



Robert W. Baird & Co. Incorporated

**Unaudited Consolidated Statement of Financial Condition
As of June 30, 2024**

Robert W. Baird & Co. Incorporated

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securities with similar quality and yield, and other factors generally pertinent to the valuation of the investments. In addition, even where the Company derives the value of a security based on information from an independent source, certain assumptions may be required to determine the security's fair value.

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

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

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

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

When the Company is not determined to be the primary beneficiary of a Variable Interest Entity (VIE), it does not consolidate the private equity partnership. In these cases, the Company's investment in the private equity partnership is recorded at the value of its capital balance or net asset value (NAV). The Company utilizes NAV to determine fair value when the partnership does not have a readily determinable fair value. The NAV of the partnership is calculated in a manner consistent with the measurement principles of investment company accounting, including measuring the underlying investments at fair value, and it is not probable that the Company will sell the investment at an amount other than NAV. The NAV is calculated based on the Company's proportionate share of the net assets of the partnership. Investments valued using NAV are not

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included within the fair value hierarchy. The Company's investments in unconsolidated private equity partnerships are included within Other Investments in Financial Instruments, at Fair Value on the Unaudited Consolidated Statement of Financial Condition.

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

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

Refer to footnote 11, *Fair Value of Financial Instruments* for further information.

(i) Derivative Financial Instruments

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

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

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

The Fixed Income Clearing Corporation (FICC) calculates and collects margin on open TBA trades to ensure liquidity in the event a counterparty fails, as the majority of TBA trades clear

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through FICC. This collected margin is distributed out to members on a daily basis, which is designed to bring the Company's portfolio of open positions to market value. The daily process generates a net credit or debit amount with FICC that is included within Receivables from or Payables to Brokers and Dealers on the Unaudited Consolidated Statement of Financial Condition.

In addition, the Company occasionally enters into forward equity commitments in connection with at-the-market offerings, which are considered derivative transactions to meet the needs of the Company's investment banking clients. For every forward equity commitment, the Company enters into a short sale transaction of the investment banking client's securities in the same notional value. The obligation to purchase shares from the investment banking client is contingent upon the number of shares sold by the Company, thus mitigating the market and credit risk on these transactions. The fair value of the forward equity commitment has an equal and offsetting mark to market on the associated short sale of equity securities.

Refer to footnote 5, *Receivables From and Payables To Brokers and Dealers* and footnote 12, *Derivative Financial Instruments* for further information.

(j) Subordinated Liabilities

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

Refer to footnote 14, *Subordinated Liabilities* and footnote 17, *Compensation and Retirement Plans* for further information on the Baird FADCP.

(k) Income Taxes

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

Refer to footnote 15, *Income Taxes* for further information.

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(l) Fixed Assets

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

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

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

Refer to footnote 6, *Fixed Assets* for further information.

(m) Leases

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

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

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

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

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terminate the lease as part of the lease term, unless it is reasonably certain that the Company will exercise the option.

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

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

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

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

Refer to footnote 7, *Leases* for further information.

(n) Goodwill and Intangible Assets

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

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

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align with its five distinct business units: private wealth management, equity capital markets, fixed income capital markets, asset management and principal investments.

As of June 30, 2024, the Company did not identify any triggering events or changes in circumstances that would indicate an asset is impaired. Therefore, no further analysis was completed and goodwill will be tested for impairment annually as of the Company's September 30, 2024 evaluation date.

Intangible assets with finite lives are amortized on a straight-line basis over their respective useful lives and reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying value of an intangible asset may not be fully recoverable. The Company did not recognize any intangible asset impairment during the period ended June 30, 2024.

Refer to footnote 8, *Goodwill and Intangible Assets* for further information.

(o) Foreign Currency Translation

Assets and liabilities of the Company's foreign investments are translated at the month end exchange rate. Net exchange gains or losses resulting from the translation of foreign financial statements are credited or charged directly to Accumulated Other Comprehensive Loss, a separate component of Stockholder's Equity on the Unaudited Consolidated Statement of Financial Condition. These gains or losses are the only component of Accumulated Other Comprehensive Loss.

