

BROADPOINT SECURITIES GROUP, INC.

Form 10-Q

August 14, 2008

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2008**

- or -

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from** \_\_\_\_\_ **to** \_\_\_\_\_  
**Commission file number 014140**  
**BROADPOINT SECURITIES GROUP, I N C.**  
(Exact name of registrant as specified in its charter)

**New York**

**22-2655804**

(State or other jurisdiction of incorporation or organization)

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

**One Penn Plaza, New York, New York**

**10119**

(Address of principal executive offices)

(Zip Code)

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

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes  No

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

75,811,555 shares of Common Stock were outstanding as of the close of business on July 31, 2008

**BROADPOINT SECURITIES GROUP, INC. AND SUBSIDIARIES**  
**FORM 10-Q**  
**INDEX**

	Page
<u>Part I Financial Information</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Statements of Financial Condition at June 30, 2008 (unaudited) and December 31, 2007</u>	3
<u>Condensed Consolidated Statements of Operations for the three months and six months ended June 30, 2008 and June 30, 2007 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the six months Ended June 30, 2008 and June 30, 2007 (unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	5-26
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27-43
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	44-46
<u>Item 4. Controls and Procedures</u>	47
<u>Part II Other Information</u>	
<u>Item 1. Legal Proceedings</u>	48-49
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	50
<u>Item 4. Submission of matters to a vote of security holders</u>	50-51
<u>Item 5. Other Information</u>	51
<u>Item 6. Exhibits</u>	52-53
<u>EX-10.84: RESTRICTED STOCK UNIT AGREEMENT</u>	
<u>EX-10.85: RESTRICTED STOCK UNIT AGREEMENT</u>	
<u>EX-31.1: CERTIFICATION</u>	
<u>EX-31.2: CERTIFICATION</u>	
<u>EX-32: CERTIFICATIONS</u>	

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
(Unaudited)

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

(In thousands of dollars, except for per share amounts and shares outstanding)

As of	June 30 2008	December 31 2007
<i>Assets</i>		
Cash and cash equivalents	\$ 29,212	\$ 31,747
Cash and securities segregated for regulatory purposes	1,000	1,650
Receivables from:		
Related party	800	
Brokers, dealers and clearing agencies	4,350	2,921
Customers	48	3,239
Others	4,616	4,917
Securities owned, at fair value	298,163	190,456
Investments, at fair value	17,150	16,913
Office equipment and leasehold improvements, net	2,310	2,292
Goodwill	17,364	17,364
Intangible assets	1,174	445
Other assets	8,116	2,239
<b>Total Assets</b>	<b>\$ 384,303</b>	<b>\$ 274,183</b>
<i>Liabilities and Stockholders' Equity</i>		
<i>Liabilities</i>		
Payables to:		
Brokers, dealers and clearing agencies	\$ 130,380	\$ 88,565
Customers		23
Others	1,680	2,937
Securities sold, but not yet purchased, at fair value	106,367	75,180
Accounts payable	2,764	2,918
Accrued compensation	16,052	13,214
Accrued expenses	5,585	5,882
Income taxes payable	131	131
Mandatory redeemable preferred stock, net of discount	24,071	
<b>Total Liabilities</b>	<b>287,030</b>	<b>188,850</b>
<i>Commitments and Contingencies</i>		
Temporary capital		104
Subordinated Debt	1,662	2,962
<i>Stockholders' Equity</i>		
Preferred stock; \$1.00 par value; authorized 1,500,000 shares; issued 1,000,000 (Mandatory Redeemable)		

Edgar Filing: BROADPOINT SECURITIES GROUP, INC. - Form 10-Q

Common stock; \$.01 par value; authorized 100,000,000 shares; issued 77,533,303 and 59,655,940 ,respectively; and outstanding 75,786,554 and 57,898,259, respectively	775	596
Additional paid-in capital	227,161	203,653
Deferred compensation	954	1,583
Accumulated deficit	(131,038)	(120,700)
Treasury stock, at cost (1,746,749 shares and 1,757,681 shares, respectively)	(2,241)	(2,865)
 Total Stockholders Equity	 95,611	 82,267
 Total Liabilities and Stockholders Equity	 \$ 384,303	 \$ 274,183

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

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
<i>(In thousands of dollars except for per share amounts and shares outstanding)</i>	2008	2007	2008	2007
<i>Revenues:</i>				
Commissions	\$ 971	\$ 1,262	\$ 1,251	\$ 3,010
Principal transactions	20,739	5,181	34,805	10,893
Investment banking	3,529	2,342	3,824	4,900
Investment banking revenue from related party	5,755		6,130	
Investment gains	290	266	237	505
Interest	3,176	7,283	7,851	8,661
Fees and other	629	451	1,153	900
 Total revenues	 35,089	 16,785	 55,251	 28,869
Interest expense	1,009	6,985	3,828	8,047
 Net revenues	 34,080	 9,800	 51,423	 20,822
<i>Expenses (excluding interest):</i>				
Compensation and benefits	26,126	9,061	43,279	18,927
Clearing, settlement and brokerage	667	857	1,054	2,071
Communications and data processing	2,239	2,009	3,899	4,205
Occupancy and depreciation	1,549	1,525	3,106	3,148
Selling	1,016	1,013	2,087	1,970
Restructuring	869		2,063	
Other	1,867	1,113	4,663	2,694
 Total expenses (excluding interest)	 34,333	 15,578	 60,151	 33,015
 Loss from continuing operations before income taxes	 (253)	 (5,778)	 (8,728)	 (12,193)
 Income tax (benefit) expense	 763	 (146)	 1,536	 (503)
 Income (loss) from continuing operations	 (1,016)	 (5,632)	 (10,264)	 (11,690)
Income (loss) from discontinued operations, (net of taxes) (see Discontinued Operations note)	(79)	654	(74)	2,250
 Net loss	 \$ (1,095)	 \$ (4,978)	 \$ (10,338)	 \$ (9,440)
 Per share data:				
Basic earnings:				
Continuing operations	\$ (.02)	\$ (0.36)	\$ (.16)	\$ (0.75)

Edgar Filing: BROADPOINT SECURITIES GROUP, INC. - Form 10-Q

Discontinued operations			0.04		0.15			
Net loss	\$	(.02)	\$	(0.32)	\$	(.16)	\$	(0.60)
Diluted earnings:								
Continuing operations	\$	(.02)	\$	(0.36)	\$	(.16)	\$	(0.75)
Discontinued operations				0.04				0.15
Net loss	\$	(.02)	\$	(0.32)	\$	(.16)	\$	(0.60)
Weighted average common and common equivalent shares outstanding:								
Basic		70,888,424		15,712,598		65,972,687		15,609,260
Diluted		70,888,424		15,712,598		65,972,687		15,609,260

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

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

	Six months Ended June 30	
<i>(In thousands of dollars)</i>	2008	2007
<i>Cash flows from operating activities:</i>		
Net loss	\$ (10,338)	\$ (9,440)
<i>Adjustments to reconcile net loss to net cash used in operating activities:</i>		
Depreciation and amortization	763	925
Deferred compensation		63
Unrealized investment gains	(298)	(629)
Realized gains (losses) on sale of investments	(75)	124
Services provided in exchange for common stock	3,164	2,139
<i>Changes in operating assets and liabilities, net of effects from purchase of the Debt Capital Markets Group:</i>		
Cash and securities segregated for regulatory purposes	650	100
Securities purchased under agreement to resell		4,100
Net receivables from customers	3,168	1,048
Receivables from related party	(800)	
Securities owned	(107,707)	29,027
Other assets	(5,206)	(2,313)
Net payable to brokers, dealers and clearing agencies	40,386	(21,131)
Net payables to others	(956)	878
Securities sold, but not yet purchased	31,187	9,580
Accounts payable and accrued expenses	2,330	(20,719)
Drafts payable	57	198
Income taxes payable, net		(131)
Net cash used in operating activities	(43,676)	(6,181)
<i>Cash flows from investing activities:</i>		
Purchases of office equipment and leasehold improvements	(700)	(236)
Payment for purchase of Debt Capital Markets Group	(809)	
Purchases of investments		(1,437)
Proceeds from sale of investments	136	208
Net cash used in investing activities	(1,373)	(1,465)
<i>Cash flows from financing activities:</i>		
Proceeds of short-term bank loans, net		10,540
Proceeds from issuance of mandatory redeemable preferred stock and warrant	25,000	
Payments of notes payable		(1,429)
Payment of expenses for issuance of mandatory redeemable preferred stock	(671)	
Payments of obligations under capitalized leases		(726)
Payment of subordinated debt	(1,300)	(1,462)
Proceeds from issuance of common stock	19,670	
Payment of expenses for issuance of common stock	(185)	



Net cash provided by financing activities	42,514	6,923
Decrease in cash	(2,535)	(723)
Cash at beginning of the period	31,747	4,192
Cash at the end of the period	\$ 29,212	\$ 3,469

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

5

---

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

**1. Basis of Presentation**

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all normal, recurring adjustments necessary for a fair statement of results for such periods. The results for any interim period are not necessarily indicative of those for the full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2007. Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 sets forth the level authority attributed to a given accounting pronouncement. SFAS No. 162 contains no specific disclosure requirements. The effective date for implementation has yet to be determined.

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Contracts* (SFAS No. 163). SFAS No. 163 requires disclosure of insurance enterprise's risk-management activities. The effective date for SFAS No. 163 is for fiscal years beginning after December 15, 2008. SFAS No. 163 is not applicable to the Company.

In April of 2008, the FASB issued FSP 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 is intended to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The effective date for FSP 142-3 is for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of SFAS No. 160 on the consolidated statement of financial condition and results of operations.

In June 2008, FASB issued EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (EITF 03-06-1). EITF 03-06-1 applies to the calculation of earnings per share under FASB No. 128 *Earnings Per Share* for share-based payment awards with rights to dividends or dividend equivalents. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The effective date for EITF 03-6-1 is for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of EITF 03-6-1 on the consolidated statement of financial condition and results of operations.

**2. Earnings Per Common Share**

The Company calculates its basic and diluted earnings per share in accordance with Statement of Financial Accounting Standards No. 128, *Earnings Per Share*. Basic earnings per share are computed based upon weighted-average shares outstanding during the period. Dilutive earnings per share is computed consistently with the basic computation while giving effect to all dilutive potential common shares that were outstanding during the period. The Company uses the treasury stock method to reflect the potential dilutive effect of unvested stock awards, unexercised options and any contingently issued shares (see *Temporary Capital* note).

The weighted-average shares outstanding as calculated are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Weighted average shares for basic earnings per share	70,888,424	15,712,598	65,972,687	15,609,260
Effect of dilutive common equivalent shares				

Weighted average shares and dilutive common stock equivalents for diluted earnings per share	70,888,424	15,712,598	65,972,687	15,609,260
--	------------	------------	------------	------------

For the three months and six months ended June 30, 2008, the Company excluded approximately 3.2 million and 3.1 million common stock equivalents, respectively, in its computation of dilutive earnings per share because they were anti-dilutive. Had the Company been in a net income situation for the period such common stock equivalents would have been included in the computation. Also, for the three months and six months ended June 30, 2007, the Company excluded approximately 0.2 million and 0.3 million common stock equivalents, respectively, in its computation of diluted earnings per share because they were anti-dilutive. Had the Company been in a net income situation such common stock equivalents would have been included in the computation. For the three months and six months ended June 30, 2008, the Company excluded approximately 2.7 million and 2.3 million of options, respectively, in its computation of dilutive earnings per share because they were anti-dilutive. Had the Company been in a net income situation such options would have been included in the computation. In addition, at June 30, 2008 and June 30, 2007, approximately 6.2 million and 0.8 million shares of restricted stock awards (see "Benefit Plans" note), which are included in shares outstanding and excluded from weighted average shares, are not included in the basic earnings per share computation because they were not vested as of June 30, 2008 and June 30, 2007, respectively.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

**3. Receivables from and Payables to Brokers, Dealers and Clearing Agencies**

Amounts receivable from and payable to brokers, dealers and clearing agencies consist of the following:

<i>(In thousands of dollars)</i>	June 30 2008	December 31 2007
Adjustment to record securities owned on a trade date basis, net	\$	\$ 88
Securities failed-to-deliver		142
Syndicate receivables	3,111	939
Receivable from clearing organizations	1,239	1,752
<b>Total receivables</b>	<b>\$ 4,350</b>	<b>\$ 2,921</b>
Payable to clearing organizations	\$ 130,380	\$ 84,696
Securities failed-to-receive		3,869
<b>Total payables</b>	<b>\$ 130,380</b>	<b>\$ 88,565</b>

Proprietary 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 or payables to brokers, dealers and clearing agencies on the unaudited condensed consolidated statements of financial condition.

**4. Receivables from and Payables to Customers**

At June 30, 2008 and December 31, 2007, receivables from customers are mainly comprised of purchases of securities by institutional clients. Delivery of these securities is made only when the Company is in receipt of the funds from institutional clients.

The Company's non-institutional customer securities transactions, including those of officers, directors, employees and related individuals, are cleared through a third party under a clearing agreement. Under this agreement, the clearing agent executes and settles customer securities transactions, collects margin receivables related to these transactions, monitors the credit standing and required margin levels related to these customers and, pursuant to margin guidelines, requires the customer to deposit additional collateral with them or to reduce positions, if necessary. In the event the customer is unable to fulfill its contractual obligations, the clearing agent may purchase or sell the financial instrument underlying the contract, and as a result may incur a loss.

If the clearing agent incurs a loss, it has the right to pass the loss through to the Company which, as a result, exposes the Company to off-balance-sheet risk. The Company has retained the right to pursue collection or performance from customers who do not perform under their contractual obligations and monitors customer balances on a daily basis along with the credit standing of the clearing agent. As the potential amount of losses during the term of this contract has no maximum, the Company believes there is no maximum amount assignable to this indemnification. At June 30, 2008, substantially all customer obligations were fully collateralized and the Company has not recorded a liability related to the clearing agent's right to pass losses through to the Company.

**5. Financial Instruments**

The company adopted the provisions of SFAS No. 157 Fair Value Measurements ( SFAS No. 157 ) effective January 1, 2008. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the exit price) in an orderly transaction between market participants at the measurement date.

SFAS No. 157 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 developed

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

7

---

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

pricing the asset or liability developed 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 reporting entity 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 reporting entity 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 the Company 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.

The following table summarizes the categorization of the financial instruments within the fair value hierarchy at June 30, 2008:

*(in thousands of dollars)*

	Assets at Fair Value			Total
	Level 1	Level 2	Level 3	
Cash Instruments	\$ 30,212	\$	\$	\$ 30,212
Securities Owned	1,032	250,893	46,238	298,163
Investments			17,150	17,150
Total Financial Assets At Fair Value	\$ 31,244	\$ 250,893	\$ 63,388	\$ 345,525

*(in thousands of dollars)*

	Liabilities at Fair Value			Total
	Level 1	Level 2	Level 3	
Securities Sold But Not Yet Purchased	\$	\$ 106,367	\$	\$ 106,367
Total Financial Liabilities At Fair Value	\$	\$ 106,367	\$	\$ 106,367

The Company has valued certain securities owned by either using bids that were received on the last day of the month, using spreads to the yield curve on similar offered financial assets, or by 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 as a result, lead to a Level 3 classification.

