

GLEACHER & COMPANY, INC.

Form 10-K

March 18, 2013

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

**FORM 10-K**

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

**for the fiscal year ended December 31, 2012**

**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**

**GLEACHER & COMPANY, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**22-2655804**

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

**1290 Avenue of the Americas, New York, New York**

(Address of principal executive offices)

**10104**

(Zip Code)

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

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

**Title of each class**

Common stock, par value \$.01 per share

**Name of each exchange on which registered**

The NASDAQ Global Market

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

**None**

(Title of class)

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

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

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

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

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

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

Large Accelerated Filer       Accelerated Filer       Non-accelerated Filer       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

The aggregate market value of the shares of common stock of the Registrant held by non-affiliates based upon the closing price of Registrant's shares as reported on The NASDAQ Global Market on June 30, 2012, which was \$0.80 per share, was \$100,584,912. This calculation is based on the number of shares of the Registrant's common stock outstanding as of June 30, 2012, excluding shares of the Registrant's common stock held by any officer or director of the Company or by any person known by the Company to own 5% or more of the Registrant's outstanding shares of common stock. Exclusion of shares held by any person should not be construed as a conclusion by the Company, or an admission by any such person, that such person is an "affiliate" of the Company, as defined by applicable securities laws.

As of February 28, 2013, 123,242,192 shares of common stock, par value \$0.01 per share, were outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the 2013 annual meeting of stockholders to be filed with the Securities and Exchange Commission are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent stated herein.

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**PART I**

*This Annual Report on Form 10-K contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties. These statements are not historical facts but instead represent the Company's belief or plans regarding future events, many of which, by their nature, are inherently uncertain and outside of the Company's control. The Company often, but not always, identifies forward-looking statements by using words or phrases such as "anticipate," "estimate," "plan," "project," "target," "expect," "continuing," "ongoing," "believe" and "intend." The Company's forward-looking statements are based on facts as the Company understands them at the time the Company makes any such statement as well as estimates and judgments based on these facts. The Company's forward-looking statements may turn out to be inaccurate for a variety of reasons, many of which are outside of its control. Factors that could render the Company's forward-looking statements subsequently inaccurate include the conditions of the securities markets, generally, and demand for the Company's services within those markets, the risk of further credit rating downgrades of the U.S. government by major credit rating agencies, the impact of international and domestic sovereign debt uncertainties, the possibilities of localized or global economic recession and other risks and factors identified from time to time in the Company's filings with the Securities and Exchange Commission. You are cautioned not to place undue reliance on these forward-looking statements. The Company does not undertake to update any of its forward-looking statements.*

*You should review the "Risk Factors" section of this Report for a discussion of the important factors that could cause actual results to differ materially from those described in or implied by the forward-looking statements contained in this Report.*

*In particular, the Company has recently experienced several adverse events that have significantly affected our business operations and have resulted in a recent and serious decline in our financial results. In order to address these issues, the Company is seeking, and may continue to seek a strategic transaction with a third party that could result, for example, in an acquisition of the Company or sale of all or substantially all of our assets. Whether the Company can effect such a transaction, and if so, the terms of any such transaction, will greatly affect the Company's future and, as a result, the ultimate accuracy of our forward-looking statements.*

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

**Item 1. Business**

**Overview**

Gleacher & Company, Inc. (the "Parent," and together with its subsidiaries, the "Company") is an independent investment bank that provides corporate and institutional clients with strategic and financial advisory services. The Company also provides capital raising, research-based investment analysis, and securities brokerage services. The Company offers a range of products through its Investment Banking, Mortgage Backed Securities & Rates ("MBS & Rates") and Credit Products divisions. The Company was originally incorporated in 1985 in the state of New York and re-incorporated under the laws of the state of Delaware in 2010 and its common stock is traded on The NASDAQ Global Market ("NASDAQ") under the symbol "GLCH."

