

GLEACHER & COMPANY, INC.

Form 10-Q

November 09, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the quarterly period ended September 30, 2012

- or -

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the transition period from to

Commission file number 014140

GLEACHER & COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware

22-2655804

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(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1290 Avenue of the Americas, New York, New York
(Address of principal executive offices)

10104
(Zip Code)

Registrant's telephone number, including area code **(212) 273-7100**

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer
(Do not check if a smaller reporting company)

Smaller Reporting Company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

124,466,040 shares of Common Stock were outstanding as of the close of business on November 6, 2012

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GLEACHER & COMPANY, INC. AND SUBSIDIARIES

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GLEACHER & COMPANY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

Part I Financial Information**Item 1. Financial Statements**

(In thousands of dollars, except for per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<i>Revenues:</i>				
Principal transactions	\$ 15,652	\$ 9,791	\$ 44,863	\$ 71,593
Commissions	17,830	15,968	53,178	50,766
Investment banking	1,996	9,359	17,788	29,723
Investment gains, net	163	2,857	156	2,539
Interest income	6,879	16,249	37,632	46,201
Gain from bargain purchase - ClearPoint Funding, Inc. acquisition (Refer to Note 11)				2,330
Fees and other	2,959	2,612	9,362	5,075
Total revenues	45,479	56,836	162,979	208,227
Interest expense	2,149	2,672	10,261	8,295
Net revenues	43,330	54,164	152,718	199,932
<i>Expenses (excluding interest):</i>				
Compensation and benefits	25,534	32,684	101,859	129,058
Impairment of goodwill and intangible assets (Refer to Note 12)		80,244	21,096	80,244
Clearing, settlement and brokerage	9,461	8,946	31,152	19,017
Professional fees	4,282	1,944	12,827	6,229
Communications and data processing	3,224	3,614	9,699	10,108
Occupancy, depreciation and amortization	2,277	2,041	6,647	6,112
Business development	823	1,139	2,822	3,483
Other	2,753	2,337	8,673	7,321
Total expenses (excluding interest)	48,354	132,949	194,775	261,572
Loss from continuing operations before income taxes and discontinued operations	(5,024)	(78,785)	(42,057)	(61,640)
Income tax (benefit)/expense	(2,223)	(3,085)	26,269	4,208
Loss from continuing operations	(2,801)	(75,700)	(68,326)	(65,848)
Income/(loss) from discontinued operations, net of taxes (Refer to Note 24)	33	(5,357)	41	(18,425)
Net loss	\$ (2,768)	\$ (81,057)	\$ (68,285)	\$ (84,273)
<i>Per share data:</i>				
Basic (loss)/income per share				
Continuing operations	\$ (0.02)	\$ (0.61)	(0.57)	\$ (0.53)
Discontinued operations		(0.04)		(0.15)
Net loss per share	\$ (0.02)	\$ (0.65)	\$ (0.57)	\$ (0.68)
Diluted (loss)/income per share				

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Continuing operations	\$	(0.02)	\$	(0.61)	(0.57)	\$	(0.53)	
Discontinued operations				(0.04)			(0.15)	
Net loss per share	\$	(0.02)	\$	(0.65)	\$	(0.57)	\$	(0.68)
Weighted average shares of common stock:								
Basic		118,699		123,993		118,969	123,598	
Diluted		118,699		123,993		118,969	123,598	

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

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GLEACHER & COMPANY, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

(In thousands of dollars, except for share and per share amounts)	September 30, 2012	December 31, 2011
<i>Assets</i>		
Cash and cash equivalents	\$ 28,482	\$ 36,672
Cash and securities segregated for regulatory and other purposes	4,000	9,612
Securities purchased under agreements to resell	132,608	1,523,227
Receivables from:		
Brokers, dealers and clearing organizations	125,008	58,776
Related parties	1,372	1,337
Others	10,029	16,161
Financial instruments owned, at fair value (includes financial instruments pledged of \$1,099,916 and \$1,553,610 at September 30, 2012 and December 31, 2011, respectively)	1,100,731	1,554,660
Investments	19,253	18,310
Office equipment and leasehold improvements, net	5,726	6,735
Goodwill		21,096
Intangible assets	3,940	4,311
Income taxes receivable	4,807	12,102
Deferred tax assets, net	2,654	30,766
Other assets	9,106	9,791
Total Assets	\$ 1,447,716	\$ 3,303,556
<i>Liabilities and Stockholders Equity</i>		
<i>Liabilities</i>		
Payables to:		
Brokers, dealers and clearing organizations	\$ 791,172	\$ 1,108,664
Related parties	594	4,939
Others	2,804	3,243
Securities sold under agreements to repurchase	103,562	1,478,081
Securities sold, but not yet purchased, at fair value	262,274	184,996
Secured borrowings	66,575	213,611
Accrued compensation	17,203	26,274
Accounts payable and accrued expenses	10,750	18,223
Income taxes payable	3,804	3,979
Deferred tax liabilities		1,622
Subordinated debt	595	801
Total Liabilities	1,259,333	3,044,433
<i>Commitments and Contingencies (Refer to Note 16)</i>		
<i>Stockholders Equity</i>		
Common stock; \$.01 par value; authorized 200,000,000 shares, issued 133,769,219 and 133,714,786 shares; and outstanding 124,570,033 and 120,883,601 shares, at September 30, 2012 and December 31, 2011, respectively	1,337	1,337
Additional paid-in capital	451,850	463,497
Deferred compensation	124	161
Accumulated deficit	(254,172)	(185,887)
	(10,756)	(19,985)

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Treasury stock, at cost (9,199,186 shares and 12,831,185 shares, at September 30, 2012 and December 31, 2011, respectively)

Total Stockholders Equity		188,383		259,123
Total Liabilities and Stockholders Equity		\$ 1,447,716	\$	3,303,556

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

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GLEACHER & COMPANY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands of dollars)	Nine Months Ended September 30,	
	2012	2011
<i>Cash flows from operating activities:</i>		
Net loss	\$ (68,285)	\$ (84,273)
<i>Adjustments to reconcile net loss to net cash flows from operating activities:</i>		
Deferred income taxes (Refer to Note 18)	26,490	1,913
Impairment of goodwill Investment Banking (Refer to Note 12)	3,732	80,244
Impairment of goodwill MBS & Rates (Refer to Note 12)	17,364	
Impairment of goodwill and intangible assets Equities (Refer to Note 24)		14,311
Amortization of stock-based compensation	4,538	13,418
Clawback of stock-based compensation awards subject to non-competition provisions	(2,497)	
Gain from bargain purchase ClearPoint Funding, Inc. acquisition		(2,330)
Depreciation and amortization	1,455	1,433
Amortization of intangible assets	371	1,976
Investment losses/(gains), net	(156)	(2,539)
Loss on disposal of office equipment and leasehold improvements		316
<i>Changes in operating assets and liabilities:</i>		
Cash and securities segregated for regulatory and other purposes	5,612	(3,900)
Securities purchased under agreements to resell	1,390,619	(404,379)
Net receivable/payable from/to related parties	(4,397)	1,028
Net receivable from others	5,693	3,746
Financial instruments owned, at fair value	453,929	(388,930)
Income taxes receivable/payable, net	6,734	(3,262)
Other assets	749	1,452
Net payable to brokers, dealers and clearing organizations	(383,724)	298,523
Securities sold under agreements to repurchase	(1,374,519)	402,535
Securities sold, but not yet purchased, at fair value	77,278	75,445
Accounts payable and accrued expenses	(3,530)	2,805
Accrued compensation	(9,071)	(40,445)
Drafts payable	318	(726)
Net cash provided by/(used in) operating activities	148,703	(31,639)
<i>Cash flows from investing activities:</i>		
Payment to former stockholders of Gleacher Partners, Inc. (Refer to Note 26)	(4,373)	
Purchase of investments	(800)	(1,367)
Purchases of office equipment and leasehold improvements	(447)	(1,916)
Return of capital investments		2,967
ClearPoint acquisition net cash acquired (Refer to Note 11)		626
Net cash (used in)/provided by investing activities	(5,620)	310
<i>Cash flows from financing activities:</i>		
Proceeds from secured borrowings	1,170,547	731,676
Repayments of secured borrowings	(1,317,583)	(682,811)
Purchases of treasury stock	(1,151)	(10,333)
Payment for employee tax withholdings on stock-based compensation	(2,888)	(6,143)
Repayment of subordinated debt	(206)	(108)
Excess tax benefits related to stock-based compensation	8	238
Net cash (used in)/provided by financing activities	(151,273)	32,519
(Decrease)/increase in cash and cash equivalents	(8,190)	1,190

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Cash and cash equivalents at beginning of the period		36,672		40,009
Cash and cash equivalents at the end of the period	\$	28,482	\$	41,199

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GLEACHER & COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

NON CASH INVESTING AND FINANCING ACTIVITIES

During the nine months ended September 30, 2012 and 2011, the Company issued approximately 5.8 million and 0.6 million shares out of treasury stock, net of forfeitures, respectively, for stock-based compensation exercises and vesting and distributions of deferred compensation related to the employee stock trust.

During the nine months ended September 30, 2012 and 2011, the Company issued approximately 0.1 million and 2.3 million shares of common stock, respectively, for settlement of stock-based compensation awards.

The fair value of non-cash assets acquired and liabilities assumed in the ClearPoint Funding, Inc. acquisition on January 3, 2011 were \$51.6 million and \$49.9 million, respectively (Refer to Note 11).

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

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GLEACHER & COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

I. Basis of Presentation

Gleacher & Company, Inc. (the Parent and together with its subsidiaries, the Company) is an independent investment bank that provides corporate and institutional clients with strategic and financial advisory services, including merger and acquisition, restructuring, recapitalization, and strategic alternative analysis. The Company also provides capital raising, research-based investment analysis, and securities brokerage services, and, through its subsidiary ClearPoint Funding, Inc. (ClearPoint), engages in residential mortgage lending. The Company offers a diverse range of products through its Investment Banking, Mortgage Backed Securities & Rates (MBS & Rates, formerly known as MBS/ABS & Rates), Credit Products (formerly known as Corporate Credit) and ClearPoint divisions. The Company is incorporated under the laws of the State of Delaware. The Company's common stock is traded on the NASDAQ Global Market (NASDAQ) under the symbol GLCH.

Policies and Presentation

The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements prepared in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could be different from these estimates. In the opinion of management, all normal, recurring adjustments necessary for a fair statement of this interim financial information are contained in the accompanying consolidated financial statements. The results for any interim period are not necessarily indicative of those for the full year.

The accompanying consolidated financial statements are presented in accordance with the U.S. Securities and Exchange Commission (SEC) requirements for Quarterly Reports on Form 10-Q and are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted. Reference should be made to the Company's audited consolidated financial statements and notes within the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for additional information, including a summary of the Company's significant accounting policies.

Reclassification

Certain amounts in prior periods have been reclassified to conform to the current year presentation with no impact to previously reported net loss or stockholders' equity. This includes the prior period results of the Equities division, which is now being reported as discontinued operations. Refer to Note 24 herein for additional information. In addition, revenues earned on a riskless principal basis in the amount of \$15.7 million and \$49.9 million, respectively, for the three and nine months ended September 30, 2011 have been reclassified from principal transactions to commission income in order to distinguish such revenues (commission equivalents) from revenues earned on financial instruments held in

inventory.

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11 Disclosures about Offsetting Assets and Liabilities (ASU 2011-11), which requires new disclosures about balance sheet offsetting and related arrangements. For derivative financial assets and liabilities, the amendments require disclosure of gross asset and liability amounts, amounts offset on the balance sheet, and amounts subject to offsetting requirements but not offset in the balance sheet. This guidance is effective for annual reporting periods beginning on or after January 1, 2013 and is to be applied retrospectively. This guidance does not amend the existing guidance on when it is appropriate to offset, and since these amended principles require only additional disclosures, the adoption of ASU 2011-11 will not affect the Company s financial condition, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income (ASU 2011-05), in order to improve the comparability, consistency, and transparency of financial reporting and to increase prominence of items reported in other comprehensive income. The amendments in this ASU include the requirement that all non-owner changes in stockholders equity be presented in a single continuous statement of

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GLEACHER & COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

comprehensive income or in two separate but consecutive statements, and eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, except for new presentation requirements about reclassification of items out of accumulated other comprehensive income which are currently deferred indefinitely. ASU 2011-05 is not applicable to the Company as it has no items reported as other comprehensive income.

In May 2011, the FASB issued ASU No. 2011-04 Fair Value Measurements: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS (ASU 2011-04), in order to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards (IFRS). The amendments in this ASU include clarification of (i) the application of the highest and best use valuation premise concepts and specifies that such concepts are relevant only when measuring the fair value of nonfinancial assets, (ii) the requirement to measure certain instruments classified in stockholders' equity at fair value, such as equity interests issued as consideration in a business combination and (iii) disclosure requirements regarding quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy. In addition, ASU 2011-04 changes particular principles or requirements for measuring fair value or for disclosing information about fair value measurements, including (a) measuring the fair value of financial instruments that are managed within a portfolio by permitting entities to measure such financial instruments on a net basis if such entities manage such financial instruments on the basis of their net exposure, (b) clarifying that premiums or discounts related to size as a characteristic of the reporting entity's holding (specifically, a blockage factor) rather than as a characteristic of the asset or liability (for example, a control premium) are not permitted in a fair value measurement and (c) the expansion of disclosures about fair value measurements, including the valuation processes of financial instruments categorized within Level 3 of the fair value hierarchy and sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any. ASU 2011-04 is effective during interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on the Company's consolidated financial statements. Refer to Note 8 herein which includes the disclosures as required by this ASU.

In April 2011, the FASB issued ASU No. 2011-03 Transfers and Servicing: Reconsideration of Effective Control for Repurchase Agreements (ASU 2011-03), in order to improve the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this ASU remove from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance implementation guidance related to that criterion. ASU 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011. The adoption of ASU 2011-03 did not have a material impact on the Company's consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (ASU 2010-28), in order to address questions about entities with reporting units with zero or negative carrying amounts as some entities concluded that Step 1 of the test is passed in those circumstances because the fair value of their reporting unit will generally be greater than zero. For reporting units with zero or negative carrying amounts, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists, taking into consideration any adverse qualitative factors indicating that an impairment may exist. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2010-28 did not have a material impact on the Company's consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

2. (Loss)/Earnings Per Common Share

The Company calculates basic and diluted (loss)/earnings per share in accordance with Accounting Standards Codification (ASC) ASC 260, Earnings Per Share. Basic (loss)/earnings per share is computed based upon weighted-average shares outstanding during the period. Dilutive (loss)/earnings per share is computed consistently with the basic computation while giving effect to all dilutive potential common shares and common share equivalents that were outstanding during the period. The Company uses the treasury stock method to reflect the potential dilutive effect of unvested stock awards, warrants, and unexercised options. The weighted average shares outstanding were calculated as follows:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Weighted average shares for basic (loss)/earnings per share	118,699	123,993	118,969	123,598
Effect of dilutive common share equivalents				
Weighted average shares and dilutive common share equivalents for dilutive (loss)/earnings per share	118,699	123,993	118,969	123,598

The Company was in a net loss position for the three and nine months ended September 30, 2012 and 2011 and therefore excluded approximately 9.2 million and 10.1 million, respectively, shares underlying stock options and warrants, 7.5 million and 6.7 million, respectively, shares of restricted stock, and 3.3 million and 6.6 million, respectively, shares underlying restricted stock units (RSUs) from its computation of dilutive loss per share because they were anti-dilutive.

