GLEACHER & COMPANY, INC.
Form 10-Q
November 08, 2010

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

FORM 10-Q

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2010

- or -

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _________ to _________

Commission file number 014140

GLEACHER & COMPANY, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-2655804 (I.R.S. Employer Identification No.)
1290 Avenue of the Americas, New York, New York (Address of principal executive offices)	10104 (Zip Code)
Registrant's telephone number, including area code	(212) 273-7100

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ

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

131,202,257 shares of Common Stock were outstanding as of the close of business on October 29, 2010.

GLEACHER & COMPANY, INC. AND SUBSIDIARIES

FORM 10-Q

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GLEACHER & COMPANY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

Part I – Financial Information

ITEM 1. FINANCIAL STATEMENTS

(In thousands, except for per share amounts)	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Revenues:				
Principal transactions	$ 35,592	$ 66,369	$ 114,933	$ 183,674
Commissions	4,434	5,570	13,737	15,165
Investment banking	11,468	9,088	32,042	21,547
Investment banking revenues from related party	297	3,345	1,647	9,112
Investment gains/(losses), net	979	2,698	(533)	3,680
Interest	14,130	11,571	42,669	32,738
Fees and other	1,082	1,610	3,568	4,779
Total revenues	67,982	100,251	208,063	270,695
Interest expense	2,937	2,927	9,182	10,066
Net revenues	65,045	97,324	198,881	260,629
Expenses (excluding interest):				
Compensation and benefits	52,234	66,177	165,310	182,178
Clearing, settlement and brokerage	1,881	1,318	5,045	3,299
Communications and data processing	3,524	2,738	10,160	7,678
Occupancy, depreciation and amortization	2,209	2,328	10,126	6,055
Amortization of intangible assets	869	1,765	2,906	2,520
Selling	1,342	1,429	3,809	3,591
Loss from extinguishment of mandatorily redeemable preferred stock (see Note 12)	1,608	-	1,608	-
Other	3,842	2,502	11,467	7,890
Total expenses (excluding interest)	67,509	78,257	210,431	213,211
(Loss)/income from continuing operations before income taxes and discontinued operations	(2,464)	19,067	(11,550)	47,418
Income tax expense/(benefit)	272	(4,892)	(3,370)	2,345
(Loss)/income from continuing operations	(2,736)	23,959	(8,180)	45,073
(Loss)/income from discontinued operations, net of taxes (see Note 21)	-	-	(5)	28
Net (loss)/income	$ (2,736)	$ 23,959	$ (8,185)	$ 45,101
Per share data:				
Basic (loss)/earnings:				
Continuing operations	$ (0.02)	$ 0.22	$ (0.07)	$ 0.50
Discontinued operations	-	-	-	-
Net (loss)/income per share	$ (0.02)	$ 0.22	$ (0.07)	$ 0.50
Diluted (loss)/earnings:				

Continuing operations	$	(0.02	)	$	0.20	$	(0.07	)	$	0.47
Discontinued operations		-			-		-			-
Net (loss)/income per share	$	(0.02	)	$	0.20		(0.07	)	$	0.47
Weighted average common and common equivalent shares outstanding:										
Basic		121,773			110,322		120,577			89,426
Diluted		121,773			118,829		120,577			96,674

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

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GLEACHER & COMPANY, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

(In thousands of dollars, except for share amounts) As of	September 30, 2010	December 31, 2009
Assets		
Cash and cash equivalents	$20,530	$24,997
Cash and securities segregated for regulatory purposes	100	100
Receivables from:		
Brokers, dealers and clearing agencies	14,041	19,797
Related parties	2,359	2,971
Others	19,011	14,134
Securities owned, at fair value (includes assets pledged of $1,243,080 and $978,967 at September 30, 2010 and December 31, 2009, respectively)	1,244,759	979,701
Investments	18,617	19,326
Office equipment and leasehold improvements, net	6,551	3,069
Goodwill	105,694	105,694
Intangible assets	16,357	19,263
Income taxes receivable	16,673	-
Deferred tax assets, net	22,712	16,137
Other assets	9,819	10,974
Total Assets	$1,497,223	$1,216,163
Liabilities and Stockholders' Equity		
Liabilities		
Payables to:		
Brokers, dealers and clearing agencies	$981,145	$691,495
Related parties	9,878	12,678
Others	3,793	1,502
Securities sold, but not yet purchased, at fair value	97,679	72,988
Accrued compensation	40,540	70,728
Accounts payable	1,552	2,203
Accrued expenses	5,648	4,754
Income taxes payable	4,571	2,397
Deferred tax liabilities	2,577	2,817
Mandatorily redeemable preferred stock	-	24,419
Total Liabilities	1,147,383	885,981
Commitments and Contingencies		
Subordinated Debt	909	1,197
Stockholders' Equity		
Common stock; $.01 par value; authorized 200,000,000 shares; issued 130,742,343 and 125,056,247 shares, respectively; and outstanding 130,132,276 and 124,357,163 shares, respectively	1,307	1,251
Additional paid-in capital	440,084	411,633
Deferred compensation	276	534
Accumulated deficit	(91,327)	(83,142)

Treasury stock, at cost (610,067 shares and 699,084 shares, respectively)	(1,409)	(1,291)
Total Stockholders' Equity	348,931	328,985
Total Liabilities and Stockholders' Equity	$1,497,223	$1,216,163

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

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

(In thousands of dollars)	Nine Months Ended September 30, 2010	2009
Cash flows from operating activities:		
Net (loss)/income	$(8,185)	$45,101
Adjustments to reconcile net (loss)/income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,179	679
Deferred income taxes	(6,815)	(8,588)
Amortization of debt issuance costs	125	126
Amortization of intangible assets	2,906	2,520
Amortization of discount of mandatorily redeemable preferred stock	173	174
Investment losses/(gains), net	533	(3,680)
Amortization of stock-based compensation	30,499	8,883
Loss from extinguishment of mandatorily redeemable preferred stock	1,608	-
Loss from disposal of office equipment and leasehold improvements	312	15
Changes in operating assets and liabilities:		
Cash and securities segregated for regulatory purposes	-	370
Net receivable/payable from customers	-	(17)
Net receivable/payable from related party	(806)	(3,965)
Securities owned, at fair value	(265,058)	(339,614)
Other assets	737	(2,256)
Net payable to brokers, dealers and clearing agencies	295,406	150,159
Net receivable/payable from others	3,931	(4,398)
Securities sold, but not yet purchased, at fair value	24,691	54,245
Accrued compensation	(29,206)	32,518
Accounts payable and accrued expenses	222	(6,867)
Drafts payable	21	(106)
Income taxes receivable/payable, net	(16,185)	(1,499)
Net cash provided by (used in) operating activities	36,088	(76,200)
Cash flows from investing activities:		
Loan receivable – held for investment	(5,000)	-
Purchases of office equipment and leasehold improvements	(4,973)	(480)
Capital contributions - investments	(433)	(306)
Return of capital - investments	609	78
Payment for purchase of Gleacher Partners, Inc., net of cash acquired	-	(6,560)
Payment to sellers of American Technology Holdings, Inc.	(1,382)	(410)
Net cash (used in) investing activities	(11,179)	(7,678)
Cash flows from financing activities:		
Extinguishment of mandatorily redeemable preferred stock	(25,905)	-
Excess tax benefits related to stock-based compensation	2,662	5,115
Payments for employee tax withholding on stock-based compensation	(5,845)	(1,868)
Repayment of subordinated debt	(288)	(465)
Proceeds from issuance of common stock	-	94,501

Payment of expenses for issuance of common stock	-	(1,239)
Net cash (used in) provided by financing activities	(29,376)	96,044
(Decrease) increase in cash and cash equivalents	(4,467)	12,166
Cash and cash equivalents at beginning of the period	24,997	7,377
Cash and cash equivalents at the end of the period	$20,530	$19,543

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

NONCASH INVESTING AND FINANCING ACTIVITIES

During the nine months ended September 30, 2010 and 2009, the Company issued approximately 0.8 million and 2.5 million shares of treasury stock, net of forfeitures, respectively, for stock-based compensation exercises and vesting and distributions of deferred compensation related to the employee stock trust.

During the nine months ended September 30, 2010 and 2009, the Company issued approximately 5.2 million and 2.0 million shares of common stock for settlement of stock-based compensation awards, respectively, and approximately 0.2 million and 2.5 million of common stock, respectively, directly into treasury anticipated for future settlement of such awards.

