



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

**Consolidated Statements of Financial Position**

**As of December 31, 2012 and 2011**

**Together with Report of Independent Certified Public Accountant**



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**Grant Thornton LLP**  
175 W Jackson Boulevard, 20<sup>th</sup> Floor  
Chicago, IL 60604  
T 312.856.0200  
F 312.565.4719  
[www.GrantThornton.com](http://www.GrantThornton.com)

Board of Directors  
Robert W. Baird & Co., Incorporated

We have audited the accompanying consolidated statements of financial condition of Robert W. Baird & Co., Incorporated (a Wisconsin corporation) and its consolidated private equity partnerships (“Baird Private Equity Partnerships”) (collectively, the “Company”), which comprise the consolidated statements of financial condition as of December 31, 2012 and 2011, and the related notes to the financial statement.

### Management’s responsibility for the statements of financial condition

Management is responsible for the preparation and fair presentation of this consolidated statements of financial condition in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated statements of financial condition that are free from material misstatement, whether due to fraud or error.

### Auditor’s responsibility

Our responsibility is to express an opinion on this consolidated statements of financial condition based on our audits. We did not audit the financial statements of the Baird Private Equity Partnerships, which statements reflect total assets constituting 20% and 17%, respectively, of consolidated total assets as of December 31, 2012 and 2011, respectively, of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Baird Private Equity Partnerships, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated statement of financial condition is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated statement of financial condition. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated statement of financial condition, whether due to fraud or

error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated statement of financial condition in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated statement of financial condition.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated statements of financial condition referred to above present fairly, in all material respects, the financial position of Robert W. Baird & Co., Incorporated and its consolidated private equity partnerships as of December 31, 2012 and 2011, in accordance with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

Chicago, Illinois  
February 22, 2013

**Robert W. Baird & Co. Incorporated**Consolidated Statements of Financial Condition  
As of December 31, 2012 and 2011

(In Thousands)

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Cash and Cash Equivalents	\$ 53,114	\$ 135,967
Cash Equivalent Segregated Under Federal Regulations	110,000	28,000
Cash Held by Baird Private Equity Partnerships	16,955	1,013
Securities Purchased Under Agreements to Resell	871,790	783,038
Deposits with Clearing Corporations	11,722	17,489
Receivables:		
Clients, Net	167,823	242,527
Brokers and Dealers	16,512	18,384
Deposits Paid on Securities Borrowed	22,451	47,989
Notes Receivable, Net	91,098	84,186
Other	92,985	78,126
	<u>390,869</u>	<u>471,212</u>
Securities Owned, at Fair Value	577,887	495,873
Securities Owned by Baird Private Equity Partnerships, at Fair Value	519,317	403,605
Furniture, Equipment, Leasehold Improvements and Capital Leases at Cost, Less Accumulated Depreciation and Amortization of \$101,178 and \$105,627, respectively	55,096	50,183
Goodwill	26,267	27,602
Intangible Assets, at Cost, Less Accumulated Amortization of \$10,416 and \$10,144, respectively	9,710	10,467
Net Deferred Tax Assets	8,331	5,980
Other Assets	46,659	43,655
Total Assets	<u>\$ 2,697,717</u>	<u>\$ 2,474,084</u>

The accompanying notes are an integral part of these financial statements.

**Robert W. Baird & Co. Incorporated**Consolidated Statements of Financial Condition  
As of December 31, 2012 and 2011

(In Thousands)

(Continued)

<u>Liabilities and Stockholders' Equity</u>	<u>2012</u>	<u>2011</u>
<u>Liabilities:</u>		
Money Borrowed:		
Bank Loans	\$ -	\$ 50,000
Book Credit Balances in Bank Accounts	42,586	37,350
	<u>42,586</u>	<u>87,350</u>
Securities Sold Under Agreements to Repurchase	979,409	903,465
Payables:		
Clients	152,096	113,049
Brokers and Dealers	17,214	7,035
Deposits Received on Securities Loaned	54,570	38,206
	<u>223,880</u>	<u>158,290</u>
Securities Sold, Not Yet Purchased, at Fair Value	20,146	35,929
Accounts Payable, Accrued Expenses and Other Liabilities	318,131	347,292
Subordinated Liabilities	296,830	293,369
	<u>1,880,982</u>	<u>1,825,695</u>
Total Liabilities		
<u>Stockholders' Equity:</u>		
Common Stock	26,502	26,414
Additional Paid-In Capital	112,387	114,019
Restricted Stock Units	-	1,817
Retained Earnings	156,071	106,003
Treasury Stock, at Cost	(1,486)	(4,984)
Accumulated Other Comprehensive Income	2,195	1,850
	<u>295,669</u>	<u>245,119</u>
Total Robert W. Baird & Co. Incorporated Stockholders' Equity		
Noncontrolling Interests in Baird Private Equity Partnerships	521,066	403,270
	<u>816,735</u>	<u>648,389</u>
Total Stockholders' Equity		
Total Liabilities and Stockholders' Equity	<u>\$ 2,697,717</u>	<u>\$ 2,474,084</u>

