BROADPOINT SECURITIES GROUP, INC.
Form 10-K
March 26, 2009

Table of Contents

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

- or -

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 014140

BROADPOINT SECURITIES GROUP, INC.
(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common stock, par value $.01 per share	The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No þ

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

The aggregate market value of the shares of common stock of the Registrant held by non-affiliates based upon the closing price of Registrant s shares as reported on The NASDAQ Global Market on June 30, 2008 which was $2.00 was $41,675,812.

As of March 5, 2009, 80,022,506 shares of common stock, par value $0.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive proxy statement for the 2009 annual meeting of shareholders to be filed with the Securities and Exchange Commission are incorporated by reference into Part III.

PART I

Item 1. *Business*

Broadpoint Securities Group, Inc., (the Company), is an independent investment bank that provides value-added advice to corporations and institutional investors. The Company provides services and generates revenues through its Investment Banking, Debt Capital Markets, Broadpoint DESCAP, Equities and Other segments. The Investment Banking segment provides capital raising and advisory services to corporations and institutional investors. The Debt Capital Markets segment provides sales and trading in a broad range of debt securities. Broadpoint DESCAP provides sales and trading in mortgage and asset-backed securities. The Equities segment provides sales, trading and research in equity securities primarily through one of the Company s broker-dealer subsidiaries, Broadpoint AmTech. The Other segment generates revenue from unrealized gains and losses as a result of changes in the value of the firm s investments and realized gains and losses as a result of sales of equity holdings, and through the management and investment of venture capital funds. At March 1, 2009, the Company had approximately 255 employees. The Company is a New York corporation, incorporated in 1985, and is traded on The NASDAQ Global Market (NASDAQ) under the symbol BPSG .

The Company estimated based upon certain assumptions and outside sources, that the market for the Company s services in 2008 was approximately $150 billion, consisting of approximately $50 billion of investment banking fees for equities and capital markets transactions, debt capital markets and advisory services and approximately $100 billion of cash commissions on annual secondary trading volume in the markets in which the Company participates. The market and competition for these fees and commissions has and continues to endure dramatic structural and fundamental changes. The credit crisis and resulting failure or consolidation of a number of major investment banking firms, combined with the liquidity constraints and government imposed restrictions placed on a number of the remaining major investment banks, has created an unprecedented opportunity for a new class of investment banks to fill the need for these services to corporations and institutional investors. Nonetheless, boutique firms that lack scale, diversification, strong balance sheets and profitable business models have been challenged to remain viable participants in these markets.

Investment Banking

The Company s Investment Banking group consists of professionals committed to providing advice and execution to corporations and institutional investors by delivering a diverse set of products, advice and expertise. The goal of the investment banking group is to present to corporate and investor clients the full product offering of the firm to help clients succeed and to foster long-term relationships with the Company. Investment banking fees are generated from capital raising transactions of equity and debt securities, fees for strategic advisory, fees for restructuring and recapitalization advisory services, and valuations of structured products.

Debt Capital Markets

The Company s Debt Capital Markets team provides sales and trading on a wide range of debt securities including bank debt, investment grade debt, high-yield debt, treasuries, convertibles, distressed debt, preferred debt and reo-org equity securities. Bank debt activities within Debt Capital Markets are operated through the Company s subsidiary, Broadpoint Products Corp. The team generates revenues from spreads and fees on trades executed and on intraday principal and riskless principal transactions on behalf of clients. The team consists of sales professionals who have developed strong relationships with more than 800 institutional investors including mutual funds, pension funds, insurance companies, hedge funds, investment managers and investment advisors by providing value-added investment ideas and access to execution services. Sales professionals deliver investment ideas with support of desk analysts that monitor and analyze debt securities in a variety of industry verticals where clients have demonstrated interest. The Debt Capital Markets team also provides execution services for institutional investor customer trades and corporate debt repurchase activities where it seeks to match buy side demand with sell side supply to achieve best execution and liquidity for participating parties.

Broadpoint DESCAP

Broadpoint DESCAP provides sales and trading on a wide range of mortgage and asset-backed securities, government securities, structured products such as CLOs and CDOs, whole loans, swaps, and others. The team generates revenues from spreads and fees on trades executed on behalf of clients and from principal transactions executed to facilitate trades for clients. Revenues are also generated from interest income on securities held primarily for the purpose of facilitating customer trading. The team consists of sales professionals who have developed strong relationships with more than 200 institutional investors including mutual funds, pension funds, insurance companies, hedge funds, investment managers and investment advisors by providing value-added investment ideas and access to execution services and inventory capital on an as-needed basis. Sales professionals deliver investment ideas with support of desk analysts that monitor and analyze applicable securities where clients have demonstrated interest. The Broadpoint DESCAP team also provides execution services for institutional investor customer trades where it seeks to match buy side demand with sell side supply to achieve best execution and liquidity for participating parties.

Equities

The Company s Equities group consists of Equity research, sales, and trading. Equity sales and trading provides equity executions and delivers research-driven investment ideas to institutional investors and generates revenues through cash commissions on customer trades and hard dollar fees for services and cash commissions on corporate repurchase activities. The results of the Company s legacy equities business is included in this segment as well.

Broadpoint AmTech

On October 2, 2008, the Company acquired American Technology Research, a broker-dealer specializing in institutional research, sales and trading in the technology, aerospace and defense and clean tech areas. Since closing the acquisition, the Company has re-branded this group, Broadpoint AmTech. Broadpoint AmTech provides sales, trading and research on equity securities and generates revenues through cash commissions on customer trades and hard dollar fees for services and cash commissions on corporate repurchase activities. The team consists of 20 research professionals that seek to provide quantitative, value-added, differentiated insight on equity securities they cover. Research analysts develop relationships with corporate management teams of issuers they cover, maintain networks of industry and competitor contacts to gain proprietary data points to support investment theses and provide access to their views via published research, in person and hosted meetings and events for investors on behalf of the companies whose stocks they cover. As of March 9, 2009, Broadpoint AmTech research covered approximately 105 stocks primarily in the technology, aerospace and defense and clean tech sectors and seeks to cover securities where clients express strong interest or the team feels significant value can be delivered via proprietary and differentiated views. Institutional sales professionals deliver investment ideas generated by our research to approximately 300 institutional investor clients including mutual funds, hedge funds, investment managers and investment advisors.

Other

The Company s Other segment includes the results from the Company s venture capital business and costs related to corporate overhead and support including various fees associated with legal and settlement expenses. The Company s venture capital business generates revenue through the management and investment of venture capital funds.

Table of Contents

FA Technology Ventures

FA Technology Ventures provides early-stage growth capital to companies. The team generates revenues from fees for assets under management and a carried interest in returns on investments.

The Company s business strategy includes growth driven by (i) market share gains in our existing product and service offerings, expansion into new products and services to better serve our corporate and investor clients and (ii) acquisitions of businesses and assets that add scale to our existing businesses, are complementary, or diversify our revenue base. The Company seeks to deploy a variable compensation model and a low-cost non-compensation expense structure along with a culture of employee ownership.

On March 3, 2009, the Company announced that it agreed to acquire Gleacher Partners LLC (Gleacher Partners), an internationally recognized financial advisory boutique best known for advising major corporations in mergers and acquisitions. Under the terms of the merger agreement, Broadpoint will pay the selling stockholders of Gleacher Partners, $20 million in cash and issue 23 million shares of common stock subject to resale restrictions. MatlinPatterson FA Acquisition LLC, Broadpoint s majority shareholder, has approved the issuance of the shares of Broadpoint common stock in the transaction. At closing, the Company will change its name to Broadpoint Gleacher Securities Group, Inc.

The Company s broker-dealer subsidiaries, Broadpoint Capital, Inc. and Broadpoint AmTech are members the Financial Industry Regulatory Authority, Inc. (FINRA) and various other exchanges including in the case of Broadpoint Capital, Inc. the New York Stock Exchange, Inc. (NYSE) and the Boston Stock Exchange, Inc. (BSE) and the Company is registered as a broker-dealer with the Securities and Exchange Commission (SEC).

The Company s executive offices are located at 12 East 49th Street, 31st Floor, New York, NY 10017. The telephone number is (212) 273-7100 and our internet address is www.bpsg.com.

Discontinued Operations

During the past several years the Company restructured nearly all of its operations. In September 2007, the Company completed the sale of its Municipal Capital Markets Group to DEPFA BANK plc (DEPFA). In June 2007, the Company closed its Fixed Income Middle Markets Group. In April 2006, the Company closed its Convertible Arbitrage Advisory Group. In June 2006, the Company ceased operations in its Taxable Fixed Income division. In December 2004, the Company closed its asset management operations in Sarasota, Florida and in February 2005 sold its asset management operations in Albany, New York. In August 2000, Broadpoint Capital divested its retail brokerage operation.

The operating results of the groups and divisions referred above are reported as discontinued operations (see Note 25 of the Consolidated Financial Statements).

Available Information

The Company is required to file current, annual and quarterly reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the Exchange Act), with the SEC. You may read and copy any document we file with the SEC at the SEC s Public Reference Room located at 100 F Street, N.E., Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet website at http://www.sec.gov, from which interested persons can electronically access the Company s SEC filings.

The Company will make available free of charge through its internet site http://www.bpsg.com, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, Forms 3, 4 and 5 filed by or on behalf of directors, executive officers and certain large stockholders, and any amendments to those documents filed or furnished pursuant to the Exchange Act. These filings will become available as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

The Company also makes available, on the Corporate Governance page of its website, its (i) Corporate Governance Guidelines, (ii) Code of Business Conduct and Ethics, (iii) the charters of the Audit, Compensation, and Corporate Governance Committees of our Board of Directors, and (iv) the Complaint Procedures for Accounting and Auditing Matters. These documents will also be available in print without charge to any person who requests them by writing or telephoning: Broadpoint Securities Group, Inc., Att.: Investor Relations, 12 East 49th Street, 31st Floor, New York, NY 10017, U.S.A., telephone number (212) 273-7100.

Sources of Revenues

A breakdown of the amount and percentage of revenues from each principal source for the periods indicated follows (excluding discontinued operations):

For the Years Ended December 31, (Dollars in thousands)	2008 Amount	2008 Percent	2007 Amount	2007 Percent	2006 Amount	2006 Percent
Principal transactions	$ 97,032	66.9%	$ 21,229	45.1%	$ 40,605	49.9%
Commissions	6,529	4.5%	4,666	9.9%	11,386	14.0%
Investment banking	8,296	5.7%	8,127	17.3%	26,643	32.8%
Investment banking revenue from related party	8,400	5.8%		%		%
Investment gains(losses)	(1,115)	(0.8)%	2,594	5.5%	(7,602)	(9.3)%
Fees and other	3,925	2.7%	1,856	3.9%	1,978	2.4%
Total operating revenues	$ 123,067	84.9%	$ 38,472	81.7%	$ 73,010	89.8%
Interest income	21,946	15.1%	8,639	18.3%	8,295	10.2%
Total revenues	$ 145,013	100.0%	$ 47,111	100.0%	$ 81,305	100.0%

For information regarding the Company s reportable segment information, refer to Note 22 of the Consolidated Financial Statements.