Investments are valued based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. 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 assets are recorded as Level 3.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

The following tables summarize the changes in the Company's Level 3 financial instruments for the three and six month periods ended June 30, 2008:

**Three Months Ended June 30, 2008**

<i>(In thousands of dollars)</i>	Securities owned	Investments	Total
Balance, March 31, 2008	\$ 118,770	\$ 16,860	\$ 135,630
Realized gains(losses)	(467)		(467)
Unrealized gains(losses)	(252)	290	38
Purchases, issuances and settlements	(61,725)		(61,725)
Transfers in and/or out of Level 3	(9,244)		(9,244)
Balance, June 30, 2008	\$ 47,082	\$ 17,150	\$ 64,232

**Six Months Ended June 30, 2008**

<i>(In thousands of dollars)</i>	Securities owned	Investments	Total
Balance December 31, 2007	\$ 65,771	\$ 16,913	\$ 82,684
Realized gains(losses)	(562)		(562)
Unrealized gains(losses)	(1,127)	229	(898)
Purchases, issuances and settlements	(14,795)	8	(14,787)
Transfers in and/or out of Level 3	(2,205)		(2,205)
Balance, June 30, 2008	\$ 47,082	\$ 17,150	\$ 64,232

**6. Securities owned and sold, but not yet purchased**

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

<i>(In thousands of dollars)</i>	June 30, 2008		December 31, 2007	
	Owned	Sold, but not yet purchased	Owned	Sold, but not yet purchased
<i>Marketable Securities</i>				
U.S. Government and federal agency obligations	\$204,856	\$106,359	\$137,771	\$75,081
State and municipal bonds			6	1
Corporate obligations	91,431	6	48,481	
Corporate stocks	1,032	2	3,249	98
<i>Not Readily Marketable Securities</i>				
Securities with no publicly quoted market	543		659	
Securities subject to restrictions	301		290	



Edgar Filing: BROADPOINT SECURITIES GROUP, INC. - Form 10-Q

Total	\$298,163	\$106,367	\$190,456	\$75,180
-------	-----------	-----------	-----------	----------

Securities not readily marketable include investment securities (a) for which there is no market on a securities exchange or no independent publicly quoted market, (b) that cannot be publicly offered or sold unless registration

9

---

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

has been effected under the Securities Act of 1933, or (c) that cannot be offered or sold because of other arrangements, restrictions or conditions applicable to the securities or to the Company.

**7. Intangible Assets and Goodwill****Intangible Assets**

<i>(In thousands of dollars)</i>	June 30 2008	December 31 2007
Intangible assets		
Customer related (amortizable):		
Broadpoint Securities, Inc. Acquisition	\$ 641	\$ 641
Accumulated amortization	(223)	(196)
Broadpoint Debt Capital Markets Acquisition	809	
Accumulated amortization	(53)	
Total Customer related (amortizable)	\$1,174	\$ 445

**Goodwill**

<i>(In thousands of dollars)</i>	June 30 2008	December 31 2007
Goodwill (unamortizable):		
Broadpoint Securities, Inc. Acquisition	\$17,364	\$17,364

Customer related intangible assets are being amortized over 5 and 12 years. Future amortization expense is estimated as follows:

<i>(In thousands of dollars)</i>	
2008 (remaining)	\$ 109
2009	215
2010	215
2011	215
2012	215
2013	80
Thereafter	125
Total	\$1,174

**8. Investments**

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

<i>(In thousands of dollars)</i>	June 30 2008	December 31 2007
Carrying Value		
Privately held companies	\$15,692	\$15,436
Consolidation of Employee Investment Funds, net of Company's ownership interest	1,458	1,477
Total carrying value	\$17,150	\$16,913

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

Investment gains were comprised of the following:

<i>(In thousands of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Public (net realized and unrealized gains and losses)	\$	\$	\$	\$
Private (net realized and unrealized gains and losses)	290	266	373	505
Investment gains (losses)	\$290	\$266	\$373	\$505

Investments in privately held companies include an investment of \$15.2 million in FA Technology Ventures L.P. (the Partnership), which represented the Company's maximum exposure to loss in the Partnership at June 30, 2008. The Partnership's primary purpose is to provide investment returns consistent with the risk of investing in venture capital. At June 30, 2008, total Partnership capital for all investors in the Partnership equaled \$60.3 million. 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 financial statements, but has only recorded the fair value of its investment. FA Technology Ventures Corporation (FATV), a wholly-owned subsidiary, is the investment advisor to the Partnership. Revenues derived from the management of this investment and the Employee Investment Funds (as defined below) for the six-month period ended June 30, 2008 and 2007 were \$0.6 million and \$0.5 million in consolidation, respectively. (See Commitments and Contingencies, Note 10 for further information regarding FATV).

The Company has consolidated its Employee Investment Funds (EIF). The 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, which has contracted with FATV to act as an investment advisor with respect to funds invested in parallel with the Partnership. The Company's carrying value of the EIF is \$0.2 million excluding the effects of consolidation. The Company has outstanding loans of \$0.3 million from the EIF and is also committed to loan an additional \$0.2 million to the EIF. The effect of consolidation was to increase Investments by \$1.5 million, decrease Receivable from Others by \$0.3 million and increase payable to others by \$1.2 million. The amounts in payable to others relates to the value of the EIF owned by employees. (See

Commitments and Contingencies, Note 10 for further information regarding EIF).

**9. Payables to Others**

Amounts payable to others consisted of the following at:

<i>(In thousands of dollars)</i>	June 30	December
	2008	31 2007
Drafts payable	\$ 230	\$ 173
Payable to Employees for the Employee Investment Funds (see Investments, Note 8)	1,178	1,158
Payable to Sellers of Descap Securities, Inc. (see Commitments and Contingencies, Note 10)		1,036
Others	272	570
Total	\$ 1,680	\$ 2,937

The Company maintains a group of zero balance bank accounts which are included in payable to others on the Statement 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. The Company maintained one zero balance account which was used as a cash management technique, permitted under Rule 15c3-3 of the Securities and Exchange Commission, to obtain federal funds for a fee, which is lower than prevailing interest rates, in amounts equivalent to amounts in customers segregated funds accounts with a bank. This cash management technique was discontinued in September 2007.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

***10. Commitments and Contingencies***

**Commitments:**

*FA Technology Ventures*

As of June 30, 2008, the Company had a commitment to invest up to an additional \$1.3 million in the Partnership. The investment period expired in July 2006, however, the general partner of the Partnership, FATV GP LLC (the "General Partner"), may continue to make capital calls up 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 Partnership's primary purpose is to provide investment returns consistent with risks of investing in venture capital. In addition to the Company, certain other limited partners of the Partnership are officers or directors of the Company. The majority of the commitments to the Partnership are from non-affiliates of the Company.

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 are George McNamee, a 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.

As of June 30, 2008, the Company had an additional commitment to invest up to \$0.1 million in (EIF). The investment period expired in July 2006, but the General Partner may continue to make capital calls up through July 2011 for additional investments in portfolio companies and for the payment of management fees. The Company anticipates that this will be funded by the Company through operating cash flow.

On April 30, 2008, the Company entered into a Transition Agreement (the "Transition Agreement") with FATV, FA Technology Holding, LLC ("NewCo"), Mr. McNamee, and certain other employees of FATV (such individuals, collectively, the "FATV Principals"), to effect a restructuring of the investment management arrangements relating to the Partnership, and the formation of FA Technology Ventures III, L.P., a new venture capital fund ("Fund III"). This restructuring will result in FATV ceasing to advise the Partnership and the creation of a new investment advisory company ("NewCo"). Fund III will be sponsored and managed by NewCo (which is independent of the Company and owned by certain of the FATV Principals) and its subsidiaries. Broadpoint's Audit Committee approved of the Transactions pursuant to Broadpoint's Related Party Transactions Policy.

Concurrent with the first closing of Fund III (the "Trigger Date"), FATV will assign all of its rights, interests, obligations and liabilities as investment advisor to the Partnership to NewCo. FATV will continue to operate consistent with current practice (operations, staffing and expenses) for the purpose of performing its duties to the Partnership and Broadpoint will provide funding for such operations through the date that is the earlier to occur of (i) the Trigger Date and (ii) December 31, 2008.

Pursuant to the Transition Agreement, and subject to certain conditions, Broadpoint will make a capital commitment of \$10 million to Fund III (the "Broadpoint Commitment") at the closing of Fund III at which the total commitments to Fund III (excluding the Broadpoint Commitment) exceed a threshold amount. If such threshold is not met by June 30, 2009, Broadpoint's obligation to make the Broadpoint Commitment shall terminate. Broadpoint will also receive an equity interest in the general partner of Fund III, subject to the making of the Broadpoint Commitment. In addition, Broadpoint will have the right to receive additional compensation for capital commitments made to Fund III from certain investors introduced by Broadpoint's affiliates.

It is also contemplated that, on the Trigger Date, each of the FATV Principals will resign from FATV and/or Broadpoint, as the case may be. Broadpoint has also agreed to assign to NewCo the name "FA Technology."

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

*Mandatory Redeemable Preferred Stock*

On June 27, 2008 the Company entered into a Preferred Stock Purchase Agreement (the Preferred Stock Purchase Agreement) with Mast Credit Opportunities I Master Fund Limited, a Cayman Islands corporation ( Mast ) for the issuance and sale of (i) 1,000,000 newly-issued unregistered shares of Series B Mandatory Redeemable Preferred Stock of the Company, par value \$1.00 per share (the Series B Preferred Stock) and (ii) warrant to purchase 1,000,000 shares of the Company's common stock, par value \$0.01 per share (the Common Stock), at an exercise price of \$3.00 per share, for an aggregate cash purchase price of \$25 million (the Preferred Private Placement). Cash dividends of 10% per annum must be paid quarterly on the Series B Preferred Stock, while an additional dividend of 4% per annum accrues and is cumulative. The Series B Preferred Stock must be redeemed on or before June 27, 2012. (See

Mandatory Redeemable Preferred Stock,  
 Note 11.)

The redemption prices are as follows:

Date	Premium Call Factor
Prior to and including June 26, 2009	1.07
From June, 27 2009 to December 27, 2009	1.06
From December 28, 2009 to June 27, 2010	1.05
From June 28, 2010 to December 27, 2011	1.04
From December 28, 2011 to June 2012	1.00

**Contingent Consideration:** On May 14, 2004, the Company acquired 100 percent of the outstanding common shares of Descap Securities Inc., now known as Broadpoint Securities, Inc. Broadpoint Securities, a New York-based broker-dealer and investment bank. Per the stock purchase agreement, the sellers were to receive future contingent consideration based on the following: For each of the three years ending May 31, 2005, May 31, 2006 and May 31, 2007, if Broadpoint Securities' Pre-Tax Net Income (exclusive of certain intercompany charges, as defined) (i) is greater than \$10 million, The Company was to pay to the sellers an aggregate amount equal to fifty percent (50%) of Broadpoint Securities' Pre-Tax Net Income for such period or (ii) is equal to or less than \$10 million, the Company was to pay them an aggregate amount equal to forty percent (40%) of Broadpoint Securities' Pre-Tax Net Income for such period. Based upon Broadpoint Securities' Pre-Tax Net Income from June 1, 2004 through May 31, 2005, \$2.2 million on contingent consideration was paid to the Sellers and from June 1, 2005 through May 31, 2006, \$1.0 million of contingent consideration was paid to the Sellers on May 29, 2008. Based upon Broadpoint Securities' Pre-Tax Net Income from June 1, 2006 to May 31, 2007, no contingent consideration is payable to the Sellers for this period.

On September 14, 2007, the Company consummated the sale of the Municipal Capital Market Group of its subsidiary, Broadpoint Capital, Inc. to DEPFA Bank plc ( DEPFA ). In connection with such sale, the Company recognized a pre-tax gain on sale in the amount of \$7.9 million. Pursuant to the asset purchase agreement, the Company was required to deliver an estimate of the accrued bonuses at closing and a final accrued bonus calculation thirty days following closing. The Company accrued the bonus consistent with the asset purchase agreement. All items arising from the sale of the Municipal Capital Markets Group were reflected in the Gain on Sale of Discontinued Operations. This includes the closing bonuses paid to employees and the reversal of restricted stock and deferred cash amortization as a result of the employees' termination of employment. On October 30, 2007, DEPFA provided the Company notice that it was exercising its option pursuant to the agreement to appoint an independent accounting firm to conduct a special audit of the final accrued bonus amount. On June 26, 2008, DEPFA provided the Company notice that it was withdrawing its dispute of the final accrued bonus amount.

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 and escalation clauses, and which expire at various times through 2015. 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



**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

expense. To the extent the Company is provided free rent periods, the Company recognizes the rent expense over the entire lease term on a straightline basis.

On November 2, 2007, the Company entered into a Fifth Amendment to Sub-Lease Agreement (the Albany Fifth Amendment ) with Columbia 677, L.L.C. (the Albany Landlord ) pursuant to which the Company's Sub-lease-Agreement with the Landlord dated August 12, 2003 concerning the lease of certain space in the building located at 677 Broadway, Albany, New York (the Albany Premises ) was amended. The Amendment provided that the Company was to surrender a total of 15,358 square feet (the Surrender Premises ) of the Albany Premises, a portion at a time, on or before three surrender dates: November 15, 2007, December 15, 2007 and April 1, 2008. If the Company failed to vacate the portion of the Surrender Premises on the applicable surrender dates, it would owe the Landlord \$1,667 for each day of such failure. The Company failed to vacate 1,398 square feet of the Surrender Premises by April 1, 2008 and as a result began to incur the daily fee on such date. The Company vacated such portion of the Surrender Premises on April 25, 2008, and paid the Albany Landlord approximately \$42,000. In consideration of the Landlord agreeing to the surrender of the Surrender Premises, the Amendment provided that the Company shall pay the Landlord a surrender fee equal to \$1,050,000 payable in three installments, all of which were paid as of June 30, 2008.

On June 19, 2008, the Company entered into a Sixth Amendment to Sub-Lease Agreement amending a Sub-Lease Agreement dated August 12, 2003, as previously amended, by and between the Company and the Albany Landlord. Pursuant thereto and on certain conditions specified therein, the parties agreed that Tenant shall be entitled to surrender the entire 12th floor of the Building consisting of 6,805 square feet of space (the 12<sup>th</sup> Floor Surrender Premises ), reducing Tenant's rentable square footage of leased property in the Building to 2,953 square feet. The Company vacated the 12<sup>th</sup> Floor Surrender Premises by June 30, 2008. In consideration therefore the Company paid the Landlord \$388,703. This amount is included in Restructuring in the Company's Statement of Operations.

