RODMAN & RENSHAW CAPITAL GROUP, INC.
Form 10-Q
August 12, 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 June 30, 2009

OR

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

For the transition period from ________________ to _____________________________

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 August 11, 2009, there were 35,380,746 shares of the registrant s common stock outstanding.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act, 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, predicts, projects, potential, intends, 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

TABLE OF CONTENTS

RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES

PART I
FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition as of June 30, 2009 (Unaudited) and December 31, 2008

	June 30, 2009	December 31, 2008
	(Unaudited)	
Assets		
Cash and cash equivalents		
Unrestricted	$ 10,857,337	$ 18,383,224
Restricted	3,484,696	3,371,108
Total cash and cash equivalents	14,342,033	21,754,332
Financial instruments owned, at fair value	38,610,192	13,872,184
Private placement and other fees receivable	4,022,308	1,974,571
Receivable from brokers, dealers & clearing agencies	3,145,204	2,713,594
Prepaid expenses	1,018,654	439,377
Property and equipment, net	2,003,674	1,389,705
Other assets	3,553,132	2,632,256
Due from affiliate	131,331	
Other intangible assets, net	2,327,075	2,906,436
Total Assets	$ 69,153,603	$ 47,682,455
Liabilities and Stockholders Equity		
Accrued compensation payable	$ 8,704,507	$ 4,882,422
Accounts payable and accrued expenses	2,259,590	5,556,374
Acquisitions related payables	3,514,000	4,950,000
Financial instruments sold, not yet purchased, at fair value	2,085,410	1,360,767
Payable to brokers, dealers & clearing agencies	12,980,000	
Unearned Revenue	652,625	
Due to affiliate		398,169
Total Liabilities	30,196,132	17,147,732
Commitments and contingencies (See note 7)		
Stockholders Equity		
Common stock, $0.001, par value; 100,000,000 shares authorized; 35,915,246 and 35,044,670 issued as of June 30, 2009 and December 31, 2008, respectively	35,849	35,045
Preferred stock, $0.001 par value; 1,000,000 authorized; none issued		
Additional paid-in capital	75,218,267	70,441,027
Treasury Stock, 534,500 shares	(1,034,409)	(1,034,409)
Accumulated deficit	(35,262,236)	(38,906,940)
Total Stockholders Equity	38,957,471	30,534,723
Total Liabilities and Stockholders Equity	$ 69,153,603	$ 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 and Six Month Periods Ended June 30, 2009 and 2008 (Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
Investment banking	$ 26,993,263	$ 22,283,045	$ 33,876,359	$ 31,185,221
Principal transactions	5,636,395	4,439,738	3,673,860	8,781,438
Commissions	704,641	1,735,089	1,512,816	3,298,454
Conference fees		842,865		842,865
Interest and other income	60,365	231,323	171,242	605,094
Total revenues	$ 33,394,664	$ 29,532,060	$ 39,234,277	$ 44,713,072
Operating expenses:				
Compensation and benefits	11,845,879	12,504,456	23,911,631	20,755,682
Other employee benefits	113,522	139,311	272,732	250,032
Conference fees		2,003,419		2,003,419
Broker dealer commissions	28,405	67,255	42,430	160,201
Professional and consulting fees	1,302,744	1,275,633	2,840,291	2,224,172
Business development	485,749	1,075,266	1,023,672	2,101,023
Advertising	96,451	43,960	399,879	133,792
Communication and market research	648,913	603,451	1,302,378	1,163,578
Office supplies	167,167	115,538	259,309	240,955
Occupancy and equipment rentals	783,666	587,293	1,577,097	905,288
Clearance and execution charges	57,359	146,733	190,492	223,587
Depreciation and amortization	740,677	316,617	1,375,203	453,855
Impairment of goodwill	644,068		1,326,740	1,065,000
Other	529,035	487,478	1,058,607	782,110
Total operating expenses	17,443,635	19,366,410	35,580,461	32,462,694
Income before income taxes	15,951,029	10,165,650	3,653,816	12,250,378
Income tax expense	(22,605)	(4,161,544)	(9,112)	(5,148,829)
Net income	$ 15,928,424	$ 6,004,106	$ 3,644,704	$ 7,101,549
Weighted average common shares outstanding:				
Basic	35,669,193	32,989,283	35,233,141	33,000,108
Diluted	37,883,263	34,109,190	37,155,835	34,327,527
Earnings per common share:				
Net income per share basic	$ 0.45	$ 0.18	$ 0.10	$ 0.22
Net income per share diluted	$ 0.42	$ 0.18	$ 0.10	$ 0.22