Principal Transactions

The Company s Debt Capital Markets and Broadpoint Descap segments maintain inventories of corporate debt, mortgage-backed and asset-backed securities, government securities and government agency securities.

The Company s trading activities may require the commitment of capital. As a result, the Company exposes its own capital to the risk of fluctuations in market value. All inventory positions are marked to market; i.e. their fair value price on a daily basis. The following table sets forth the highest, lowest, and average month-end inventories (the net of securities owned and securities sold, but not yet purchased, less securities not readily marketable) for the year ended December 31, 2008, by securities category, where the Company acted in a principal capacity.

Continuing Operations	Highest Inventory, Net	Lowest Inventory, Net	Average Inventory, Net

(In thousands)

Corporate obligations	$ 100,131	$ 64,865	$ 85,414
Corporate stocks	2,798	711	1,226
U.S. Government and federal agencies obligations	531,220	165,356	259,058

Commissions

A portion of the Company s revenue is derived from customer commissions on brokerage transactions for the Company s institutional clients, such as investment advisors, mutual funds, hedge funds, and pension and profit sharing plans, for which the Company is not acting as a market maker.

Table of Contents

Investment Banking

Investment banking fees are generated from capital raising transactions of equity and debt securities, fees for strategic advisory, fees for restructuring and recapitalization advisory services and valuations and related advisory services with respect to structured products to a diverse group of clients.

Capital Raising

The Company seeks to raise capital for its clients by underwriting and privately placing a broad range of securities including common and preferred stock, convertible and exchangeable securities, investment grade debt, high yield debt, bank debt and mortgage and asset-backed securities. The Company seeks to provide these services for a wide range of corporate clients primarily through initial public offerings, follow-on public equity offerings, secondary equity offerings and direct registered placements of equity securities, private placements of public and private equity, public and private placements of investment grade debt, high yield debt, bank debt and convertible debt, among others. The Company utilizes its team of Investment Banking professionals to structure transactions and its team of equity and debt distribution professionals within its Debt Capital Markets, Broadpoint AmTech and Broadpoint DESCAP segments to place underwritten and agented securities with its investor clients on behalf of its corporate clients and to provide aftermarket services on those securities including research, sales and trading.

Advisory Services

The Company offers a broad range of advisory services for a variety of corporate and institutional investor constituents. For corporations, the Company provides corporate strategic reviews, mergers and acquisitions advisory, takeover defense analyses, fairness opinions and restructuring and recapitalization advisory services. Corporate strategic advisory services are offered to a variety of constituents including corporate management teams, committees of corporate Boards of Directors. The Company seeks to provide advice in each of these areas to help its clients succeed and achieve their near and long-term goals. The Company also offers a range of advisory services to institutional investors including restructuring and recapitalization advisory and structured products valuation advisory services. Restructuring and recapitalization advisory services are offered to a variety of constituents including corporations, creditors, labor related parties, government agencies, litigation claimants, plan sponsors and stalking horse bidders or other potential acquirers. The restructuring and strategic advisory teams often generate financing opportunities from their clients. The Company also has a team of professionals which provides investment ideas to certain of the Company s applicable sales and trading desks and valuation services on complex and difficult to value structured products to clients.

For the periods indicated, the table below provides a breakdown of the Company s investment banking revenues by area.

	For the Years Ended December 31,		
(Dollars in thousands)	**2008**	**2007**	**2006**
Investment banking transactions			
Capital Markets	$ 4,719	$ 5,097	$ 21,793
Advisory	11,977	3,030	4,850
Total Investment Banking revenue	$ 16,696	$ 8,127	$ 26,643

Investment gains (losses)

The Company s investment portfolio includes interests in privately held companies and its interest in FA Tech Ventures L.P managed by FATV. Investment gains (losses) are comprised of both unrealized and realized gains and losses from the Company s investment portfolio (see Note 7 of the Consolidated Financial Statements).

Fees and Other

Fees and Other relate primarily to investment management fees earned by FATV and equity research fees.

Other Business Information

Operations

The Company s broker-dealer subsidiaries clear customers securities transactions through third parties under clearing agreements. Under these agreements, the clearing agents execute and settle customer securities transactions, collect margin receivables related to these transactions, monitor the credit standing and required margin levels related to these customers and, pursuant to margin guidelines, require the customer to deposit additional collateral with them or to reduce positions, if necessary.

Research

Broadpoint AmTech, formerly American Technology Research, is a wholly-owned broker-dealer subsidiary of the Company that provides equity research, sales, and trading to institutional investors. Many of the firm s research analysts have strong technical backgrounds, as well as experience on both the buy and sell-sides of the market.

Broadpoint AmTech currently employs 13 publishing analysts who review and analyze the economy, general market conditions, technology trends, industries and specific companies through fundamental and technical analyses; make recommendations of specific action with regard to industries and specific companies; and respond to inquiries from customers.

Employees

As of March 1, 2009, the Company s continuing operations had approximately 255 full-time employees, of which, approximately 23 are investment banking professionals in the Investment Banking segment. The Debt Capital Markets segment currently employs 43 high yield and high grade sales professionals, 11 desk analysts and 11 trading professionals. Broadpoint Descap is comprised of 30 sales professionals, 4 quantitative analysts and 11 trading professionals, as well as 4 advisory professionals dedicated to complex and difficult to value structured products. The Equities segment employs 20 research professionals and 26 sales and trading personnel. The Company considers its employee relations to be good and believes that its compensation and employee benefits are competitive with those offered by other securities firms. None of the Company s employees are covered by a collective bargaining agreement.

Competition

As an investment bank, all aspects of the Company s business are intensely competitive. The Company s competitors are other investment banks, commercial banks or bank holding companies, brokerage firms, merchant banks and financial advisory firms. The Company competes with some of our competitors nationally and with others on a regional, product or business line basis. Many of the Company s competitors have substantially greater capital and resources than it does and offer a broader range of financial products. The Company believes that the principal factors affecting competition in its business include client relationships, reputation, quality and price of our products and services, market focus and the ability of our professionals. Competition is intense for the recruitment and retention of qualified professionals. The Company s ability to continue to compete effectively in our business will depend upon its continued ability to retain and motivate our existing professionals and attract new professionals. In recent years, there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks have established or acquired broker-dealers or have merged with other financial institutions. Many of these firms have the ability to offer a wider range of products than the Company offers, including loans, deposit taking, and insurance. Many of these firms also have more extensive investment banking teams and services, which may enhance their competitive position relative to the Company s. They also have the ability to support investment banking and securities products with commercial banking and other financial

Table of Contents

services revenue in an effort to gain market share, which could result in pricing pressure in the Company s business. This trend toward consolidation and convergence has significantly increased the capital base and geographic reach of the Company s competitors.

Regulation

The securities industry in the United States is subject to extensive regulation under federal and state laws. The SEC is the federal agency charged with administration of the federal securities laws. Much of the direct oversight of broker-dealers, however, has been delegated to self-regulatory organizations, principally the Financial Industry Regulatory Authority (FINRA) and the U.S. securities exchanges. These self-regulatory organizations adopt rules (subject to approval by the SEC), which govern the securities industry and conduct periodic examinations of member broker-dealers. Securities firms are also subject to substantial regulation by state securities authorities in the U.S. jurisdictions in which they are registered. The Company s subsidiaries, Broadpoint Capital and Broadpoint AmTech are registered, as broker-dealers in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands and 27 states and the Province of Ontario, Canada, respectively.

The U.S. regulations to which broker-dealers are subject cover many aspects of the securities business, including sales and trading practices, financial responsibility, including the safekeeping of customers funds and securities as well as the capital structure of securities firms, books and record keeping, and the conduct of their associated persons. Salespeople, traders, investment bankers and others are required to take examinations given and approved by FINRA and all principal exchanges as well as state securities authorities to both obtain and maintain their securities license registrations. Registered employees are also required to participate annually in the firm s continuing education program.

Additional legislation, federal and state, changes in rules promulgated by the SEC and by self-regulatory organizations as well as changes by state securities authorities, and/or changes in the interpretation or enforcement of existing laws and rules often directly affect the method of operation and profitability of broker-dealers. The SEC, self-regulatory organizations, and state securities regulators have broad authority to conduct broad examinations and inspections, and initiate administrative proceedings which can result in censure, fine, suspension, or expulsion of a broker-dealer, its officers, or employees. The principal purpose of U.S. broker-dealer regulation is the protection of customers and the securities markets rather than protection of stockholders of broker-dealers.

Net Capital Requirements

The Company s subsidiaries, Broadpoint Capital and Broadpoint AmTech, as broker-dealers, are subject to the net capital requirements of Rule 15c3-1 of the Exchange Act (the Net Capital Rule). The Net Capital Rule is designed to measure the general financial condition and liquidity of a broker-dealer, and it imposes a required minimum amount of net capital deemed necessary to meet a broker-dealer s continuing commitments to its customers.

Compliance with the Net Capital Rule may limit those operations, which require the use of a firm s capital for purposes, such as maintaining the inventory required for trading in securities, underwriting securities, and financing customer margin account balances. Net capital changes from day to day, primarily based in part on a firm s inventory positions, and the portion of the inventory value the Net Capital Rule requires the firm to exclude from its capital (see Note 19 of the Consolidated Financial Statements).

At December 31, 2008, net capital and excess net capital of the Company s broker-dealer subsidiaries were as follows:

	Net Capital	Excess Net Capital

(In thousands of dollars)

Broadpoint Capital	$ 26,334	$ 26,084
Broadpoint AmTech	$ 1,360	$ 1,132

7

Table of Contents

Item 1A. *Risk Factors*

This document includes statements that may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements often address our expected future business and financial performance, and often contain words such as may , will , expect , anticipate , believe , estimate , and or similar words. You should consider all statements other than historical information or current facts to be forward-looking statements. Our forward-looking statements may contain projections regarding our revenues, earnings, operations, and other financial projections, and may include statements of our future performance, strategies and objectives. However, there may be events in the future that we are not able to accurately predict or control that may cause our actual results to differ, possibly materially, from the expectations expressed in our forward-looking statements. All forward-looking statements involve risks and uncertainties, and actual results may differ materially from those discussed as a result of various factors. Such factors include, among others, market risk, credit risk and operating risk. These and other risks are set forth in greater detail below and elsewhere in this document. We caution you not to place undue reliance on these forward-looking statements. We do not undertake to update any of our forward-looking statements.

You should carefully consider the risk factors described below in addition to the other information set forth or incorporated by reference in this Annual Report on Form 10-K. If any of the following risks actually occur, our financial condition or results of operations could be materially and adversely affected. These risk factors are intended to highlight some factors that may affect our financial condition and results of operations and are not meant to be an exhaustive discussion. Additional risks and uncertainties that we do not presently know or that we currently believe to be immaterial may also adversely affect us.