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

Notes to Consolidated Financial Statements  
December 31, 2012 and 2011

(In Thousands, Except Share and Per Share Amounts)

### (1) Summary of Significant Accounting Policies

The consolidated financial statements include Robert W. Baird & Co. Incorporated (“RWB”), Baird Insurance Services and RWB’s consolidated private equity partnerships as more fully discussed in Footnote 13 (together, the “Company”). The Company is registered as a securities broker dealer and an investment adviser with the Securities and Exchange Commission (“SEC”) under the Securities and Exchange Act of 1934 and the Investment Advisers 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 private wealth management, equity and fixed income capital markets, asset management and private equity businesses, including securities brokerage; investment advisory and asset management services; institutional equity and fixed income sales; research services; origination of and participation in underwritings and distribution of corporate and municipal securities issuances; municipal advisory services; merger and acquisition advisory services; private equity and venture capital investing; and market making and trading activities in equity, municipal and other fixed income securities. The Company is a wholly-owned subsidiary of Baird Financial Corporation (“BFC”), which is a wholly-owned subsidiary of Baird Holding Company (“BHC”), which is a wholly-owned subsidiary of Baird Financial Group, Inc. (“BFG” or the “Parent”), as more fully discussed below.

On August 20, 2012, a new parent company was formed in the state of Wisconsin and named “Baird Financial Group, Inc.” (“BFG”). On October 1, 2012, BFG consummated an exchange whereby all associate shareholders of BHC, BFC, RWB and The Northwestern Mutual Life Insurance Company exchanged (i) all of their shares of common stock of BHC, BFC and RWB for an equal number of shares of common stock of BFG and (ii) all of their shares of Series A participating preferred stock of BHC for an equal number of shares of Series A participating preferred stock of BFG (collectively, the “Exchange Offer”). Subsequent to the Exchange Offer, BFG contributed all of the BFC and RWB shares tendered to it in the Exchange Offer downstream to BHC (the “BFG Share Contribution”) and, following the BFG Share Contribution, BHC contributed all of the RWB shares owned by it downstream to BFC (the “BHC Share Contribution”) in order to streamline the corporate and capital structure by having BFG own all of the capital stock of BHC; BHC own all of the capital stock of BFC; and BFC own all of the capital stock of RWB.

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

#### (a) Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results may differ from those estimates.

(b) Cash and Cash Equivalents

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

(c) Cash Equivalent Segregated Under Federal Regulations

Cash equivalent segregated under federal regulations represents a reverse repurchase agreement segregated in a special reserve bank account for the benefit of U.S. customers under Rule 15c3-3 of the Securities and Exchange Commission (SEC).

(d) Cash Held by Baird Private Equity Partnerships

Cash held by Baird Private Equity Partnerships represents cash and cash equivalents held by consolidated private equity partnerships. Such amounts are not available to fund the general liquidity needs of RWB.

(e) 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”) and short-term 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.

(f) Receivables and Payables

Clients – receivables includes amounts receivable on cash and margin transactions, which are generally collateralized by securities owned by clients. When a receivable is considered to be impaired, the amount of impairment is generally measured based on the fair value of the securities acting as collateral, which is measured based on current prices from independent sources such as listed market prices or broker-dealer price quotations. The Company has recorded a reserve related to client receivables. Payables include amounts owed to clients on cash and margin transactions.

Brokers and Dealers – includes amounts receivable and payable to clearing organizations and for securities failed-to-deliver or receive.

Deposits Paid on Securities Borrowed and Deposits Received on Securities Loaned – securities borrowed and securities loaned are reported as collateral financings and 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.

Notes Receivable, Net – includes loans or pay advances to newly hired associates primarily for recruiting purposes. These associate advances are generally repaid over a three to nine year period. In determining the allowance for doubtful accounts related to those advances, management considers a number of factors including: amounts due from associates, the number of terminated associates, as well as the Company’s historical loss experience. This involves the use of estimates and the actual amounts may be substantially higher or lower than the recorded amounts.

Other – primarily includes receivables from affiliates. Payables to affiliates are included within Accounts Payable, Accrued Expenses and Other Liabilities on the Consolidated Statements of Financial Condition.

Refer to Footnote 2 for further information.

(g) 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 prescribes the methodology of observable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy, 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.

The fair value of securities owned is the amount at which the security could be exchanged in an orderly transaction between market participants at the measurement date. Based on the nature of the Company’s business and its role as a dealer in the securities industry, the fair values of its securities are determined internally. When available, the Company values securities at observable market prices, observable market parameters, or broker or dealer prices (bid and ask prices). In the case of securities transacted on recognized exchanges, the observable market prices represent quotations for completed transactions from the exchange on which the securities are principally traded.



The Company's securities owned and securities sold, not yet purchased are based on observable market prices, observable market parameters, or derived from broker or dealer prices. The availability of observable market prices and pricing parameters can vary from product to product. Where available, observable market prices and pricing, or market parameters in a product may be used to derive a price without requiring significant judgment. In certain markets, observable market prices or market parameters are not available for all products, and fair value is determined using techniques appropriate for each particular product. These techniques involve some degree of judgment.

