2009 the Company closed the majority of its short sales positions, which resulted in a realized gain of $0.2 million. For the foreseeable future, the Company does not plan to hedge its warrants portfolio since such hedging requires the use of its cash as collateral.

Revenue Recognition

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

When the Company receives warrants as a component of its compensation for investment banking services, revenue is recognized based on the fair value of those instruments, in accordance with Emerging Issued Task Force (EITF) 00-8, *Accounting by a Grantee for an Equity Instrument to be Received in Conjunction with Providing Goods or Services*. Revenue from the receipt of warrants is recognized on the date the warrants are received based on the estimated fair value of the securities received as estimated using Black-Scholes, which takes into account the exercise price, remaining life of the warrant, the current price and expected 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 months ended March 31, 2009 and 2008:

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	For the three months ended	
	March 31, 2009	March 31, 2008
Private placement cash fees	$ 2,451,604	$ 6,589,193
Private placement warrant and note fees	1,373,848	1,484,629
Advisory cash fees	2,886,643	728,872
Underwriting cash fees	171,000	99,482
Total investment banking revenue	$ 6,883,095	$ 8,902,176

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 Companys 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 receives 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. During the first quarter of 2009, the Company did not record any conference revenues or incur any conference expenses.

Premises and Equipment

Premises 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

In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, goodwill is not amortized; instead, it is reviewed for impairment at least annually and written down when impaired. The Company operates as a single reporting unit. Goodwill is 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 their fair values net of accumulated amortization since the acquisition date. Customer relationships acquired in the normal course of the Companys operations 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%

Pursuant to the provisions of SFAS 142, 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

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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.

Income Taxes

Prior to the Exchange, Holding was a limited liability company ("LLC") filing Federal, New York State, and New York City Unincorporated Business Tax ("UBT") returns. As an LLC, Holding was not subject to Federal or State income taxes. Rather, the members of Holding were taxed on Holding's Federal and State taxable income. Accordingly, there was no provision or liability for Federal or State income taxes recorded in Holding's consolidated financial statements prior to the Exchange, except for the New York City UBT. For the short year that began on July 11, 2007 and ended December 31, 2007, the Company was subject to Federal, New York State, and New York City corporate income taxes. For the year ended December 31, 2008, the Company is required to file Federal and several State corporate tax returns in addition to New York State and New York City.

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.

In June 2006, the FASB issued Interpretation No. 48, *Accounting of Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 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. FIN 48 is effective for fiscal years beginning after December 31, 2006. The Company adopted FIN 48 effective with its 2007 fiscal year. Management does not believe that the Company has any material uncertain tax position requiring recognition or measurement in accordance with the provisions of FIN 48.

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 Condensed Consolidated Statements of Financial Condition or the Condensed 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 in accordance with SFAS 5, *Accounting for Contingencies*, and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss an Interpretation of FASB Statement No. 5*. 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, 2009, there were no legal reserves accrued in the Condensed Consolidated Statements of Financial Condition.

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 R&Rs business activities include broker-dealers and clearing organizations, banks and other financial institutions.

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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

During the year ended December 31, 2008, the Company issued $3.3 million of forgivable loans as a retention vehicle to certain new employees. The Company issued an additional $2.0 million in forgivable loans in January 2009. These loans are subject to a substantive service requirement by the employees and are amortized over a three year service period on a straight-line basis. As of March 31, 2009, the balance of the loans was $4.0 million, which is included in other assets on the Condensed Consolidated Statements of Financial Condition. The Company recorded $0.5 million of compensation expense during the quarter ended March 31, 2009 related to the amortization of these loans.

Stock-Based Compensation

On January 1, 2006, the Company adopted SFAS No. 123(R) *Share-Based Payment* ("SFAS 123(R)"), using the modified prospective method, which requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of 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 granted are presented as part of stock based compensation in the Condensed Consolidated Statements of Stockholders' Equity.

Earnings Per Share

The Company computes earnings per share ("EPS") in accordance with SFAS No. 128, *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.

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NOTE 3 - Recent Accounting Pronouncements

SFAS 141 (revised). In December 2007, the FASB issued Statement No. 141 (revised), “*Business Combinations*” (SFAS 141(R)), which attempts to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This Statement replaces SFAS 141, “*Business Combinations*”. SFAS 141(R) retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement also retains the guidance in SFAS 141 for identifying and recognizing intangible assets separately from goodwill. The most significant changes in SFAS 141(R) are: (1) acquisition costs and restructuring costs would now be expensed; (2) stock consideration will be measured based on the quoted market price as of the acquisition date instead of the date the deal is announced; (3) contingent consideration arising from contractual and noncontractual contingencies that meet the more-likely-than not recognition threshold will be measured and recognized as an asset or liability at fair value at the acquisition date using a probability-weighted discounted cash flows model, with subsequent changes in fair value reflected in earnings. Noncontractual contingencies that do not meet the more likely- than-not criteria will continue to be recognized when they are probable and reasonably estimable; and (4) acquirer records 100% step-up to fair value for all assets & liabilities, including the minority interest portion, and goodwill is recorded as if a 100% interest was acquired. SFAS 141(R) is effective January 1, 2009. The Company will evaluate the impact of SFAS 141(R) on its Consolidated Financial Statements when future business acquisitions occur.