Company Risks

Difficult market conditions have and may continue to adversely affect our business in many ways. Our businesses are materially affected by conditions in the financial markets and economic conditions generally, both in the U.S and elsewhere around the world. Difficult market and economic conditions and geopolitical uncertainties have in the past adversely affected and may in the future adversely affect our business and profitability in many ways. Such conditions have materially and adversely changed over the prior fiscal year to unprecedented levels, characterized by a major lack of liquidity, substantially volatile and decreased asset values in nearly all asset classes, and a significant reduction in consumer and investor confidence. Currently, and as of the close of fiscal year 2008, the U.S. and the global economy are all in a recession. Many companies in a broad range of industries are in serious financial jeopardy due to the lack of consumer spending and business activity, and the lack of liquidity in the credit markets. Such conditions have also changed the broader landscape of the financial services industry, causing several industry leading institutions to fail or merge their businesses.

Despite the various initiatives and actions that the U.S. and other governments and banks have implemented and taken during 2008, asset values and consumer and investor confidence continue to decline, and the liquidity crisis remains in existence. The result of such conditions, among others, could be to limit our access to sources of funding as well as an increase in the cost of obtaining such funding, and could limit our ability to engage in certain activities. Such effects likely will continue until market conditions substantially improve.

Weakness in the equity and fixed income markets and diminished trading volume of securities could adversely impact our sales and trading business. Industry-wide declines in the size and number of underwritings and mergers and acquisitions also would likely have an adverse effect on our revenues and prospects. In addition, reductions in the trading prices for equity securities also tend to reduce the dollar value of investment banking transactions, such as underwriting and mergers and acquisitions transactions, which in turn may reduce the fees we earn from these transactions. Our revenues would likely decline in such circumstances and, if we were unable to reduce expenses at the same pace, our profit margin would erode. In addition, in the event of extreme market events, such as the global credit crisis, we could incur substantial risk of loss due to market volatility.

We have incurred losses in recent periods and may incur losses in the future. We have incurred losses in recent periods. We recorded a net loss of $17.4 million for the year ended December 31, 2008 and a net loss of $19.5 million for the year ended December 31, 2007. In recent years, we have experienced declines in revenues generated by certain of our key segments, including Equities and Other. We may incur losses and further declines in revenue in future periods. If we continue to incur losses and we are unable to raise funds to finance those losses, they could have a significant effect on our liquidity as well as our ability to operate.

In addition, we may incur significant expenses if we expand our underwriting and trading businesses or engage in strategic acquisitions and investments. Accordingly, we will need to increase our revenues at a rate greater than our expenses to achieve and maintain profitability. If our revenues do not increase sufficiently, or we are unable to manage our expenses, we will not achieve and maintain profitability in future periods.

We are a holding company and depend on payments from our subsidiaries. We depend on dividends, distributions and other payments from our subsidiaries to fund our obligations. Regulatory and other legal restrictions may limit our ability to transfer funds freely, either to or from our subsidiaries. In particular, our broker-dealer subsidiaries are subject to laws and regulations that authorize regulatory bodies to block or reduce the flow of funds to the parent holding company, or that prohibit such transfers altogether in certain circumstances. These laws and regulations may hinder our ability to access funds that we may need to make payments on our obligations. In addition, because our interests in the firm s subsidiaries consist of equity interests, our rights may be subordinated to the claims of the creditors of these subsidiaries.

We may experience further writedowns of our securities and other losses related to volatile and illiquid market conditions. The volatility and lack of liquidity in the market has made it increasingly difficult to value certain of our securities. Subsequent valuations based on then-current information may require us to take further writedowns in the value of our securities in future periods. In addition, when such securities are sold it may be at a price materially lower than the current fair value. Such events may also have an adverse effect on our results of operations in future periods.

Our ability to hire and retain our senior professionals is critical to the success of our business. In order to operate our business successfully, we rely heavily on our senior professionals. Their personal reputation, judgment, business generation capabilities and project execution skills are a critical element in obtaining and executing client engagements. We encounter intense competition for qualified employees from other companies in the investment banking industry as well as from businesses outside the investment banking industry, such as hedge funds, private equity funds and venture capital funds. In the past, we have lost investment banking, brokerage, research, and senior professionals. We could lose more in the future. Any loss of professionals, particularly key senior professionals or groups of related professionals, could impair our ability to secure or successfully complete engagements, materially and adversely affect our revenues and make it more difficult to return to profitability. In the future, we may need to hire additional personnel. At that time, there could be a shortage of qualified and, in some cases, licensed personnel whom we could hire. This could hinder our ability to expand or cause a backlog in our ability to conduct our business, including the handling of investment banking transactions and the processing of brokerage orders. These personnel challenges could harm our business, financial condition and operating results.

Limitations on our access to capital could impair our liquidity and our ability to conduct our businesses. Liquidity, or ready access to funds, is essential to financial services firms. Failures of financial institutions have often been attributable in large part to insufficient liquidity, such as the liquidity crisis that currently exists in the U.S. and global economy. Liquidity is of particular importance to our trading business and perceived liquidity issues may affect our clients and counterparties willingness to engage in brokerage transactions with us. Our liquidity has been impaired by the current widening of credit spreads and significant decline in availability of credit, and could be further impaired due to other circumstances that we may be unable to control, such as a general market disruption, negative views about the financial services industry generally or an operational problem that affects our trading clients, third parties or us. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time. We rely on cash and assets that have historically been readily convertible into cash such as our securities held in inventory to finance our operations generally and to maintain our margin requirements, particularly with our

Table of Contents

clearing firms, Ridge Clearing Outsource Solutions, Inc. (Ridge), JP Morgan Clearing Corp. (JP Morgan), and Pershing LLC (Pershing). Our ability to continue to access these and other forms of capital could be impaired due to circumstances beyond our control such as a dramatic change in the value of our collateral, the willingness or ability of lenders to provide credit, and market disruptions or dislocations, generally. Any such events could have a material adverse effect on our ability to fund our operations and operate our business.

In order to obtain funding to grow our business or fund operations in the event of continuing losses, we may seek to raise capital through issuance and sale of our common stock or the incurrence of additional debt. The sale of equity, or securities convertible into equity, would result in dilution to our stockholders. The incurrence of debt may subject us to covenants restricting our business activities. Additional funding may not be available to us on acceptable terms, or at all.

Our venture capital business and investment portfolio may also create liquidity risk due to increased levels of investments in high-risk, illiquid assets. We have made substantial principal investments in our private equity funds and may make additional investments in future funds, which are typically made in securities that are not publicly traded. There is a significant risk that we may be unable to realize our investment objectives by sale or other disposition at attractive prices or may otherwise be unable to complete any exit strategy. In particular, these risks could arise from changes in the financial condition or prospects of the portfolio companies in which investments are made, changes in national or international economic conditions or changes in laws, regulations, fiscal policies or political conditions of countries in which investments are made. It takes a substantial period of time to identify attractive investment opportunities and then to realize the cash value of our investments through resale. Even if a private equity investment proves to be profitable, it may be several years or longer before any profits can be realized in cash. At December 31, 2008, $15.4 million of our total assets consisted of relatively illiquid private equity investments (see Note 7 of the Consolidated Financial Statements).

Capital requirements may impede our ability to conduct our business. Broadpoint Capital and Broadpoint AmTech, our broker-dealer subsidiaries, are subject to the net capital requirements of the SEC and various self-regulatory organizations of which they are members. These requirements typically specify the minimum level of net capital a broker-dealer must maintain. Any failure to comply with these net capital requirements could impair our ability to conduct our core business as a brokerage firm.

Pricing and other competitive pressures may impair the revenues and profitability of our brokerage business. In recent years, we have experienced significant pricing pressures on trading margins and commissions in debt and equity trading. In the fixed income market, regulatory requirements have resulted in greater price transparency, leading to increased price competition and decreased trading margins. In the equity market, we have experienced increased pricing pressure from institutional clients to reduce commissions, and this pressure has been augmented by the increased use of electronic, algorithmic and direct market access trading, which has created additional competitive downward pressure on trading margins. The trend toward using alternative trading systems is continuing to grow, which may result in decreased commission and trading revenue, reduce our participation in the trading markets and our ability to access market information, and lead to the creation of new and stronger competitors. As a result of pressure from institutional clients to alter soft dollar practices and SEC rulemaking in the soft dollar area, some institutions are entering into arrangements that separate (or unbundle) payments for research products or services from sales commissions. These arrangements, both in the form of lower commission rates and commission sharing agreements, have increased the competitive pressures on sales commissions and have affected the value our clients place on high-quality research. Additional pressure on sales and trading revenue may impair the profitability of our brokerage business. Moreover, our inability to reach agreement regarding the terms of unbundling arrangements with institutional clients who are actively seeking such arrangements could result in the loss of those clients, which would likely reduce our institutional commissions. We believe that price competition and pricing pressures in these and other areas will continue as institutional investors continue to reduce the amounts they are willing to pay, including reducing the number of brokerage firms they use, and some of our competitors seek to obtain market share by reducing fees, commissions or margins. Additionally, in 2008 several prominent financial institutions consolidated, merged or received substantial government assistance. Such events could result in our competitors gaining greater capital and other resources, or seeking to obtain market share by reducing fees, commissions or margins.

Certain of our businesses focus principally on specific sectors of the economy, and a deterioration in the business environment in these sectors generally or decline in the market for securities of companies within these sectors could materially and adversely affect our business. For example, our equity business focuses principally on the sectors of the economy we cover. Therefore, volatility in the business environment in these sectors generally, or in the market for securities of companies within these sectors particularly, could substantially affect our financial results and the market value of our common stock. The market for securities in each of our target sectors may also be subject to industry-specific risks. Underwriting transactions, strategic advisory engagements and related trading activities in our target sectors represent a significant portion of our businesses. This concentration exposes us to the risk of substantial declines in revenues in the event of downturns in these sectors of the economy and any future downturns in our target sectors could materially and adversely affect our business and results of operations.

Markets have and may continue to experience periods of high volatility. Financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity, such as the asset price deterioration in the subprime residential mortgage market. Higher interest rates during the first half of 2007 continuing through 2008, falling property prices throughout the year and a significant increase in the number of subprime mortgages originated in 2005 and 2006 contributed to dramatic increases in mortgage delinquencies and defaults in 2007 and 2008 and led to delinquencies among higher-risk, or subprime, borrowers in the United States. The widespread dispersion of credit risk related to mortgage delinquencies and defaults through the securitization of mortgage-backed securities, sales of collateralized debt obligations and the creation of structured investment vehicles and the broad range of unregulated derivative products, caused banks to reduce their loans to each other or make them at higher interest rates. During the second half of 2007 and 2008, the economic impact of these problems spread and led to the most significant disruption of the financial markets since the great depression, and ultimately what amounted to a complete shutdown of the credit markets. Counterparties and other financial institutions failed in unprecedented fashion. It is impossible to predict how long these conditions will continue, whether they will continue to deteriorate and to know the extent to which our markets, products and businesses will be adversely affected. As a result, these conditions could adversely affect our financial condition and results of operations.