For investments in illiquid or privately held securities that do not have readily determinable fair values, the determination of fair value requires the Company to estimate the value of the securities using the best information available. Among the factors considered by the Company in determining the fair value of such securities are the cost, terms and liquidity of the investment, the financial condition and operating results of the issuer, the quoted market price of publicly traded securities with similar quality and yield, and other factors generally pertinent to the valuation of 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 securities in the fair value hierarchy 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 U.S. government and agency obligations, municipal bonds, corporate bonds, collateralized mortgage obligations and auction rate securities, which include securities backed by pools of student loans, securities issued by municipalities, and auction rate preferred securities issued by closed end mutual funds, are generally valued using quoted prices from external data providers and market participants and 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. Investments in partnership interests are included within other securities in the fair value hierarchy and are generally valued based on the Company's ownership percentage in the net assets of the partnership. The underlying investments of each partnership are fair valued utilizing third-party sources, independent appraisals, or by management of the partnership. In the absence of other available information, management of the partnership may value the underlying investments utilizing a market-based or income approach, which may include inputs which are both significant to the value and unobservable. These investments are classified as Level III in the fair value hierarchy.

Securities Owned by Baird Private Equity Partnerships include investments in private companies, which are consolidated as the Company has a controlling interest as a general partner or in which the Company is the primary beneficiary of a variable interest entity. 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. The 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.

The Company employs specific control processes to determine the reasonableness of the fair value of its securities owned and securities sold, not yet purchased. 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 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, cash held by Baird Private Equity partnerships, deposits with clearing corporations and receivables are financial assets with carrying values that approximate fair value due to their relatively short-term nature. Money borrowed, payables, accounts payable, accrued expenses and other liabilities are financial liabilities with carrying values that approximate fair value due to their relatively short-term nature. 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. Securities either purchased or sold under agreements to resell or repurchase are carried at contractual amounts.

See Footnote 6 for further information.

(h) Off-Balance Sheet Financial Instruments

The Company enters into various transactions involving off-balance sheet financial instruments as more fully discussed in Footnote 16.

(i) Income Taxes

Certain income and expense items are accounted for in different periods for financial reporting purposes than for income tax purposes. Appropriate provisions are made in the Company's consolidated financial statements for deferred income taxes in recognition of these temporary differences as more fully disclosed in Footnote 9.

(j) 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 ten years for leasehold improvements.

Additions, improvements and expenditures for repairs and maintenance that significantly extend the useful life of an asset are capitalized, as more fully disclosed in Footnote 3. Other expenditures for repairs and maintenance are charged to expense in the period incurred.

(k) Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are not amortized but are reviewed at least annually for impairment. 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 the two-step impairment test for that reporting unit. As of December 31, 2012 and 2011 the Company determined it was more likely than not that the reporting units' fair value was greater than the carrying value as it relates to goodwill and intangible assets and therefore no impairment was identified. Intangibles with finite lives are amortized on a straight-line basis over their respective lives as more fully disclosed in Footnote 4.

(l) Foreign Currency Translation

Assets and liabilities of the Company's foreign investments are generally translated at the current exchange rate, and the related revenues and expenses are translated at the average monthly exchange rates in effect. Net exchange gains or losses resulting from the translation of foreign financial statements are credited or charged directly to a separate component of Stockholders' Equity titled "Accumulated Other Comprehensive Income." These gains or losses are the only component of Accumulated Other Comprehensive Income.

(m) Commitments and Contingencies

The Company regularly enters into office space and other equipment lease arrangements, some of which are non-cancelable for the term of the lease. 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 14.

(n) Consolidation

The consolidated financial statements include the accounts of RWB, Baird Insurance Services, and those entities in which the Company has a controlling interest as a general partner or in which the Company is the primary beneficiary of a variable interest entity ("VIE"). In evaluating whether the Company has a controlling financial interest in entities in which the Company would consolidate, the Company considers the following: (1) the Company consolidates those entities in which the Company owns a majority of the voting interests; (2) for VIEs the Company consolidates those entities in which the Company is considered the primary beneficiary because the Company (i) has the direct or indirect ability through voting rights or similar rights to make decisions about the VIE's activities that have a significant effect on its success and (ii) absorbs the majority of the VIE's expected losses, receives a majority of the VIE's expected residual returns, or both; and (3) for limited partnership entities that are not considered VIEs, the Company consolidates those entities if the Company is the general partner of such entities and for which no substantive kick-out rights (the rights underlying the limited partners' ability to dissolve the limited partnership or otherwise remove the general partners are collectively referred to as "kick-out" rights) or participating rights exist. All material intercompany accounts and transactions have been eliminated in consolidation. The Company's disclosures regarding partnerships and VIEs are discussed in Footnote 12.

(o) Noncontrolling Interests in Baird Private Equity Partnerships

Noncontrolling Interests in Baird Private Equity Partnerships represent the component of partnership capital in consolidated entities held by third party investors.

