



Robert W. Baird & Co. Incorporated

**Unaudited Statement of Financial Condition
As of June 30, 2010**

Robert W. Baird & Co. Incorporated

Statement of Financial Condition
As of June 30, 2010

(In Thousands)

<u>Assets</u>	<u>2010</u>
Cash and Cash Equivalents	\$ 40,601
Securities Purchased Under Agreements to Resell	870,564
Deposits with Clearing Corporations	14,133
Receivables:	
Clients	242,278
Brokers and Dealers	14,572
Deposits Paid on Securities Borrowed	79,887
Other	211,080
	<u>547,817</u>
Securities Owned, at Fair Value	684,269
Furniture, Equipment, Leasehold Improvements and Capital Leases at Cost, Less Accumulated Depreciation and Amortization of \$95,697	42,442
Goodwill	27,561
Intangible Assets, at Cost, Less Accumulated Amortization of \$7,867	12,692
Other Assets	<u>36,438</u>
Total Assets	<u><u>\$ 2,276,517</u></u>

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

Robert W. Baird & Co. Incorporated

Statement of Financial Condition
As of June 30, 2010

(In Thousands)

(Continued)

<u>Liabilities and Stockholders' Equity</u>	<u>2010</u>
<u>Liabilities:</u>	
Money Borrowed:	
Book Credit Balances in Bank Accounts	\$ 23,761
Securities Sold Under Agreements to Repurchase	1,090,370
Payables:	
Clients	115,987
Brokers and Dealers	50,892
Deposits Received on Securities Loaned	19,676
	<u>186,555</u>
Securities Sold, Not Yet Purchased, at Fair Value	105,694
Accounts Payable, Accrued Expenses and Other Liabilities, including Deferred Tax Liability of \$5,639	226,601
Subordinated Liabilities	<u>254,075</u>
Total Liabilities	<u>1,887,056</u>
<u>Stockholders' Equity:</u>	
Common Stock	26,374
Preferred Stock	-
Additional Paid-In Capital	115,528
Restricted Stock Units	2,072
Retained Earnings	246,147
Treasury Stock, at Cost	(2,486)
Accumulated Other Comprehensive Income	1,826
Total Stockholders' Equity	<u>389,461</u>
Total Liabilities and Stockholders' Equity	<u>\$ 2,276,517</u>

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

Robert W. Baird & Co. Incorporated

Notes to Statement of Financial Condition
June 30, 2010

(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 June 30, 2010 the allowance was \$16,419.

(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. 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 2009 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.

(2) Related-Party Transactions

As of June 30, 2010 there was \$61,375 of receivables from affiliates included in Receivables Other on the Statement of Financial Condition.

As of June 30, 2010 there was \$7,381 of payables to affiliates included in Accounts Payable, Accrued Expenses and Other Liabilities on the Statement of Financial Condition.

The Company makes loans or pays advances to associates primarily for recruiting purposes. Receivables from associates at June 30, 2010 were \$89,475 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 June 30, 2010 consist of the following:

	<u>2010</u>
Furniture and Fixtures	\$ 31,152
Equipment	32,860
Software	21,742
Leasehold Improvements	<u>47,769</u>
	133,523
Less Accumulated Depreciation	<u>(94,428)</u>
Furniture, Equipment and Leasehold Improvements, Net	39,095
Capital Leases	4,616
Less Accumulated Depreciation	<u>(1,269)</u>
Furniture, Equipment, Leasehold Improvements and Capital Leases, Net	<u><u>\$ 42,442</u></u>

(4) Goodwill and Intangible Assets

At June 30, 2010 goodwill and intangible assets consist of the following:

	<u>Useful Life</u>	<u>2010</u>
Finite Life Intangibles		
Client lists	8 Years	\$ 10,490
Noncompete agreements	5 Years	<u>240</u>
		10,730
Accumulated Amortization		
Client lists		(7,757)
Noncompete agreements		<u>(110)</u>
		<u>(7,867)</u>
Net Finite Life Intangibles		2,863
Indefinite Life Intangibles		
Tradenames	N/A	<u>9,829</u>
Net Intangibles		12,692
Goodwill	N/A	<u>27,561</u>
		<u><u>\$ 40,253</u></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 June 30, 2010. The Company had no outstanding balance under its lines of credit at June 30, 2010. 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 \$23,761 at June 30, 2010, 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 June 30, 2010:

	2010			
	Level I	Level II	Level III	Total
Securities Owned				
U.S. Government and Agency Obligations	\$ 702	\$ 269,537	\$ -	\$ 270,238
Municipal Bonds	-	146,336	298	146,633
Corporate Bonds	-	50,333	10,897	61,231
Collateralized Mortgage Obligations	-	97,066	3,700	100,766
Auction Rate Securities	-	-	52,650	52,650
Other Securities	41,594	-	11,156	52,750
Total Securities Owned	\$ 42,296	\$ 563,272	\$ 78,701	\$ 684,269
Securities Sold, Not Yet Purchased				
U.S. Government and Agency Obligations	\$ 75,658	\$ 1,373	\$ -	\$ 77,031
Municipal Bonds	-	6,871	-	6,871
Corporate Bonds	-	5,823	-	5,823
Collateralized Mortgage Obligations	-	5,745	-	5,745
Other Securities	10,224	-	-	10,224
Total Securities Sold, Not Yet Purchased	\$ 85,882	\$ 19,811	\$ -	\$ 105,694

Other Securities consist principally of investments in partnership interests and corporate stocks. At June 30, 2010 investments in partnership interests are carried at estimated fair value of \$4,952.

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

Level III activity during 2010 was as follows:

Balance December 31, 2009	\$ 90,658
Purchases and (Sales), Net	(13,872)
Realized Gains	300
Unrealized Gains	1,615
Balance June 30, 2010	<u>\$ 78,701</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 June 30, 2010 the Company’s net capital percentage was 87% of aggregate debit items, and net capital, as defined, was \$233,522, which was \$228,137 in excess of the required minimum amount.

(8) Subordinated Liabilities

The Company had \$254,075 of subordinated notes, including \$212,000 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, 2010. The following schedule discloses the major components including repayment terms:

	<u>2010</u>
Payable to BFC	
Series A Subordinated Note, 6.75%, due May 2014. Scheduled principal payments began in May 2010.	\$ 112,000
Subordinated Note, variable interest rate (4.0% at June 30, 2010), due June 2011.	75,000
Subordinated Notes, variable interest rate (0.75% at June 30, 2010), due August 2011.	<u>25,000</u>
	212,000
Payable to Associates	42,075
	<u>\$ 254,075</u>

Subordinated Liabilities mature as follows at June 30, 2010:

2011	128,000
2012	35,142
2013	35,980
2014	38,549
2015	9,259
Thereafter	7,145
	<u>\$ 254,075</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 June 30, 2010 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 follows the provisions of ASC Topic 740, "Income Taxes". 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.

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>2010</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 2010 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, 2009	26,374,422	212,863
Exercise of Options	-	(107,897)
Conversion of Restricted Stock Units	-	(6,924)
Sales of Treasury Stock	-	(173,692)
Purchases of Treasury Stock	-	157,165
Balance, June 30, 2010	<u><u>26,374,422</u></u>	<u><u>81,515</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 2010. 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 two thousand dollars contributed by each participant annually. 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 2010 is as follows:

	<u>Shares</u>
Outstanding, December 31, 2009	<u>286,092</u>
Conversion to Common Stock	<u>(6,924)</u>
Outstanding, June 30, 2010	<u><u>279,168</u></u>

The Company issued no RSUs during 2010. In connection with the RSUs, the Company has reserved 279,168 shares of Company common stock at June 30, 2010 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 in 2010.

Non-vested options were 16,700 as of June 30, 2010

Option activity during 2010 was as follows:

	Baird Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding, December 31, 2009	430,368	17.24	3.1
Exercised	(52,248)	16.75	
Forfeited	(1,900)	22.94	
Outstanding, June 30, 2010	<u>376,220</u>	17.28	2.7
Exercisable at June 30, 2010	<u>359,520</u>	17.02	2.6

Cash received from the exercise of stock options for the six months ended June 30, 2010 was \$410.

(12) Baird UK Ltd.

The Company reports the results of its investment in Baird UK Ltd. using the equity method of accounting. At June 30, 2010 the Company's investment in Baird UK Ltd. was \$ 15,582 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 is recorded in Accounts Payable, Accrued Expenses and Other Liabilities on the Statement of Financial Condition.

(b) Letters of Credit

The Company has obtained letters of credit of \$33,000 as of June 30, 2010 secured by client securities held in margin accounts. The Company utilized \$24,947 to meet margin requirements of a clearing corporation as of June 30, 2010.

(c) Other

The Company is involved in various disputes and legal proceedings from time to time in the ordinary course of its securities business. Such disputes and proceedings may include, without limitations, customer complaints and arbitrations, recruitment and employment-related claims, class action and other lawsuits arising from our securities underwriting business, enforcement and other regulatory proceedings, and various commercial disputes. Certain claims may seek or involve substantial amounts in damages. 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 current or pending 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 June 30, 2010 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 \$4,462 at June 30, 2010 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 June 30, 2010 the fair value of securities accepted as collateral was \$950,963.

(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 \$76,355 and \$4,435, respectively, as of June 30, 2010. The market value of forward purchase and forward sale transactions was \$77,468 and \$4,225 respectively, as of June 30, 2010. 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 June 30, 2010.

(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.