The Company also provided residential mortgage lending services through its subsidiary, ClearPoint Funding Inc. ("ClearPoint"). On February 14, 2013, the Company entered into an agreement to sell substantially all of the assets of ClearPoint to Homeward Residential, Inc. (the "Homeward Transaction"). This transaction closed on February 22, 2013, and all remaining business activities of ClearPoint are being wound down. Refer to Note 29 within the footnotes to the

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consolidated financial statements contained in Item 8 of this Annual Report on Form 10-K for additional information.

In recent years, we have incurred losses and experienced significant turnover, including among our senior management and business leaders of our operating segments, as well as a number of departures, generally, throughout the ranks of our organization. Recently we have experienced several events that have adversely affected our business operations and resulted in a further deterioration in our financial results. In August 2012 we announced that we were engaged in exploring and evaluating strategic alternatives for the Company, including partnering with one or more equity investors, strategic acquisitions and divestitures or a business combination involving the Company. In this process we explored a wide variety of potential strategic transactions. By February 2013, we had not yet been presented with a suitable strategic alternative. We intended, however, to continue to examine strategic alternatives should appropriate opportunities arise. We announced this update on February 15, 2013. As would be expected, our strategic review introduced uncertainty with our trading partners and employees and consumed significant amounts of our senior management's time and attention. This uncertainty increased after our February 15 update.

In January 2013, Eric J. Gleacher, our then-chairman and a significant stockholder, resigned as a director and executive officer of the Company.

In mid-February, 20 sales and trading professionals from our Credit Products group left together to join another securities firm, reducing the headcount of this group to approximately 70. As a result, revenues from this group have declined significantly.

In a letter dated February 23, 2013, four current directors of the Company, Henry S. Bienen, Robert A. Gerard, Bruce Rohde and Robert S. Yingling, informed the Company that they do not intend to stand for re-election at the Company's 2013 Annual Meeting of Stockholders, to be held on May 23, 2013 (the "Annual Meeting"). These directors stated that their decision was based on communications from MatlinPatterson FA Acquisition LLC, a significant holder of the Company's common stock ("MatlinPatterson"), indicating that MatlinPatterson would oppose their re-election. These directors further stated that they had reason to believe that Mr. Gleacher would also vote his shares against them were they to run and that, as a result, it is a virtual certainty that if they were to stand for re-election, they would not be re-elected. The letter also stated that, should the situation change in the interim, they may be willing to reconsider their decision not to stand. The directors' decision not to stand for re-election was not the result of any disagreement with the Company relating to the Company's operations, policies or practices.

Also on February 23, 2013, the Company received a submission by MatlinPatterson of a slate of eight nominees for election to the Company's Board of Directors at the Annual Meeting. In their proposal, MatlinPatterson nominated current directors Marshall Cohen, Mark R. Patterson and Christopher Pechock, as well as nominees Carl McKinzie, Jaime Lifton, Edwin Banks, Keith B. Hall and Nasir A. Hasan.

Uncertainties regarding the implications of our net losses and management and employee turnover have been aggravated by these more recent events, resulting in further questions regarding the stability and strategic direction of the Company and adversely affecting relations with both our clients and our employees. A number of our trading customers have reduced or suspended trading activities with us. Moreover, at least in part because of the perceived instability of our business, new investment banking mandates have dwindled. These events have weakened employee morale, which may lead to additional resignations. As a result, we have experienced a significant decline in revenue in the first quarter of 2013, and we cannot predict when, or if, we will be able to reduce or reverse this decline and associated losses.

In order to address these issues and preserve value for our stockholders, the Company is seeking, and may continue to seek, a strategic transaction with a third party that could result, for example, in an

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acquisition of the Company or the sale of all or substantially all of our assets. Subsequent to our February 15 update on our review of strategic alternatives, we have been approached by third parties regarding potential strategic alternatives. If we are unable to consummate a strategic transaction, we will consider such alternatives, if any, as may be available to us at such time. In doing so, we will consider all relevant factors, including our financial condition and operating results, our access to financial resources, the market environment and our financial and operational prospects. Depending on the circumstances, courses of action could consist of expeditious reduction of operating and overhead expenses and/or monetization of assets, among other steps.