3. Cash and Cash Equivalents

The Company has defined cash equivalents as highly liquid investments, with original maturities of less than 90 days that are not segregated for regulatory purposes or held for sale in the ordinary course of business. At September 30, 2012 and December 31, 2011, cash equivalents were approximately \$3.0 million and \$10.3 million, respectively.

4. Cash and Securities Segregated for Regulatory and Other Purposes

In November 2010, Gleacher & Company Securities, Inc. (Gleacher Securities) began self-clearing its trading activities in U.S. government securities (the Rates business) and is therefore subject to the Customer Protection rules under Rule 15c3-3 promulgated under the Securities

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Exchange Act of 1934, as amended (the Exchange Act). At September 30, 2012 and December 31, 2011, the Company segregated cash of \$1.0 million and \$4.0 million, respectively, in a special reserve bank account for the exclusive benefit of customers pertaining to the results of the activities of the Company's Rates business and outstanding checks issued to customers and vendors when the Company was previously conducting self-clearing in prior years.

Cash segregated also includes \$3.0 million and \$1.0 million of cash on deposit in connection with ClearPoint's secured borrowings at September 30, 2012 and December 31, 2011, respectively.

At December 31, 2011, cash segregated also included approximately \$4.6 million of cash received in connection with a working capital loan agreement between an unaffiliated borrower and certain lenders. In connection with this agreement, a wholly-owned subsidiary of the Company, acting as agent, had a commitment to pay funding advances on behalf of the lenders with respect to any unfunded commitments drawn upon by the borrower under the working capital loan agreement. An equal and offsetting liability was recorded within Accounts payable and accrued expenses within the Consolidated Statements of Financial Condition.

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GLEACHER & COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

5. *Resale and Repurchase Agreements*

Refer to Note 1 within the footnotes to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for a detailed discussion of accounting policies related to the Company's resale and repurchase agreements.

At September 30, 2012 and December 31, 2011, the fair value of financial instruments received as collateral by the Company that it was permitted to deliver or repledge in connection with resale agreements was approximately \$0.1 billion and \$1.5 billion, respectively, substantially all of which was repledged in the form of repurchase agreements at September 30, 2012 and December 31, 2011.

The following tables provide detail on the composition of the outstanding repurchase agreements at September 30, 2012 and December 31, 2011:

		September 30, 2012				On Demand	Total
(In thousands of dollars)	Overnight	< 30 days	30-90 days	> 90 days			
Collateral Type							
U.S. Government and federal agency obligations	\$	\$ 100,000	\$	\$	\$ 3,562	\$ 103,562	
		December 31, 2011				On Demand	Total
(In thousands of dollars)	Overnight	< 30 days	30-90 days	> 90 days			
Collateral Type							
U.S. Government and federal agency obligations	\$ 1,204,641	\$	\$	\$	\$ 273,440	\$ 1,478,081	

6. *Receivables from and Payables to Brokers, Dealers, and Clearing Organizations*

Amounts receivable from and payable to brokers, dealers and clearing organizations consists of the following:

(In thousands of dollars)	September 30, 2012	December 31, 2011
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Deposits with clearing organizations	\$	10,826	\$	16,467
Receivable for unsettled trading activities		110,832		14,705
Receivable from clearing organizations		2,288		2,950
Fails to deliver				24,654
Underwriting and syndicate fees receivable		1,062		
Total receivables	\$	125,008	\$	58,776
Payable to clearing organizations		744,950		1,093,518
Fails to receive		46,222		15,146
Total payables	\$	791,172	\$	1,108,664

Included within deposits with clearing organizations at September 30, 2012 and December 31, 2011 is a deposit with the Fixed Income Clearing Corporation (FICC) of approximately \$8.5 million and \$15.2 million, respectively, related to the Company's self clearing activities associated with the Rates business.

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GLEACHER & COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Securities transactions are recorded on their trade date as if they had settled. The related amounts receivable and payable for unsettled securities transactions are recorded net, by clearing organization, in Receivables from or Payables to brokers, dealers and clearing organizations in the Consolidated Statements of Financial Condition.

The clearing organizations may re-hypothecate all securities held on behalf of the Company.

7. *Receivables from and Payables to Others*

Amounts Receivable from and Payable to Others consist of the following:

(In thousands of dollars)	September 30, 2012	December 31, 2011
Investment banking and advisory fees receivable	\$ 2,733	\$ 1,713
Interest receivable	2,890	7,250
Fails to deliver	1,914	
Principal paydowns Agency mortgage-backed securities	255	4,468
Loans and advances	182	280
Management fees receivable	180	140
Others	1,875	2,310
Total receivables from others	\$ 10,029	\$ 16,161
Payable to employees for the Employee Investment Funds (Refer to Note 10)	\$ 961	\$ 972
Customer deposits held in escrow ClearPoint	429	849
Draft payables	452	135
Others	962	1,287
Total payables to others	\$ 2,804	\$ 3,243

The Company maintains a group of zero balance bank accounts which are included in Payable to others on the Consolidated Statements of Financial Condition. Drafts payable represent the balance in these accounts related to outstanding checks that have not yet been presented for payment at the bank. The Company has sufficient funds on deposit to clear these checks, and these funds will be transferred to the zero-balance accounts upon presentment.

8. *Financial Instruments*

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Refer to Note 1 within the footnotes to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, for a detailed discussion of accounting policies related to the Company's financial instruments & investments, loans and derivative financial instruments.

The Company's financial instruments are recorded within the Consolidated Statements of Financial Condition at fair value. ASC 820 Fair Value Measurements and Disclosures (ASC 820) defines fair value as the price that would be received upon the sale of an asset or paid upon the transfer of a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date and establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1: Quoted prices in active markets that the Company has the ability to access at the reporting date, for identical assets or liabilities.

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

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

** Prices are not adjusted for the effects, if any, of the Company holding a large block relative to the overall trading volume (referred to as a blockage factor).

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

ASC 820 also provides (i) general guidance on determining fair value when markets are inactive including the use of judgment in determining whether a transaction in a dislocated market represents fair value, the inclusion of market participant risk adjustments when an entity significantly adjusts observable market data based on unobservable inputs, and the degree of reliance to be placed on broker quotes or pricing services as well as (ii) additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly declined and guidance on identifying circumstances that indicate a transaction is not orderly.

Fair Valuation Methodology

Cash Equivalents These financial assets represent cash in banks or cash invested in highly liquid investments with original maturities less than 90 days that are not segregated for regulatory purposes or held for sale in the ordinary course of business. These investments are valued at par, which represent fair value, and are considered Level 1. Refer to Note 3 herein for additional information.

Financial Instruments Owned/Securities Sold But Not Yet Purchased These financial instruments primarily consist of investments in fixed income securities, as well as holdings in equity securities. The Company has no direct exposure to European sovereign debt.

Level 1 Cash Instruments

Level 1 cash instruments include U.S. government obligations and actively traded listed preferred stock and equity securities (if not subject to legal restriction on transfer). These instruments are generally traded in active, quoted and highly liquid markets.

Level 2 Cash Instruments

Level 2 cash instruments generally include agency mortgage-backed securities, federal agency obligations, corporate debt, mortgage loans originated by ClearPoint for which the fair value option (FVO) has been elected and certain preferred stock, asset-backed and non-agency residential and commercial mortgage-backed securities and certain other debt obligations.

In determining fair value for Level 2 financial instruments, management considers recent purchases or sales of the financial assets, benchmark securities and yields, discounted cash flow techniques, recently executed market transactions of comparable size, issuer spreads and bids/offers. Fair value for ClearPoint s loans is determined utilizing observable market factors and is principally based upon the fair value of the to-be-announced (TBA) forward securities market (refer to Derivatives below).

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Level 3 Cash Instruments

Level 3 cash instruments primarily include non-agency commercial and residential mortgage backed securities positions and certain other debt obligations. In determining fair value for Level 3 financial instruments, management maximizes the use of market observable information when available. Management considers factors such as recent purchases or sales of the financial assets, discounted cash flow techniques, bids that were received, and various benchmarking techniques, including spread comparisons to other similar financial assets recently traded, or spreads to observable factors such as yield curves. Management considers its valuation methodologies consistent with assumptions in how other market participants value certain financial assets.

Level 3 cash instruments also includes the Company's investment in FA Technology Ventures, L.P. (FATV or the Partnership), further described below.

Derivatives These financial instruments primarily consist of TBAs, forward sales and interest rate lock commitments (IRLCs).

TBAs and forward sales: The Company utilizes derivatives for trading strategies and economic hedging strategies. The Company economically hedges certain of its mortgage-backed and U.S. government securities trading, and the mortgage lending activities of ClearPoint, through the use of TBAs and forward sale agreements. A TBA is a forward mortgage-backed security whose collateral remains to-be-announced until just prior to the trade settlement. Forward sale agreements are entered into by ClearPoint and are valued based upon the TBA. TBAs are traded in an active quoted market and therefore generally classified as Level 1.

IRLCs: The Company enters into mortgage loan IRLCs in connection with its mortgage lending activities. The fair value of the IRLCs are determined on an individual loan basis and are based on investor pricing tables stratified by product, note rate and term and considers the servicing release premium, expected loan origination fees and costs and loan pricing adjustments specific to each loan. The Company also applies an estimated rate of closure based on historical experience in determining the notional amount of the loans expected to be funded. All of these factors combined results in the classification of the IRLCs as Level 3.

Investments These financial assets primarily represent the Company's investment in FATV, a venture capital limited partnership which provides early stage growth capital to companies in the information and new energy technology sectors. Valuation techniques applied by FATV GP LLC (the General Partner) to the underlying portfolio companies predominantly include consideration of comparable market transactions and the use of valuation models to determine the discounted value of estimated future cash flows, adjusted as appropriate for market and/or other risk factors. In addition, from time to time, FATV holds equity securities in public companies which are valued based upon quoted market prices. This investment is classified as Level 3 as the majority of the valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

Valuation Processes and Controls

Our sales and trading professionals in our revenue producing units are responsible for pricing our financial instruments. The Company employs an independent control process in order to validate these prices. This control process, which involves both the Company's risk management and finance personnel, is designed to ensure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable.

Fair value is generally determined through a variety of factors, such as recent purchases or sales of the financial assets, bids that were received, and various benchmarking techniques, including spread comparisons to other similar assets recently traded or spreads to other observable factors such as yield curves. The Company's independent control process includes leveraging pricing information obtained from external data providers to assess the reasonableness of its marks, generally for the Company's most highly liquid financial instruments, as this data tends to be generally reliable for positions that are actively traded. For the Company's less liquid

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financial instruments, the Company's independent control process includes comparing month-end marks to recent trading activity, benchmarking price changes to observable market indices, reviewing benchmarking techniques and analyzing external pricing data for trends. These independent procedures are critical to ensuring our financial instruments are properly valued.

Fair Value Hierarchy

The following tables summarize the categorization of the financial instruments within the fair value hierarchy including those for which the Company accounts for under the FVO, at September 30, 2012:

(In thousands of dollars)	Assets at Fair Value			Total
	Level 1	Level 2	Level 3	
Financial instruments owned				
Agency mortgage-backed securities	\$	\$ 863,143	\$ 8	\$ 863,151
Loans		80,961		80,961
Federal agency obligations		69,973		69,973
Corporate debt securities		22,725		22,725
Residential mortgage-backed securities		11,053	11,281	22,334
U.S. government obligations	21,758	99		21,857
Other debt obligations		377	10,487	10,864
Commercial mortgage-backed securities		97	3,819	3,916
Equity securities	664		98	762
Collateralized debt obligations			551	551
Derivatives	684		2,953	3,637
Investments			19,253	19,253
Total financial assets at fair value	\$ 23,106	\$ 1,048,428	\$ 48,450	\$ 1,119,984

(In thousands of dollars)	Liabilities at Fair Value			Total
	Level 1	Level 2	Level 3	
Securities sold but not yet purchased				
U.S. Government obligations	\$ 249,516	\$	\$	\$ 249,516
Corporate debt securities		5,673		5,673
Preferred stock	1,864			1,864
Derivatives	5,221			5,221
Total financial liabilities at fair value	\$ 256,601	\$ 5,673	\$	\$ 262,274

Included below is a discussion of the characteristics of the Company's Level 2 and Level 3 holdings at September 30, 2012. Unless otherwise stated, fair value of Level 2 assets are determined based upon observable third party information including recent trading activity, broker quotes and other relevant market data as noted above. Fair value for Level 3 assets are based predominantly on management's own assumptions about

the assumptions market participants would make.

Financial Instruments Classified as Level 2

The Company's agency mortgage-backed securities positions classified as Level 2, of approximately \$863.1 million, have a weighted average loan size of approximately \$0.2 million paying interest of 4.7%, with a weighted average FICO score of 743. This portfolio has a weighted average coupon remitting payment of 4.0% and has a weighted average annualized constant prepayment rate of approximately 22.9%. Fair value is determined through a combination of matrix pricing as well as the information noted in the preceding paragraph.

The Company's Level 2 federal agency obligations of approximately \$70.0 million have a weighted average coupon of 1.8% and a weighted average maturity of 2019.

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The Company's Level 2 loans of approximately \$81.0 million (unpaid principal of approximately \$77.6 million), which are related to the mortgage lending activities of ClearPoint and for which the FVO has been elected, have a weighted average loan size of approximately \$0.2 million and has a weighted average coupon remitting payment of 3.7%. Unrealized losses arising from fair value changes of approximately \$0.4 million have been recorded within Principal transactions within the Consolidated Statements of Operations as of September 30, 2012. There are no loans 90 days or more past due and no loans are in non-accrual status. The loans are underwritten using standards prescribed by conventional mortgage lenders and loan buyers such as the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation.

The Company's net holdings of corporate debt securities classified as Level 2 of approximately \$17.1 million have a weighted average credit rating of BBB, have a weighted average issuance year of 2007 and a weighted average maturity of 2027.

The Company's Level 2 non-agency residential mortgage backed securities of approximately \$11.1 million are primarily senior tranches, have a weighted average credit rating of DDD and a weighted average issuance year of 2005.

Financial Instruments Classified as Level 3

Non-Agency Residential Mortgage Backed Securities Disclosure About Significant Unobservable Inputs

(Dollars in thousands)

Valuation Technique	Fair Value at September 30, 2012	Unobservable Input	Range (Weighted Average)
Discounted cash flow	\$ 11,281	Default rate(1)	6.0%-18.0% (9.8%)
		Prepayment rate(2)	0.5%-15% (6.3%)
		Loss severity(1)	50%-65% (55.5%)
		Discount rate(1)	5.4%-8.6% (6.8%)

(1) Increases in this assumption would result in a lower fair value, whereas decreases in this assumption would result in a higher fair value.

(2) Increases in this assumption would result in a higher fair value, whereas decreases in this assumption would result in a lower fair value.