(p) Legal Liabilities

The Company recognizes liabilities for contingencies when there is an exposure that, when analyzed, indicates it is possible that a liability has been incurred and the amount of loss can be reasonably estimated. Whether a loss is possible, and if so, the estimated range of possible loss is based on currently available information and is subject to significant judgment, a variety of assumptions, and uncertainties. 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 Consolidated Statements 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; the basis and validity of the claim; the possibility of wrongdoing on the part of one of our associates; 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 Consolidated Statements of Financial Condition. The actual costs of resolving legal proceedings may be substantially higher or lower than the recorded liability amounts for those matters.

(q) Upcoming Accounting Pronouncements

In December 2011, the FASB issued new guidance amending the existing pronouncement related to the netting of certain financial instruments and derivative instruments. This new guidance primarily expands the existing disclosure requirements to enable users of financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. Specifically, the new guidance mandates the following additional disclosures: 1) the gross amounts of assets and liabilities which are netted against each other, 2) the amounts offset to determine the net amounts presented in the Consolidated Statements of Financial Condition, 3) the net amounts presented in the Consolidated Statements of Financial Condition, 4) the amounts subject to an enforceable master netting arrangement or similar agreement which are not included in the above disclosures, and 5) the net amount after deducting the net amounts presented in the Consolidated Statements of Financial Condition from the amounts subject to an enforceable master netting arrangement or similar agreement. This update is effective for annual fiscal years beginning on or after January 1, 2013. The Company is currently evaluating the impact this guidance will have on its presentation of assets and liabilities within the Consolidated Statements of Financial Condition.

In July 2012, the FASB issued guidance which amends ASC 350 "Intangibles – Goodwill and Other." This guidance adds an optional qualitative assessment for determining whether an indefinite-lived intangible asset is impaired. If an entity concludes that it is not more likely than not that the fair value of an indefinite-lived asset is less than its carrying amount, it would not be required to calculate the fair value of the asset in that year. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company has elected to early adopt, which had no impact on our Consolidated Statements of Financial Condition.

(2) Receivables and Payables

Amounts receivable from clients at December 31, 2012 and 2011, consist of the following:

	<u>2012</u>	<u>2011</u>
Receivables from Clients	\$ 171,744	\$ 246,547
Allowance for Doubtful Accounts	<u>(3,921)</u>	<u>(4,020)</u>
Receivables from Clients, Net	<u>\$ 167,823</u>	<u>\$ 242,527</u>

Amounts receivable from and payable to brokers dealers and clearing organizations at December 31, 2012 and 2011, consist of the following:

	<u>2012</u>	<u>2011</u>
Securities Failed-to-Deliver	\$ 16,512	\$ 8,893
Receivables from Clearing Organization	<u>-</u>	<u>9,491</u>
Receivables from Brokers and Dealers	<u>\$ 16,512</u>	<u>\$ 18,384</u>

	<u>2012</u>	<u>2011</u>
Securities Failed-to-Receive	\$ 17,183	\$ 6,967
Payables to Clearing Organization	<u>31</u>	<u>68</u>
Payables to Brokers and Dealers	<u>\$ 17,214</u>	<u>\$ 7,035</u>

Amounts receivable from associates, including the related allowance for doubtful accounts at December 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Notes Receivable	\$ 103,109	\$ 101,759
Allowance for Doubtful Accounts	<u>(12,011)</u>	<u>(17,573)</u>
Notes Receivable, Net	<u>\$ 91,098</u>	<u>\$ 84,186</u>

Amounts receivable from and payable to affiliates at December 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Receivables from Affiliates <sup>(1)</sup>	\$ 18,466	\$ 14,651
Payables to Affiliates <sup>(2)</sup>	\$ (4,089)	\$ (6,103)

<sup>(1)</sup> Included within Receivables Other on the Consolidated Statements of Financial Condition

<sup>(2)</sup> Included within Accounts Payable, Accrued Expenses and Other Liabilities on the Consolidated Statements of Financial Condition

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

Furniture, Equipment, Leasehold Improvements, and Capital Leases as of December 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Furniture and Fixtures	\$ 37,761	\$ 38,877
Equipment	34,732	32,571
Software	24,711	23,989
Leasehold Improvements	54,086	55,073
Capital Leases	<u>4,984</u>	<u>5,300</u>
Total Fixed Assets	156,274	155,810
Less Accumulated Depreciation	(97,277)	(102,420)
Less Accumulated Amortization	<u>(3,901)</u>	<u>(3,207)</u>
Total Accumulated	<u>(101,178)</u>	<u>(105,627)</u>
Furniture, Equipment, Leasehold Improvements and Capital Leases, Net	<u>\$ 55,096</u>	<u>\$ 50,183</u>

(4) Goodwill and Intangible Assets

At December 31, 2012 and 2011 goodwill and intangible assets consist of the following:

	<u>Useful Life</u>	<u>2012</u>	<u>2011</u>
Finite Life Intangibles			
Client lists	5 -10 Years	\$ 10,561	\$ 10,561
Noncompete agreements	5 Years	<u>240</u>	<u>240</u>
		10,801	10,801
Accumulated Amortization			
Client lists		(10,187)	(9,962)
Noncompete agreements		<u>(229)</u>	<u>(182)</u>
		<u>(10,416)</u>	<u>(10,144)</u>
Net Finite Life Intangibles		385	657
Indefinite Life Intangibles			
Trade Names	N/A	<u>9,325</u>	<u>9,810</u>
Net Intangibles		9,710	10,467
Goodwill	N/A	<u>26,267</u>	<u>27,602</u>
		<u>\$ 35,977</u>	<u>\$ 38,069</u>

(5) Money Borrowed

(a) Bank Loans

At December 31, 2012, the Company had available a \$200,000 committed unsecured credit facility. The weighted average interest rate on the line of credit during the year was 1.46%. The line of credit expires on November 27, 2013. At December 31, 2012, there were no amounts outstanding on the available line of credit.

