



Robert W. Baird & Co. Incorporated

Consolidated Statements of Financial Condition

As of December 31, 2023 and 2022

With Report of Independent Registered Public Accounting Firm

SEC File Number: 8-00497

Robert W. Baird & Co. Incorporated

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KPMG LLP
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Report of Independent Registered Public Accounting Firm

To the Stockholder and Board of Directors
Robert W. Baird & Co. Incorporated:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial condition of Robert W. Baird & Co. Incorporated and subsidiaries (the Company) as of December 31, 2023 and 2022, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

KPMG LLP

We have served as the Company's auditor since 2017.

Chicago, Illinois
February 23, 2024

Robert W. Baird & Co. IncorporatedConsolidated Statements of Financial Condition
As of December 31, 2023 and 2022

(In Thousands)

Assets	December 31	
	2023	2022
Cash and Cash Equivalents	\$ 1,016,936	\$ 773,804
Cash Segregated Under Federal Regulations	415,000	282,000
Deposits with Clearing Organizations	50,151	62,504
Receivables:		
Clients	201,260	227,025
Brokers and Dealers	51,184	124,312
Deposits Paid on Securities Borrowed	107,929	66,717
Notes Receivable, Net	186,318	207,331
Other	133,263	116,561
	<u>679,954</u>	<u>741,946</u>
Financial Instruments, at Fair Value:		
Trading Securities	545,508	752,062
Other Investments	162,442	130,667
	<u>707,950</u>	<u>882,729</u>
Fixed Assets, Less Accumulated Depreciation of \$228,114 and \$193,399, respectively	172,803	159,314
Lease Right of Use Asset	262,241	235,627
Goodwill	326,528	326,528
Intangible Assets, Less Accumulated Amortization of \$48,496 and \$37,481, respectively	130,288	141,787
Deferred Tax Assets, Net	33,385	38,288
Other Assets	<u>85,529</u>	<u>78,106</u>
Total Assets	<u>\$ 3,880,765</u>	<u>\$ 3,722,633</u>

See accompanying notes to the consolidated statements of financial condition.

Robert W. Baird & Co. Incorporated

Consolidated Statements of Financial Condition (Continued)
As of December 31, 2023 and 2022

(In Thousands)

	December 31	
	2023	2022
Liabilities and Stockholder's Equity		
<u>Liabilities:</u>		
Money Borrowed:		
Book Credit Balances in Bank Accounts	\$ 31,571	\$ 8,651
Securities Sold Under Agreements to Repurchase	311,158	249,336
Payables:		
Clients	418,782	419,556
Brokers and Dealers	7,939	10,577
Deposits Received on Securities Loaned	-	25
	<u>426,721</u>	<u>430,158</u>
Financial Instrument Liabilities, at Fair Value:		
Trading Securities Sold, Not Yet Purchased	97,400	46,812
Other Investments	3,164	2
	<u>100,564</u>	<u>46,814</u>
Accrued Compensation and Benefits	742,658	778,147
Accounts Payable, Accrued Expenses and Other Liabilities	134,894	131,818
Operating Lease Liabilities	286,860	255,874
Subordinated Liabilities	154,187	128,114
	<u>2,188,613</u>	<u>2,028,912</u>
<u>Stockholder's Equity:</u>		
Common Stock; \$1 stated par value; 72,450,000 shares authorized and 26,501,574 shares issued as of December 31, 2023 and 2022. 26,454,488 shares outstanding as of December 31, 2023 and 2022.	26,502	26,502
Additional Paid-In Capital	808,095	808,095
Retained Earnings	860,634	863,680
Treasury Stock, at Cost	(1,486)	(1,486)
Accumulated Other Comprehensive Loss	(1,593)	(3,070)
	<u>1,692,152</u>	<u>1,693,721</u>
Total Stockholder's Equity	<u>1,692,152</u>	<u>1,693,721</u>
Total Liabilities and Stockholder's Equity	<u>\$ 3,880,765</u>	<u>\$ 3,722,633</u>

See accompanying notes to the consolidated statements of financial condition.

Robert W. Baird & Co. Incorporated

Notes to Consolidated Statements of Financial Condition
December 31, 2023 and 2022

(In Thousands, Except Share and Per Share Amounts)

(1) Organization and Description of Business

The Consolidated Statements of Financial Condition include Robert W. Baird & Co. Incorporated (RWB) and Baird Insurance Services, a wholly owned general insurance agency subsidiary (together, the Company). The Company is registered as a securities broker dealer and an investment adviser with the Securities and Exchange Commission (SEC) under the Securities and Exchange Act of 1934 and the Investment Advisers Act of 1940, and is also a member of the Financial Industry Regulatory Authority (FINRA). Further, the Company is a member of the New York Stock Exchange (NYSE) and the Chicago Board of Options Exchange Global Markets, Inc (CBOE). The Company engages in a broad range of activities in the private wealth management, equity and fixed income capital markets, asset management and private equity businesses, including securities brokerage; investment advisory and asset management services; institutional equity and fixed income sales; research services; origination of and participation in underwritings and distribution of corporate and municipal securities issuances; municipal advisory services; merger and acquisition advisory services; private equity and venture capital investing; and market making and trading activities in equity, municipal and other fixed income securities. The Company is a wholly-owned subsidiary of Baird Financial Corporation (BFC), which is a wholly-owned subsidiary of Baird Financial Group, Inc. (BFG or the Parent).

The Company owns a 48% interest in Baird UK Ltd. (Baird UK), located principally in London, England in which it applies the equity method of accounting. Baird UK is the parent company of Robert W. Baird Group Limited, located in London, which provides investment banking, private equity and institutional U.S. equity sales and fixed income trading. Robert W. Baird Group Limited conducts its business through three principal operating subsidiaries: Robert W. Baird Limited, based in London and regulated by the Financial Conduct Authority (FCA), which is engaged in merger and acquisition advisory services and institutional U.S. equity sales and fixed income trading; Robert W. Baird GmbH, based in Frankfurt, Germany which is engaged in merger and acquisition advisory services; and Baird Capital Partners Europe Limited, based in London and regulated by the FCA, which is engaged in private equity activities in the United Kingdom (UK).

(2) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies followed by the Company in the preparation of its Consolidated Statements of Financial Condition.

(a) Basis of Presentation

The Consolidated Statements of Financial Condition have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

(b) Estimates

The preparation of the Consolidated Statements of Financial Condition in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Statements of Financial Condition. Actual results may differ from those estimates.

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Notes to Consolidated Statements of Financial Condition
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(In Thousands, Except Share and Per Share Amounts)

(c) Cash and Cash Equivalents

The Company has certain cash deposit accounts with financial institutions in which the balances may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant risk.

Cash Equivalents includes money market funds and short-term investments with maturities of generally three months or less at the time of purchase.

(d) Cash Segregated Under Federal Regulations

Cash Segregated Under Federal Regulations represents cash segregated in a special reserve bank account for the exclusive benefit of customers under SEC Rule 15c3-3.

(e) Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

The Company enters into short-term Securities Purchased Under Agreements to Resell (reverse repurchase agreements) and short-term Securities Sold Under Agreements to Repurchase (repurchase agreements). Both reverse repurchase and repurchase agreements are accounted for as collateralized financings and are recorded at contractual amounts. These agreements are short-term in nature and are generally collateralized by U.S. government securities, U.S. government agency securities, and municipal and corporate obligations. Interest receivable and interest payable are included within Receivables Other and Accounts Payable, Accrued Expenses and Other Liabilities, respectively, on the Consolidated Statements of Financial Condition. Amounts are recorded when earned or due. It is the Company's policy to obtain collateral with a market value equal to or in excess of the principal amount loaned under the reverse repurchase agreements. To ensure the market value of the underlying collateral remains sufficient, the collateral is valued daily, and the Company may require counterparties to deposit additional collateral (or may return collateral to counterparties) when necessary. Reverse repurchase and repurchase agreements with the same counterparty are reported on a gross basis on the Consolidated Statements of Financial Condition.

Refer to footnote 22, *Collateralized Transactions* for additional information.

(f) Deposits with Clearing Organizations

Pursuant to the requirements of various securities industry clearing organizations, the Company maintains clearing deposits with these organizations. The size of the deposit is determined based on several factors including volume of trading activity and price volatility of the securities traded, among other factors. The Company typically deposits cash to meet these obligations.

(g) Receivables and Payables

Clients

Clients Receivables include amounts receivable on cash and margin transactions, including from officers and directors and certain other affiliates of the Company. Receivables from clients are generally collateralized by securities owned by the clients. Payables include amounts owed to clients on cash and margin transactions.

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Brokers and Dealers Receivables and Payables

Brokers and Dealers Receivables and Payables include amounts receivable and payable to clearing organizations, and receivable and payable to other brokers and dealers for securities failed-to-deliver or failed-to-receive, trade date adjustment on trades not yet settled and trade date commissions on trades not yet settled.