Increase in capital commitments in our trading, underwriting and other businesses increases the potential for significant losses. The trend in capital markets is toward larger and more frequent commitments of capital by financial services firms in many of their activities. For example, in order to win business, investment banks are increasingly committing to purchase large blocks of stock from publicly-traded issuers or their significant shareholders, instead of the more traditional marketed underwriting process, in which marketing was typically completed before an investment bank committed to purchase securities for resale. As a result, we may be subject to increased risk as we commit greater amounts of capital to facilitate primarily client-driven business. Furthermore, we may suffer losses even when economic and market conditions are generally favorable for others in the industry.

We may enter into transactions in which we commit our own capital as part of our trading business. The number and size of these transactions may materially affect our results of operations in a given period. We may also incur significant losses from our trading activities due to market fluctuations and volatility from quarter to quarter. We maintain trading positions in the fixed income and equity markets to facilitate client-trading activities. To the extent that we own security positions, in any of those markets, a downturn in the value of those securities or in those markets could result in losses from a decline in value. Conversely, to the extent that we have sold securities we do not own in any of those markets, an upturn in those markets could expose us to potentially unlimited losses as we attempt to acquire the securities in a rising market. Moreover, taking such positions in times of significant volatility can lead to significant unrealized losses, which further impact our ability to borrow to finance such activities. The unprecedented volatility of the markets for both fixed income and equity securities in the fourth quarter of 2008, in combination with the credit crisis, caused

several well established investment banks to fail or come close to failing. If these conditions continue our business, financial condition and results of operations could be adversely affected.

Our principal trading and investments expose us to risk of loss. A significant portion of our revenues is derived from trading in which we act as principal. The Company may incur trading losses relating to the purchase, sale or short sale of corporate and asset-backed fixed income securities and equity securities for our own account and from other principal trading. In any period, we may experience losses as a result of price declines, lack of trading volume, and illiquidity. From time to time, we may engage in a large block trade in a single security or maintain large position concentrations in a single security, securities of a single issuer, or securities of issuers engaged in a specific industry. For example, in 2008 we held securities of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). In general, any downward price movement in these securities could result in a reduction of our revenues and profits.

In addition, we may engage in hedging transactions and strategies that may not properly mitigate losses in our principal positions. If the transactions and strategies are not successful, we could suffer significant losses.

Our financial results may fluctuate substantially from period to period, which may impact our stock price. We have experienced, and expect to experience in the future, significant periodic variations in our revenues and results of operations. These variations may be attributed in part to trading related losses and the fact that our investment banking revenues are typically earned upon the successful completion of a transaction, the timing of which is uncertain and beyond our control. As a result, our business is highly dependent on market conditions and the interest in the market for the products we trade, as well as the decisions and actions of our clients and interested third parties. This risk may be intensified by our focus on growth companies in the healthcare, energy and technology sectors and mortgage asset backed securities, as the market for these securities has experienced significant variations in the number and size of offerings as well as the secondary trading volume and prices of newly issued securities. Because of recent difficult market conditions, more companies considering initiating the process of an initial public offering are exploring merger and acquisition exit opportunities. As a result, we are unlikely to achieve steady and predictable earnings on a quarterly basis, which could in turn adversely affect our stock price. For more information, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

If we violate the listing requirements of The NASDAQ Global Market, our common stock may be delisted. To maintain our listing on The NASDAQ Global Market, we must meet certain financial and liquidity criteria. One of these criteria requires that we maintain a minimum bid price per share of $1.00. We currently meet the listing standards for continued listing on The NASDAQ Global Market. The last reported sale price of our common stock on March 5, 2009 was $2.30 per share. The market price of our common stock has been and may continue to be subject to significant fluctuation as a result of periodic variations in our revenues and results of operations. If we violate The NASDAQ Global Market listing requirements, we may be delisted.

We face strong competition from larger firms. The brokerage and investment banking industries are intensely competitive and we expect them to remain so. We compete on the basis of a number of factors, including client relationships, reputation, the abilities of our professionals, market focus and the relative quality and price of our services and products. We have experienced intense price competition in some of our businesses, in particular discounts in large block trades and trading commissions and spreads. In addition, pricing and other competitive pressures in investment banking, including the trends toward multiple book runners, co-managers and multiple financial advisors handling transactions, have continued and could adversely affect our revenues. We believe we may experience competitive pressures in these and other areas in the future, as some of our competitors seek to obtain market share by competing on the basis of price.

Many of our competitors in the brokerage and investment banking industries have a broader range of products and services, greater financial and marketing resources, larger customer bases, greater name recognition, more professionals to serve their clients needs, greater global reach and more established relationships with clients than we have. These larger and better-capitalized competitors may be better able to respond to changes in the brokerage and investment banking industries, to compete for skilled professionals, to finance acquisitions, to fund internal growth and to compete for market share generally.

The scale of our competitors has increased in recent years as a result of substantial consolidation among companies in the brokerage and investment banking industries. In addition, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired underwriting or financial advisory practices and broker-dealers or have merged with other financial institutions. These firms have the ability to offer a wider range of products than we do, which may enhance their competitive position. They also have the ability to support investment banking with commercial banking, insurance and other financial services in an effort to gain market share, which has resulted, and could further result, in pricing pressure in our businesses. In particular, the ability to provide financing has become an important advantage for some of our larger competitors and, because we do not provide such financing, we may be unable to compete as effectively for clients in a significant part of the brokerage and investment banking market. Additionally, these broader, more robust investment banking and financial services platforms may be more appealing to investment banking professionals than our business, making it more difficult for us to attract new employees and retain those we have.

If we are unable to compete effectively with our competitors, our business, financial condition and results of operations will be adversely affected.

Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risk. Our risk management strategies and techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk.

Our risk hedging strategies also expose us to the risk that counterparties that owe us money, securities or other assets will not perform on their obligations. These counterparties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure, breach of contract or other reasons. 2008 saw a number of counterparties default on obligations in the financial services community that was unprecedented in recent times. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. Although we regularly review credit exposures to specific clients and counterparties and to specific industries and regions that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee. In addition, concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect us. If any of the variety of instruments, processes and strategies we utilize to manage our exposure to various types of risk are not effective, we may incur losses.

Our operations and infrastructure may malfunction or fail. Our businesses are highly dependent on our ability to process, on a daily basis, a large number of transactions across diverse markets, and the transactions we process have become increasingly complex. Our financial, accounting or other data processing systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including a disruption of electrical or communications services or our inability to occupy one or more of our buildings. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. If any of these systems do not operate properly or are disabled or if there are other shortcomings or failures in our internal processes, people or systems, we could suffer an impairment to our liquidity, financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage.

We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. Any such failure or termination could adversely affect our ability to execute transactions and to manage our exposure to risk.

In addition, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which we are located. This may include a disruption involving electrical, communications, transportation or other services used by us or third parties with which we conduct business, whether due to fire, other natural disaster, power or communications failure, act of terrorism or war or otherwise. Nearly all of our employees in our primary locations, including Greenwich CT, New York City NY, and Roseland NJ, work in close proximity to each other. If a disruption occurs in one location and our employees in that location are unable to communicate with or travel to other locations, our ability to service and interact with our clients may suffer and we may not be able to implement successfully contingency plans that depend on communication or travel.

Our operations also rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize our or our clients or our counterparties confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients , our counterparties or third parties operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

To be successful, we must profitably expand our business operations. We face numerous risks and uncertainties as we seek to expand. We seek the growth in our business primarily from internal expansion and through acquisitions and strategic partnering. If we are successful in expanding our business, there can be no assurance that our financial controls, the level and knowledge of our personnel, our operational abilities, our legal and compliance controls and our other corporate support systems will be adequate to manage our business and our growth. The ineffectiveness of any of these controls or systems could adversely affect our business and prospects.

We may be unable to fully capture the expected value from acquisitions in investments and personnel. We currently expect to grow through acquisitions and through strategic investments as well as through internal expansion. To the extent we make acquisitions or enter into combinations, we face numerous risks and uncertainties combining or integrating the relevant businesses and systems, including the need to combine accounting and data processing systems and management controls and to integrate relationships with clients and business partners. In addition, acquisitions may involve the issuance of additional shares of our common stock, which may dilute our shareholders ownership of our firm. Furthermore, acquisitions could entail a number of risks including problems with the effective integration of operations, inability to maintain key pre-acquisition business relationships, increased operating costs, exposure to unanticipated liabilities and difficulties in realizing projected efficiencies, synergies and cost savings. There is no assurance that any of our recent acquisitions or any business we acquire in the future will be successfully integrated and result in all of the positive benefits anticipated. If we are not able to integrate successfully our past and future acquisitions, there is a risk that our results of operations may be materially and adversely affected. Finally, expansions or acquisitions have required and may in the future requires significant managerial attentions, which may be diverted from our other operations. These capital, equity and managerial commitments may impair the operation of our businesses.

Because MatlinPatterson FA Acquisition LLC, a Delaware limited liability company (MatlinPatterson), controls a majority of the voting power of our common stock, investors will not be able to affect the outcome of any shareholder vote. As of March 4, 2008, MatlinPatterson controls approximately 54% of the voting power of our common stock. For as long as MatlinPatterson beneficially owns more than 50% of the outstanding shares of our common stock, it will be able to direct the election of all of the members of our board of directors, call a special meeting of shareholders at which our directors may be removed with or without cause and determine the outcome of most matters submitted to a vote of our shareholders, including matters involving mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional shares of common stock or other equity securities and the payment of dividends on common stock. MatlinPatterson currently has and will have the power to prevent or cause a change in control, and could take other actions that might be favorable to MatlinPatterson but not to our other shareholders.

Table of Contents

Because MatlinPatterson beneficially owns a majority of the outstanding shares of our common stock, we are a controlled company within the meaning of the Nasdaq Marketplace Rules and, as a result, we are not subject to all of the Nasdaq corporate governance requirements. Because MatlinPatterson controls more than 50% of the voting power of our common stock, we are a controlled company within the meaning of the Nasdaq Marketplace Rules. Under the Nasdaq Marketplace Rules, a controlled company may elect not to comply with certain Nasdaq corporate governance requirements, including requirements that (1) a majority of the board of directors consist of independent directors, (2) compensation of officers be determined or recommended to the board of directors by a majority of its independent directors or by a compensation committee that is composed entirely of independent directors and (3) director nominees be selected or recommended by a majority of the independent directors or by a nominating committee composed solely of independent directors. Because we have taken advantage of the controlled company exemption to certain Nasdaq corporate governance requirements, our shareholders do not have the same protections afforded to shareholders of companies that are subject to all of the Nasdaq corporate governance requirements.