On June 23, 2008, the Company entered into a Seventh Amendment of Lease (the NYC Amendment ), amending the Agreement of Lease dated March 21, 1996, as previously amended, by and between the Company and One Penn Plaza LLC ( NYC Landlord ), a New York limited liability company, for the lease of certain property located at One Penn Plaza, New York, New York. Pursuant thereto and on certain conditions specified therein, the parties agree that the term of the Lease for all of the premises currently leased by the Company on the 41st Floor and a portion of the premises on the 40th Floor will expire on October 31, 2008, as provided under existing lease terms, but that the term of the Company's lease of the entire 42nd Floor and the remaining premises on the 40th Floor shall be extended until March 31, 2021, subject to further renewal. Under the NYC Amendment, the NYC Landlord will perform certain base building work, and will also provide a cash contribution of up to \$1,582,848 towards the Company's improvements. At the Company's election, and pursuant to certain conditions, the Company may elect to convert a portion of such cash contribution (up to \$1,000,000) to a rent credit equal to 90% of the amount so converted. In connection with the execution and delivery of the Amendment, the Company is required to provide to NYC Landlord a security deposit in the amount of \$2,107,490, either as cash or a letter of credit, to secure the performance of the Company's obligations under the Lease. Under certain conditions, the Company is entitled to reduce the security deposit to \$1,208,708 on April 1, 2014. The Company has arranged for an irrevocable standby letter of credit in favor of Landlord in the amount of \$2,107,490 to be issued by the Bank of New York.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Future minimum annual lease payments, and sublease rental income, are as follows:

<i>(In thousands of dollars)</i>	Future Minimum Lease Payments	Sublease Rental Income	Net Lease Payments
2008 (remaining)	\$ 3,186	\$ 493	\$ 2,693
2009	5,648	169	5,479
2010	5,318	158	5,160
2011	5,363	100	5,263
2012	5,283	100	5,183
2013	5,157	91	5,066
Thereafter	24,944		24,944
Total	\$54,899	\$1,111	\$53,788

**Litigation**

In 1998, the Company was named in lawsuits by Lawrence Group, Inc. and certain related entities (the "Lawrence Parties") in connection with a private sale of Mechanical Technology Inc. stock from the Lawrence Parties that was previously approved by the United States Bankruptcy Court for the Northern District of New York (the "Bankruptcy Court"). The Company acted as placement agent in that sale, and a number of employees and officers of the Company, who have also been named as defendants, purchased shares in the sale. The complaints alleged that the defendants did not disclose certain information to the sellers and that the price approved by the court was therefore not proper. The cases were initially filed in the Bankruptcy Court and the United States District Court for the Northern District of New York (the "District Court"), and were subsequently consolidated in the District Court. The District Court dismissed the cases, and that decision was subsequently vacated by the United States Court of Appeals for the Second Circuit, which remanded the cases for consideration of the plaintiffs' claims as motions to modify the Bankruptcy Court sale order. The plaintiffs' claims were referred back to the Bankruptcy Court for such consideration. Discovery is currently underway and is scheduled to close on or about September 15, 2008. The Bankruptcy Court has scheduled an evidentiary hearing on the motions to modify the sale order to commence on October 15, 2008. The Bankruptcy Court has indicated that it will hold a separate hearing to consider damages, only if it makes a finding of liability in connection with the motions to modify the sale order, 30 days after it resolves the motions to modify the sale order. The Company believes that it has strong defenses and intends to vigorously defend itself against the plaintiffs' claims, and believes that the claims lack merit. However, an unfavorable resolution could have a material adverse effect on the Company's financial position, results of operations and cash flows in the period resolved.

In early 2008, Broadpoint Capital, Inc. ("Broadpoint Capital") hired Tim O'Connor and 9 other individuals to form a new capitalization and restructuring group within Broadpoint Capital's Investment Banking division. Mr. O'Connor, the new Head of Broadpoint Capital's Investment Banking Division and each of the other employees are former employees of Imperial Capital, LLC ("Imperial"). Upon Broadpoint Capital's hiring of these employees, Imperial commenced an arbitration proceeding against Broadpoint Capital, Mr. O'Connor, another employee hired by Broadpoint Capital and a former employee of Imperial who is not employed by Broadpoint Capital before the Financial Industry Regulatory Authority ("FINRA"). In the arbitration, Imperial alleges various causes of action against Broadpoint Capital as well as the individuals based upon alleged violations of restrictive covenants in employee contracts relating to the non-solicitation of employees and clients. Imperial claims damages in excess of \$100 million. Concurrently with the filing of the arbitration proceeding, Imperial sought and obtained a temporary restraining order in New York State

Supreme Court, pending the conclusion of the FINRA arbitration hearing, enjoining Broadpoint from disclosing or making use of any confidential information of Imperial, recruiting or hiring any employees of Imperial and seeking or accepting as a client any client of Imperial, except those clients for whom any of the hired individuals had provided services as a registered representative while employed by Imperial. On April 17, 2008, Broadpoint Capital, the other respondents, and Imperial entered into a Partial Settlement whereby Imperial's claims for injunctive relief were withdrawn and it was agreed the temporary restraining order would be vacated. Imperial's remaining claim for damages will be arbitrated before FINRA at a hearing currently scheduled to commence in September 2008. The

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

settlement provides, among other things, for the potential future payment of amounts from Broadpoint to Imperial contingent upon the successful consummation of, or receipt of fees in connection with, certain transactions. Broadpoint Capital believes that it has strong defenses to and intends to vigorously defend itself against Imperial's remaining claims. However, an unfavorable resolution could have a material adverse effect on the Company's financial position, results of operations and cash flows in the period in which resolved.

Due to the nature of the Company's business, the Company and its subsidiaries are now, and likely in the future will be, involved in a variety of legal proceedings, including the matters described above. These include litigation, arbitrations and other proceedings initiated by private parties and arising from our underwriting, financial advisory or other transactional activities, client account activities and employment matters. Third parties who assert claims may do so for monetary damages that are substantial, particularly relative to the Company's financial position. In addition, the securities industry is highly regulated. The Company and its subsidiaries are subject to both routine and unscheduled regulatory examinations of its business and investigations of securities industry practices by governmental agencies and self-regulatory organizations. In recent years securities firms have been subject to increased scrutiny and regulatory enforcement activity. Regulatory investigations can result in substantial fines being imposed on the Company and/or its subsidiaries. Periodically the Company and its subsidiaries receive inquiries and subpoenas from the SEC, state securities regulators and self-regulatory organizations. The Company does not always know the purpose behind these communications or the status or target of any related investigation. The responses to these communications have in the past resulted in the Company and/or its subsidiaries being cited for regulatory deficiencies, although to date these communications have not had a material adverse effect on the Company's business. The Company has taken reserves in its financial statements with respect to legal proceedings to the extent it believes appropriate. However, accurately predicting the timing and outcome of legal proceedings, including the amounts of any settlements, judgments or fines, is inherently difficult insofar as it depends on obtaining all of the relevant facts (which is sometimes not feasible) and applying to them often-complex legal principles. Based on currently available information, the Company does not believe that any litigation, proceeding or other matter to which it is a party or otherwise involved will have a material adverse effect on its financial position, results of operations and cash flows although an adverse development, or an increase in associated legal fees, could be material in a particular period, depending in part on the Company's operating results in that period.

**Other**

The Company enters into underwriting commitments to purchase securities as part of its investment banking business. Also, the Company may purchase and sell securities on a when-issued basis. As of June 30, 2008, the Company had no outstanding underwriting commitments and had not purchased or sold any securities on a when-issued basis.

***11. Mandatory Redeemable Preferred Stock***

On June 27, 2008 the Company entered into a Preferred Stock Purchase Agreement (the "Preferred Stock Purchase Agreement") with Mast Credit Opportunities I Master Fund Limited, a Cayman Islands corporation ("Mast") for the issuance and sale of (i) 1,000,000 newly-issued unregistered shares of Series B Mandatory Redeemable Preferred Stock of the Company, par value \$1.00 per share (the "Series B Preferred Stock") and (ii) warrant to purchase 1,000,000 shares of the Company's common stock, par value \$0.01 per share (the "Common Stock"), at an exercise price of \$3.00 per share, for an aggregate cash purchase price of \$25 million (the "Preferred Private Placement"). The mandatory redeemable preferred stock is recorded as a liability per SFAS No. 150, Accounting For Certain Financial Instruments with Characteristics of Both Liabilities and Equity.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

The Preferred Stock Purchase Agreement and the Series B Preferred Stock include, among other things, certain negative covenants and other rights with respect to the operations, actions and financial condition of the Company and its subsidiaries so long the Series B Preferred Stock remains outstanding. Cash dividends of 10% per annum must be paid on the Series B Preferred Stock quarterly, while an additional dividend of 4% per annum accrues and is cumulative. The Series B Preferred Stock must be redeemed on or before June 27, 2012.

The redemption prices are as follows:

Date	Premium Call Factor
Prior to and including June 26, 2009	1.07
From June, 27 2009 to December 27, 2009	1.06
From December 28, 2009 to June 27, 2010	1.05
From June 28, 2010 to December 27, 2011	1.04
From December 28, 2011 to June 2012	1.00

The Warrant is subject to customary anti-dilution provisions and expires June 27, 2012. Concurrently with the execution of the Preferred Stock Purchase Agreement, the Company and Mast entered into a Registration Rights Agreement, dated as of June 27, 2008 (the "Registration Rights Agreement"), with respect to the shares of Common Stock that are issuable to Mast pursuant to the Warrant (the "Warrant Shares"). Pursuant to the Registration Rights Agreement, Mast has the right to request registration of the Warrant Shares if at any time the Company proposes to register Common Stock for its own account or for another, subject to certain exceptions for underwriting requirements. In addition, under certain circumstances Mast may demand a registration of no less than 300,000 Warrant Shares. The Company must register such Warrant Shares as soon as practicable and in any event within forty-five (45) days after the demand. The Company will bear all of the costs of all such registrations other than underwriting discounts and commissions and certain other expenses.

Concurrently with the execution of the Preferred Stock Purchase Agreement, the Company and Mast entered into a Preemptive Rights Agreement (the "Preemptive Rights Agreement"). The Preemptive Rights Agreement provides that in the event that the Company proposes to offer or sell any equity securities of the Company below the current market price, the Company shall first offer such securities to Mast to purchase; provided, however, that in the case of equity securities being offered to MatlinPatterson, Mast shall only have the right to purchase its pro rata share of such securities (based upon Common Stock ownership on a fully diluted basis). If Mast exercises such right to purchase the offered securities, Mast must purchase all (but not a portion) of such securities for the price, terms and conditions so proposed. The preemptive rights do not extend to (i) Common Stock issued to employees or directors pursuant to a plan or agreement approved by the Board of Directors, (ii) issuance of securities pursuant to a conversion of convertible securities, (iii) stock splits or stock dividends or (iv) issuance of securities in connection with a bona fide business acquisition of or by the Company, whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise.

### **12. Temporary Capital**

In connection with the Company's acquisition of Broadpoint Securities, the Company issued 549,476 shares of stock which provided the Sellers the right (the "put right") to require the Company to purchase back the shares issued, at a price of \$6.14 per share. Accordingly, the Company has previously recognized as temporary capital the amount that it would have been required to pay under the agreement. The Company also had the right to purchase back these shares from the Sellers at a price of \$14.46 (the "call right"). As a result, the Company had classified the shares relating to the put and call rights as temporary capital. The put and call rights were to expire on the date upon which the final earnout payment in connection with the acquisition was required to be made. The earnout period ended on May 31, 2007 and the final earnout payment was made on May 29, 2008. In June 2006, certain of the Sellers of Broadpoint Securities

exercised their put rights and the Company repurchased 532,484 shares at \$6.14 per share for the total amount of \$3.3 million. The remaining put rights expired as of May 29, 2008. Subsequently, the Company reclassified the temporary capital to stockholders' equity.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

**13. Subordinated Debt**

A select group of management and highly compensated employees are eligible to participate in the Broadpoint Securities Group, Inc. Deferred Compensation Plan for Key Employees (the Plan). The employees enter into subordinated loans with Broadpoint Capital to provide for the deferral of compensation and employer allocations under the Plan. The New York Stock Exchange approved Broadpoint Capital's subordinated debt agreements related to the Plan. Pursuant to these approvals, these amounts are allowable in Broadpoint Capital's computation of net capital. The accounts of the participants of the Plan are credited with earnings and/or losses based on the performance of various investment benchmarks selected by the participants. Maturities of the subordinated debt are based on the distribution election made by each participant, which may be deferred to a later date by the participant. As of February 28, 2007, the Company no longer permits any new amounts to be deferred under the Plan. Principal debt repayment requirements, which occur on or about April 15<sup>th</sup> of each year, as of June 30, 2008, are as follows:

*(In thousands of dollars)*

2008 (remaining)	\$
2009	465
2010	287
2011	108
2012	208
2013 to 2016	594
Total	\$1,662

**14. Stockholders' Equity***Deferred Compensation and Employee Stock Trust*

The Company has adopted or may hereafter adopt various nonqualified deferred compensation plans (the Plans) for the benefit of a select group of highly compensated employees who contribute significantly to the continued growth and development and future business success of the Company. Plan participants may elect under the Plans to have the value of their Plans Accounts track the performance of one or more investment benchmarks available under the Plans, including Broadpoint Securities Group Common Stock Investment Benchmark, which tracks the performance of Broadpoint Securities Group, Inc. common stock (Company Stock). With respect to the Broadpoint Securities Group Common Stock Investment Benchmark, the Company contributes Company Stock to a rabbi trust (the Trust) it has established in connection with meeting its related liability under the Plans. As of February 28, 2007, the Company no longer permits any new amounts to be deferred under its current Plans.

Assets of the Trust have been consolidated with those of the Company. The value of the Company's stock at the time contributed to the Trust has been classified in stockholders' equity and generally accounted for in a manner similar to treasury stock.

The deferred compensation arrangement requires the related liability to be settled by delivery of a fixed number of shares of Company stock. Accordingly, the related liability is classified in equity under deferred compensation and changes in the fair market value of the amount owed to the participant in the Plan is not recognized.

*Mast Private Placement*

On March 4, 2008 the Company entered into a stock purchase agreement (the Stock Purchase Agreement) with MatlinPatterson, Mast Credit Opportunities I Master Fund Limited, a Cayman Islands corporation (Mast) and certain Individual Investors listed on the signature pages to the Stock Purchase Agreement (the Individual Investors), and together with the MatlinPatterson and Mast, the Investors) for the issuance and sale of 11,579,592 newly-issued unregistered shares of common stock of the Company, par value \$0.01 per share (the Common Stock), for an

aggregate cash purchase price of approximately \$19.7 million (the Private Placement ).



**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

Concurrently with the execution of the Stock Purchase Agreement, the Company entered into a Registration Rights Agreement, dated as of March 4, 2008 (the "Mast Registration Rights Agreement"), with Mast with respect to the shares that Mast purchased in the Private Placement (the "Mast Shares"). Pursuant to the Mast Registration Rights Agreement, the Company was required to file a registration statement within 30 days following March 4, 2008 with the Securities and Exchange Commission for the registration resale of the Mast Shares in an offering on a delayed or continuous basis pursuant to Rule 415 under the Securities Act (the "Mast Shelf Registration"). The Company agreed to bear all of the costs of the Mast Shelf Registration other than underwriting discounts and commissions and certain other expenses. On April 1, 2008, the Company filed a registration statement on Form S-3 for the registration resale of the Mast Shares and, on April 29, 2008, the Company's registration statement was declared effective.