Commercial Mortgage Backed Securities Disclosure About Significant Unobservable Inputs

Valuation Technique

(Dollars in thousands)	Fair Value at September 30, 2012		Unobservable Input	Range (Weighted Average)
Comparable market data	\$	3,819	Spread over benchmark(1)	+3.0 to +13.0 (+9.0%)

(1) Increases in this assumption would result in a higher fair value, whereas decreases in this assumption would result in a lower fair value.

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Other Debt Obligations Disclosure About Significant Unobservable Inputs

Valuation Technique

(Dollars in thousands)	Fair Value at September 30, 2012	Unobservable Input	Range (Weighted Average)
Discounted cash flow	\$ 10,487	Default rate(1)	0.0%-0.5% (0.4%)
		Prepayment rate(2)	1.2%-15.0% (2.9%)
		Loss severity(1)	0.0%-25.0% (22.2%)
		Discount rate(1)	0.6%-1.9% (0.6%)

(1) Increases in this assumption would result in a lower fair value, whereas decreases in this assumption would result in a higher fair value.

(2) Increases in this assumption would result in a higher fair value, whereas decreases in this assumption would result in a lower fair value.

Interest Rate Lock Commitments Disclosure About Significant Unobservable Inputs

IRLCs are reported as derivatives and are classified Level 3. The significant unobservable input is ClearPoint's estimated rate of closure of 71.0%, representing the percentage of ClearPoint's loan commitments expected to fund, which is based on historical experience. A reduction in this unobservable input would result in a lower fair value for these financial instruments.

Refer to Note 9 herein for additional information.

Investments Quantitative Disclosure About Significant Unobservable Inputs

The Company's investments of approximately \$19.3 million classified as Level 3, includes the Company's investment in FATV of approximately \$16.0 million. Refer to Note 10 herein for additional information.

Valuation Technique	Unobservable Input	Range (Weighted Average)
Market comparable companies	Enterprise value/Revenue multiple	1.5x - 7.2x (5.9x)
	Discount applied to multiples	0.0% - 45.0% (23.0%)

An increase in the enterprise value/revenue multiple would result in a higher fair value for these investments, whereas, an increase in the discounts applied to these multiples would reduce fair value.

Nonrecurring Fair Value Measurements Quantitative Disclosure About Significant Unobservable Inputs

The Company's assets measured at fair value on a nonrecurring basis solely relate to Goodwill arising from various business combinations which would be classified as Level 3 within the fair value hierarchy. Refer to Note 12 herein for additional information.

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The following table summarizes the categorization of the financial instruments within the fair value hierarchy including those for which the Company accounts for under the FVO at December 31, 2011:

(In thousands of dollars)	Assets at Fair Value			Total
	Level 1	Level 2	Level 3	
Financial instruments owned				
Agency mortgage-backed securities	\$	\$ 1,084,254	\$ 1,367	\$ 1,085,621
Loans		228,226		228,226
Federal agency obligations		158,774		158,774
Commercial mortgage-backed securities			38,154	38,154
Residential mortgage-backed securities			18,419	18,419
Corporate debt securities		14,524		14,524
U.S. Government obligations	5,789			5,789
Preferred stock	316		1,301	1,617
Equity securities	889		112	1,001
Collateralized debt obligations			647	647
Other debt obligations			192	192
Derivatives			1,696	1,696
Investments			18,310	18,310
Total financial assets at fair value	\$ 6,994	\$ 1,485,778	\$ 80,198	\$ 1,572,970

(In thousands of dollars)	Liabilities at Fair Value			Total
	Level 1	Level 2	Level 3	
Securities sold but not yet purchased				
U.S. Government obligations	\$ 158,059	\$	\$	\$ 158,059
Corporate debt securities		12,254		12,254
Federal agency obligations		11,796		11,796
Preferred stock	184		730	914
Equity securities	2			2
Derivatives	1,971			1,971
Total financial liabilities at fair value	\$ 160,216	\$ 24,050	\$ 730	\$ 184,996

The Company reviews its financial instrument classification on a quarterly basis. As the observability and strength of valuation attributes change, reclassifications of certain financial assets or liabilities may occur between levels. The Company's policy is to utilize an end-of-period convention for determining transfers in or out of Levels 1, 2 and 3. During the three and nine months ended September 30, 2012, there were no transfers between Levels 1 and 2.

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The following table summarizes the changes in the Company's Level 3 financial instruments for the three months ended September 30, 2012:

(In thousands of dollars)	Balance at June 30, 2012	Total gains or (losses) (realized and unrealized) (1)	Purchases	Sales	Settlements	Transfers in and/or out of Level 3	Balance at September 30, 2012	Changes in unrealized gains/(losses) on Level 3 assets still held at the reporting date (1)
Commercial mortgage-backed securities	\$ 5,682	\$ (424)	\$ 133	\$ (1,568)	\$ (4)	\$	\$ 3,819	\$ (380)
Residential mortgage-backed securities	10,355	331	12,700	(11,482)	(623)		11,281	37
Other debt obligations	2,553	20	11,362	(3,420)	(28)		10,487	3
Agency mortgage-backed securities	1,486	(80)	3	(1,401)			8	35
Collateralized debt obligations	554	(3)					551	234
Equities	112	(14)					98	(14)
Investments	19,090	163					19,253	32
Derivatives	1,737	2,953			(1,737)		2,953	2,953
Total	\$ 41,569	\$ 2,946	\$ 24,198	\$ (17,871)	\$ (2,392)	\$	\$ 48,450	\$ 2,900

(1) Realized and unrealized gains/(losses) are reported in Principal transactions in the Consolidated Statements of Operations.

The following table summarizes the changes in the Company's Level 3 financial instruments for the three months ended September 30, 2011:

(In thousands of dollars)	Balance at June 30, 2011	Total gains or (losses) (realized and unrealized) (1)	Purchases	Sales	Settlements	Transfers in and/or out of Level 3 (2)	Balance at September 30, 2011	Changes in unrealized gains/(losses) on Level 3 assets still held at the reporting date (1)
Commercial mortgage-backed securities	\$ 56,359	\$ (6,258)	\$	\$ (22,353)	\$ (32)	\$	\$ 27,716	\$ (4,355)
Residential mortgage-backed securities	27,193	75	28,568	(21,289)	(1,652)		32,895	(379)
Other debt obligations	15,998	(94)	27,464	(23,299)	(1,160)		18,909	(3)
Agency mortgage-backed securities	8,013	(95)	2,839	(9,709)			1,048	(124)
Collateralized debt obligations	1,424	99		(877)			646	136
Equities	60	165					225	(55)

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Investments	16,098	2,857	1,264	(1,196)	19,023	2,872
Derivatives	574	3,349		(574)	3,349	3,349
Total	\$ 125,719	\$ 98	\$ 60,135	\$ (77,527)	\$ (4,614)	\$ 103,811
						\$ 1,441

(1) Realized and unrealized gains/(losses) are reported in Principal transactions in the Consolidated Statements of Operations.

(2) During the three months ended September 30, 2011, there were no transfers in or out of Level 3.

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The following table summarizes the changes in the Company's Level 3 financial instruments for the nine months ended September 30, 2012:

(In thousands of dollars)	Balance at December 31, 2011	Total gains or (losses) (realized and unrealized) (1)	Purchases	Sales	Settlements	Transfers in and/or out of Level 3(2)	Balance at September 30, 2012	Changes in unrealized gains/(losses) on Level 3 assets still held at the reporting date (1)
Commercial mortgage-backed securities	\$ 38,154	\$ (6,497)	\$ 7,383	\$ (33,058)	\$ (62)	\$ (2,101)	\$ 3,819	\$ (1,322)
Residential mortgage-backed securities	18,419	(555)	11,680	(17,329)	(934)		11,281	12
Other debt obligations	192	10	16,153	(5,848)	(20)		10,487	(1)
Agency mortgage-backed securities	1,367	(140)	15	(1,232)	(2)		8	4
Collateralized debt obligations	647	(96)	60	(60)			551	(93)
Equities	112	(14)					98	(14)
Preferred stock	571	188	5,624	(6,383)				
Investments	18,310	156	800		(13)		19,253	210
Derivatives	1,696	5,575			(4,318)		2,953	2,953
Total	\$ 79,468	\$ (1,373)	\$ 41,715	\$ (63,910)	\$ (5,349)	\$ (2,101)	\$ 48,450	\$ 1,749

(1) Realized and unrealized gains/(losses) are reported in Principal transactions in the Consolidated Statements of Operations.

(2) During the nine months ended September 30, 2012, the Company transferred approximately \$2.1 million of commercial mortgage backed securities from Level 3 to Level 2 due to price discovery resulting from Company trading activity occurring in close proximity to the respective quarter-end.

The following table summarizes the changes in the Company's Level 3 financial instruments for the nine months ended September 30, 2011:

(In thousands of dollars)	Balance at December 31, 2010	Total gains or (losses) (realized and unrealized) (1)	Purchases	Sales	Settlements	Transfers in and/or out of Level 3(2)	Balance at September 30, 2011	Changes in unrealized gains/(losses) on Level 3 assets still held at the reporting date (1)
Commercial mortgage-backed securities	\$ 46,571	\$ 8,828	\$ 67,742	\$ (91,668)	\$ (107)	\$ (3,650)	\$ 27,716	\$ (6,889)
Residential mortgage-backed securities	33,604	(79)	32,923	(30,564)	(2,989)		32,895	(379)

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Other debt obligations	5,843	(14)	32,005	(18,765)	(160)	18,909	54	
Agency mortgage-backed securities	806	(147)	1,111	(722)		1,048	(187)	
Collateralized debt obligations	23,235	11,570	9,056	(39,122)	(525)	(3,568)	61	
Equities	60	165				225	(55)	
Investments	18,084	2,539	1,367		(2,967)	19,023	2,446	
Derivatives		4,608			(1,259)	3,349	3,349	
Total	\$ 128,203	\$ 27,470	\$ 144,204	\$ (180,841)	\$ (8,007)	\$ (7,218)	\$ 103,811	\$ (1,600)

(1) Realized and unrealized gains/(losses) are reported in Principal transactions in the Consolidated Statements of Operations.

(2) During the nine months ended September 30, 2011, the Company transferred approximately \$3.7 million of commercial mortgage backed securities and approximately \$3.6 million of collateralized debt obligations from Level 3 to Level 2 due to price discovery resulting from Company trading activity occurring in close proximity to the respective quarter-end.

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9. Derivatives

The Company utilizes derivatives for trading strategies and economic hedging strategies to actively manage its market and liquidity exposures. In addition, the Company enters into mortgage loan IRLCs in connection with its mortgage lending activities. The following table summarizes the Company's derivative instruments as of September 30, 2012 and December 31, 2011:

(In thousands of dollars)	September 30, 2012			December 31, 2011		
	Number of Contracts	Notional	Fair Value	Number of Contracts	Notional	Fair Value
<i>Purchase Contracts</i>						
TBA purchase agreements	15	\$ 201,579	\$ 561	1	\$ 589	\$
<i>Eurodollar futures contracts</i>						
IRLCs	901	157,008	2,953	708	127,227	1,696
Total	916	358,587	\$ 3,514	709	\$ 127,816	\$ 1,696
<i>Sale Contracts</i>						
TBA sale agreements	31	\$ 785,423	\$ (4,957)	17	\$ 371,000	\$ (1,183)
Forward sale agreements	3	25,000	(141)	11	120,900	(788)
Eurodollar futures contracts	80	80,000				
Total	114	\$ 890,423	\$ (5,098)	28	\$ 491,900	\$ (1,971)

Total gains/(losses) associated with these activities, which are recorded within Principal transactions within the Consolidated Statements of Operations were (\$6.3) million and (\$4.4) million, for the three months ended September 30, 2012 and 2011, respectively, and (\$12.8) million and (\$17.4) million, for the nine months ended September 30, 2012 and 2011, respectively.

10. Investments

Refer to Note 1 within the footnotes to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, for a detailed discussion of the accounting policies related to the Company's investments included within the policy titled "Financial Instruments and Investments" and Note 8 herein for additional information regarding valuation techniques and inputs related to the Company's investment in FATV. The Company's investment portfolio includes interests in publicly and privately held companies and private equity securities. Information regarding these investments has been aggregated and is presented below.

(In thousands of dollars)

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	September 30, 2012	December 31, 2011
Fair Value		
Investment in FATV	\$ 16,015	\$ 15,863
Employee Investment Funds, net of Company's ownership interest	1,238	1,247
Other investment	2,000	1,200
Total Investments	\$ 19,253	\$ 18,310

Investment gains and losses are comprised of the following:

(In thousands of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,			
	2012	2011	2012	2011	2012	2011
Investments (realized and unrealized gains/(losses))	\$ 163	\$ 2,857	\$ 156	\$ 2,539		

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The Company has an investment in FATV of approximately \$16.0 million at September 30, 2012 and \$15.9 million at December 31, 2011. FATV's primary purpose is to provide investment returns consistent with the risk of investing in venture capital. FA Technology Ventures Corporation, a wholly-owned subsidiary of the Company, is the investment advisor to FATV. There are no material open commitments to fund this portfolio at September 30, 2012. At September 30, 2012 and December 31, 2011, total Partnership capital for all investors in FATV equaled \$63.3 million and \$63.7 million, respectively. The Partnership was scheduled to end in July 2011, subject to extension by the vote of a majority of the limited partners, as provided in the limited partnership agreement applicable to the Partnership (the Partnership Agreement). The term of the Partnership was extended pursuant to such provision and is now scheduled to terminate on July 19, 2013. The Partnership is considered a variable interest entity. The Company is not the primary beneficiary, due to other investors' level of investment in the Partnership. Accordingly, the Company has not consolidated the Partnership in these consolidated financial statements, but has only recorded the fair value of its investment, which also represented the Company's maximum exposure to loss in the Partnership at September 30, 2012 and December 31, 2011. The Company's share of management fee income derived from the Partnership for the three months ended September 30, 2012 and 2011 were \$0.2 million and \$0.2 million, respectively, and were \$0.5 million and \$0.5 million for the nine months ended September 30, 2012 and 2011, respectively.

The Employee Investment Funds (EIF) are limited liability companies, established by the Company for the purpose of having select employees invest in private equity securities. The EIF is managed by Broadpoint Management Corp., a wholly-owned subsidiary of the Company, which has contracted with FATV to act as an investment advisor with respect to funds invested in parallel with the Partnership. The Company has consolidated EIF resulting in approximately \$1.2 million and \$1.2 million of Investments and a corresponding Payable to others being recorded in the Consolidated Statements of Financial Condition as of September 30, 2012 and December 31, 2011, respectively. Management fees are not material to the Company.

The other investment is an investment in a privately held company.

11. Business Combinations

ClearPoint Funding, Inc. Acquisition

On January 3, 2011, the Company completed its acquisition of ClearPoint. Pursuant to the related Stock Purchase Agreement, a subsidiary of the Company, Descap Mortgage Funding, LLC (Descap LLC), paid approximately \$0.3 million of cash as transaction consideration for all of the issued and outstanding shares of capital stock of ClearPoint. Descap LLC is also obligated to pay the former stockholder of ClearPoint no more than approximately \$2.0 million payable in installments on the first, second and third anniversaries of the closing date, contingent upon the continued employment of the former stockholder and certain indemnification matters. The Company recorded a bargain purchase gain of approximately \$2.3 million, and no goodwill was recognized as the majority of the consideration payable to the former stockholder will be recognized as compensation expense for future services.