Deposits Paid on Securities Borrowed and Deposits Received on Securities Loaned

Deposits Paid on Securities Borrowed and Deposits Received on Securities Loaned are reported as collateral financings and are recorded at the amount of cash collateral advanced or received, respectively. Securities borrowed transactions require the Company to deposit cash, letters of credit or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash in an amount in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis. Additional collateral is obtained or returned as necessary. Securities borrowed or securities loaned transactions with the same counterparty are reported on a gross basis on the Consolidated Statements of Financial Condition.

Refer to footnote 22, *Collateralized Transactions* for additional information.

Notes Receivable, Net

Notes Receivable, Net are loans or paid advances to associates generally for recruiting and retention purposes. These associate advances are generally forgiven over a three to nine year period. When an associate's employment is terminated with the Company, the unamortized note balance of any outstanding notes immediately becomes due to the Company. If the outstanding note balance is unable to be collected or the associate is not required to repay the note, the Company records a write-off (loss) on the balance.

In determining the expected credit losses related to those advances, management considers a number of factors including the Company's historical loss experience, amounts due from associates, as well as the number of associates who have left the Company. Management estimates the reserve for expected credit losses by first analyzing historical loss experience. The historical loss experience provides the basis for the estimate with adjustments made for differences in the historical population of note holders versus the current population of note holders. These considerations may include changes in internal factors such as the Company's lending policies and procedures, nature and volume of financial assets, and demographics of the borrowing employee population, as well as changes in environmental factors such as regulatory or legal environment and general market conditions. Management also considers the year in which the note was issued. Historical credit loss experience indicates that the likelihood of loss increases as the note approaches maturity, and therefore, the Company applies a different expected loss rate to each year in a note's lifecycle.

Notes are charged off against the reserve for expected credit losses when management believes the uncollectability of a note balance is confirmed. The reserve for expected credit losses is deducted from the note's amortized cost basis to present the net amount expected to be forgiven or collected on the Consolidated Statements of Financial Condition. This involves the use of estimates, and the actual amounts may be materially different than the recorded amounts.

Refer to footnote 4, *Related Party Transactions* for further information.

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Other Receivables

Other Receivables primarily include receivables from contracts with customers, receivables from affiliates and interest receivables on financial instruments. The Company has receivables and contract assets that represent the right to consideration in exchange for services the Company has transferred to a client when the right is conditional on something other than the passage of time. These are made up of a collection of different receivables and contract assets earned through the Company's various revenue streams that are generally short term in nature. In establishing a reserve for expected credit losses for these receivables and contract assets, management considers their limited historical loss rate, short-term nature, and the expectation that changes to the market would not impact the ability or intent of the client to pay. A reserve for expected credit losses was established for reimbursable expenses related to investment banking underwriting and advisory business deals, as well as Baird private equity partnership management fees receivables.

Refer to footnote 11, *Revenues from Contracts with Customers* for further detail.

The Company has certain financial asset pools, including Securities Purchased Under Agreements to Resell, Deposits Paid on Securities Borrowed, Receivables from Clients, and Receivables from Brokers and Dealers, that are secured by underlying collateral securities. Under Accounting Standards Codification (ASC) Topic 326, *Financial Instruments – Credit Losses*, a practical expedient may be elected for contracts when the counterparty is contractually obligated to continue to fully replenish the collateral to meet the requirements of the contract and the Company reasonably expects the counterparty to continue to replenish the collateral. The Company elects to use the practical expedient when eligible. When applying the practical expedient, the Company compares the amortized cost basis with the fair value of collateral at the reporting date to measure the estimate of expected credit losses. When the fair value of the collateral is equal to or exceeds the amortized cost basis, the expectation of nonpayment of the amortized cost basis is zero. When the fair value of the collateral is less than the amortized cost basis, the Company may establish a reserve for expected credit losses for the unsecured amount of the amortized cost basis. The reserve for expected credit losses on the financial asset is limited to the difference between the fair value of the collateral at the reporting date and the amortized cost basis of the financial assets.

Refer to footnote 22, *Collateralized Transactions* for additional information.

(h) Fair Value Measurements

The Company follows ASC Topic 820, *Fair Value Measurements* (ASC Topic 820). ASC Topic 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. ASC Topic 820 prescribes the methodology of observable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in valuing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in valuing the asset or liability based on the best information available in the circumstances. The hierarchy, defined by ASC Topic 820, provides for the following three levels to be used to classify the Company's fair value measurements:

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Level I - Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level III - Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

The fair value of financial instruments is the amount at which the security could be exchanged in an orderly transaction between market participants at the measurement date. Based on the nature of the Company's business and its role as a dealer in the securities industry, the fair values of its securities are determined internally. When available, the Company values securities at observable market prices, observable market parameters, or broker or dealer prices (bid and ask prices). In the case of securities transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the securities are principally traded.

The Company has sold securities that it does not currently own (financial instrument liabilities) and will therefore be obligated to purchase such instruments at a future date. The Company has recorded these obligations on the Consolidated Statements of Financial Condition at December 31, 2023 and 2022, at fair value of the related securities and will incur a loss if the fair value of the securities increases.

The Company's valuation of financial instruments and financial instrument liabilities are based on observable market prices, observable market parameters, or derived from broker or dealer prices. The availability of observable market prices and pricing parameters can vary from product to product. Where available, observable market prices and pricing, or market parameters in a product may be used to derive a price without requiring significant judgment. In certain markets, observable market prices or market parameters are not available for all products, and fair value is determined using techniques appropriate for each particular product. These techniques involve some degree of judgment.

For investments in illiquid or privately held securities that do not have readily determinable fair values, the determination of fair value requires the Company to estimate the value of the securities using the best information available. Among the factors considered by the Company in determining the fair value of such securities are the cost, terms and liquidity of the investment, the financial condition and operating results of the issuer, the quoted market price of publicly traded securities with similar quality and yield, and other factors generally pertinent to the valuation of the investments. In addition, even where the Company derives the value of a security based on information from an independent source, certain assumptions may be required to determine the security's fair value.

Investments in corporate stocks are included within other investments within financial instruments, at fair value on the Consolidated Statements of Financial Condition and are primarily publicly traded with observable prices in active markets. These investments are included within Level I in the fair value hierarchy. Any corporate stock not actively traded is valued by the Company and included within Level II or Level III depending on the nature and observability of the inputs used in the valuation.

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Investments in mutual funds are included within Level I in the fair value hierarchy. These investments are held by the Company as a hedge of the Company's obligations under the deferred compensation plans. The amount of mutual fund investments held as a hedge is determined after considering other investments held by both the Company and BFC.

Investments in U.S. government and agency obligations, municipal obligations, private label mortgage-backed securities, other asset backed securities and corporate obligations are generally valued using quoted prices from external data providers and market participants and are generally included within Level II of the fair value hierarchy. Valuation information provided by external data providers and market participants generally includes a derived fair value utilizing a model where inputs to the model are directly observed by the market or can be derived principally from or corroborated by observable market data, or fair value using other financial instruments, the parameters of which can be directly observed. For certain investments where there is limited activity or less transparency around significant inputs, the investments are valued as determined by the Company utilizing available market information and included within Level III of the fair value hierarchy.

The Company invests in corporate stocks and certain private companies which are included within other investments within the fair value hierarchy table and are fair valued by management. In the absence of readily ascertainable market values, these investments may be valued using the market approach or the income approach, or a combination thereof. Under the market approach, fair value may be determined by reference to multiples of market-comparable companies or transactions, including earnings before interest, taxes, depreciation and amortization (EBITDA) multiples. Under the income approach fair value may be determined by discounting the cash flows to a single present amount using current market expectations about those future amounts. These valuation techniques require inputs that are both significant to the fair value and unobservable, and thus are included within Level III of the fair value hierarchy.

When the Company is not determined to be the primary beneficiary of a variable interest entity (VIE), it does not consolidate the private equity partnership. In these cases, the Company's investment in the private equity partnership is recorded at the value of its capital balance or net asset value (NAV). The Company utilizes the NAV per share practical expedient to determine fair value when the partnership does not have a readily determinable fair value. The NAV of the partnership is calculated in a manner consistent with the measurement principles of investment company accounting, including measuring the underlying investments at fair value, and it is not probable that the Company will sell the investment at an amount other than NAV. The NAV is calculated based on the Company's proportionate share of the net assets of the partnership. Investments valued using NAV are not included within the fair value hierarchy. The Company's investments in unconsolidated private equity partnerships are included within Other Investments in Financial Instruments, at Fair Value on the Consolidated Statements of Financial Condition.