SFAS 160. In December 2007, the FASB issued FASB 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 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 income; changes in ownership interest be accounted for similarly, as equity transactions; and 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. Accordingly, the Company adopted SFAS No. 160 effective January 1, 2009. The adoption did not have a significant impact on the Company’s Consolidated Financial Statements.

SFAS 161. 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 Company adopted SFAS No. 161 effective January 1, 2009. SFAS 161 did not impact the Company’s Consolidated Financial Statements.

FSP FAS 157-3. In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is not Active* (“FSP FAS 157-3”). FSP FAS 157-3 is consistent with the joint press release the FASB issued with the SEC 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 was effective immediately upon issuance and did not have a material effect on the Company’s Consolidated Financial Statements.

FSP FAS 115-2 and FSP FAS 157-4. In April 2009, the FASB released FASB Staff Position (FSP) FAS 115-2, FAS 124-2, and EITF 99-20-2, “*Recognition and Presentation of Other-Than-Temporary Impairments*” (FSP FAS 115-2). FSP FAS 115-2 was issued contemporaneously with FSP FAS 157- 4, “*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability has Significantly Decreased and Identifying Transactions that are Not Orderly*” (FSP FAS 157-4) and FSP FAS 107-1 and APB 28-1*Interim Disclosures About Fair Value of*

Financial Instruments (FSP FAS 107-1). FSP FAS 115-2 provides new guidance on the recognition and presentation of an other-than-temporary impairment of debt securities, such as our auction rate investment instruments. FSP 157-4 indicates that if an entity determines that either the volume and/or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. FSP 115-2 and FSP 157-4 are effective for interim and annual periods ending after

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June 15, 2009, with early adoption permitted. FSP 157-4 must be applied prospectively. The Company has elected to adopt FSP 115-2 and FSP 157-4 in the first quarter of 2009. The adoption of FSP 115-2 and FSP 157-4 had no material impact on the Company's Consolidated Financial Statements.

FSP EITF 03-6-1. In June 2008, the FASB issued FASB Staff Position ("FSP") EITF 03-6-1, "*Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, Earnings per Share. Under the guidance of FSP EITF 03-6-1, 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. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of *FSP EITF 03-6-1* did not have an effect on the Company's calculation of earnings per share and related disclosures, as its share-based payment awards include forfeitable rights to dividends or dividend equivalents declared, and as such these awards do not meet the definition of participating securities in their current form.

NOTE 4 - Financial Instruments, at Fair Value

The following is a summary of the fair value of financial instruments owned and financial instruments sold, not yet purchased, as of March 31, 2009:

	March 31, 2009	
	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased
Securities	$ 944,218	$ 7,897
Derivatives	7,050,900	-
Investment in private securities	627,309	-
Investments in shells	1,773,826	-
Loans and loan commitments	1,674,731	-
Other investments	742,189	-
	$ 12,813,174	$ 7,897

The following is a summary of the Company's financial assets and liabilities that are accounted for at fair value as of March 31, 2009 by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Financial instruments owned:				
Securities	$ 944,218	$ -	$ 627,309	$ 1,571,527
Derivatives	-	293,977	6,756,923	7,050,900
Investments in shells	-	-	1,773,826	1,773,826
Loans and loan commitments	-	-	1,674,731	1,674,731
Other investments	-	-	742,189	742,189
Total financial instruments owned	$ 944,218	$ 293,977	$ 11,574,979	$ 12,813,174

Liabilities:								
Financial instruments sold, not yet purchased	$	7,897	$	-	$	-	$	7,897
Total financial instruments sold, not yet purchased	$	7,897	$	-	$	-	$	7,897

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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, 2009:

	Derivatives Instruments Assets	Non-Derivatives Assets
Balance, January 1, 2009	$ 5,621,989	$ 5,130,282
Purchases/ issuances	1,373,848	10,895
Sales/ Settlements	(253,212)	-
Realized and unrealized gain (loss) (1)	14,298	(323,121)
Balance, March 31, 2009	$ 6,756,923	$ 4,818,056
Change in unrealized gains/losses relating to instruments still held at March 31, 2009	$ 14,298	$ (323,121)

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

NOTE 5 – Goodwill and Other Intangible Assets

The Company performed an impairment test of goodwill as of December 31, 2008. Fair value of the reporting unit was determined using the weighted average of discounted cash flow, price to tangible book value multiple and market capitalization. The significant estimates used in the fair value methodologies include estimates of future cash flows, future growth rates and the weighted average cost of capital of the reporting unit. The impairment test resulted in the recognition of an impairment charge of $16.8 million related to Miller Mathis and COSCO, which was the total balance of goodwill related to these acquisitions.