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The ClearPoint acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. The following condensed statement of net assets acquired reflects the value assigned to ClearPoint's net assets as of the acquisition date:

Condensed Statement of Net Asset Acquired (In thousands of dollars)	January 3, 2011
Assets	
Cash and cash equivalents	\$ 876
Loans	45,726
Derivative assets	1,117
Intangible assets*	803
Other assets	3,994
Total assets acquired	\$ 52,516
Liabilities	
Secured borrowings	\$ 44,339
Accrued expenses and other liabilities	5,597
Total liabilities assumed	\$ 49,936
Net assets acquired	\$ 2,580

*Consists primarily of customer relationships with an estimated useful life of 8 years.

Pro forma information for the nine months ended September 30, 2011 has not been provided given the proximity of the acquisition date to the beginning of the year. Refer to Note 25 herein for additional information regarding ClearPoint's financial information.

12. Goodwill and Intangible Assets

Refer to Note 1 within the footnotes to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, for a detailed discussion of the accounting policy related to goodwill and intangible assets.

Goodwill

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During the second quarter of 2012, the Company performed an interim goodwill impairment test which was triggered as a result of the Company's market capitalization trading at levels significantly below book value during the three months ended June 30, 2012. The Company determined that all of its remaining goodwill of approximately \$21.1 million had been impaired, due to the duration and severity of the decline in the Company's stock price in relation to its book value.

(In thousands of dollars)	Reporting Unit MBS & Rates	Reporting Unit Investment Banking	Total
Goodwill			
Balance at December 31, 2011	\$ 17,364	\$ 3,732	\$ 21,096
Increases/(decreases)			
Balance at March 31, 2012	17,364	3,732	21,096
Impairment June 30, 2012	(17,364)	(3,732)	(21,096)
Balance at September 30, 2012	\$	\$	\$

During the third quarter of 2011, the Company recorded an impairment of \$75.7 million of goodwill allocated to the Investment Banking reporting unit. This was a result of the implementation of the Company's strategic plan that resulted in a realignment of the core investment banking practice and the termination of 32 investment banking employees and certain administrative positions.

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In addition, during the three months ended June 30, 2011, the Company performed an interim goodwill impairment test related to its former Equities reporting unit as a result of the impact of the market environment on the segment's net revenues coupled with the higher operating costs associated with the expansion of our equities trading and sales trading capabilities announced in the third quarter of 2010. These factors resulted in a shortfall of actual revenues and operating results in relation to current year projections and as a result, all of the goodwill of the former Equities reporting unit (now classified as part of discontinued operations) was written off during the year ended December 31, 2011. Refer to Note 24 herein for additional information.

Intangible Assets

(In thousands of dollars)	September 30, 2012	December 31, 2011
Intangible assets (amortizable):		
MBS & Rates - Customer relationships		
Gross carrying amount	\$ 641	\$ 641
Accumulated amortization	(449)	(410)
Net carrying amount	192	231
Credit Products - Customer relationships		
Gross carrying amount	795	795
Accumulated amortization	(729)	(610)
Net carrying amount	66	185
Investment Banking - Trade name		
Gross carrying amount	4,066	7,300
Accumulated amortization	(1,011)	(874)
Impairment of intangible asset - September 1, 2011		(3,234)
Net carrying amount	3,055	3,192
ClearPoint - Customer relationships		
Gross carrying amount	803	803
Accumulated amortization	(176)	(100)
Net carrying amount	627	703
Total intangible assets	\$ 3,940	\$ 4,311

In connection with the previously mentioned goodwill impairment charge taken during the third quarter of 2011, the Company recorded an impairment of intangible assets allocated to the Investment Banking reporting unit of approximately \$4.6 million, including an impairment of the trade name of \$3.2 million and other miscellaneous intangible assets that were fully written-off.

Customer-related intangible assets are being amortized from 3 to 12 years and trademark assets are being amortized over 20 years (with approximately 16 years remaining). Total amortization expense recorded within Other in the Consolidated Statements of Operations for the three months ended September 30, 2012 and 2011 was approximately \$0.1 million and \$0.4 million, respectively, and for the nine months ended September 30, 2012 and 2011 was approximately \$0.4 million and \$1.7 million, respectively.

Future amortization expense as of September 30, 2012 is estimated as follows:

(In thousands of dollars)		
2012 (remaining)	\$	124
2013		364
2014		337
2015		337
2016		301
Thereafter		2,477
Total	\$	3,940

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13. Office Equipment and Leasehold Improvements

Refer to Note 1 within the footnotes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, for a detailed discussion of the accounting policy related to office equipment and leasehold improvements.

Office equipment and leasehold improvements consist of the following:

(In thousands of dollars)	September 30, 2012	December 31, 2011
Communications and data processing equipment	\$ 5,046	\$ 4,968
Furniture and fixtures	3,334	3,251
Leasehold improvements	1,793	1,766
Software	850	692
Total	11,023	10,677
Less: accumulated depreciation and amortization	(5,297)	(3,942)
Total office equipment and leasehold improvements, net	\$ 5,726	\$ 6,735

Depreciation and amortization expense for the three and nine months ended September 30, 2012 and 2011 was \$0.5 million and \$0.5 million, and \$1.5 million and \$1.4 million, respectively.

14. Other Assets

Other assets consist of the following:

(In thousands of dollars)	September 30, 2012	December 31, 2011
Collateral deposits	\$ 5,142	\$ 5,180
Prepaid expenses	2,346	2,959
Other	1,618	1,652
Total other assets	\$ 9,106	\$ 9,791

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15. Secured Borrowings

Pursuant to certain master repurchase agreements, ClearPoint was extended secured mortgage warehouse lines of credit in order to fund mortgage originations. These lines of credit carry floating rates of interest and are collateralized by ClearPoint's mortgage loans. Further information on these lines of credit is set forth below:

(In thousands of dollars)

Description	Current Year Expiration Date	September 30, 2012		December 31, 2011	
		Facility Limit	Outstanding Balance	Facility Limit	Outstanding Balance
Credit Facility No. 1	March 10, 2012	\$	\$	\$ 75,000	\$ 68,756
Credit Facility No. 2	November 14, 2012	45,000	33,054	75,000	49,704
Credit Facility No. 3	November 14, 2012	45,000	33,521	100,000	92,802
		\$ 90,000(1)	\$ 66,575	\$ 250,000(1)	\$ 211,262
Accelerated Purchase Facility	March 10, 2012			50,000	2,349
Total		\$ 90,000	\$ 66,575	\$ 300,000	\$ 213,611

(1) Committed capacity under the facilities was \$0 million and \$100 million as of September 30, 2012 and December 31, 2011, respectively.

Although originally scheduled to expire in September 2012, the lenders under Credit Facilities No. 2 and No. 3 have provided multiple short-term extensions. The warehouse lines currently expire on November 14, 2012. On November 8, 2012, the Company announced that it was pursuing a sale of the ClearPoint business. Refer to Note 27 herein for additional information. ClearPoint intends to continue negotiating extension terms in order for these credit facilities to be available through completion of any potential sale transaction.

The lender to Credit Facility No. 1 and the Accelerated Purchase Facility elected not to renew it and instead agreed to a 120-day extension. The advances under these lines were paid in full as of April 24, 2012, and pursuant to an amendment to the master repurchase agreement, those warehouse covenants are no longer in force, and ClearPoint has no further continuing reporting or notice obligations to this lender.

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If ClearPoint does not sell loans it originates from funds advanced under ClearPoint's mortgage warehouse lines of credit within certain periods of time, the lenders can incrementally curtail, or reduce, such advances. Under these circumstances, ClearPoint would be required to repay the curtailed amounts to the lenders prior to receiving any proceeds from the sale of the loan.

ClearPoint is required, among other things, to comply with certain financial covenants, including maintaining (i) a minimum tangible net worth ratio, (ii) a maximum leverage ratio, (iii) certain levels of profits/losses, and (iv) a minimum level of liquid assets. If ClearPoint fails to comply with these covenants, the lenders could declare the credit lines to be in default and require the payment of all amounts then outstanding under the lines. Also, the applicable agreements contain cross default provisions, so that a default under one agreement triggers a default under the others.

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16. Commitments and Contingencies

Guarantees Relating to Certain Contractual Obligations of ClearPoint

The Company previously disclosed in Note 29 within the Company's Annual Report on Form 10-K for the year ended December 31, 2011, separate limited guaranties entered into by the Parent on February 29, 2012, relating to certain contractual obligations of ClearPoint. The guaranties were entered into with certain of ClearPoint's lenders (the Curtailment Guaranties) and with Citibank (the Citibank Guaranty).

The Parent's obligations under the Citibank Guaranty were terminated during the second quarter of 2012.

The Parent's maximum potential liability under the Curtailment Guaranties has been substantially reduced resulting from the loan origination limits implemented by ClearPoint. The Company believes its remaining exposure under the Curtailment Guaranties, under the most likely scenarios, will not have a material adverse impact on the Parent and/or its subsidiaries. This belief is based in large part on recent past experience, as well as the expectation of ClearPoint (or the Parent) ultimately receiving the proceeds from the sale of these loans to finance, or offset, any payments made to the parties to which the guaranties were provided.

ClearPoint Acquisition

In connection with the Company's acquisition of ClearPoint on January 3, 2011 the former stockholder of ClearPoint is entitled to receive payments consisting of no more than approximately \$2.0 million payable in installments on the first, second and third anniversaries of the closing date, contingent upon the continued employment of the former stockholder. These payments are to be reduced for certain matters for which the Company is indemnified, including losses resulting from any loan losses with respect to loans presented to ClearPoint or originated on or prior to January 3, 2011. As of September 30, 2012 and December 31, 2011, the Company has accrued approximately \$0.6 million and \$0.8 million, respectively, in relation to this obligation which is recorded within Accrued compensation in the Consolidated Statements of Financial Condition.

Leases

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The Company's headquarters and sales offices, and certain office and communication equipment, are leased under non-cancelable operating leases, certain of which contain renewal options, free rent periods, and escalation clauses. These leases expire at various times through 2025. To the extent the Company is provided tenant improvement allowances funded by the lessor, they are amortized over the initial lease period and serve to reduce rent expense. The Company recognizes the rent expense over the entire lease term on a straight-line basis.

Future minimum annual lease payments, and sublease rental income as of September 30, 2012, are as follows:

(In thousands of dollars)	Future Minimum Lease Payments	Sublease Rental Income	Net Lease Payments
2012 (remaining)	\$ 2,295	\$ 488	\$ 1,807
2013	8,539	1,737	6,802
2014	6,867	860	6,007
2015	6,293	502	5,791
2016	5,340		5,340
Thereafter	44,383		44,383
Total	\$ 73,717	\$ 3,587	\$ 70,130

Rental expense, net of sublease rental income, for the three and nine months ended September 30, 2012 and 2011 approximated \$1.3 million and \$1.3 million, and \$3.7 million and \$4.3 million, respectively.

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Litigation and Other Claims

Refer to Note 1 within the footnotes to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, for a detailed discussion of the accounting policy related to contingencies.

Due to the nature of the Company's business, the Company and its subsidiaries are exposed to risks associated with a variety of legal proceedings and claims. These include litigations, arbitrations and other proceedings initiated by private parties and arising from underwriting, financial advisory, securities trading or other transactional activities, client account activities, mortgage lending and employment matters. Third parties who assert claims may do so for monetary damages that are substantial, particularly relative to the Company's financial position. These proceedings and claims typically involve associated legal costs incurred by the Company in connection with defending against these matters, which could be significant. The Company has been in the past, and currently is, subject to a variety of claims and litigations arising from its business, most of which it considers to be routine.

The Company and its subsidiaries are also subject to both routine and unscheduled regulatory examinations of their respective businesses and investigations of securities industry practices by governmental agencies and self-regulatory organizations. In recent years, securities and mortgage lending firms have been subject to increased scrutiny and regulatory enforcement activity. Regulatory investigations can result in substantial fines being imposed on the Company and/or its subsidiaries. In the ordinary course of business, the Company and its subsidiaries receive inquiries and subpoenas from the SEC, FINRA, state regulators and other regulatory organizations. The Company does not always know the purpose behind these communications or the status or target of any related investigation. Some of these communications have, in the past, resulted in disciplinary actions which have sometimes included monetary sanctions, and in the Company and/or its subsidiaries being cited for regulatory deficiencies. To date, none of these communications have had a material adverse effect on the Company's business nor does the Company believe that any pending communications are likely to have such an effect. Nevertheless, there can be no assurance that any pending or future communications will not have a material adverse effect on the Company's business. In addition, the Company is also subject to claims being made by employees alleging discrimination, harassment or wrongful discharge, among other things, and seeking recoupment of compensation claimed to be owed (whether for cash or forfeited equity awards), and other damages.

The Company recognizes a liability in its financial statements with respect to legal proceedings or claims when incurrence of a loss is probable and the amount of loss is reasonably estimable. However, accurately predicting the timing and outcome of legal proceedings and claims, including the amounts of any settlements, judgments or fines, is inherently difficult insofar as it depends on obtaining all of the relevant facts (which is sometimes not feasible) and applying to them often-complex legal principles. It is reasonably possible that the Company incurs losses pertaining to these matters in the form of settlements and/or adverse judgments and incurs legal and other expenses in defending against these matters. In either case, losses and/or expenses could be different in character or amount than anticipated by management when preparing the accompanying financial statements. Based on currently available information, the Company does not believe that any current litigation, proceeding, claim or other matter to which it is a party or otherwise involved, including any associated defense costs will have a material adverse effect on its financial position, or cash flows, although an adverse development, or an increase in associated legal fees, could be material to the Company's results of operations in a particular period, depending in part on the Company's operating results in that period.

Letters of Credit

The Company is contingently liable under bank stand-by letter of credit agreements, executed primarily in connection with office leases totaling \$4.9 million at September 30, 2012 and December 31, 2011. These agreements were all collateralized by cash which is included within Other assets in the Consolidated Statements of Financial Condition.

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Other

The Company, in the normal course of business, provides guarantees to third parties with respect to the obligations of certain of its subsidiaries.

In the normal course of business, Gleacher Securities guarantees certain service providers, such as clearing and custody agents, trustees, and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. Gleacher Securities also indemnifies some clients against potential losses incurred in the event of non-performance by specified third-party service providers, including sub-custodians. The maximum potential amount of future payments that Gleacher Securities could be required to make under these indemnifications cannot be estimated. However, Gleacher Securities has historically made no material payments under these arrangements and believes that it is unlikely it will have to make material payments in the future. Therefore, the Company has not recorded any contingent liability in the consolidated financial statements for these indemnifications.

The Company provides representations and warranties to counterparties in connection with a variety of transactions and occasionally agrees to indemnify them against potential losses caused by the breach of those representations and warranties and occasionally other liabilities. The maximum potential amount of future payments that the Company could be required under these indemnifications cannot be estimated. However, the Company has historically made no material payments under these agreements and believes that it is unlikely it will have to make material payments in the future; therefore it has not recorded any contingent liability in the consolidated financial statements for these indemnifications.