The Company employs specific processes to determine the reasonableness of the fair value of its financial instruments and financial instrument liabilities. The Company's processes are designed to ensure that the internally estimated fair values are accurately recorded and that the data inputs and the valuation techniques used are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining the fair value. Individuals outside of the trading departments perform independent pricing verification reviews. The Company has established parameters which set forth when securities are independently verified. The selection parameters are generally based on the type of security, the level of estimation of risk of a security, the materiality of the

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security, the age of the security in the Company's securities portfolio, and other specific facts and circumstances of the Company's securities portfolio.

Cash and Cash Equivalents, Cash Segregated Under Federal Regulations, Deposits with Clearing Organizations and Other Receivables are financial assets with carrying values that approximate fair value due to their relatively short-term nature. Money Borrowed, Payables, Accrued Compensation and Benefits, Accounts Payable, Accrued Expenses and Other Liabilities are financial liabilities with carrying values that approximate fair value due to their relatively short-term nature.

Refer to footnote 12, *Fair Value of Financial Instruments* for further information.

(i) Derivative Financial Instruments

The Company enters into to-be-announced (TBA) security transactions, which are generally used to hedge Agency MBS long positions shown within Trading Securities in Financial Instruments, at Fair Value on the Consolidated Statements of Financial Condition. The Company also conducts trading activities in these securities to meet the needs of clients, subjecting the Company to varying degrees of market and credit risk.

TBA securities provide for the delayed delivery of the underlying instrument. The settlement date is a date beyond the time generally established by regulations or conventions in the marketplace or exchange in which the transaction is executed and as such are accounted for as derivatives. The contractual or notional amounts related to these forward-settling derivatives reflect the volume and activity and do not reflect the amounts at risk. The gain or loss on these transactions is recognized on a trade date basis.

The Company's exposure to market risk is determined by a number of factors, including but not limited to the size, composition and diversification of positions held, the absolute and relative levels of interest rates, and market volatility. Derivatives are recorded at fair value, which represents the net of gain or loss on open positions at the end of the period, within Other Investments in Financial Instruments, at Fair Value or Financial Instrument Liabilities, at Fair Value on the Consolidated Statements of Financial Condition.

The Fixed Income Clearing Corporation (FICC) calculates and collects margin on open TBA trades to ensure liquidity in the event a counterparty fails, as the majority of TBA trades clear through FICC. Effective June 2022, this collected margin is distributed out to members on a daily basis, which is designed to bring the Company's portfolio of open positions to market value. The daily process generates a net credit or debit amount with FICC that is included within Receivables from or Payables to Brokers and Dealers on the Consolidated Statements of Financial Condition.

In addition, the Company occasionally enters into forward equity commitments in connection with at-the-market offerings, which are considered derivative transactions to meet the needs of the Company's investment banking clients. For every forward equity commitment, the Company enters into a short sale transaction of the investment banking client's securities in the same notional value. The obligation to purchase shares from the investment banking client is contingent upon the number of shares sold by the Company, thus mitigating the market and credit risk on these transactions. The fair value of the forward equity commitment has an equal and offsetting mark to market on the associated short sale of equity securities. As of December 31, 2023 and 2022, there were no open positions related to forward equity commitments.

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Refer to footnote 6, *Receivables From and Payables To Brokers and Dealers* and footnote 13, *Derivative Financial Instruments* for further information.

(j) Subordinated Liabilities

Subordinated Liabilities are comprised of non-qualified compensation awards to RWB associates in accordance with the Baird Financial Advisors Deferred Compensation Plan (FADCP).

Refer to footnote 15, *Subordinated Liabilities* and footnote 18, *Compensation and Retirement Plans* for further information on the Baird FADCP.

(k) Income Taxes

Income taxes are accounted for under the asset and liability method. The Company is included in the consolidated income tax returns of BFG in the U.S. Federal jurisdiction and various consolidated states. The Company also files separate income tax returns in various state and local jurisdictions. Federal income taxes are calculated as if the companies filed on a separate return basis. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized when enacted. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

Refer to footnote 16, *Income Taxes* for further information.

(l) Fixed Assets

Fixed Assets are recorded at cost less accumulated depreciation. Depreciation is calculated by using the straight-line method over the estimated useful lives of the assets, or the term of the lease, whichever is shorter, which range from three years for software and computer equipment up to ten years for certain leasehold improvements.

Capitalized project costs are accounted for under ASC Topic 350-40, *Intangibles-Goodwill-Other-Internal-Use Software* and consist of costs related to internally developed software for the Company's internal use and software acquired as part of hosting arrangements. Projects once in use are amortized over their useful life.

Fixed Assets are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be fully recoverable.

Refer to footnote 7, *Fixed Assets* for further information.

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(m) Leases

The Company follows ASC Topic 842, *Leases* (ASC Topic 842). ASC Topic 842 states that a lease is a contract, or part of a contract, that conveys the right to control the use of identified property or equipment for a period of time in exchange for consideration. In making this determination, the Company considers if it obtains substantially all of the economic benefits from the use of the underlying asset and directs how and for what purpose the asset is used during the term of the contract.

The Company leases its corporate headquarters and numerous other offices under various non-cancelable leases, all of which are operating leases. The original terms of the Company's lease agreements generally range from three to ten years. Some of the leases contain renewal and/or termination options, escalation clauses, rent-free holidays and operating cost adjustments. In addition to office leases, the Company enters into leases for copiers and mailroom equipment on a recurring basis. The Company elected the practical expedient not to apply the recognition requirements of ASC 842 to short-term leases with terms of 12 months or less.

The Company recognizes a right-of-use (ROU) lease asset and related lease liability on the Consolidated Statements of Financial Condition for all leases with a term greater than twelve months. The lease liability represents the Company's obligation to make future lease payments and is recorded at an amount equal to the present value of the remaining minimum lease payments. The ROU lease asset, which represents the right to use of the underlying asset during the lease term, is measured based on the carrying value of the lease liability, adjusted for other items, such as lease incentives and uneven rent payments.

The Company will generally extend office leases if the lease situation is advantageous to the Company, however the Company generally does not make lease extensions for equipment leases. For office leases, the Company reviews office leases expiring within the next six months each quarter and determines the population of leases that could be extended given the unique set of circumstances surrounding each lease. The Company does not include options to extend or terminate the lease as part of the lease term, unless it is reasonably certain that the Company will exercise the option.

Occasionally, the Company will sublet a space if an office move is required before a lease expires. The Company considers these short-term and infrequent in nature.

In calculating its discount rate, the Company utilizes its private credit rating to identify comparable public companies (public comps) with similar public comp yields in the same industry and utilizes these public comp yields to determine what the Company's incremental borrowing rate would be over various tenors. The Company utilizes a blend of the public comp yields on an unadjusted and option adjusted basis and applies the discount rate applicable to the appropriate lease tenor.

Generally, office leases require payment for real estate taxes, insurance costs, common area maintenance, and utilities. The Company accounts for these costs as non-lease components. The payments are variable and thus excluded from the calculation of the lease liability.

The Company follows ASC Topic 360, *Property, Plant and Equipment* (ASC Topic 360) to determine if a ROU impairment exists. ASC Topic 360 states that long-lived assets with definite lives are assessed for impairment when events or circumstances indicate the carrying value may not be recoverable. When reviewing for events and circumstances that may indicate the carrying value may not be recoverable, the Company considered, among other things, a significant decrease in the market price of an asset,

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significant or adverse change in the manner in which an asset is used and current period operating losses associated with the use of the asset.

Refer to footnote 8, *Leases* for further information.

(n) Goodwill and Intangible Assets

The Company follows ASC Topic 350, *Intangibles – Goodwill and Other* (ASC Topic 350). ASC Topic 350 states that goodwill shall not be amortized. Instead, goodwill shall be tested for impairment at a level of reporting referred to as a reporting unit when circumstances indicate there may be an impairment. An intangible asset that is not subject to amortization shall be tested for impairment annually and more frequently if events or changes in circumstance indicate that it is more-likely-than-not the asset is impaired.

The Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than the carrying amount. If the Company determines it is more likely than not that the fair value of a reporting unit is greater than the carrying amount it would not be required to perform a quantitative assessment of goodwill for that reporting unit. The quantitative assessment requires a comparison of the fair value of the reporting unit with the carrying value, including goodwill. If the fair value of the reporting unit exceeds the carrying value, the related goodwill is not considered impaired, and no further analysis is required. If the carrying value of the reporting unit exceeds the fair value, the Company must recognize an impairment in an amount equal to that excess. The Company has determined its reporting units to align with its five distinct business units: private wealth management, equity capital markets, fixed income capital markets, asset management and principal investments.