**15. Income Taxes**

Income tax expense is recorded using the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between amounts reported for income tax purposes and financial statement purposes, using current tax rates. A valuation allowance is recognized if it is anticipated that some or all of a deferred tax asset will not be realized. The Company must assess the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent that the Company believes that recovery is not likely, it must establish a valuation allowance. Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. The Company has recorded a full valuation allowance as a result of uncertainties related to the realization of its net deferred tax assets at June 30, 2008 and December 31, 2007. The valuation allowance was established as a result of weighing all positive and negative evidence, including the Company's history of cumulative losses over at least the past three years and the difficulty of forecasting future taxable income. The valuation allowance reflects the conclusion of management that it is more likely than not that the benefit of the deferred tax assets will not be realized. In the event actual results differ from these estimates or these estimates are adjusted in future periods, the valuation allowance may require adjustment which could materially impact the Company's financial position and results of operations.

The Company reported a tax expense of approximately \$0.8 million and a tax benefit of approximately \$0.1 million for the three months ended as of June 30, 2008 and 2007, respectively. The Company reported a tax expense of approximately \$1.5 million and a tax benefit of approximately \$0.5 million for the six months ended as of June 30, 2008 and 2007, respectively. Included in the three and six month tax provision of 2008 are approximately \$0.8 million and \$1.5 million, respectively, of increases in the gross amount of unrecognized tax benefits related to the current year that, if recognized in the future, would affect the effective tax rate.

The Company presently has an ongoing audit with the State of New York. The unrecognized tax benefits of the Company could significantly change over the next twelve months due to the expiration of the statute of limitations on approximately \$0.8 million of unrecognized tax benefits.

As a result of the closing of the MatlinPatterson investment transaction on September 21, 2007, the Company underwent a change in ownership within the meaning of Section 382 of the Internal Revenue Code ( "IRC Section 382"). In general, IRC Section 382 places an annual limitation on the use of certain tax attributes such as net operating losses and tax credit carryovers in existence at the ownership change date. The Company has determined that the annual limitation on the use of its net operating loss carryforwards is approximately \$1.1 million per year. As a result, the Company has determined that a significant portion of its net operating loss carryforwards will expire unutilized.

**16. Benefit Plans**

The Company has established several stock incentive plans through which employees of the Company may be awarded stock options, stock appreciation rights, restricted stock/restricted stock units, which expire at various times through April 25, 2017. The following is a recap of all plans as of June 30, 2008:



**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Shares authorized for issuance	29,621,639
Share awards used:	
Stock options granted and outstanding	4,060,910
Restricted stock awards granted and unvested	6,234,066
Restricted stock units granted and unvested	6,883,214
Restricted stock units granted and vested	535,000
Restricted stock units committed not yet granted	1,125,000
Total share awards used	18,838,190
Shares available for future awards	10,783,449

The 2007 Incentive Plan the plan allows awards in the form of incentive stock options (within the meaning of Section 422 of the Internal Revenue Code), nonqualified stock options, stock appreciation rights, performance awards, or other stock based awards. The plan imposes a limit on the number of shares of our common stock that may be subject to awards. An award relating to shares may be granted if the aggregate number of shares subject to then-outstanding awards plus the number of shares subject to the award being granted do not exceed 25 percent of the number of shares issued and outstanding immediately prior to the grant. On January 29, 2008, the Board of Directors adopted an amendment to the plan, subject to shareholder approval, to increase the maximum number of shares of common stock authorized for issuance under the plan to the sum of 10,675,000 shares, subject to adjustment, and 25 percent of the number of shares issued and outstanding immediately prior to the grant of an award. Shareholders of the Company approved the amendment to the 2007 Plan at the Company's 2008 Annual Meeting.

The increase in shares available enabled the Company, among other things, to award restricted stock units and/or shares of restricted stock to certain new employees in connection with the Company's hiring of employees into its new Debt Capital Markets group.

For the six-month periods ended June 30, 2008 and June 30, 2007, total compensation expense for share based payment arrangements was \$3.2 million and \$2.2 million respectively, the related tax benefit was \$0.0 and \$0.0. At June 30, 2008, the total compensation expense related to non-vested awards not yet recognized is \$20.5 million, which is expected to be recognized over the remaining weighted average vesting period of 3.6 years. The amount of cash used to settle equity instruments granted under share based payment arrangements during the six month period ended June 30, 2008 was \$0.0.

The restricted stock units committed but not yet granted are based on employment agreements for the Chairman and Chief Executive Officer and the President and Chief Operating Officer. The employment agreements include a set vesting schedule and performance targets yet to be determined.

**Options:** Options granted under the plans have been granted at not less than fair market value, vest over a maximum of five years, and expire one to ten years after grant date. Unvested options are typically forfeited upon termination.

Option transactions for the six-month period ended June 30, 2008, under the plans were as follows:

Shares Subject to Option	Weighted Average Exercise Price
-----------------------------	--

Balance at December 31, 2007	1,035,962	\$ 8.24
Options granted	3,750,000	1.43
Options exercised		
Options forfeited	(725,052)	9.41
Balance at June 30, 2008	4,060,910	\$ 1.73

At June 30, 2008, the stock options that were exercisable had a remaining average contractual term of 3.7 years. At June 30, 2008, 4 million options outstanding had an intrinsic value of \$0.7 million.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

The following table summarizes information about stock options outstanding under the plans at June 30, 2008:

Exercise Price Range	Outstanding			Exercisable	
	Shares	Average Life (years)	Average Exercise Price	Shares	Average Exercise Price
\$1.43-\$1.64	3,850,000	3.74	\$1.44	1,283,334	\$1.44
\$4.61-\$5.80	106,773	4.17	5.60	106,773	5.60
\$6.00-\$7.17	19,166	4.82	6.71	19,166	6.71
\$8.23-\$14.98	84,971	1.13	9.02	84,971	9.02
	4,060,910	3.70	\$1.73	1,494,244	\$2.23

**Restricted Stock Awards/Restricted Stock Units:** Restricted stock awards under the plans have been valued at the market value of the Company's common stock as of the grant date and are amortized over the period in which the restrictions are outstanding, which is typically 3-5 years. The Incentive Plan also allows for grants of restricted stock units. Restricted stock units give a participant the right to receive fully vested shares at the end of a specified deferral period. Restricted stock units are generally subject to forfeiture conditions similar to those of the Company's restricted stock awards granted under its other stock incentive plans historically. One advantage of restricted stock units, as compared to restricted stock, is that the period during which the award is deferred as to settlement can be extended past the date the award becomes non-forfeitable, allowing a participant to hold an interest tied to common stock on a tax deferred basis. Prior to settlement, restricted stock units carry no voting or dividend rights associated with the stock ownership.

Restricted stock awards/Restricted stock units for the period ended June 30, 2008, under the plans were as follows:

	Unvested Restricted Stock Awards	Weighted Average Grant-Date Restricted Stock	Unvested Restricted Stock Units	Weighted Average Grant Date Fair Value Restricted Stock Unit
Balance at December 31, 2007	87,882	\$4.96	4,455,000	\$1.54
Granted	6,247,772	1.75	2,755,714	1.13
Vested	(48,316)	4.30	(37,500)	1.69
Forfeited	(53,272)	1.91	(290,000)	1.59
Balance at June 30, 2008	6,234,066	\$1.76	6,883,214	\$1.68

The total fair value of awards vested, based on the fair market value of the stock on the vest date, during the six month periods ending June 30, 2008 and 2007 was \$0.2 and \$1.4 million, respectively. The total unamortized value of the unvested awards was \$20.4 and \$3.6 at June 30, 2008 and June 30, 2007, respectively.

**17. Net Capital Requirements**

Broadpoint Capital 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), which requires the maintenance of a minimum net capital. Broadpoint

Capital 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 \$1 million, whichever is greater. As of June 30, 2008, Broadpoint Capital had net capital, as defined, of \$12.4 million and \$11.4 million in excess of the \$1.0 million required minimum net capital.

Broadpoint Securities is also subject to the Net Capital Rule which requires the maintenance of minimum net capital of \$100,000 or 6 2/3% of aggregate indebtedness, whichever is greater. Aggregate indebtedness to net capital shall not exceed 15:1. At June 30, 2008, Broadpoint Securities had net capital, as defined, of \$19.2 million, which was \$18.7 million in excess of its required minimum net capital of \$0.5 million. Broadpoint Securities ratio of aggregate indebtedness to net capital was 0.40:1.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

***18. Segment Analysis***

The Company is organized around products and operates through three segments: Equities, Fixed Income and Other. The Company evaluates the performance of its segments and allocates resources to them based on various factors, including prospects for growth, return on investment, and return on revenue.

The Company's Equities business is comprised of equity sales and trading and equities investment banking services. Equities sales and trading provides equity trade execution to institutional investors and generates revenues primarily through commissions and sales credits earned on executing equity transactions. Equities investment banking generates revenues by providing financial advisory, capital raising, mergers and acquisitions, and restructuring services to small and mid-cap companies.

Included in the Company's Fixed Income segment are the following groups: Debt Capital Markets and Broadpoint Securities, Inc. The Fixed Income business consists of fixed income sales and trading and fixed income investment banking. Fixed Income sales and trading provides trade execution to institutional investors and generates revenues primarily through commissions and sales credits earned on executing fixed income transactions in the following products:

Mortgage-Backed and Asset-Backed Securities

High Grade Bonds (Investment Grade and Government Bonds)

Fixed Income investment banking generates revenues by providing financial advisory and capital raising services in structuring asset-backed securities.

The Company's Other segment includes the results from the Company's investment portfolio, venture capital, and costs related to corporate overhead and support. The Company's investment portfolio generates revenue from unrealized gains and losses as a result of changes in value of the firm's investments and realized gains and losses as a result of sales of equity holdings. The Company's venture capital business generates revenue through the management of and investment in FA Technology Ventures Inc. and other venture capital funds. Restructuring expenses resulted from the Company's plan announced on October 17, 2007 whereby the Company determined that it will outsource certain of its administrative functions, consolidate certain of such functions in its New York City location, and reduce staff in order to properly size its business consistent with its current level of activity.

During 2007, the Company discontinued its Municipal Capital Markets and Taxable Municipal groups, which were previously included in the Fixed Income segment. Also in 2007 the Company discontinued the Fixed Income Middle Markets group, which was previously included in the Fixed Income Other segment.

Intersegment revenue has been eliminated for purposes of presenting net revenue so that all net revenue presented is from external sources. Interest Income is allocated to the operating segments and is presented net of interest expense for purposes of assessing the performance of the segment.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Information concerning operations in these segments is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
<i>(In thousands of dollars)</i>	2008	2007	2008	2007
<i>Net revenue (including net interest income)</i>				
Equities	\$ 8,729	\$ 4,840	\$ 11,019	\$ 12,121
Fixed Income				
Debt Capital Markets	13,921		17,781	
Broadpoint Securities	10,621	3,915	21,395	6,543
Total Fixed Income	24,542	3,915	39,176	6,543
Other	809	1,045	1,228	2,158
Total Net Revenue	\$34,080	\$ 9,800	\$ 51,423	\$ 20,822
<i>Net interest income (included in total net revenue)</i>				
Equities	\$	\$ 11	\$	\$ 9
Fixed Income				
Debt Capital Markets	782		968	
Broadpoint Securities	1,376	(125)	3,027	(362)
Total Fixed Income	2,158	(125)	3,995	(362)
Other	9	412	28	967
Total Net Interest Income	\$ 2,167	\$ 298	\$ 4,023	\$ 614
<i>Income/(loss) before income taxes and discontinued operations</i>				
Equities	\$ 793	\$(3,704)	\$ (3,619)	\$ (6,089)
Fixed Income				
Debt Capital Markets	1,772		2,239	
Broadpoint Securities	4,411	987	9,003	539
Total Fixed Income	6,183	987	11,242	539
Other	(7,229)	(3,061)	(16,351)	(6,643)
Income/loss before income taxes and discontinued operations	\$ (253)	\$(5,778)	\$ (8,728)	\$(12,193)



For presentation purposes, net revenue within each of the businesses is classified as sales and trading, investment banking, or net interest / other. Sales and trading net revenue includes commissions and principal transactions. Investment banking includes revenue related to underwritings and other investment banking transactions. Investment gains (losses) reflects gains and losses on the Company's investment portfolio. Net interest / other includes interest income, interest expense, fees and other revenue. Net revenue presented within each category may differ from that presented in the financial statements as a result of differences in categorizing revenue within each of the revenue line items listed below for purposes of reviewing key business performance.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

The following table reflects revenues for the Company's major products and services:

<i>(In thousands of dollars)</i>	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
<i>Capital Markets (Fixed Income &amp; Equities)</i>				
<i>Net revenue</i>				
<i>Institutional Sales &amp; Trading</i>				
Equities	\$ 1,700	\$2,963	\$ 3,515	\$ 7,979
Fixed Income	20,129	3,408	32,731	6,013
<b>Total Institutional Sales &amp; Trading</b>	<b>21,829</b>	<b>6,371</b>	<b>36,246</b>	<b>13,992</b>
<i>Investment Banking</i>				
Equities	7,029	1,857	7,504	4,109
Fixed Income	2,255	605	2,450	869
<b>Total Investment Banking</b>	<b>9,284</b>	<b>2,462</b>	<b>9,954</b>	<b>4,978</b>
Net Interest Income/Other	2,158	(78)	3,995	(306)
<b>Total Revenues</b>	<b>\$33,271</b>	<b>\$8,755</b>	<b>\$50,195</b>	<b>\$18,664</b>

The Company's segments' financial policies are the same as those described in the Summary of Significant Accounting Policies note in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. Asset information by segment is not reported since the Company does not produce such information. All assets are primarily located in the United States of America.

**19. Related Party Transactions**

Investment banking revenue from related parties disclosed on the Condensed Consolidated Statement Of Operations represents \$5.8 million and \$6.1 million of fees received for the three month and six month periods ended June 30, 2008, respectively, for advisory engagements performed for the majority shareholder of the Company.

**20. Discontinued Operations**

On September 14, 2007, the Company completed the asset sale agreement with DEPFA for the sale of the Municipal Capital Markets Group of the Company's subsidiary, Broadpoint Capital, in connection with which the Company recognized a pre-tax gain on sale in the amount of \$7.9 million. In June 2007, the Company closed its Fixed Income Middle Markets group following the departure of the employees of the group. In April 2007, the Company closed its Institutional Convertible Bond Arbitrage Advisory Group after committing to a plan to dispose of the group in September 2006.