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

3

RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Changes in Stockholders Equity and Comprehensive Income for the Six Month Period Ended June 30, 2009 (Unaudited) and the Year Ended December 31, 2008

	For the Six Months Ended June 30, 2009	For the Year Ended December 31, 2008
Common stock:		
Balance, beginning of the period	$ 35,045	$ 33,750
Issuance of common stock	298	2,950
Forfeitures	(138)	
Conversion of RSUs to common stock	644	
Conversion of common stock to RSUs		(1,655)
Balance, end of period	$ 35,849	$ 35,045
Additional paid-in-capital:		
Balance, beginning of the period	$ 70,441,027	$ 62,345,072
Stock based compensation	4,922,817	5,604,576
Forfeitures	(31,245)	
Conversion of common stock to RSUs		1,655
Additional paid-in-capital	(113,452)	2,491,261
Issuance of restricted stock		(1,470)
Issuance of common stock	(880)	(67)
Balance, end of period	$ 75,218,267	$ 70,441,027
Accumulated deficit:		
Balance, beginning of the period	$ (38,906,940)	$ (1,469,905)
Net income (loss)	3,644,704	(37,437,035)
Balance, end of period	$ (35,262,236)	$ (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	$ 38,957,471	$ 30,534,723

Comprehensive Income:		
Net income (loss)	$ 3,644,704	$ (37,437,035)
Other comprehensive income		140,757
Total comprehensive income (loss)	$ 3,644,704	$ (37,296,278)

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

RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows for the
Six month periods ended June 30, 2009 and 2008 (Unaudited)

	For The Six Months Ended June 30,	
	2009	2008
Cash flows from operating activities		
Net income	$ 3,644,704	$ 7,101,549
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,375,203	453,875
Stock based compensation	4,922,817	2,771,489
Realized loss on available for sale investments		140,758
Impairment of goodwill	1,326,740	1,065,000
Deferred taxes, net		4,879,016
Changes in operating assets and liabilities:		
Restricted cash	(113,588)	(2,446,695)
Financial instruments owned, at fair value	(11,141,140)	(19,934,408)
Private placement and other fees receivable	(2,129,000)	(1,337,314)
Receivable from brokers, dealers & clearing agencies	(431,610)	(1,297,885)
Prepaid expenses	(579,277)	(81,622)
Other assets	(920,876)	(3,234,405)
Due from affiliate	(131,331)	
Financial instruments sold not yet purchased, at fair value	724,643	1,114,410
Accrued compensation payable	3,822,085	3,026,517
Accounts payable and accrued expenses	(3,531,924)	(344,055)
Due to affiliate	(398,170)	(53,057)
Income taxes payable		(48,067)
Unearned revenue	652,625	403,362
Net cash used in operating activities	(2,908,099)	(7,821,532)
Cash flows from investing activities		
Purchases of property and equipment	(1,409,810)	(254,005)
Acquisitions and earn out payments	(2,584,251)	(11,455,374)
Investments in portfolio companies	(623,727)	
Purchases of trademark		(7,875)
Purchase of customer relationship intangible asset		(5,000,000)
Net cash used in investing activities	(4,617,788)	(16,717,254)
Cash provided by (used in) financing activities		
Purchase of treasury stock		(988,831)
Distributions to members		(1,440,000)
Net cash used in financing activities		(2,428,831)
Net decrease in cash and cash equivalents	(7,525,887)	(26,967,617)
Cash and cash equivalents beginning of period	18,383,224	54,834,189
Cash and cash equivalents end of period	$ 10,857,337	$ 27,866,572

Supplemental disclosures of cash flow information				
Income taxes paid	$	2,281	$	175,000
Non-cash investing and financing activities				
Accrued liabilities related to the acquisitions of Miller Mathis and COSCO	$	30,000	$	4,950,000
Additional paid-in-capital related to acquisition of COSCO		178,285		1,497,663
Issuance of restricted stock to former equity holders of COSCO		205		1,121
Cancellation of common stock in satisfaction of withholding tax requirements		299,992		
Purchase of financial instruments (1)		12,980,000		
Long inventory		23,225		
Issuance of common stock to former employee		644		
Issuance of restricted stock to employees	$		$	1,470

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

(1) For further explanation see Note 6 - Payable to Brokers, Dealers & Clearing Agencies

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

NOTE 1 - <u>Organization, Nature of Operations and Basis of Presentation</u>

General

Rodman & Renshaw Capital Group, Inc. (RRCG or the Company) 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 million 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 was 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, which is recorded as an accrued liability of the Company, will be paid to Miller Mathis contingent upon future revenues generated by the metals/mining group, of which $0.4 million was paid through June 30, 2009.

