



**Robert W. Baird & Co. Incorporated**

**Statement of Financial Condition**

**As of December 31, 2009**

**Together with Report of Independent Registered Public Accounting Firm**

**Report of Independent Registered Public Accounting Firm**

Board of Directors  
Robert W. Baird & Co. Incorporated

We have audited the accompanying statement of financial condition of Robert W. Baird & Co. Incorporated (a Wisconsin corporation) as of December 31, 2009. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the 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 financial statement 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 financial statement referred to above presents fairly, in all material respects, the financial position of Robert W. Baird & Co. Incorporated as of December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.



GRANT THORNTON LLP  
Milwaukee, Wisconsin  
February 26, 2010

## Robert W. Baird & Co. Incorporated

Statement of Financial Condition  
As of December 31, 2009

(In Thousands)

	<u>Assets</u>	<u>2009</u>
Cash and Cash Equivalents		\$ 78,606
Securities Purchased Under Agreements to Resell		737,287
Deposits with Clearing Corporations		8,909
Receivables:		
Clients		225,754
Brokers and Dealers		40,491
Deposits Paid on Securities Borrowed		87,992
Other		193,104
		<u>547,341</u>
Securities Owned, at Fair Value		580,541
Furniture, Equipment, Leasehold Improvements and Capital Leases at Cost, Less Accumulated Depreciation and Amortization of \$90,255		39,362
Goodwill		27,400
Intangible Assets, at Cost, Less Accumulated Amortization of \$7,190		13,275
Other Assets		<u>31,181</u>
Total Assets		<u><u>\$ 2,063,902</u></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, 2009

(In Thousands)

(Continued)

<u>Liabilities and Stockholders' Equity</u>	<u>2009</u>
<u>Liabilities:</u>	
Money Borrowed:	
Book Credit Balances in Bank Accounts	\$ 28,509
Securities Sold Under Agreements to Repurchase	926,890
Payables:	
Clients	85,560
Brokers and Dealers	10,532
Deposits Received on Securities Loaned	22,661
	<u>118,753</u>
Securities Sold, Not Yet Purchased, at Fair Value	77,546
Accounts Payable, Accrued Expenses and Other Liabilities, including Deferred Tax Liability of \$5,639	262,114
Subordinated Liabilities	<u>276,505</u>
Total Liabilities	<u>1,690,317</u>
<u>Stockholders' Equity:</u>	
Common Stock	26,374
Preferred Stock	-
Additional Paid-In Capital	117,158
Restricted Stock Units	2,123
Retained Earnings	231,883
Treasury Stock, at Cost	(6,248)
Accumulated Other Comprehensive Income	2,295
Total Stockholders' Equity	<u>373,585</u>
Total Liabilities and Stockholders' Equity	<u>\$ 2,063,902</u>

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

## Robert W. Baird & Co. Incorporated

Notes to Statement of Financial Condition  
December 31, 2009

(In Thousands, Except Share and Per Share Amounts)

### (1) Summary of Significant Accounting Policies

Robert W. Baird & Co. Incorporated (the “Company”) is registered as a securities broker dealer and an investment advisor with the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934 and the Investment Advisors Act of 1940, and is also a member of the Financial Industry Regulatory Authority (“FINRA”) and various securities exchanges. 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 statement:

#### (a) Cash and Cash Equivalents

Cash equivalents are defined as short-term investments with maturities generally of three months or less at time of purchase.

#### (b) 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”). 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 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.

(c) Receivables

Receivables: Clients - includes amounts receivable on cash and margin transactions which are generally collateralized by securities owned by clients.

Receivables: Other - primarily includes affiliate amounts as more fully discussed in Footnote 2 and advances to associates for recruiting and retention purposes.

The Company maintains an allowance for doubtful accounts based on an assessment of its ability to collect these receivables. Assessments include market conditions, aggregate balances as well as historical collection experience. When the review of these accounts indicates that further collection activity is highly unlikely, amounts are written off and the corresponding allowance for doubtful accounts is reduced. At December 31, 2009 the allowance was \$16,972.