Additionally, in May 2006, the Company closed its Taxable Fixed Income corporate bond division. In February 2005, the Company sold its asset management operations, other than its institutional convertible arbitrage group, and, in 2000 sold its Private Client Group. The Company continues to report the receipt and settlement of pending contractual obligations related to these transactions as discontinued operations.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Amounts reflected in the Consolidated Statements of Operations are presented in the following table:

<i>(In thousands of dollars)</i>	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Net revenues				
Municipal Capital Markets	\$ 76	\$10,301	\$ 99	\$17,982
Fixed Income Middle Markets		69		1,169
Convertible Bond Arbitrage				128
Total net revenues	76	10,370	99	19,279
Expenses				
Municipal Capital Markets	66	8,764	74	14,831
Fixed Income Middle Markets	2	283	4	911
Convertible Bond Arbitrage		208		546
Taxable Fixed Income		85		103
Private Client Group	91	80	91	91
Total expenses	159	9,420	169	16,482
Income (loss) before income taxes	(83)	950	(70)	2,797
Income tax expense (benefit)	(4)	296	4	547
Net Income	\$ (79)	\$ 654	\$ (74)	\$ 2,250

**Municipal Capital Markets**

The revenue and expenses for the Municipal Capital Markets division for the three and six months ended June 30, 2008 and 2007 represents the activity of that operation during that time period. No interest has been allocated to Municipal Capital Markets since this division was closed. Prior to closing this division, interest was allocated primarily based on the level of securities owned attributable to this division.

**Fixed Income Middle Markets**

The expense of the Fixed Income Middle Markets division for the three and six months ended June 30, 2008 and 2007 represents the activity of the operations during that time period. No interest has been allocated to Fixed Income Middle Markets since this division was closed. Prior to closing this division, interest was allocated primarily based on the level of securities owned attributable to this division.

**Convertible Bond Arbitrage Advisory Group**

The revenues and expenses of the Institutional Convertible Bond Arbitrage Advisory Group (the Group) for the periods above reflect the activity of the operation through June 30, 2007. Prior to closing the division, the Company had allocated interest expense to the Group based on debt identified as being specifically attributed to those operations.

**Taxable Fixed Income**

The revenue and expense of the Taxable Fixed Income Corporate Bond division for the three and six months ended June 30, 2008 represents the activity of the operations during that time period. No interest has been allocated to Taxable Fixed Income since this division was closed. Prior to closing this division, interest was allocated primarily based on the level of securities owned attributable to this division.

Private Client Group

The Private Client Group's expense for the three and six months ended June 30, 2008 and June 30, 2007, respectively, relates primarily to legal matters which were related to the operations prior to its disposal. For the periods presented, interest was not allocated to the Private Client Group. In March 2007, the statute of limitations lapsed related to a tax reserve that was established when the group was sold in 2000 resulting in a \$0.1 million income tax benefit for the six months ended June 30, 2007.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

**21. Restructuring**

On October 17, 2007, the Company announced a plan whereby the Company determined that it will outsource certain of its administrative functions, consolidate certain of such functions in its New York City location, and reduce staff in order to properly size its business consistent with its current levels of activity. In connection with the plan, the Company recognized approximately \$2.1 million of expense in the first six months of 2008 of which \$1.1 million relates to termination benefits and \$1.0 million is related to occupancy and other expenses. The Company anticipates that it will incur additional restructuring costs related to occupancy as it reduces excess office space in Boston and San Francisco, and is currently evaluating these costs. The restructuring is anticipated to be completed in 2008. A summary of restructuring charges incurred as part of the Plan for the three month period ended June 30, 2008 follows:

*(In thousands of dollars)*

Severance	\$349
Exit Costs	469
Asset Impairments	51
Other	
 Total Restructuring Charges	 \$869

The following tables summarize the changes in the Company's liability relating to the Plan for the six month period ended June 30, 2008:

*(In thousands of dollars)*

Balance December 31, 2007	\$ 886
Severance payments made	(1,676)
Additional severance reserve made	1,121
Net Payments for sublease real estate impaired	(195)
Exit cost reserved at period end	427
Payment of other expenses reserved for at prior period end	(33)
 Balance, June 30, 2008	 \$ 530

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
(Unaudited)

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

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

**Business Overview**

Broadpoint Securities Group, Inc. the Company is an independent investment bank that serves the growing institutional market and corporate middle market by providing clients with strategic, research-based investment opportunities, and financial advisory services, including merger and acquisition, restructuring, recapitalization and strategic alternative analysis services. The Company offers a diverse range of products through Broadpoint Capital, Inc.'s Equities division and its new Debt Capital Markets division, as well as Broadpoint Securities, Inc., its mortgage-backed security/asset-backed security trading subsidiary, and FA Technology Ventures Inc., its venture capital subsidiary. The Company, a New York corporation, is traded on The NASDAQ Global Market, which we refer to as NASDAQ, under the symbol BPSG. The Company changed its symbol from FACT to BPSG effective November 12, 2007. The Company operates through three primary business segments: Equities, Fixed Income and Other.

The Company's Equities segment is comprised of Equity Sales and Trading and Equities Investment Banking services. Equities Sales and Trading provides equity trade execution to institutional investors and generates revenues primarily through commissions and sales credits earned on executing equity transactions, trading gains and losses from market making activities and capital committed to facilitating customer transactions and fees received for equity research. Equities Investment Banking generates revenues by providing financial advisory, capital raising, mergers and acquisitions, and restructuring services to small and mid-cap companies focusing primarily on the healthcare, energy and powertech sectors of the economy.

The Company's Fixed Income business consists of Fixed Income Sales and Trading and Fixed Income Investment Banking. Fixed Income Sales and Trading provides trade execution to institutional investors and generates revenues primarily through commissions and sales credits earned on executing securities transactions in the following products:

Mortgage-Backed and Asset-Backed Securities

High Grade Bonds (Investment Grade and Government Bonds)

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
(Unaudited)

Fixed Income investment banking generates revenues by providing financial advisory and capital raising services in structuring asset-backed securities.

The Company's Other segment includes the results from the Company's investment portfolio, venture capital business, and costs related to corporate overhead and support. The Company's investment portfolio generates revenue from unrealized gains and losses as a result of changes in the value of the firm's investments and realized gains and losses as a result of sales of equity holdings. The Company's venture capital business generates revenue through the management of and investment in venture capital funds.

The Company believes it has an opportunity to become one of the premier investment banking boutiques serving the middle market, which the Company believes is a largely under-served market. The Company has taken steps to divest non-core and non-growth businesses and will focus on growing its middle market position by broadening its product line through growth and investments in key personnel.

In the second quarter of 2006, the Company ceased operations in its Taxable Fixed Income division due to a changing business environment and continued revenue declines. In the third quarter of 2006, the Company determined that it would dispose of its Institutional Convertible Bond Arbitrage Advisory Group due to a continued decline in assets under management. In April 2007, the Company ceased operations of the Institutional Convertible Bond Arbitrage Advisory Group and currently expects that any ongoing costs related to the shutdown will be immaterial. In the second quarter of 2007, the Company discontinued operations in its Fixed Income Middle Markets Group following the departure of the employees from that group. In the third quarter of 2007 the Company completed the sale of its Municipal Capital Markets division to DEPFA BANK plc, an Irish public limited company.

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

In March 2008, the Company and Broadpoint Capital completed its hiring of 47 employees of the New Jersey-based Fixed Income division of BNY Capital Markets, Inc. and the acquisition of certain related assets. The Company has formed a new Debt Capital Markets group within our Fixed Income segment with the new employees that operates a comprehensive sales and trading platform that specializes in high yield, distressed, investment grade corporate, treasury, government agency, convertible bond, and equity securities.

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

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

**RESTRUCTURING**

In 2007, the Company implemented a restructuring plan to properly size the Company's infrastructure with its current level of activity. As a result, the Company incurred approximately \$2.1 million in restructuring costs through the second quarter of 2008 and incurred \$2.7 million in restructuring costs during the fourth quarter of 2007. The plan includes a reduction in IT and operations support headcount, outsourcing the Company's clearing operations, and eliminating excess office space. The restructuring costs incurred to date of \$4.8 million are expected to yield approximately \$6.1 million in annual savings.





**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS

(Unaudited)

The Company anticipates that it will incur additional restructuring costs related to occupancy as we reduce excess office space in Boston and San Francisco, and is currently evaluating these costs.

29

---

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
(Unaudited)

**Financial Overview**Three Months Ended June 30, 2008 and 2007

Net revenues for the second quarter of 2008 were \$34.1 million, an increase of \$24.3 million, or 248%, from \$9.8 million in the second quarter of 2007. Pre-tax loss from continuing operations in the second quarter was \$0.3 million compared to a loss of \$5.8 million in the prior year quarter. The Company reported a net loss of \$1.1 million, or \$(0.02) per common share, for the second quarter of 2008, compared to a net loss of \$5.0 million, or \$(0.32) per common share, for the second quarter of 2007.

<i>(In thousands of dollars)</i>	Three Months Ended June 30	
	2008	2007
<i>Revenues:</i>		
Commissions	\$ 971	\$ 1,262
Principal transactions	20,739	5,181
Investment banking	3,529	2,342
Investment banking revenue from affiliate	5,755	
Investment gains	290	266
Interest	3,176	7,283
Fees and other	629	451
Total revenues	35,089	16,785
Interest expense	1,009	6,985
Net revenues	34,080	9,800
<i>Expenses (excluding interest):</i>		
Compensation and benefits	26,126	9,061
Clearing, settlement and brokerage	667	857
Communications and data processing	2,239	2,009
Occupancy and depreciation	1,549	1,525
Selling	1,016	1,013
Restructuring	869	
Other	1,867	1,113
Total expenses (excluding interest)	34,333	15,578
Loss before income taxes	(253)	(5,778)
Income tax expense (benefit)	763	(146)
Income (loss) from continuing operations	(1,016)	(5,632)
Income (loss) from discontinued operations, (net of taxes) (see Discontinued Operations note)	(79)	654

Net loss	\$ (1,095)	\$ (4,978)
Net interest income:		
Interest income	\$ 3,176	\$ 7,283
Interest expense	1,009	6,985
Net interest income expense	\$ 2,167	\$ 298

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
(Unaudited)

**Net Revenue**

Net revenue increased \$24.3 million, or 248 percent, in the second quarter of 2008 to \$34.1 million due primarily to an increase in sales and trading and investment banking related revenue of \$22.3 million. A decrease in equity listed transactions resulted in an 23 percent decrease in commission revenue. Principal transaction revenue increased 300 percent compared to the second quarter 2007 as a result of increased net revenues in the Fixed Income division including the addition of the Debt Capital Markets group in March 2008.

**Non-Interest Expense**

Non-interest expense increased \$18.8 million, or 120 percent, to \$34.3 million in the second quarter of 2008.

Compensation and benefits expense increased 188 percent, or \$17.1 million, to \$26.1 million which was primarily related to an increase in net revenue of 248 percent.

Clearing, settlement, and brokerage costs of \$0.7 million represented a 22 percent decline versus the second quarter of 2007, primarily due to a decrease in equity trading volumes offset by increases in activity of the Debt Capital Markets group.

Communications and data processing costs increased slightly to \$2.2 million or 11 percent from \$2.0 million due primarily to the addition of the Debt Capital Markets group.

Occupancy and depreciation expense and selling expense remained relatively unchanged.

Other expense increased \$0.8 million, or 68 percent, in the second quarter of 2008 due to an increase in legal expense associated with the formation of a new capitalization and restructuring group within the Company's Investment Banking division and an increase in employment fees.

The Company reported a tax expense of approximately \$0.8 million and a tax benefit of approximately \$0.1 million for the quarters ended June 30, 2008 and 2007, respectively. Included in the tax provision for the three months ended June 30, 2008 are approximately \$0.8 million of increases in the gross amount of the unrecognized tax benefits related to the current year that, if recognized in the future, would affect the effective tax rate.

The Company maintains a full valuation allowance against its net deferred tax asset position. The valuation allowance was recorded as a result of uncertainties as to the realization of the deferred tax asset after weighing all positive and negative evidence, including the Company's history of cumulative losses over at least the past three years and the difficulty of forecasting future taxable income.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
(Unaudited)

**Product Highlights**

For presentation purposes, net revenue within each of the businesses is classified as sales and trading, investment banking, investment gains (losses), or net interest / other. Sales and trading net revenue includes commissions and principal transactions. Investment banking includes revenue related to underwritings and other investment banking transactions. Investment gains (losses) reflects gains and losses on the Company's investment portfolio. Net interest / other includes interest income, interest expense, and fees and other revenue. Net revenue presented within each category may differ from that presented in the financial statements as a result of differences in categorizing revenue within each of the revenue line items listed below for purposes of reviewing key business performance.

<i>Equities</i>	Three Months Ended June 30,		
	2008	2007	2008 V 2007
<i>(In thousands of dollars)</i>			
<i>Net revenue</i>			
Sales and Trading	\$1,700	\$ 2,963	(43)%
Investment Banking	7,029	1,857	279%
Net Interest / Other		20	N/M
Total Net Revenue	\$8,729	\$ 4,840	80%
Pre-Tax Contribution	\$ 793	\$(3,704)	N/M

**Equities Q2 2008 vs. Q2 2007**

Net revenues in Equities decreased \$1.3 million, or 43 percent, to \$1.7 million in the second quarter of 2008. In the second quarter 2008, Equities represented 26 percent of consolidated net revenue, excluding the impact of other investment gains and interest, compared to 55 percent in the same period in 2007. In Equity Sales and Trading, the desk continues to experience declines in commission revenue due to declines in customer trading volumes. Equity Investment Banking net revenues increased 279 percent or \$5.2 million versus the same period in the prior year primarily due to the addition of the new Recapitalization and Restructuring Group in the first quarter of 2008. The Company continued to expand its Equity Investment Banking group with the addition of two senior Investment Banking professionals in the second quarter of 2008.

<i>Fixed Income</i>	Three Months Ended June 30,		
	2008	2007	2008 V 2007
<i>(In thousands of dollars)</i>			
<i>Net revenue</i>			
Sales and Trading	\$20,129	\$3,408	491%
Investment Banking	2,255	605	273%
Net Interest / Other	2,158	(98)	N/M
Total Net Revenue	\$24,542	\$3,915	527%

Pre-Tax Contribution	\$ 6,183	\$ 987	526%
----------------------	----------	--------	------

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
(Unaudited)

Fixed Income Q2 2008 vs. Q2 2007

Fixed Income net revenue increased 527 percent or \$20.6 million, to \$24.5 million in the second quarter of 2008. Increases were seen in sales and trading revenue of \$16.7 million, in net interest/other of \$2.3 million, and in investment banking revenue of \$1.7 million. Sales and Trading net revenue increased 491 percent to \$20.1 million primarily as a result of increases of \$10.9 million from the Debt Capital Markets group, which began trading in March 2008, and Broadpoint Securities of \$5.8 million. Fixed Income Investment Banking net revenue increased \$2.2 million compared to the same period in 2007. The increase in net revenues positively impacted the pre-tax contribution, which increased \$5.2 million compared to the same period in 2007. The Company furthered its Fixed Income capabilities with the addition of several professionals in the second quarter of 2008.

<i>Other</i>	Three Months Ended June 30,		
<i>(In thousands of dollars)</i>	2008	2007	2008 V 2007
<i>Net revenue</i>			
Investment Gains	\$ 1,126	\$ 266	323%
Net Interest / Other	(317)	779	(141)%
Total Net Revenue	\$ 809	\$ 1,045	(23)%
Pre-Tax Contribution	\$(7,229)	\$(3,061)	136%

Other Q2 2008 vs. Q2 2007

Other net revenue decreased \$0.2 million for the second quarter of 2008 compared to the same period in 2007. Profitability was negatively impacted primarily by costs associated with the previously announced restructuring plan and an increase in compensation and benefit expense associated with payments to a former employee under a previously disclosed employment agreement.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
(Unaudited)

**Financial Overview**Six Months Ended June 30, 2008 and 2007

Net revenues for the first half of 2008 were \$51.4 million, an increase of \$30.6 million, or 147% from \$20.8 million reported in the first half of 2007. The Company reported a net loss of \$10.3 million or \$0.16 per common share for the first half of 2008 compared to a net loss of \$9.4 million or \$0.60 per common share for the first half of 2007. Pre-tax loss from continuing operations in the first six months of 2008 was \$8.7 million compared to a loss of \$12.2 million in the prior year period.

