

Robert W. Baird & Co. Incorporated

Statement of Financial Condition

As of December 31, 2006

Together with Report of Independent Public Accountants

Report of Independent Public Accountants

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

We have audited the accompanying statement of financial condition of Robert W. Baird & Co. Incorporated (the "Company", a Wisconsin corporation and a majority-owned subsidiary of Baird Financial Corporation) as of December 31, 2006. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Robert W. Baird & Co. Incorporated as of December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Milwaukee, Wisconsin
February 23, 2007



Robert W. Baird & Co. Incorporated

Statement of Financial Condition As of December 31, 2006

(In Thousands)

	<u>Assets</u>
Cash	\$ 123,179
Securities Purchased Under Agreements to Resell	518,805
Deposits with Clearing Corporations	5,324
Receivables:	
Clients	345,686
Brokers and Dealers	26,261
Deposits Paid on Securities Borrowed	66,569
Other	<u>87,694</u>
	<u>526,210</u>
Securities Owned, at Market Value	347,148
Furniture, Equipment and Leasehold Improvements, at Cost, Less Accumulated Depreciation and Amortization of \$83,888	15,106
Goodwill and Intangible Assets at Cost, Less Accumulated Amortization of \$3,252	42,278
Other Assets, Including \$29,696 of Net Deferred Tax Assets	<u>51,023</u>
Total Assets	<u>\$1,629,073</u>

The accompanying notes are an integral part of this financial statement.

Robert W. Baird & Co. Incorporated

Statement of Financial Condition As of December 31, 2006

(In Thousands)

(Continued)

Liabilities and Stockholders' Equity

Liabilities:

Book Credit Balances in Bank Accounts \$ 32,559

Securities Sold Under Agreements to Repurchase 498,792

Payables:

Clients 177,786

Brokers and Dealers 13,349

Deposits Received on Securities Loaned 33,839

224,974

Securities Sold, Not Yet Purchased, at Market Value 66,467

Accounts Payable, Accrued Expenses and Other Liabilities 285,787

Income Taxes Payable 8,030

Subordinated Liabilities 266,646

Total Liabilities 1,383,255

Stockholders' Equity:

Common Stock 12,680

Additional Paid-In Capital 122,667

Restricted Stock Units 3,104

Retained Earnings 103,230

Treasury Stock, at Cost (280)

Accumulated Other Comprehensive Income 4,417

Total Stockholders' Equity 245,818

Total Liabilities and Stockholders' Equity \$1,629,073

The accompanying notes are an integral part of this financial statement.



Robert W. Baird & Co. Incorporated

Notes to Statement of Financial Condition December 31, 2006

(In Thousands, Except Share and Per Share Amounts)

(1) Summary of Significant Accounting Policies

Robert W. Baird & Co. Incorporated (the “Company”) is a registered broker and dealer in securities with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, and is also a member of various exchanges and the National Association of Securities Dealers (NASD). The Company owns a 48% ownership interest in Baird UK Ltd., the parent company of an affiliated broker and dealer in securities located principally in London, England. The Company engages in a broad range of activities in the securities brokerage, investment banking and asset management businesses, including private wealth management brokerage transactions, institutional equity and fixed income sales, research services, origination of and participation in underwritings and distribution of corporate and municipal securities issuances, merger and acquisition transactions, private equity and venture capital investing, market making and trading activities in corporate and municipal securities, government and government agency bonds, equity, balanced and fixed income investment advisory and asset management services, mutual fund distribution and option transactions. The Company is a majority-owned subsidiary of Baird Financial Corporation (“BFC”), which is a majority-owned subsidiary of Baird Holding Company (“BHC” or the “Parent”).

The following is a summary of the significant accounting policies followed by the Company in the preparation of its financial statements:

(a) Cash

Cash includes overnight investments.

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

The Company invests in short-term securities purchased under agreements to resell (“reverse repurchase agreements”). Additionally, the Company enters into securities sold under agreements to repurchase (“repurchase agreements”). Both reverse repurchase and repurchase agreements are accounted for as collateralized financings and are carried at contractual amounts. It is the Company’s policy to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under the reverse repurchase agreement. To ensure the market value of the underlying collateral remains sufficient, the collateral is valued regularly, and the Company may require counterparties to deposit additional collateral (or may return collateral to counterparties) when appropriate.