As of March 15, 2013, the Company had approximately 220 employees.

The Company's Gleacher & Company Securities, Inc. ("Gleacher Securities") and Gleacher Partners, LLC ("Gleacher Partners") subsidiaries are registered as broker-dealers with the Securities and Exchange Commission ("SEC") and are members of the Financial Industry Regulatory Authority, Inc. ("FINRA") and various exchanges. Gleacher Securities is also a member of the National Futures Association ("NFA"). ClearPoint remains under the regulatory oversight of the Department of Housing and Urban Development ("HUD"), as well as various regulatory bodies in the states in which it conducts business until it's business activities are wound down.

The Company's headquarters are located at 1290 Avenue of the Americas, New York, NY 10104. The telephone number at that address is (212) 273-7100, and our internet address is [www.gleacher.com](http://www.gleacher.com).

**Business Segments**

As of December 31, 2012 we operated through the following four business segments:

**Investment Banking**

This division provides financial advisory and capital raising services in connection with mergers, acquisitions and other strategic matters. The division is being realigned around existing M&A expertise, expanded capital markets capabilities and key industry verticals, including real estate, leveraged finance, financial services, aerospace and defense, technology, media and telecom, paper and packaging, general industrial and financial sponsor coverage.

**MBS & Rates**

This division provides sales, trading, research and advisory services on a wide range of mortgage and asset-backed securities, U.S. Treasury and government agency securities, structured products such as CLOs and CDOs, whole loans, and other securities. Revenues are currently generated from spreads on principal transactions executed to facilitate trades for clients, including on a riskless principal basis. Revenues are also generated from changes in fair value and interest income on securities held in inventory. In addition, this division is integrating its advanced analytics and quantitative research capabilities through its platform acquired from RangeMark Financial Services, Inc. ("RangeMark"). RangeMark's integration may also provide for revenues earned through advisory services.

**Credit Products**

This division provides analysis, sales and trading on a wide range of debt securities including bank debt and loans, investment grade debt, high-yield debt, treasuries, convertibles, distressed debt, preferred debt, emerging market debt and reorganization equities to corporate and institutional investor clients. The division also provides trade execution services, liability management, corporate debt repurchase programs and new issue distributions. Revenues are generated primarily from spreads on riskless principal transactions, and to a lesser extent, principal trading and commissions on trades executed on behalf of clients. In addition, revenues are also generated on a smaller scale from interest income on securities held in inventory.

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#### **ClearPoint**

This division originated, processed and underwrote single and multi-family residential mortgage loans within a number of states across the country. The loans were underwritten using standards prescribed by conventional mortgage lenders and loan buyers such as the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. Revenues were generated primarily from the sale of the residential mortgage loans with servicing released. On February 14, 2013, the Company entered into the Homeward Transaction, an agreement to sell substantially all of ClearPoint's assets to Homeward Residential, Inc. ("Homeward"). This transaction closed on February 22, 2013, and all remaining business activities of ClearPoint are being wound down.

#### **Other Activities**

The Company also recognizes investment gains/(losses) and earns fees related to the Company's investment in and management of FA Technology Ventures L.P. ("FATV" or the "Partnership") a fund that holds investments in privately held companies. The Company's results also include expenses not directly associated with specific reportable segments, including goodwill impairment charges, costs related to corporate overhead and support, such as various fees associated with financing, legal and consulting expenses and amortization of certain intangible assets from business acquisitions not reported within discontinued operations.