Future sales or anticipated future sales of our common stock in the public market, by us, by MatlinPatterson or by others, could cause our stock price to decline. The sale by us of a significant number of shares of our common stock, or the perception that such future sales could occur, could materially and adversely affect the market price of our common stock. In addition, the sale or anticipated future sale of a significant number of shares of our common stock in the open market by MatlinPatterson or others, whether pursuant to a resale prospectus or pursuant to Rule 144, promulgated under the Securities Act, may also have a material adverse effect on the market price of our common stock. Any such decline in our stock price could impair our ability to raise capital in the future through the sale of additional equity securities at a price we deem appropriate.

Our pending acquisition of Gleacher Partners Inc. is subject to a variety of conditions and may not be completed. On March 3, 2009, we announced that we had entered into a definitive merger agreement to acquire Gleacher Partners Inc., an internationally recognized financial advisory boutique known for advising companies in mergers and acquisitions and restructurings. Completion of this merger is subject to a variety of conditions, many of which are outside of our control. See Part II Item 9b. Other Information. We believe that the completion of this merger will confer substantial benefits on us. However, we may not ultimately complete this transaction or obtain the anticipated benefits.

Risks Related to Our Industry

Our businesses could be adversely affected by market uncertainty or lack of confidence among customers and investors due to difficult geopolitical or market conditions. Our investment banking business has been and may continue to be adversely affected by market conditions. Unfavorable economic or geopolitical conditions have and may continue to adversely affect customer and investor confidence, resulting in a substantial industry-wide decline in underwritings and financial advisory transactions. Additionally, market uncertainty and unfavorable economic conditions may result in fewer institutional clients with lesser amounts of assets to trade. In each case this could have an adverse effect on our revenues and profits. Additionally, unfavorable returns on investment, whether due to general adverse market conditions or otherwise, could adversely affect our ability to retain clients and attract new clients.

Financial difficulty of another prominent financial institution could adversely affect financial markets. The creditworthiness and financial well-being of many financial institutions may be interdependent because of credit, trading, clearing or other relationships between the institutions. The financial difficulty of one company, therefore, could result in further market illiquidity or financial difficulties with other institutions and may adversely affect the clearing agencies, clearing houses, banks, exchanges and other intermediaries with which we conduct business. Such events, therefore, could adversely impact our business.

Financial services firms have been subject to increased scrutiny and enforcement activity over the last several years, increasing the risk of financial liability and reputational harm resulting from adverse regulatory actions. Firms in the financial services industry have been operating in a difficult regulatory environment. The industry has experienced increased scrutiny and enforcement activity from a variety of regulators, including the SEC, FINRA (formerly NASD), NASDAQ, the state securities commission and state attorneys general. Penalties and fines sought by regulatory authorities have increased substantially over the last several years. This regulatory environment has created uncertainty with respect to a number of transactions that had historically been entered into by financial services firms and that were generally believed to be permissible and appropriate. We may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. We also may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other United States or foreign governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. Among other things, we could be fined, prohibited from engaging in some of our business activities or subject to limitations or conditions on our business activities. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which could seriously harm our business prospects.

In addition, financial services firms are subject to numerous conflicts of interests or perceived conflicts. The SEC and other federal and state regulators have increased their scrutiny of potential conflicts of interest. We have adopted various policies, controls and procedures to address or limit actual or perceived conflicts and regularly seek to review and update our policies, controls and procedures. However, appropriately dealing with conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with conflicts of interest. Our policies and procedures to address or actual or perceived conflicts may also result in increased costs, additional operational personnel and increased regulatory risk. Failure to adhere to these policies and procedures may result in regulatory sanctions or client litigation.

Extensive regulation of public companies in the U.S. could reduce our revenue and otherwise adversely affect our business. Highly-publicized financial scandals in recent years have led to investor concerns over the integrity of the U.S. financial markets, and have prompted Congress, the SEC, the NYSE and NASDAQ to significantly expand corporate governance and public disclosure requirements, and more such regulation of both public companies and the financial services industry is considered likely at this time. To the extent that private companies, in order to avoid becoming subject to these new requirements, decide to forgo initial public offerings, or list their securities instead on non-U.S. securities exchanges, our equity underwriting business may be adversely affected. In addition, provisions of the Sarbanes-Oxley Act of 2002 and the corporate governance rules imposed by self-regulatory organizations have diverted many companies attention away from capital market transactions, including securities offerings and acquisition and disposition transactions. In particular, companies that are or are planning to be public are incurring significant expenses in complying with the SEC and accounting standards relating to internal control over financial reporting, and companies that disclose material weaknesses in such controls under the new standards may have greater difficulty accessing the capital markets. These factors, in addition to adopted or proposed accounting and disclosure changes, may have an adverse effect on our business.

Our business is subject to significant credit risk. In the normal course of our businesses, we are involved in the execution, settlement and financing of various customer and principal securities transactions. These activities are transacted on a cash, margin or delivery-versus-payment basis and are subject to the risk of counterparty or customer nonperformance. Although transactions are generally collateralized by the underlying security or other securities, we still face the risks associated with changes in the market value of securities that we may be obligated to purchase securities or have purchased in principal or riskless principal trades where a counterparty or customer fails to perform. During the recent unprecedented volatility of the financial markets this risk has been greatly increased. We may also incur credit risk in our derivative transactions to the extent such transactions result in uncollateralized credit exposure to our counterparties. We seek to control the risk associated with these transactions by establishing and monitoring credit limits and by monitoring collateral and transaction levels daily.

Our business and results of operations could be adversely affected by governmental fiscal and monetary policies. Our cost of funds for lending, investment activities and capital raising are affected by the fiscal and monetary policies of the U.S. and foreign governmental and banking authorities, changes to which are not wholly predictable or within our control. Such changes may also affect the value of the securities we hold.

Table of Contents

Our exposure to legal liability is significant, and damages that we may be required to pay and the reputational harm that could result from legal action against us could materially adversely affect our businesses. We face significant legal risks in our businesses and, in recent years, the volume of claims and amount of damages sought in litigation and regulatory proceedings against financial institutions have been increasing. These risks include potential liability under securities or other laws for materially false or misleading statements made in connection with securities offerings and other transactions, potential liability for fairness opinions and other advice we provide to participants in strategic transactions and disputes over the terms and conditions of trading arrangements. We are also subject to claims arising from disputes with employees for alleged discrimination or harassment, among other things. These risks often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time.

As a brokerage and investment banking firm, we depend to a large extent on our reputation for integrity and high-caliber professional services to attract and retain clients. As a result, if a client is not satisfied with our services, it may be more damaging in our business than in other businesses. Moreover, our role as underwriter to our clients on important underwritings or as advisor for mergers and acquisitions and other transactions involves complex analysis and the exercise of professional judgment, including rendering fairness opinions in connection with mergers and other transactions. Therefore, our activities may subject us to the risk of significant legal liabilities to our clients and aggrieved third parties, including shareholders of our clients who could bring securities class actions against us. Our investment banking engagements typically include broad indemnities from our clients and provisions to limit our exposure to legal claims relating to our services, but these provisions may not protect us or may not be enforceable in all cases. As a result, we may incur significant legal and other expenses in defending against litigation and may be required to pay substantial damages for settlements and adverse judgments. Substantial legal liability or significant regulatory action against us could have a material adverse effect on our results of operations or cause significant reputational harm to us, which could seriously harm our business and prospects.

We are subject to claims and litigations in the ordinary course of our business. For information regarding certain pending claims see Part I Item 3 Legal Proceedings.

Employee misconduct could harm us and is difficult to detect and deter. There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee misconduct could occur at our Company. For example, misconduct by employees could involve the improper use or disclosure of confidential information, which could result in regulatory sanctions and serious reputational or financial harm. It is not always possible to deter employee misconduct and the precautions we take to detect and prevent this activity may not be effective in all cases, and we may suffer significant reputational harm for any misconduct by our employees.

Item 1B. *Unresolved Staff Comments.*

None.

Item 2. *Properties*

The Company currently leases all of its office space. The Company s lease for its headquarters in New York, New York (approximately 16,000 square foot space) expires on December 31, 2018

Table of Contents

A list of office locations as of December 31, 2008 by segment is as follows:

Equities	Dallas, TX Greenwich, CT Littleton, CO New York, NY Newport, RI St. Louis, MO
Investment Banking	Boston, MA New York, NY
Debt Capital Markets	San Francisco, CA New York, NY Roseland, NJ Encino, CA
Broadpoint Descap	New York, NY Tucson, AZ Boston, MA FT Lauderdale, FL Woodland Hills, CA
Other	Albany, NY Boston, MA New York, NY

Item 3. ***Legal Proceedings***

In 1998, the Company was named in lawsuits by Lawrence Group, Inc. and certain related entities (the Lawrence Parties) in connection with a private sale of Mechanical Technology Inc. stock from the Lawrence Parties that was approved by the United States Bankruptcy Court for the Northern District of New York (the Bankruptcy Court). The Company acted as placement agent in that sale, and a number of persons who were employees and officers of the Company at that time, who have also been named as defendants, purchased shares in the sale. The complaints alleged that the defendants did not disclose certain information to the sellers and that the price approved by the court was therefore not proper. The cases were initially filed in the Bankruptcy Court and the United States District Court for the Northern District of New York (the District Court), and were subsequently consolidated in the District Court. The District Court dismissed the cases, and that decision was subsequently vacated by the United States Court of Appeals for the Second Circuit, which remanded the cases for consideration of the plaintiffs claims as motions to modify the Bankruptcy Court sale order. The plaintiffs claims were referred back to the Bankruptcy Court for such consideration. In February 2009, the Bankruptcy Court dismissed the motions in their entirety. Plaintiffs have filed a notice of appeal, which would be heard by the District Court. The Company believes that it has strong defenses and intends to vigorously defend itself against the plaintiffs claims, and believes the claims lack merit. However, an unfavorable resolution could have a material adverse effect on the Company s financial position, results of operations and cash flows in the period which resolved.

