

Robert W. Baird & Co. Incorporated

**Unaudited Statement of Financial Condition
As of June 30, 2009**

Robert W. Baird & Co. Incorporated
 Unaudited Statement of Financial Condition
 As of June 30, 2009

(In Thousands)

<u>Assets</u>	
Cash and Cash Equivalents	\$ 13,078
Securities Purchased Under Agreements to Resell	752,460
Deposits with Clearing Corporations	10,009
Receivables:	
Clients	256,845
Brokers and Dealers	10,478
Deposits Paid on Securities Borrowed	65,152
Other	206,875
	<u>539,350</u>
Securities Owned, at Fair Value	466,824
Furniture, Equipment and Leasehold Improvements, at Cost, Less Accumulated Depreciation and Amortization of \$92,513	40,600
Goodwill and Intangible Assets, at Cost, Less Accumulated Amortization of \$6,516	41,348
Other Assets	<u>31,957</u>
Total Assets	<u><u>\$ 1,895,626</u></u>

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

Robert W. Baird & Co. Incorporated

Unaudited Statement of Financial Condition
As of June 30, 2009

(In Thousands)

(Continued)

Liabilities and Stockholders' Equity

Liabilities:

Money Borrowed:

Bank Loans	\$ 13,000
Book Credit Balances in Bank Accounts	14,304

Securities Sold Under Agreements to Repurchase	832,666
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Payables:

Clients	77,159
Brokers and Dealers	42,127
Deposits Received on Securities Loaned	33,872
	<u>153,158</u>

Securities Sold, Not Yet Purchased, at Fair Value	70,017
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Accounts Payable, Accrued Expenses and Other Liabilities	163,748
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Income Taxes Payable, Including \$5,762 Net Deferred Tax Liability	17,398
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Subordinated Liabilities	<u>282,680</u>
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Total Liabilities	<u>1,546,971</u>
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Stockholders' Equity:

Common Stock	26,374
Additional Paid-In Capital	117,913
Restricted Stock Units	2,123
Retained Earnings	206,253
Treasury Stock, at Cost	(6,592)
Accumulated Other Comprehensive Income	<u>2,584</u>

Total Stockholders' Equity	<u>348,655</u>
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Total Liabilities and Stockholders' Equity	<u>\$ 1,895,626</u>
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The accompanying notes are an integral part of this financial statement.



Robert W. Baird & Co. Incorporated

Notes to Unaudited Statement of Financial Condition
June 30, 2009

(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 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 various exchanges and the Financial Industry Regulatory Authority (“FINRA”). 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 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 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 include amounts receivable on cash and margin transactions. The receivables are reported at their outstanding principal balance, adjusted for any allowance for doubtful accounts.

Receivables - other primarily includes affiliate amounts as more fully discussed in Footnote 2 and loans to associates for recruiting purposes.

(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 Statement of Financial Accounting Standards ("SFAS") No. 157, "*Fair Value Measurements*". SFAS No. 157 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. SFAS No. 157 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 hierarchy 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.

See Footnote 6 for further information.

(f) Valuation of Securities

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 financial instrument is principally traded.

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 that may be 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 investments. In instances where a security is subject to transfer restrictions, the value of the security is based primarily on the quoted price of a similar security without restriction but may be reduced by an amount estimated to reflect such restrictions. In addition, even where the value of a security is derived from an independent source, certain assumptions may be required to determine the security's fair value. The actual value realized upon disposition could be different from the currently estimated fair value.

(g) 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.

(h) 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 17.

(i) 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.

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.

(j) Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are stated at cost less accumulated depreciation. Depreciation is provided 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.

(k) 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 4.

(l) 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 SFAS No. 123(R), "*Accounting for Stock-Based Compensation.*"



(m) 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.

(n) 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. 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."

(o) New Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 165, "*Subsequent Events*" ("SFAS No. 165"). SFAS No. 165 establishes the accounting for and disclosure 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 SFAS No. 165 was effective upon issuance and did not have a material impact on the Company's financial statement.