As of September 30, 2023 and September 30, 2022, the Company performed a qualitative evaluation of its goodwill to determine whether it was more likely than not that the carrying value of the reporting unit, including goodwill, was greater than the fair value of the reporting unit. In performing the qualitative assessment for each reporting unit, the Company considered, among other things, the year over year financial performance of the Company and its reporting units, macroeconomic conditions, changes in management or key personnel, and the performance of comparable companies versus the prior year. Based on the outcome of our qualitative evaluation, it was determined to be not more-likely-than-not that the carrying value of any reporting unit was greater than the fair value. Further, no events occurred since the qualitative assessment that would cause the Company to update this impairment testing and therefore the Company did not recognize any goodwill impairment during the years ended December 31, 2023 and 2022.

Intangible assets with finite lives are amortized on a straight-line basis over their respective useful lives, and reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying value of an intangible asset may not be fully recoverable. The Company did not recognize any intangible asset impairment during the years ended December 31, 2023 and 2022.

Refer to footnote 9, *Goodwill and Intangible Assets* for further information.

(o) Foreign Currency Translation

Assets and liabilities of the Company's foreign investments are translated at the month-end exchange rate. Net exchange gains or losses resulting from the translation of foreign financial statements are

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credited or charged directly to Accumulated Other Comprehensive Loss, a separate component of Stockholder's Equity on the Consolidated Statements of Financial Condition. These gains or losses are the only component of Accumulated Other Comprehensive Loss.

(p) Consolidation

The Company consolidates entities in which it has a controlling financial interest based on either the variable interest entity (VIE) or voting interest model. The Company is required to first apply the VIE model to determine whether it holds a variable interest in an entity, and if so, whether the entity is a VIE. If the Company determines it does not hold a variable interest in a VIE, it then applies the voting interest model. Under the voting interest model, the Company consolidates an entity when it holds a majority voting interest in an entity.

All intercompany accounts and transactions have been eliminated in consolidation.

The Company accounts for investments in which it has significant influence but not a controlling financial interest using the equity method of accounting.

VIE Model

An entity is considered to be a VIE if any of the following conditions exist: (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support, (b) the holders of the equity investment at risk, as a group, lack either the direct or indirect ability through voting rights or similar rights to make decisions that have a significant effect on the success of the entity or the obligation to absorb the entity's expected losses or right to receive the entity's expected residual returns, or (c) the voting rights of some equity investors are disproportionate to their obligation to absorb losses of the entity, their rights to receive returns from an entity, or both and substantially all of the entity's activities either involve or are conducted on behalf of an investor with disproportionately few voting rights.

Under the VIE model, limited partnerships are considered VIE's unless the limited partners hold substantive kick-out or participating rights over the general partner. The Company consolidates entities that are VIEs when the Company determines it is the primary beneficiary. Generally, the primary beneficiary of a VIE is a reporting entity that has (a) the power to direct the activities that most significantly impact the VIE's economic performance, and (b) the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE.

Refer to footnote 19, *Variable Interest Entities* for further information.

(q) Legal Commitments and Contingencies

The Company is occasionally involved in legal and regulatory proceedings, arbitrations, underwriting commitments, private equity capital commitments and various other contingent obligations.

The Company recognizes liabilities for contingencies when there is an exposure that, when analyzed, indicates it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. Whether a loss is probable, and if so, the estimated range of possible loss is based on currently available information and is subject to significant judgment, a variety of assumptions, and uncertainties. When a range of a possible loss can be estimated, the Company accrues the most likely amount within that range. If the most likely amount of possible loss within that range is not determinable, the Company

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accrues a minimum based on the range of possible loss. No liability is recognized for those matters which, in management's judgment, the determination of a reasonable estimate of loss is not possible.

The Company records liabilities related to legal proceedings in Accounts Payable, Accrued Expenses, and Other Liabilities on the Consolidated Statements of Financial Condition. The determination of these liability amounts requires significant judgment on the part of management. Management considers many factors including, but not limited to the amount of the claim, the amount of the loss in the client's account, if applicable, the basis and validity of the claim, the possibility of wrongdoing by an associate, previous results in similar cases, and legal precedents and case law. Each legal proceeding is reviewed, and the liability balance is adjusted as deemed appropriate by management. Any change in the liability amount is recognized as either a charge or a credit. The actual costs of resolving legal proceedings may be materially different than the recorded liability amounts for those matters.

Refer to footnote 21, *Legal Commitments and Contingencies* for further information.

(r) Newly Effective Accounting Pronouncements

In March 2022, the FASB issued ASU 2022-02, Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings (TDRs) and Vintage Disclosures. The new guidance eliminates the accounting guidance for TDRs, now requiring an entity to determine whether a modification results in a new loan or continuation of an existing loan, as well as expanding disclosures related to modifications and requires disclosure of current period gross write-offs of financing receivables by year of origination. The accounting update is effective for fiscal years beginning after December 15, 2022, and early adoption is permitted. The Company adopted this guidance as of January 1, 2023, prospectively. The adoption of the accounting update did not have a material impact on the Consolidated Statements of Financial Condition.

(3) Mergers

Hefren-Tillotson

On May 24, 2022 (Acquisition Date), BFC acquired all the outstanding equity interests of Masterplan, Inc. (MP), the parent company of Hefren-Tillotson, Inc. (HT) and MP Real Estate, Inc (MPRE). Further, MPRE has a controlling interest in HTMJ LLP. On October 22, 2022 (Merger Date), HT merged with and into RWB and net assets of HT were transferred in the merger to RWB. MP remained a subsidiary of BFC.

The acquisition by BFC has been accounted for using the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations* (ASC Topic 805), with the excess purchase price over the fair market value of the assets acquired and liabilities assumed allocated to goodwill. ASC Topic 805 requires the entity receiving the assets and liabilities to initially measure them at their carrying amounts at the date of the transfer. The financial statements of the receiving entity shall present the statement of financial condition as of the beginning of the period during which the entities were under common control.

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The following table summarizes the net assets contributed to RWB on the date of transfer:

<u>Assets</u>	
Cash and Cash Equivalents	\$ 11,486
Receivables:	
Brokers and Dealers	4,374
Notes Receivable, Net	87
Other	1,663
Financial Instruments, at Fair Value:	
Trading Securities	27,487
Fixed Assets, Net	1,022
Lease Right of Use Asset	17,128
Goodwill	70,614
Intangible Assets	41,583
Other Assets	3,192
Total Assets	<u>\$ 178,636</u>
<u>Liabilities</u>	
Accrued Compensation and Benefits	\$ 10,601
Accounts Payable, Accrued Expenses and Other Liabilities	14,953
Operating Lease Liabilities	17,537
Deferred Tax Liabilities, Net	10,195
Total Liabilities	<u>53,286</u>
Net Assets Contributed	<u>\$ 125,350</u>

As part of the transfer of HT assets into RWB, RWB recorded \$70,614 of goodwill and \$41,583 of intangible assets in the Consolidated Statements of Financial Condition. The goodwill is primarily attributable to the transfer of HT workforce (which is not eligible for separate recognition as an identifiable intangible asset) and the expected synergy related to duplicate infrastructure reduction, leveraging of services and clients, and moving HT from an outsourced clearing model to RWB's self-clearing model.

(4) Related Party Transactions

Baird Asia Limited and Baird Capital (Singapore) Pte. Limited are wholly owned subsidiaries of BFC, providing investment banking and private equity services to the Company. The Company had a payable of \$3,118 and \$3,815 for the years ended December 31, 2023 and 2022, respectively, included within Accounts Payable, Accrued Expense, and Other Liabilities on the Consolidated Statements of Financial Condition.

The Company serves as an investment advisor and provides administrative services to the Baird Funds, Inc. and various affiliated private equity partnerships under management agreements (together, Affiliated Funds). Receivables from unconsolidated Affiliated Funds were \$33,875 and \$35,811 on December 31, 2023 and 2022, respectively, and are included within Receivables Other on the Consolidated Statements of Financial Condition.

The Company invested \$58,059 and \$42,908 into Affiliated Funds on December 31, 2023 and 2022, respectively, which is included within Other Investments in Financial Instruments, at Fair Value on the

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Consolidated Statements of Financial Condition. The Company has remaining commitments of \$2,031 and \$1,564 to invest into Affiliated Funds as of December 31, 2023 and 2022, respectively.

The Company receives reimbursement from affiliates including Baird UK, Strategas Securities, LLC (SS) and Strategas Asset Management, LLC (SAM and together with SS, Strategas), and Baird Trust Company (Baird Trust) for shared services that directly supports the activities of the affiliates. Strategas and Baird Trust are wholly owned subsidiaries of BFC.

The Company receives reimbursement from Baird Trust for certain direct expenses. The Company allocates occupancy costs monthly, including rent expense and depreciation of leasehold improvements, to Baird Trust.

SS provides the Company access to research content. The agreement allocates costs monthly for an agreed-upon amount.

Pursuant to certain services agreements in place, the Company receives reimbursement from Baird Trust for compensation paid by the Company for referral services. The agreement in place allocates compensation based on the fees collected by Baird Trust from the referred clients.