The Company is required to maintain a deposit at the FICC in connection with the self-clearing activities associated with the Rates business, which began in November 2010. The size of the deposit is subject to change from time to time and is dependent upon the volume of business transacted. At September 30, 2012 and December 31, 2011, the Company had a deposit with the FICC of approximately \$8.5 million and \$15.2 million, respectively, which is recorded within Receivable from brokers, dealers and clearing organizations in the Company's Consolidated Statements of Financial Condition.

In the ordinary course of business, ClearPoint indemnifies counterparties, including under its loan sale and warehouse line agreements, against potential losses incurred by such parties in connection with particular arrangements. ClearPoint reserves for its exposures to these obligations which is included within Accrued expenses in the Consolidated Statements of Financial Condition. This amount is not material to the Company. In connection with the Company's acquisition of ClearPoint, the Company is indemnified for any such losses with respect to any loans presented to ClearPoint or originated on or prior to January 3, 2011.

During the fourth quarter of 2012, the Company has made arrangements with certain of its business leaders whereby if equity incentives with respect to 6.0 million shares of Company common stock are not granted to these business leaders, then the Company intends to pay them

minimum cash bonuses of \$4.4 million, in the aggregate, for the 2012 service period.

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17. Stockholders Equity

Stock Repurchase (10b-18 Plan)

The Board of Directors of the Company has renewed the Company's share repurchase program and has authorized up to \$25 million in repurchases of Company common stock through the date on which the Company publicly releases its results of operations for fiscal 2012. Stock purchases by the Company may be made from time to time in the open market or in privately negotiated transactions, if and when management determines to effect purchases and is consistent with applicable legal and regulatory requirements. All stock repurchases by the Company shall be subject to the requirements of Rule 10b-18 promulgated under the Exchange Act. Purchases made during the nine months ended September 30, 2012, totaled approximately 1.3 million shares of common stock for approximately \$1.1 million. There were no repurchases made during the third quarter of 2012.

18. Income Taxes

Refer to Note 1 within the footnotes to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, for a detailed discussion of the accounting policy related to income taxes. During interim periods, the Company calculates and reports an estimated annual effective income tax rate pursuant to ASC 740-270, *Income Taxes - Interim Reporting*.

Three Months Ended September 30, 2012

The Company's effective income tax rate from continuing operations for the three months ended September 30, 2012 was 44.2%, resulting in an income tax benefit of approximately \$2.2 million. The income tax benefit is primarily attributable to a \$2.2 million increase in the net value of the deferred tax assets. Such increase is due to the Company's ability to carry-back realizable net operating losses to prior years.

There were no significant changes to the Company's unrecognized tax benefits during the three months ended September 30, 2012.

Three Months Ended September 30, 2011

The Company's effective income tax rate from continuing operations for the three months ended September 30, 2011 of 3.9% resulted in an income tax benefit of approximately \$3.1 million. The Company's tax rate differs from the federal statutory tax rate of 35% primarily due to non-deductible discrete items primarily associated with the write-off of goodwill related to the Investment Banking division. The effective rate also differs from the statutory rate due to state and local taxes.

Nine Months Ended September 30, 2012

In the second quarter of 2012, the Company established a valuation allowance against substantially all of the Company's deferred tax assets. In assessing the need for a valuation allowance, the Company considered both positive and negative evidence related to the likelihood of realization of the deferred tax assets. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence can be objectively verified. GAAP states that a cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed against deferred tax assets. As such, it is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses.

During the second quarter of 2012, the Company entered into a three-year cumulative loss position. This cumulative loss position, along with other evidence, merited the establishment of a valuation allowance against the deferred tax assets.

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The Company's effective income tax rate from continuing operations for the nine months ended September 30, 2012 was negative 62.5%, resulting in income tax expense of approximately \$26.3 million. The abnormal tax rate differs from the federal statutory tax rate of 35% primarily due to the establishment of the previously mentioned valuation allowance against substantially all of the Company's deferred tax assets (negative 75%), as well as the non-deductible discrete item attributable to the write-off of goodwill (negative 20%) and tax expense associated with stock-based compensation shortfalls (negative 8%).

Nine Months Ended September 30, 2011

The Company's effective income tax rate from continuing operations for the nine months ended September 30, 2011 of negative 6.8% resulted in income tax expense of approximately \$4.2 million. The Company's tax rate differs from the federal statutory tax rate of 35% primarily due to non-deductible discrete items primarily associated with the write-off of goodwill related to the Investment Banking division. The effective rate also differs from the statutory rate due to state and local taxes.

19. Stock-Based Compensation Plans

Refer to Note 1 within the footnotes to the consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, for a detailed discussion of the accounting policy related to stock-based compensation.

The Company recognized stock-based compensation expense related to its various employee and non-employee director stock-based incentive plans of approximately \$0.0 million and \$4.1 million for the three months ended September 30, 2012 and 2011, respectively, and approximately \$4.5 million and \$13.4 million for the nine months ended September 30, 2012 and 2011, respectively. Stock-based compensation expense for the three months ended September 30, 2012 includes the reversal of accrued severance expense of \$1.0 million, which was previously recognized during the first quarter of 2012. The unvested stock grants offered in connection with a severance agreement have now been forfeited. Stock-based compensation expense for the three and nine months ended September 30, 2012 was reduced by approximately \$1.2 million and \$4.1 million, respectively, as a result of forfeitures.

No stock-based compensation awards were granted during the three months ended September 30, 2012.

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20. Net Capital Requirements

Gleacher Securities is subject to the net capital requirements of Rule 15c3-1 promulgated under the Exchange Act (the Net Capital Rule), as well as the Commodity Futures Trading Commission's net capital requirements (Regulation 1.16), which require the maintenance of a minimum net capital. Gleacher Securities has elected to use the alternative method permitted by the Net Capital Rule, which requires it to maintain a minimum net capital amount equal to the greater of 2% of aggregate debit balances arising from customer transactions (as defined) or \$0.25 million, subject to certain adjustments related to market making activities in certain securities. Based upon the activities of Gleacher Securities, its minimum requirement under Regulation 1.16 is the same as under the Net Capital Rule. As of September 30, 2012, Gleacher Securities had net capital, as defined by both the Net Capital Rule and Regulation 1.16, of \$61.3 million, which was \$61.0 million in excess of the \$0.25 million required minimum net capital.

Gleacher Partners, LLC is also subject to the Net Capital Rule. Gleacher Partners, LLC has elected to use the alternative method permitted by the rule, which requires it to maintain a minimum net capital amount of 2% of aggregate debit balances arising from customer transactions as defined or \$0.25 million, whichever is greater. As of September 30, 2012, Gleacher Partners, LLC had net capital, as defined by the Net Capital Rule, of \$0.8 million, which was \$0.6 million in excess of the \$0.25 million required minimum net capital.

ClearPoint is subject to net worth requirements, as required by the HUD. At September 30, 2012, ClearPoint's net worth was \$12.9 million, which was \$11.9 million in excess of the \$1.0 million required minimum net worth.

21. Concentrations of Credit and Liquidity Risk

Risks Related to ClearPoint and Other Related Matters

On November 8, 2012, the Company announced that it was pursuing a sale of the ClearPoint business. Refer to Notes 15 and 27, herein, for additional information.

ClearPoint is subject to liquidity risk concentrations, as ClearPoint currently relies on a limited number of investors to purchase its originated mortgage loans and only two lenders to finance these activities. If ClearPoint does not sell loans it originates from funds advanced under ClearPoint's mortgage warehouse lines of credit within certain periods of time, the lenders can incrementally curtail, or reduce, such advances. Under these circumstances, ClearPoint would be required to repay the curtailed amounts to the lenders prior to receiving any proceeds from the

sale of the loans. Failure of ClearPoint's investors to continue purchasing its loans and/or a slowdown in such purchases could result in additional curtailments as the loans persist on the warehouse lines.

Risks Related to the Company's Broker-Dealer Operations

Concentrations of credit risk can be affected by changes in political, industry, or economic factors. The Company's most significant industry credit concentration is with financial institutions. Financial institutions include other brokers and dealers, commercial banks, finance companies, insurance companies and investment companies. This concentration arises in the normal course of the Company's brokerage, trading, financing, and underwriting activities. To reduce the potential for concentration of risk, credit exposures are monitored in light of changing counterparty and market conditions.

The Company may also purchase securities that are individually significant positions within its inventory. Should the Company find it necessary to sell such a security, it may not be able to realize the full carrying value of the security due to the significance of the position sold.

The majority of securities transactions of counterparties of the Company's broker-dealer subsidiary, Gleacher Securities, are cleared primarily through a third party under a clearing agreement. Under this agreement, transactions are deemed to be either receive versus payment, delivery versus payment or cash transactions.

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Refer to Note 16 within the section labeled "Other" for additional information regarding credit risks of the Company.

22. Fair Value of Financial Instruments

Substantially all of the financial instruments of the Company are reported on the Consolidated Statements of Financial Condition at market or fair value, or at carrying amounts that approximate fair value, because of their short-term nature, with the exception of subordinated debt. Financial instruments recorded at carrying amounts approximating fair value consist largely of Receivables from and Payables to brokers, dealer and clearing organizations, related parties and others, Securities purchased under agreements to resell and Securities sold under agreements to repurchase. The carrying value of the subordinated debt at September 30, 2012 and December 31, 2011 approximated fair value based on current rates available.

23. Restructuring

On August 22, 2011, the Board of Directors of the Company approved a plan to exit the Equities business, effective immediately. The principal reasons for this decision were that the Equities division was an underperforming non-core asset, and that its closure would allow the Company to improve focus and invest in its core competencies. Exiting the Equities business impacted 62 employees.

The following table summarizes the changes in the Company's liability related to this restructuring for the nine months ended September 30, 2012:

(In thousands of dollars)			
Balance	January 1, 2012	\$	1,427
	Restructuring expense		(322)
	- Less: Non-cash charges		85
	Payments for severance		
	Payments for real estate		(217)
	Payments for third party vendor contracts		(682)
	Payments for legal and other related costs		
Restructuring reserve	September 30, 2012	\$	291

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The restructuring reserve of \$0.3 million as of September 30, 2012 is included within Accrued expenses within the Consolidated Statements of Financial Condition. The majority of this remaining reserve pertains to third party vendor contracts. Payments are expected to be substantially completed by December 31, 2012.

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24. Discontinued Operations

The Company has classified the results of the Equities division as discontinued operations due to its exiting this business on August 22, 2011.

Amounts reflected in the Consolidated Statements of Operations for the three and nine months ended September 30, 2012 and 2011 related to the Equities division are presented in the following table.

(In thousands of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011*	2012	2011*
Net revenues	\$ 11	\$ 2,595	\$ 54	\$ 12,794
Total expenses	(22)	11,395	(125)	38,802
Income/(loss) from discontinued operations before income taxes	33	(8,800)	179	(26,008)
Income tax (benefit)/expense		(3,443)	138	(7,583)
Income/(loss) from discontinued operations, net of taxes	\$ 33	\$ (5,357)	\$ 41	\$ (18,425)

* Included within the table above for the three months ended September 30, 2011 is a restructuring charge of \$7.3 million. In addition, the nine months ended September 30, 2011 includes a goodwill and intangible impairment charge of approximately \$14.3 million.

25. Segment Analysis

Currently, our business model operates through the following four business segments:

- *Investment Banking* This division provides financial advisory and capital raising services in connection with mergers, acquisitions and other strategic matters. The division is being realigned around existing M&A expertise, expanded capital markets capabilities and key industry verticals, including real estate, financial services, aerospace and defense, technology, media and telecom, general industrial and financial sponsor coverage.
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MBS & Rates This division provides sales, trading, research and advisory services on a wide range of mortgage and asset-backed securities, U.S. Treasury and government agency securities, structured products such as CLOs and CDOs, whole loans, and other securities. Revenues are generated from spreads on principal transactions executed to facilitate trades for clients. Revenues are also generated from changes in fair value and interest income on securities held in inventory.

- *Credit Products* This division provides analysis, sales and trading on a wide range of debt securities including bank debt and loans, investment grade debt, high-yield debt, treasuries, convertibles, distressed debt, preferred debt, emerging market debt and reorganization equities to corporate and institutional investor clients. The division also provides trade execution services, liability management, corporate debt repurchase programs and new issue distributions. Revenues are generated primarily from spreads on riskless principal transactions, and to a lesser extent, principal trading and commissions on trades executed on behalf of clients. In addition, revenues are also generated on a smaller scale from interest income on securities held in inventory.
- *ClearPoint* This division originates, processes and underwrites single and multi-family residential mortgage loans within 43 states across the country. The loans are underwritten using standards prescribed by conventional mortgage lenders and loan buyers such as the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. Revenues are generated primarily from the sale of the residential mortgage loans with servicing released. On November 8, 2012, the Company announced that it was pursuing a sale of the ClearPoint business. Refer to Note 27, herein, for additional information.

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GLEACHER & COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company's sales and trading revenues consist of revenues derived from commissions and principal transactions revenues. Investment banking consists of revenues derived from financial advisory services and capital raising. Investment gains/(losses) primarily reflect gains and losses on the Company's FATV investment. Other revenue includes fee related revenue and other miscellaneous activity.

Prior period results have been revised to reclassify investment banking revenues and related expenses into the segments within which they are generated, as this is how the segments are currently evaluated. Such revenues were all previously presented within the Investment Banking reportable segment.

The Equities segment results have been reclassified as discontinued operations and are no longer reported below. In connection with this development, any previously reported intangible asset amortization related to the Equities reporting unit which was previously included within Other has also been reclassified within discontinued operations.

Items of revenues and expenses not allocated to one of the reportable segments are aggregated under the caption Other in the table below. Included within Other are investment gains/(losses) and fees related to the Company's investment in and management of FATV. In addition, Other reflects expenses not directly associated with specific reportable segments, including goodwill impairment charges, costs related to corporate overhead and support, such as various fees associated with financing, legal and settlement expenses and amortization of intangible assets from business acquisitions not reported within discontinued operations.