<i>(In thousands of dollars)</i>	Six Months Ended June 30	
	2008	2007
<i>Revenues:</i>		
Commissions	\$ 1,251	\$ 3,010
Principal transactions	34,805	10,893
Investment banking	3,824	4,900
Investment banking revenue from affiliate	6,130	
Investment gains	237	505
Interest	7,851	8,661
Fees and other	1,153	900
Total revenues	55,251	28,869
Interest expense	3,828	8,047
Net revenues	51,423	20,822
<i>Expenses (excluding interest):</i>		
Compensation and benefits	43,279	18,927
Clearing, settlement and brokerage costs	1,054	2,071
Communications and data processing	3,899	4,205
Occupancy and depreciation	3,106	3,148
Selling	2,087	1,970
Restructuring	2,063	
Other	4,663	2,694
Total expenses (excluding interest)	60,151	33,015
Loss before income taxes	(8,728)	(12,193)
Income tax expense (benefit)	1,536	(503)
Income (loss) income from continuing operations	(10,264)	(11,690)
Income (loss) income from discontinued operations, (net of taxes) (see Discontinued Operations note)	(74)	2,250



Edgar Filing: BROADPOINT SECURITIES GROUP, INC. - Form 10-Q

Net loss	\$ (10,338)	\$ (9,440)
Net interest income:		
Interest income	\$ 7,851	\$ 8,661
Interest expense	3,828	8,047
Net interest income expense	\$ 4,023	\$ 614

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
(Unaudited)

**Net Revenue**

Net revenue increased \$30.6 million, or 147 percent, in the first six months of 2008 to \$51.4 million due primarily to increases in investment banking and principal transaction revenue, which increased 183 percent compared to the same period in 2007. The increase in principal transaction revenue is a result of increased net revenues in the Fixed Income division including the addition of the Debt Capital Markets group in March 2008.

**Non-Interest Expense**

Non-interest expense increased \$27.1 million, or 82 percent, to \$60.2 million in the first six months of 2008.

Compensation and benefits expense increased 129 percent, or \$24.4 million, to \$43.3 million. The increase was primarily related to an increase in net revenue of 147 percent.

Clearing, settlement, and brokerage costs of \$1.1 million represented a 49 percent decline versus the same period in 2007. The decrease is due primarily to a decrease in Equities trading volumes partially offset by the Debt Capital Markets group.

Communications and data processing costs decreased \$0.3 million or 7 percent to \$3.9 million due primarily to a decrease in Equities trading volumes partially offset by the Debt Capital Markets group.

Occupancy and depreciation expense remained relatively unchanged at \$3.1 million.

Selling expense increased 6 percent, to \$2.1 million in the first six months of 2008 due primarily to an increase in travel and entertainment expense and dues and fees expenses.

Other expense increased \$2.0 million, or 73 percent, in the first six months of 2008 due to an increase in legal expense associated with the formation of a new capitalization and restructuring group within the Company's Investment Banking division and an increase in employment fees.

The Company reported a tax expense of approximately \$1.5 million and a tax benefit of approximately \$0.5 million for the six months ended June 30, 2008 and 2007, respectively. Included in the tax provision for the six months ended June 30, 2008 are approximately \$1.5 million of increases in the gross amount of unrecognized tax benefits related to the current year that, if recognized in the future, would affect the effective tax rate.

The Company maintains a full valuation allowance against its net deferred tax asset position. The valuation allowance was recorded as a result of uncertainties as to the realization of the deferred tax asset after weighing all positive and negative evidence, including the Company's history of cumulative losses over at least the past three years and the difficulty of forecasting future taxable income.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
(Unaudited)

**Product Highlights**

For presentation purposes, net revenue within each of the businesses is classified as sales and trading, investment banking, investment gains (losses), or net interest / other. Sales and trading net revenue includes commissions and principal transactions. Investment banking includes revenue related to underwritings and other investment banking transactions. Investment gains (losses) reflects gains and losses on the Company's investment portfolio. Net interest / other includes interest income, interest expense, and fees and other revenue. Net revenue presented within each category may differ from that presented in the financial statements as a result of differences in categorizing revenue within each of the revenue line items listed below for purposes of reviewing key business performance.

<i>Equities</i>	Six Months Ended June 30,		
<i>(In thousands of dollars)</i>	2008	2007	2008 V 2007
<i>Net revenue</i>			
Sales and Trading	\$ 3,515	\$ 7,979	(56)%
Investment Banking	7,504	4,109	83%
Net Interest / Other		33	N/M
 Total Net Revenue	 \$11,019	 \$12,121	 (9)%
 Pre-Tax Contribution	 \$ (3,619)	 \$ (6,089)	 (41)%

**Equities YTD 2008 vs. YTD 2007**

Net revenues in Equities decreased \$1.1 million, or 9 percent, to \$11 million in the first six months of 2008. During the first six months of 2008, Equity sales and trading decreased 56% or \$4.5 million from the same period in the previous year. Equity Investment Banking net revenues increased 83 percent or \$3.4 million versus the same period in the prior year primarily due to the addition of the new Recapitalization and Restructuring Group in the first quarter of 2008. The Company continued to expand its Equity Investment Banking group with the addition of two senior Investment Banking professionals in the second quarter of 2008.

<i>Fixed Income</i>	Six Months Ended June 30,		
<i>(In thousands of dollars)</i>	2008	2007	2008 V 2007
<i>Net revenue</i>			
Sales and Trading	\$32,731	\$6,013	444%
Investment Banking	2,450	869	182%
Net Interest / Other	3,995	(339)	N/M
 Total Net Revenue	 \$39,176	 \$6,543	 499%

Pre-Tax Contribution	\$11,242	\$ 539	N/M
----------------------	----------	--------	-----

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
(Unaudited)

Fixed Income YTD 2008 vs. YTD 2007

Fixed Income net revenue increased 499 percent or \$32.6 million, to \$39.2 million in the first six months of 2008. Increases were seen in sales and trading revenue of \$26.7 million in net interest/other of \$4.3 million and in investment banking revenue of \$1.6 million. Sales and Trading net revenue increased 444 percent to \$32.7 million primarily as a result of increases in net revenue of \$14.4 million from the Debt Capital Markets division, which began trading in March 2008, and an increase in Broadpoint Securities sales and trading revenues of \$12.3 million. Fixed Income Investment Banking net revenue increased \$1.6 million compared to the same period in 2007 due to an increase in underwriting activity. The increase in net revenues led to a positive impact on profitability in pre-tax contribution, which increased \$10.7 million compared to the same period in 2007. The Company furthered its Fixed Income capabilities with the addition of several professionals in the second quarter of 2008.

<i>Other</i>	Six Months Ended June 30,		
<i>(In thousands of dollars)</i>	2008	2007	2008 V 2007
<i>Net revenue</i>			
Investment Gains	\$ 1,200	\$ 505	138%
Net Interest / Other	28	1,653	(98)%
Total Net Revenue	\$ 1,228	\$ 2,158	(43)%
Pre-Tax Contribution	\$(16,351)	\$(6,643)	146%

Other YTD 2008 vs. YTD 2007

Other net revenue decreased \$0.9 million for the first six months of 2008 compared to the same period in 2007 due primarily to a decrease of \$1.6 million in net interest income. Profitability was negatively impacted primarily by costs associated with the previously announced restructuring plan and an increase in compensation and benefit expense associated with payments to a former employee under a previously disclosed employment agreement.

**Liquidity and Capital Resources**

A substantial portion of the Company's assets are liquid, consisting of cash and assets readily convertible into cash. These assets are financed primarily by the Company's equity on deposit as well as payables to brokers and dealers, net. The level of assets and liabilities will fluctuate as a result of the changes in the level of positions held to facilitate customer transactions and changes in market conditions.

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

On June 27, 2008 the Company entered into a Preferred Stock Purchase Agreement with Mast for the issuance and sale of (i) 1,000,000 newly-issued unregistered shares of the Series B Preferred Stock and (ii) warrant to purchase 1,000,000 shares of the Company's common stock at an exercise price of \$3.00 per share, for an aggregate cash purchase price of \$25 million. Cash dividends of 10% per annum must be paid quarterly on the Series B Preferred Stock, while an additional dividend of 4% per annum accrues and is cumulative. The Series B Preferred Stock must be

redeemed on or before June 27, 2012. See Note 11 of the Consolidated Financial Statements.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
(Unaudited)

The redemption prices are as follows:

Date	Premium Call Factor
Prior to and including June 26, 2009	1.07
From June, 27 2009 to December 27, 2009	1.06
From December 28, 2009 to June 27, 2010	1.05
From June 28, 2010 to December 27, 2011	1.04
From December 28, 2011 to June 2012	1.00

In 2007, the Company implemented a restructuring plan to properly size the Company's infrastructure with its current level of activity. As a result, the Company incurred approximately \$2.8 million in restructuring costs during the fourth quarter of 2007 and incurred an additional \$2.1 million in restructuring costs through the second quarter of 2008. The plan includes a reduction in IT and operations support headcount, outsourcing the Company's clearing operations and eliminating excess office space. The Company anticipates that it will incur additional restructuring costs related to severance and occupancy as we reduce excess office space in Albany, Boston, and San Francisco, and is currently evaluating these costs. The restructuring is anticipated to be completed in 2008 and is expected to yield \$6.1 million in annual savings.

On November 2, 2007, the Company entered into a Fifth Amendment to Sub-Lease Agreement (the Albany Fifth Amendment) with Columbia 677, L.L.C. (the Albany Landlord) pursuant to which the Company's Sub-lease-Agreement with the Landlord dated August 12, 2003 concerning the lease of certain space in the building located at 677 Broadway, Albany, New York (the Albany Premises) was amended. The Amendment provided that the Company was to surrender a total of 15,358 square feet (the Surrender Premises) of the Albany Premises, a portion at a time, on or before three surrender dates: November 15, 2007, December 15, 2007 and April 1, 2008. If the Company failed to vacate the portion of the Surrender Premises on the applicable surrender dates, it would owe the Landlord \$1,667 for each day of such failure. The Company failed to vacate 1,398 square feet of the Surrender Premises by April 1, 2008 and as a result began to incur the daily fee on such date. The Company vacated such portion of the Surrender Premises on April 25, 2008, and paid the Albany Landlord approximately \$42,000. In consideration of the Landlord agreeing to the surrender of the Surrender Premises, the Amendment provided that the Company shall pay the Landlord a surrender fee equal to \$1,050,000 payable in three installments, all of which were paid as of June 30, 2008.

On June 19, 2008, the Company entered into a Sixth Amendment to Sub-Lease Agreement amending a Sub-Lease Agreement dated August 12, 2003, as previously amended, by and between the Company and the Albany Landlord. Pursuant thereto and on certain conditions specified therein, the parties agreed that Tenant shall be entitled to surrender the entire 12th floor of the Building consisting of 6,805 square feet of space (the 12<sup>th</sup> Floor Surrender Premises), reducing Tenant's rentable square footage of leased property in the Building to 2,953 square feet. The Company vacated the 12<sup>th</sup> Floor Surrender Premises by June 30, 2008. In consideration therefore the Company paid the Landlord \$388,703. This amount is included in Restructuring in the Company's Statement of Operations.

On June 23, 2008, the Company entered into a Seventh Amendment of Lease (the NYC Amendment), amending the Agreement of Lease dated March 21, 1996, as previously amended, by and between the Company and One Penn Plaza LLC (NYC Landlord), a New York limited liability company, for the lease of certain property located at One Penn Plaza, New York, New York. Pursuant thereto and on certain conditions specified therein, the parties agree that the term of the Lease for all of the premises currently leased by the Company on the 41st Floor and a portion of the premises on the 40th Floor will expire on October 31, 2008, as provided under existing lease terms, but that the term of the Company's lease of the entire 42nd Floor and the remaining premises on the 40th Floor shall be extended until

March 31, 2021, subject to further renewal. Under the NYC Amendment, the NYC Landlord will perform certain base building work, and will also provide a cash contribution of up to \$1,582,848 towards the Company's improvements. At the Company's election, and pursuant to certain conditions, the Company may elect to convert a portion of such cash contribution (up to \$1,000,000) to a rent credit equal to 90% of the amount so converted. In connection with the execution and delivery of the Amendment, the Company is required to provide to NYC Landlord a security deposit in the



**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
(Unaudited)

amount of \$2,107,490, either as cash or a letter of credit, to secure the performance of the Company's obligations under the Lease. Under certain conditions, the Company is entitled to reduce the security deposit to \$1,208,708 on April 1, 2014. The Company has arranged for an irrevocable standby letter of credit in favor of Landlord in the amount of \$2,107,490 to be issued by the Bank of New York.

*Regulatory*

As of June 30, 2008, Broadpoint Capital and Broadpoint Securities were in compliance with the net capital requirements of the Securities and Exchange Commission. The net capital rules restrict the amount of a broker-dealer's net assets that may be distributed. Also, a significant operating loss or extraordinary charge against net capital may adversely affect the ability of the Company's broker-dealer subsidiaries to expand or even maintain their present levels of business and the ability to support the obligations or requirements of the Company. As of June 30, 2008, Broadpoint Capital had net capital, as defined, of \$12.4 million and \$11.4 million in excess of the \$1.0 million required minimum net capital. Broadpoint Capital was reporting the level of its net capital to its FINRA representative on a weekly basis, and has provided these interim reports over the last several years. Subsequent to June 30, 2008, Broadpoint Capital was relieved from reporting these amounts to its FINRA representative on a weekly basis. The Company enters into underwriting commitments to purchase securities as part of its investment banking business. Also, the Company may purchase and sell securities on a when-issued basis. As of June 30, 2008, the Company had no outstanding underwriting commitments and had not purchased or sold any securities on a when-issued basis.

*Investments and Commitments*

As of June 30, 2008, the Company had a commitment to invest up to an additional \$1.3 million in the Partnership. The investment period expired in July 2006, however, the general partner of the Partnership, FATV GP LLC (the "General Partner"), may continue to make capital calls up 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 Partnership's primary purpose is to provide investment returns consistent with risks of investing in venture capital. In addition to the Company, certain other limited partners of the Partnership are officers or directors of the Company. The majority of the commitments to the Partnership are from non-affiliates of the Company. 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 are George McNamee, a 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. As of June 30, 2008, the Company had an additional commitment to invest up to \$0.1 million in (EIF). The investment period expired in July 2006, but the General Partner may continue to make capital calls up through July 2011 for additional investments in portfolio companies and for the payment of management fees. The Company anticipates that this will be funded by the Company through operating cash flow.