The Company performed an impairment test of the customer relationships and trade name intangibles as of December 31, 2008, which resulted in the recognition of an impairment charge of $3.8 million of customer relationships.

Goodwill was tested again for impairment as of March 31, 2009, after monitoring the relationship of the Company's market capitalization to both its book value and tangible book value and observing a decline in the Company's market capitalization related to both financial services industry-wide and to Company specific factors. The impairment test resulted in the recognition of an impairment charge of $0.7 million related to a COSCO contingent earn-out payable in cash and common stock.

The following table represents a summary of the changes to goodwill and other intangible assets from January 1, 2008 through March 31, 2009:

	Goodwill	Customer Relationship	Trademark	Total
Balance, January 1, 2008	$ 1,065,000	$ -	$ -	$ 1,065,000
Additions	16,829,608	8,170,387	237,875	25,237,870
Impairment	(17,894,608)	(3,824,674)	-	(21,719,282)
Amortization	-	(1,659,902)	(17,250)	(1,677,152)
Balance, December 31, 2008	-	2,685,811	220,625	2,906,436
Additions	682,672	-	-	682,672
Impairment	(682,672)	-	-	(682,672)
Amortization	-	(283,930)	(5,750)	(289,680)

Balance, March 31, 2009	$	-	$	2,401,881	$	214,875	$	2,616,756

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NOTE 6 - Commitments and Contingencies

Lease Commitments

The Company leases its headquarters and other office locations under non-cancelable lease agreements which expire between 2009 and 2013. As of March 31, 2009, there were no significant changes in the Company's lease agreements since December 31, 2008.

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 2010 but is subject to automatic extension.

Equity Commitment

The Company, through RPI, has made an initial investment commitment to Aceras Partners of up to $30.0 million over five years to fund operations and the joint venture's principal investments in life science companies. As of May 1, 2009, the Aceras joint venture agreement was modified to reduce the annual Aceras operating budget by $1.5 million per year. This reduction, in conjunction with an Aceras portfolio investment in May 2009 and the transfer to the joint venture in May 2009 of a security position which the Company was carrying reduced the Company's future funding commitment to the joint venture to approximately $17.4 million ($27.6 million at March 31, 2009).

NOTE 7 - Net Capital Requirements

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

At March 31, 2009, R&R had net capital of $3,924,830, which was $3,674,830 in excess of its required net capital of $250,000.

NOTE 8 - Income Taxes

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

The Company has recorded a valuation allowance of $19.1 million against the deferred tax asset as of March 31, 2009, after considering all available evidence and potential tax-planning strategies related to the amount of the tax asset that is more likely than not to be realized.

The Company does not anticipate any change in the amount of unrecognized tax benefits within the next twelve months.

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NOTE 9 - Stock-Based Compensation

Effective January 1, 2006, the Company adopted FASB 123R, *Stock Based Compensation*, and adopted the modified prospective method with respect to its accounting for the transition to FASB 123R.

From February 4 though March 17, 2008, the Company granted a total of 1,470,238 restricted shares to employees.

From May 23 through June 2, 2008, the Company granted to certain new employees a total of 3,252,338 performance and service based RSUs in two tranches. In the first tranche, the Company granted 2,877,338 RSUs which vest over a 20 month period; in the second tranche, the Company granted 375,000 RSUs which vest over a 27 month period. Both series have sale restrictions until August 2010. The fair value of these RSUs is net of a 52% discount for lack of marketability based on a protective put method model.

In August 2008, the Company granted to certain employees a total of 807,842 performance and service based RSUs. The RSUs vest over a three year period and have sale restrictions for an additional two years subsequent to vesting. The fair value of these RSUs is net of a 49% discount for lack of marketability based on a protective put method model.

In October 2008, the Company granted to certain employees and directors a total of 1,858,502 performance and service based RSUs. The RSUs granted to employees vest over a three year period while RSUs granted to directors vest immediately. All RSUs have sale restrictions for an additional two years subsequent to vesting. The fair value of these RSUs is net of a 63% discount for lack of marketability based on a protective put method model.

In February 2009, the Company granted to certain employees a total of 779,942 service based RSUs. The RSUs vest over a three year period and have sale restrictions for an additional two years subsequent to vesting. The fair value of these RSUs is net of a 65% discount for lack of marketability based on a protective put method model.

The Company recorded $4,220,114 and $1,238,763 of stock-based compensation for the three months ended March 31, 2009 and 2008, respectively. The unamortized deferred stock-based compensation balance as of March 31, 2009 amounts to $3,896,853 and will be fully amortized through 2012.

There were no option grants in the first three months of 2009. A summary of options (with retroactive effect given for the Exchange) outstanding as of March 31, 2009 is as follows:

Stock Options	**Number Of Options**	**Weighted Average Exercise Price**	**Weighted Average Grant Date Fair Value**	**Weighted Average Remaining Contractual Life**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2008	5,077,417	$ 4.04	$ 1.09		
Granted	--	--	--		
Exercised	--	--	--		
Canceled	--	--	--		
Outstanding at March 31, 2009	5,077,417	$ 4.04	$ 1.09	4.1 Years	$ 19,695
Exercisable at March 31, 2009	4,771,182	$ 4.01	$ 1.07	4.6 Years	$ 19,695

Total compensation cost associated with stock option was $1,209,936 and $721,053 for the three months ended March 31, 2009 and 2008, respectively.