(p) Consolidation

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

All intercompany accounts and transactions have been eliminated in consolidation.

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

VIE Model

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

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rights to receive returns from an entity, or both and substantially all of the entity's activities either involve or are conducted on behalf of an investor with disproportionately few voting rights.

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

Refer to footnote 18, *Variable Interest Entities* for further information.

(q) Legal Commitments and Contingencies

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

The Company recognizes liabilities for contingencies when there is an exposure that, when analyzed, indicates it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. In the case where a loss is probable, the estimated range of possible loss is based on currently available information and is subject to significant judgment, a variety of assumptions, and uncertainties. When a range of a possible loss can be estimated, the Company accrues the most likely amount within that range. If the most likely amount of possible loss within that range is not determinable, the Company accrues a minimum based on the range of possible loss. No liability is recognized for those matters which, in management's judgment, the determination of a reasonable estimate of loss is not possible.

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

Refer to footnote 20, *Legal Commitments and Contingencies* for further information.

(r) Upcoming Accounting Pronouncements

In November 2023, ASU 2023-07, *Segment Reporting (Topic 280): Improvements To Reportable Segment Disclosures* was issued. The accounting standard introduces a significant expense principle which requires additional disclosure of segment expenses. Significant expense information that is regularly reported to the Chief Operating Decision Maker (CODM) and is included in the measure of segment profit of loss is required to be disclosed. The guidance is effective for fiscal years beginning

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after December 15, 2023. The Company is currently evaluating the impact the new standard will have on the Notes to the Unaudited Consolidated Statement of Financial Condition.

(3) Related Party Transactions

The Company serves as an investment advisor and provides administrative services to the Baird Funds, Inc. and various affiliated Baird private equity partnerships under management agreements (together, Affiliated Funds). Receivables from unconsolidated Affiliated Funds were \$38,022 as of June 30, 2024, and are included within Receivables Other on the Unaudited Consolidated Statement of Financial Condition.

The Company has invested \$59,792 into Affiliated Funds as of June 30, 2024, which is included within Other Investments in Financial Instruments, at Fair Value on the Unaudited Consolidated Statement of Financial Condition. The Company has remaining commitments of \$1,856 to invest into Affiliated Funds as of June 30, 2024.

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

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

SS provides the Company access to research content. The agreement in place allocates costs on a monthly basis for an agreed upon amount.

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

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

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

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

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

The Company leases an office facility from HTMJ, LLP, which is an affiliate of the Company. The Company also leases a second office facility from its affiliate Masterplan, Inc. (MP).

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Other amounts receivable from affiliates includes \$38,707 as of June 30, 2024, which is included within Receivables Other on the Unaudited Consolidated Statement of Financial Condition. Amounts receivable from affiliates are primarily related to receivables from BFC related to stock transactions, including stock purchases and redemptions which RWB processes on behalf of, BFG.

Other amounts payable to affiliates relating to certain transfer pricing agreements includes \$7,896 as of June 30, 2024, which is included within Accounts Payable, Accrued Expenses and Other Liabilities on the Unaudited Consolidated Statement of Financial Condition. Amounts payable to affiliates are primarily related to payables to Baird UK and Robert W. Baird GmbH for transfer pricing transactions related to investment banking revenue.