(d) Securities Transactions

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.

Securities Owned and Securities Sold, Not Yet Purchased are recognized on a trade date basis.

(e) Fair Value Measurements

The Company follows Accounting Standards Codification ("ASC") Topic 820, "*Fair Value Measurements*". 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 maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The Company's assets recorded in the Statement of Financial Condition are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The hierarchy, defined by ASC Topic 820, is broken down into three levels based on the transparency of inputs as follows:

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.

Cash and cash equivalents, deposits with clearing corporations and receivables are financial assets with carrying values that approximate fair value. Money borrowed, payables, accounts payable, accrued expenses and other liabilities, including deferred tax liability are financial liabilities with carrying values that approximate fair value. The carrying amount of subordinated liabilities approximates fair value based on current market conditions and interest rates available to the Company for similar financial instruments.

See Footnote 6 for further information.

(f) 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.

(g) Derivative Financial Instruments

The Company accounts for gains and losses resulting from changes in the fair values of derivatives depending on the use of the derivative and whether it qualifies for hedge accounting.

The Company enters into forward, option and future transactions as more fully discussed in Footnote 16.

(h) 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 statement for deferred income taxes in recognition of these temporary differences as more fully disclosed in Footnote 9.

(i) Furniture, Equipment, Leasehold Improvements and Capital Leases

Furniture, equipment, leasehold improvements and capital leases 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, as more fully disclosed in Footnote 3. Other expenditures for repairs and maintenance are charged to expense in the period incurred.

(j) Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are not amortized but are reviewed at least annually for impairment. At December 31, 2009 there was no impairment identified by the Company. Intangibles with finite lives are amortized on a straight-line basis over their respective lives as more fully disclosed in Footnote 4.

(k) 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 ASC Topic 718, "*Accounting for Stock-Based Compensation*" as more fully disclosed in Footnote 11.

(l) Estimates

The preparation of the financial statement 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 statement. Actual results may differ from those estimates.

(m) Foreign Currency Translation

In accordance with ASC Topic 830, "*Foreign Currency Translation*," assets and liabilities of the Company's foreign investment are translated at the current exchange rate. 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." These gains or losses are the only component of Accumulated Other Comprehensive Income.

(n) Commitments and Contingencies

The Company regularly enters into office space and other equipment lease arrangements, some of which are noncancelable. In addition, the Company is occasionally involved in legal and regulatory proceedings, arbitrations, underwriting commitments, private equity capital commitments and various other contingent obligations as more fully disclosed in Footnote 13.

(o) New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (“FASB”) issued ASC Topic 810, “*Amendments to FASB Interpretation No. 46(R)*”. ASC Topic 810 is intended to address (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities” (“Interpretation”), as a result of the elimination of the qualifying special-purpose entity concept in ASC Topic 860, and (2) constituent concerns about the application of certain key provisions of the Interpretation, including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise’s involvement in a variable interest entity. ASC Topic 810 must be applied as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009. At the November board meeting the FASB voted to expose for comment an amendment that would defer the application of ASC Topic 810 until the joint IASB/FASB project on consolidation accounting is completed (late 2010). The Company is currently evaluating the impact the adoption of ASC Topic 810 will have on its financial statement.

In June 2009, the FASB issued ASC Topic 105, “*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*”. ASC Topic 105 became the source of authoritative U.S. generally accepted accounting principles (“GAAP”) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of ASC Topic 105, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non authoritative. ASC Topic 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has adopted ASC Topic 105 and it did not have a material impact on its financial statement.

In May 2009, the FASB issued ASC Topic 855, “*Subsequent Events*”. ASC Topic 855 establishes the accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The adoption of ASC Topic 855 was effective upon issuance and did not have a material impact on the Company’s financial statement.

(2) Related-Party Transactions

As of December 31, 2009 there was \$63,377 of receivables from affiliates included in Receivables Other on the Statement of Financial Condition.

As of December 31, 2009 there was \$3,879 of payables to affiliates included in Accounts Payable, Accrued Expenses and Other Liabilities on the Statement of Financial Condition.