#### **Sources of Revenues**

Set forth in the table below is information regarding the amount and percentage of net revenues derived from each of our principal revenue sources (excluding net revenues from discontinued operations) for the years ended December 31:

(Dollars in thousands)	2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent
Principal transactions	\$ 52,771	25.9%	\$ 89,108	34.1%	\$ 79,433	32.0%
Commissions	71,418	35.1%	71,347	27.3%	76,817	30.9%
Investment banking	30,553	15.0%	33,069	12.7%	43,400	17.5%
Investment banking revenues from related party		0.0%		0.0%	1,947	0.8%
Investment gains, net	1,233	0.6%	2,996	1.1%	7	0.0%
Interest income	48,796	24.0%	66,194	25.3%	57,292	23.0%
Gain from bargain purchase ClearPoint Funding, Inc. acquisition		0.0%	2,330	0.9%		0.0%
Fees and other	11,651	5.7%	8,041	3.1%	1,004	0.4%
<b>Total revenues</b>	<b>\$ 216,422</b>	<b>106.3%</b>	<b>\$ 273,085</b>	<b>104.6%</b>	<b>\$ 259,900</b>	<b>104.6%</b>
Interest expense	12,827	6.3%	11,913	4.6%	11,318	4.6%
<b>Net revenues</b>	<b>\$ 203,595</b>	<b>100.0%</b>	<b>\$ 261,172</b>	<b>100.0%</b>	<b>\$ 248,582</b>	<b>100.0%</b>

The financial results set forth in the foregoing table may not be representative of future results due to recent developments described in Item 1, "Business Overview" and elsewhere in this Annual Report on Form 10-K. For information regarding the Company's reportable segments, refer to Note 27 within the footnotes to the consolidated financial statements contained in Item 8 of this Annual Report on Form 10-K.

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#### Principal Transactions

For the periods presented, principal transactions revenues were generated primarily by the Company's MBS & Rates and ClearPoint divisions, and to a lesser extent, the Credit Products division. The MBS & Rates division generates revenues from spreads on customer trading activities and changes in fair value on financial instruments held in inventory, including agency mortgage-backed securities, debt issued by U.S. Government and federal agency obligations, commercial mortgage-backed debt, residential mortgage-backed debt, other debt obligations, CDOs, corporate debt securities, equity securities, preferred stock and derivatives. The Company's ClearPoint division originated mortgage loans and entered into related hedging instruments in connection with its residential lending activities. Changes in the fair value of such loans and hedging are also reflected in principal transactions.

#### Commissions

Commission income is primarily comprised of commission equivalents earned on riskless principal transactions generated in both the Company's Credit Products and MBS & Rates divisions.

#### Investment Banking

Investment banking fees are generated from financial advisory services in regards to mergers and acquisitions, restructurings and recapitalizations and from acting as an underwriter or placement agent in debt, equity and convertible securities offerings.

Set forth in the table below is information regarding investment banking revenues by area for the periods indicated:

(In thousands)	For the years ended December 31,		
	2012	2011	2010
Investment banking transactions			
Advisory services	\$ 24,388	\$ 24,341	\$ 32,383
Capital markets	6,165	8,728	12,964
Total Investment banking revenues	\$ 30,553	\$ 33,069	\$ 45,347

#### Investment gains (losses)

Investment gains (losses) primarily represent the changes in fair value of the Company's investment in FATV, which is comprised of 19 holdings primarily in 7 privately held companies. Refer to Note 10 within the footnotes to the consolidated financial statements contained in Item 8 of this Annual Report on Form 10-K.

#### Interest Income & Expense

Interest income is recognized principally within the Company's MBS & Rates division on its portfolio of fixed income securities. The Company incurs interest expense primarily as a result of funding its trading portfolio through its clearing broker and, to a lesser extent, through the repurchase markets. The Company's ClearPoint division recognized interest income in connection with its residential mortgage lending activities and incurred interest expense on its short-term secured mortgage warehouse lines of credit. The decrease in net interest income during the year ending December 31, 2012 compared to the prior years is primarily due to reduced inventory levels.