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The following table details the activity of restricted stock:

Restricted Stock	Number of Shares	Weighted Average Grant Date Fair Value
Balance at December 31, 2008	431,945	$ 2.31
Granted	--	--
Forfeited	(3,968)	2.28
Vested	(143,982)	2.31
Balance at March 31, 2009	283,995	$ 2.31

Total compensation cost associated with restricted stock was $79,839 and $517,710 for the three months ended March 31, 2009 and 2008, respectively.

The following tables detail the activity of restricted stock units:

Restricted Stock Units	Three Months Ended March 31, 2009 (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, 2008	7,245,270	--	$ 1.37	$ --
Granted	779,942	--	0.24	--
Forfeited	(1,791,045)	--	0.50	--
Vested	(1,234,335)	1,234,335	3.60	3.60
Balance at March 31, 2009	4,999,832	1,234,335	$ 0.96	$ 3.60

(1) Represents fully vested restricted stock units which are still subject to transferability restrictions.

Total compensation cost associated with RSUs was $2,930,339 for the three months ended March 31, 2009.

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NOTE 10 - 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, 2009 and 2008:

	For the three months ended March 31,	
	2009	2008
Common shares outstanding, basic	34,794,518	32,930,516
Common shares upon exercise of options	-	123,634
Common shares upon exercise of warrants	-	-
Common shares upon vesting of non-vested shares	-	72,702
Common shares upon vesting of non-vested RSUs	-	-
Weighted average number of common shares outstanding, diluted	34,794,518	33,126,852

Due to the fact the Company had a net loss for the three month period ended March 31, 2009, the outstanding shares for calculation of basic EPS and diluted EPS for that period are the same.

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 condensed 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 companies that have significant recurring capital needs due to their growth and development strategies. We also provide research and sales and trading services to institutional investors.

Our strategic goal is to become a leading full-service investment banking firm for companies with significant and recurring capital needs. Our primary vehicles for achieving this goal have been strategic acquisitions, new hires and joint ventures.

We are a leading investment banking firm to the biotechnology sector, a capital intensive market segment, as well as a leader in the PIPE and RD transaction markets.

Our activities as an investment banking firm constitute a single business segment, with 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, 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. We do not separately prepare reports or analyze financial data or operating results, such as operating expenses, profit and loss or assets, for our various operating units. For example, our sales and trading unit generates commission revenues and incurs various expenses specifically related to its activities, such as execution and clearing charges. Similarly, our conferences generate fees from attendees and presenters but also have expenses related to facility usage, food and beverage, and entertainment.

Business Environment

Market conditions and valuations for companies in the life science sector and other sectors in which we are active, as well as general market conditions, can materially affect our financial performance. Declining valuations in various sectors, notably the life science sector, unprecedented volatility and lack of liquidity in certain sectors of the capital markets, as well as a slowing of economic growth generally has led to declines in financing activity, smaller financing transactions, and a resulting decline in revenue from prior periods. It is not possible to predict whether, and to what degree, these conditions will continue, abate, or reverse, and the level of capital markets activity is expected to remain uncertain for the foreseeable future. In addition, the nature of our revenue generation, including the size of transactions, the timing of transaction closings and the sectors in which those transactions occur, make future performance difficult to predict and potentially highly variable. Revenues for many of the services we provide are earned only upon the successful completion of a transaction. Accordingly, revenues and net income in any period may not be indicative of full-year results or the results of any other period and may vary significantly from year-to-year and quarter-to-quarter depending on whether and when transactions are completed and the number, size and type of transactions completed.

Critical Accounting Policies

Our Condensed Consolidated Financial Statements are prepared in conformity with GAAP, which require management to make estimates and assumptions that affect the amounts reported in the Condensed 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 our use of estimates related to compensation and benefits during the year.

Valuation of Financial Instruments

Our financial instruments are recorded at fair value. The fair value of a financial instrument is the amount 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 (the exit price). The use of fair value to measure financial instruments is fundamental to our financial statements and is our most critical accounting policy. Unrealized gains or losses are generally recognized in principal transactions in our Condensed Consolidated Statements of Operations. Financial instruments are valued at quoted market prices, if available. For financial instruments that do not have readily determinable fair values through quoted market prices, the determination of fair value is based upon consideration of available information, including types of financial instruments, current financial information, restrictions on dispositions, fair values of underlying financial instruments and quotations for similar instruments.

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, 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 earned or expected with confidence. Consequently, we generally accrue interim compensation and benefits based on annual targeted compensation amounts and interim revenues received.