At December 31, 2011, the Company maintained a committed unsecured credit facility as well as several uncommitted unsecured lines of credit with various banks payable on demand. The aggregate lines of credit available were \$275,000. Lending under the uncommitted unsecured facilities was subject to the discretion of the bank involved. At December 31, 2011, \$50,000 was outstanding, which was subsequently repaid on January 3, 2012.

(b) Book Credit Balances in Bank Accounts

The Company has \$42,586 and \$37,350 at December 31, 2012 and 2011, respectively, 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 Consolidated Statements of Financial Condition.

(6) Fair Value of Financial Instruments

The following table summarizes the fair value of Financial Instruments as of December 31, 2012:

	2012			
	Level I	Level II	Level III	Total
<b>Securities Owned</b>				
U.S. Government and Agency Obligations	\$ -	\$ 124,960	\$ -	\$ 124,960
Municipal Bonds	-	204,419	-	204,419
Corporate Bonds	-	87,030	-	87,030
Collateralized Mortgage Obligations	-	89,335	-	89,335
Auction Rate Securities	-	-	2,909	2,909
Other Securities	61,581	-	7,653	69,234
<b>Total Securities Owned</b>	<b>\$ 61,581</b>	<b>\$ 505,744</b>	<b>\$ 10,562</b>	<b>\$ 577,887</b>
<b>Securities Owned by Baird Private Equity Partnerships</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 519,317</b>	<b>\$ 519,317</b>
<b>Securities Sold, Not Yet Purchased</b>				
U.S. Government and Agency Obligations	\$ -	\$ 5,893	\$ -	\$ 5,893
Corporate Bonds	-	1,376	-	1,376
Other Securities	12,877	-	-	12,877
<b>Total Securities Sold, Not Yet Purchased</b>	<b>\$ 12,877</b>	<b>\$ 7,269</b>	<b>\$ -</b>	<b>\$ 20,146</b>

The following table summarizes the fair value of Financial Instruments as of December 31, 2011:

	2011			
	Level I	Level II	Level III	Total
<b>Securities Owned</b>				
U.S. Government and Agency Obligations	\$ -	\$ 209,233	\$ -	\$ 209,233
Municipal Bonds	-	162,745	-	162,745
Corporate Bonds	-	4,491	55,189	59,680
Collateralized Mortgage Obligations	-	11,986	1,931	13,917
Auction Rate Securities	-	-	3,975	3,975
Other Securities	40,036	-	6,287	46,323
<b>Total Securities Owned</b>	<b>\$ 40,036</b>	<b>\$ 388,455</b>	<b>\$ 67,382</b>	<b>\$ 495,873</b>
<b>Securities Owned by Baird Private Equity Partnerships</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 403,605</b>	<b>\$ 403,605</b>
<b>Securities Sold, Not Yet Purchased</b>				
U.S. Government and Agency Obligations	\$ -	\$ 34,016	\$ -	\$ 34,016
Corporate Bonds	-	1,667	-	1,667
Other Securities	243	-	-	243
<b>Total Securities Sold, Not Yet Purchased</b>	<b>\$ 243</b>	<b>\$ 35,686</b>	<b>\$ -</b>	<b>\$ 35,929</b>

Other Securities consist principally of corporate stocks. The valuation of equity ownership in privately owned companies, the type of investment principally included in Securities Owned by Baird Private Equity Partnerships, requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and long-term nature of these assets. As a result, these values cannot be determined with precision and the calculated fair value estimates may not be realizable in a current sale or immediate settlement of the instruments.



The following table summarizes the change in fair values of Level III assets during 2012 and 2011:

	Corporate Bonds	Collateralized Mortgage Obligations	Auction Rate Securities	Other Securities	Securities Owned by Baird Private Equity Partnerships
Balance December 31, 2010	\$ 31,653	\$ 4,017	\$ 52,025	\$ 5,084	\$ 359,217
Purchases	2,510,234	3,416	-	2	109,924
Sales / Pay-downs	(2,494,731)	(1,483)	(48,050)	(43)	(135,886)
Realized Gains/(Losses)	11,369	(4,014)	-	(728)	71,154
Unrealized Gains/(Losses)	(3,336)	(5)	-	1,972	(804)
Balance December 31, 2011	55,189	1,931	3,975	6,287	403,605
Purchases	576	-	-	26	92,486
Sales / Pay-downs	(54,330)	(1,750)	(175)	(33)	(15,044)
Transfers out of Level III	(138)	(97)	-	-	-
Realized Gains/(Losses)	(1,297)	(84)	-	19	3,700
Unrealized Gains/(Losses)	-	-	(891)	1,354	34,570
Balance December 31, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,909</u>	<u>\$ 7,653</u>	<u>\$ 519,317</u>

Transfers out of Level III during the year ended December 31, 2012, includes certain corporate bonds and collateralized mortgage obligations, due to an increase in the availability and reliability of the observable inputs utilized in the fair value. There were no transfers between Level I and Level II during the years ended December 31, 2012 and 2011, respectively. The Company's policy is to use the beginning of each respective reporting period to determine when transfers of financial instruments between levels are recognized.