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GLEACHER & COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Information concerning operations in these reportable segments are as follows:

(In thousands of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net revenues				
Investment Banking				
Investment banking	\$ 1,499	\$ 7,075	\$ 14,762	\$ 23,674
Other revenue				
Total Investment Banking	1,499	7,075	14,762	23,674
MBS & Rates				
Sales and trading	4,162	(190)	9,023	52,791
Investment banking	10	2,257	632	3,558
Interest income	5,953	15,178	32,720	43,374
Interest expense	(1,924)	(3,531)	(10,051)	(10,549)
Other revenue	742		2,232	15
Total MBS & Rates	8,943	13,714	34,556	89,189
Credit Products				
Sales and trading	17,776	15,345	54,982	47,502
Investment banking	487	27	2,394	2,491
Interest income	266	321	622	1,169
Interest expense	(122)	(140)	(341)	(456)
Other revenue	397	169	736	332
Total Credit Products	18,804	15,722	58,393	51,038
ClearPoint				
Sales and trading	11,553	10,660	34,045	22,116
Interest income	711	746	4,148	1,648
Interest expense	(952)	(714)	(4,107)	(1,572)
Other revenue	1,587	2,050	5,674	3,917
Total ClearPoint	12,899	12,742	39,760	26,109
Total net revenues Reportable segments	42,145	49,253	147,471	190,010
Other				
Investment (losses)/gains, net	163	2,857	156	2,539
Sales and trading	(9)	(56)	(9)	(50)
Gain from bargain purchase ClearPoint acquisition				2,330
Interest income	(51)	4	142	10
Interest expense	(21)	(27)	(86)	(1,447)
Interest expense Intersegment allocations	870	1,740	4,324	5,729
Other revenue	233	393	720	811
Total Other	1,185	4,911	5,247	9,922
Total net revenues	\$ 43,330	\$ 54,164	\$ 152,718	\$ 199,932
(Loss)/income before income taxes from continuing operations				
Investment Banking	\$ (257)	\$ (1,452)	\$ 2,517	\$ 3,539

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MBS & Rates		1,814		4,247		5,556		29,655	
Credit Products		3,939		3,495		4,536		6,338	
ClearPoint		(524)		(335)		(5,878)		(2,907)	
Income/(loss) before income taxes from continuing operations	Reportable segments	\$	4,972	\$	5,955	\$	6,731	\$	36,625
Other			(9,996)		(84,740)		(48,788)		(98,265)
Loss before income taxes from continuing operations		\$	(5,024)	\$	(78,785)	\$	(42,057)	\$	(61,640)

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GLEACHER & COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Information concerning the assets of these segments is as follows:

(In thousands of dollars)	September 30, 2012	December 31, 2011
Total Assets		
MBS & Rates	\$ 1,260,724	\$ 2,929,879
Credit Products	34,719	29,930
Investment Banking	8,597	10,916
ClearPoint	105,888	242,350
Total assets Reportable segments	1,409,928	3,213,075
Other	69,880	126,358
Intersegment eliminations	(32,092)	(35,877)
Total assets	\$ 1,447,716	\$ 3,303,556

Substantially all assets and operations are located in the United States.

The Company's segments' financial policies are the same as those described in Note 1 within the footnotes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

26. Related Party Transactions

During the third quarter of 2009, the Company received a Notice of Proposed Tax Adjustments from the New York City Department of Finance for underpayment by Gleacher Partners, LLC of Unincorporated Business Tax. The Company has an off-setting claim against former pre-acquisition Gleacher stockholders for any pre-acquisition tax liabilities. This is substantially collateralized by shares of its common stock held in an escrow account that was established at the closing of the Company's acquisition of Gleacher Partners, Inc. to satisfy any indemnification obligations, and cash payable to certain of the former pre-acquisition Gleacher stockholders. The Company does not believe, in any event, that the open tax years or other pre-acquisition tax matters will have a material adverse effect on its financial position or results of operations. The Company's receivable for this indemnification claim was \$1.4 million and \$1.3 million at September 30, 2012 and December 31, 2011, respectively.

In connection with the acquisition of Gleacher Partners, Inc., in June 2009, the Company agreed to pay \$10 million to the selling parties over five years after closing the Transaction, subject to acceleration under certain circumstances. During the second quarter of 2012, the Company paid \$4.4 million of this obligation (\$4.9 million was paid during the year ended December 31, 2010). The Company's remaining obligation is recorded as a liability within the Company's Consolidated Statements of Financial Condition.

Details on the amounts receivable from or payable to related parties are below:

(In thousands of dollars)	September 30, 2012	December 31, 2011
Receivables from related parties		
Former stockholders of Gleacher Partners, Inc.	\$ 1,372	\$ 1,337
Payables to related parties		
Former stockholders of Gleacher Partners, Inc.	\$ 594*	\$ 4,939*

*Represents the present value of the Company's remaining obligation.

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GLEACHER & COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

27. Subsequent Events

The Company evaluated subsequent events through the date of issuance of the accompanying consolidated financial statements. There were no events requiring disclosure, other than the matters below.

ClearPoint Pursuing Sale of the Business

On November 8, 2012, the Company announced that it was pursuing a sale of the ClearPoint business. The Company currently estimates incurring a range of loss between approximately \$1.5 million to \$6.0 million in connection with any disposition of this business. Amounts reflected within this estimate include the Company's remaining payment obligations to the former stockholder of ClearPoint associated with the ClearPoint acquisition on January 3, 2011, the write-off of certain assets, including intangible assets, and the termination of certain other contractual obligations. This currently estimated range of loss assumes that ClearPoint's funded and locked loans are ultimately sold without a loss. Refer to Note 15, herein, for additional information regarding the status of ClearPoint's credit facilities.

Asset Purchase RangeMark Financial Services

On November 7, 2012, a subsidiary of the Company acquired certain assets and assumed certain liabilities from RangeMark Financial Services, Inc. and certain of its affiliates and other parties (RangeMark). RangeMark specialized in providing quantitative research, advanced analytics and customizing solutions for its clients. These business activities will be reported within the Company's MBS & Ratesegment. The aggregate purchase consideration was \$2.5 million, payable in four installments commencing September 30, 2013 through March 31, 2015. In addition, 14 employees of RangeMark were either hired or are expected to be hired by the Company.

This transaction is being accounted for under the acquisition method of accounting in accordance with ASC 805, Business Combinations. Preliminary goodwill of \$1.2 million (all of which is expected to be deductible for tax purposes) is calculated as the purchase premium after adjusting for the fair value of net assets acquired and primarily represents the value attributable to the assembled workforce which is subsumed into the reported goodwill. The following condensed statement of net assets acquired reflects the preliminary value assigned to RangeMark's net assets as of the acquisition date:

Preliminary Condensed Statement of Net Assets Acquired

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(In thousands of dollars)	November 7, 2012	
Assets		
Receivables	\$	106
Intangible assets*		1,490
Other assets		40
Total assets acquired	\$	1,636
Liabilities		
Accrued expenses and other liabilities	\$	538
Total liabilities assumed	\$	538
Net assets acquired	\$	1,098
Purchase price (present value)		2,335
Goodwill resulting from transaction	\$	1,237

*Consists primarily of intellectual property and the trade name with estimated useful lives of 5 years and 10 years, respectively.

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GLEACHER & COMPANY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

(Unaudited)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This document contains or incorporates by reference forward-looking statements. These statements are not historical facts but instead represent the Company's belief or plans regarding future events, many of which, by their nature, are inherently uncertain and outside of the Company's control. The Company often, but not always, identifies forward-looking statements by using words or phrases such as anticipate, estimate, plan, project, target, expect, continuing, ongoing, believe and intend. These statements may contain projections relating to revenues, earnings, operations, other financial measures, economic conditions, trends and known uncertainties, and may include statements regarding the Company's future performance, strategies and objectives. The Company's forward-looking statements are based on facts as the Company understands them at the time the Company makes any such statement as well as estimates and judgments based on these facts. The Company's forward-looking statements are not intended to be guarantees and may turn out to be inaccurate for a variety of reasons, many of which are outside of its control. Factors that could render the Company's forward-looking statements subsequently inaccurate include the conditions of the securities markets, generally, and demand for the Company's services within those markets, the risk of further credit rating downgrades of the U.S. government by major credit rating agencies, the impact of international and domestic sovereign debt uncertainties, the possibilities of localized or global economic recession, ClearPoint's ability to obtain continued financing under its warehouse lines of credit, and other risks and factors identified from time to time in the Company's filings with the Securities and Exchange Commission. Moreover, the Company's previously announced review of strategic alternatives may not culminate in a transaction or change in its current operations, on the timelines anticipated or at all. The Company's previously disclosed strategic plan is also still being implemented, which is designed to improve its operating results, and this plan may not be successful. You are cautioned not to place undue reliance on these forward-looking statements. The Company does not undertake to update any of its forward-looking statements.

Any forward-looking statement should be read and interpreted together with the information included under Part II, Risk Factors herein and with the Company's filed document and other statements, including the following:

- the description of our business contained under Item 1 Business, in the Company's Annual Report on Form 10-K for the year ended December 31, 2011,
- the risk factors contained under Item 1A Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2011,
- the discussion of our legal proceedings contained in this report under Part II, Item 1 Legal Proceedings,

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- the discussion and analysis of our financial condition and results of operations contained in this report under Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations,
- the discussion of market, credit, operational and other risks impacting our business contained in this report under Item 3 Quantitative and Qualitative Disclosures about Market Risk,
- the notes to the consolidated financial statements contained in this report under Item 1 Financial Statements, and
- cautionary statements we make in our public documents, reports and announcements.

As used herein, the terms Company, Gleacher, we, us, or our, refer to Gleacher & Company, Inc. and its subsidiaries.

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Business Overview

The Company is an independent investment bank that provides corporate and institutional clients with strategic and financial advisory services, including merger and acquisition, restructuring, recapitalization, and strategic alternative analysis. The Company also provides capital raising, research-based investment analysis, and securities brokerage services, and, through its subsidiary ClearPoint Funding, Inc. (ClearPoint), engages in residential mortgage lending. The Company offers a diverse range of products through its Investment Banking, Mortgage Backed Securities & Rates (MBS & Rates, formerly known as MBS/ABS & Rates), Credit Products (formerly known as Corporate Credit) and ClearPoint divisions.

Currently, we operate through the following four business segments:

- *Investment Banking* This division provides financial advisory and capital raising services in connection with mergers, acquisitions and other strategic matters. The division is being realigned around existing M&A expertise, expanded capital markets capabilities and key industry verticals, including real estate, financial services, aerospace and defense, technology, media and telecom, general industrial and financial sponsor coverage.
- *MBS & Rates* - This division provides sales, trading, research and advisory services on a wide range of mortgage and asset-backed securities, U.S. Treasury and government agency securities, structured products such as CLOs and CDOs, whole loans, and other securities. Revenues are generated from spreads on principal transactions executed to facilitate trades for clients. Revenues are also generated from interest income on securities held in inventory.
- *Credit Products* This division provides analysis, sales and trading on a wide range of debt securities including bank debt and loans, investment grade debt, high-yield debt, treasuries, convertibles, distressed debt, preferred debt, emerging market debt and reorganization equities to corporate and institutional investor clients. The division also provides trade execution services, liability management, corporate debt repurchase programs and new issue distributions. Revenues are generated primarily from spreads on riskless principal transactions, and to a lesser extent, principal trading and commissions on trades executed on behalf of clients. In addition, revenues are also generated on a smaller scale from interest income on securities held in inventory.
- *ClearPoint* This division originates, processes and underwrites single and multi-family residential mortgage loans within 43 states across the country. The loans are underwritten using standards prescribed by conventional mortgage lenders and loan buyers such as the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. Revenues are generated primarily from the sale of the residential mortgage loans with servicing released. On November 8, 2012, the Company announced that it was pursuing a sale of the ClearPoint business. Refer to Recent Developments ClearPoint , herein, for additional information.

The Company also recognizes investment gains/(losses) and earns fees related to the Company's investment in and management of FA Technology Ventures L.P. (FATV or the Partnership) which includes interests in publicly and privately held companies. The Company's results also include expenses not directly associated with specific reportable segments, including amortization of intangible assets from business acquisitions and costs related to corporate overhead and support, including financing, legal and settlement expenses.

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On August 30, 2012, the Company announced that it was exploring and evaluating strategic alternatives which included consideration of a range of available options, including a merger with a strategic counterparty, a strategic acquisition, divestiture of business units, investment in our company by a third party, or a stay the course outcome. We continue to evaluate identified opportunities. Market dynamics continue to develop in the Company's favor and we believe that we are stronger and better positioned today than we were a year ago.

Our business is dependent on our ability to attract, develop and retain highly skilled employees who are motivated and committed to providing the highest quality service and guidance to our clients. We continue to focus on unifying our brand, integrating our operations and, expanding our business. The Company is well capitalized, with no significant long-term debt, positioning us well for continued growth both organically or through other strategic alternatives.

Refer to Item 7 in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, for additional information regarding material opportunities, challenges and risks related to our business.

Business Environment in the Third Quarter 2012

The financial markets experienced gains during the three months ended September 30, 2012, with the Dow Jones Industrial Index and S&P 500 Index rising approximately 4% and 6%, respectively.

The financial markets benefitted from the renewed quantitative easing program implemented by the Federal Reserve with the intention of keeping interest rates low and thereby driving investment toward riskier asset classes. However, market sentiment remains skeptical, stemming from key fiscal issues both domestically and abroad, including the uncertainties resulting from the recent presidential election and its related effects on fiscal policy, as well as broader issues related to the European debt crisis, which remain largely unresolved.

Fixed income trading volumes declined by 5% compared to the second quarter, but this was primarily due to the seasonally slow summer months of July and August. Trading volumes as reported by TRACE were meaningfully higher in the month of September. In addition, announced M&A volumes remained weak and were 15% lower compared to the last quarter.

Given the continued uncertainties both domestically and abroad, the results of our operations, which are largely dependent on the environment in which our businesses operate, may not necessarily be indicative of what may be recognized in the future.

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Recent Developments **Hurricane Sandy**

The massive hurricane (Hurricane Sandy) that swept through New York City and the greater New York-New Jersey-Connecticut financial and commercial zone on October 28-30 has had and is expected to have an short-term adverse impact on us and other business concerns. The long-term ramifications, if any, cannot be predicted at this time. The high winds and flooding that accompanied this storm left behind power outages and dislocations in communications and local and long-distance transportation of historic proportions. The loss of life and housing for some, and the loss of power, heat and internet access for many, greatly disrupted normal business operations for the entire area. This dislocation will continue for some inestimable period, although presumably diminishing over time.

Hurricane Sandy had an immediate and direct impact on our Credit Products and MBS & Rates trading operations. Our Roseland, New Jersey office, which houses a substantial portion of our Credit Products trading business, was without power for four business days. A small minority of traders both within our Credit Products and MBS & Rates businesses were able to continue trading, either from our Manhattan headquarters (which was operational), our Stamford office, from home or some other remote location. Suspension of mass transit in and around New York City, and the far-reaching power and internet outages, prevented others from doing the same. Moreover, many of the Company's usual trading counterparties were similarly affected, aggravating the disruption.

The impact of the storm on the economy as a whole and on the financial markets in particular cannot be predicted at this time. The economy was characterized prior to the storm as weak, and the property loss and disruption in commerce brought about by the storm might have exacerbated the threat of recession. At the same time, however, some have conjectured that the massive rebuilding effort required to repair critical infrastructure and commercial and residential properties and systems could provide a dramatic lift to the economy. While the Company is currently evaluating any recoveries it may achieve through business interruption insurance, at this stage, it is premature to predict the ultimate impact of the storm on the Company, both operationally and financially. In the short term, we expect that the storm will adversely affect our results of operations, but at this time we cannot predict the magnitude of this impact.

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Recent Developments - ClearPoint

The Company acquired ClearPoint on January 3, 2011 with the intent to add an element of competitive differentiation for the Company's MBS Business. That differentiation was to have been achieved by offering customers of the Company's MBS Business, institutional investors, the ability to purchase mortgage backed securities backed by loans that conformed to customized specified pool characteristics. ClearPoint intended to originate loans according to customers' desired specifications, deliver those loans to a Government Sponsored Enterprise (GSE, or FNMA, FHLMC, or GNMA) in exchange for a security backed by those loans, and sell that security to the Company's MBS unit for onward sale to the MBS unit's customers. The strategy required ClearPoint to have GSE seller servicer approvals, the application for which required the development of adequate infrastructure, and sustained profitability in the ClearPoint subsidiary as a standalone business unit.