Goodwill and Other Intangible Assets Impairment

At least annually, we are required to assess goodwill for impairment by comparing the estimated fair value of the reporting unit with its net book value. Periodically estimating the fair value of a reporting unit requires significant judgment and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant effect on whether an impairment charge is recorded and the magnitude of such a charge. We estimate the fair value of the reporting unit based on valuation methodologies we believe market participants would use, including the market value of the Company's common stock which we believe to be the most relevant indicator of value. A two-step test is used to determine whether goodwill is impaired. The first step is to compare the carrying value of the Company with the fair value of the Company. If the carrying value of the Company exceeds the fair value of the Company, the second step is applied. The second step is to compare the carrying amount of the goodwill with the implied fair value of the goodwill as determined in accordance with SFAS 142, *Goodwill and Other Intangible Assets*. Goodwill impairment is recognized if its carrying value exceeds its implied fair value. The determination of fair value includes considerations of projected cash flows, relevant trading multiples of comparable exchange listed corporations, and the trading price of our common shares.

Pursuant to the provisions of SFAS 142, we review our finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of any finite-lived intangible asset may not be recoverable.

Income Taxes

We compute our provision for income tax expense in accordance with the principles of FAS 109 and associated interpretations and pronouncements.

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.

In accordance with FAS 109, at least quarterly we evaluate the realizability of the aforementioned deferred tax assets and liabilities and evaluate the need to record a valuation allowance. The evaluation includes weighing all the available positive and negative evidence in ascertaining whether it is "more likely than not" that its deferred tax assets will be realized. In the first quarter of 2009, we determined that it was not "more likely than not" that its deferred tax assets would be realized and accordingly we recorded a valuation allowance fully offsetting our net deferred tax assets and liabilities, reducing them to zero.

In June 2006, the FASB issued Interpretation No. 48, *Accounting of Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 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. FIN 48 is effective for fiscal years beginning after December 31, 2006. We adopted FIN 48 effective with our 2007 fiscal year. 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 remeasurement. Management does not believe that the Company has any material uncertain tax position requiring de-recognition or measurement in accordance with the provisions of FIN 48.

Results of Operations

The following table sets forth the results of operations for the three months ended March 31, 2009 and 2008:

	For the Three Months Ended March 31, 2009		2008	
Revenues:		% of net Revenue		% of net Revenue
Investment banking	$ 6,883,095		$ 8,902,176	
Principal transactions	(1,962,535)		4,341,699	
Commissions	808,176		1,563,365	
Interest and other income	110,876		373,772	
Total revenues	$ 5,839,612		$ 15,181,012	
Operating expenses:				
Employee compensation and benefits	12,065,752	206.6%	8,251,226	54.4%
Other employee benefits	159,210	2.7%	110,722	0.7%
Broker dealer commissions	14,026	0.6%	92,945	0.6%
Professional and consulting fees	1,537,546	26.3%	911,039	6.0%
Business development	537,924	9.2%	1,025,756	6.8%
Communication and market research	653,465	11.2%	560,127	3.7%
Advertising	303,428	5.2%	127,332	0.8%
Office	92,142	1.6%	125,416	0.8%
Occupancy and equipment rentals	793,431	13.6%	317,996	2.1%
Clearance and execution charges	133,132	2.3%	76,854	0.5%
Depreciation and amortization	634,526	10.9%	137,239	0.9%
Impairment of goodwill	682,672	11.7%	1,065,000	7.0%
Other	529,571	9.1%	294,632	1.9%
Total operating expenses	18,136,825	310.6%	13,096,284	86.3%
(Loss) income before income taxes	(12,297,213)	(210.6%)	2,084,728	13.7%
Income tax benefit (expense)	13,493		(987,285)	
Net (loss) income	$ (12,823,720)		$ 1,097,443	

Our operating (loss) income for the three months ended March 31, 2009 and 2008 included the following non-cash expenses:

	Three Months Ended March 31, 2009	March 31, 2008
Stock-based compensation	$ 4,220,114	$ 1,238,778
Amortization of forgivable loans	533,338	-
Depreciation and amortization	634,526	137,239
Impairment of goodwill	682,672	1,065,000
Total	$ 6,070,650	$ 2,441,017

Revenues

We operate our business as a single segment. However, we derive revenues from two primary sources investment banking and sales and trading.

Total revenue for the three months ended March 31, 2009 was $5.8 million, representing a decrease of 61.5% from $15.2 million in the comparable period of 2008. The decrease was primarily due to a $6.3 million decrease in principal transactions revenues as well as a decrease of $2.0 million in investment banking revenues.

Investment Banking Revenue

Our investment banking revenue is derived from private placement and underwriting activities and strategic advisory services. The following table sets forth our revenue from our investment banking activities for the three months ended March 31, 2009 and 2008:

	Three Months Ended	
	March 31, 2009	March 31, 2008
Revenue:		
Private placement and underwriting	$ 3,996,452	$ 8,173,368
Financial advisory	2,886,643	728,808
Total investment banking revenue	$ 6,883,095	$ 8,902,176

Investment banking revenue was $6.9 million for the three months ended March 31, 2009, which included $1.4 million related to warrants received as compensation for activities as underwriter or placement agent valued using Black-Scholes, as compared to revenue of $8.9 million in the comparable period of 2008:

- Private placement and underwriting revenue for the quarter was $4.0 million, including $1.4 million of fair value related to warrants received, compared to $8.1 million in the comparable period of 2008. The decrease in private placements and underwriting revenue, excluding warrants received, was due to the general industry wide decrease in capital markets activity.
- Strategic advisory fees for the three months ended March 31, 2009 were $2.9 million, compared to $0.7 million for comparable period of 2008. The increase in advisory fees is due to continued expansion beyond our core PIPE practice into different verticals and product offerings.