Amounts receivable from associates, including the related reserve for expected credit losses as of June 30, 2024, are reflected as Notes Receivable, Net on the Unaudited Consolidated Statement of Financial Condition and consist of the following:

	<u>June 30, 2024</u>
Notes Receivable	\$ 191,476
Allowance for Credit Losses	<u>(12,800)</u>
Notes Receivable, Net	<u>\$ 178,676</u>

(4) Receivables From and Payables To Clients

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

	<u>June 30, 2024</u>
Margin balances	\$ 151,640
Market Value of Client Accounts	29,025
Securities Failed-to-Receive	<u>77,695</u>
Receivables from Clients	<u>\$ 258,360</u>
Market Value of Client Accounts	\$ 425,215
Securities Failed-to-Deliver	<u>32,301</u>
Payables to Clients	<u>\$ 457,516</u>

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(5) Receivables From and Payables To Brokers and Dealers

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

	<u>June 30, 2024</u>
Securities Failed-to-Deliver	\$ 31,875
Receivable for Net Unsettled Inventory Sales	67,446
Commissions Receivable	2,485
Receivables from Clearing Organizations	<u>2,348</u>
Receivables from Brokers and Dealers	<u>\$ 104,154</u>
Securities Failed-to-Receive	<u>\$ 14,590</u>
Payables to Brokers and Dealers	<u>\$ 14,590</u>

(6) Fixed Assets

Fixed Assets as of June 30, 2024, consist of the following:

	<u>June 30, 2024</u>
Furniture and Fixtures	\$ 92,040
Equipment	94,122
Software	17,806
Leasehold Improvements	209,255
Land	<u>450</u>
Total Fixed Assets	413,673
Less:	
Depreciation and Amortization	<u>(245,721)</u>
Fixed Assets, Net	<u>\$ 167,952</u>

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(7) Leases

The Company occupies office space and equipment leases under cancelable and non-cancelable operating lease arrangements. As of June 30, 2024, the Company did not have any finance leases. Future minimum lease payments are as follows:

	<u>Operating</u>
Remainder of 2024	\$ 25,439
2025	49,570
2026	45,706
2027	40,962
2028	37,839
Thereafter	<u>129,039</u>
Total Undiscounted Lease Payments	328,555
Less Imputed Interest	<u>(50,076)</u>
Total Lease Liabilities	<u>\$ 278,479</u>

The weighted-average remaining lease term for operating leases was 7.42 years as of June 30, 2024 and the weighted average discount rate was 4.39%.

(8) Goodwill and Intangible Assets

The following table sets forth the Company's identifiable intangible asset balances, net of accumulated amortization, and activity for the period from January 1, 2024 through June 30, 2024:

		<u>2024</u>			
	<u>Useful Life</u>	<u>Gross Carrying Amount</u>	<u>Additions</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Goodwill	N/A	<u>\$ 326,528</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 326,528</u>
Finite Life Intangibles					
Client lists	8-20 Years	168,627	-	(53,582)	115,045
Noncompete Agreements	5 Years	450		(201)	249
Indefinite Life Intangibles					
Trade Names	N/A	9,260	-	-	9,260
Intangible Assets		<u>\$ 178,337</u>	<u>\$ -</u>	<u>\$ (53,783)</u>	<u>\$ 124,554</u>

(9) Money Borrowed

(a) Bank Loans

At June 30, 2024, the Company had available a committed unsecured line of credit with a syndicate of lenders maturing on September 21, 2027. This committed unsecured line of credit provides maximum

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borrowing capacity to the Company of \$700,000 with a sublimit of \$325,000 for BFC. Borrowing capacity available to the Company is reduced by any outstanding borrowings made by BFC. Interest rates on the borrowings are variable based on one-month Secured Overnight Financing Rate (SOFR) plus a spread which is determined based on the Company's leverage ratio as defined in the credit facility agreement. The interest rate on the line of credit as of June 30, 2024 was 6.84%. As of June 30, 2024, debt issuance costs of \$873 relating to this line of credit were capitalized and included in Other Assets on the Unaudited Consolidated Statement of Financial Condition. As of June 30, 2024, there were no amounts outstanding on the available line of credit.

(b) Book Credit Balances in Bank Accounts

The Company has \$8,072 as of June 30, 2024, in net credit balances at certain banks with which it does business.