During the nine months ended September 30, 2009, Goodwill increased by $2.3 million in connection with a contingent consideration arrangement related to the acquisition of American Technology Research Holding, Inc. ("AmTech") (See Note 13). In addition, during the nine months ended September 30, 2010, the Company issued approximately 345,000 shares of common stock to the former stockholders of AmTech in connection with this arrangement.

The fair market value of noncash assets acquired and liabilities assumed in the Gleacher Partners, Inc. acquisition for the nine months ended September 30, 2009 were $94.9 million and $1.9 million, respectively. In connection with this acquisition, the Company issued 23 million shares of common stock valued at approximately $69 million.

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

GLEACHER & COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

Organization and Nature of Business

Gleacher & Company, Inc., formerly Broadpoint Gleacher Securities Group, Inc. (and including its subsidiaries, the "Company"), is an independent investment bank that provides corporate and institutional clients with strategic, research-based investment opportunities, capital raising, and financial advisory services, including merger and acquisition, restructuring, recapitalization and strategic alternative analysis, as well as securities brokerage services for institutional customers primarily in the United States. The Company offers a diverse range of products through the Investment Banking, Mortgage Backed/Asset Backed & Rates ("MBS/ABS & Rates") (formerly known as Descap), Corporate Credit (formerly known as Debt Capital Markets) and Equity divisions of Gleacher & Company Securities, Inc., formerly known as Broadpoint Capital, Inc. ("Gleacher Securities"), which includes the business of the Company's former subsidiary, Broadpoint AmTech, Inc. that was merged with and into Gleacher Securities in June of 2010. The Company also has a venture capital subsidiary, FA Technology Ventures Corporation. During the second quarter of 2010, Gleacher & Company, Inc. re-incorporated from a New York to a Delaware corporation. The Company's common stock is traded on the NASDAQ Global Market ("NASDAQ") under the symbol "GLCH."

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

The accompanying consolidated financial statements are presented in accordance with the U.S. Securities and Exchange Commission ("SEC") requirements for Quarterly Reports on Form 10-Q and are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted. Reference should be made to the Company's audited consolidated financial statements and notes within the Company's Annual Report on Form 10-K for the year ended December 31, 2009 for additional disclosures, including a summary of the Company's significant accounting policies.

Reclassification

Certain amounts in prior periods have been reclassified to conform to the current year presentation. This includes a reclassification within the consolidated statement of cash flows to report payments for employee tax withholdings on stock-based compensation of approximately $1.9 million as a cash outflow from financing activities which was reported in the prior year as a cash outflow from operating activities.

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") launched the FASB Accounting Standards Codification ("ASC") as the single authoritative source of GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also

sources of authoritative GAAP for SEC registrants. On its effective date, the ASC superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the ASC became non-authoritative. The Company adopted the ASC as it became effective for financial statements issued for interim and annual periods ending after September 15, 2009. All such references to GAAP throughout the notes to the consolidated financial statements are references to the applicable ASCs.

GLEACHER & COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Recent Accounting Pronouncements

In July 2010, the FASB issued Accounting Standards Update (“ASU”) No. 2010-20, “New Disclosure Requirements for Finance Receivables and Allowance for Credit Losses” (“ASU 2010-20”) in order to address concerns about the sufficiency, transparency, and robustness of credit disclosures for finance receivables and the related allowance for credit losses. ASU 2010-20 expands disclosure requirements regarding allowance, charge-off and impairment policies, information about management’s credit assessment process, additional quantitative information on impaired loans and rollforward schedules of the allowance for credit losses and other disaggregated information. New disclosures are required for interim and annual periods ending after December 15, 2010, although the disclosures of reporting period activity (e.g., allowance rollforward) are required for interim and annual periods beginning after December 15, 2010. The Company does not expect the adoption of ASU 2010-20 to materially change current disclosures, and since these amended principles require only additional disclosures, the adoption of ASU 2010-20 will not affect the Company’s financial condition, results of operations or cash flows.

In March 2010, the FASB issued ASU 2010-11, “Scope Exception Related to Embedded Credit Derivatives” (“ASU 2010-11”). ASU 2010-11 clarifies and amends the accounting for credit derivatives embedded in beneficial interests in securitized financial assets and eliminates the scope exception for embedded credit derivatives (except for those that are created solely by subordination). Bifurcation and separate recognition may be required for certain beneficial interests that are not accounted for at fair value through earnings. The Company adopted ASU 2010-11 on July 1, 2010. The adoption did not have a material impact on the Company’s consolidated financial statements as the majority of the Company’s assets are recorded at fair value through earnings.

In January 2010, the FASB issued ASU 2010-06, “Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements” (“ASU 2010-06”). ASU 2010-06 provides amended disclosure requirements related to fair value measurements including details of significant transfers in and out of Level 1 and Level 2 measurements and the reasons for the transfers, and a gross presentation of activity within the Level 3 rollforward, presenting separately information about purchases, sales, issuances and settlements. ASU 2010-06 is effective for financial statements issued for reporting periods beginning after December 15, 2009 for certain disclosures and for reporting periods beginning after December 15, 2010 for other disclosures. The Company adopted these amended accounting principles on January 1, 2010. Since these amended principles require only additional disclosures concerning fair value measurements, this adoption did not affect the Company’s financial condition, results of operations or cash flows. Refer to Note 6 “Financial Instruments” which includes the additional disclosures as required by this statement.

In September 2009, the FASB issued ASU 2009-05, “Measuring Liabilities at Fair Value,” which supplements and amends the guidance in “Fair Value Measurements and Disclosures” (“ASC 820”), that provides additional guidance on how companies should measure liabilities at fair value and confirmed practices that have evolved when measuring fair value such as the use of quoted prices for a liability when traded as an asset. Under the new guidance, the fair value of a liability is not adjusted to reflect the impact of contractual restrictions that prevent its transfer. A quoted price, if available, in an active market for an identical liability must be used. If such information is not available, an entity may use either the quoted price of the identical liability when traded as an asset; quoted prices for similar liabilities; similar liabilities traded as assets or another technique such as the income approach or a market approach. The Company adopted these amended accounting principles on October 1, 2009. This adoption did not have a material impact on the Company’s consolidated financial statements.

In June 2009, the FASB issued amendments to accounting principles which change the accounting for transfers of financial assets and were codified as ASU 2009-16, "Transfers and Servicing (Topic 860) – Accounting for Transfers of Financial Assets" ("ASU 2009-16"). ASU 2009-16 improves financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. ASU 2009-16 modifies the financial-components approach and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. ASU 2009-16 also requires that a transferor recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The Company adopted these amended accounting principles on January 1, 2010. This adoption did not have a material effect on the Company's consolidated financial statements.

GLEACHER & COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In June 2009, the FASB issued amendments to accounting principles which change the accounting for Variable Interest Entities ("VIE"), and were codified as ASU 2009-17, which amends ASC 810 "Consolidation." ASU 2009-17 significantly changes the criteria by which an enterprise determines whether it must consolidate a VIE. A VIE is an entity which has insufficient equity at risk or which is not controlled through voting rights held by equity investors. Previously, a VIE is consolidated by the enterprise that will absorb a majority of the expected losses or expected residual returns created by the assets of the VIE. ASU 2009-17 requires that a VIE be consolidated by the enterprise that has both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. ASU 2009-17 also requires that an enterprise continually reassess, based upon current facts and circumstances, whether it should consolidate the VIEs with which it is involved. However, in January 2010, the FASB deferred ASU 2009-17 for certain investment entities which allows asset managers that have no obligations to fund potentially significant losses of an investment entity to continue to apply the previous accounting guidance to investment entities that have attributes subject to ASC 946, "The Investment Company Guide." The deferral qualifies for many mutual funds, hedge funds, private equity funds, venture capital funds and certain mortgage REITs. The Company adopted these amended accounting principles on January 1, 2010. This adoption did not have a material effect on the Company's consolidated financial statements, including our relationship as investment advisor to FA Technology Ventures L.P., which qualified for the deferral. Refer to Note 8 "Investments" for additional information related to FA Technology Ventures L.P.

In April 2009, the FASB issued amended accounting principles now codified within ASC 820 related to determining fair value when the volume and level of activity for an asset or liability has significantly decreased and identifying transactions that are not orderly. This guidance lists factors which should be evaluated to determine whether a transaction is orderly, clarifies that adjustments to transactions or quoted prices may be necessary when the volume and level of activity for an asset or liability have decreased significantly, and provides guidance for determining the concurrent weighting of the transaction price relative to fair value indications from other valuation techniques when estimating fair value. The Company adopted these amended accounting principles as of June 30, 2009. This adoption did not have a material impact on the Company's consolidated financial statements.