Sales and Trading

Commissions revenues decreased by $0.8 million, or 48.3%, to $0.8 million for the three months ended March 31, 2009, compared with $1.6 million for the three months ended March 31, 2008. The decrease is attributable to a lower volume of transactions that occurred in the first quarter of 2009 as well as a decrease in sales and trading and research employees.

Principal Transactions

Principal transactions revenue decreased $6.3 million to a $2.0 million loss for the three months ended March 31, 2009, compared with revenue of $4.3 million for the three months ended March 31, 2008. The decrease was primarily attributable to additional revenue of $9.2 million recorded in the prior period as a result of a change in valuation technique related to our underwriter warrant portfolio and by continued unrealized losses on our warrant portfolio due to an extremely volatile U.S. micro-cap equity market.

Compensation

Compensation expense increased $3.8 million, or 46.2%, while net revenues decreased 61.5% for the three months ended March 31, 2009. The ratio of compensation to net revenues was 206.6% for the three months ended March 31, 2009 as compared to 54.4% for the comparable period of 2008. The increase in compensation and benefits is attributed to: (1) $3.8 million in acceleration of stock based compensation and cash severance payments associated with employees terminated during the current quarter; and (2) amortization of forgivable loans which we issued during 2008 and the first quarter of 2009.

Non-Compensation Expenses

Non-compensation expense was $6.1 million for the three months ended March 31, 2009, versus $4.8 million for the prior year period, or 104.0% of net revenues for the 2009 period versus 31.9% of net revenues for the comparable period of 2008. Non-compensation expenses increased mainly due to: (1) increased legal fees due to an ongoing arbitration proceeding; (2) increases in rental expenses due to the expansion of our platform; and (3) an increase in amortization expenses due to intangible assets purchased as part of our acquisitions during the first and second quarters of 2008.

Income Taxes

Income tax benefit was $13,000 for the three months ended March 31, 2009, which equals an effective tax rate of 0.0% compared to an income tax expense of $1.0 million for the three months ended March 31, 2008, which equals an effective tax rate of 47.4% .

Due to the uncertainty in the current operating environment we continue to record a full valuation allowance on our deferred tax assets. Absent this full valuation allowance and other discrete tax expense items related to the vesting of “underwater” stock based compensation, our quarterly effective tax rate would have been 41%.

Liquidity and Capital Resources

We have historically satisfied our capital and liquidity requirements through cash generated internally from operations. In addition, in March 2007, we completed a $20.0 million private placement to accredited investors, and in October 2007 we completed a public offering which generated net proceeds of approximately $36.3 million.

At March 31, 2009, we had liquid assets, consisting of unrestricted cash, restricted cash, “Level I” assets, current private placement and other fees receivable and due from clearing broker, of $12.1 million. At December 31, 2008, we had liquid assets of $27.7 million.

The timing of bonus and retention compensation payments to our employees may significantly affect our cash position and liquidity from period-to-period. While our employees are generally paid salaries and draws on a semi-monthly basis during the year, bonus payments, which make up a significant portion of total compensation, will generally be paid quarterly, although in some cases annually. For the second half of 2008, bonus payments of $2.7 million were paid in February 2009.

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 Securities and Exchange Act of 1934, as amended (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, 2009 and December 31, 2008, we had excess net capital of $3.7 million and $8.1 million, respectively. 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 are exploring capital raising alternatives.

The losses from our warrant portfolio have no effect on our cash position or on the regulatory capital position of the broker-dealer.

Cash Flows

For the three months ended March 31, 2009, we had a net decrease in cash and cash equivalents of $10.8 million. Operating activities used cash of $9.6 million; investing activities used cash of $1.3 million; and cash flow from financing activities was zero. The primary components of cash used by operating activities were: (a) a net loss of $12.3 million; (b) a decrease in accounts payable and accrued expenses of $3.4 million; and (c) a $1.5 million increase in other assets, offset by: (i) a $2.2 million decrease in restricted cash; and (ii) share based compensation of $4.2 million. The primary components of cash used by investing activities were: (i) $0.9 million in connection with the purchase of property and equipment and leasehold improvements; and (ii) $0.4 million in connection with the acquisition of COSCO.

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, 2009, $7.1 million, or 55% of $12.8 million of financial instruments owned, at fair value, represented investments in warrants received in conjunction with our investment banking activities. $1.7 million, or 13% of financial instruments owned is related to a promissory note received in conjunction with our investment banking activities. The remaining 32% of the financial instruments owned represents listed equity securities, restricted securities and investments in affiliates at fair value.