On April 30, 2008, the Company entered into a Transition Agreement (the "Transition Agreement") with FATV, FA Technology Holding, LLC ("NewCo"), Mr. McNamee, and certain other employees of FATV (such individuals, collectively, the "FATV Principals"), to effect a restructuring of the investment management arrangements relating to the Partnership, and the formation of FA Technology Ventures III, L.P., a new venture capital fund ("Fund III"). This restructuring will result in FATV ceasing to advise the Partnership and the creation of a new investment advisory company (NewCo). Fund III will be sponsored and managed by NewCo (which is independent of the Company and owned by certain of the FATV Principals) and its subsidiaries. Broadpoint's Audit Committee approved of the Transactions pursuant to Broadpoint's Related Party Transactions Policy.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
(Unaudited)

Concurrent with the first closing of Fund III (the Trigger Date), FATV will assign all of its rights, interest, obligations and liabilities as investment advisor to the Partnership to NewCo. FATV will continue to operate consistent with current practice (operations, staffing and expenses) for the purpose of performing its duties to the Partnership and Broadpoint will provide funding for such operations through the date that is the earlier to occur of (i) the Trigger Date and (ii) December 31, 2008.

Pursuant to the Transition Agreement, and subject to certain conditions, Broadpoint will make a capital commitment of \$10 million to Fund III (the Broadpoint Commitment) at the closing of Fund III at which the total commitments to Fund III (excluding the Broadpoint Commitment) exceed a threshold amount. If such threshold is not met by June 30, 2009, Broadpoint's obligation to make the Broadpoint Commitment shall terminate. Broadpoint will also receive an equity interest in the general partner of Fund III, subject to the making of the Broadpoint Commitment. In addition, Broadpoint will have the right to receive additional compensation for capital commitments made to Fund III from certain investors introduced by Broadpoint's affiliates.

It is also contemplated that, on the Trigger Date, each of the FATV Principals will resign from FATV and/or Broadpoint, as the case may be. Broadpoint has also agreed to assign to NewCo the name FA Technology.

*Contingent Consideration*

On May 14, 2004, the Company acquired 100 percent of the outstanding common shares of Descap Securities Inc., now known as Broadpoint Securities, Inc. Broadpoint Securities, a New York-based broker-dealer and investment bank. Per the stock purchase agreement, the sellers were to receive future contingent consideration based on the following: For each of the three years ending May 31, 2005, May 31, 2006 and May 31, 2007, if Broadpoint Securities Pre-Tax Net Income (exclusive of certain intercompany charges, as defined) (i) is greater than \$10 million, The Company was to pay to the sellers an aggregate amount equal to fifty percent (50%) of Broadpoint Securities Pre-Tax Net Income for such period or (ii) is equal to or less than \$10 million, the Company was to pay them an aggregate amount equal to forty percent (40%) of Broadpoint Securities Pre-Tax Net Income for such period. Based upon Broadpoint Securities Pre-Tax Net Income from June 1, 2004 through May 31, 2005, \$2.2 million on contingent consideration was paid to the Sellers and from June 1, 2005 through May 31, 2006, \$1.0 million of contingent consideration was paid to the Sellers on May 29, 2008. Based upon Broadpoint Securities Pre-Tax Net Income from June 1, 2006 to May 31, 2007, no contingent consideration is payable to the Sellers for this period.

*Contingent Liabilities*

On September 14, 2007, the Company consummated the sale of the Municipal Capital Market Group of its subsidiary, Broadpoint Capital, Inc. to DEPFA Bank plc (DEPFA). In connection with such sale, the Company recognized a pre-tax gain on sale in the amount of \$7.9 million. Pursuant to the asset purchase agreement, the Company was required to deliver an estimate of the accrued bonuses at closing and a final accrued bonus calculation thirty days following closing. The Company accrued the bonus consistent with the asset purchase agreement. All items arising from the sale of the Municipal Capital Markets Group were reflected in the Gain on Sale of Discontinued Operations. This includes the closing bonuses paid to employees and the reversal of restricted stock and deferred cash amortization as a result of the employees' termination of employment. On October 30, 2007, DEPFA provided the Company notice that it was exercising its option pursuant to the agreement to appoint an independent accounting firm to conduct a special audit of the final accrued bonus amount. On June 26, 2008, DEPFA provided the Company notice that it was withdrawing its dispute of the final accrued bonus amount.

*Legal Proceedings*

From time to time the Company and its subsidiaries are involved in legal proceedings or disputes. (See Part I Item 3 Legal Proceedings). An adverse result or development in respect of these matters, whether in settlement or as a result of litigation or arbitration, could materially adversely affect the Company's consolidated financial condition, results of operations, cash flows and liquidity.



**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
(Unaudited)

In addition, the securities industry is highly regulated. We are subject to both routine and unscheduled regulatory examinations of our business and investigations of securities industry practices by governmental agencies and self-regulatory organizations. In recent years securities firms have been subject to increased scrutiny and regulatory enforcement activity. Regulatory investigations can result in substantial fines being imposed on us. Periodically we receive inquiries and subpoenas from the SEC, state securities regulators and self-regulatory organizations. We do not always know the purpose behind these communications or the status or target of any related investigation. Our responses to these communications have in the past resulted in our being cited for regulatory deficiencies, although to date these communications have not had a material adverse effect on our business.

*Intangible Assets*

Intangible assets consist predominantly of customer related intangibles and goodwill related to the acquisitions of Broadpoint Securities and the Debt Capital Markets Group. These intangible assets were allocated to the reporting units within Broadpoint Securities Group, Inc. pursuant to SFAS No. 142, Goodwill and Other Intangible Assets. Goodwill represents the excess cost of a business acquisition over the fair value of the net assets acquired. In accordance with SFAS No. 142, indefinite-life intangible assets and goodwill are not amortized. The Company reviews its goodwill in order to determine whether its value is impaired on an annual basis. In addition to annual testing, goodwill is also tested for impairment at the time of a triggering event requiring re-evaluation, if one were to occur. Goodwill is impaired when the carrying amount of the reporting unit exceeds the implied fair value of the reporting unit. When available, the Company uses recent, comparable transactions to estimate the fair value of the respective reporting units. The Company calculates an estimated fair value based on multiples of revenues, earnings and book value of comparable transactions. However, when such comparable transactions are not available or have become outdated, the Company uses Income and Market approaches to determine fair value of the reporting unit. The Income approach applies a discounted cash flow analysis based on management's projections, while the Market approach analyzes and compares the operating performance and financial condition of the reporting unit with those of a group of selected publicly-traded companies that can be used for comparison. However, changes in current circumstances or business conditions could result in an impairment of goodwill. As required the Company will continue to perform impairment testing on an annual basis or when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

As of June 30, 2008, \$17.3 million of goodwill and \$1.2 million of amortizable customer intangibles have been recorded on Broadpoint Securities Group, Inc.'s financial statements. As a result of annual impairment testing at December 31, 2007, the goodwill related to the acquisition of Broadpoint Securities Inc. was determined not to be impaired.

*Tax Valuation Allowance*

At June 30, 2008, the Company has a valuation allowance against its deferred tax asset. The valuation allowance was established as a result of weighing all positive and negative evidence, including the Company's history of cumulative losses over at least the past three years and the difficulty of forecasting future taxable income. As a result, the Company does not anticipate that the payment of future taxes will have a significant negative impact on its liquidity and capital resources.

**OFF-BALANCE SHEET ARRANGMENTS**

Information concerning the Company's off balance sheet arrangements are included in the Contractual Obligations section which follows. Except as set forth in such section, the Company has no off-balance sheet arrangements.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
(Unaudited)

**CONTRACTUAL OBLIGATIONS**

The following table sets forth these contractual obligations by fiscal year:

<i>(In thousands of dollars)</i>	<b>Total</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Thereafter</b>	<b>All Others</b>
Operating leases (net of sublease rental income)(1)	53,788	2,693	5,479	5,160	5,263	5,183	30,010	
Guaranteed compensation payments (2)	2,493	123	2,370					
Restructuring compensation payments (3)	71	71						
Partnership and employee investment funds commitments (4)	1,600	1,600						
Partnership transition commitment (5)	10,000		10,000					
Mandatory Preferred Stock (6)	39,314	1,277	2,500	2,500	2,500	30,537		
Subordinated debt (7)	1,663		465	287	108	208	595	
Liabilities from unrecognized tax benefits (8)	2,600							2,600
<b>Total</b>	<b>\$111,529</b>	<b>\$5,764</b>	<b>\$20,814</b>	<b>\$7,947</b>	<b>\$7,871</b>	<b>\$35,928</b>	<b>\$30,605</b>	<b>\$2,600</b>

(1) The Company's headquarters and sales offices, and certain office and communication equipment, are leased under non-cancelable operating leases, certain of which contain escalation clauses and which expire at various times through 2021 (see Note 10 to the unaudited Condensed Consolidated Financial

Statements.)

- (2) Guaranteed compensation payments primarily include various employment and consulting compensation arrangements.
- (3) Restructuring compensation payments are comprised of various severance agreements.
- (4) The Company has a commitment to invest in FA Technology Ventures L.P. (the Partnership ) and an additional commitment to invest in funds that invest in parallel with the Partnership (see Note 10 to the unaudited Condensed Consolidated Financial Statements ).
- (5) In connection with the Transition Agreement the Company entered into with FATV, FA Technology Holding, LLC, and the FATV

Principals, the Company has a commitment to invest \$10 million in Fund III, subject to certain conditions (see Note 10 to the unaudited Condensed Consolidated Financial Statements).

- (6) In connection with the Series B Preferred Stock Purchase Agreement on and effective June 27, 2008, the holders of Series B Preferred Stock are entitled to receive cash dividend of 10% per annum, payable quarterly, as well as dividends at rate of 4% per annum which accrue and are cumulative. The Company is required to redeem all of the Series B Preferred Stock on or before June 27, 2012 at the Redemption Price. (see Note 11 to the unaudited Condensed Consolidated

Financial  
Statements.)

- (7) A select group of management and highly compensated employees are eligible to participate in the Broadpoint Securities Group, Inc. Deferred Compensation Plan for Key Employees (the Plan ). The employees enter into subordinate loans with the Company to provide for the deferral of compensation and employer allocations under the Plan. The accounts of the participants of the Plan are credited with earnings and/or losses based on the performance of various investment benchmarks selected by the participants. Maturities of the subordinated debt are based on the distribution election made by each participant, which may be deferred to a later date by the



participant. As of February 28, 2007, the Company no longer permits any new amounts to be deferred under the Plan.

- (8) At June 30, 2008, the Company has a reserve for unrecognized tax benefits including related interest of \$2.6 million. The Company is unable at this time to estimate the periods in which potential cash outflows relating to these liabilities would occur because the timing of the cash flows are dependent upon audit by the relevant taxing authorities. The Company presently has an ongoing audit with the State of New York. Management does not expect any significant change in unrecognized tax benefits in the next twelve months.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS  
(Unaudited)

**NEW ACCOUNTING STANDARDS**

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 sets forth the level authority attributed to a given accounting pronouncement. SFAS No. 162 contains no specific disclosure requirements. The effective date for implementation has yet to be determined.

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Contracts* (SFAS No. 163). SFAS No. 163 requires disclosure of insurance enterprise's risk-management activities. The effective date for SFAS No. 163 is for fiscal years beginning after December 15, 2008. SFAS No. 163 is not applicable to the Company.

In April of 2008, the FASB issued FSP 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 is intended to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The effective date for FSP 142-3 is for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of SFAS No. 160 on the consolidated statement of financial condition and results of operations.

In June 2008, FASB issued EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (EITF 03-06-1). EITF 03-06-1 applies to the calculation of earnings per share under FASB No. 128 *Earnings Per Share* for share-based payment awards with rights to dividends or dividend equivalents. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The effective date for EITF 03-6-1 is for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of EITF 03-6-1 on the consolidated statement of financial condition and results of operations.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK  
 (Unaudited)

**Item 3. Quantitative and Qualitative Disclosures about Market Risk****MARKET RISK**

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest rates and equity prices, changes in the implied volatility of interest rates and equity prices and also changes in the credit ratings of either the issuer or its related country of origin. Market risk is inherent to both derivative and non-derivative financial instruments, and accordingly, the scope of the Company's market risk management procedures extends beyond derivatives to include all market-risk-sensitive financial instruments. The Company's exposure to market risk is directly related to its role as a financial intermediary in customer-related transactions and to its proprietary trading.

The Company trades U.S. Treasury bills, notes, and bonds; U.S. Government agency notes and bonds; mortgage-backed securities, and corporate obligations. The Company is also an active market maker in the NASDAQ equity markets. In connection with these activities, the Company may be required to maintain inventories in order to facilitate customer transactions.

The following table categorizes the Company's market risk sensitive financial instruments by type of security and maturity date, if applicable (equity securities and other investments with no maturity are being shown in the table under 2008). The amounts shown are net of long and short positions.

<i>(In thousands of dollars)</i>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Thereafter</b>	<b>Total</b>
Fair value of securities								
Corporate bonds	\$12,275	\$6,859	\$13,015	\$4,649	\$3,384	\$12,128	\$39,019	\$ 91,329
State and municipal bonds	(4)	1	(2)				5	
US Government and federal agency obligations	62	1,814	(15,207)	7	627	(9,085)	120,305	98,523
Subtotal	12,333	8,674	(2,194)	4,656	4,011	3,043	159,329	189,852
Equity securities	1,428							1,428
Investments	17,150							17,150
Other	515							515
Fair value of securities	\$31,427	\$8,674	\$(2,194)	\$4,656	\$4,011	\$3,043	\$159,329	\$208,946

The following is a discussion of the Company's primary market risk exposures as of June 30, 2008, including a discussion of how those exposures are currently managed.

**Interest Rate Risk**

Interest rate risk is a consequence of maintaining inventory positions and trading in interest-rate-sensitive financial instruments. These financial instruments include corporate debt securities, mortgage-backed and asset-backed securities, government securities and government agency securities. In connection with trading activities, 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. The Company's fixed income activities also expose it to the risk of loss related to changes in credit spreads.

A sensitivity analysis has been prepared to estimate the Company's exposure to interest rate risk of its net inventory positions. The fair market value of these securities included in the Company's inventory at June 30, 2008 was \$190.4 million and \$119.6 million at June 30, 2007. Interest rate risk is estimated as the potential loss in fair value resulting from a hypothetical one-half percent change in interest rates. At June 30, 2008, the potential change in fair value using a yield to maturity calculation and assuming this hypothetical change, was \$9.0 million and at June 30, 2007 it was \$6.7 million. The actual risks and results of such adverse effects may differ substantially.