The Company provides execution services for equity trades for Baird Trust. The agreement in place between Baird Trust and the Company allocates costs based on monthly trading volumes using an agreed per share cost.

Baird Trust serves as trustee of individual retirement account (IRA) assets.

Pursuant to certain transfer pricing agreements in place, certain investment banking revenue is allocated between the Company and its Baird UK and German (Robert W. Baird GmbH) affiliates. The Company reviews the terms of these agreements annually.

Baird UK provides sales trading coverage for certain non-US trading and research clients of the Company.

The Company leases an office facility from HTMJ LLP. The Company also leases a second office facility from MP.

Other amounts receivable from affiliates were \$5,071 and \$3,357 as of December 31, 2023 and 2022, respectively, which are included within Receivables Other on the Consolidated Statements of Financial Condition.

Other amounts payable to affiliates relating to certain transfer pricing agreements were \$13,529 and \$5,714 at December 31, 2023 and 2022, respectively, which are included within Accounts Payable, Accrued Expenses and Other Liabilities on the Consolidated Statements of Financial Condition. At December 31, 2023, amounts payable from affiliates are primarily related to receivables from Baird UK and Robert W. Baird GmbH for transfer pricing transactions related to investment banking revenue.

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Amounts receivable from associates, including the related reserve for expected credit losses as of December 31, 2023 and 2022, are reflected as Notes Receivable, Net on the Consolidated Statements of Financial Condition and consist of the following:

	2023	2022
Notes Receivable	\$ 198,118	\$ 222,231
Reserve for Expected Credit Losses	(11,800)	(14,900)
Notes Receivable, Net	<u>\$ 186,318</u>	<u>\$ 207,331</u>

The level of past charge-off activity is a factor that is considered in evaluating the potential severity of future credit losses.

In 2022, the Company received a capital contribution from BFC for \$60,773 to fund associate advances related to the HT acquisition, which is included within Additional Paid-In Capital on the Consolidated Statements of Financial Condition.

(5) Receivables From and Payables To Clients

Accounts receivable from and payable to clients include amounts due on cash and margin transactions. Securities owned by clients are held as collateral for receivables.

	2023	2022
Margin balances	\$ 148,606	\$ 186,836
Market Value of Client Accounts	39,879	35,565
Client Securities Failed-to-Receive	12,775	4,624
Receivables from Clients	<u>\$ 201,260</u>	<u>\$ 227,025</u>
Market Value of Client Accounts	\$ 413,758	\$ 415,058
Client Securities Failed-to-Deliver	5,024	4,498
Payables to Clients	<u>\$ 418,782</u>	<u>\$ 419,556</u>

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(6) Receivables From and Payables To Brokers and Dealers

Securities failed-to-receive and-deliver represent the contract values of securities that have not been received or delivered on settlement date, respectively.

	<u>2023</u>	<u>2022</u>
Securities Failed-to-Deliver	\$ 4,605	\$ 3,992
Receivable for Net Unsettled Inventory Sales	33,219	118,471
Commissions Receivable	1,830	1,849
Receivables from Clearing Organizations	11,530	238
Receivables from Brokers and Dealers	<u>\$ 51,184</u>	<u>\$ 124,312</u>
Securities Failed-to-Receive	\$ 2,818	\$ 6,991
Other Payables to Broker and Dealers	5,121	247
Payables to Clearing Organizations	-	3,339
Payables to Brokers and Dealers	<u>\$ 7,939</u>	<u>\$ 10,577</u>

(7) Fixed Assets

Fixed Assets as of December 31, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Leasehold Improvements	\$ 202,562	\$ 182,166
Furniture and Fixtures	88,800	79,217
Equipment	90,802	77,578
Software	18,303	13,302
Land	450	450
Total Fixed Assets	<u>400,917</u>	<u>352,713</u>
Less:		
Accumulated Depreciation	<u>(228,114)</u>	<u>(193,399)</u>
Fixed Assets, Net	<u>\$ 172,803</u>	<u>\$ 159,314</u>

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(8) Leases

The Company occupies office space and equipment leases under cancelable and non-cancelable operating lease arrangements. Future minimum lease payments are as follows:

	<u>Operating</u>
2024	\$ 50,337
2025	47,390
2026	42,969
2027	38,669
2028	36,364
Thereafter	<u>127,253</u>
Total Undiscounted Lease Payments	342,982
Less Imputed Interest	<u>(56,122)</u>
Total Lease Liabilities	<u>\$ 286,860</u>

The weighted-average remaining lease term for operating leases was 7.82 years as of December 31, 2023 and the weighted average discount rate was 4.46%. The weighted-average remaining lease term for operating leases was 7.65 years as of December 31, 2022 and the weighted average discount rate was 3.74%.

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(9) Goodwill and Intangible Assets

The following table sets forth the Company's goodwill and identifiable intangible assets, net of accumulated amortization, and activity for the period from January 1, 2022 through December 31, 2023:

		2023			
	Useful Life	Gross Carrying Amount	Additions	Accumulated Amortization	Net Carrying Amount
Goodwill	N/A	\$ 326,528	\$ -	\$ -	\$ 326,528
Finite Life Intangibles					
Client Lists	8-20 Years	169,074	-	(48,344)	120,730
Noncompete Agreements	5 Years	450	-	(152)	298
Indefinite Life Intangibles					
Trade Names	N/A	9,260	-	-	9,260
Intangible Assets		\$ 178,784	\$ -	\$ (48,496)	\$ 130,288
		2022			
	Useful Life	Gross Carrying Amount	Additions	Accumulated Amortization	Net Carrying Amount
Goodwill	N/A	\$ 255,914	\$ 70,614	\$ -	\$ 326,528
Finite Life Intangibles					
Client Lists	8-20 Years	128,425	40,649	(36,941)	132,133
Noncompete Agreements	5 Years	-	450	(56)	394
Trademark	7 Months	-	484	(484)	-
Indefinite Life Intangibles					
Trade Names	N/A	9,260	-	-	9,260
Intangible Assets		\$ 137,685	\$ 41,583	\$ (37,481)	\$ 141,787

(10) Money Borrowed

(a) Bank Loans

On December 31, 2023 and 2022, the Company had available a committed unsecured line of credit with a syndicate of lenders maturing on September 21, 2027. This committed unsecured line of credit provides maximum borrowing capacity to RWB of \$700,000, with a sublimit of \$325,000 for BFC. Borrowing capacity available to RWB is reduced by any outstanding borrowings made by BFC. As of December 31, 2023 and 2022, BFC had \$100,000 and \$0 outstanding, respectively, on the available line of credit. In September 2022, the Company transitioned its reference rate from one-month London Interbank Offered Rate (LIBOR) to the one-month Secured Overnight Financing Rate (SOFR). Interest rates on the borrowings are variable based on SOFR plus a spread which is determined based on the Company's leverage ratio as defined in the credit facility agreement. The weighted average interest rate on the line of credit during the years ended December 31, 2023, and 2022 was 6.57% and 3.39%, respectively. As of December 31, 2023, and 2022, debt issuance costs of \$931 and \$1,177, respectively, relating to this line

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of credit were capitalized and included in Other Assets on the Consolidated Statements of Financial Condition. The Company had no borrowings outstanding as of December 31, 2023 and 2022, respectively.

(b) Book Credit Balances in Bank Accounts

The Company has \$31,571 and \$8,651 on December 31, 2023 and 2022, respectively, in net credit balances at certain banks with which it does business.

(11) Revenue from Contracts with Customers

Information on Remaining Performance Obligations and Revenue Recognized from Past Performance: The Company does not disclose information about remaining performance obligations pertaining to contracts that have an original expected duration of one year or less. The contract price allocated to remaining unsatisfied or partially unsatisfied performance obligations with an original expected duration exceeding one year was not material at December 31, 2023 and 2022.

Amounts receivable related to revenues from contracts with customers as of December 31, 2023 and 2022 were \$90,155 and \$85,342, respectively, included in Receivables, Other on the Consolidated Statements of Financial Condition. The Company has separately evaluated the risk of uncollectability and has determined no reserve for expected credit losses was required as of December 31, 2023 and 2022.

Contract Costs: The Company capitalizes costs to fulfill contracts associated with investment banking and fixed income advisory and underwriting engagements where the revenue is recognized at a point in time and the costs are determined to be recoverable. The Company also has capitalized costs to fulfill contracts associated with affiliated private equity partnership management fees where the associated revenue is recognized over the life of the partnership and the costs are determined to be recoverable.