#### Fees and Other

Fees and other revenues generally relate to miscellaneous fees earned in connection with ClearPoint's residential mortgage lending activities and to investment management fees earned by FA Technology Ventures Corporation. Fees and other revenues, during the year ended December 31, 2012,



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also include \$2.6 million related to the clawback of certain stock-based compensation grants subject to non-competition provisions (Refer to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein for additional information).

Bargain Purchase Gain

The Company recorded a bargain purchase gain during the year ended December 31, 2011 related to its acquisition of ClearPoint on January 3, 2011.

**Recent Developments**

Departure of Executive Officer

Effective January 28, 2013, Mr. Gleacher resigned as a director and executive officer of the Company. Mr. Gleacher agreed to continue to provide services to the Company in connection with a pending investment banking transaction. In return for these continued services, Mr. Gleacher will receive a payment in an amount determined in accordance with an existing formula for payments to employees relating to advisory fees that may be received by the Company in respect of the client transaction, as well as related costs and expenses.

Departure of Professionals in the Credit Products Division

On February 20, 2013, the Company confirmed the departure of approximately 20 professionals previously employed in the Company's Credit Products division, reducing this division's headcount to approximately 70. As a result, revenues from this group have declined significantly.

Prospective Departure of Certain Members of the Board of Directors

In a letter dated February 23, 2013, four current directors of the Company, Henry S. Bienen, Robert A. Gerard, Bruce Rohde and Robert S. Yingling, informed the Company that they do not intend to stand for re-election at the Company's Annual Meeting. These directors stated that their decision was based on communications from MatlinPatterson indicating that MatlinPatterson would oppose their re-election. These directors further stated that they had reason to believe that Mr. Gleacher would also vote his shares against them were they to run and that, as a result, it is a virtual certainty that if they were to stand for re-election, they would not be re-elected. The letter also stated that should the situation change in the interim, they may be willing to reconsider their decision not to stand. The directors' decision not to stand for re-election was not the result of any disagreement with the Company relating to the Company's operations, policies or practices.

Director Nominations by MatlinPatterson

Also on February 23, 2013, the Company received a submission by MatlinPatterson of a slate of eight nominees for election to the Company's Board of Directors at the Annual Meeting. In their proposal, MatlinPatterson nominated current directors Marshall Cohen, Mark R. Patterson and Christopher Pechock, as well as nominees Carl McKinzie, Jaime Lifton, Edwin Banks, Keith B. Hall and Nasir A. Hasan.

Decline in Business Operations and Revenue

We have recently experienced a significant decline in our business operations and revenue. We cannot predict when, or if, we will be able to reduce or reverse this decline and associated losses. See Item 7, "Management Discussion and Analysis of Financial Condition and Results of Operations" and Note 1 of the footnotes to the consolidated financial statements contained in Item 8 to this Annual Report on Form 10-K.

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**Operations**

The Company's broker-dealer subsidiaries clear customers' securities transactions primarily through a third party under a clearing agreement. Under this agreement, transactions are deemed to be either receive versus payment, delivery versus payment or cash transactions. Gleacher Securities self-clears its trading activities in U.S. government securities (the "Rates business"), and as a result became a member of the Depository Trust and Clearing Corporation, Government Securities Clearing Corporation and Fixed Income Securities Clearing Corporation ("FICC").

**Discontinued Operations**

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

**Competition**

As an investment bank, all aspects of the Company's business are intensely competitive. The Company competes with other investment banks, commercial banks or bank holding companies, brokerage firms, merchant banks and financial advisory firms. The Company competes with firms nationally as well as on a regional, product or business line basis. Many of the Company's competitors have substantially greater capital and resources and offer a broader range of financial products. The Company believes that the principal factors affecting competition in its businesses include client relationships, reputation, quality and price of our products and services, market focus and the ability of our professionals. Competition is intense for the recruitment and retention of qualified professionals. The Company's ability to compete effectively in its businesses will depend upon its continued ability to retain and motivate its existing professionals and attract new professionals.