In early 2008, Broadpoint Capital hired Tim O Connor and 9 other individuals to form a new restructuring and recapitalization group within Broadpoint Capital s Investment Banking segment. Mr. O Connor, the new head of

Broadpoint Capital s Investment Banking Division, and each of the other employees are former employees of Imperial Capital, LLC (Imperial). Upon Broadpoint Capital s hiring of these employees, Imperial commenced an arbitration proceeding against Broadpoint Capital, Mr. O Connor, another employee hired by Broadpoint Capital and a former employee of Imperial who is not employed by Broadpoint Capital before the Financial Industry Regulatory Authority (FINRA). In the arbitration, Imperial alleged various causes of action against Broadpoint Capital as well as the individuals based upon alleged violations of restrictive covenants in employee contracts relating to the non-solicitation of employees and clients. Imperial claimed damages in excess of $100 million. Concurrently with the filing of the arbitration proceeding, Imperial sought and obtained a temporary restraining order in New York State Supreme Court, pending the conclusion of the FINRA arbitration hearing, enjoining Broadpoint from disclosing or making use of any confidential information of Imperial, recruiting or hiring any employees of Imperial and seeking or accepting as a client any client of Imperial, except those clients for whom any of the hired individuals had provided services as a registered representative while employed by Imperial. On April 17, 2008, Broadpoint Capital, the other respondents, and Imperial entered into a Partial Settlement whereby Imperial s claims for injunctive relief were withdrawn and it was agreed the temporary restraining order would be vacated. Imperial s remaining claim for damages arbitrated before FINRA at a hearing in September 2008. The Partial Settlement provides, among other things, for the potential future payment of amounts from Broadpoint to Imperial contingent upon the successful consummation of, or receipt of fees in connection with, certain transactions. On September 16, 2008, the Company agreed to a Settlement resolving all remaining claims among the parties. In particular, in exchange for a $500,000 payment from Broadpoint Capital, Imperial released its claims against the respondents. In addition, the respondents released the claims and defenses raised by them against Imperial (including third-party claims asserted against Imperial by Tim O Connor), and the FINRA case was dismissed. The terms and conditions of the Partial Settlement remain in effect.

Due to the nature of the Company s business, the Company and its subsidiaries are now, and likely in the future will be, involved in a variety of legal proceedings, including the matters described above. These include litigation, arbitrations and other proceedings initiated by private parties and arising from our underwriting, financial advisory or other transactional activities, client account activities 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. In addition, the securities industry is highly regulated. The Company and its subsidiaries are subject to both routine and unscheduled regulatory examinations of its business and investigations of securities industry practices by governmental agencies and self-regulatory organizations. In recent years securities 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. Periodically the Company and its subsidiaries receive inquiries and subpoenas from the SEC, state securities regulators and self-regulatory organizations. The Company does not always know the purpose behind these communications or the status or target of any related investigation. The responses to these communications have in the past resulted in the Company and/or its subsidiaries being cited for regulatory deficiencies, although to date these communications have not had a material adverse effect on the Company s business.

The Company has taken reserves in its financial statements with respect to legal proceedings to the extent it believes appropriate. However, accurately predicting the timing and outcome of legal proceedings, 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. Based on currently available information, the Company does not believe that any litigation, proceeding or other matter to which it is a party or otherwise involved will have a material adverse effect on its financial position, results of operations and cash flows; although an adverse development, or an increase in associated legal fees, could be material in a particular period, depending in part on the Company s operating results in that period.

Item 4 *Submission of Matters to a Vote of Security Holders*

None

PART II

Item 5. ***Market for the Registrant s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities***

The Company s common stock trades on The NASDAQ Global Market under the symbol BPSG . As of March 5, 2009 there were approximately 2,342 holders of record of the Company s common stock. No dividends have been declared or paid on our common stock in the last two fiscal years. We do not anticipate that we will pay any cash dividends on our common stock in the foreseeable future. The following table sets forth the high and low bid quotations for the common stock during each quarter for the fiscal years ended.

	Quarter Ended			
	Mar 31	**Jun 30**	**Sep 30**	**Dec 31**
2008				
Stock Price Range				
High	$ 1.90	$ 2.69	$ 3.54	$ 3.26
Low	1.00	1.75	1.90	1.53
2007				
Stock Price Range				
High	$ 2.46	$ 1.96	$ 1.81	$ 1.74
Low	1.42	1.51	1.22	0.99

Information relating to compensation plans under which our common stock is authorized for issuance will be set forth in our definitive proxy statement for our annual meeting of stockholders to be held on May 14, 2009 and is incorporated by reference in Part III, Item 12.

ISSUANCE OF UNREGISTERED EQUITY SECURITIES

There were no undisclosed issuances of unregistered equity securities during 2008.

ISSUER PURCHASES OF EQUITY SECURITIES

We did not repurchase any shares of our common stock in the fourth quarter of 2008.

Table of Contents

Item 6. *Selected Financial Data*

The following selected financial data has been derived from the Consolidated Financial Statements of the Company. This information should be read in conjunction with the Consolidated Financial Statements and related notes thereto included elsewhere herein.

For the Years Ended December 31: **(In thousands of dollars, except per share amounts)**	**2008**	**2007**	**2006**	**2005**	**2004**
Operating results:					
Operating revenues	$ 123,067	$ 38,472	$ 73,010	$ 101,924	$ 99,706
Interest income	21,946	8,639	8,295	9,750	4,931
Total revenues	145,013	47,111	81,305	111,674	104,637
Interest expense	10,712	7,027	8,417	6,423	2,289
Net revenues	134,301	40,084	72,888	105,251	102,348
Expenses (excluding interest)	149,107	71,709	120,329	111,201	121,247
Income (loss) before income taxes, discontinued operations and cumulative effect of change in accounting principles	(14,806)	(31,625)	(47,441)	(5,950)	(18,899)
Income tax expense (benefit)	2,424	(4,703)	(828)	7,512	(10,052)
Income (loss) from continuing operations	(17,230)	(26,922)	(46,613)	(13,462)	(8,847)
Income (loss) from discontinued operations, net of taxes	(132)	7,460	2,205	3,245	5,260
Income (loss) before cumulative effect of an accounting change	(17,362)	(19,462)	(44,408)	(10,217)	(3,587)
Cumulative effect of accounting change, net of taxes			427		
Net income (loss)	$ (17,362)	$ (19,462)	$ (43,981)	$ (10,217)	$ (3,587)
Basic earnings per share:					
Continuing operations	$ (0.25)	$ (0.98)	$ (3.08)	$ (0.97)	$ (0.71)
Discontinued operations		0.27	0.15	0.23	0.42
Cumulative effect of an accounting change			0.03		
Loss per share	$ (0.25)	$ (0.71)	$ (2.90)	$ (0.74)	$ (0.29)
Diluted earnings (loss) per share:					
Continuing operations	$ (0.25)	$ (0.98)	$ (3.08)	$ (0.97)	$ (0.71)
Discontinued operations		0.27	0.15	0.23	0.42
Cumulative effect of an accounting change			0.03		
Diluted loss per share	$ (0.25)	$ (0.71)	$ (2.90)	$ (0.74)	$ (0.29)

Cash dividend				0.05	0.20
Book Value	1.23	1.41	3.46	6.28	6.45

As of December 31:	**2008**	**2007**	**2006**	**2005**	**2004**
Financial condition:					
Total assets	$ 694,271	$ 269,517	$ 357,118	$ 443,541	$ 410,113
Short-term bank loans			128,525	150,075	139,875
Mandatory Redeemable Preferred Stock Debt	24,187				
Notes payable			12,667	30,027	32,228
Obligations under capitalized leases			3,522	5,564	3,110
Temporary capital		104	104	3,374	3,374
Subordinated debt	1,662	2,962	4,424	5,307	3,695
Stockholders equity	98,290	82,267	51,577	87,722	86,085

Reclassification

Certain amounts in operating results for 2004 through 2007 have been reclassified to conform to the 2008 presentation. Refer to the Reclassification section of Note 1 to the Consolidated Financial Statements for more information regarding reclassification of amounts included in discontinued operations and for sale agreements entered into on TBA mortgage-backed securities. These TBA s were previously accounted for as short securities sales and are now recorded as derivative transactions.

Cumulative Effect of Accounting Change

Upon adoption of FASB Statement No. 123 (revised) Share-based Compensation as described in FASB Staff Position No. FAS 123(R)-3, Share-Based Payment on January 1, 2006, the Company recognized an after-tax gain of approximately $0.4 million as the cumulative effect of a change in accounting principle, primarily attributable to the requirement to estimate forfeitures at the date of grant instead of recognizing them as incurred.

Table of Contents

BROADPOINT SECURITIES GROUP, INC.

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

Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

There are included or incorporated by reference in this document statements that may constitute forward-looking statements within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements are usually preceded by words such as may, will , expect , anticipate , believe , estimate , and conti similar words. All statements other than historical information or current facts should be considered forward-looking statements. Forward-looking statements may contain projections regarding revenues, earnings, operations, and other financial projections, and may include statements of future performance, strategies and objectives. However, there may be events in the future, which the Company is not able to accurately predict or control which may cause actual results to differ, possibly materially, from the expectations set forth in the Company s forward-looking statements. All forward-looking statements involve risks and uncertainties, and actual results may differ materially from those discussed as a result of various factors. Such factors include, among others, market risk, credit risk and operating risk. These and other risks are set forth in greater detail throughout this document. The Company does not intend or assume any obligation to update any forward-looking information it makes.

Business Overview

Broadpoint Securities Group, Inc., (the Company), is an independent investment bank that provides value-added, unconflicted advice to corporations and institutional investors. The Company provides services and generates revenues through its Investment Banking, Debt Capital Markets, Broadpoint DESCAP, Equities and Other segments. The Investment Banking segment provides capital raising and advisory services to corporations and institutional investors. The Debt Capital Markets segment provides sales and trading in a broad range of debt securities and generates revenues primarily through execution of riskless principal transactions on the sales of these securities. The Broadpoint DESCAP segment provides sales and trading in mortgage and asset-backed securities and generates revenues primarily through principal transactions and other trading activities associated with these securities. The Equities segment provides sales, trading and research in equity securities primarily through one of the Company s broker-dealer subsidiaries, Broadpoint AmTech, generating revenues mainly through commissions on executing these securities. The Other segment generates revenue from unrealized gains and losses as a result of changes in the value of the firm s investments and realized gains and losses as a result of sales of equity holdings, and through the management and investment of venture capital funds, this segment also includes the costs related to corporate overhead and support including various fees associated with legal and settlement expenses.

The Company has 255 employees, is a New York corporation, incorporated in 1985, and is traded on The NASDAQ Global Market (NASDAQ) under the symbol BPSG . The Company evaluates the performance of its segments and allocates resources to them based on various factors, including prospects for growth, return on investment, and return on revenue.

During the past several years the Company restructured nearly all of its operations. In September 2007, the Company completed the sale of its Municipal Capital Markets Group to DEPFA BANK plc (DEPFA). In June 2007, the Company closed its Fixed Income Middle Markets Group. In April 2006, the Company closed its Convertible Arbitrage Advisory Group. In June 2006, the Company ceased operations in its Taxable Fixed Income division. In December 2004, the Company closed its asset management operations in Sarasota, Florida and in February 2005 sold its asset management operations in Albany, New York. In August 2000, Broadpoint Capital divested its retail brokerage operation.

The operating results of the groups and divisions referred above are reported as discontinued operations (see Note 25 of the Consolidated Financial Statements).

BROADPOINT SECURITIES GROUP, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

On September 21, 2007, the Company closed the investment from MatlinPatterson in which the Company received net proceeds of $45.8 million from the sale of the Company s common stock. Pursuant to the Investment Agreement, MatlinPatterson purchased 41.5 million newly issued shares and two co-investors received a total of 0.5 million newly issued shares which represented approximately 71.7 percent and 0.8 percent, respectively, of the issued and outstanding voting power of the Company immediately following the closing of the investment transaction.