(10) Revenue from Contracts with Customers

Information on Remaining Performance Obligations and Revenue Recognized from Past Performance: The Company does not disclose information about remaining performance obligations pertaining to contracts that have an original expected duration of one year or less. The contract price allocated to remaining unsatisfied or partially unsatisfied performance obligations with an original expected duration exceeding one year was not material at June 30, 2024.

Amounts receivable from contracts with customers as of June 30, 2024 were \$98,047 and are included in Receivables, Other on the Unaudited Consolidated Statement of Financial Condition. The Company has separately evaluated the risk of uncollectability and has determined no reserve for expected credit losses was required as of June 30, 2024.

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

Amounts capitalized related to revenues from contracts with customers as of June 30, 2024 were \$3,904 and are included within Receivables, Other on the Unaudited Consolidated Statement of Financial Condition. The Company has separately evaluated the risk of uncollectability and has determined a reserve for expected credit losses of \$1,319 was required as of June 30, 2024, which relates to investment banking underwriting and advisory business deals. In establishing the reserve for expected credit losses, management considers the historical loss rate, customer specific factors and current market conditions, and adjusts the reserve for expected credit losses on an annual basis. For business deals deemed to be inactive, the Company charges off the full amount of the reimbursable expenses, and any subsequent collection of those expenses is treated as a recovery. The status of the deals is reevaluated at each reporting period.

Further, the Company receives management fees from affiliated private equity partnerships. The Company has determined that the expected credit losses related to the outstanding receivable as of June 30, 2024, was immaterial. In establishing the reserve for expected credit losses, management considers the historical loss

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rate, portfolio company specific factors and current market conditions, and adjusts the expected credit losses on an annual basis.

(11) Fair Value of Financial Instruments

The following table summarizes the fair value of financial instruments as of June 30, 2024:

	2024			
	Level I	Level II	Level III	Total
Cash Equivalents				
Money Market Funds	\$ 950,000	\$ -	\$ -	\$ 950,000
Financial Instruments, at Fair Value				
Trading Securities				
Certificates of Deposit	\$ -	\$ 3,411	\$ -	\$ 3,411
U.S. Government and Agency Obligations	-	605,648	-	605,648
Municipal Obligations	-	87,867	-	87,867
Corporate Obligations	-	26,350	-	26,350
Total Debt Securities	-	723,276	-	723,276
Equity Securities	531	-	2	533
Total Trading Securities	531	723,276	2	723,809
Other Investments				
Mutual Funds ⁽¹⁾	165,231	-	-	165,231
Derivative Assets	-	758	-	758
Other Investments - Not Measured at NAV ⁽²⁾	1,360	-	14,550	15,910
Other Investments - Measured at NAV ⁽³⁾	-	-	-	6,420
Total Other Investments	166,591	758	14,550	188,319
Total Financial Instruments, at Fair Value	\$ 167,122	\$ 724,034	\$ 14,552	\$ 912,128
Financial Instrument Liabilities, at Fair Value				
Trading Securities Sold, Not Yet Purchased				
Certificates of Deposit	\$ -	\$ 5,557	\$ -	\$ 5,557
U.S. Government and Agency Obligations	-	55,920	-	55,920
Corporate Obligations	-	7,014	-	7,014
Other Securities ⁽²⁾	28,247	-	-	28,247
Total Trading Securities Sold, Not Yet Purchased	28,247	68,491	-	96,738
Other Investments				
Derivative Liabilities	-	2,742	-	2,742
Total Financial Instrument Liabilities, at Fair Value	\$ 28,247	\$ 71,233	\$ -	\$ 99,480

⁽¹⁾ The Company elects to invest directly as a principal in Mutual Fund investments, which are related to the Company's obligations under the deferred compensation plans and are included within Other Investments in Financial Instruments on the Unaudited Consolidated Statement of Financial Condition. Refer to footnote 17, *Compensation and Retirement Plans* for further detail.