**Regulation**

The securities industry in the United States is subject to extensive regulation under federal and state laws. The SEC is the federal agency charged with administration of the federal securities laws. Much of the direct oversight of broker-dealers, however, has been delegated to self-regulatory organizations, principally FINRA, NFA and the U.S. securities exchanges. These self-regulatory organizations adopt rules (subject to approval by the SEC) that govern the securities industry and conduct periodic examinations of member broker-dealers. Securities firms are also subject to substantial regulation by state securities authorities in the U.S. jurisdictions in which they are registered. Gleacher Securities and Gleacher Partners are registered as broker-dealers in all 50 states, the District of Columbia and Puerto Rico. Gleacher Securities is also registered in the U.S. Virgin Islands.

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

As a mortgage originator, ClearPoint is licensed and authorized to conduct lending activities in a number of states. Its activities included the origination, processing and underwriting of single and multi-family mortgage loans. ClearPoint is under the regulatory oversight of the HUD, as well as various regulatory bodies in the states in which it conducts business. In connection with the Homeward Transaction, ClearPoint will be winding down its operations, including surrendering its licenses to conduct business and voluntarily withdrawing from HUD related activities.

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Regulatory scrutiny of the financial services industry has increased in recent years, including through the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") which was signed into law in July 2010. Dodd-Frank was passed to address (i) the perceived insufficient oversight and regulation of the U.S. financial system, (ii) the unregulated over-the-counter derivatives market and (iii) the lack of a consumer protection authority. Dodd-Frank covers a broad spectrum of reforms aimed at bringing accountability to the U.S. financial system and limiting those risks considered to have contributed to the economic crisis of 2008-2009. This legislation, as well as other federal and state laws, changes in rules promulgated by the SEC and by self-regulatory organizations as well as changes by state securities authorities, and/or changes in the interpretation or enforcement of existing laws and rules often directly affect the method of operation and profitability of broker-dealers. In light of the uncertainty of future regulatory developments, the full extent of the impact of any new requirements on our Company's business is unknown at this time. Any new or amendments to existing regulations resulting from Dodd-Frank may impact the Company's profitability, business practices or activities, obligations concerning capital, liquidity or leverage, and potential liabilities. Any changes in the regulatory requirements may also necessitate changes to the Company's policies, procedures or practices in order to comply with new requirements, which may require additional capital investment and attention from Company management. The SEC, self-regulatory organizations, and state securities regulators have broad authority to conduct examinations and inspections and to initiate administrative proceedings which can result in censure, fine, suspension, or expulsion of a broker-dealer, its officers, or employees. The principal purpose of U.S. broker-dealer regulation is the protection of customers and the securities markets rather than protection of stockholders of broker-dealers.

### Regulatory Requirements

As broker-dealers, Gleacher Securities and Gleacher Partners are subject to the net capital requirements of Rule 15c3-1 promulgated under the Exchange Act. Gleacher Securities is also subject to the net capital requirements promulgated under the Commodity Futures Trading Commissions (Regulation 1.16). These net capital rules are designed to measure the general financial condition and liquidity of a broker-dealer, and they impose a required minimum amount of net capital deemed necessary to meet a broker-dealer's continuing commitments to its customers.

Compliance with these net capital rules may limit those operations that require the use of capital, such as trading in securities and underwriting securities. Net capital changes from day to day, based in part on the Company's inventory positions and the portion of the inventory value that the net capital rules require the firm to exclude from its capital. (Refer to Note 22 within the footnotes to the consolidated financial statements contained in Item 8 of this Annual Report on Form 10-K.)