The following table summarizes quantitative information related to the significant unobservable inputs utilized in the fair value measurements of the Level III assets as of December 31, 2012:

	Fair Value	Valuation Technique	Unobservable Input(s)	Range (Weighted Average)
Auction Rate Securities	\$ 2,909	Recent trades	Trades in inactive markets of in-portfolio securities	67% of par - 100% of par (78% of par)
Other Securities	\$ 7,653	Discounted cash flow	Discount rate	14% - 16% (15%)
			Terminal multiple range	7.5 - 8.5 (8.0)
		Market comparable companies	EBITDA multiple	4.5 - 6.5 (5.5)
Securities Owned by Baird Private Equity Partnerships	\$ 519,317	Market comparable companies	EBITDA multiple	3.5 - 12 (7.4)
			Revenue multiple	0.5 - 2.9 (2.7)
		Precedent transactions	N/A	N/A

For auction rate securities the significant unobservable input used in the fair value measurement relates to judgments regarding whether the level of observable trading activity is sufficient to conclude the markets are active. Where insufficient levels of trading activity are determined to exist as of the reporting date, management's assessment of how much weight to apply to trading prices in inactive markets may vary, and significantly impact the fair value measurement of auction rate securities.

For other securities and securities owned by Baird Private Equity Partnerships, where the discounted cash flow method is used, a significant increase or decrease in the discount rate or terminal multiple range in isolation could result in a significantly lower or higher fair value measurement, respectively. Where the market comparable companies approach is used a significant increase or decrease in the EBITDA or revenue multiples in isolation could result in a significantly higher or lower fair value measurement, respectively.

(7) Net Capital Requirements

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

At December 31, 2012 and 2011, the Company's net capital percentage was 91% and 73%, respectively, of aggregate debit items, and net capital, as defined, was \$179,353 and \$192,115, respectively, which was \$175,396 and \$186,869, respectively, in excess of the required minimum amount. At December 31, 2012 and 2011 net capital after anticipated withdrawals as a percentage of aggregate debits was 80% and 72%, respectively.

(8) Subordinated Liabilities

In June 2011, the Company paid off \$100,000 of subordinated debt payable to BFC. This debt was replaced with a new subordinated debt agreement of \$45,000 payable to BFC.

In December 2011, the Company paid a dividend, financed principally through two subordinated notes payable to BFC totaling \$200,000, dated November 2011.

At December 31, 2012 and 2011, the Company had \$296,830 and \$293,369 of subordinated notes, including \$245,000 and \$245,000, respectively, payable to BFC, and \$51,830 and \$48,369, respectively, 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 at December 31, 2012 and 2011, respectively.

The following schedule discloses the major components of subordinated debt including repayment terms:

	<u>2012</u>	<u>2011</u>
Subordinated Note, variable interest rate (5.0%, plus 1 month LIBOR), due November 2016. Scheduled principal payments begin in February 2015.	\$ 120,000	\$ 120,000
Subordinated Note, variable interest rate (5.0%, plus 1 month LIBOR), due November 2014. Scheduled principal payments begin in February 2013.	80,000	80,000
Subordinated Note, variable interest rate (7.5%, plus 3 month LIBOR), due June 2016.	45,000	45,000
	<u>245,000</u>	<u>245,000</u>
Payable to Associates	51,830	48,369
	<u>\$ 296,830</u>	<u>\$ 293,369</u>

Subordinated Liabilities mature as follows at December 31, 2012:

2013	\$ 46,886
2014	49,191
2015	48,431
2016	131,569
2017	8,740
Thereafter	<u>12,013</u>
	<u>\$ 296,830</u>

To the extent that such notes are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid. At December 31, 2012 and 2011, 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.

(9) Income Taxes

(a) 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 statements 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's 2009 and 2010 Federal Income Tax Audit was completed during the year. It also files separate income tax returns in various states and local jurisdictions. The income tax returns for the years prior to 2008 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 are as follows:

	<u>2012</u>	<u>2011</u>
Deferred Tax Assets:		
Deferred Compensation Plans	\$ 17,838	\$ 12,311
Accrued Expenses	9,605	10,980
Other	542	758
	<u>27,985</u>	<u>24,049</u>
Deferred Tax Liabilities:		
Margin Debt	838	1,040
Goodwill and Intangibles	5,845	6,060
Equipment and Leasehold Improvements	9,016	7,775
Foreign Unremitted Earnings	941	1,067
Flow Through Investments	2,746	2,127*
Other	268	-
	<u>19,654</u>	<u>18,069</u>
Net Deferred Tax Asset	<u>\$ 8,331</u>	<u>\$ 5,980</u>

\*This amount was included within Other Deferred Tax Liabilities in 2011.