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

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

The following tables summarize quantitative information related to the significant unobservable inputs utilized in the fair value measurements of the Level III assets as of June 30, 2024, which is included within Other Investments in Financial Instruments, at Fair Value, on the Unaudited Consolidated Statement of Financial Condition.

	2024			
	Fair Value	Valuation Technique	Unobservable Input(s)	Range (Weighted Average)
Other Investments	\$ 14,552	Statement Value	N/A	N/A

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

(12) Derivative Financial Instruments

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

The following table represents derivative assets and liability derivatives notional value and fair value as of June 30, 2024.

	2024 Asset Derivatives			2024 Liability Derivatives		
	Notional Value	Fair Value	Average Fair Value	Notional Value	Fair Value	Average Fair Value
Forward-settling trades	\$ 657,102	758		\$1,208,038	-	(276)
Forward-settling equity security commitments	-	-	-	30,806	2,742	1,788

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(13) Net Capital Requirements

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

As of June 30, 2024, the Company's net capital percentage was 294% of aggregate debit items; and net capital, as defined, was \$903,402, which was \$897,263 in excess of the minimum net capital requirement. As of June 30, 2024, net capital after anticipated withdrawals as a percentage of aggregate debit items was 291%.

(14) Subordinated Liabilities

As of June 30, 2024, the Company had \$190,639 of subordinated notes payable to associates, all of which are covered by agreements approved by FINRA that are available in computing adjusted net capital under the net capital rule as of June 30, 2024.

Subordinated Liabilities mature as follows as of June 30, 2024:

2024	\$	11,261
2025		16,143
2026		17,970
2027		26,270
2028		38,419
Thereafter		80,576
	\$	<u>190,639</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. As of June 30, 2024, 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 FINRA.

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(15) Income Taxes

(a) Deferred Income Tax

The major deferred tax items as of June 30, 2024 are as follows:

	<u>2024</u>
Deferred Tax Assets:	
Deferred Compensation Plans	\$ 53,125
Accrued Expenses and Reserves	31,056
Net Operating Loss	244
Carryforwards	49
Operating Lease Liabilities	74,959
Other	<u>7,250</u>
Total Deferred Tax Assets	166,683
Deferred Tax Liabilities:	
Goodwill and Intangibles	25,768
Depreciation and Fixed Asset Net Gain/Loss	30,970
Investments	887
Lease Right of Use Asset	68,314
Other	<u>748</u>
Total Deferred Tax Liabilities	<u>126,687</u>
Deferred Tax Assets, Net	<u>\$ 39,996</u>
Valuation Allowance	(34)
Deferred Tax Asset after Valuation Allowance, Net	<u>\$ 39,962</u>

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

(b) Uncertain Tax Positions

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

The Company is included in the consolidated income tax returns of BFG in the U.S. Federal jurisdiction and various consolidated states. The Company also files separate income tax returns in various states and local jurisdictions. The federal income tax returns for the years prior to 2020 and the

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state and local tax returns for the years prior to 2019 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 believes that it is reasonably possible that a portion of the balance of the gross unrecognized tax benefits could decrease in the next six months due to ongoing activities with various taxing jurisdictions that the Company expects may give rise to settlements or the expiration of statute of limitations. The Company continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings.

(16) Stockholder's Equity

As of June 30, 2024, the Company had 26,454,488 shares of Common Stock and 47,086 shares of Common Treasury Stock outstanding. There were no share transactions in the Company's Common Stock or Common Treasury Stock during the six months ended June 30, 2024.

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 as of June 30, 2024. The shares of the Company are subject to strict transfer restrictions.

On May 6, 2024 the Company declared a \$75,000 (\$2.835 per share of common stock) dividend payable to BFC. The dividend was paid on May 8, 2024 and are included in Retained Earnings on the Unaudited Consolidated Statement of Financial Condition.