At December 31, 2012, net capital and excess net capital of the Company's broker-dealer subsidiaries were as follows:

(In millions)	Net Capital	Excess Net Capital
Gleacher Securities	\$ 56.2	\$ 55.9
Gleacher Partners	\$ 0.8	\$ 0.5

ClearPoint is subject to net worth requirements mandated by HUD. At December 31, 2012, minimum net worth required and adjusted net worth of ClearPoint was as follows:

(In millions)	Net Worth	Net Worth above amount Required
ClearPoint	\$ 10.3	\$ 9.3

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**Business Continuity Plan**

The Company maintains a Business Continuity Plan ("BCP") to allow for an effective response to a significant business disruption, either internal or external, in order to (i) safeguard our employees' lives and Company property, (ii) make a financial and operational assessment and quickly recover and resume operations, (iii) protect the Company's books and records, and (iv) allow our customers to continue to transact business.

The BCP provides for the following:

alternative physical locations for employees,

internal and external communication channels,

customers' access to trade execution, funds and securities,

Company access to liquidity, and

recovery of books and records.

In addition, many of the Company's mission-critical systems, which are those that ensure prompt and accurate processing of securities transactions, are external. These include systems through which the Company clears its customers securities transactions and our contracts with these clearing firms provide that they also maintain a business continuity plan.

The Company reviews the BCP at least annually and updates it whenever there is a material change to our operations, structure and /or business.

**Available Information**

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

The Company will make available free of charge, through its internet site [www.gleacher.com](http://www.gleacher.com), its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other information. These filings and information will become available as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

The Company also makes available, on the Corporate Governance page of its website, (i) its Corporate Governance Guidelines, (ii) its Code of Business Conduct and Ethics, (iii) the charters of the Audit, Executive Compensation, and Directors and Corporate Governance Committees of its Board of Directors, and (iv) its Procedures for Reporting Violations of Compliance Standards. These documents are also available in print without charge to any person who requests them by writing or telephoning: Gleacher & Company, Inc., 1290 Avenue of the Americas, New York, NY 10104, U.S.A., Attn: Investor Relations, telephone number (212) 273-7100.

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**Item 1A. Risk Factors**

*Our business and operations face a variety of serious risks and uncertainties. You should carefully consider the risk factors described below and in our other public reports. If any of the following risks actually occur, or if our underlying assumptions prove to be incorrect, our actual results may vary from what we projected and our financial condition or results of operations could be materially and adversely affected. These risk factors are intended to highlight factors that may affect our business, financial condition and results of operations and are not meant to be an exhaustive discussion. Additional risks and uncertainties of which we are currently unaware or that we currently believe to be immaterial may also adversely affect us.*

*We have organized the risk factor discussion below around certain categories, although there is some overlap of specific risk factor disclosure between categories. The order of the categories set forth below, and the order of particular risk factors within each category, is not necessarily indicative of the likelihood of the occurrence of any of the risks described below or the magnitude of the effect on us in the event any such risks should occur.*

**Risks Specific to our Company**

***Recent developments have adversely affected our relations with customers and employees, and relations may worsen.*** We have experienced several events in the recent past that have adversely affected relations with both our clients and our employees. As discussed above under Item 1, "Business Overview," uncertainties regarding the implications of our net losses and management and employee turnover have been aggravated by the absence of a strategic transaction, the departure of Mr. Gleacher, the departures of key personnel and a prospective turnover on our Board, resulting in further questions regarding the stability and strategic direction of the Company. For example, a number of our clients have reduced or suspended trading operations with us. Moreover, at least in part because of the perceived instability of our business, new investment banking mandates have dwindled. Employee morale has also been weakened. These uncertainties may exacerbate themselves by causing additional employees to resign or additional customers to reduce or suspend trading activities with us. The Company's ability to recruit new personnel, build new or strengthen existing customer relations and generally conduct business are also greatly impaired by these circumstances, which could result in further significant declines in the level of the Company's business operations despite the efforts of management to restore confidence and recruit personnel.