In March 2008, the Company and Broadpoint Capital completed its hiring of 47 employees of the New Jersey-based Fixed Income division of BNY Capital Markets, Inc. and the acquisition of certain related assets. The Company has formed a new Debt Capital Markets group with the new employees that provide sales and trading on a wide range of debt securities including bank debt, investment grade debt, high-yield debt, treasuries, convertibles, distressed debt, preferred debt and re-org equity securities.

On March 4, 2008, the Company closed a $20 million private placement whereby investors purchased approximately 11.6 million shares of common stock from the Company at $1.70 per share. A fund managed by MAST Capital Management, LLC, a Boston-based investment manager that focuses on special situations debt and equity investment opportunities, led the investment purchasing 7.1 million of the approximately 11.6 million shares issued.

On June 27, 2008, the Company entered into a Preferred Stock Purchase Agreement with Mast Credit Opportunities I Master Fund Limited, a Cayman Islands corporation (Mast), for the issuance and sale of (i) 1,000,000 newly-issued unregistered shares of Series B Mandatory Redeemable Preferred Stock of the Company, par value $1.00 per share (the Series B Preferred Stock), and (ii) a warrant to purchase 1,000,000 shares of the Company s common stock, par value $.01 per share, at an exercise price of $3.00 per share, for an aggregate cash purchase price of $25 million.

In October 2008, the Company completed the acquisition of American Technology Research Holdings, Inc. (Broadpoint AmTech), the parent of American Technology Research, Inc., a broker-dealer specializing in institutional research, sales and trading in the information technology, cleantech and defense areas. In connection with the reorganization of its legacy equities business, Broadpoint recorded a charge in the third quarter of approximately $1.8 million relating to compensation and other expenses.

On October 16, 2008, the Company completed the merger of two of its principal broker-dealer subsidiaries, Broadpoint Capital, Inc. and Broadpoint Securities, Inc. The two firms were merged into a single broker-dealer under the name Broadpoint Capital, Inc. The Company believes that the merger will increase efficiencies by enhancing the integration of services and processes across the firm s business lines.

On March 3, 2009, the Company announced that it agreed to acquire Gleacher Partners, an internationally recognized financial advisory boutique best known for advising major corporations in mergers and acquisitions. Under the terms of the merger agreement, Broadpoint will pay the selling stockholders of Gleacher Partners, $20 million in cash and issue 23 million shares of common stock subject to resale restrictions. MatlinPatterson FA Acquisition LLC, Broadpoint s majority shareholder, has approved the issuance of the shares of Broadpoint common stock in the transaction. At closing, the Company will change its name to Broadpoint Gleacher Securities Group, Inc. See Part II Item 9b. Other Information.

RESTRUCTURING

In 2007, the Company implemented a restructuring plan to properly size the Company s infrastructure with its then current level of activity. As a result, the Company incurred approximately $4.3 million in restructuring costs during 2008 and incurred $2.7 million in restructuring costs during the fourth quarter of 2007. The plan included a reduction in IT and operations support headcount, outsourcing the Company s clearing operations, and eliminating excess office space. The Company has completed its restructuring plan to properly size its infrastructure (see Note 26 of the Consolidated Financial Statements).

Table of Contents

BROADPOINT SECURITIES GROUP, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Business Environment in 2008

During the first half of 2008, economic growth slowed and the U.S. entered a recession. The lessening of liquidity that began in 2007 accelerated during 2008 and the U.S. markets experienced unprecedented challenges as credit contracted further, the downturn in economic growth broadened, and a number of major financial institutions faced serious problems. Concerns regarding future economic growth and corporate earnings, as well as illiquidity in the credit markets created challenging conditions for the equity markets which experienced significant broad-based declines, with equity indices significantly lower at the end of 2008 as compared to the end of 2007. Fixed income and equity markets experienced high levels of volatility, broad-based declines in asset prices and further reduced levels of liquidity, particularly in the fourth quarter of 2008. The impact of these events created extreme uncertainty around company and asset values, creating a challenging environment for investment banking advisory businesses and sharply narrowing opportunities to distribute securities in the equity and debt capital markets.

The financial landscape has also been altered dramatically over the course of the year with the bankruptcy of Lehman Brothers Holdings Inc., acquisitions and consolidations of major financial institutions, the Federal Government assuming a conservatorship role of both the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association and the conversion of Goldman Sachs Group, Inc. and Morgan Stanley into bank holding companies. In early October 2008, the Emergency Economic Stabilization Act of 2008 was enacted, which, among other matters, enables the U.S. Treasury to purchase mortgage-related and other trouble assets from U.S. financial institutions. The U.S. Treasury has taken additional measures to provide liquidity to the capital markets and the U.S. Federal Reserve reduced its federal funds target rate to a range of 0 to 0.25%, its lowest level since 2003. The yield on the 10-year U.S. Treasury note declined to 2.25% at the end of 2008 from 3.91% at the beginning of the year.

The results of our operations for 2008 reflect these challenging market factors, which contributed to declining inventory valuations and reduced levels of capital markets activity. Competitor consolidation and the destabilization of the financial markets during these periods have conversely had a positive impact on business prospects as we have seen new customer activity across many of our businesses. However, a continuation of the volatile markets and unfavorable economic conditions of 2008 could have a material impact on our business and results of operations for the near term of 2009 and possibly subsequent years.

Our financial performance is highly dependent on the environment in which our businesses operate. Overall, during 2008, and continuing into 2009, the macro business environment for many of our businesses was extremely challenging, and there can be no assurance that these conditions will improve in the near term.

BROADPOINT SECURITIES GROUP, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

RESULTS OF OPERATIONS

	Years Ended December 31		
(In thousands of dollars)	**2008**	**2007**	**2006**
Revenues			
Principal transactions	$ 97,032	$ 21,229	$ 40,605
Commissions	6,529	4,666	11,386
Investment banking	8,296	8,127	26,643
Investment banking revenue from related party	8,400		
Investment gains (losses)	(1,115)	2,594	(7,602)
Interest income	21,946	8,639	8,295
Fees and other	3,925	1,856	1,978
Total revenues	145,013	47,111	81,305
Interest expense	10,712	7,027	8,417
Net revenues	134,301	40,084	72,888
Expenses (excluding interest)			
Compensation and benefits	111,678	41,286	76,351
Clearing, settlement and brokerage costs	2,794	3,127	5,833
Communications and data processing	9,245	7,827	9,273
Occupancy and depreciation	6,259	6,559	9,154
Selling	4,152	4,157	4,013
Impairment			7,886
Restructuring	4,315	2,698	
Other	10,664	6,055	7,819
Total expenses (excluding interest)	149,107	71,709	120,329
Loss before income taxes, discontinued operations and cumulative effect of an accounting change	(14,806)	(31,625)	(47,441)
Income tax expense (benefit)	2,424	(4,703)	(828)
Loss from continuing operations	(17,230)	(26,922)	(46,613)
Income from discontinued operations (net of taxes)	(132)	7,460	2,205
Loss before cumulative effect of an accounting change	(17,362)	(19,462)	(44,408)
Cumulative effect of an accounting change			427

Net loss	$ (17,362)	$ (19,462)	$ (43,981)
Net interest income (expense)			
Interest income	21,946	8,639	8,295
Interest expense	10,712	7,027	8,417
Net interest income (expense)	$ 11,234	$ 1,612	$ (122)

BROADPOINT SECURITIES GROUP, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

2008 Financial Overview

For the year ended December 31, 2008, net revenues from continuing operations were $134.3 million, compared to $40.1 million for the year ended December 31, 2007. The 235 percent increase in net revenues was driven by increased commissions and principal transactions revenue in Broadpoint s Descap segment and the addition of the Debt Capital Markets segment, which commenced operations in March 2008. Investment Banking revenue and net interest income also improved in 2008 compared to the prior year. The Company reported a loss from continuing operations of $17.2 million for the year ended December 31, 2008 compared to the Company s loss from continuing operations of $26.9 million for the year ended December 31, 2007. Loss per diluted share from continuing operations for the year ended December 31, 2008 was $0.25 compared to a loss per diluted share of $0.98 for the year ended December 31, 2007. The Company reported a consolidated net loss of $17.4 million for the year ended December 31, 2008, compared to a consolidated net loss of $19.5 million for the year ended December 31, 2007. The Company recognized a pre-tax gain on the sale of its Municipal Capital Markets division of $7.9 million in 2007 as a component of discontinued operations. Consolidated diluted loss per share for the year ended December 31, 2008 was $0.25 compared to a consolidated loss per diluted share of $0.71 for the year ended December 31, 2007.

Net Revenues

For the year ended December 31, 2008, net revenues from continuing operations were $134.3 million, compared to $40.1 million for the year ended December 31, 2007. Commissions and principal transactions increased $77.7 million to $103.6 million from $25.9 million due to an increase at Broadpoint Descap of $25.9 million and $54.3 million generated by the Debt Capital Markets segment, which commenced operations in March 2008, partially offset by a decrease in Equities of $3.3 million. Investment Banking revenues increased 105 percent or $8.6 million to $16.7 million in 2008. The Investment Banking segment generated $12.9 million in revenues of which $10.2 million were due to its Restructuring and Recapitalization group, which commenced operations in February 2008. In addition, the Debt Capital Markets segment generated $3.3 million in placement fees and the Equities segment generated $0.4 million in investment banking fees for the year. Investment losses primarily associated with the Company s venture capital subsidiary were $1.1 million compared to investment gains of $2.6 million for 2007. Net interest increased $9.6 million or 597 percent to $11.2 million due to higher inventory levels at Broadpoint Descap and lower financing costs. Fees and other revenues of $3.9 million increased by $2.1 million primarily due to an increase in payments received related to equity research agreements.

Non-Interest Expense

Non-interest expense increased $77.4 million, or 108 percent, to $149.1 million in the year ended December 31, 2008.

Compensation and benefits expense increased 170 percent, or $70.4 million, to $111.7 million in the year ended December 31, 2008 due to an increase in net revenues of 235 percent.

Clearing, settlement, and brokerage costs were $2.8 million representing a decrease of 11 percent in the year ended December 31, 2008 compared to the prior year. The year-over-year decline was primarily due to a decrease in equity trading volume that was partially offset by volume in the Debt Capital Markets segment and increased volume in the Broadpoint Descap segment.

Communications and data processing costs increased $1.4 million or 18 percent in the year ended December 31, 2008 due to the addition of the Debt Capital Markets segment and increased head count at the Broadpoint Descap segment, which offset cost savings initiatives implemented during the year. In addition, a

BROADPOINT SECURITIES GROUP, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

$0.6 million reserve related to services previously utilized by the legacy equities business was established in the third quarter of 2008.

Occupancy and depreciation expense decreased $0.3 million or 5 percent in the year ended December 31, 2008.