No valuation allowance is required as management believes it is more-likely-than-not that the deferred tax assets are realizable.

(10) Stockholders' Equity

During 2012 and 2011, 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, 2010	26,374,422	108,510
Sales of Common Stock	9,203	-
Exercise of Options	30,413	(123,283)
Conversion of Restricted Stock Units	-	(34,410)
Sales of Treasury Stock	-	(174,947)
Purchases of Treasury Stock	-	361,032
Balance, December 31, 2011	<u>26,414,038</u>	<u>136,902</u>
Sales of Common Stock	14,807	-
Exercise of Options	30,793	(138,902)
Conversion of Restricted Stock Units	41,936	(37,108)
Sales of Treasury Stock	-	(211,901)
Purchases of Treasury Stock	-	298,095
Balance, December 31, 2012	<u>26,501,574</u>	<u>47,086</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 2012 or 2011. The shares of the Company are subject to strict transfer restrictions.

On May 18, 2011 the Company adopted the Baird Shareholder Protection Plan ("BSPP"). The BSPP provides for certain contingent premium participation rights or share purchase rights to certain qualified former associate shareholders if there is a change in control as defined in the BSPP. The BSPP also requires a supermajority vote of the Company's Board of Directors and associate shareholders to approve any future sale of the Company. As a result, current associate shareholders may be diluted upon any future potential sale or initial public offering of the Company.

On December 2, 2011 the Company declared a dividend of \$7.50 per share of common stock. This dividend was paid to shareholders of record as of December 16, 2011. The total dividend paid to common shareholders was \$200,172.

(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 eligible participant annually. Employer profit sharing contributions are made annually at the discretion of the Company's Board of Directors.

(b) Non-Qualified Compensation

The Company has three non-qualified compensation plans, entitled the Baird Capital Participation Plan ("BCPP"), the Financial Advisors Deferred Compensation Plan ("FADCP") and the Baird Long Term Incentive Plan ("LTIP"). The BCPP no longer grants awards and all balances in the 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 Company has established an allowance for unvested award forfeitures. In determining the allowance, management considers the Company's historical forfeiture experience which involves the use of estimates. The actual amounts may be substantially higher or lower than the recorded amounts. Associates have the ability to allocate their 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 BFG 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 plan. The RSUs and shares issued on conversion of the RSUs are subject to strict transfer restrictions. In connection with the Exchange Offer, the company amended the plan to provide certain BCPP participants that own RSUs with the right to acquire shares of BFG common stock in place of RWB common stock.

A summary of the activity relating to the RSUs in 2012 and 2011 is as follows:

	<u>Shares</u>
Outstanding, December 31, 2010	279,168
Conversion to Common Stock	<u>(34,410)</u>
Outstanding, December 31, 2011	244,758
Conversion to Common Stock	<u>(79,044)</u>
Transferred to BFG	<u>(165,714)</u>
Outstanding, December 31, 2012	<u>-</u>

As of the date of the Exchange Offer, all remaining RSUs were transferred to BFG. There are no RSUs outstanding as of December 31, 2012.

(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 stock 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 stock option granted under the Incentive Plan shall generally be 10 years. The stock 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 stock options and shares issued upon exercise of the stock options are subject to strict transfer restrictions.

The Company did not grant stock options in 2012 or 2011.

Stock option activity during 2012 and 2011 was as follows:

	Baird Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding, December 31, 2010	313,020	17.63	2.3
Exercised	(289,520)	17.29	
Forfeited	(17,500)	21.38	
Outstanding, December 31, 2011	6,000	22.94	4.0
Exercised	(2,000)	22.94	
Forfeited	(4,000)	22.94	
Outstanding, December 31, 2012	<u>-</u>	-	
Exercisable at December 31, 2011	6,000	22.94	4.0
Exercisable at December 31, 2012	-	-	

Cash received from the exercise of stock options for the years ended December 31, 2012 and 2011 was \$46 and \$4,462, respectively. The tax benefit realized for the tax deductions from stock option exercises was \$27 and \$406 for the years ended December 31, 2012 and 2011, respectively, and is recorded in Additional Paid-In Capital on the Consolidated Statements of Financial Condition.



(12) Partnership Consolidation

The following table presents information about the carrying value of the assets, liabilities and equity of the partnerships which are consolidated and included within the Consolidated Statements of Financial Condition. The noncontrolling interests presented in this table represent the portion of net assets not owned by the Company.