***We have a history of losses and may not return to profitability in the near future or at all.*** We have incurred losses in recent years, including net losses of approximately \$77.7 million, \$82.1 million and \$20.6 million for the years ended December 31, 2012, 2011 and 2010, respectively. Moreover, the recent events described above have resulted in a further decline in our business operations and resulting revenue. This decline will result in significantly greater losses than we had previously anticipated. We cannot predict with certainty when or if we will be able to reduce or reverse these losses and return to profitable operations. If we are not successful in eliminating our recurring losses and achieving profitable operations, or are not able to consummate a strategic transaction, we would need to wind down our business and, ultimately, cease operations. There can be no assurance that we will be able to reduce or reverse our operating losses or consummate a strategic transaction.

***Our ability to hire and retain our senior professionals is critical to the success of our business.*** In order to operate our business successfully, we rely heavily on key professionals. Their personal reputation, judgment, business generation capabilities and project execution skills are a critical element in obtaining and executing client engagements. Any loss of professionals, particularly key senior professionals or groups of related professionals, could impair our ability to secure or successfully complete engagements, result in loss of sales and trading business, materially and adversely affect our revenues and make it more difficult to operate profitably.

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In the past, we have lost investment banking, brokerage, research, and other senior professionals and executives. For example, in February 2013, approximately 20 professionals previously employed in our Credit Products division resigned and began working for a competitor. We also experienced approximately 70 departures in our MBS & Rates division since April 2012, which were subsequently replaced by the hiring of approximately 50 professionals. In addition, over the past three years, we have experienced significant turnover of senior management, including multiple chief executive and chief financial officers, as well as the heads of our divisions. The several events in the recent past discussed above under Item 1, "Business Overview" have weakened employee morale, which may lead to additional resignations. Such turnover can result, and has resulted, in disruptions and inefficiencies in our business. As a result, we have experienced a significant decline in revenue in the first quarter of 2013, and we cannot predict when, or if, we will be able to reduce or reverse this decline in associated losses. Moreover, this type of turnover forces us to commit greater amounts of resources to recruiting. These factors have adversely impacted our stock price, our client relationships, our business and operating results, and may make recruiting for future management positions more difficult.

We also encounter intense competition to recruit qualified employees. Companies with which we compete for employees include those in the investment banking industry as well as from businesses outside the investment banking industry, such as hedge funds, private equity funds and venture capital funds. At any time, there could be a shortage of qualified personnel whom we could hire. Recent adverse developments and publicity involving the Company have made hiring particularly challenging. These challenges may hinder our ability to expand or cause a backlog in our ability to conduct our business, including the handling of investment banking transactions and the processing of brokerage orders.

***Our financial results may fluctuate substantially from period to period, which may impact our stock price.*** In recent years, we have incurred losses and experienced significant turnover, including among our senior management and business leaders of our operating segments, as well as a number of departures, generally, throughout the ranks of our organization. Recently, as discussed under Item 1, "Business Overview," we have experienced several events that have adversely affected our business operations and resulted in a further deterioration of our financial results. We cannot predict when, or if, we will be able to reduce or reverse this decline in our results.

In addition, variations in our financial results are also attributed in part to trading activity and the fact that our investment banking revenues are typically earned upon the successful completion of a transaction, the timing of which is uncertain and beyond our control. Our business is highly dependent on market conditions and the interest in the market for the products and services we trade and offer, as well as the decisions and actions of our clients and interested third parties. This risk may be intensified by focusing on companies in specific industries or sectors. For example, our investment banking segment focuses on companies in the real estate, leveraged finance, financial services, aerospace and defense, technology, media and telecom, paper and packaging, general industrial and financial sponsor coverage industries. Concentrating in a specific sector or industry exposes us to volatility in that area that may not affect the broader markets. In addition, our results of operations experience some seasonality, with the third quarter typically being less robust than other quarters, because of typical summer month activity slow-down in July and August of each year for our sales and trading operations, as well as the impact of the holiday season on fourth quarter operating results.

***Our business is subject to sig***