2. (Loss)/Earnings Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Weighted average shares for basic (loss)/earnings per share	121,772,943	110,321,762	120,577,332	89,425,596
Effect of dilutive common share equivalents	-	8,506,772	-	7,247,953
	121,772,943	118,828,534	120,577,332	96,673,549

Weighted average shares and dilutive common share equivalents for dilutive (loss)/earnings per share

The Company was in a net loss position for the three and nine months ended September 30, 2010 and therefore excluded approximately 4.8 million shares underlying stock options and warrants, 13.8 million shares of restricted stock, and 6.2 million shares underlying restricted stock units from its computation of dilutive (loss)/earnings per share because they were anti-dilutive. No options, warrants, restricted stock awards or restricted stock units were excluded for the three and nine months ended September 30, 2009.

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GLEACHER & COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

3. Cash and Cash Equivalents

The Company has defined cash equivalents as highly liquid investments, with original maturities of less than 90 days that are not segregated for regulatory purposes or held for sale in the ordinary course of business. At September 30, 2010 and December 31, 2009, cash equivalents were approximately $7.1 million and $8.9 million, respectively. Cash and cash equivalents of approximately $17.8 million and $7.8 million at September 30, 2010 and December 31, 2009, respectively, were held at one financial institution.

4. Receivables from and Payables to Brokers, Dealers and Clearing Agencies

Amounts Receivable from and Payable to brokers, dealers and clearing agencies consists of the following:

(In thousands of dollars)	September 30, 2010	December 31, 2009
Receivable from clearing organizations	$12,436	$17,143
Good faith deposits	1,251	751
Commissions receivable	-	1,285
Underwriting and syndicate fees receivable	354	618
Total receivables	$14,041	$19,797
Payable to clearing organizations	$981,145	$691,495
Total payables	$981,145	$691,495

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

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

5. Receivables from and Payables to Others

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

(In thousands of dollars)	September 30, 2010	December 31, 2009
Interest receivable	$6,055	$5,388
Loan receivable, net of fee, held for investment	4,856	-
Investment banking fees receivable	6,758	3,865
Advisory fees receivable	199	2,345
Management fees receivable	111	78
Investment distributions receivable	-	1,995
Other	1,032	463
Total receivables from others	$19,011	$14,134

Payable to employees for the Employee Investment Funds (see Note 8)	$950	$697
Drafts payable	611	592
Other	2,232	213
Total payables to others	$3,793	$1,502

The loan receivable, which is held for investment, is a $5 million loan made to a third party limited partnership fund ("Fund") whose primary purpose is to acquire and securitize a pool of leases, loans and other residual interests. It is fully secured by all of the deposit accounts of the Fund and equity interests held by the Fund in various affiliates and has a stated rate of interest of 10% with principal repayment beginning in November 2010. The loan matures at the earlier of the closing of the securitization or October 23, 2011. The Company has accounted for the loan at amortized cost, which includes deferral of the loan structuring fee which is being amortized as an adjustment to the yield on the loan over its estimated life. The Company has determined that the item above is not impaired as of September 30, 2010 based upon the current performance of the loan and its first priority perfected security interest.

GLEACHER & COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

6. Financial Instruments

Refer to Note 1 within the footnotes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, for a detailed discussion of accounting policies related to the Company's securities transactions and derivative financial instruments.

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

Level 1: Quoted prices in active markets that the Company has the ability to access at the reporting date, for identical assets or liabilities. Prices are not adjusted for the effects, if any, of the Company holding a large block relative to the overall trading volume (referred to as a "blockage factor").

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

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

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

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

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Fair Valuation Methodology

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

Securities Owned/Securities Sold But Not Yet Purchased – These financial instruments represent investments in fixed income and equity securities.

Fixed income securities, which are traded in active markets, include on-the-run treasuries, federal agency obligations, corporate debt, preferred stock and asset and mortgage-backed securities including to-be-announced securities ("TBAs"). A TBA is a forward mortgage-backed security whose collateral remains "to be announced" until just prior to the trade settlement. The on-the-run treasuries and TBAs are generally traded in active, quoted and highly liquid markets. These assets are generally classified as Level 1. TBAs, which are not due to settle within the next earliest date for settlement, are treated as derivatives and are generally classified as Level 1. As there is no quoted market for corporate debt, asset and mortgage-backed securities, and certain preferred stock, the Company utilizes observable market factors in determining fair value. These financial instruments are reported as Level 2. In certain circumstances, the Company may utilize unobservable inputs that reflect management's own assumptions about the assumptions market participants would make. These financial assets are reported as Level 3.

In determining fair value for Level 2 financial instruments, management utilizes benchmark yields, reported trades for comparable trade sizes, recent purchases or sales of the financial assets, issuer spreads, benchmark securities, bids and offers. These inputs relate either directly to the financial assets being evaluated or indirectly to a similar security (for example, another bond of the same issuer or a bond of a different issuer in the same industry with similar maturity, terms and conditions). Additionally, for certain mortgage-backed securities, management also considers various characteristics such as the issuer, underlying collateral, prepayment speeds, cash flows and credit ratings.

In determining fair value for Level 3 financial instruments, management maximizes the use of market observable inputs when available. Management utilizes factors such as bids that were received, recent purchases or sales of the financial assets, spreads to the yield curve on similar offered financial assets, or comparing spreads to similar financial assets that traded and had been priced through an independent pricing source. Management considers these pricing methodologies consistent with assumptions in how other market participants value certain financial assets. These pricing methodologies involve management judgment and lead to a Level 3 classification.

Equity securities are valued at quoted market prices. These financial assets are reported as Level 1 when traded in active markets. Equity securities that are subject to legal restrictions on transfer are classified as Level 2. When quoted prices are not available, valuation models are applied to these financial assets. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. Accordingly, these financial assets are reported as Level 3.

Derivatives – In connection with mortgage-backed and U.S. government securities trading, the Company economically hedges certain exposure through the use of TBAs and exchange traded treasury futures contracts, respectively. TBAs, which are not due to settle within the next earliest date for settlement, are accounted for as derivatives. These TBAs are traded in an active quoted market and therefore generally classified as Level 1.

Investments – These financial assets primarily represent the Company's investment in FA Technology Ventures L.P. (the "Partnership"), which was formed for purposes of investing in early and expansion stage companies in the information and new energy technology sectors. Valuation techniques applied to the underlying portfolio companies predominantly include consideration of comparable market transactions and the use of valuation models to determine the discounted value of estimated future cash flows, adjusted as appropriate for market and/or other risk factors. In addition, certain portfolio companies are valued based upon quoted market prices. The investment in the Partnership is classified as Level 3 as the majority of the valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

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The following table summarizes the categorization of the financial instruments within the fair value hierarchy at September 30, 2010:

(In thousands of dollars)	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Securities owned (1)				
Agency mortgage-backed securities	$ -	$ 1,082,361	$ 1,137	$ 1,083,498
Commercial mortgage-backed securities	-	-	24,176	24,176
Debt securities issued by U.S. Government and federal agency obligations	37	16,533	-	16,570
Other debt obligations	-	6,542	23,412	29,954
Preferred stock	-	42,625	-	42,625
Corporate debt securities	-	7,813	-	7,813
Residential mortgage-backed securities	-	-	11,605	11,605
Collateralized debt obligations	-	-	27,266	27,266
Equity securities	1,108	-	60	1,168
Derivatives (1)	84	-	-	84
Investments	-	-	18,617	18,617
Total financial assets at fair value	$ 1,229	$ 1,155,874	$ 106,273	$ 1,263,376

(In thousands of dollars)	Liabilities at Fair Value			
	Level 1	Level 2	Level 3	Total
Securities sold but not yet purchased (1)				
U.S. Government and federal agency obligations	$ 95,225	$ -	$ -	$ 95,225
Preferred stock	-	1,995	-	1,995
Corporate debt securities	-	-	1	1
Equity securities	32	-	-	32
Derivatives (1)	426	-	-	426
Total financial liabilities at fair value	$ 95,683	$ 1,995	$ 1	$ 97,679

(1) Unrealized gains/(losses) relating to derivatives are reported in Securities owned and Securities sold, but not yet purchased, at fair value in the Consolidated Statement of Financial Condition.