*Equity Price Risk*

The Company is exposed to equity price risk as a consequence of making markets in equity securities. Equity price risk results from changes in the level or volatility of equity prices, which affect the value of equity securities or instruments that derive their value from a particular stock. The Company attempts to reduce the risk of loss inherent in its inventory of equity securities by monitoring those security positions throughout each day.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK  
(Unaudited)

Marketable equity securities included in the Company's inventory, which were recorded at a fair value of \$1.4 million in securities owned at June 30, 2008 and \$4.2 million in securities owned at December 31, 2007, have exposure to equity price risk. This risk is estimated as the potential loss in fair value resulting from a hypothetical 10 percent adverse change in prices quoted by stock exchanges and amounts to \$0.1 million at June 30, 2008 and \$0.4 million at June 30, 2007. The Company's investment portfolio excluding the consolidation of the Employee Investment Fund at June 30, 2008 and June 30, 2007, had a fair market value of \$17.2 million and \$12.4 million, respectively. Equity price risk is also estimated as the potential loss in fair value resulting from a hypothetical 10 percent adverse change in equity security prices or valuations and for the Company's investment portfolio excluding the consolidation of the Employee Investment Funds amounted to \$1.7 million at June 30, 2008 and \$1.2 million at June 30, 2007. There can be no assurance that the Company's actual losses due to its equity price risk will not exceed the amounts indicated above. The actual risks and results of such adverse effects may differ substantially.

**CREDIT RISK**

The Company is engaged in various trading and brokerage activities whose counter parties primarily include broker-dealers, banks, and other financial institutions. In the event counter parties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the credit worthiness of the counter party or issuer of the instrument. The Company seeks to control credit risk by following an established credit approval process, monitoring credit limits, and requiring collateral where it deems appropriate.

The Company purchases debt securities and may have significant positions in its inventory subject to market and credit risk. In order to control these risks, security positions are monitored on at least a daily basis. 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 size of the position sold.

Broadpoint Securities and Broadpoint Capital clear customers' securities transactions through a third party under a clearing agreement. Under these agreements, the clearing agent executes and settles customer securities transactions, collects margin receivables related to these transactions, monitors the credit standing and required margin levels related to these customers and, pursuant to margin guidelines, requires the customer to deposit additional collateral with them or to reduce positions, if necessary.

In the normal course of business Broadpoint Securities and Broadpoint Capital guarantee 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. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the consolidated financial statements for these indemnifications.

**OPERATING RISK**

Operating risk is the potential for loss arising from limitations in the Company's financial systems and controls, deficiencies in legal documentation and the execution of legal and fiduciary responsibilities, deficiencies in technology and the risk of loss attributable to operational problems. These risks are less direct than credit and market risk, but managing them is critical, particularly in a rapidly changing environment with increasing transaction volumes. In order to reduce or mitigate these risks, the Company has established and maintains an internal control environment that incorporates various control mechanisms at different levels throughout the organization and within such departments as Finance, Accounting, Operations, Legal, Compliance and Internal Audit. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that the Company's various businesses are operating within established corporate policies and limits.

**Table of Contents**

BROADPOINT SECURITIES GROUP, INC.  
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK  
(Unaudited)

**OTHER RISKS**

Other risks encountered by the Company include political, regulatory and tax risks. These risks reflect the potential impact that changes in local laws, regulatory requirements or tax statutes have on the economics and viability of current or future transactions. In an effort to mitigate these risks, the Company seeks to review new and pending regulations and legislation and their potential impact on its business.

46

---

**Table of Contents**

**Item 4. Controls and Procedures**

As of the end of the period covered by this Form 10-Q, the Company's management, with the participation of the Chief Executive Officer and the Principal Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the Company's management, including the Chief Executive Officer and the Principal Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no changes in the Company's internal control over financial reporting occurred during the June 30, 2008 quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents****Part II-Other Information****Item 1. Legal Proceedings**

In 1998, the Company was named in lawsuits by Lawrence Group, Inc. and certain related entities (the Lawrence Parties ) in connection with a private sale of Mechanical Technology Inc. stock from the Lawrence Parties that was previously approved by the United States Bankruptcy Court for the Northern District of New York (the Bankruptcy Court ). The Company acted as placement agent in that sale, and a number of persons who were employees and officers of the Company at that time, who have also been named as defendants, purchased shares in the sale. The complaints alleged that the defendants did not disclose certain information to the sellers and that the price approved by the court was therefore not proper. The cases were initially filed in the Bankruptcy Court and the United States District Court for the Northern District of New York (the District Court ), and were subsequently consolidated in the District Court. The District Court dismissed the cases, and that decision was subsequently vacated by the United States Court of Appeals for the Second Circuit, which remanded the cases for consideration of the plaintiffs' claims as motions to modify the Bankruptcy Court sale order. The plaintiffs' claims were referred back to the Bankruptcy Court for such consideration. Discovery is currently underway and is scheduled to close on or about September 15, 2008. The Bankruptcy Court has scheduled an evidentiary hearing on the motions to modify the sale order to commence on October 15, 2008. The Bankruptcy Court has indicated that it will hold a separate hearing to consider damages, only if it makes a finding of liability in connection with the motions to modify the sale order, 30 days after it resolves the motions to modify the sale order. The Company believes that it has strong defenses and intends to vigorously defend itself against the plaintiffs' claims, and believes the claims lack merit. However, an unfavorable resolution could have a material adverse effect on the Company's financial position, results of operations and cash flows in the period which resolved.

In early 2008, Broadpoint Capital hired Tim O'Connor and 9 other individuals to form a new capitalization and restructuring group within Broadpoint Capital's Investment Banking division. Mr. O'Connor, the new Head of Broadpoint Capital's Investment Banking Division and each of the other employees are former employees of Imperial Capital, LLC (Imperial ). Upon Broadpoint Capital's hiring of these employees, Imperial commenced an arbitration proceeding against Broadpoint Capital, Mr. O'Connor, another employee hired by Broadpoint Capital and a former employee of Imperial who is not employed by Broadpoint Capital before the Financial Industry Regulatory Authority (FINRA ). In the arbitration, Imperial alleges various causes of action against Broadpoint Capital as well as the individuals based upon alleged violations of restrictive covenants in employee contracts relating to the non-solicitation of employees and clients. Imperial claims damages in excess of \$100 million. Concurrently with the filing of the arbitration proceeding, Imperial sought and obtained a temporary restraining order in New York State Supreme Court, pending the conclusion of the FINRA arbitration hearing, enjoining Broadpoint from disclosing or making use of any confidential information of Imperial, recruiting or hiring any employees of Imperial and seeking or accepting as a client any client of Imperial, except those clients for whom any of the hired individuals had provided services as a registered representative while employed by Imperial. On April 17, 2008, Broadpoint Capital, the other respondents, and Imperial entered into a Partial Settlement whereby Imperial's claims for injunctive relief were withdrawn and it was agreed the temporary restraining order would be vacated. Imperial's remaining claim for damages will be arbitrated before FINRA at a hearing currently scheduled to commence in September 2008. The settlement provides, among other things, for the potential future payment of amounts from Broadpoint to Imperial contingent upon the successful consummation of, or receipt of fees in connection with, certain transactions. Broadpoint Capital believes that it has strong defenses to and intends to vigorously defend itself against Imperial's remaining claims. However, an unfavorable resolution could have a material adverse effect on the Company's financial position, results of operations and cash flows in the period in which resolved.

Due to the nature of the Company's business, the Company and its subsidiaries are now, and likely in the future will be, involved in a variety of legal proceedings, including the matters described above. These include litigation, arbitrations and other proceedings initiated by private parties and arising from our underwriting, financial advisory or other transactional activities, client account activities and employment matters. Third parties who assert claims may do so for monetary damages that are substantial, particularly relative to the Company's financial position. In addition, the securities industry is highly regulated. The Company and its subsidiaries are subject to both routine and



unscheduled regulatory examinations of its business and investigations of securities industry practices by governmental agencies and self-regulatory organizations. In recent years securities firms have been subject to increased scrutiny and regulatory enforcement activity.

**Table of Contents**

Regulatory investigations can result in substantial fines being imposed on the Company and/or its subsidiaries. Periodically the Company and its subsidiaries receive inquiries and subpoenas from the SEC, state securities regulators and self-regulatory organizations. The Company does not always know the purpose behind these communications or the status or target of any related investigation. The responses to these communications have in the past resulted in the Company and/or its subsidiaries being cited for regulatory deficiencies, although to date these communications have not had a material adverse effect on the Company's business.

The Company has taken reserves in its financial statements with respect to legal proceedings to the extent it believes appropriate. However, accurately predicting the timing and outcome of legal proceedings, including the amounts of any settlements, judgments or fines, is inherently difficult insofar as it depends on obtaining all of the relevant facts (which is sometimes not feasible) and applying to them often-complex legal principles. Based on currently available information, the Company does not believe that any litigation, proceeding or other matter to which it is a party or otherwise involved will have a material adverse effect on its financial position, results of operations and cash flows although an adverse development, or an increase in associated legal fees, could be material in a particular period, depending in part on the Company's operating results in that period.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

As reported on our Current Report on Form 8-K filed July 1, 2008, on June 27, 2008, the Company entered into the Preferred Stock Purchase Agreement with Mast for the issuance and sale of (i) 1,000,000 newly-issued unregistered shares of Series B Preferred Stock and (ii) warrants to purchase 1,000,000 shares of Common Stock, at an exercise price of \$3.00 per share, subject to customary anti-dilution provisions as described in the Common Stock Purchase Warrant, for an aggregate cash purchase price of \$25 million. The Shares were sold for an aggregate purchase price of \$25 million, with the proceeds from the sale to be used for general corporate purposes. The Shares were issued in a private placement in reliance on the exemption from registration in Section 4(2) of the Securities Act of 1933, as amended, on the basis that Mast is a sophisticated institutional investor and other representations made by Mast.

**Item 4. Submission of matters to a vote of security holders**

- A. Annual meeting was held on June 5, 2008.
- B. Election of Directors: (There were no broker non-votes with respect to the election of Directors)

	<b>Votes For</b>	<b>Against</b>	<b>Withheld Authority</b>
<b>Class I Directors</b>			
George C. McNamee	63,605,805		1,535,815
Mark R. Patterson	63,663,740		1,477,880
Robert S. Yingling	64,356,378		785,242
<b>Class II Directors</b>			
Lee Fensterstock	63,770,147		1,371,473
Christopher R. Pechock	63,394,262		1,747,358
<b>Class III Directors</b>			
Wade D. Nesmith	64,246,078		895,542
Frank Plimpton	63,393,010		1,748,610

- C. Directors Whose Term of Office Continued After the Annual Meeting

	<b>Expiration of Term as Director</b>
Dale Kutnick	2009
Peter J. McNierney	2009

- D. Other matters voted on at the Annual Meeting

- To consider and act upon a proposal to amend the Broadpoint Securities Group, Inc. 2007 Incentive Compensation Plan to increase the maximum number of shares authorized for issuance under the 2007 Plan by 10,675,000 shares, subject to adjustment;

For:	54,689,636
Against:	2,477,615
Abstain:	301,071
Broker non-votes:	7,673,298

- To consider and act upon a proposal to re-approve the Senior Management Bonus Plan;

For:	54,846,518
Against:	2,104,533
Abstain:	517,271

Broker non-votes:

50

7,673,298

---

**Table of Contents**

3. To consider and act upon a proposal to ratify the appointment of PricewaterhouseCoopers LLP as independent accountants of the Company for the fiscal year ending December 31, 2008;

For:	64,425,986
Against:	682,962
Abstain:	32,672
Broker non-votes:	

**Item 5. Other information**

NONE

**Table of Contents**

**Item 6. Exhibits**

(a) Exhibits

Exhibit

Number Description

- 3.1 Certificate of Amendment of the Certificate of Incorporation of Broadpoint Securities Group dated June 28, 2008, Inc. (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed July 1, 2008 and incorporated herein by reference thereto).
- 10.72 Amendment to Fully Disclosed Clearing Agreement dated April 10, 2008 by and between Broadpoint Securities, Inc. and Ridge Clearing & Outsourcing Solutions, Inc. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 16, 2008 and incorporated herein by reference thereto).
- 10.73 Termination Agreement dated April 10, 2008 by and between Broadpoint Capital, Inc. and Ridge Clearing & Outsourcing Solutions, Inc. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed April 16, 2008 and incorporated herein by reference thereto).
- 10.74 Fully Disclosed Clearing Agreement dated April 21, 2008 by and between Broadpoint Securities, Inc. and Pershing LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 25, 2008 and incorporated herein by reference thereto).
- 10.75 Transition Agreement, dated April 30, 2008, by and among Broadpoint Securities Group, Inc., FA Technology Ventures Corporation, FA Technology Holding, LLC, George C. McNamee, Gregory A. Hulecki, Kenneth A. Mabbs, Giri C. Sekhar, John A. Cococcia and Claire Wadlington (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 6, 2008 and incorporated herein by reference thereto).
- 10.76 Placement Agent Agreement, dated April 30, 2008, by and between Broadpoint Capital, Inc. and FA Technology Holding, LLC. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed May 6, 2008 and incorporated herein by reference thereto).
- 10.77 Form of Consent, Assignment and Assumption Agreement, to be entered into by FA Technology Ventures Corporation, FA Technology Holding, LLC and FATV GP LLC. (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed May 6, 2008 and incorporated herein by reference thereto).
- 10.78 Sixth Amendment to Sub-Lease Agreement amending a Sub-Lease Agreement dated August 12, 2003, as previously amended, by and between Broadpoint Securities Group, Inc. and Columbia 677, L.L.C. ( Landlord ), dated June 19, 2008 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 25, 2008 and incorporated herein by reference thereto).
- 10.79 Seventh Amendment of Lease amending the Agreement of Lease dated March 21, 1996, as previously amended, by and between Broadpoint Securities Group, Inc. and One Penn Plaza LLC ( Landlord ), dated June 23, 2008 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 25, 2008 and incorporated herein by reference thereto).
- 10.80 Preferred Stock Purchase Agreement with Mast Credit Opportunities I Master Fund Limited by and between Broadpoint Securities Group, Inc. and Mast Credit Opportunities I Master Fund Limited dated June 27, 2008 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 1, 2008 and incorporated herein by reference thereto).

incorporated herein by reference thereto).

- 10.81 Common Stock Purchase Warrant, by and between Broadpoint Securities Group, Inc. and Mast Credit Opportunities I Master Fund Limited dated June 27, 2008 (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed July 1, 2008 and incorporated herein by reference thereto).

**Table of Contents**

Exhibit Number	Description
10.82	Registration Rights Agreement, by and between Broadpoint Securities Group, Inc. and Mast Credit Opportunities I Master Fund Limited dated June 27, 2008 (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed July 1, 2008 and incorporated herein by reference thereto).
10.83	Preemptive Rights Agreement, by and between Broadpoint Securities Group, Inc. and Mast Credit Opportunities I Master Fund Limited dated June 27, 2008 (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed July 1, 2008 and incorporated herein by reference thereto).
10.84	Restricted Stock Unit Agreement dated June 30, 2008 by and between Broadpoint Securities Group, Inc. and Peter McNierney, furnished herewith.
10.85	Restricted Stock Unit Agreement dated June 30, 2008 by and between Broadpoint Securities Group, Inc. and Lee Fensterstock, furnished herewith.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.



**Table of Contents**

SIGNATURES

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

(Registrant) Broadpoint Securities Group, Inc.

Date: August 14, 2008 /s/ Lee Fensterstock

Lee Fensterstock  
Chief Executive Officer

Date: August 14, 2008 /s/ Robert I. Turner

Robert I. Turner  
Chief Financial Officer  
(Principal Accounting Officer)

54