	<u>2012</u>	<u>2011</u>
Assets:		
Cash Held by Baird Private Equity Partnerships	\$ 16,955	\$ 1,013
Receivables, Other	681	3,775
Intercompany Receivable	700	-
Securities Owned by Baird Private Equity Partnerships, at Fair Value	519,317	403,605
Other Assets	8,101	9,058
Total Assets	<u>\$ 545,754</u>	<u>\$ 417,451</u>
Liabilities and Partners' Equity:		
Accounts Payable, Accrued Expenses and Other Liabilities	\$ 17,340	\$ 8,718
Intercompany Payable	-	182
Total Liabilities	<u>17,340</u>	<u>8,900</u>
Partners' Equity Attributable to the Company	7,348	5,281
Partners' Equity Attributable to Noncontrolling Interests		
in Baird Private Equity Partnerships	<u>521,066</u>	<u>403,270</u>
Total Equity	528,414	408,551
Total Liabilities and Partners' Equity	<u>\$ 545,754</u>	<u>\$ 417,451</u>

Certain Baird Private Equity Partnerships are not consolidated pursuant to the accounting rules previously mentioned under the consolidation footnote. Net assets of the partnerships not consolidated were \$96 million and \$68 million at December 31, 2012 and 2011, respectively. These partnerships were determined to be Variable Interest Entities (VIEs) and the general partner (an affiliate) was determined not to be the primary beneficiary. The general partner ownership interest in these partnerships was 0.2% at December 31, 2012 and 2011.

The Company serves as a general partner or limited partner in various partnerships. The Company has committed a total of \$31,600, in amounts generally ranging from \$300 to \$18,500, in 10 different private equity partnerships. As of December 31, 2012, we have invested \$27,303 of committed amounts.

(13) Baird UK Ltd.

The Company reports the results of its investment in Baird UK Ltd. using the equity method of accounting. At December 31, 2012 and 2011, the Company's investment in Baird UK Ltd. was \$25,321 and \$21,652, respectively, and is included in Other Assets on the Consolidated Statements of Financial Condition.

(14) Commitments and Contingencies

(a) Leases

The Company occupies office space and leases equipment under cancelable and non-cancelable 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:

Calendar Year	Capital	Operating	Total
2013	795	24,084	24,879
2014	287	23,268	23,555
2015	118	20,902	21,020
2016	31	18,701	18,732
2017	-	11,054	11,054
Thereafter	-	36,177	36,177
	1,231	<u>\$ 134,186</u>	<u>\$ 135,417</u>
Less amounts representing interest	(51)		
Present value of minimum lease payments	<u>\$ 1,180</u>		

The capital lease obligation was \$1,180 and \$2,177 at December 31, 2012 and 2011, respectively, and is recorded in Accounts Payable, Accrued Expenses and Other Liabilities on the Consolidated Statements of Financial Condition.

(b) Letters of Credit

The Company has obtained letters of credit of \$25,000 as of December 31, 2012 and 2011, secured by client securities held in margin accounts. The Company utilized \$10,041 and \$13,921 to meet margin requirements of a clearing corporation as of December 31, 2012 and 2011, respectively.

(c) Other

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 December 31, 2012 and 2011 the estimated aggregate range of possible loss in excess of the reserve for these matters is from \$0 to an amount up to \$28 million and \$0 to an amount up to \$21 million, respectively.

In the normal course of business, the Company enters into underwriting commitments. Transactions relating to underwriting commitments that were open as of December 31, 2012 and 2011 were not material.

The Company is a member of numerous exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet these shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company's maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is recorded on the Consolidated Statements of Financial Condition for these arrangements.

(15) Transfers of Financial Assets

The Company receives and delivers collateral in connection with its broker and dealer activities. Under many agreements, the Company is permitted to repledge securities held as collateral. At December 31, 2012 and 2011 the fair value of securities accepted as collateral was \$902,229 and \$835,268, respectively.

(16) Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, the Company's client securities activities involve the execution, settlement and financing of various client securities transactions. These activities may expose the Company to off-balance sheet risk in the event 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 client to deposit additional collateral or to reduce security positions when necessary. Such collateral is not reflected in the accompanying Consolidated Statements of Financial Condition.

The Company enters into various transactions involving derivatives and other off-balance sheet financial instruments. These financial instruments include TBA mortgage-backed securities, as well as securities purchased and sold on a when-issued basis (when-issued securities). These financial instruments are used to meet the needs of customers, conduct trading activities, and manage market risks and are, therefore, subject to varying degrees of market and credit risk.

TBAs and when-issued securities provide for the delayed delivery of the underlying instrument. The contractual or notional amounts related to these financial instruments 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 credit risk for TBAs, options, and when-issued securities is limited to the unrealized fair valuation gains and losses recorded in the Consolidated Statements of Financial Condition. 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.

In addition, the Company has sold securities that it does not currently own (securities sold, not yet purchased) and will therefore be obligated to purchase such securities at a future date. The Company has recorded these obligations in the Consolidated Statements of Financial Condition at December 31, 2012 and 2011, at fair values of the related securities and will incur a loss if the fair value of the securities increases.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the Company executes and clears customer 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 customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks associated with its customer 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.

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. The Company did not have open futures or options positions as of December 31, 2012 and 2011.

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

(18) Subsequent Events

The Company evaluated its December 31, 2012 financial statements for subsequent events through February 22, 2013, the date that the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition of disclosure in the financial statements.