In March 2009 the Company sold deferred tax assets totaling \$38,400 to the Parent in settlement of an intercompany accounts payable.

The Company makes loans or pays advances to associates primarily for recruiting purposes. Receivables from associates at December 31, 2009 were \$88,475 and are included in Receivables Other on the Statement of Financial Condition

(3) Furniture, Equipment, Leasehold Improvements, and Capital Leases

Furniture, Equipment, Leasehold Improvements and Capital Leases as of December 31, 2009 consist of the following:

	<u>2009</u>
Furniture and Fixtures	\$ 29,317
Equipment	31,793
Software	21,449
Leasehold Improvements	<u>42,789</u>
	125,348
Less Accumulated Depreciation	<u>(89,549)</u>
Furniture, Equipment and Leasehold Improvements, Net	35,799
Capital Leases	4,269
Less Accumulated Depreciation	<u>(706)</u>
Furniture, Equipment, Leasehold Improvements and Capital Leases, Net	<u><u>\$ 39,362</u></u>

(4) Goodwill and Intangible Assets

At December 31, 2009 goodwill and intangible assets consist of the following:

	<u>Useful Life</u>	<u>2009</u>
Finite Life Intangibles		
Client lists	8 Years	\$ 10,411
Noncompete agreements	5 Years	<u>225</u>
		10,636
Accumulated Amortization		
Client lists		(7,103)
Noncompete agreements		<u>(87)</u>
		<u>(7,190)</u>
Net Finite Life Intangibles		3,446
Indefinite Life Intangibles		
Tradenames	N/A	<u>9,829</u>
Net Intangibles		13,275
Goodwill	N/A	<u>27,400</u>
		<u>\$ 40,675</u>

(5) Money Borrowed

(a) Bank Loans

The Company has a committed unsecured credit facility. In addition, it also has several uncommitted unsecured lines of credit with various banks payable on demand. The aggregate lines of credit available were \$190,000 at December 31, 2009. The Company had no outstanding balance under its lines of credit at December 31, 2009. Lending under the uncommitted unsecured facilities is subject to the discretion of the bank involved.

(b) Book Credit Balances in Bank Accounts

The Company has \$28,509 at December 31, 2009, in credit balances at certain banks with which it does business. 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.

(6) Fair Value of Financial Instruments

The following table summarizes Securities Owned and Securities Sold, Not Yet Purchased by ASC Topic 820 levels as of December 31, 2009:

	2009			
	Level I	Level II	Level III	Total
<b>Securities Owned</b>				
U.S. Government and Agency Obligations	\$ 127	\$ 233,769	\$ -	\$ 233,896
Municipal Bonds	-	136,671	-	136,671
Corporate Bonds	-	18,344	22,456	40,800
Collateralized Mortgage Obligations	-	67,363	1,335	68,698
Auction Rate Securities	-	-	57,625	57,625
Other Securities	33,609	-	9,242	42,851
<b>Total Securities Owned</b>	<b>\$ 33,736</b>	<b>\$ 456,147</b>	<b>\$ 90,658</b>	<b>\$ 580,541</b>
<b>Securities Sold, Not Yet Purchased</b>				
U.S. Government and Agency Obligations	\$ 70,834	\$ 1,437	\$ -	\$ 72,271
Municipal Bonds	-	40	-	40
Corporate Bonds	-	2,030	-	2,030
Other Securities	3,205	-	-	3,205
<b>Total Securities Sold, Not Yet Purchased</b>	<b>\$ 74,039</b>	<b>\$ 3,507</b>	<b>\$ -</b>	<b>\$ 77,546</b>

Other Securities consist principally of investments in partnership interests and corporate stocks. At December 31, 2009 investments in partnership interests are carried at estimated fair value of \$4,813.

The following table summarizes the change in fair values associated with ASC Topic 820 level III assets:

Level III activity during 2009 was as follows:

Balance December 31, 2008	\$ 14,620
Purchase and (Sales), net	77,084
Realized Losses	(528)
Unrealized Losses	(518)
Balance December 31, 2009	<u><u>\$ 90,658</u></u>

(7) 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, 2009 the Company’s net capital percentage was 107% of aggregate debit items, and net capital, as defined, was \$280,107, which was \$274,851 in excess of the required minimum amount.