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, the Company was required to 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 $3.6 million was paid in cash and restricted stock through June 30, 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.

RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(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, respectively, will be paid to COSCO contingent upon future revenues generated by the COSCO group. Of this $2.0 million, the Company paid $0.1 million in contingent earn-out payments through June 30, 2009, and will pay the remaining balance of the earn-out payments as future revenues are generated.

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 June 30, 2009, the Company s remaining commitment to the joint venture was approximately $16.6 million ($27.6 million at March 31, 2009).

See Note 7 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 June 30, 2009, the results of operations for the three and six months ended June 30, 2009 and 2008, the changes in stockholders equity and comprehensive income (loss) for the six months ended June 30, 2009 and the year ended December 31, 2008 and cash flows for the six months ended June 30, 2009 and 2008. The results for the three months ended June 30, 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).

RODMAN & RENSHAW CAPITAL GROUP, INC. AND SUBSIDIARIES
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.

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

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 and restricted securities 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, private securities and convertible notes received in conjunction with the Company s investment banking activities, loans receivable 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

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

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. There can be no assurance that the Company will be able to liquidate any of its warrants in a manner that will result in it realizing 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 Company s 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 Company s 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 principal transactions 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 broker s 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. As of June 30, 2009, short sales were collateralized by $2.3 million of restricted cash based on the requirements of the prime broker.

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 and six months ended June 30, 2009 and 2008:

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

	For the three months ended June 30, 2009	For the six months ended June 30, 2009
Private placement cash fees	$ 14,285,519	$ 16,737,124
Private placement warrant and note fees	9,651,435	11,025,283
Advisory cash fees	1,582,970	4,469,613
Underwriting cash fees	1,473,339	1,644,339
Total investment banking revenue	$ 26,993,263	$ 33,876,359

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

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

Conference Fees. The Company 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 half 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 Company s 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 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 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 returns.

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 a 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 June 30, 2009, there were no legal reserves accrued in the Condensed Consolidated Statements of Financial Condition.

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

Concentrations of Credit Risk

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

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

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

Forgivable Loans

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 June 30, 2009, the balance of such forgivable loans was $3.5 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 June 30, 2009 related to the amortization of these forgivable 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 outstanding employee stock options.

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

NOTE 3 - Recent Accounting Pronouncements

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 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 June 15, 2009, with early adoption permitted. FSP 157-4 must be applied prospectively. The Company 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.

SFAS 165. In May 2009, the FASB issued FASB Statement No. 165, *Subsequent Events* (SFAS 165), which establishes general standards of and accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This SFAS was effective for interim and annual periods ending after June 15, 2009. The adoption of SFAS 165 had no impact on the Company s financial condition, results of operations or cash flows.

SFAS 166. In June 2009, the FASB issued FASB Statement No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140* (SFAS 166), to improve the reporting for the transfer of financial assets resulting from 1) practices that have developed since the issuance of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* that are not consistent with the original intent and key requirements of that Statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. SFAS 166 must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company will review the requirements of FASB No. 166 and comply with its requirements. The Company does not expect that the adoption of this Statement will have a material impact on the Company s Consolidated Financial Statements.

SFAS 167. In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167), to amend certain requirements of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information

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

to users of financial statements. The Statement is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company is evaluating the impact of SFAS 167 on its Consolidated Financial Statements.

SFAS 168. In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, (SFAS 168). SFAS 168 replaces SFAS 162 and establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (the SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification will become the exclusive authoritative reference at September 30, 2009.

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 June 30, 2009 and December 31, 2008:

	June 30, 2009		December 31, 2008	
	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased
Securities [1]	$ 13,679,599	$ 2,085,410	$ 1,258,132	$ 1,360,767
Derivatives	18,501,842		7,483,770	
Investment in private securities	1,308,718		627,309	
Investments in shells	1,773,826		1,823,836	
Loans and loan commitments	2,259,370		1,916,782	
Other investments	1,086,837		762,365	
	$ 38,610,192	$ 2,085,410	$ 13,872,184	$ 1,360,767

The following is a summary of the Company s financial assets and liabilities that are accounted for at fair value as of June 30, 2009 and December 31, 2008 by level within the fair value hierarchy:

	As of June 30, 2009			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial instruments owned:				
Securities	$ 13,679,599	$ 681,409	$ 627,309	$ 14,988,317
Derivatives		261,045	18,240,797	18,501,842
Investments in shells			1,773,826	1,773,826
Loans and loan commitments			2,259,370	2,259,370
Other investments			1,086,837	1,086,837
Total financial instruments owned	$ 13,679,599	$ 942,454	$ 23,988,139	$ 38,610,192
Liabilities:				

Financial instruments sold, not yet purchased	$ 2,085,410	$	$	$ 2,085,410
Total financial instruments sold, not yet purchased	$ 2,085,410	$	$	$ 2,085,410

(1) For further explanation see Note 6 - Payable to Brokers, Dealers & Clearing Agencies.