Included below is a discussion of the characteristics of the Company's Level 2 and Level 3 holdings. Unless otherwise stated, fair value of Level 2 assets are determined based upon observable third party information including recent trading activity, broker quotes and other relevant market data as noted above. Fair values for Level 3 assets are based predominantly on management's own assumptions about the assumptions market participants would make. The Company generally does not utilize internally developed valuation models to determine fair value during the relevant reporting periods for any holdings other than certain underlying portfolio companies comprising the Partnership.

The Company's agency mortgage-backed securities positions classified as Level 2, of approximately $1.1 billion, have an average loan size of approximately $181,000 paying interest of 6.2%, with a weighted average FICO score of

718. This portfolio has an average coupon remitting payment of 5.5% and has an average annualized constant prepayment rate of approximately 22%. Fair value is determined through a combination of matrix pricing as well as the information noted in the preceding paragraph.

The Company’s Level 2 debt securities issued by U.S. Government and federal agency obligations of approximately $16.5 million have an average coupon of 4.4% and average maturity of 2020.

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The Company's preferred stock holdings of approximately $42.6 million had an average coupon of 8.1% and average credit rating of BB.

The Company's other debt obligations of approximately $6.5 million classified as Level 2 are asset backed securities, paying floating interest rates currently at less than 4%, with an average credit rating of AAA, an average vintage of 2008 and average annualized constant prepayment rate of 25.3%.

The Company's holdings of corporate debt securities classified as Level 2 of approximately $7.8 million have an average credit rating of BBB, have an average issuance year of 2006 and an average maturity of 2042.

The Company's Level 3 agency mortgage-backed securities positions of approximately $1.1 million have an average loan size of $204,000 paying interest of 5.5%, with an average coupon of 4.8% and an average vintage of 2009.

The Company's portfolio of Level 3 commercial mortgage backed securities of approximately $24.1 million are primarily mezzanine, have an average credit rating of BB and an average issuance year of 2006.

The Company's portfolio of Level 3 non-agency residential mortgage backed securities of approximately $11.6 million are primarily mezzanine, have an average credit rating of C and have experienced, on average, a default rate of 10.8% and 45.6% severity.

The Company's portfolio of Level 3 other debt obligations include a portfolio of approximately $23.4 million asset backed securities, paying floating interest rates currently at less than 2%, with an average credit rating of A, an average vintage of 2007 and average annualized constant prepayment rate of 23.2%.

The Company's portfolio of Level 3 collateralized debt obligations of $27.2 million are comprised of commercial real estate, with an average vintage of 2005, have an average credit rating of BBB and have on average 12% subordination.

The Company's investments of approximately $18.6 million classified as Level 3, includes the Company's investment in the Partnership of approximately $17.3 million. The Partnership invests primarily in equity securities of closely held private companies, and also holds equity securities in public companies which are generally subject to legal restrictions on transfer. The Partnership is comprised of approximately 24 holdings and fair value is determined based upon the nature of the underlying holdings. The Company has classified its entire investment as Level 3, as the Partnership is predominantly comprised of private companies.

- Investments in privately held companies: Valuation techniques include consideration of comparable market transactions (market approach) and utilizing the discounted value of estimated future cash flows, as adjusted for market and/or other risk factors. Relevant inputs include the current financial position and current and projected operating results of the issuer, sales prices of recent public or private transactions in the same or similar securities, significant recent events affecting the issuer, the price paid by the Partnership to acquire the asset, subsequent rounds of financing, completed or pending third-party transactions in the underlying investment or comparable issuers, recapitalizations and other transactions across the capital structure.

- Investments in public companies: Valuation is based on quoted market prices in active markets and adjusted as a result of legal restrictions on transfer.

The Company's Level 3 financial instruments also include approximately $1.2 million of investments as a result of the consolidation of the Employee Investment Funds. For additional information regarding the Company's investments, refer to Note 8.

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The following table summarizes the categorization of the financial instruments within the fair value hierarchy at December 31, 2009:

(In thousands of dollars)	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Securities owned (1)				
Agency mortgage-backed securities	$ -	$ 870,529	$ 5,082	$ 875,611
Commercial mortgage-backed securities	-	80	32,585	32,665
Debt securities issued by U.S. Government and federal agency obligations	29,718	-	-	29,718
Preferred stock	-	10,701	-	10,701
Other debt obligations	-	-	9,775	9,775
Collateralized debt obligations	-	-	7,371	7,371
Corporate debt securities	-	5,877	1	5,878
Residential mortgage-backed securities	-	69	5,177	5,246
Equities	-	643	60	703
Derivatives (1)	2,033	-	-	2,033
Investments	-	-	19,326	19,326
Total financial assets at fair value	$ 31,751	$ 887,899	$ 79,377	$ 999,027

(In thousands of dollars)	Liabilities at Fair Value			
	Level 1	Level 2	Level 3	Total
Securities sold but not yet purchased (1)				
U.S. Government and federal agency obligations	$ 66,946	$ -	$ -	$ 66,946
Corporate debt securities	-	6,029	-	6,029
Derivatives (1)	13	-	-	13
Total financial liabilities at fair value	$ 66,959	$ 6,029	$ -	$ 72,988

(1) Unrealized gains/(losses) relating to Derivatives are reported in Securities owned and Securities sold, but not yet purchased, at fair value in the Consolidated Statement of Financial Condition.

The Company reviews its financial instrument classification on a quarterly basis. As the observability and strength of valuation attributes change, reclassifications of certain financial assets or liabilities may occur between levels. The Company's policy is to utilize an end-of-period convention for determining transfers in or out of Levels 1, 2 and 3. During the three and nine month periods ended September 30, 2010, there were no transfers between Levels 1 and 2.

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The following table summarizes the changes in the Company's Level 3 financial instruments for the three month period ended September 30, 2010:

(In thousands of dollars)	Other Debt Obligations	Commercial Mortgage-backed Securities	Residential Mortgage-backed Securities	Collateralized Debt Obligations	Agency Mortgage-backed Securities	Corporate Debt Securities	Equities	Investments	Total
Balance at June 30, 2010	$ 13,833	$ 55,863	$ 9,884	$ 1,982	$ 3,657	$ 1	$ 60	$ 17,638	$ 102,918
Total gains or (losses) (realized and unrealized) (1)	123	5,214	(45)	(377)	612	(2)	-	979	6,504
Purchases	15,356	47,912	9,540	31,170	2,034	-	-	-	106,012
Sales	(3,996)	(80,877)	(7,449)	(5,500)	(5,163)	-	-	-	(102,985)
Settlements	(1,904)	(3,936)	(325)	(9)	(3)	-	-	-	(6,177)
Transfers in and/or (out) of Level 3 (2)	-	-	-	-	-	-	-	-	-
Balance at September 30, 2010	$ 23,412	$ 24,176	$ 11,605	$ 27,266	$ 1,137	$ (1)	$ 60	$ 18,617	$ 106,272
Changes in unrealized gains/(losses) on Level 3 assets still held at the reporting date (1)	$ 117	$ (170)	$ 9	$ (386)	$ (81)	$ (2)	$ -	$ 979	$ 466

(1) Total gains or (losses) for all financial instruments, other than Investments, are reported in Principal transactions in the Consolidated Statements of Operations. Total gains or (losses) for Investments are reported in Investment gains/(losses).

(2) During the three month period ended September 30, 2010 there were no transfers in or out of Level 3.

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The following table summarizes the changes in the Company's Level 3 financial instruments for the three month period ended September 30, 2009:

(In thousands of dollars)	Other Debt Obligations	Commercial Mortgage-backed Securities	Residential Mortgage-backed Securities	Collateralized Debt Obligations	Agency Mortgage-backed Securities	Corporate Debt Securities	Equities	Investments	Total
Balance at June 30, 2009	$ 2,870	$ 13,593	$ 9,138	$ -	$ -	$ -	$ -	$ 16,687	$ 42,288
Realized gains/(losses) (1)	172	3,045	728	-	-	-	-	(62)	3,883
Unrealized gains/(losses) (1)	(4)	-	175	-	-	-	-	2,759	2,930
Purchases, sales and settlements	18,897	14,784	(5,028)	3,610	-	-	-	(78)	32,185
Transfers in and/or out of Level 3 (2)	404	(1,663)	(26)	-	3,654	1	60	-	$ 2,430
Balance at September 30, 2009	$ 22,339	$ 29,759	$ 4,987	$ 3,610	$ 3,654	$ 1	$ 60	$ 19,306	$ 83,716
Changes in unrealized gains/(losses) on Level 3 assets still held at the reporting date (1)	$ (252)	$ (510)	$ (24)	$ (105)	$ (31)	$ -	$ -	$ 2,759	$ 1,837

(1) Total gains or (losses) for all financial instruments, other than Investments, are reported in Principal transactions in the Consolidated Statements of Operations. Total gains or (losses) for Investments are reported in Investment gains/(losses).