(8) Subordinated Liabilities

The Company had \$276,505 of subordinated notes, including \$240,000 payable to BFC, covered by agreements approved by the FINRA that are available in computing adjusted net capital under the net capital rule at December 31, 2009. The following schedule discloses the major components including repayment terms:

	<u>2009</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 (4.0% at	
December 31, 2009), due June 2011.	75,000
Subordinated Notes, variable interest rate (0.75% at	
December 31, 2009), due August 2011.	<u>25,000</u>
	240,000
Payable to Associates	36,505
	<u><u>\$ 276,505</u></u>

Subordinated Liabilities mature as follows at December 31, 2009:

2010	\$ 28,000
2011	128,000
2012	35,482
2013	36,374
2014	39,068
Thereafter	9,581
	<u><u>\$ 276,505</u></u>

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, 2009 the Company had sufficient capital that such restrictions did not apply. The right of the note holders 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 FINRA.

(9) Income Taxes

(a) Uncertain Tax Provisions

The Company adopted the provisions of ASC Topic 740, "*Income Taxes*", on January 1, 2009. Previously, the Company had accounted for tax contingencies in accordance with ASC Topic 450, "*Contingencies*". As required by the uncertain tax position guidance in ASC Topic 740, 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 statement is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied the uncertain tax position guidance in ASC Topic 740 to all tax positions for which the statute of limitations remained open.

As of December 31, 2009, the Company concluded the adoption of ASC Topic 740 to have no material effect on its financial statement. Additionally, the guidance provides for the recognition of interest and penalties related to income taxes.

The Company is included in the consolidated income tax returns of Baird Holding Company in the U.S. federal jurisdiction and various consolidated states. It also files separate income tax returns in various states and local jurisdictions. The income tax returns for the years prior to 2005 are no longer subject to examination by income tax authorities, unless subsequently amended.

The Company's unrecognized tax benefits are analyzed and monitored to ensure they are adequate and reflective of known events. The Company does not believe there will be a material change in the balance within the subsequent 12 month period.

(b) Deferred Income Tax

The major deferred tax items, as computed under ASC Topic 740, are as follows:

	<u>2009</u>
Deferred Tax Assets:	
Deferred Compensation Plans	\$ 1,690
Accrued Expenses	1,962
Other	716
	<u>4,368</u>
Deferred Tax Liabilities:	
Margin Debt	1,117
Goodwill and Intangibles	7,173
Equipment and Leasehold Improvements	1,245
Securities Owned	472
	<u>10,007</u>
Net Deferred Tax Liability	<u><u>\$ (5,639)</u></u>

No valuation allowance, as defined in ASC Topic 740, is required as management believes it is more likely than not that the deferred tax assets are realizable.

(10) Stockholders' Equity

During 2009 the following share transactions took place:

	<u>Shares of Common Stock \$1 Stated Value</u>	<u>Shares of Common Treasury Stock</u>
Balance, December 31, 2008	26,251,270	34,118
Exercise of Options	111,440	(97,759)
Conversion of Restricted Stock Units	11,712	(16,728)
Sales of Treasury Stock	-	(420,121)
Purchases of Treasury Stock	-	713,353
Balance, December 31, 2009	<u><u>26,374,422</u></u>	<u><u>212,863</u></u>

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 2009. The shares of the Company are subject to strict transfer restrictions.

(11) Associate 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 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. Employer profit sharing contributions are made annually at the discretion of the Company's Board of Directors.

(b) 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 awards to certain associates, which vest after seven years, and are expensed at the date of grant. However, any award under the BCPP or FADCP granted in 2004 or prior years vests after five years. Associates have the ability to allocate their unvested deferred compensation awards 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 2009 is as follows:

	<u>Shares</u>
Outstanding, December 31, 2008	314,532
Conversion to Common Stock	(28,440)
Outstanding, December 31, 2009	<u>286,092</u>

The Company issued no RSUs during 2009. In connection with the RSUs, the Company has reserved 286,092 shares of Company common stock at December 31, 2009 to cover the ultimate conversion of the RSUs.