(c) Securities Transactions

Securities transactions are recorded on settlement date, which is not materially different from trade date.

In the normal course of business, the Company, similar to other firms in the securities industry, purchases and sells securities as both principal and agent. If the other party to the transaction fails to perform as agreed, the Company may incur a loss if the market value of the security is different from the contract amount of the transaction.

The Company's policy is to continually monitor its market exposure and counterparty risk. In addition, the Company has a policy of reviewing, as considered necessary, the credit standing of each counterparty and client with which it conducts business.

(d) Securities Owned

Securities owned are carried at market value or, in the event there is no readily identifiable market value, fair value as determined by management, with the change in unrealized gains or losses reflected in income.

(e) Securities Lending Activities

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received. 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 refunded as necessary.

(f) Derivative Financial Instruments

The Company has limited involvement with derivative financial instruments. The Company enters into forward, option and future transactions as more fully discussed in Footnote 18.

(g) Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are stated at cost less accumulated depreciation. Depreciation is provided by using the straight-line method over the estimated useful lives of the assets, which range from three years for software and computer equipment to seven years for furniture and other equipment.

Additions, improvements and expenditures for repairs and maintenance that significantly extend the useful life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to expense in the period incurred.

h) Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are not amortized but are reviewed at least annually for impairment. Intangibles with finite lives are amortized on a straight-line basis over their respective lives as more fully disclosed in Footnote 5.

(i) Stock-Based Compensation

The Company has an incentive stock option and a restricted stock plan which provide for the issuance of Company common stock. The Company accounts for such stock and stock options under Revised Statement of Financial Accounting Standards (“SFAS”) No. 123(R), “Accounting for Stock-Based Compensation.” Pursuant to SFAS 123(R), the Company followed the prospective transition method when adopting the revised standard.

(j) Income Taxes

Certain income and expense items are accounted for in different periods for financial reporting purposes than for income tax purposes. Appropriate provisions are made in the Company’s financial statements for deferred income taxes in recognition of these temporary differences.

The Company is under continuous examination by various tax authorities in jurisdictions in which the Company has significant business operations. The Company regularly evaluates the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. Tax reserves have been established, which the Company believes to be adequate in relation to the potential for additional assessments. Once established, reserves are adjusted as information becomes available or when an event requiring a change to the reserve occurs.

(k) Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(l) Foreign Currency Translation

In accordance with SFAS No. 52, “Foreign Currency Translation,” assets and liabilities of the Company’s foreign investment are translated at the current exchange rate, and the related revenues and expenses are translated at the average monthly exchange rates in effect. Net exchange gains or losses resulting from the translation of foreign financial statements are credited or charged directly to a separate component of Stockholders’ Equity titled “Accumulated Other Comprehensive Income.”

(m) New Accounting Pronouncements

In June 2005, the Financial Accounting Standards Board (“FASB”) ratified the consensus reached by the Emerging Issues Task Force (“EITF”) in Issue 04-5, “Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights” on the guidance on how general partners in a limited partnership should determine whether they control a limited partnership. This consensus is effective for general partners of all new limited partnerships formed, and for existing limited partnerships for which the partnership agreements are modified, subsequent to the date of the ratification of this consensus (June 29, 2005). The guidance in this issue is effective for general partners in all other limited partnerships no later than the beginning of 2007. The Company adopted this EITF for partnerships created or modified after June 29, 2005, the impact of which was not material to the financial statements.

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes.” FIN 48 establishes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for the Company in 2007. The Company is currently evaluating the impact of the adoption of FIN 48 will have on its financial statements.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS 157 is effective for the Company in 2008. The Company is currently evaluating the impact the adoption of SFAS 157 will have on its financial statements.

(2) New York Stock Exchange, Inc.

On March 7, 2006, through a series of transactions, the New York Stock Exchange, Inc. (the “Exchange”) and Archipelago Holdings, Inc. became wholly owned subsidiaries of NYSE Group, Inc. (“NYX”). As a result of the merger, all seat owners were required to tender their seat ownerships in exchange for one of three options: all cash, cash and shares or all shares.

The Company elected to tender its three seat memberships for the cash and shares option, which was valued at \$16,354 on the transaction date. On May 10, 2006, the Company was allowed to sell 155,702 of its 240,531 shares in a secondary public offering.