(2) During the three month period ended September 30, 2009 there was a net transfer in of approximately $2.4 million to Level 3 based on assumptions used on prepayments speeds and defaults. These transfers were primarily investment grade performing mortgage and asset backed securities.

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The following table summarizes the changes in the Company's Level 3 financial instruments for the nine month period ended September 30, 2010:

(In thousands of dollars)	Other Debt Obligations	Commercial Mortgage-backed Securities	Residential Mortgage-backed Securities	Collateralized Debt Obligations	Agency Mortgage-backed Securities	Corporate Debt Securities	Equities	Investments	Total
Balance at December 31, 2009	$ 9,775	$ 32,585	$ 5,177	$ 7,371	$ 5,082	$ 1	$ 60	$ 19,326	$ 79,377
Total gains or (losses) (realized and unrealized) (1)	2,365	14,944	590	(239)	1,834	(2)	-	(532)	18,960
Purchases	34,659	166,667	26,161	36,190	5,410	-	-	432	269,519
Sales	(19,713)	(186,053)	(19,597)	(16,047)	(11,015)	-	-	-	(252,425)
Issuances	-	-	-	-	-	-	-	-	-
Settlements	(3,674)	(3,967)	(726)	(9)	(174)	-	-	(609)	(9,159)
Transfers in and/or (out) of Level 3 (2)	-	-	-	-	-	-	-	-	-
Balance at September 30, 2010	$ 23,412	$ 24,176	$ 11,605	$ 27,266	$ 1,137	$ (1)	$ 60	$ 18,617	$ 106,272
Changes in unrealized gains/(losses) on Level 3 assets still held at the reporting date (1)	$ 1,240	$ (1,669)	$ (257)	$ (372)	$ (238)	$ 30	$ 34	$ (240)	$ (1,472)

(1) Total gains or (losses) for all financial instruments, other than Investments, are reported in Principal transactions in the Consolidated Statements of Operations. Total gains or (losses) for Investments are reported in Investment gains/(losses).

(2) During the nine month period ended September 30, 2010 there were no transfers in or out of Level 3.

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The following tables summarize the changes in the Company's Level 3 financial instruments for the nine month period ended September 30, 2009:

(In thousands of dollars)	Other Debt Obligations	Commercial Mortgage-backed Securities	Residential Mortgage-backed Securities	Collateralized Debt Obligations	Agency Mortgage-backed Securities	Corporate Debt Securities	Equities	Investments	Total
Balance at December 31, 2008	$ 2,348	$ 1,165	$ 20,868	$ -	$ -	$ -	$ -	$ 15,398	$ 39,779
Realized gains/(losses) (1)	(108)	3,080	(360)	-	-	-	-	(149)	2,463
Unrealized gains/(losses) (1)	3	2	(1,401)	-	-	-	-	3,829	2,433
Purchases, sales and settlements	19,658	26,802	(12,668)	3,610	-	-	-	228	37,630
Transfers in and/or out of Level 3 (2)	438	(1,290)	(1,452)	-	3,654	1	60	-	1,411
Balance at September 30, 2009	$ 22,339	$ 29,759	$ 4,987	$ 3,610	$ 3,654	$ 1	$ 60	19,036	$ 83,716
Change in unrealized gains/(losses) on Level 3 assets still held at September 30, 2009 (1)	$ (269)	$ (454)	$ (1,340)	$ (105)	$ (239)	$ -	$ -	$ 3,835	$ 1,428

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

(2) The Company reviews the classification assigned to financial instruments on a quarterly basis. As the observability and strength of valuation attributes changes, reclassifications of certain financial assets or liabilities may occur among levels. The reporting of these reclassifications results in a transfer in/out of Level 3 at fair value in the quarter of the change. During the nine month period ended September 30, 2009, there was a net transfer in of approximately $1.4 million to Level 3. These transfers were primarily investment grade performing mortgage and asset backed securities, based upon assumptions used on prepayment speeds and defaults.

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7. Securities Owned and Sold, but Not Yet Purchased

Refer to Note 1 within the footnotes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, for a detailed discussion of the accounting policies related to the Company's securities transactions and derivative financial instruments.

Securities owned and sold, but not yet purchased consisted of the following at:

	September 30, 2010		December 31, 2009	
(In thousands of dollars)	Owned	Sold, but not yet Purchased	Owned	Sold, but not yet Purchased
Marketable Securities				
Agency mortgage-backed securities	$1,083,498	$-	$875,611	$-
Non-agency mortgage-backed securities	35,781	-	37,911	-
U.S. Government and federal agency obligations	16,570	95,225	29,718	66,946
Other debt obligations	57,220	-	17,146	-
Preferred stock	42,625	1,995	10,701	-
Corporate debt securities	7,813	1	5,878	6,029
Equities	1,168	32	703	-
Derivatives	84	426	2,033	13
Not Readily Marketable Securities				
Investment securities with no publicly quoted market	18,617	-	19,326	-
Total	$1,263,376	$97,679	$999,027	$72,988

Securities not readily marketable are principally the Company's investments in publicly and privately held companies and private equity securities. Refer to Note 8 for further information.

The Company's subsidiaries utilize derivatives for various economic hedging strategies to actively manage their market and liquidity exposures. This strategy includes the purchase and sale of securities on a when-issued basis and entering into exchange traded treasury futures contracts. At September 30, 2010 and December 31, 2009, the Company's subsidiaries had no outstanding underwriting commitments and had entered into 47 and 17, respectively, open TBA sale agreements in the notional amount of $489.5 million and $280.5 million, respectively. In addition, at September 30, 2010, the Company had entered into one open TBA purchase agreement and 230 open U.S. treasury futures purchase contracts in the notional amount of $2.0 million and $23.0 million, respectively. Total gains/(losses) recognized in the Consolidated Statements of Operations associated with these economic hedging strategies were $1.2 million and ($2.7) million, for the three month periods ending September 30, 2010 and 2009, respectively, and ($6.9) million and ($3.2) million, for the nine month periods ending September 30, 2010 and 2009, respectively.

8. Investments

Refer to Note 1 within the footnotes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, for a detailed discussion of the accounting policy related to the Company's investments included within the policy titled "Securities Transactions" and Note 6 within this Quarterly

Report on Form 10-Q for additional information regarding valuation techniques and inputs related to the Company's investment in the Partnership.

The Company's investment portfolio includes interests in publicly and privately held companies and private equity securities. Information regarding these investments has been aggregated and is presented below.

(In thousands of dollars)	September 30, 2010	December 31, 2009
Fair Value		
Investment in the Partnership	$ 17,393	$ 18,349
Consolidation of Employee Investment Funds, net of Company's ownership interest, classified as Private Investment	1,224	977
Total fair value	$ 18,617	$ 19,326

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Investment gains and losses are comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands of dollars)	2010	2009	2010	2009
Private (realized and unrealized gains and losses)	$ 979	$ 2,698	$ (533)	$ 3,680

The Company has an investment in the Partnership of approximately $17.4 million and approximately $18.3 million at September 30, 2010 and December 31, 2009, respectively. The Partnership's primary purpose is to provide investment returns consistent with the risk of investing in venture capital. FA Technology Ventures Corporation ("FATV"), a wholly-owned subsidiary of the Company, is the investment advisor to the Partnership. As of September 30, 2010, the Company had a commitment to invest an additional $0.6 million to the Partnership. At September 30, 2010 and December 31, 2009, total Partnership capital for all investors in the Partnership equaled $67.4 million and $71.2 million, respectively. The Partnership is scheduled to terminate in July 2011, unless extended for a maximum period of 2 additional years. This is the Company's best estimate of the timeframe for liquidation. The Partnership is considered a variable interest entity. The Company is not the primary beneficiary, due to other investors' level of investment in the Partnership. Accordingly, the Company has not consolidated the Partnership in these consolidated financial statements, but has only recorded the fair value of its investment, which also represented the Company's maximum exposure to loss in the Partnership at September 30, 2010 and December 31, 2009. The Company's share of management fee income derived from the Partnership for the three month periods ended September 30, 2010 and 2009 were $0.1 million and $0.2 million, respectively, and were $0.5 million and $0.6 million for the nine month periods ended September 30, 2010 and 2009, respectively.