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

	As of December 31, 2008			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial instruments owned:				
Securities	$ 1,258,132	$	$ 627,309	$ 1,885,441
Derivatives		1,861,781	5,621,989	7,483,770
Investments in shells			1,823,826	1,823,826
Loans and loan commitments			1,916,782	1,916,782
Other investments			762,365	762,365
Total financial instruments owned	$ 1,258,132	$ 1,861,781	$ 10,752,271	$ 13,872,184
Liabilities:				
Financial instruments sold, not yet purchased	$ 1,360,767	$	$	$ 1,360,767
Total financial instruments sold, not yet purchased	$ 1,360,767	$	$	$ 1,360,767

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 June 30, 2009 and 2008:

	Three Months Ended June 30, 2009	
	Derivatives Instruments Assets	Non-Derivatives Assets
Balance, March 31, 2009	$ 6,756,923	$ 4,818,056
Purchases/ issuances	9,651,435	613,632
Sales/ Settlements	(2,877,138)	
Realized and unrealized gains (1)	4,709,577	315,654
Balance, June 30, 2009	$ 18,240,797	$ 5,747,342
Change in unrealized gains/losses relating to instruments still held at June 30, 2009	$ 4,859,844	$ 315,654

(1) Reported in principal transactions in the Condensed Consolidated Statements of Operations per SFAS 157.

	Three Months Ended June 30, 2008	
	Derivatives Instruments Assets	Non-Derivatives Assets
Balance, March 31, 2008	$ 9,007,669	$ 5,446,835

Purchases/ issuances		6,706,868		1,454,060
Realized and unrealized gains (1)		3,192,420		698,921
Balance, June 30, 2008	$	18,906,957	$	7,599,816
Change in unrealized gains/losses relating to instruments still held at June 30, 2008	$	3,192,420	$	698,921

(1) Reported in principal transactions in the Condensed Consolidated Statements of Operations per SFAS 157.

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

The following is a summary of changes in fair value of the Company s financial assets and liabilities that have been classified as Level 3 for the six months ended June 30, 2009 and 2008:

	Six Months Ended June 30, 2009	
	Derivatives Instruments Assets	**Non-Derivatives Assets**
Balance, January 1, 2009	$ 5,621,989	$ 5,130,282
Purchases/ issuances	11,025,283	624,527
Sales/ Settlements	(3,130,350)	
Realized and unrealized gain (loss) (1)	4,723,875	(7,467)
Balance, June 30, 2009	$ 18,240,797	$ 5,747,342
Change in unrealized gains/losses relating to instruments still held at June 30, 2009	$ 5,141,618	$ (7,467)

(1) Reported in principal transactions in the Condensed Consolidated Statements of Operations per SFAS 157.

	Six Months Ended June 30, 2008	
	Derivatives Instruments Assets	**Non-Derivatives Assets**
Balance, January 1, 2008	$ 2,083,469	$ 5,807,095
Purchases/ issuances	8,191,584	1,454,060
Realized and unrealized gains (1)	8,631,904	338,661
Balance, June 30, 2008	$ 18,906,957	$ 7,599,816
Change in unrealized gains/losses relating to instruments still held at June 30, 2008	$ 8,631,904	$ 139,232

(1) Reported in principal transactions in the Condensed Consolidated Statements of Operations per SFAS 157.

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 those 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 and as of June 30, 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 factors and to Company specific factors. The impairment tests resulted in the recognition of an impairment charge of $0.7 million and $0.6 million for the three months ended March 31, 2009 and June 30, 2009, respectively, related to a COSCO contingent earn-out payable in cash.

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

The following table represents a summary of the changes to goodwill and other intangible assets from January 1, 2008 - June 30, 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	1,326,740			1,326,740
Impairment	(1,326,740)			(1,326,740)
Amortization		(567,861)	(11,500)	(579,361)
Balance, June 30, 2009	$	$ 2,117,950	$ 209,125	$ 2,327,075

Note 6 - Payable to Brokers, Dealers & Clearing Agencies

Payable to brokers, dealers & clearing agencies represents shares purchased of Skystar Bio-Pharmaceutical Co., Ltd. (NASDAQ:SKBI) pursuant to an underwriting agreement entered into on June 30, 2009. The shares were fully allocated to investors before the market opened on July 1, 2009.