The Company values its NYX shares net of a liquidity discount due to transfer restrictions that primarily expire in three years. The Company's remaining 84,829 shares are valued, net of the liquidity discount, at \$5,772 at December 31, 2006 and are included in Securities Owned, at Market Value on the Statement of Financial Condition.

(3) Related-Party Transactions

During 2006, the Company entered into certain transactions with affiliated entities. Included on the Statement of Financial Condition is \$37,062 of receivables from affiliates included in Receivables Other and \$20,234 of payables to affiliates included in Accounts Payable, Accrued Expenses and Other Liabilities.

(4) NM Clearing Agreement

Effective February 13, 2006, and pursuant to the amended fully disclosed clearing agreement (the "Amended Agreement"), the Company ceased clearing securities transactions for a broker dealer subsidiary of Northwestern Mutual ("NM"). In connection with this termination, NM remitted to the Company an early termination fee of \$33,011. The Company had previously recorded a \$5,835 receivable related to the termination.

(5) Goodwill and Intangible Assets

At December 31, 2006, goodwill and intangible assets consist of the following:

Goodwill	\$26,200
Amortizing Intangibles	6,818
Indefinite Life Intangible	<u>9,260</u>
	<u>\$42,278</u>

(6) Book Credit Balances in Bank Accounts

The Company has \$32,559 in credit balances at certain banks with which it does business at December 31, 2006. The Company does not have a right of offset regarding these balances and, as a result, they are classified as money borrowed on the Statement of Financial Condition.

(7) Securities Owned and Securities Sold, Not Yet Purchased

At December 31, 2006, Securities Owned and Securities Sold, Not Yet Purchased, consist of trading and investment securities at market value, as follows:

	<u>Securities Owned</u>	<u>Securities Sold, Not Yet Purchased</u>
U.S. Government and Agency Obligations	\$165,290	\$ 26,729
Municipal Bonds	69,448	13,176
Corporate Bonds	36,730	5,133
Corporate Stocks	44,152	21,429
Other Securities	<u>31,528</u>	<u>-</u>
	<u>\$347,148</u>	<u>\$ 66,467</u>

Other Securities consists principally of investments in partnership interests and corporate stocks that are not readily marketable. At December 31, 2006, investments in partnership interests are carried at an estimated fair value of \$24,654. Certain associates have purchased limited partnership interests on a basis consistent with other investors in the partnerships. The Company serves as the general partner or limited partner in the partnerships. In connection with these partnerships, the Company has made commitments to invest up to an additional \$6,482.

(8) Net Capital Requirements

The Company is subject to the requirements of Rule 15c3-1 (the “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 and dealer to maintain adequate net capital, as defined. The Company has elected to operate under the alternative 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, 2006, the Company’s net capital percentage was 69% of aggregate debit items, and net capital, as defined, was \$261,597, which is \$253,980 in excess of the required minimum amount.

(9) Subordinated Liabilities

The Company has \$266,646 of subordinated notes, including \$240,000 payable to BFC, covered by agreements approved by the New York Stock Exchange, Inc. that are available in computing adjusted net capital under the net capital rule at December 31, 2006. The following schedule discloses the major components including repayment terms:

	<u>2006</u>
Payable to BFC	
Series A Subordinated Note, 6.75%, due May 2014. Scheduled principal payments begin in May 2010.	\$140,000
Subordinated Note, variable interest rate (6.875% at December 31, 2006), due June 2008.	75,000
Subordinated Notes, variable interest rate (5.75% at December 31, 2006), due August 2011.	<u>25,000</u>
	240,000
Payable to Associates	<u>26,646</u>
	<u>\$266,646</u>

On February 13, 2006, the Company repaid the \$100 million Series B Subordinated Note to BFC that was outstanding as of December 31, 2005.

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, 2006, 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 the New York Stock Exchange, Inc.

(10) Deferred Income Tax

The major deferred tax items, as computed under SFAS No. 109, "Accounting for Income Taxes," as of December 31, 2006 are as follows:

Deferred Tax Assets:

Deferred Compensation Plans	\$ 17,885
Equipment and Leasehold Improvements	5,437
Pension Plan	93
Accrued Expenses	17,846
Other	<u>2,127</u>
	<u>43,388</u>

Deferred Tax Liabilities:

Margin Debt	2,543
Goodwill and Intangibles	8,416
Other	<u>2,733</u>
	<u>13,692</u>
Net Deferred Tax Asset	<u>\$ 29,696</u>

No valuation allowance, as defined in SFAS No. 109, is required as management believes it is more likely than not that the deferred tax asset is realizable.