The Employee Investment Funds ("EIF") are limited liability companies, established by the Company for the purpose of having select employees invest in private equity securities. The EIF is managed by Broadpoint Management Corp., a wholly-owned subsidiary of the Company, which has contracted with FATV to act as an investment advisor with respect to funds invested in parallel with the Partnership. The Company has consolidated EIF resulting in approximately $1.0 million of Investments and a corresponding Payable to others being recorded in the consolidated Statement of Financial Condition as of September 30, 2010. Management fees are not material.

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9. Goodwill and Intangible Assets

Refer to Note 1 within the footnotes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, for a detailed discussion of the accounting policy related to goodwill and intangible assets.

Goodwill

(In thousands of dollars)	Reporting Unit MBS/ABS & Rates	Reporting Unit Equities	Reporting Unit Investment Banking	Total
Goodwill				
Balance at December 31, 2009	$17,364	$8,928	$79,402	$105,694
Contingent consideration	-	-	-	-
Balance at September 30, 2010	$17,364	$8,928	$79,402	$105,694

During the three-month period ended September 30, 2010, the Company reduced the Goodwill allocated to the Equities reporting unit by approximately $0.8 million as a result of a reversal of previously accrued contingent consideration through June 30, 2010, based upon the performance of the division.

The Company has designated its annual goodwill impairment testing dates for its MBS/ABS & Rates, Equities and Investment Banking reporting units to be December 31, October 1, and June 1, respectively. The fair value of the MBS/ABS & Rates reporting unit was substantially in excess of its carrying value, and consequently the Company does not believe an impairment charge to be likely in future periods. The fair value of the Investment Banking reporting unit exceeded its carrying value by approximately 234% as of June 1, 2010 and the fair value of the Equities reporting unit exceeded its carrying value by approximately 36% as of October 1, 2009.

The Company used a combination of the market and income approaches to determine the fair value of the Investment Banking and Equities reporting unit. Key assumptions utilized in the market approach included the use of multiples of earnings before interest and taxes ("EBIT") and earnings before interest, taxes, depreciation and amortization ("EBITDA") based upon available comparable company market data. The Company also utilized a discounted cash flow analysis, utilizing a discount rate which includes an estimated cost of debt and cost of equity and capital structure based upon observable market data.

There is a degree of uncertainty associated with the key assumptions utilized within the annual goodwill impairment tests. The discounted cash flow assumptions included an estimated growth rate which may not be indicative of actual future results. In addition, a downturn in the market may widen credit spreads resulting in a larger discount rate being utilized in the discounted cash flow analysis and could also have an adverse effect on the market multiples of our guideline companies. Such uncertainties may cause varying results in future periods.

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Intangible Assets

(In thousands of dollars)	September 30, 2010	December 31, 2009
Intangible assets (amortizable):		
Broadpoint Securities, Inc. – Customer relationships		
Gross carrying amount	$641	$641
Accumulated amortization	(343)	(303)
Net carrying amount	298	338
Corporate Credit – Customer relationships		
Gross carrying amount	795	795
Accumulated amortization	(412)	(293)
Net carrying amount	383	502
American Technology Research – Customer relationships		
Gross carrying amount	6,960	6,960
Accumulated amortization	(1,210)	(756)
Net carrying amount	5,750	6,204
American Technology Research – Covenant not to compete		
Gross carrying amount	330	330
Accumulated amortization	(220)	(137)
Net carrying amount	110	193
American Technology Research – Trademarks		
Gross carrying amount	100	100
Accumulated amortization	(100)	(100)
Net carrying amount	-	-
Gleacher Partners, Inc. – Trade name		
Gross carrying amount	7,300	7,300
Accumulated amortization	(481)	(208)
Net carrying amount	6,819	7,092
Gleacher Partners, Inc. – Backlog		
Gross carrying amount	420	420
Accumulated amortization	(420)	(410)
Net carrying amount	-	10
Gleacher Partners, Inc. – Non compete agreement		
Gross carrying amount	700	700
Accumulated amortization	(308)	(133)
Net carrying amount	392	567
Gleacher Partners, Inc. – Customer relationships		
Gross carrying amount	6,500	6,500
Accumulated amortization	(3,895)	(2,143)
Net carrying amount	2,605	4,357
Total Intangible assets	$16,357	$19,263

Customer related intangible assets are being amortized from 3 to 12 years; covenant not to compete assets are being amortized over 3 years; trademark assets are being amortized from 1 to 20 years. Total amortization expense recorded in the Consolidated Statements of Operations for the three-month period ended September 30, 2010 and 2009 was approximately $0.9 million and $1.8 million, respectively, and for the nine month period ended September 30, 2010 and 2009 was approximately $2.9 million and $2.5 million, respectively.

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Future amortization expense as of September 30, 2010 is estimated as follows:

(In thousands of dollars)	
2010 (remaining)	$ 792
2011	3,047
2012	1,928
2013	1,050
2014	1,024
2015	1,024
Thereafter	7,492
Total	$ 16,357

10. Office Equipment and Leasehold Improvements

Refer to Note 1 within the footnotes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, for a detailed discussion of the accounting policy related to office equipment and leasehold improvements.

Office equipment and leasehold improvements consist of the following:

(In thousands of dollars)	September 30, 2010	December 31, 2009
Communications and data processing equipment	$ 4,025	$ 6,583
Furniture and fixtures	2,904	2,001
Leasehold improvements	1,397	5,051
Software	370	999
Total	8,696	14,634
Less: accumulated depreciation and amortization	2,145	11,565
Total office equipment and leasehold improvements, net	$ 6,551	$ 3,069

In connection with the Company's move to its new headquarters during the second quarter of 2010, as further discussed in Note 13, fixed assets and leasehold improvements of approximately $10.9 million were retired, resulting in an expense of approximately $0.3 million. In addition, as a result of this move, the Company purchased approximately $3.8 million of fixed assets and leasehold improvements.

Depreciation and amortization expense for the three and nine months ended September 30, 2010 and 2009, excluding the assets written-off as discussed above, was $0.4 million and $1.2 million, and $0.3 million and $0.7 million, respectively.

11. Other Assets

Other assets consist of the following:

(In thousands of dollars)	September 30,	December 31,

	2010	2009
Prepaid expenses	$ 4,912	$ 6,580
Deposits	4,697	4,182
Other	210	212
Total other assets	$ 9,819	$ 10,974

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12. Mandatorily Redeemable Preferred Stock

On September 28, 2010, the Company redeemed all of the issued and outstanding shares of its Series B Mandatorily Redeemable Preferred Stock ("Series B Preferred Stock") at a redemption price of approximately $26.6 million, representing par value, plus all unpaid dividends accruing subsequent to June 30, 2010 (the last payment date), multiplied by a premium call factor of 1.035. In connection with this redemption, the Company recorded a loss on extinguishment of approximately $1.6 million which included the impact of the premium call factor and the write-off of the remaining discount and deferred financing costs related to the Series B Preferred Stock.

13. Commitments and Contingencies

FA Technology Ventures

As of September 30, 2010, the Company had a commitment to invest up to an additional $0.6 million in the Partnership. The period for new investments expired in July 2006; however, the general partner of the Partnership, FATV GP LLC (the "General Partner"), may make capital calls on this commitment through July 2011 for additional investments in portfolio companies and for the payment of management fees. The Company intends to fund this commitment from operating cash flow.

The General Partner is responsible for the management of the Partnership, including among other things, making investments for the Partnership. The members of the General Partner include a former director of the Company, Broadpoint Enterprise Funding, Inc., a wholly owned subsidiary of the Company, and certain other employees of FATV. Subject to the terms of the partnership agreement, under certain conditions, the General Partner is entitled to share in the gains received by the Partnership in respect of its investment in a portfolio company.

AmTech – Contingent Consideration

In connection with the Company's acquisition of AmTech in October 2008, the sellers have the right to receive earnout payments consisting of the profits earned by the Equities division for fiscal years through 2011 up to an aggregate of $15 million in such profits, and 50% of such profits in excess of $15 million. Based on the results of the Equities division in the nine and twelve month periods ended September 30, 2010 and December 31, 2009, there was zero and $2.7 million, respectively, of contingent consideration recorded as additional purchase price by an increase to Goodwill in the Consolidated Statements of Financial Condition.