(17) Compensation and Retirement Plans

(a) The Baird Profit Sharing and Savings Plan

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

(b) Non-Qualified Compensation

The Company has three non-qualified compensation plans, entitled the Baird Capital Participation Plan (BCPP), the Baird FADCP and the Baird Long Term Incentive Plan (LTIP). The BCPP no longer grants awards and all balances in the BCPP Plan are fully vested. For services performed, the FADCP and LTIP grant awards to certain associates. The awards, which vest after seven years, are expensed at the date of grant as no future services are required, subject to continued employment. The balance payable to associates under the above plans was \$247,272 as of June 30, 2024, of which \$190,639 is included in Subordinated Liabilities and \$56,633 is included in Accrued Compensation and Benefits on the Unaudited Consolidated Statement of Financial

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Condition. Approximately \$3,633 of the balance payable to associates is vested as of June 30, 2024.

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

The Company has established a reserve for expected credit losses for forfeitures of awards in the FADCP and LTIP plans of \$2,569 as of June 30, 2024, and is included within Accrued Compensation and Benefits on the Unaudited Consolidated Statement of Financial Condition. In determining the reserve for expected credit losses, management considers the Company's historical forfeiture experience which involves the use of estimates. The actual amounts may be materially different than the recorded amounts.

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

(18) Variable Interest Entities

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

Certain Baird Private Equity Partnerships are not consolidated pursuant to the accounting rules disclosed in the consolidation section of footnote 2, *Summary of Significant Accounting Policies*. The Company's investment in partnerships not consolidated was \$6,420 as of June 30, 2024, which is included within Other Investments in Financial Instruments, at Fair Value on the Unaudited Consolidated Statement of Financial Condition. Net assets of the partnerships not consolidated were \$1,225,014 as of June 30, 2024. These partnerships were not consolidated as the general partner was not the primary beneficiary. The Company's economic interest in these partnerships range from 0.2% to 1% as of June 30, 2024. In addition to the Company's economic interest, the Company also has management fee arrangements from the investment advisory services it provides to VIEs. The Company's maximum exposure of loss represents the Company's interest in unconsolidated partnerships and amounts of open commitments in Baird private equity partnerships.

The Company has controlling interests in limited liability companies that serve as general partners in various partnerships. The Company has committed a total of \$2,874 in amounts generally ranging up to \$549 to twelve different private equity partnerships. As of June 30, 2024, the Company has invested \$1,019 of committed amounts.

Refer to footnote 3, *Related Party Transactions* for further detail.

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(19) Baird UK

The Company reports the results of its investment in Baird UK using the equity method of accounting. As of June 30, 2024, the Company's investment in Baird UK was \$29,608 and is included in Other Assets on the Unaudited Consolidated Statement of Financial Condition.

(20) Legal Commitments and Contingencies

The Company is involved in legal actions from time to time that are incidental to its securities business, including without limitation, client complaints and arbitrations, employment related disputes, regulatory investigations and proceedings, securities class action claims arising from underwriting activity, and claims brought against the Company in connection with its recruitment of associates from other firms. The Company has established reserves against such contingencies. Based on its understanding of the facts and the advice of legal counsel, management believes that resolution of these various actions will not result, after taking into account the reserves, in any material adverse effect on the financial condition of the Company. As of June 30, 2024, the estimated aggregate range of possible loss related to these matters is from \$0 to \$7,650 in excess of the amount the Company has reserved.

In the normal course of business, the Company enters into underwriting commitments. Transactions relating to underwriting commitments that were open as of June 30, 2024 were not material.

The Company is a member of the New York Stock Exchange (NYSE), and numerous clearinghouses. Clearing deposits are included within Deposits with Clearing Organizations on the Unaudited Consolidated Statement of Financial Condition. 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 Unaudited Consolidated Statement of Financial Condition for these arrangements.