(11) Stockholders' Equity

During 2006, the following share transactions took place:

	<u>Shares of Common Stock, \$1 Stated Value</u>	<u>Shares of Treasury Stock</u>
Balance, December 31, 2005	12,547,836	-
Sales of Common Stock	32,879	-
Exercise of Options	82,947	(23,828)
Conversion of Restricted Stock Units	16,355	(39,292)
Purchases of Treasury Stock, Net	-	<u>69,430</u>
Balance, December 31, 2006	<u>12,680,017</u>	<u>6,310</u>

The Company has authorized 36,225,000 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 2006.

The shares of the Company are subject to strict transfer restrictions.

(12) Associate Compensation and Retirement Plans

(a) Pension Plan

The Company's qualified, noncontributory, defined benefit pension plan (the "Pension Plan") was terminated as of December 31, 2005. Assets of \$82,787 were distributed in September 2006. The Pension Plan had previously been frozen as of December 31, 2003.

The Company contributed \$6,370 to the Pension Plan during 2006. The Pension Plan paid benefits of \$2,345 during 2006.

(b) Supplemental Pension Plan

The Company has a nonqualified, supplemental, noncontributory defined benefit pension plan (the "Supplemental Plan") covering certain associates. In connection with the termination of the Pension Plan, participant accruals in the Supplemental Plan were frozen as of December 31, 2005. Participants will receive no further benefit accruals under the Supplemental Plan. Pension expense is determined under the provisions of SFAS No. 87, "Employers' Accounting for Pensions."

Net pension expense was \$43 in 2006. The Company contributed \$6 to the Supplemental Plan in 2006. The Supplemental Plan paid benefits of \$6 in 2006.

The discount rate used on the projected benefit obligation was 5.75% in 2006.

The following sets forth the Supplemental Plan's funded status, plan assets and the amount recognized as a liability on the Statement of Financial Condition at December 31, 2006:

Accumulated Benefit Obligation	\$563
Projected Benefit Obligation	563
Plan Assets, at Fair Value	-
Plan Liability	604

The Company expects to contribute \$23 to the Supplemental Plan in 2007.

The following sets forth the Supplemental Plan's estimated future benefit payments:

<u>Calendar Year</u>	
2007	\$ 23
2008	39
2009	46
2010	48
2011	49
2012-2016	<u>237</u>
	<u>\$442</u>

(c) 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 Savings Plan. The plan complies with Section 401(k) of the Internal Revenue Code. The Company matches 100% of the first one thousand two hundred dollars contributed by each participant annually plus 25% of any additional contributions up to 2.5% of eligible compensation.

(d) Deferred Compensation

The Company has two deferred compensation plans, entitled the Baird Capital Participation Plan ("BCPP"), and the Financial Advisors Deferred Compensation Plan ("FADCP"). The BCPP no longer grants awards and all balances in the Plan are fully vested. The FADCP grants deferred compensation to certain associates, which vests after seven years, and is expensed at the date of grant. However, any award under the BCPP or FADCP in 2004 or prior years vests after five years. Associates have the ability to allocate their unvested deferred compensation among several investment options.

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 Company common stock. BCPP participants owning RSUs are entitled to cumulative distributions and dividends issued by the Company on its common stock. The RSUs become payable in full upon a change in control, as defined in the offering circular, of the Parent or of the Company. The RSUs and shares issued on conversion of the RSUs are subject to strict transfer restrictions.

A summary of the activity relating to the RSUs in 2006 is as follows:

	<u>Shares</u>
Outstanding, December 31, 2005	264,864
Conversion to Common Stock	<u>(55,647)</u>
Outstanding, December 31, 2006	<u>209,217</u>

The Company issued no RSUs during 2006. In connection with the RSUs, the Company has reserved 209,217 shares of Company common stock as of December 31, 2006 to cover the ultimate conversion of the outstanding RSUs.

(e) Incentive Stock Option Plan

The Company has established the Robert W. Baird & Co. Incorporated 1997 Incentive Stock Option Plan (the "Incentive Plan") for selected associates. The maximum number of stock options that may be granted under the Incentive Plan is 50% of the shares authorized for issuance to Company associates. The Incentive Plan does not require or set forth any specific vesting periods for the stock options, leaving the vesting provisions of individual option grants up to the discretion of the stock option committee of the Company's Board of Directors. The option exercise price per share under the Incentive Plan may not be less than 100% of the fair market value of the Company's stock on the date the option is granted.