Selling expense remained relatively unchanged in the year ended December 31, 2008.

Other expense increased $4.6 million, or 76 percent, for the year ended December 31, 2008. The increase was driven primarily by an increase in legal and settlement expenses.

The Company reported an expense of $2.4 million for federal and state income taxes for the year ended December 31, 2008

2007 Financial Overview

For the year ended December 31, 2007, net revenues from continuing operations were $40.1 million, compared to $72.9 million for the year ended December 31, 2006. An improved performance in investments gain (losses) was overshadowed by a decline in investment banking revenues in the Equities and Investment Banking segments. In addition, commissions and principal transactions revenues in the Equities segment and Descap decreased. $2.7 million in expenses related to the Company s restructuring costs also negatively impacted the Company s 2007 results. The Company reported a loss from continuing operations of $26.9 million for the year ended December 31, 2007 compared to the Company s loss from continuing operations of $46.6 million for the year ended December 31, 2006. Loss per diluted share from continuing operations for the year ended December 31, 2007 was $0.98 compared to a loss per diluted share of $3.08 for the year ended December 31, 2006. The Company reported a consolidated net loss of $19.5 million for the year ended December 31, 2007, compared to a consolidated net loss of $44.0 million for the year ended December 31, 2006. The Company recognized a pre-tax gain on the sale of its Municipal Capital Markets division of $7.9 million in 2007 as a component of discontinued operations. Consolidated diluted loss per share for the year ended December 31, 2007 was $0.71 compared to a consolidated loss per diluted share of $2.90 for the year ended December 31, 2006.

Net Revenues

Net revenues decreased $32.8 million, or 45 percent, to $40.1 million in 2007 led by a decline in investment banking revenue of $18.5 million and principal transactions and commissions revenue of $26.1 million. These losses were partially offset by an investment gain of $2.6 million in 2007 compared to an investment loss of $7.6 million in 2006. A decrease in equity listed commission revenue resulted in a 59 percent decrease in commission revenue. Principal transaction revenue decreased 48 percent due to a decrease in trading volume as a result of declines in customer activities. Net interest income increased $1.7 million for the year ended December 31, 2007 compared to the year ended December 31, 2006, primarily as a result of an improvement in interest rate spreads primarily in the Broadpoint Descap segment.

Non-Interest Expense

Non-interest expense decreased $48.6 million, or 40 percent, to $71.7 million in the year ended December 31, 2007.

Compensation and benefits expense decreased 46 percent, or $35.1 million, to $41.3 million in the year ended December 31, 2007. The decrease was the result of a reduction in other compensation of $22.3 million and salary expense of $8.0 million. The decline in other compensation was directly related to a decrease in net revenue of 45 percent. The decline in salary expense was the result of a 26 percent decrease in average full

Table of Contents

BROADPOINT SECURITIES GROUP, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

time headcount. Included in compensation and benefit expense for the year ended December 31, 2007 is $2.4 million relating to the restructuring plan discussed above. The Company completed its restructuring plan to properly size its infrastructure in the third quarter of 2008.

Clearing, settlement, and brokerage costs were $3.1 million representing a decrease of 46 percent in the year ended December 31, 2007 compared to the prior year. The year-over-year decline was primarily due to both a reduction in ECN expense of $1.5 million and transaction fee expense of $0.6 million, as a result of a decrease in NASDAQ trading activity.

Communications and data processing costs decreased $1.4 million or 16 percent in the year ended December 31, 2007. There was a $0.8 million decline in data processing expense and a $0.6 million decrease in market data services expense. Data processing expense was down in equities due to lower trading volumes and additional pricing concessions from the Company s back-office vendor. A decrease in headcount of 26 percent accounted for the decrease in market data services.

Occupancy and depreciation expense decreased $2.6 million or 28 percent in the year ended December 31, 2007. The decrease was due to expenses related to office consolidations in the year ended December 31, 2006 in which the Company incurred $1.8 million in charges as a result of consolidating its office space in Albany, New York City, Boston and Greenwich, CT along with incurring an additional $0.6 million in costs related to the Company s additional office space in New York City.

Selling expense increased 4 percent, or $0.1 million, in the year ended December 31, 2007 as a result of a slight increase in travel and entertainment and promotional expenses.

In the year ended December 31, 2006, the Company recorded an impairment of its intangible assets including goodwill relating to Broadpoint Securities of $7.9 million. The Company had no impairment in the year ended December 31, 2007.

Other expense decreased $1.8 million, or 23 percent, for the year ended December 31, 2007. The decrease was driven primarily by a decline in legal expenses of $1.8 million relating to various legal settlements during the year ended December 31, 2006.

The Company reported a benefit for federal and state income taxes of $4.7 million from continuing operations for the year ended December 31, 2007, an increase of $3.9 million from the year ended December 31, 2006. Due to the sale and related discontinuance of the Municipal Capital Markets division, the Company recognized income from discontinued operations for the year ended December 31, 2007 of $7.5 million. The Company had loss from continuing operations and continues to have a full valuation allowance. Under the accounting for income tax rules described in FASB Statement No. 109, the Company must record a benefit in continuing operations to offset tax expense recorded in discontinued operations. The Company recorded tax expense of $4.7 million in discontinued operations for the year ended December 31, 2007.

Business Highlights

For presentation purposes, net revenue within each of the businesses is classified as commissions and principal transactions, investment banking, investment gains (losses), net interest, and other. Commissions and principal transactions includes commissions on agency trades and gain and losses from sales and trading activities. Investment banking includes revenue generated from capital raising transactions of equity and debt securities, fees for strategic advisory, fees for restructuring and recapitalization services and valuations of structured products. Investment gains (losses) reflects gains and losses on the Company s investment portfolio. Other revenue reflects management fees received from the partnerships the Company manages and research fees. Net interest includes interest income net of interest expense and reflects the effect of funding rates on the

29

BROADPOINT SECURITIES GROUP, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Company s inventory levels. Net revenue presented within each category may differ from that presented in the financial statements as a result of differences in categorizing revenue within each of the revenue line items listed below for purposes of reviewing key business performance.

Equities

(In thousands of dollars)	**2008**	**2007**	**2006**
Net revenue			
Commissions and Principal Transactions	$ 8,052	$ 11,381	$ 33,581
Investment Banking	434	1,039	4,817
Net Interest	8	8	9
Other	2,481	609	32
Total Net Revenue	$ 10,975	$ 13,037	$ 38,439
Pre-Tax Contribution	$ (8,997)	$ (12,286)	$ (8,640)

2008 vs. 2007

Net revenues in Equities decreased $2.1 million or 16 percent to $11.0 million in 2008. In 2008, equities represented 8 percent of consolidated net revenue compared to 33 percent in 2007. Commissions and principal transactions revenue declined due, in part, to a decrease in trading activity and a reduction in Equity trading and sales personnel in anticipation of the Company s acquisition of Broadpoint AmTech in October. Approximately 54 percent of commissions and principal transactions revenue for the full year was contributed by Broadpoint AmTech in the fourth quarter. Equity Investment Banking revenues decreased 58 percent compared to 2007. In the third quarter of 2008 the Company incurred $4.4 million in costs associated with transitioning the legacy Equity sales and trading operations to the Broadpoint AmTech platform. Closedown costs of approximately $1.8 million related to reserves established for clearing, settlement, and brokerage costs and communications and data processing services the Company had contracts for, and other costs related to compensation and benefits. In addition the legacy Equities business reported an operating loss of $2.6 million.

2007 vs. 2006

Net revenues in equities decreased $25.4 million or 66 percent to $13.0 million in 2007. In 2007, equities represented 33 percent of consolidated net revenue compared to 54 percent in 2006. Equity commissions and principal transactions revenue decreased across all products with net revenue down 67 percent compared to 2006. Compared to 2006, NASDAQ net revenue was down 69 percent to $7.5 million and listed net revenue of $3.8 million represented a 63 percent decrease relative to the prior year. Declines in customer activity and pressure on overall commission rates for both listed and NASDAQ were partially offset by improved trading loss ratios related to Market-making activities in both groups. Investment banking net revenues decreased 78 percent versus the prior year due to lower transaction volume and lower average fees per transaction.

BROADPOINT SECURITIES GROUP, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Broadpoint Descap

(In thousands of dollars)	2008	2007	2006
Net revenue			
Commissions and Principal Transactions	$ 41,083	$ 15,176	$ 18,146
Investment Banking	110	730	223
Net Interest	9,692	(667)	(794)
Other	31	25	(14)
Total Net Revenue	$ 50,916	$ 15,264	$ 17,561
Pre-Tax Contribution	$ 21,076	$ 2,757	$ (922)

2008 vs. 2007

Broadpoint Descap net revenue increased 234 percent to $50.9 million in 2008. Commissions and principal transactions revenue increased $25.9 million or 171 percent compared to the prior year due to increased trading volumes and an overall widening of spreads in their markets. Net interest increased by $10.4 million due to decreased funding rates and the allocation of additional capital that was utilized to increase net inventory levels leading to higher interest income. Pre-tax contribution increased $18.3 million or 664 percent due to the increase in net revenues.

2007 vs. 2006

Broadpoint Descap net revenue declined 13 percent to $15.3 million in 2007. Commissions and principal transactions revenue decreased $3.0 million or 16 percent compared to the prior year due to the impact of several large block transactions in the second quarter of 2006. Investment banking revenue increased 227 percent while net interest expense decreased $0.1 million to $0.7 million.

Debt Capital Markets

(In thousands of dollars)	2008	2007	2006
Net revenue			
Commissions and Principal Transactions	$ 54,311	$	$
Investment Banking	3,297		
Net Interest	1,634		
Other	99		

Total Net Revenue	$ 59,341	$	$
Pre-Tax Contribution	$ 5,887	$	$

2008 vs. 2007

The Debt Capital Markets segment commenced operations in March of 2008. The Debt Capital Markets segment provides sales and trading in a broad range of debt securities.

BROADPOINT SECURITIES GROUP, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Investment Banking

(In thousands of dollars)	2008	2007	2006
Net revenue			
Commissions and Principal Transactions	$	$ (95)	$
Investment Banking	12,855	6,387	21,594
Net Interest		(5)	16
Other			
Total Net Revenue	$ 12,855	$ 6,287	$ 21,610
Pre-Tax Contribution	$ 171	$ (1,391)	$ 12,199

2008 vs. 2007

Investment Banking net revenue increased $6.6 million or 104 percent to $12.9 million in 2008. The revenues generated in 2008 primarily resulted from the activities of the Restructuring and Recapitalization group which commenced operations in February of 2008. The Restructuring and Recapitalization group completed one significant transaction with MatlinPatterson which accounted for 58 percent of 2008 revenues.

2007 vs. 2006

Investment Banking net revenues decreased $15.3 million or 71 percent to $6.3 million versus the prior year due to lower transaction volume and lower average fees per transaction.

Other

	2008	2007