The primary quantifiable market risk associated with our warrants portfolio and promissory note 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. Based on our analysis, as of December 31, 2008, 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 operating income are considered immaterial.

Equity Price Risk

Equity price risk represents the potential loss in value due to adverse changes in the level or volatility of equity prices. We are exposed to equity price risk through our trading activities in both listed and OTC equity markets as well as our warrant portfolio. We attempt to reduce the risk of loss inherent in our inventory of equity securities and warrants by establishing position limits and monitoring inventory turnover to mitigate our market risk profile and we may engage in "short sales" through a third party managed fund in order to hedge the market risk associated with our warrant portfolio in future periods. In any period, we may experience losses as a result of price declines, lack of trading volume, and illiquidity. From time to time, we may engage in a large block trade in a single security or maintain large position concentrations in a single security or warrant, securities of a single issuer, or securities of issuers engaged in a specific industry. Any downward price movement in these securities could result in a reduction of our revenues and profits. In addition, we may engage in hedging transactions that, if not successful, could result in losses.

Interest Rate Risk

Interest rate risk represents the potential loss from adverse changes in market interest rates. As we may hold U.S. Treasury securities and other fixed income securities as well as convertible debt securities and incur interest-sensitive liabilities from time to time, we are exposed to interest rate risk arising from changes in the level and volatility of interest rates and in the shape of the yield curve. Interest rate risk is managed through the use of short positions in U.S. government and corporate debt securities and other instruments.

Credit Risk

Our Broker-Dealer places and executes customer orders. The orders are then settled by an unrelated clearing organization that maintains custody of customers' securities and provides financing to customers.

Through indemnification provisions in our agreement with our clearing organization, customer activities may expose us to off-balance-sheet credit risk. We may be required to purchase or sell financial instruments at prevailing market prices in the event a customer fails to settle a trade on its original terms or in the event cash and securities in customer margin accounts are not sufficient to fully cover customer obligations. We seek to control the risks associated with brokerage services for our customers through customer screening and selection procedures as well as through requirements that customers maintain margin collateral in compliance with governmental and self-regulatory organization regulations and clearing organization policies.

Our cash is primarily held by two financial institutions. Our accounts are insured by the U.S. government but only up to a maximum of $250,000 per account. Our cash balances vary from time to time based on a variety of factors but in most cases are significantly in excess of the insurable limit. As a result, we have exposure on these accounts in the event these financial institutions become insolvent.

Item 4T. 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 such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of such period, 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 is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms; and (ii) accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

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

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

On or about October 18, 2006, we, as claimant, filed a statement of claim with FINRA against Matthew N. Murray ("Murray"), a former research analyst whom we terminated on March 2, 2006 for engaging in unprofessional conduct (Rodman & Renshaw, LLC v. Mathew N. Murray, FINRA Dispute Resolution Arbitration No. 06‑04643). The petition at that time asserted claims for defamation, tortious interference with business relations, breach of fiduciary duty, conversion, breach of contract, and prima facie tort. In that proceeding, we seek compensatory damages against Murray of at least $10 million, plus punitive damages of at least $15.0 million, together with certain injunctive relief. The claims relate to wrongful activities allegedly undertaken by Murray.

On October 6, 2006, we and our senior officers filed an action (the "SDNY Action") in the U.S. Federal District Court for the Southern District of New York (Rodman & Renshaw, LLC, John Borer, Edward Rubin, Michael Vasinkevich, and Wesley K. Clark v. Mathew N. Murray, U.S. District Court, Southern District of New York, 06 CV 8210 (WHP)), alleging various claims for trademark dilution, trademark infringement, cybersquatting, cyberpiracy, and false designation of origin as a result of various websites allegedly created by or at the instance of Murray using, among other things, the given names and surnames of certain of our principals and high ranking employees. The action, among other things, sought permanent injunctive relief restraining Murray from continuing the acts complained of, as well as compensatory and punitive damages, each in the amount of at least $10.0 million. On October 6, 2006, we and the other plaintiffs moved for a temporary restraining order and preliminary injunction seeking an order enjoining Murray from continuing to maintain the offending websites and directing that the sites be taken down and the domain names transferred to us and to the other plaintiffs. Murray signed an order on October 10, 2006, effectively agreeing to all of our demands, which document was so-ordered by the Court on October 11, 2006. On or about October 17, 2006, Murray filed an answer and counterclaims, which he amended on November 14, 2006, for breach of contract, defamation, and declaratory relief, seeking at least $1.0 million each in compensatory damages and punitive damages in an amount to be determined at trial. Murray also alleges that he was promised an option to purchase two percent "of Rodman" for "book value."

On or about November 17, 2006, the plaintiffs in the SDNY Action moved to sever and dismiss Murray's counterclaims and Murray moved to stay and preliminarily enjoin the FINRA proceeding or, in the alternative, to stay the SDNY Action. The court heard oral argument on the motions on December 21, 2006, and issued an order dated December 22, 2006, declining to stay the FINRA proceeding; declining to sever and dismiss Murray's counterclaims; and directing that the SDNY Action be stayed pending the full adjudication of the FINRA proceeding.