NOTE 7 - 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 June 30, 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 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). As of June 30, 2009, the Company s remaining commitment to the joint venture was approximately $16.6 million.

NOTE 8 - 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 June 30, 2009, R&R had net capital of $5,263,716, which was $5,013,716 in excess of its required net capital of $250,000.

NOTE 9 - 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 $12.5 million against the deferred tax asset as of June 30, 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.

NOTE 10 - 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. All of these grants 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 year period 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. The RSUs granted to directors vest immediately. All RSUs have sale restrictions for an additional two year period 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 year period 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.

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

The Company recorded $702,703 and $4,922,817 of stock-based compensation for the three and six month periods ended June 30, 2009, respectively, and $1,532,726 and $2,771,489 of stock-based compensation for the three and six month periods ended June 30, 2008, respectively. The unamortized deferred stock-based compensation balance as of June 30, 2009 was $2,983,039 and will be fully amortized through 2012.

There were no option grants in the first six months of 2009. A summary of options (with retroactive effect given for the Exchange) outstanding as of June 30, 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	(220,603)				
Outstanding at June 30, 2009	4,856,814	$ 4.03	$ 1.08	3.6 Years	$
Exercisable at June 30, 2009	4,603,827	$ 4.16	$ 1.11	4.8 Years	$

Total compensation cost associated with stock option was $53,110 and $1,263,046 for the three and six months ended June 30, 2009, respectively, and $610,798 and $1,331,852 for the three and six months ended June 30, 2008, respectively.

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	(95,238)	2.28
Vested	(143,982)	2.31
Balance at June 30, 2009	192,725	$ 2.33

Total compensation cost associated with restricted stock was $42,754 and $122,593 for the three and six months ended June 30, 2009, respectively, and $765,529 and $1,285,866 for the three and six months ended June 30, 2008, respectively.

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

The following tables detail the activity of restricted stock units:

Restricted Stock Units

	Six Months Ended June 30, 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	(1,842,670)	(276,636)	0.51	4.52
Vested	(1,234,335)	1,234,335	3.60	3.60
Distribution of underlying shares		(602,969)		4.52
Balance at June 30, 2009	4,948,207	354,730	$ 0.96	$ 1.31

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

Total compensation cost associated with RSUs was $606,839 and $3,537,177 for the three and six months ended June 30, 2009, and $153,771 for the three and six months ended June 30, 2008.

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

NOTE 11 - Weighted Average Shares Outstanding

The table below reconciles weighted average number of common shares outstanding, basic and diluted, for the three and six month periods ended June 30, 2009 and 2008:

		For the three months ended June 30,		For the six months ended June 30,	
		2009	2008	2009	2008
Shares Outstanding (weighted average)	(1)	34,853,898	35,125,884	34,710,436	34,757,667
Unearned restricted stock	(2)	(183,231)	(2,220,238)	(271,218)	(1,841,196)
Earned restricted stock units	(3)	988,526	83,637	793,923	83,637
Common shares outstanding, basic		35,669,193	32,989,283	35,233,141	33,000,108
Common shares upon exercise of options	(4)	34,696	195,186	64,951	197,646
Common shares upon vesting of non-vested restricted stocks and RSUs	(4)	2,179373	924,721	1,857,743	1,129,773
Weighted average number of common shares outstanding, diluted		37,883,263	34,109,190	37,155,835	34,327,527

(1) Shares outstanding represents shares issued less shares repurchased in treasury stock. Shares outstanding includes public and private offerings, earned and unearned restricted stock, distributions related to restricted stock units and stock option exercises. Shares outstanding do not include undistributed earned and unearned restricted stock units.

(2) As restricted stock is contingent upon a future service condition, unearned shares are removed from shares outstanding in the calculation of basic EPS as the Company s obligation to issue these shares remains contingent.

(3) As earned restricted stock units are no longer contingent upon a future service condition and are issuable upon a certain date in the future, earned restricted stock units are added to shares outstanding in the calculation of basic EPS.

(4) Calculated under the treasury stock method in accordance with SFAS 128, Earnings per Share. The treasury stock method assumes the issuance of only a net incremental number of shares as proceeds from issuance are assumed to be used to repurchase shares at the average stock price for the period.

NOTE 12 Subsequent Evens

The Company has evaluated whether events or transactions have occurred subsequent to June 30, 2009 that would require recognition or disclosure in these Consolidated Financial Statements through August 12, 2009, which is the date of issuance of these financial statements.