In June 2009, the FASB issued SFAS No. 166, "*Accounting for Transfers of Financial Assets*" ("SFAS No. 166"), an amendment of SFAS No. 140. SFAS No. 166 is intended to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. The Company is currently evaluating the impact the adoption of SFAS No. 166 will have on its financial statement.



In June 2009, the FASB issued SFAS No. 167, “*Amendments to FASB Interpretation No. 46(R)*” (“SFAS No. 167”). SFAS No. 167 is intended to (1) address 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 SFAS No. 166, and (2) constituent concerns about the application of certain key provisions of Interpretation, including those in which the accounting and disclosures under the Interpretation do not always provided timely and useful information about an enterprise’s involvement in a variable interest entity. SFAS No. 167 must be applied as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009. The Company is currently evaluating the impact the adoption of SFAS No. 167 will have on its financial statement.

In June 2009, the FASB issued SFAS No. 168, “*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*” (“SFAS No. 168”). SFAS No. 168 will become 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 SFAS No. 168, the Codification will supersede 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. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company is currently evaluating the impact the adoption of SFAS No. 168 will have on its financial statement.

(2) Related-Party Transactions

Included on the Statement of Financial Condition as of June 30, 2009 is \$80,721 of receivables from affiliates included in Receivables Other and \$1,709 of payables to affiliates included in Accounts Payable, Accrued Expenses and Other Liabilities.

(3) Furniture, Equipment, and Leasehold Improvements

Furniture, Equipment, and Leasehold Improvements as of June 30, 2009 consist of the following:

Furniture and Fixtures	\$ 27,344
Equipment	31,996
Software	20,087
Leasehold Improvements	45,930
Capital Leases	7,756
	<u>133,113</u>
Less Accumulated Depreciation	<u>(92,513)</u>
Furniture, Equipment and Leasehold Improvements, Net	<u>\$ 40,600</u>



(4) Goodwill and Intangible Assets

At June 30, 2009 goodwill and intangible assets consist of the following:

Goodwill	\$ 27,400
Amortizing Intangibles	4,119
Indefinite Life Intangibles	9,829
	<u>\$ 41,348</u>

(5) Money Borrowed

(a) Bank Loans

The Company maintains committed and uncommitted lines of credit with various banks payable on demand. At June 30, 2009 the aggregate lines of credit available was \$190,000. Baird had \$13,000 at 2.06% outstanding under its lines as of June 30, 2009.

(b) Book Credit Balances in Bank Accounts

The Company has \$14,304 in credit balances at certain banks with which it does business at June 30, 2009. 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 SFAS No. 157 levels as of June 30, 2009:

	Securities Owned	Securities Sold, Not Yet Purchased
Level I	\$ 37,709	\$ 63,034
Level II	419,207	6,983
Level III	9,908	-
	<u>\$ 466,824</u>	<u>\$ 70,017</u>

Level I generally includes equities, mutual funds, and US government securities. Level II generally includes corporate bonds, municipal bonds, and government agency mortgage backed bonds. Level III includes primarily investments in nonpublic companies and private equity partnerships.



The following table summarizes the change in fair values associated with SFAS No. 157 level III assets:

Balance as of December 31, 2008	\$	14,620
Purchases and (Sales), net		(3,052)
Realized Gains		709
Unrealized Losses		(2,369)
Balance as of June 30, 2009	\$	<u>9,908</u>

Net unrealized losses relate to those securities held by the Company at June 30, 2009.

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

At June 30, 2009 Securities Owned and Securities Sold, Not Yet Purchased, consist of trading and investment securities at fair value, as follows:

	Securities Owned	Securities Sold, Not Yet Purchased
<u>2009</u>		
U.S. Government and Agency Obligations	\$ 263,617	\$ 57,077
Municipal Bonds	61,680	276
Corporate Bonds	93,798	6,438
Corporate Stocks	38,177	6,226
Other Securities	9,552	-
	<u>\$ 466,824</u>	<u>\$ 70,017</u>

Other Securities consists principally of investments in partnership interests, strategic investments and corporate stocks that are not readily marketable. Investments in partnership interests are carried at an estimated fair value of \$5,699 at June 30, 2009. 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 \$4,193 at June 30, 2009.