Amounts capitalized related to revenues from contracts with customers as of December 31, 2023 and 2022 were \$4,110 and \$7,067, respectively, included within Receivables, Other on the Consolidated Statements of Financial Condition. The Company has separately evaluated the risk of uncollectability and has determined a reserve for expected credit losses of \$826 and \$753 was required as of December 31, 2023 and 2022, respectively, which relates to investment banking underwriting and advisory business deals. In establishing the reserve for expected credit losses, management considers the historical loss rate, customer specific factors and current market conditions, and adjusts the reserve for expected credit losses on an annual basis. For business deals deemed to be inactive, the Company charges off the full amount of the reimbursable expenses, and any subsequent collection of those expenses is treated as a recovery. The status of the deals is reevaluated at each reporting period.

Further, the Company receives management fees from affiliated private equity partnerships. The Company has determined that the expected credit losses related to the outstanding receivable as of December 31, 2023 and 2022 was immaterial. In establishing the reserve for expected credit losses, management considers the historical loss rate, portfolio company specific factors and current market conditions, and adjusts the expected credit losses on an annual basis.

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(12) Fair Value of Financial Instruments

The following table summarizes the fair value of financial instruments as of December 31, 2023:

	December 31, 2023			
	Level I	Level II	Level III	Total
Cash Equivalents:				
Money Market Funds	\$ 790,000	\$ -	\$ -	\$ 790,000
Financial Instruments, at Fair Value:				
Trading Securities				
Certificates of Deposit	\$ -	\$ 698	\$ -	\$ 698
U.S. Government and Agency Obligations	-	486,907	-	486,907
Municipal Obligations	-	52,215	-	52,215
Corporate Obligations	-	5,204	-	5,204
Total Debt Securities	-	545,024	-	545,024
Equity Securities	482	-	2	484
Total Trading Securities	482	545,024	2	545,508
Other Investments				
Mutual Funds ⁽¹⁾	141,236	-	-	141,236
Other Investments - Not Measured at NAV ⁽²⁾	1,240	-	13,591	14,831
Other Investments - Measured at NAV ⁽³⁾	-	-	-	6,375
Total Other Investments	142,476	-	13,591	162,442
Total Financial Instruments, at Fair Value	\$ 142,958	\$ 545,024	\$ 13,593	\$ 707,950
Financial Instrument Liabilities, at Fair Value:				
Trading Securities Sold, Not Yet Purchased				
Certificates of Deposit	\$ -	\$ 14,849	\$ -	\$ 14,849
U.S. Government and Agency Obligations	-	77,146	-	77,146
Corporate Obligations	-	5,404	-	5,404
Other Securities ⁽²⁾	1	-	-	1
Total Trading Securities Sold, Not Yet Purchased	1	97,399	-	97,400
Other Investments				
Derivative Liabilities	-	3,164	-	3,164
Total Financial Instrument Liabilities, at Fair Value	\$ 1	\$ 100,563	\$ -	\$ 100,564

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The following table summarizes the fair value of financial instruments as of December 31, 2022:

	December 31, 2022			
	Level I	Level II	Level III	Total
Cash Equivalents:				
Money Market Funds	\$ 675,000	\$ -	\$ -	\$ 675,000
Financial Instruments, at Fair Value:				
Trading Securities				
Certificates of Deposit	\$ -	\$ 310	\$ -	\$ 310
U.S. Government and Agency Obligations	-	705,341	-	705,341
Municipal Obligations	-	45,723	-	45,723
Private Label Mortgage Backed Securities	-	121	-	121
Other Asset Backed Securities	-	2	-	2
Corporate Obligations	-	29	-	29
Total Debt Securities	-	751,526	-	751,526
Equity Securities	534	-	2	536
Total Trading Securities	534	751,526	2	752,062
Other Investments				
Mutual Funds ⁽¹⁾	99,640	-	-	99,640
Other Investments - Not Measured at NAV ⁽²⁾	959	-	19,177	20,136
Other Investments - Measured at NAV ⁽³⁾	-	-	-	6,009
Derivative Assets	-	4,882	-	4,882
Total Other Investments	100,599	4,882	19,177	130,667
Total Financial Instruments, at Fair Value	\$ 101,133	\$ 756,408	\$ 19,179	\$ 882,729
Financial Instrument Liabilities, at Fair Value:				
Trading Securities Sold, Not Yet Purchased				
Certificates of Deposit	\$ -	\$ 9,885	\$ -	\$ 9,885
U.S. Government and Agency Obligations	-	36,543	-	36,543
Municipal Obligations	-	376	-	376
Other Securities ⁽²⁾	8	-	-	8
Total Trading Securities Sold, Not Yet Purchased	8	46,804	-	46,812
Other Investments				
Derivative Liabilities	-	2	-	2
Total Financial Instrument Liabilities, at Fair Value	\$ 8	\$ 46,806	\$ -	\$ 46,814

⁽¹⁾ The Company elects to invest directly as a principal in mutual fund investments, which is related to the Company's obligations under the deferred compensation plans and are included within Other

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Investments in Financial Instruments, at Fair Value on the Consolidated Statements of Financial Condition. Refer to footnote 18, *Compensation and Retirement Plans* for further detail.

⁽²⁾ Other Investments and Other Securities in Level I consist primarily of corporate stocks. Other Investments in Level III consist of the Company's membership investment in DTCC stock and certain other private companies.

⁽³⁾ Certain investments that are valued using the NAV practical expedient are not required to be categorized in the fair value hierarchy table, and therefore, have been removed. These investments are included within Other Investments in Financial Instruments, at Fair Value, on the Consolidated Statements of Financial Condition.

The following tables summarize quantitative information related to the significant unobservable inputs utilized in the fair value measurements of the Level III assets for the years ended December 31, 2023 and 2022 which is included within Other Investments in Financial Instruments, at Fair Value, on the Consolidated Statements of Financial Condition:

		2023		
	Fair Value	Valuation Technique	Unobservable Input(s)	Range (Weighted Average)
Other Investments	\$ 13,593	Statement Value	N/A	N/A

		2022		
	Fair Value	Valuation Technique	Unobservable Input(s)	Range (Weighted Average)
Other Investments	\$ 19,179	Statement Value	N/A	N/A

Included within Other Investments is the Company's membership investment in DTCC, which is valued based on statements received from DTCC.

(13) Derivative Financial Instruments

Derivatives are recorded at fair value, which represents the net gain or loss on open positions at the end of the period, within Other Investments in Financial Instruments, at Fair Value or Financial Instrument Liabilities, at Fair Value on the Consolidated Statements of Financial Condition. Although notional amounts may reflect the extent of the Company's involvement in the financial instruments, they are not indicative of potential loss.

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The following table represents derivative assets and liability derivatives notional value and fair value as of December 31, 2023 and 2022 and average fair value for the years then ended:

	2023 Asset Derivatives			2023 Liability Derivatives		
	Notional Value	Fair Value	Average Fair Value	Notional Value	Fair Value	Average Fair Value
Forward-settling TBA trades	\$ 400,113	-	-	\$ 804,356	(3,164)	(171)
	2022 Asset Derivatives			2022 Liability Derivatives		
	Notional Value	Fair Value	Average Fair Value	Notional Value	Fair Value	Average Fair Value
Forward-settling TBA trades	\$ 517,065	(2)	(70)	\$ 1,190,381	4,882	(255)

(14) Net Capital Requirements

The Company is subject to the requirements of Rule 15c3-1 (net capital rule) under the Securities Exchange Act of 1934. The basic concept of the net capital rule is liquidity, its objective being to require a broker dealer to maintain adequate net capital, as defined. The Company has elected to operate under the alternative minimum net capital requirement as allowed by the net capital rule, which requires that net capital exceed 2% of aggregate debit items as those terms are defined. Withdrawal of equity capital may be restricted if net capital is less than 5% of such aggregate debit items.

At December 31, 2023 and 2022, the Company's net capital percentage was 372% and 328%, respectively, of aggregate debit items; and net capital, as defined, was \$792,434 and \$757,015, respectively, which was \$788,173 and \$752,395, respectively, in excess of the minimum net capital requirement. At December 31, 2023 and 2022, net capital after anticipated withdrawals as a percentage of aggregate debit items was 371% and 326%, respectively.

(15) Subordinated Liabilities

At December 31, 2023 and 2022, the Company had \$154,187 and \$128,114, respectively, of subordinated notes payable to associates, all of which are covered by agreements approved by FINRA that are available in computing adjusted net capital under the net capital rule at December 31, 2023 and 2022, respectively.

Subordinated Liabilities as of December 31, 2023, mature as follows:

2024	\$	13,358
2025		14,707
2026		18,567
2027		27,046
2028		39,417
Thereafter		41,092
	\$	<u>154,187</u>

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To the extent that such notes are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid. At December 31, 2023 and 2022, the Company had sufficient capital that such restrictions did not apply. The right of the noteholders to receive any payment from the Company under the terms of the notes is subordinated to the claims of all present and future creditors of the Company that arise prior to maturity and is dependent on approval by FINRA.