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 investment banking services to companies that have significant capital needs, along with research and sales and trading services to investor clients that focus on such companies.

We are a leading investment banking firm with particular emphasis on industries with significant capital needs, including health care, energy, and metals/mining, as well as a leader in the PIPE (private investment in public equity) and RD (registered direct placements) 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.

Business Environment

During the second quarter, we completed 25 financing transactions raising $399.4 million, compared to five financing transactions raising $58.4 million, in the first quarter. We were once again ranked the number one investment bank in PIPE transactions by volume for the second quarter and the first half of 2009. In April 2009, we began to see increased financing activity in our targeted verticals, especially in life sciences, as well as increased demand for our core product offerings, private placements and registered direct offerings.

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. 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 other intangible assets, income taxes 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 reasonably expected. 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 our 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 our carrying value with our fair value. If our carrying value exceeds our fair value, 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 carrying value exceeds 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 or reverse 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 net deferred tax assets will be realized. In the first quarter of 2009, we determined that it was not more likely than not that its net 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. We will continue to review the value of our net deferred tax assets and may reverse a portion of our valuation allowance associated with these net deferred tax assets if we continue to generate operating income in the future.

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 re-measurement. 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.

Second quarter of 2009 compared to second quarter of 2008

Results of Operations

The following table sets forth the results of operations for the three months ended June 30, 2009 and 2008:

	For the Three Months Ended June 30,			
	2009	% of net Revenue	2008	% of net Revenue
Revenues:				
Investment banking	$ 26,993,263		$ 22,283,045	
Principal transactions	5,636,395		4,439,738	
Commissions	704,641		1,735,089	
Conference fees			842,865	
Interest and other income	60,365		231,323	
Total revenues	$ 33,394,664		$ 29,532,060	
Operating expenses:				
Compensation and benefits	11,845,879	35.5%	12,504,456	42.3%
Other employee benefits	113,522	0.3%	139,311	0.5%
Conference fees			2,003,419	6.8%
Broker dealer commissions	28,405	0.1%	67,255	0.2%
Professional and consulting fees	1,302,744	3.9%	1,275,633	4.3%
Business development	485,749	1.5%	1,075,266	3.6%
Advertising	96,451	0.3%	43,960	0.1%
Communication and market research	648,913	1.9%	603,451	2.0%
Office supplies	167,167	0.5%	115,538	0.4%
Occupancy and equipment rentals	783,666	2.3%	587,293	2.0%
Clearance and execution charges	57,359	0.2%	146,733	0.5%
Depreciation and amortization	740,677	2.2%	316,617	1.1%
Impairment of goodwill	644,068	1.9%		0.0%
Other	529,035	1.6%	487,478	1.7%
Total operating expenses	17,443,635	52.2%	19,366,410	65.6%
Income before income taxes	15,951,029	47.8%	10,165,650	34.4%
Income tax expense	(22,605)		(4,161,544)	
Net income	$ 15,928,424		$ 6,004,106	

Our operating income for the three months ended June 30, 2009 and 2008 included the following non-cash expenses:

	Three Months Ended	
	June 30, 2009	June 30, 2008

Stock-based compensation	$	702,703	$	1,532,726
Amortization of forgivable loans		456,898		
Depreciation and amortization		740,677		316,617
Impairment of goodwill		644,068		
Total	$	2,544,346	$	1,849,343

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 June 30, 2009 was $33.4 million, representing an increase of 13.1% from $29.6 million in the comparable period of 2008. The increase was primarily due to a $4.7 million increase 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 June 30, 2009 and 2008:

	Three Months Ended	
	June 30, 2009	**June 30, 2008**
Revenue:		
Private placement and underwriting	$ 25,410,293	$ 20,799,587
Financial advisory	1,582,970	1,483,458
Total investment banking revenue	$ 26,993,263	$ 22,283,045

Investment banking revenue was $27.0 million for the three months ended June 30, 2009, which included $9.6 million related to warrants received as compensation for activities as underwriter or placement agent valued using Black-Scholes, as compared to revenue of $22.3 million, which included $8.0 million related to warrants received as compensation for activities as underwriter or placement agent valued using Black-Scholes, in the comparable period of 2008:

§ Private placement and underwriting revenue for the quarter was $25.4 million, including $9.6 million of fair value related to warrants received, compared to $20.8 million in the comparable period of 2008. The increase in private placement and underwriting revenue is a result of increased financing activity in our targeted verticals, especially in life sciences, as well as increased demand for our core product offerings, private placements and registered direct offerings.