ClearPoint is a wholesale third party originator of conforming residential loans. The original business strategy included three options for the sale of loans that ClearPoint originates, namely: 1. sell to aggregators (who may retain the loans for their balance sheets, or deliver them to a GSE window); 2. sell to a GSE window for cash; 3. sell to a GSE window and receive a GSE security in return for onward sale, as described above, through the Company or other broker dealers, to MBS buyers. Since inception, without GSE approvals, ClearPoint has been forced to sell all the loans it originates to aggregators.

Since implementing our mortgage origination strategy, beginning with the acquisition of ClearPoint, market dynamics have changed dramatically. As the effects of the mortgage crisis have rippled through the market, representation and warranty risk remains an intense focus. Moreover, as mentioned above, without GSE approvals, ClearPoint is confined to selling loans to a limited universe of aggregators, thus providing no benefit to the Company's MBS customers. These factors have led the Company to conclude that the commercial prospects for its mortgage origination activity have greatly diminished. The Company has decided it will therefore pursue a sale of the ClearPoint business.

The Company currently estimates incurring a range of loss of between approximately \$1.5 million to \$6.0 million in connection with any disposition of this business. Amounts reflected within this estimate include the Company's remaining payment obligations to the former stockholder of ClearPoint associated with the ClearPoint acquisition on January 3, 2011, the write-off of certain assets, including intangible assets, and the termination of certain other contractual obligations. This currently estimated range of loss assumes that ClearPoint's funded and locked loans are ultimately sold without a loss. The Company ultimately would expect to recapture a substantial portion of the approximately \$30 million of cash currently held in the ClearPoint business.

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The Company prepares its consolidated financial statements using accounting principles generally accepted in the United States of America (GAAP). These consolidated financial statements are contained within Item 1 of this Quarterly Report on Form 10-Q.

Results of Operations

(In thousands of dollars)	Three Months Ended September 30,	
	2012	2011
<i>Revenues:</i>		
Principal transactions*	\$ 15,652	\$ 9,791
Commissions*	17,830	15,968
Investment banking	1,996	9,359
Investment gains, net	163	2,857
Interest income	6,879	16,249
Fees and other	2,959	2,612
Total revenues	45,479	56,836
Interest expense	2,149	2,672
Net revenues	43,330	54,164
<i>Expenses (excluding interest):</i>		
Compensation and benefits	25,534	32,684
Impairment of goodwill and intangible assets (Refer to Note 12 contained in Item 1 of this Quarterly report on Form 10-Q)		80,244
Clearing, settlement and brokerage	9,461	8,946
Professional fees	4,282	1,944
Communications and data processing	3,224	3,614
Occupancy, depreciation and amortization	2,277	2,041
Business development	823	1,139
Other	2,753	2,337
Total expenses (excluding interest)	48,354	132,949
Loss from continuing operations before income taxes and discontinued operations	(5,024)	(78,785)
Income tax benefit	(2,223)	(3,085)
Loss from continuing operations	(2,801)	(75,700)
Income/(loss) from discontinued operations, net of taxes (Refer to Note 24 contained in Item 1 of this Quarterly Report on Form 10-Q)	33	(5,357)
Net loss	\$ (2,768)	\$ (81,057)

* Revenues earned on a riskless principal basis in the amount of \$15.7 million for the three months ended September 30, 2011 have been reclassified from principal transactions to commission income in order to distinguish such revenues (commission equivalents) from revenues earned on financial instruments held in inventory, in order to conform to current year presentation.

Three Months Ended September 30, 2012 and 2011

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For the three months ended September 30, 2012, net revenues from continuing operations were \$43.3 million, compared to \$54.2 million for the three months ended September 30, 2011. The 20.0% decrease in net revenues was due to decreases in net revenues in the Investment Banking and MBS & Rates segments and lower investment gains resulting from the change in value of the Company's FATV investment, partially offset by increased net revenues in the Credit Products segment. Non-interest expenses for the three months ended September 30, 2012 of \$48.4 million decreased \$84.6 million, or 63.6%, compared to \$132.9 million for the three months ended September 30, 2011. This was primarily due to a goodwill impairment charge of \$80.2 million associated with the Investment Banking division realignment which took place during the three months ended September 30, 2011.

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The Company reported a net loss from continuing operations of (\$2.8) million and (\$75.7) million for the three months ended September 30, 2012 and 2011, respectively. Net loss per diluted share from continuing operations was (\$0.02) and (\$0.61) for the three months ended September 30, 2012 and 2011, respectively. Income/(loss) from discontinued operations, net of taxes for the three months ended September 30, 2012 and 2011 was \$0.0 million and (\$5.4) million, respectively.

Net Revenues

For the three months ended September 30, 2012, net revenues from continuing operations was \$43.3 million, compared to \$54.2 million for the three months ended September 30, 2011. Commissions and principal transactions revenues increased \$7.7 million, or 29.8%, to \$33.5 million for the three months ended September 30, 2012 from \$25.8 million for the three months ended September 30, 2011 due to increases of \$4.4 million in the MBS & Rates segment, \$2.4 million in the Credit Products segment and \$0.9 million in ClearPoint. Investment banking revenues decreased \$7.4 million, or 78.7%, to \$2.0 million for the three months ended September 30, 2012. Investment gains, which represent the change in the value of the Company's investment in FATV, were \$0.2 million for the three months ended September 30, 2012 compared to investment gains of \$2.9 million for the three months ended September 30, 2011. Net interest income of \$4.7 million as of September 30, 2012 decreased \$8.9 million compared to \$13.6 million for the three months ended September 30, 2011. This was primarily due to lower average inventory levels. Fees and other revenues of \$3.0 million for the three months ended September 30, 2012 increased \$0.3 million, and includes \$0.9 million related to the clawback of certain stock-based compensation grants subject to non-competition provisions. This was partially offset by lower fees and other revenue related to fees earned in connection with the mortgage lending activities of ClearPoint.

Non-Interest Expense

Non-interest expenses for the three months ended September 30, 2012 of \$48.4 million decreased \$84.6 million, or 63.6%, compared to \$132.9 million for the three months ended September 30, 2011.

Compensation and benefits expense was \$25.5 million for the three months ended September 30, 2012, a decline of \$7.2 million compared to the three months ended September 30, 2011. The decline was attributable to lower net revenues in the Investment Banking and MBS & Rates divisions, partially offset by higher net revenues in the Credit Products division. Compensation and benefits expense for the three months ended September 30, 2012 was reduced by \$1.3 million (of which \$1.0 million was non-cash compensation) as a result of the reversal of accrued severance expense which was previously recorded in the first quarter of 2012. In addition, compensation and benefits expense for the three months ended September 30, 2012 was also reduced by \$1.2 million for stock-based compensation forfeitures. Compensation and benefits expense as a percentage of net revenues was 58.9% for the three months ended September 30, 2012 compared to 60.3% for the three months ended September 30, 2011.

Compensation and benefits expense for the prior-year quarter included \$5.6 million of compensation reductions. These reductions, which were previously disclosed, included \$3.8 million of reduced cash compensation accruals under the expectation that annual compensation for leaders of the Company's business segments and members of senior management would be more heavily weighted toward stock-based compensation. In addition, compensation expense in the prior-year quarter decreased by approximately \$1.8 million due changes in the vesting and forfeiture provisions of stock-based compensation to be granted in connection with annual bonus compensation of the prior year. The changes resulted in compensation expense being recognized over a future vesting period, which was initially being fully recognized in that current year. Partially offsetting these reductions in the prior-year quarter was severance and stock-based compensation expense of \$1.9 million related to the termination of 32 investment banking employees and certain administrative positions in connection with the Investment Banking division realignment.

The Company recorded a goodwill impairment charge of \$80.2 million during the three months ended September 30, 2011 in connection with the Investment Banking division realignment (Refer to Note 12 within the footnotes to the consolidated financial statements contained in Item 1 of this Quarterly Report on Form 10-Q for additional information).

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Clearing, settlement and brokerage costs of \$9.5 million for the three months ended September 30, 2012 increased by \$0.5 million, or 5.8%, compared to the three months ended September 30, 2011. The increase was primarily due to ClearPoint broker fees, partially offset by lower clearing fees of the MBS & Rates division on lower volumes.

Professional fees of \$4.3 million for the three months ended September 30, 2012 increased by \$2.3 million or 120.2% primarily due to higher legal, consulting and advisory fees incurred in connection with our strategic alternatives process, as well as costs incurred in connection with the Company's asset management initiative.

Communications and data processing expense of \$3.2 million for the three months ended September 30, 2012 decreased by \$0.4 million or 10.8% primarily due to decreased headcount resulting from the realignment of the Investment Banking division which took place in the third quarter of 2011.

Occupancy and depreciation expense of \$2.3 million for the three months ended September 30, 2012 remained relatively unchanged compared to the three months ended September 30, 2011.

Business development expense of \$0.8 million for the three months ended September 30, 2012 decreased by \$0.3 million, or 27.7%, compared to the three months ended September 30, 2011, primarily due to the decreased headcount that resulted from the previously mentioned realignment of the Investment Banking division.

Other expenses of \$2.8 million for the three months ended September 30, 2012 increased \$0.4 million, or 17.8% compared to the three months ended September 30, 2011, primarily due to ClearPoint loan processing fees from increased loan commitment volumes.

Income Taxes

Three Months Ended September 30, 2012

The Company's effective income tax rate from continuing operations for the three months ended September 30, 2012 was 44.2%, resulting in an income tax benefit of approximately \$2.2 million. The income tax benefit is primarily attributable to a \$2.2 million increase in the net value of the deferred tax assets. Such increase is due to the Company's ability to carry-back realizable net operating losses to prior years. The Company has now fully utilized its available net operating loss carry-back capacity. As such, the Company will not record a tax benefit for additional tax losses in the near term.

Three Months Ended September 30, 2011

The Company's effective income tax rate from continuing operations for the three months ended September 30, 2011 of 3.9% resulted in an income tax benefit of approximately \$3.1 million. The Company's tax rate differs from the federal statutory tax rate of 35% primarily due to non-deductible discrete items primarily associated with the write-off of goodwill related to the Investment Banking division. The effective rate also differs from the statutory rate due to state and local taxes.

Discontinued Operations

The Company has classified the results of its former Equities division as discontinued operations as a result of its decision to exit the business on August 22, 2011. Refer to Notes 23 and 24 within the footnotes to the consolidated financial statements contained in Item 1 of this Quarterly Report on Form 10-Q for additional information.

Table of Contents**Segment Highlights**Three Months Ended September 30, 2012 and 2011

For presentation purposes, net revenues within each of the businesses are classified, as applicable, into commissions and principal transactions, investment banking, investment gains/(losses), net interest, and other. Commissions and principal transactions include commissions on agency trades and gains and losses from sales and trading activities. Investment banking includes revenues generated from capital raising through underwritings and private placements of equity and debt securities, and financial advisory service fees in regards to mergers and acquisitions, restructuring and corporate finance related matters. Investment gains/(losses) reflect gains and losses on the Company's FATV investment. Other revenues reflect management fees received from FATV, research fees and fees earned related to residential mortgage lending activities of ClearPoint. Net interest includes interest income net of interest expense and reflects the effect of funding rates on the Company's inventory levels.

Prior period results have been revised to reclassify investment banking revenues and related expenses into the segments within which they are generated, as this is how the segments are currently evaluated. Such revenues were all previously presented within the Investment Banking reportable segment.

The results of our former Equities division results have been reclassified as discontinued operations and are therefore no longer reported below. In connection with this development, any previously reported intangible asset amortization related to the Equities reporting unit which was previously included within Other has also been reclassified within discontinued operations.

Refer to Note 25 within the footnotes to the consolidated financial statements contained in Item 1 of this Quarterly Report on Form 10-Q for information on assets by segment.

Investment Banking

(Dollars in thousands)	Three Months Ended September 30,		
	2012	2011	2012 vs. 2011
<i>Net revenues</i>			
Investment banking	\$ 1,499	\$ 7,075	(78.8)%
Other			n/a
Total net revenues	\$ 1,499	\$ 7,075	(78.8)%
Operating expenses	1,756	8,527	(79.4)%
Pre-tax loss	\$ (257)	\$ (1,452)	82.3%

Investment Banking Q3 2012 vs. Q3 2011

Net revenues were \$1.5 million for the three months ended September 30, 2012, a decline of \$5.6 million compared to the three months ended September 30, 2011. Net revenues were comprised of \$0.9 million and \$0.6 million of advisory revenues and capital markets revenues, respectively, for the three months ended September 30, 2012, compared to \$6.2 million and \$0.9 million of advisory and capital market revenues, respectively, for the three months ended September 30, 2011.

Operating expenses were \$1.8 million for the three months ended September 30, 2012, a decrease of \$6.8 million compared to the three months ended September 30, 2011. The decrease was primarily due to lower compensation expense due to the lower revenues as well as lower non-compensation expenses as a result of the realignment which took place in the third quarter of 2011. The three months ended September 30, 2011 included compensation and other charges of \$2.5 million incurred in connection with the realignment of our Investment Banking division. Pre-tax loss for the three months ended September 30, 2012 was \$0.3 million, compared to \$1.5 million for the three months ended September 30, 2011.

Table of Contents*MBS & Rates*

(Dollars in thousands)	Three Months Ended September 30,			2012 vs. 2011
	2012	2011		
<i>Net revenues</i>				
Principal transactions	\$ 2,151	\$ (1,158)		n/a
Commissions	2,011	968		107.8%
Investment banking	10	2,257		n/a
Net interest	4,029	11,647		(65.4)%
Other	742			n/a
Total net revenues	\$ 8,943	\$ 13,714		(34.8)%
Operating expenses	7,129	9,467		(24.7)%
Pre-tax contribution	\$ 1,814	\$ 4,247		(57.3)%

MBS & Rates Q3 2012 vs. Q3 2011

Net revenues were \$8.9 million for the three months ended September 30, 2012, a decline of \$4.8 million compared to the three months ended September 30, 2011. The decrease in net revenues was primarily attributable to a decline in net interest income of approximately \$7.6 million due primarily to lower inventory levels. The lower inventory levels were a result of the significant turnover experienced since the previously announced leadership transition which occurred in the second quarter of 2012. This turnover led to a disruption in sales and trading activities and a re-positioning of inventory, resulting in the lower net interest income. The division experienced approximately 60 personnel departures since April 2012 (including 25 in the current quarter), which were subsequently replaced by the hiring of approximately 40 professionals. Headcount stood at approximately 60 professionals at September 30, 2012, and the division is now substantially rebuilt. Revenues for the third quarter of 2012 were adversely affected as a result of the turnover as it generally takes time for new hires to ramp up to full productivity. In addition, results for the prior-year quarter include approximately \$2.3 million of investment banking revenue earned by this division. Partially offsetting these declines were approximately \$0.7 million of other revenue recorded in the third quarter of 2012, related to the clawback of certain stock-based compensation grants subject to non-competition and/or other forfeiture provisions and losses on non-agency asset-backed securities of approximately \$5.6 million in the prior-year quarter.