Leases

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

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Future minimum annual lease payments, and sublease rental income as of September 30, 2010, are as follows:

(In thousands of dollars)	Future Minimum Lease Payments	Sublease Rental Income	Net Lease Payments
2010 (remaining)	$ 1,892	$ 405	$ 1,487
2011	7,496	1,592	5,904
2012	7,671	1,566	6,105
2013	7,576	1,508	6,068
2014	6,699	860	5,839
Thereafter	55,341	502	54,839
Total	$ 86,675	$ 6,433	$ 80,242

Rental expense, net of sublease rental income, for the three and nine month periods ended September 30, 2010 and 2009 approximated $1.2 million and $2.0 million, and $7.2 million and $5.2 million, respectively. The nine month period ended September 30, 2010 includes a termination fee and related commissions of approximately $3.2 million associated with the Company's termination of its lease of the entire 31st floor of 12 East 49th Street, New York, New York 10017, which was recorded in the second quarter of 2010. In addition, during this period, the Company's lease agreement for its new headquarters at 1290 Avenue of the Americas, New York, New York 10104 became effective.

The Company's future minimum lease commitments were reduced by approximately $11.0 million during the nine months ended September 30, 2010, which included approximately $14 million resulting from the consolidation of the Company's three previous New York office locations into its new headquarters at 1290 Avenue of the Americas, New York, New York 10104. This was partially offset by a commitment of approximately $6.9 million as a result of an amendment to the Company's lease of its new headquarters in the third quarter of 2010 for additional office space.

Litigation

Refer to Note 1 within the footnotes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, for a detailed discussion of the accounting policy related to contingencies.

Due to the nature of the Company's business, the Company and its subsidiaries are exposed to risks associated with a variety of legal proceedings. These include litigations, arbitrations and other proceedings initiated by private parties and arising from underwriting, financial advisory, securities trading or other transactional activities, client account activities 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 their respective businesses 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.

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From time to time, the Company may take 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 current 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.

Letters of Credit

The Company is contingently liable under bank stand-by letter of credit agreements, executed in connection with office leases, totaling $4.3 million at September 30, 2010 and $4.0 million at December 31, 2009. The letter of credit agreements were collateralized by cash of $4.3 million and $4.0 million included in Other assets at September 30, 2010 and December 31, 2009, respectively.

Other

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

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

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

14. Income Taxes

Refer to Note 1 within the footnotes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, for a detailed discussion of the accounting policy related to income

taxes. During interim periods, the Company calculates and reports an estimated annual effective income tax rate pursuant to ASC 740-270, "Income Taxes – Interim Reporting."

The Company's effective income tax rate from continuing operations for the three-month period ended September 30, 2010 of negative 11.0% resulted in income tax expense of approximately $0.3 million. The Company calculated its income tax provision using its actual year to date effective tax rate ("discrete rate") rather than its estimated annual effective tax rate. The discrete rate was used because a reliable estimate of the annual effective tax rate could not be calculated due to the magnitude of permanent items in relation to a range of possible outcomes of our operating results caused by continued market volatility. The effective rate differs from the federal statutory rate of 35% primarily due to non-deductible Series B Preferred Stock dividends and the related non-deductible loss on early redemption, a change in estimate of our apportioned statutory income tax rate, non-deductible share-based compensation, the indemnification revaluation, which is non-deductible for tax, and state and local income taxes. This was partially offset by a reduction in unrecognized tax benefits as a result of a settlement during the quarter.

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The Company's effective income tax rate from continuing operations for the nine-month period ended September 30, 2010 of 29.2% resulted in an income tax benefit of approximately $3.4 million. The effective income tax rate is calculated using the discrete rate and differs from the federal statutory rate of 35% primarily due to non-deductible Series B Preferred Stock dividends and the related non-deductible loss on early redemption, and the indemnification revaluation, which is non-deductible for tax. The Company's effective tax rate was offset by state and local income taxes, a reduction in unrecognized tax benefits as a result of a settlement during the quarter and a benefit recorded in the first quarter due to the reversal of prior year non-deductible share-based compensation previously granted to the Company's former Chief Executive Officer ("CEO").

The Company's effective income tax rate from continuing operations for the three month period ended September 30, 2009 of negative 25.7% resulted in an income tax benefit of $4.9 million and for the nine month period ended September 30, 2009 of 4.9%, resulted in income tax expense of $2.3 million. The effective rate differed from the federal statutory rate of 35% primarily due to the release of the deferred tax valuation allowance in the amount of $8.0 million and $14.0 million during the three and nine month periods ended, respectively, which were treated as discrete items, and the recognition of tax benefits for net operating losses utilized in the current year for which a valuation allowance was historically recorded. These items were partially offset by state and local taxes and non-deductible Series B Preferred Stock dividends.

The Company's net deferred tax assets decreased approximately $2.6 million during the three month period ended September 30, 2010, primarily due to stock-based compensation vesting and settlements, partially offset by stock-based compensation expense. During the nine-month period ended September 30, 2010, net deferred tax assets increased approximately $6.8 million primarily due to stock-based compensation expense, which includes an expense of approximately $12.7 million related to the CEO separation from the Company in the first quarter of 2010, partially offset by stock-based compensation vesting and settlements. Refer to Note 15 for additional details.

During the three-month period ended September 30, 2010, the Company reduced its unrecognized tax benefits by approximately $1.5 million as a result of a settlement with a taxing authority related to a matter the Company was indemnified for. Refer to Note 20 for additional information. There have been no other significant changes to the Company's remaining unrecognized tax benefits of approximately $4.6 million during the three and nine-month periods ended September 30, 2010.

15. Stock-Based Compensation Plans

Refer to Note 1 within the footnotes to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, for a detailed discussion of the accounting policy related to stock-based compensation.

The Company recognized stock-based compensation expense related to its various employee and non-employee director stock-based incentive plans of approximately $7.0 million and $3.9 million for the three month periods ended September 30, 2010 and 2009, respectively, and approximately $30.5 million and $8.9 million for the nine month periods ended September 30, 2010 and 2009, respectively. Stock-based compensation expense recognized for the three and nine month periods ended September 30, 2010 included approximately $2.3 million of expense as a result of a modification to a senior executive's unvested restricted stock units and options. The modification was a result of a letter agreement ("Letter Agreement") that was entered into between the Company and the senior executive on

September 21, 2010 which provided for certain terms relating to the senior executive's continued employment including the vesting and non-forfeitability of all of his remaining unvested restricted stock units and options. In addition, stock-based compensation expense for the nine month period ended September 30, 2010 included approximately $12.7 million of stock-based compensation expense due to the acceleration of expense recognition related to the former CEO's and the former Chief Financial Officer's ("CFO") separations from the Company during the first quarter.

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During the three month period ended September 30, 2010, the Company granted approximately 0.3 million restricted stock awards with an average grant date fair value of $2.39 per award, approximately 1.9 million restricted stock units, with an average grant date fair value of $2.37 per unit and 0.3 million options with an average grant date fair value of $1.25 per award. At September 30, 2010, the Company has approximately 23.9 million shares available for future awards.

Options granted during the three month period ended September 30, 2010 have an exercise price of $1.97 which vest in 3 years and expire 6 years after grant date. The Company utilized the Black-Scholes pricing model to determine the fair value of options granted. Significant assumptions used to estimate fair value included expected volatility of 88.2%, expected term of 4.0 years and a risk free interest rate of 1.15%.

(Shortfall)/windfall tax benefits of approximately ($1.0) million and $0.9 million were recorded as a (decrease)/increase to Additional paid-in capital during the three and nine month period ended September 30, 2010, respectively.

16. Net Capital Requirements

During the second quarter of 2010, the Company merged its subsidiary, Broadpoint AmTech, Inc., with and into Gleacher Securities. Gleacher Securities is subject to the net capital requirements of Rule 15c3-1 of the Securities and Exchange Act of 1934, as amended (the “Net Capital Rule”), as well as the Commodity Futures Trading Commission’s net capital requirements (“Regulation 1.16”), which require the maintenance of a minimum net capital. Gleacher Securities has elected to use the alternative method permitted by the Net Capital Rule, which requires it to maintain a minimum net capital amount equal to the greater of 2 percent of aggregate debit balances arising from customer transactions (as defined) or $0.25 million, subject to certain adjustments related to market making activities in certain securities. Based upon the activities of Gleacher Securities, its minimum requirement under Regulation 1.16 is the same as under the Net Capital Rule. As of September 30, 2010, Gleacher Securities had net capital, as defined by both the Net Capital Rule and Regulation 1.16, of $44.9 million, which was $44.6 million in excess of the $0.3 million required minimum net capital.