§ Strategic advisory fees for the three months ended June 30, 2009 were $1.6 million, compared to $1.5 million for comparable period of 2008.

Sales and Trading

Commission revenues decreased by $1.0 million, or 59.4%, to $0.7 million for the three months ended June 30, 2009, compared with $1.7 million for the three months ended June 30, 2008. The decrease is attributable to a lower volume of transactions that occurred in the second quarter of 2009 as well as a decrease in sales and trading and research employees.

Principal Transactions

Principal transactions revenue was $5.6 million for the three months ended June 30, 2009, compared with revenue of $4.4 million for the three months ended June 30, 2008. The increase was primarily attributable to unrealized gains in a few financial instruments obtained through investment banking transactions during the second quarter of 2009.

Compensation

Compensation expense decreased $0.7 million, or 5.3%, while net revenues increased 13.1% for the three months ended June 30, 2009. The ratio of compensation to net revenues was 35.5% for the three months ended June

30, 2009 as compared to 42.3% for the comparable period of 2008. The decrease in compensation and benefits is attributed to a reduction in headcount and the continued migration from a fixed compensation structure to a variable compensation structure.

Non-Compensation Expenses

Non-compensation expense was $5.6 million for the three months ended June 30, 2009, versus $6.9 million for the prior year period, or 16.8% of net revenues for the 2009 period versus 23.2% of net revenues for the comparable period of 2008. Non-compensation expenses decreased mainly due to (1) a decrease in conference fees as a result of the suspension of the spring European investor conference; and (2) a decrease in business development expenses, offset by an increase in amortization expenses and impairment charges due to intangible assets acquired during the first and second quarters of 2008.

Income Taxes

Income tax expense was $22,605 for the three months ended June 30, 2009, which equals an effective tax rate of 0.1% compared to an income tax expense of $4.1 million for the three months ended June 30, 2008, which equals an effective tax rate of 40.9%.

Due to the uncertainty in the current operating environment we continue to record a full valuation allowance on our deferred tax assets. Absent the partial release of this valuation allowance our quarterly effective tax rate would have been 41%.

Six months ended June 30, 2009 compared to six months ended June 30, 2008

Results of Operations

The following table sets forth the results of operations for the six months ended June 30, 2009 and 2008:

	For the Six Months Ended June 30,			
	2009		2008	
		% of net Revenue		% of net Revenue
Revenues:				
Investment banking	$ 33,876,359		$ 31,185,221	
Principal transactions	3,673,860		8,781,438	
Commissions	1,512,816		3,298,454	
Conference fees			842,865	
Interest and other income	171,242		605,094	
Total revenues	$ 39,234,277		$ 44,713,072	
Operating expenses:				
Compensation and benefits	23,911,631	60.9%	20,755,682	46.4%
Other employee benefits	272,732	0.7%	250,032	0.6%
Conference fees		0.0%	2,003,419	4.5%
Broker dealer commissions	42,430	0.1%	160,201	0.4%
Professional and consulting fees	2,840,291	7.2%	2,224,172	5.0%
Business development	1,023,672	2.6%	2,101,023	4.7%
Advertising	399,879	1.0%	133,792	0.3%
Communication and market research	1,302,378	3.3%	1,163,578	2.6%
Office supplies	259,309	0.7%	240,955	0.5%
Occupancy and equipment rentals	1,577,097	4.0%	905,288	2.0%
Clearance and execution charges	190,492	0.5%	223,587	0.5%
Depreciation and amortization	1,375,203	3.5%	453,855	1.0%
Impairment of goodwill	1,326,740	3.4%	1,065,000	2.4%
Other	1,058,607	2.7%	782,110	1.7%

Total operating expenses	35,580,461	90.7%	32,462,694	72.6%
Income before income taxes	3,653,816	9.3%	12,250,378	27.4%
Income tax expense	(9,112)		(5,148,829)	
Net income	$ 3,644,704		$ 7,101,549	

28

Our operating income for the six months ended June 30, 2009 and 2008 included the following non-cash expenses:

	Six Months Ended	
	June 30, 2009	June 30, 2008
Stock-based compensation	$ 4,922,817	$ 2,771,489
Amortization of forgivable loans	990,236	
Depreciation and amortization	1,375,203	453,875
Impairment of goodwill	1,326,740	1,065,000
Total	$ 8,614,996	$ 4,290,364

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 six months ended June 30, 2009 was $39.2 million, representing a decrease of 12.3% from $44.7 million in the comparable period of 2008. The decrease was primarily due to a $5.1 million decrease in principal transactions.