(21) Collateralized Transactions

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions in order to, among other things, acquire securities to cover short positions, accommodate clients' needs, earn residual interest spreads and finance the Company's inventory positions. Under these transactions, the Company either receives or provides collateral, including securities. The Company receives collateral in connection with reverse repurchase agreements and securities borrowed transactions. Under many agreements, the Company is permitted to repledge securities held as collateral. As of June 30, 2024, the fair value of securities accepted as collateral was \$116,966 of which, \$0 was repledged to other counterparties. The Company pledges collateral, including cash and securities, to collateralize repurchase agreements and enter into securities lending transactions. As of June 30, 2024 the fair value of securities pledged as collateral was \$684,376 on the Unaudited Consolidated Statement of Financial Condition, which exceeds the carrying value of the repurchase agreements.

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

At June 30, 2024, the Company had available a \$150,000 committed repurchase facility. The facility has an annual maturity and expires on September 30, 2024. The Company intends to renew the facility prior to the maturity date. The interest rate on repurchase facility is variable based on one-month SOFR plus a spread of 1.10%. As of June 30, 2024, debt issuance costs of \$39 relating to this facility were capitalized and included in Other Assets on the Unaudited Consolidated Statement of Financial Condition. As of June 30, 2024, the facility had no repurchase transactions outstanding.

The table below reconciles the gross amounts of assets and liabilities on these transactions on the Unaudited Consolidated Statement of Financial Condition to the net exposure to the Company, considering all effects of legally enforceable master netting agreements as of June 30, 2024:

	Gross Amounts ⁽¹⁾	Amounts Offset on the Consolidated Statement of Financial Condition ⁽²⁾	Net Amounts Presented on the Consolidated Statement of Financial Condition ⁽¹⁾	Amounts Not Offset on the Consolidated Statement of Financial Condition ⁽³⁾	Net Amounts
Assets:					
Deposits Paid on Securities Borrowed	\$ 120,231	\$ -	\$ 120,231	\$ (120,231)	\$ -
Liabilities:					
Securities Sold Under Agreements to Repurchase	\$ 660,226	\$ -	\$ 660,226	\$ (660,226)	\$ -

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

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

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

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The following table presents the remaining contractual maturity of repurchase agreements and securities lending transactions disaggregated by type of collateral, accounted for as secured borrowings as of June 30, 2024:

	Remaining Contractual Maturity		
	Overnight & Continuous	Up to 30 Days	Total
Securities Sold Under Agreements to Repurchase			
U.S. Government and Agency Obligations	\$ 155,338	\$ 504,888	\$ 660,226

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

The Company offers a Dividend Reinvestment Program (DRP) to clients. Pursuant to the DRP, dividend reinvestment transactions result in fractional shares of securities held by clients. Fractional shares held by clients do not meet the criteria for derecognition under ASC Topic 860, *Transfers and Servicing*. The Company elected the fair value option to measure these financial assets and the corresponding repurchase obligation. The fair value of these investments is determined by quoted prices in active markets. As of June 30, 2024, the fair value of investments in fractional shares held by clients and the fair value of the repurchase obligations for the investments was \$17,786. These amounts are included in Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities on the Unaudited Consolidated Statement of Financial Condition.

(22) Off-Balance Sheet Risk

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

The Company seeks to control the risks associated with its client activities by requiring clients to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the clients to deposit additional collateral or to reduce positions when necessary. Such collateral is not reflected on the Unaudited Consolidated Statement of Financial Condition.

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

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

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

The Company may use financial futures and options to manage market risk related to trading securities. In particular, these instruments may be used as hedges against long or short inventory positions to mitigate security price risk. The Company did not have open futures or options positions as of June 30, 2024.

(23) Subsequent Events

The Company evaluated its June 30, 2024 Unaudited Consolidated Statement of Financial Condition for subsequent events through August 16, 2024, the date that the Unaudited Consolidated Statement of Financial Condition was available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements, other than the following:

On August 14, 2024, the Company declared a dividend of \$90,000 (\$3.402 per share of common stock) to BFC. The dividend was paid on August 16, 2024.