(16) Income Taxes

(a) Deferred Income Tax

The major deferred tax items are as follows:

	2023	2022
Deferred Tax Assets:		
Deferred Compensation Plans	\$ 49,782	\$ 43,348
Accrued Expenses and Reserves	28,836	41,449
Net Operating Loss	244	271
Carryforwards	49	60
Operating Lease Liabilities	71,118	62,830
Other	6,510	3,405
Total Deferred Tax Assets	<u>156,539</u>	<u>151,363</u>
Deferred Tax Liabilities:		
Goodwill and Intangibles	24,782	22,585
Depreciation and Fixed Asset Net Gain/Loss	31,488	28,531
Investments	971	2,961
Lease Right of Use Asset	65,015	57,858
Other	864	1,086
Total Deferred Tax Liabilities	<u>123,120</u>	<u>113,021</u>
Deferred Tax Asset, Net	<u>33,419</u>	<u>38,342</u>
Valuation Allowance	<u>(34)</u>	<u>(54)</u>
Deferred Tax Asset after Valuation Allowance, Net	<u>\$ 33,385</u>	<u>\$ 38,288</u>

A valuation allowance has been established for state credit carryforwards as management believes it is more-likely-than-not that the credit carryforwards are not fully realizable.

(b) Uncertain Tax Positions

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Company is included in the consolidated income tax returns of BFG in the U.S. Federal jurisdiction and various consolidated states. The Company also files separate income tax returns in various states and local jurisdictions. The federal income tax returns for the years prior to 2020 and the state and local tax returns for the years prior to 2019 are no longer subject to examination by income tax authorities, unless subsequently amended.

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The Company's unrecognized tax benefits are analyzed and monitored to ensure they are adequate and reflective of known events. The Company believes that it is reasonably possible that a portion of the balance of the gross unrecognized tax benefits could decrease in the next twelve months due to ongoing activities with various taxing jurisdictions that the Company expects may give rise to settlements or the expiration of statute of limitations. The Company continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings.

(17) Stockholder's Equity

As of December 31, 2023 and 2022, the Company had 26,454,488 shares of Common Stock and 47,086 shares of Common Treasury Stock outstanding. There were no share transactions in the Company's Common Stock or Common Treasury Stock during the years ended December 31, 2023 and 2022.

The Company has authorized 72,450,000 shares of \$1 stated value common stock. The Company has also authorized 1,000 shares of no-par value, cumulative, nonvoting preferred stock. No shares of preferred stock were issued or outstanding in 2023 or 2022. The shares of the Company are subject to strict transfer restrictions.

On each of July 10, 2023, August 16, 2023, September 20, 2023, November 6, 2023, and December 11, 2023, the Company declared dividends totaling \$342,982 (\$12.965 per share of common stock) to BFC. The dividends were paid on July 12, 2023, August 18, 2023, September 22, 2023, November 8, 2023, and December 13, 2023, respectively, and are included in Retained Earnings on the Consolidated Statements of Financial Condition.

On each of April 4, 2022, May 9, 2022, July 20, 2022, November 7, 2022, and December 12, 2022, the Company declared dividends totaling \$243,995 (\$9.223 per share of common stock) to BFC. The dividends were paid on April 6, 2022, May 11, 2022, July 22, 2022, November 9, 2022, and December 14, 2022, respectively, and are included in Retained Earnings on the Consolidated Statements of Financial Condition.

(18) Compensation and Retirement Plans

(a) The Baird Profit Sharing and Savings Plan

Substantially all associates of the Company are eligible to participate in the Robert W. Baird & Co. Incorporated Profit Sharing and 401(k) Savings Plan. The 401(k) Savings Plan complies with Section 401(k) of the Internal Revenue Code. The Company matches 100% of the first three thousand dollars contributed by each eligible participant annually. The Company's Board of Directors, at its sole discretion, may make a profit-sharing contribution to the Plan, which is distributed on behalf of eligible participants and allocated primarily based on eligible compensation, but may also include a flat per participant element.

(b) Non-Qualified Compensation

The Company has three non-qualified compensation plans, entitled the Baird Capital Participation Plan (BCPP), the Baird FADCP and the Baird Long Term Incentive Plan (LTIP). The BCPP no longer grants awards and all balances in the BCPP Plan are fully vested. For services performed, the FADCP and LTIP grant awards to certain associates. The awards, which vest after seven years, are expensed at the date of grant as no future services are required, subject to continued employment. The balance payable to

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associates under the above plans was \$251,267 as of December 31, 2023, of which \$154,187 is included in Subordinated Liabilities and \$97,080 is included in Accrued Compensation and Benefits on the Consolidated Statements of Financial Condition. Approximately \$19,206 is vested as of December 31, 2023. The balance payable to associates under the above plans was \$205,724 as of December 31, 2022, of which \$128,114 is included in Subordinated Liabilities and \$77,610 is included in Accrued Compensation and Benefits on the Consolidated Statements of Financial Condition. Approximately \$19,465 is vested as of December 31, 2022.

Associates have the ability to allocate their awards in the above plans among several investment options, including certain Affiliated Funds. The Company elects to hedge these associate investment elections by making investments which are related to the Company's obligations under the respective deferred compensation plan and are included in Other Investments in Financial Instruments, at Fair Value on the Consolidated Statements of Financial Condition.

The Company has established a reserve for expected credit losses to reserve for forfeitures of awards in the FADCP and LTIP plans of \$2,709 and \$2,303 as of December 31, 2023 and 2022, respectively, and are included within Accrued Compensation and Benefits on the Consolidated Statements of Financial Condition. In determining the reserve for expected credit losses, management considers the Company's historical forfeiture experience which involves the use of estimates. The actual amounts may be materially different than the recorded amounts.

Certain BCPP participants own restricted stock units (RSUs). The RSUs are fully vested in accordance with the terms of the BCPP and are ultimately convertible into BFG common stock. BCPP participants owning RSUs are entitled to cumulative distributions and dividends issued by BFG on its common stock. The RSUs become payable in full upon a change in control, as defined in the plan.

(19) Variable Interest Entities

The Company, along with third party investors, make investments in private equity funds. These investment funds are typically organized as limited partnerships where the Company is the general partner. The Company's economic interest is generally limited to management fee arrangements as stipulated by the fund operating agreement and the Company's investment in private equity funds.

Certain affiliated private equity partnerships are not consolidated pursuant to the accounting rules disclosed in the consolidation section of footnote 2, *Summary of Significant Accounting Policies*. The Company's investment in partnerships not consolidated was \$6,375 and \$6,009 on December 31, 2023 and December 31, 2022, respectively, which are held in general partner management company subsidiaries and included within Other Investments in Financial Instruments, at Fair Value on the Consolidated Statements of Financial Condition. Net assets of the partnerships not consolidated were \$1,168,635 and \$971,333 on December 31, 2023 and December 31, 2022, respectively. These partnerships were not consolidated as the general partner was not the primary beneficiary. The Company's economic interest in these partnerships range from 0.2% to 1% as of December 31, 2023 and December 31, 2022, respectively. In addition to the Company's economic interest, the Company also has management fee arrangements from the investment advisory services it provides to VIEs. The Company's maximum exposure of loss represents the Company's interest in partnerships not consolidated and amounts of open commitments in affiliated private equity partnerships.

The Company has controlling interests in limited liability companies that serve as general partners in various partnerships. As of December 31, 2023 and 2022, the Company has committed a total of \$3,772 and \$3,306 in

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amounts generally ranging up to \$794 to twelve different private equity partnerships. As of December 31, 2023 and 2022, the Company has invested \$1,741 and \$1,742 of committed amounts.

Refer to footnote 4, *Related Party Transactions* for further detail.

(20) Baird UK

The Company reports the results of its investment in Baird UK using the equity method of accounting. On December 31, 2023 and 2022, the Company's investment in Baird UK was \$28,519 and \$24,455, respectively, and is included in Other Assets on the Consolidated Statements of Financial Condition.

(21) Legal Commitments and Contingencies

The Company is involved in legal actions from time to time that are incidental to its securities business, including without limitation, client complaints and arbitrations, employment related disputes, regulatory investigations and proceedings, securities class action claims arising from underwriting activity, and claims brought against the Company in connection with its recruitment of associates from other firms. The Company has established reserves against such contingencies. Based on its understanding of the facts and the advice of legal counsel, management believes that resolution of these various actions will not result, after taking into account the reserves, in any material adverse effect on the financial condition of the Company. As of December 31, 2023, the estimated aggregate range of possible loss related to these matters is from \$0 to \$3,000 in excess of the accrued reserve. As of December 31, 2022, the estimated aggregate range of possible loss related to these matters was from \$0 to \$8,850 in excess of the amount the Company has reserved.