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 six months ended June 30, 2009 and 2008:

	Six Months Ended	
	June 30, 2009	June 30, 2008
Revenue:		
Private placement and underwriting	$ 29,406,746	$ 28,972,955
Financial advisory	4,469,613	2,212,266
Total investment banking revenue	$ 33,876,359	$ 31,185,221

Investment banking revenue was $33.9 million for the six months ended June 30, 2009, which included $11.0 million related to warrants received as compensation for activities as underwriter or placement agent valued using Black-Scholes, as compared to revenue of $31.2 million in the comparable period of 2008:

§ Private placement and underwriting revenue for the six months ended June 30, 2009 was $29.4 million, including $11.0 million of fair value related to warrants received, compared to $29.0 million in the comparable period of 2008.

§ Strategic advisory fees for the six months ended June 30, 2009 were $4.5 million, compared to $2.2 million in the 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

Commission revenues decreased by $1.8 million, or 54.1%, to $1.5 million for the six months ended June 30, 2009, compared with $3.3 million for the six months ended June 30, 2008. The decrease is attributable to a lower volume of transactions that occurred in the first half of 2009 as well as a decrease in sales and trading and research employees.

Principal Transactions

Principal transactions revenue was $3.7 million for the six months ended June 30, 2009, compared with revenue of $8.8 million for the six months ended June 30, 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 offset by unrealized gains in a few financial instruments obtained through investment banking transactions during the second quarter of 2009.

Compensation

Compensation expense increased $3.2 million, or 15.2%, while net revenues decreased 12.3% for the six months ended June 30, 2009. The ratio of compensation to net revenues was 60.9% for the six months ended June 30, 2009 as compared to 46.4% 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 first quarter of 2009; and (2) amortization of forgivable loans which we issued during 2008 and the first quarter of 2009.

Non-Compensation Expenses

Non-compensation expense was $11.7 million for the six months ended June 30, 2009, versus $11.7 million for the prior year period, or 29.7% of net revenues for the 2009 period versus 26.2% of net revenues for the comparable period of 2008. Although non-compensation expense was comparable to the prior period, the components of such expenses varied. Conference fees expenses and business development expenses declined by $3.1 million due to the suspension of the European Investor Conference and the cost savings initiatives implemented during the first half of 2009, while amortization expenses and impairment charges, rental expenses and professional fees increased by $2.5 million during the first half of 2009.

Income Taxes

Income tax expense was $9,112 for the six months ended June 30, 2009, which equals an effective tax rate of 0.3% compared to an income tax expense of $5.1 million for the six months ended June 30, 2008, which equals an effective tax rate of 42.0%.

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 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 June 30, 2009, we had liquid assets, consisting of unrestricted cash, restricted cash, Level I assets, and current receivables of $19.5 million. As of March 31, 2009 and December 31, 2008, we had liquid assets of $12.1 million and $27.7 million, respectively.

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 first half of 2009, bonus payments of $5.2 million were paid in July 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 June 30, 2009 and December 31, 2008, we had excess net capital of $5.0 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 regularly explore capital raising alternatives.

Cash Flows

Cash and cash equivalents were $10.9 million at June 30, 2009, a decrease of $7.5 million from $18.4 million at December 31, 2008.

Operating activities used $2.9 million of cash and cash equivalents during the six months ended June 30, 2009. During the six months ended June 30, 2009, we issued $2.0 million in forgivable loans to a senior member of the Global Capital Markets Group pursuant to a contractual obligation entered into in 2008. Additionally, we incurred legal fees related to an ongoing arbitration of approximately $1.1 million and cash severance expense of $0.6 million. Absent these non-recurring items, we experienced positive cash flows from operations of $0.8 million for the six month ended June 30, 2009.

The primary components of cash used by investing activities for the six months ended June 30, 2009 were: (a) $1.4 million in connection with the purchase of property and equipment and leasehold improvements; and (b) $1.5 million and $1.1 million in connection with the acquisitions of Miller Mathis and COSCO, respectively.

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 June 30, 2009, $18.5 million, or 48% of $38.6 million of financial instruments owned, at fair value, represented investments in warrants received in conjunction with our investment banking activities. $1.6 million, or 4% of financial instruments owned is related to a promissory note received in conjunction with our investment banking activities. The remaining 48% 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 June 30, 2009, 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 three 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:

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

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, April, May and June of 2009. Summation arguments were August 3 and 4, 2009. Post-trial briefs are due from both parties by August 14, 2009. A hearing on damages, to the extent there is a liability award entered for either party, is scheduled for October 8 and 12, 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.

Regulatory Inquiries and Investigations

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: August 12, 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)