(c) Incentive Stock Option Plans

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 immediately vest and become exercisable upon a change in control, as defined in the Incentive Plan 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 since the adoption of ASC Topic 718, "Accounting of Stock-Based Compensation."

Non-vested options were 18,600 as of December 31, 2009.

Option activity during 2009 was as follows:

	<u>Baird Stock Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>
Outstanding, December 31, 2008	593,940	16.22	3.7
Exercised	(160,972)	13.36	
Forfeited	<u>(2,600)</u>	22.94	
Outstanding, December 31, 2009	<u>430,368</u>	17.24	3.1
Exercisable at December 31, 2009	411,768	16.99	3.0
Exercisable at December 31, 2008	554,740	15.74	3.4

Cash received from the exercise of stock options for the year ended December 31, 2009 was \$1,823. The tax benefit realized for the tax deductions from option exercises was \$147 for the year ended December 31, 2009, and is recorded in Additional Paid-In Capital on the Statement of Financial Condition.

(12) Baird UK Ltd.

The Company reports the results of its investment in Baird UK Ltd. using the equity method of accounting. At December 31, 2009 the Company's investment in Baird UK Ltd. was \$13,986 and is included in Other Assets on the Statement of Financial Condition.

(13) Commitments and Contingencies

(a) Leases

The Company occupies office space and leases equipment under cancelable and noncancelable operating lease arrangements. These lease arrangements include escalating clauses which are recognized on a straight-line basis over the life of the lease. Capital leases consist of computers, servers and other computer related items. Future minimum lease payments are as follows:

	Capital	Operating	Total
2010	\$ 1,307	\$ 18,329	\$ 19,636
2011	1,223	16,783	18,006
2012	1,030	14,505	15,535
2013	324	12,342	12,666
2014	-	10,940	10,940
Thereafter	-	46,556	46,556
	\$ 3,884	\$119,455	\$ 123,339
Less amounts representing interest	(287)		
Present value of minimum lease payments	\$ 3,597		

The capital lease obligation was \$3,597 at December 2009, and is recorded in Accounts Payable, Accrued Expenses and Other Liabilities on the Statement of Financial Condition. The leases in 2009 covered the Company's desktop computers. A new lease contract was entered into in early 2009 after the previous capital lease obligation was satisfied in late 2008.

(b) Letters of Credit

The Company has obtained letters of credit of \$39,000 as of December 31, 2009, secured by client securities held in margin accounts. The Company utilized \$29,798 to meet margin requirements of a clearing corporation as of December 31, 2009.

(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 ASC Topic 450, "*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 as of December 31, 2009 were not material.

The Company serves as the general partner or limited partner in various partnerships. The Company has commitments to invest up to an additional \$4,513 at December 31, 2009 in partnerships as discussed in Footnote 6.

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.

(14) 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, 2009 the fair value of securities accepted as collateral was \$759,651.

(15) 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 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. 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 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.

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 Statement of Financial Condition.

(16) 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 \$53,505 and \$32,129, respectively, as of December 31, 2009. The market value of forward purchase and forward sale transactions was \$53,103 and \$31,763 respectively, as of December 31, 2009. Transactions involving future settlement give rise to market risk if a counterparty fails to meet its obligations, 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 may use 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, 2009.

(17) Federal Deposit Insurance Corporation

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

(18) Subsequent Events

In May 2009, the FASB issued ASC Topic 855, "*Subsequent Events*" to incorporate the accounting and disclosure requirements for subsequent events into U.S. generally accepted accounting principles. ASC Topic 855 introduces new terminology, defines a date through which management must evaluate subsequent events and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the statement of financial position date. The Company adopted the guidance as of December 31, 2009. The Company evaluated its December 31, 2009 financial statement for subsequent events through February 26, 2010, the date that the financial statement were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statement.