(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 June 30, 2009 the Company's net capital percentage was 92% of aggregate debit items, and net capital, as defined, was \$262,873, which is \$257,137 in excess of the required minimum amount.

(9) Subordinated Liabilities

The Company has \$282,680 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 June 30, 2009. The following schedule discloses the major components including repayment terms:

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 June 30, 2009 due June 2011.

75,000

Subordinated Notes, variable interest rate .75% at June 30, 2009 due August 2011.

25,000

240,000

Payable to Associates

42,680

\$ 282,680

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 June 30, 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.



(10) Income Tax

(a) Deferred Income Tax

The major deferred tax items, as computed under SFAS No. 109, “*Accounting for Income Taxes*,” are as follows:

Deferred Tax Assets:

Equipment and Leasehold Improvements	\$	7,071
Other		53
		<u>7,124</u>

Deferred Tax Liabilities:

Margin Debt		1,862
Goodwill and Intangibles		7,636
Accrued Expenses		1,467
Securities Owned		547
Other		1,374
		<u>12,886</u>
Net Deferred Tax Liability	\$	<u>(5,762)</u>

(b) FIN 48

The Company adopted the provisions of FASB Interpretation No. 48, “*Accounting for Uncertainty in Income Taxes*,” on January 1, 2009. As a result of the implementation of Interpretation 48, there was not a material impact on the Company’s statement of financial condition.

The Company recognizes the accrual of interest and penalties related to income tax matters in tax expense and believes the recorded amount is sufficient and not material.

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 2004 are no longer subject to examination by income tax authorities.

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.



(11) Stockholders' Equity

During 2009 the following share transactions took place:

	<u>Shares of Common Stock \$1 Stated Value</u>	<u>Shares of Treasury Stock</u>
Balance, December 31, 2008	26,251,270	34,118
Exercise of Options	111,440	(38,059)
Conversion of Restricted Stock Units	11,712	(16,728)
Purchases of Treasury Stock, Net	-	243,791
Balance, June 30, 2009	<u>26,374,422</u>	<u>223,122</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.

(12) 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 has historically matched 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 Parent 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 as of June 30, 2009 is as follows:

	<u>Shares</u>
Outstanding, December 31, 2008	314,532
Conversion to Common Stock	<u>(28,440)</u>
Outstanding, June 30, 2009	<u><u>286,092</u></u>

The Company issued no RSUs during 2009. In connection with the RSUs, the Company has reserved 286,092 shares of Company common stock as of June 30, 2009 to cover the ultimate conversion of the outstanding RSUs.

(c) 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 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 for the six months ended June 30, 2009.

Option activity during 2009 was as follows:

	<u>Baird Shares</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	(59,165)	14.07	
Forfeited	<u>(2,600)</u>	22.94	
Outstanding, June 30, 2009	<u><u>532,175</u></u>	\$ 16.42	3.3
Exercisable at June 30, 2009	494,975	15.93	3.0



Cash received from the exercise of stock options for the six months ended June 30, 2009 was \$588.

(13) Baird UK Ltd.

The Company reports the results of its investment in Baird UK Ltd. using the equity method of accounting. At June 30, 2009 the Company's investment in Baird UK Ltd. was \$15,897 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:

2009	\$ 20,562
2010	18,193
2011	14,804
2012	12,428
2013	10,165
Thereafter	62,843
	<u>\$ 138,995</u>

(b) Letters of Credit

The Company has obtained letters of credit of \$46,000 as of June 30, 2009 secured by client securities held in margin accounts. The Company utilized \$32,343 to meet margin requirements of a clearing corporation as of June 30, 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 SFAS No. 5 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 June 30, 2009 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) 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 June 30, 2009 the fair value of securities accepted as collateral was \$787,099.

(16) 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 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 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 Statement of Financial Condition.



(17) 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 \$214,243 and \$175,407, respectively, as of June 30, 2009. The market value of forward purchase and forward sale transactions was \$214,258 and \$175,278 respectively, as of June 30, 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 occasionally uses financial futures and options as additional strategies to manage market risk related to trading securities. The Company did not have open futures or options positions as of June 30, 2009.

(18) 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 ("FDIC") insured limit. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant risk.