Operating expenses were \$7.1 million for the three months ended September 30, 2012, a decline of \$2.3 million compared to the three months ended September 30, 2011. The decrease was primarily due to lower compensation expense due to the lower revenues as well as lower clearing, settlement and brokerage expenses on lower trading volumes. Pre-tax contribution for the three months ended September 30, 2012 was \$1.8 million, compared to \$4.2 million for the three months ended September 30, 2011.

Credit Products

(Dollars in thousands)	Three Months Ended September 30,			2012 vs. 2011
	2012	2011		
<i>Net revenues</i>				
Principal transactions	\$ 1,957	\$ 345		467.2%
Commissions	15,819	15,000		5.5%
Investment banking	487	27		n/a

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Net interest		144		181	(20.4)%
Other		397		169	134.9%
Total net revenues	\$	18,804	\$	15,722	19.6%
Operating expenses		14,865		12,227	21.6%
Pre-tax contribution	\$	3,939	\$	3,495	12.7%

Table of ContentsCredit Products Q3 2012 vs. Q3 2011

Net revenues were \$18.8 million for the three months ended September 30, 2012, an increase of \$3.1 million compared the three months ended September 30, 2011. The increase in net revenues was primarily attributable to higher commissions and principal transaction revenues due to higher volumes, including an expanded product profile, partially offset by lower spreads.

Operating expenses were \$14.9 million for the three months ended September 30, 2012, an increase of \$2.6 million compared to the three months ended September 30, 2011. The increase was primarily due to higher compensation expense due to the higher revenues, partially offset by the previously mentioned reversal of severance expense of \$1.3 million which was accrued in the first quarter, as well as a reduction in compensation expense of \$1.1 million related to stock-based compensation forfeitures. In addition, operating expenses for the three months ended September 30, 2011 benefitted from a reduction compensation expense from the previously discussed compensation methodology changes that occurred in the prior-year quarter.

ClearPoint

(Dollars in thousands)	Three Months Ended September 30,			2012 vs. 2011	
	2012		2011		
<i>Net revenues</i>					
Principal transactions	\$	11,553	\$	10,660	8.4%
Net interest		(241)		32	n/a
Other		1,587		2,050	(22.6)%
Total net revenues	\$	12,899	\$	12,742	1.2%
<i>Operating expenses</i>					
Operating expenses		13,423		13,077	2.6%
Pre-tax loss	\$	(524)	\$	(335)	(56.4)%

ClearPoint Q3 2012 vs. Q3 2011

Net revenues of \$12.9 million for the three months ended September 30, 2012 were relatively flat compared to the three months ended September 30, 2011. Net revenues for the current quarter reflect limits placed on ClearPoint's daily average loan commitments to a level aligned with its distribution capabilities. Revenues resulting from prior loan commitment levels were not commercially sustainable and resulted in previously reported liquidity constraints.

Operating expenses were \$13.4 million for the three months ended September 30, 2012, an increase of \$0.4 million compared to the three months ended September 30, 2011. Operating expenses include \$9.4 million and \$8.2 million of broker and loan processing fees for the three months ended September 30, 2012 and 2011, respectively, which are variable expenses directly related to the level of loan commitments for each particular period. The division reported a pre-tax loss for the three months ended September 30, 2012 of \$0.5 million, compared to \$0.3 million for the three months ended September 30, 2011.

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The Company has announced that is pursuing a sale of the ClearPoint business. Refer to [Recent Developments](#) [ClearPoint](#) for additional information.

Table of Contents*Other*

(Dollars in thousands)	Three Months Ended September 30,			
	2012	2011		2012 vs. 2011
<i>Net revenues</i>				
Principal transactions	\$ (9)	\$ (56)		n/a
Investment gains	163	2,857		(94.3)%
Net interest	798	1,717		(53.5)%
Other	233	393		(40.7)%
Total net revenues	\$ 1,185	\$ 4,911		(75.9)%
<i>Operating expenses</i>				
Operating expenses	11,181	89,651		(87.5)%
Pre-tax loss	\$ (9,996)	\$ (84,740)		88.2%

Other Q3 2012 vs. Q3 2011

Net revenues were \$1.2 million for the three months ended September 30, 2012, a decline of \$3.7 million compared to the three months ended September 30, 2011. The decline in net revenue was primarily a result of changes in value of the Company's FATV investment.

Operating expenses were \$11.2 million for the three months ended September 30, 2012, a decrease of \$78.5 million compared to the three months ended September 30, 2011. The decrease was primarily due to the previously mentioned \$80.2 million impairment of goodwill and intangible assets related to the realignment of the Investment Banking division which occurred in the prior-year quarter. Operating expenses were also impacted by higher legal, consulting and advisory fees, including costs incurred in connection with our strategic alternatives process. Operating expenses also increased as a result of costs incurred in connection with the Company's asset management initiative. Pre-tax loss was \$10.0 million for the three months ended September 30, 2012 compared to \$84.7 million for the three months ended September 30, 2011.

Table of Contents**Results of Operations**

(In thousands of dollars)	Nine Months Ended September 30,	
	2012	2011
<i>Revenues:</i>		
Principal transactions*	\$ 44,863	\$ 71,593
Commissions*	53,178	50,766
Investment banking	17,788	29,723
Investment gains, net	156	2,539
Interest income	37,632	46,201
Gain from bargain purchase ClearPoint acquisition (Refer to Note 11 contained in Item 1 of this Quarterly report on Form 10-Q)		2,330
Fees and other	9,362	5,075
Total revenues	162,979	208,227
Interest expense	10,261	8,295
Net revenues	152,718	199,932
<i>Expenses (excluding interest):</i>		
Compensation and benefits	101,859	129,058
Impairment of goodwill and intangible assets (Refer to Note 12 contained in Item 1 of this Quarterly report on Form 10-Q)	21,096	80,244
Clearing, settlement and brokerage	31,152	19,017
Professional fees	12,827	6,229
Communications and data processing	9,699	10,108
Occupancy, depreciation and amortization	6,647	6,112
Business development	2,822	3,483
Other	8,673	7,321
Total expenses (excluding interest)	194,775	261,572
Loss from continuing operations before income taxes and discontinued operations	(42,057)	(61,640)
Income tax expense	26,269	4,208
Loss from continuing operations	(68,326)	(65,848)
Income/(loss) from discontinued operations, net of taxes (Refer to Note 24 contained in Item 1 of this Quarterly Report on Form 10-Q)	41	(18,425)
Net loss	\$ (68,285)	\$ (84,273)

* Revenues earned on a riskless principal basis in the amount of \$49.9 million for the nine months ended September 30, 2011 have been reclassified from principal transactions to commission income in order to distinguish such revenues (commission equivalents) from revenues earned on financial instruments held in inventory, in conformity with current year presentation.

Nine Months Ended September 30, 2012 and 2011

For the nine months ended September 30, 2012, net revenues from continuing operations were \$152.7 million, compared to \$199.9 million for the nine months ended September 30, 2011. The 23.6% decrease in net revenues was due to decreases in net revenues in the MBS & Rates and Investment Banking segments, partially offset by increased net revenues in ClearPoint and the Credit Products segment. Non-interest expenses for the nine months ended September 30, 2012 of \$194.8 million decreased \$66.8 million, or 25.5%, compared to \$261.6 million for the nine months ended September 30, 2011, principally due to the previously discussed goodwill and intangible impairment charge of \$80.2 million recorded in the third quarter of 2011.

The Company reported a net loss from continuing operations of (\$68.3) million and (\$65.8) million for the nine months ended September 30, 2012 and 2011, respectively. Net loss per diluted share from continuing operations was (\$0.57) and (\$0.53) for the nine months ended September 30, 2012 and 2011, respectively. Income/(loss) from discontinued operations, net of taxes for the nine months ended September 30, 2012 and 2011 were \$0.0 million and (\$18.4) million, respectively.

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Net Revenues

For the nine months ended September 30, 2012, net revenues from continuing operations were \$152.7 million, compared to \$199.9 million for the nine months ended September 30, 2011. Commissions and principal transactions revenues decreased \$24.3 million, or 19.9%, to \$98.0 million for the nine months ended September 30, 2012 from \$122.4 million for the nine months ended September 30, 2011 due to decreases of \$43.8 million in the MBS & Rates segment, partially offset by increases in ClearPoint of \$11.9 million and the Credit Products segment of \$7.5 million. Investment banking revenues decreased \$11.9 million, or 40.2%, to \$17.8 million for the nine months ended September 30, 2012. Investment gains/(losses), which represent the change in the value of the Company's investment in FATV, were flat for the nine months ended September 30, 2012 compared to investment gains of \$2.5 million for the nine months ended September 30, 2011. Net interest income of \$27.4 million as of September 30, 2012, decreased \$10.5 million compared to \$37.9 million for the nine months ended September 30, 2011. This was primarily due to lower average inventory levels. Fees and other revenues of \$9.4 million for the nine months ended September 30, 2012 increased \$4.3 million primarily due to fees earned in connection with the mortgage lending activities of ClearPoint and \$2.4 million related to the clawback of certain stock-based compensation grants subject to non-competition provisions, partially offset by the ClearPoint bargain purchase gain of \$2.3 million recorded in the prior-year period.

Non-Interest Expense

Non-interest expenses for the nine months ended September 30, 2012 of \$194.8 million decreased \$66.8 million, or 25.5%, compared to \$261.6 million for the nine months ended September 30, 2011.

Compensation and benefits expense was \$101.9 million for the nine months ended September 30, 2012, a decline of \$27.2 million compared to the nine months ended September 30, 2011. The decline was primarily attributable to lower net revenues in the MBS & Rates and Investment Banking divisions, partially offset by higher net revenues in the Credit Products division. Compensation and benefits expense related to ClearPoint was also higher compared to the prior-year period resulting from the expansion of the workforce since its acquisition date on January 3, 2011. However, ClearPoint implemented a plan to right-size its workforce during the second quarter of 2012 in order to better align origination with its distribution capabilities. While reducing compensation expense, this action resulted in approximately \$0.4 million of severance expense. Compensation and benefits for the nine months ended September 30, 2012 was also reduced by \$4.0 million related to stock-based compensation forfeitures, which included \$2.9 million related to employees within the MBS & Rates division recognized during the second quarter of 2012 (Refer to Segment Highlights MBS & Rates).

Compensation and benefits expense for the prior-year period included the previously mentioned compensation reductions of \$5.6 million recorded during the third quarter of 2011, which was partially offset by the previously mentioned severance and stock-based compensation expense of \$1.9 million recognized in connection with the Investment Banking division realignment, as well as compensation expense of \$1.7 million recognized in the second quarter of 2011 due to the resignation of the former interim CEO.

The Company recorded a goodwill and intangible impairment charge of \$21.1 million during the nine months ended September 30, 2012 (recognized in the second quarter) due to the duration and severity of the decline in the Company's stock price in relation to its book value. During the three and nine months ended September 30, 2011 the Company recorded an impairment charge of \$80.2 million as a result of the previously mentioned Investment Banking realignment (Refer to Note 12 within the footnotes to the consolidated financial statements contained in Item 1 of this Quarterly Report on Form 10-Q for additional information).

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Clearing, settlement and brokerage costs of \$31.2 million for the nine months ended September 30, 2012 increased by \$12.1 million, or 63.8%, compared to the nine months ended September 30, 2011. The increase was primarily due to ClearPoint broker fees resulting from higher loan commitment volumes.

Professional fees of \$12.8 million for the nine months ended September 30, 2012 increased by \$6.6 million or 105.9% primarily due to higher legal, consulting and advisory fees incurred in connection with our strategic alternatives process, as well as costs incurred in connection with the Company's asset management initiative.

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Communications and data processing expense of \$9.7 million for the nine months ended September 30, 2012 remained relatively unchanged compared to the nine months ended September 30, 2011.

Occupancy and depreciation expense of \$6.6 million for the nine months ended September 30, 2012 increased by \$0.5 million primarily due to expense allocated to the Company's former Equities division (now classified as discontinued operations) in the prior year which is now being incurred by the Company's remaining continuing operations.

Business development expense of \$2.8 million for the nine months ended September 30, 2012 decreased by \$0.7 million, or 19.0%, compared to the nine months ended September 30, 2011 primarily due to the realignment of the Investment Banking division which took place in the third quarter of 2011 and resulting decreased headcount.

Other expenses of \$8.7 million for the nine months ended September 30, 2012 increased \$1.4 million, or 18.5% compared to the nine months ended September 30, 2011 primarily due to ClearPoint loan processing fees from increased loan commitment volumes.

Income Taxes

Nine Months Ended September 30, 2012

The Company's effective income tax rate from continuing operations for the nine months ended September 30, 2012 was negative 62.5%, resulting in income tax expense of approximately \$26.3 million. The abnormal tax rate differs from the federal statutory tax rate of 35% primarily due to the establishment of a valuation allowance against substantially all of the Company's deferred tax assets (negative 75%), as well as the non-deductible discrete item attributable to the write-off of goodwill (negative 20%) and tax expense associated with stock-based compensation shortfalls (negative 8%).

In the second quarter of 2012, the Company established a valuation allowance against substantially all of the Company's deferred tax assets. In assessing the need for a valuation allowance, the Company considered both positive and negative evidence related to the likelihood of realization of the deferred tax assets. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence can be objectively verified. GAAP states that a cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed against deferred tax assets. As such, it is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses.

During the second quarter of 2012, the Company entered into a three-year cumulative loss position. This cumulative loss position, along with other evidence, merited the establishment of a valuation allowance against the deferred tax assets.

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Nine Months Ended September 30, 2011

The Company's effective income tax rate from continuing operations for the nine months ended September 30, 2011 of negative 6.8% resulted in income tax expense of approximately \$4.2 million. The Company's tax rate differs from the federal statutory tax rate of 35% primarily due to non-deductible discrete items primarily associated with the write-off of goodwill related to the Investment Banking division. The effective rate also differs from the statutory rate due to state and local taxes.

Discontinued Operations

The Company has classified the results of its former Equities division as discontinued operations as a result of its decision to exit the business on August 22, 2011. Refer to Notes 23 and 24 within the footnotes to the consolidated financial statements contained in Item 1 of this Quarterly Report on Form 10-Q for additional information.

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Segment Highlights

Nine Months Ended September 30, 2012 and 2011

For presentation purposes, net revenues within each of the businesses are classified, as applicable, into commissions and principal transactions, investment banking, investment gains/(losses), net interest, and other. Commissions and principal transactions include commissions on agency trades and gains and losses from sales and trading activities. Investment banking includes revenues generated from capital raising through underwritings and private placements of equity and debt securities, and financial advisory service fees in regards to mergers and acquisitions, restructuring and corporate finance related matters. Investment gains/(losses) reflect gains and losses on the Company's FATV investment. Other revenues reflect management fees received from FATV, research fees and fees earned related to residential mortgage lending activities of ClearPoint. Net interest includes interest income net of interest expense and reflects the effect of funding rates on the Company's inventory levels.

Prior period results have been revised to reclassify investment banking revenues and related expenses into the segments within which they are generated, as this is how the segments are currently evaluated. Such revenues were all previously presented within the Investment Banking reportable segment.

The Equities segment results have been reclassified as a discontinued operation and are therefore no longer reported below. In connection with this development, any previously reported intangible asset amortization related to the Equities reporting unit which was previously included within Other has also been reclassified within discontinued operations.

Refer to Note 25 within the footnote