On April 9, 2007, the statement of claim in the FINRA proceeding was amended to include the claims first set forth in the complaint in the SDNY Action and to include the individual plaintiffs in the SDNY Action as additional claimants in the FINRA proceeding. On May 24, 2007, Murray filed a motion to dismiss the amended statement of claim, as well as an answer and three counterclaims. Two of the counterclaims seek damages for breach of contract of at least $1.0 million; the third counterclaim seeks damages for defamation of at least $1.0 million, plus additional, but unspecified, compensatory and punitive damages, plus expungement of the Form U-5 that we filed in connection with Murray's termination. Murray also seeks a declaration concerning his rights and our conduct in connection with the allegations in his answer and counterclaims and in connection with our right to adjudicate our claims in the arbitration. On August 2, 2007, claimants filed a reply to Murray's counterclaims, an opposition to Murray's motion to dismiss claimants' amended statement of claim and a motion to dismiss two of Murray's counterclaims (the counterclaim seeking damages for breach of contract in connection with Murray's claim that he had been promised an option to purchase two percent "of Rodman" for "book value" and the counterclaim seeking damages for defamation) as well as his claims for declaratory relief. On or about August 31, 2007, Murray filed an opposition to claimants' motion to dismiss his counterclaims and claims for declaratory relief, as well as a reply in further support of his motion to dismiss the amended statement of claim. On December 6, 2007, claimants filed a reply in further support of their motion to dismiss the second and third counterclaims asserted by Murray. On January 14, 2008, claimants filed a second amended statement of claim. On January 16, 2008, Murray filed an answer and motion to dismiss the second amended statement of claim. In December 2007 and January 2008, the Panel denied both parties' motions to dismiss.

Trial hearings began in December 2008 and continued in January, March, and April 2009. Further hearing dates have been scheduled for June 2009.

Although we believe that claimants will prevail on their claims and that they have meritorious defenses to Murray's counterclaims, we are not in a position at this stage to predict or assess the likely outcome of these proceedings.

As a result of allegations by Mr. Murray that we terminated him in violation of NASD Rule 2711 ("Rule 2711") and SEC Regulation AC ("Reg AC") in retaliation for his desire to downgrade an issuer that he provided research coverage on, the Committee on Finance of the U.S. Senate ("SFC") and the SEC commenced inquiries, the AG issued a subpoena and FINRA initiated an investigation.

The SFC, by letter dated May 25, 2006 from its former chairman, Senator Charles E. Grassley ("Grassley"), requested that our Chairman make himself available for an interview with Grassley's staff and respond to certain questions in connection with Murray's termination. By letter of the same date, Grassley, along with Senator Max Baucus, who was at that time the ranking member of the SFC, wrote to Christopher Cox, then chairman of the SEC, asking the SEC to conduct a "comprehensive and thorough examination" into our termination of Murray. Both the letter to us and the letter to Cox reference possible violations of Rule 2711 and Reg AC. We responded to the letter from Grassley and our Chairman voluntarily appeared for an interview by Grassley's staff in July 2006. The last written correspondence from Grassley's offices to us with respect to this matter occurred in September 2006. Neither former chairman Grassley nor the SFC has contacted us since that date, and the SFC has not, to our knowledge, issued any subpoena in connection with its inquiry.

By letter dated March 27, 2006, the SEC advised us that it was undertaking an inquiry of us and it requested that we produce documents in connection with that inquiry. Although the letter from the SEC does not specifically reference either Rule 2711 or Reg AC, the documents they requested and our counsel's conversation with the SEC staff indicated that the focus of the inquiry was Murray's allegations. We responded to the SEC inquiry and produced responsive documents to the SEC. In addition, we produced our chief compliance officer for an interview at the SEC.

By letter dated April 18, 2007, the SEC advised us that its inquiry had been terminated and that no enforcement action had been recommended.

On or about July 7, 2006, the AG served us with a subpoena containing a number of requests for information and documents concerning, among other things, the termination of Murray. The subpoena does not specifically reference either Rule 2711 or Reg AC. We produced documents and information responsive to the subpoena (including all of the documents that we also had previously provided to the SEC). To our knowledge, the AG has not interviewed any of our employees and we have not received any communication from the AG since the end of August 2006.

By letter dated April 10, 2006, FINRA advised us that it was reviewing matters related to the circumstances surrounding the termination of the former employee and requested that we produce documents in connection with that review. By letter dated April 11, 2006, FINRA withdrew its request, to avoid regulatory duplication, upon learning that the SEC was also reviewing the same events. However, in 2007 we received certain letters from FINRA requesting certain information, documentation and interviews. We produced all information and documentation requested, complied with the request for interviews and continue to cooperate fully with FINRA's investigation. We have not received any further communication from FINRA since December 2007.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 13, 2009

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)