The Company entered a settlement (the Settlement) agreement with the SEC to resolve an investigation of the Company's compliance with records preservation requirements related to business communications sent over off-channel electronic messaging platforms. The terms of the Settlement are consistent with previously and subsequently announced settlements between firms similar to the Company and the SEC related to these issues. In the Settlement, the Company agreed to a cease-and-desist order, acknowledged that its conduct violated the federal securities laws, agreed to pay a civil monetary penalty of \$15,000, and to comply with certain undertakings, including retaining an independent compliance consultant, related to retention of electronic communications as enumerated in the Settlement.

In the normal course of business, the Company enters into underwriting commitments. Transactions relating to underwriting commitments that were open as of December 31, 2023 and 2022 were not material.

The Company is a member of numerous exchanges and securities industry clearing agencies. Clearing deposits are included within Deposits with Clearing Organizations on the Consolidated Statements of Financial Condition. If a member becomes unable to satisfy its obligations to the securities industry clearing agency, other members would be required to meet these shortfalls. To mitigate these performance risks, the exchanges and securities industry clearing agencies often require members to post collateral. The Company's maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is recorded on the Consolidated Statements of Financial Condition for these arrangements.

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(22) Collateralized Transactions

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions in order to, among other things, acquire securities to cover short positions, accommodate clients' needs, earn residual interest spreads and finance the Company's inventory positions. Under these transactions, the Company either receives or provides collateral, including securities. The Company receives collateral in connection with reverse repurchase agreements and securities borrowed transactions. Under many agreements, the Company is permitted to repledge securities held as collateral. As of December 31, 2023 and 2022, the fair value of securities accepted as collateral was \$109,584 and \$64,756 respectively, of which, \$0 was repledged to other counterparties. The Company pledges collateral, including cash and securities, to collateralize repurchase agreements and enter into securities lending transactions. As of December 31, 2023 and 2022, the fair value of securities pledged as collateral was \$326,589 and \$262,210, respectively on the Consolidated Statements of Financial Condition, which exceeds the carrying value of the repurchase agreements.

All reverse repurchase agreements and repurchase agreements are transacted under legally enforceable master repurchase agreements and substantially all securities borrowed and securities lending transactions are transacted under legally enforceable master securities lending agreements. In the event of default by a counterparty, these agreements give the Company the right to liquidate securities held as collateral and to offset receivables and payables with the defaulting counterparty. For financial statement purposes, we do not offset our reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions.

At December 31, 2023 and 2022, the Company had available a \$150,000 committed repurchase facility. The facility has an annual maturity and expires on September 30, 2024. The Company intends to renew the facility prior to the maturity date. In September 2022, the Company transitioned its reference rate from one-month LIBOR to one-month SOFR. Interest rates on the borrowings under this facility are variable based on SOFR plus a spread of 1.10%. As of December 31, 2023 and 2022, issuance costs of \$117 relating to this facility were capitalized and included in Other Assets on the Consolidated Statements of Financial Condition. As of December 31, 2023 and 2022, the facility had no repurchase transactions outstanding.

The table below reconciles the gross amounts of assets and liabilities on these transactions on the Consolidated Statements of Financial Condition to the net exposure to the Company, considering all effects of legally enforceable master netting agreements as of December 31, 2023:

	Gross Amounts ⁽¹⁾	Amounts Offset on the Consolidated Statement of Financial Condition ⁽²⁾	Net Amounts Presented on the Consolidated Statement of Financial Condition ⁽¹⁾	Amounts Not Offset on the Consolidated Statement of Financial Condition ⁽³⁾	Net Amounts
Assets:					
Deposits Paid on Securities					
Borrowed	\$ 107,929	\$ -	\$ 107,929	\$ (107,929)	\$ -
Liabilities:					
Securities Sold Under					
Agreements to Repurchase	\$ 311,158	\$ -	\$ 311,158	\$ (311,158)	\$ -

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The table below reconciles the gross amounts of assets and liabilities on these transactions on the Consolidated Statements of Financial Condition to the net exposure to the Company, considering all effects of legally enforceable master netting agreements as of December 31, 2022:

	Gross Amounts ⁽¹⁾	Amounts Offset on the Consolidated Statement of Financial Condition ⁽²⁾	Net Amounts Presented on the Consolidated Statement of Financial Condition ⁽¹⁾	Amounts Not Offset on the Consolidated Statement of Financial Condition ⁽³⁾	Net Amounts
Assets:					
Deposits Paid on Securities Borrowed	\$ 66,717	\$ -	\$ 66,717	\$ (64,756)	\$ 1,961
Liabilities:					
Securities Sold Under Agreements to Repurchase	\$ 249,336	\$ -	\$ 249,336	\$ (249,336)	\$ -
Deposits Received on Securities Loaned	25	-	25	(21)	4

⁽¹⁾ Amounts include all financial instruments, regardless of whether there is a legally enforceable master netting agreement in place. The Company reports gross assets and liabilities on the Consolidated Statements of Financial Condition.

⁽²⁾ The Company does not offset our reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned because the conditions for netting as specified by U.S. GAAP are not met.

⁽³⁾ Collateral received on Securities Purchased Under Agreements to Resell and Deposits Paid on Securities Borrowed, includes securities received from the counterparty. These securities are not included on the Consolidated Statements of Financial Condition, unless there is an event of default. Collateral pledged on Securities Sold Under Agreements to Repurchase and Deposits Received on Securities Loaned, includes the fair value of securities pledged to the counterparty. These securities are included on the Consolidated Statements of Financial Condition, unless there is an event of default.

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The following table presents the remaining contractual maturity of repurchase agreements and securities lending transactions disaggregated by type of collateral, accounted for as secured borrowings as of December 31, 2023:

	Remaining Contractual Maturity		
	Overnight & Continuous	Up to 30 Days	Total
Securities Sold Under Agreements to Repurchase			
U.S. Government and Agency Obligations	\$ 96,612	\$ 214,546	\$ 311,158

The following table presents the remaining contractual maturity of repurchase agreements and securities lending transactions disaggregated by type of collateral, accounted for as secured borrowings as of December 31, 2022:

	Remaining Contractual Maturity		
	Overnight & Continuous	Up to 30 Days	Total
Securities Sold Under Agreements to Repurchase			
U.S. Government and Agency Obligations	\$ 63,439	\$ 185,897	\$ 249,336
Deposits Received on Securities Loaned			
Equity Securities	\$ 25	\$ -	\$ 25

Repurchase agreements and securities lending activities are entered into and conducted as components of the financing of certain operating activities. In the event the market value of the securities pledged as collateral declines, additional collateral may need to be posted or borrowing amounts may need to be reduced.

The Company offers a Dividend Reinvestment Program (DRP) to clients. Pursuant to the DRP, dividend reinvestment transactions result in fractional shares of securities held by clients. Fractional shares held by clients do not meet the criteria for derecognition under ASC Topic 860, *Transfers and Servicing*. The Company elected the fair value option to measure these financial assets and the corresponding repurchase obligation. The fair value of these investments is determined by quoted prices in active markets. As of December 31, 2023 and 2022, the fair value of investments in fractional shares held by clients and the fair value of the repurchase obligations for the investments was \$16,201 and \$13,398, respectively. These amounts are included in Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities on the Consolidated Statements of Financial Condition.

(23) Off-Balance Sheet Risk

In the normal course of business, the Company's client securities activities involve the execution, settlement and financing of various client securities transactions. These activities may expose the Company to off-balance sheet risk in the event the client or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company seeks to control the risks associated with its client activities by requiring clients to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily, and pursuant to such guidelines, requires the clients to deposit additional

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collateral or to reduce positions when necessary. Such collateral is not reflected on the Consolidated Statements of Financial Condition.

The Company has contractual commitments arising in the ordinary course of business in securities transacted on a when-issued basis and underwriting. Each of these financial instruments and activities contains varying degrees of off-balance sheet risk whereby the fair values of the securities underlying the financial instruments may be in excess of, or less than, the contract amount.

The Company's client securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its clients, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the clients' accounts. In connection with these activities, the Company executes and clears client transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that clients may incur. In the event the client fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the client's obligations.

In conjunction with certain borrowing transactions, the Company's client financing and securities settlement activities require the Company to pledge certain securities. In the event the counterparty is unable to meet its contractual obligation to return securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its obligations. The Company controls this risk by monitoring the fair value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes monitoring limits for such activities and monitors them on a daily basis.

The Company may use financial futures and options to manage market risk related to trading securities. In particular, these instruments may be used as hedges against long or short inventory positions to mitigate security price risk. The Company did not have open futures or options positions as of December 31, 2023 and 2022.

(24) Subsequent Events

The Company evaluated its December 31, 2023 Consolidated Statements of Financial Condition for subsequent events through February 23, 2024, the date that the Consolidated Statements of Financial Condition were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the Consolidated Statements of Financial Condition.