Gleacher Partners, LLC is also subject to the Net Capital Rule, which requires the maintenance of minimum net capital. Gleacher Partners, LLC has elected to use the alternative method permitted by the rule, which requires it to maintain a minimum net capital amount of 2 percent of aggregate debit balances arising from customer transactions as defined or $0.25 million, whichever is greater. As of September 30, 2010, Gleacher Partners, LLC had net capital, as defined by the Net Capital Rule, of $0.8 million, which was $0.5 million in excess of the $0.25 million required minimum net capital.

17. Trading Activities

As part of its trading activities, the Company provides brokerage and underwriting services to its institutional clients. Trading activities are primarily generated by client order flow resulting in the Company taking positions in order to facilitate institutional client transactions. Interest revenues and expense are integral components of trading activities. In assessing the profitability of trading activities, the Company views net interest and principal transactions revenues in the aggregate. Certain trading activities expose the Company to market, credit and liquidity risks.

Market Risk

As of September 30, 2010, the Company had approximately $69.1 million of securities owned which were considered non-investment grade. Non-investment grade securities are defined as debt and preferred equity securities rated as BB+ or lower or equivalent ratings by recognized credit rating agencies. These securities have different risks than investment grade rated investments because the companies are typically more highly leveraged and therefore more sensitive to adverse economic conditions and the securities may be more thinly traded or not traded at all.

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Market risk represents the risk of loss that may result from the potential change in the value of our trading or investment positions as a result of fluctuations in interest rates, credit spreads and equity prices, as well as changes in the implied volatility of interest rates and equity prices. Market risk is inherent to both derivative and non-derivative financial instruments, and accordingly, the scope of the Company's market risk management procedures cover both non-derivative and derivative instruments to include all market-risk-sensitive financial instruments. The Company's exposure to market risk is primarily related to principal transactions executed in order to facilitate customer trading activities. The following discussion describes the types of market risk faced by the Company:

Interest Rate Risk: Interest rate risk exposure is a result of maintaining inventory positions and trading in interest-rate-sensitive financial instruments. In connection with this trading activity, the Company exposes itself to interest rate risk, arising from changes in the level or volatility of interest rates or the shape and slope of the yield curve.

Prepayment Risk: Prepayment risk, which is related to the interest rate risk, arises from the possibility that the rate of principal repayment on mortgages will fluctuate, affecting the value of mortgage-backed securities. Prepayments are the full or partial repayment of principal prior to the original term to maturity of a mortgage loan and typically occur due to refinancing of mortgage loans and turnover of housing ownership. Prepayment experience also may be affected by the conditions in the housing and financial markets, general economic conditions and the relative interest rates on fixed-rate and adjustable-rate mortgage loans underlying mortgage-backed securities.

Credit Spread and Credit Rating Risk: Credit spread and credit rating risk results from changes in the level or volatility of credit spreads, either as a result of macro market conditions (e.g., risk aversion sentiment) or from idiosyncratic development of certain debt issuers or their sectors.

Liquidity Risk: Liquidity risk is the risk that it takes longer or it is more costly than anticipated to sell inventory to raise cash due to adverse market conditions.

Equity Price Risk: Equity price risk results from changes in the level or volatility of equity prices, which affects the value of equity securities or instruments that derive their value from a particular stock.

The Company hedges its exposure to interest rate and prepayment risk by using TBAs, exchange traded treasury futures contracts and government securities. Hedging using government securities and exchange traded treasury futures contracts protects the Company from movements in the yield curve and changes in general levels of interest rates. Hedging using TBAs minimizes the spread risk within the mortgage-backed securities market.

The Company believes the optimum strategy to manage credit spread and credit rating risk is high inventory turnover, thereby minimizing the amount of time during which the Company holds these securities, in some cases by arranging the sale before committing to the purchase. Given this strategy, the Company maintains a low inventory level in these securities relative to the Company's total securities owned.

The Company's primary sources of funding are through its clearing broker and through the repurchase markets. While the Company currently has no additional sources of borrowing, the Company continues to explore other channels to build a network of funding sources in order to reduce funding/liquidity risk. The Company has various strategies, policies and processes in place to monitor and mitigate liquidity risk, including maintaining excess liquidity,

maintaining conservative leverage ratios, diversifying our funding sources and actively managing the asset/liability terms of our trading business should additional or alternative funding sources be required.

The Company does not maintain significant equity security positions and is therefore not exposed to significant equity price risk.

The Company also has sold securities that it does not currently own and is therefore obligated to purchase such securities at a future date. The Company has recorded these obligations in the consolidated financial statements at September 30, 2010 and December 31, 2009 at market values of the related securities and will incur a loss if the market value of the securities increases subsequent to September 30, 2010 and December 31, 2009.

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Concentrations of Credit and Liquidity Risk

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

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

Securities transactions of customers of the Company's broker-dealer subsidiary, Gleacher Securities, are cleared through third parties under clearing agreements. Under these agreements, the clearing agents 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.

Refer to Note 13 within the section labeled "Other" for additional information regarding credit risks of the Company.

18. Fair Value of Financial Instruments

Substantially all of the financial instruments of the Company are reported on the Consolidated Statements of Financial Condition at market or fair value, or at carrying amounts that approximate fair value, because of their short-term nature, with the exception of the Series B Preferred Stock, subordinated debt and the loan to Fund further discussed in Note 5. Financial instruments recorded at carrying amounts approximating fair value consist largely of Receivables from and Payables to brokers, dealer and clearing organizations, related parties and others. The fair value of the Series B Preferred Stock at December 31, 2009 was approximately $28.0 million based upon an estimate for the Company's current borrowing rate. There was no Series B Preferred Stock at September 30, 2010 as it was redeemed during the third quarter of 2010. The carrying value of the subordinated debt at September 30, 2010 and December 31, 2009 approximated fair value based on current rates available. The carrying value of the loan to the Fund approximates fair value based upon the proximity in which it was provided in relation to September 30, 2010 as well as its execution at arms length between unrelated parties.

19. Segment Analysis

As discussed in the second quarter of 2010, in order to more clearly report the results of the Company's reportable segments based upon the nature of the revenues generated, which is how the segments are evaluated, current and prior period results have been revised to reclassify investment banking revenues and related expenses which were previously presented within MBS/ABS & Rates, Corporate Credit, Equities and Other into the Investment Banking segment.

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

- MBS/ABS & Rates (formerly known as Descap) – This division provides sales and trading services in a wide range of mortgage and asset-backed securities, U.S. Treasury and government agency securities, structured products such as collateralized loan obligations ("CLOs") and collateralized debt obligations ("CDOs"), whole loans and other securities and generates revenues from spreads and fees on trades executed on behalf of clients and from principal transactions executed to facilitate trades for clients.

- Corporate Credit (formerly known as Debt Capital Markets) – This division provides sales and trading in corporate debt securities including bank debt and loans, investment grade and high-yield debt, convertibles, distressed debt, preferred stock and reorganization equities to corporate and institutional investor clients. The segment generates revenues from spreads and fees on trades executed and on intraday principal and riskless principal transactions on behalf of clients.

- Investment Banking – This division provides a broad range of financial advisory services with regard to mergers and acquisitions, restructurings and corporate finance-related matters. In addition, it raises capital for corporate clients through underwritings and private placements of debt and equity securities.

- Equities – This division generates revenues through cash commissions on customer trades in equity securities and hard-dollar fees for research on stocks primarily in the technology, aerospace, defense, clean tech and healthcare sectors. This division also generates principal transaction revenues through its recently commenced market making activities in certain equity securities.

- Other – Includes the results from the Company's FATV venture capital investment, amortization of intangible assets arising from business acquisitions and costs related to corporate overhead and support, including various fees associated with legal and settlement expenses. Revenues are generated through the management of and investment in the venture capital investment.

The Company's sales and trading revenues consist of revenues derived from commissions, principal transactions, and other fee related revenues. Investment banking consists of revenues derived from capital raising and financial advisory services. Investment gains/(losses) primarily reflect gains and losses on the Company's FATV investment. Certain expenses not directly associated with specific reportable business segments were not allocated to each reportable business segment's net profits. These expenses are reflected in the Other segment.

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Information concerning operations in these segments is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands of dollars)	2010	2009	2010	2009
Net revenues				
MBS/ABS & Rates				
Sales and trading	$ 15,568	$ 38,568	$ 55,147	$ 92,434
Interest income	13,210	11,404	40,979	32,085
Interest expense	(3,490)	(5,609)	(11,131)	(14,683)
Total MBS/ABS & Rates	25,288	44,363	84,995	109,836
Corporate Credit				