The term of each option granted under the Incentive Plan shall generally be 10 years. The options vest 20% each year however, options immediately vest and become exercisable upon a change in control, as defined in the offering circular, of the Parent or of the Company. The options and shares issued upon exercise of the options are subject to strict transfer restrictions.

The Company did not grant options in 2006. Option activity during 2006 was as follows:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>
Outstanding, December 31, 2005	876,578	\$22.72	
Exercised	(173,051)	\$16.54	
Forfeited	<u>(6,270)</u>	\$42.71	
Outstanding, December 31, 2006	<u>697,257</u>	\$24.07	3.5
Exercisable, December 31, 2006	636,955	\$22.40	3.1

In accordance with the prospective method under SFAS 123(R), no stock-based associate compensation cost is reflected in net income as no options were granted in 2006.

Cash received from the exercise of stock options for the year ended December 31, 2006 was \$2,278. The tax benefit realized for the tax deductions from option exercises was \$294 for the year ended December 31, 2006 and is recorded in Additional Paid-In Capital on the Statement of Financial Condition.

(13) Baird UK Ltd.

The Company reports the results of its investment in Baird UK Ltd. using the equity method of accounting. At December 31, 2006, the Company's investment in Baird UK Ltd. was \$16,439 and is included in Other Assets on the Statement of Financial Condition.

(14) Commitments and Contingencies

(a) Leases

The Company occupies office space and leases equipment under cancelable and noncancelable operating lease arrangements. The aggregate minimum annual rental expense related to noncancelable leases is as follows:

<u>Calendar Year</u>	<u>Aggregate Minimum Annual Rental Expense on Noncancelable Leases</u>
2007	\$ 24,968
2008	22,094
2009	17,140
2010	13,963
2011	9,912
Thereafter	<u>25,322</u>
	<u>\$113,399</u>

(b) Letters of Credit

The Company has obtained a letter of credit of \$31,000 secured by client securities held in margin accounts. The Company utilized \$27,645 to meet margin requirements of a clearing corporation as of December 31, 2006.

(c) Other

The Company and other securities dealers have been named as codefendants in certain suits purportedly brought for the benefit of large classes of securities investors and seeking substantial amounts in damages under Federal and state securities laws and common law. These suits arise in connection with the Company's role as a participating underwriter in various securities offerings. The Company is also involved in other actions incidental to its securities business. Pursuant to SFAS No. 5, "Accounting for Contingencies," 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.

In the normal course of business, the Company enters into underwriting commitments. Transactions relating to underwriting commitments that were open at December 31, 2006 were not material.

The Company is a member of numerous exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet these shortfalls. To mitigate these performance risks, the exchanges and clearinghouses 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 Statement of Financial Condition for these arrangements.

(15) Financial Instruments Fair Value Information

The Company believes the carrying amount of its financial instruments is a reasonable estimate of fair value as of December 31, 2006. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required to develop estimates of fair value. Accordingly, these estimates are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different assumptions or estimation methodologies may have a material effect on the estimated fair value amounts.

(16) Transfers of Financial Assets

The Company receives and delivers collateral in connection with its broker and dealer activities. Under many agreements, the Company is permitted to repledge securities held as collateral. At December 31, 2006, the fair value of securities accepted as collateral was \$552,630.

(17) Financial Instruments With 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 that 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'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 clients may incur. In the event clients fail to satisfy their obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the clients' obligations.

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 client to deposit additional collateral or to reduce security positions when necessary. Such collateral is appropriately not reflected in the accompanying Statements of Financial Condition.

(18) Derivatives

The Company enters into security transactions involving future settlement. The Company has entered into forward purchase and forward sale transactions with a contract value of \$57,674 and \$116,245, respectively as of December 31, 2006. The market value of forward purchase and forward sale transactions was \$57,488 and \$115,728, respectively as of December 31, 2006. Transactions involving future settlement give rise to market risk, which represents the potential loss that can be caused by a change in the market value of a particular financial instrument. 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.

The Company uses financial futures and options to manage market risk related to trading securities. The Company did not have open futures or options positions as of December 31, 2006.