



CONSOLIDATED FINANCIAL STATEMENTS

Wunderlich Investment Company, Inc. and Subsidiaries
Years Ended June 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP



Wunderlich Investment Company, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended June 30, 2012 and 2011

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Report of Independent Auditors

The Board of Directors
Wunderlich Investment Company, Inc.

We have audited the accompanying consolidated statement of financial condition of Wunderlich Investment Company, Inc. and Subsidiaries, as of June 30, 2012 and 2011, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wunderlich Investment Company, Inc. and Subsidiaries at June 30, 2012 and 2011, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

February 15, 2013

Wunderlich Investment Company, Inc. and Subsidiaries

Consolidated Statements of Financial Condition

	June 30	
	2012	2011
Assets		
Cash and cash equivalents	\$ 4,964,305	\$ 7,351,027
Cash segregated under federal and other regulations	24,930	24,930
Securities owned, at estimated fair value	81,876,185	93,909,036
Securities purchased under agreement to resell, at estimated fair value	21,813,212	1,680,979
Receivable from clearing organizations	11,208,717	22,310,148
Prepaid expenses	1,569,446	1,484,790
Deferred expenses	8,572,991	9,592,368
Property and equipment, net of accumulated depreciation	2,840,516	3,354,040
Goodwill	2,603,422	2,603,422
Other assets	6,814,311	4,861,417
Prepaid federal and state taxes	32,944	-
Deferred taxes	1,086,132	-
	\$ 143,407,111	\$ 147,172,157
Liabilities and stockholders' equity		
Liabilities:		
Accounts payable and accrued expenses	\$ 6,110,521	\$ 3,255,546
Accrued compensation	6,378,445	8,825,611
Securities sold, not yet purchased, at estimated fair value	91,997,574	99,698,947
Payable to clearing organization	9,792,710	-
Notes payable to clearing organizations	1,750,500	2,350,000
Bank notes	1,669,353	1,076,568
Deferred taxes	1,292,965	570,323
Total liabilities	118,992,068	115,776,995
Stockholders' equity:		
Class A common stock: \$.001 par value; 10,000,000 shares authorized; 5,839,556 and 5,457,089 shares issued and outstanding at June 30, 2012 and 2011, respectively	5,840	5,457
Additional paid-in capital	38,693,326	34,219,254
Treasury stock	(77,220)	(77,220)
Retained deficit	(13,878,118)	(2,834,412)
Foreign currency translation adjustment	(56,493)	168,355
Non-controlling interest	(272,292)	(86,272)
Total stockholders' equity	24,415,043	31,395,162
Total liabilities and stockholders' equity	\$ 143,407,111	\$ 147,172,157

See accompanying notes.

Wunderlich Investment Company, Inc. and Subsidiaries

Consolidated Statements of Operations

	Year Ended June 30	
	2012	2011
Revenues:		
Commissions and trading gains	\$ 98,580,618	\$ 105,384,331
Interest and dividend income	1,010,260	2,502,333
Total revenues	99,590,878	107,886,664
Expenses:		
Employee compensation and benefits	81,151,722	79,776,311
Communications	7,940,192	6,094,950
Occupancy and equipment	7,354,181	5,444,884
Insurance	682,879	390,533
Professional fees	2,102,546	3,192,512
Brokerage and clearing costs	4,589,118	4,472,571
Interest expense	357,331	144,338
Other selling, general, and administrative expenses	6,816,777	5,988,480
Total expenses	110,994,746	105,504,579
Income (loss) before taxes	(11,403,868)	2,382,085
Tax benefit (expense)	174,142	(563,490)
Net income (loss)	(11,229,726)	1,818,595
Net (loss) attributable to non-controlling interest	(186,020)	(7,437)
Net income (loss) attributable to Wunderlich Investment Company, Inc.	\$ (11,043,706)	\$ 1,826,032

See accompanying notes.

Wunderlich Investment Company, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

	Class A Common Stock		Additional	Treasury	Accumulated	Foreign	Non-Controlling	Total
	Shares	Amount	Paid-in	Stock	Earnings	Currency	Interest	Stockholders'
			Capital		(Deficit)	Translation		Equity
						Adjustment		
Balance at July 1, 2010	4,576,943	\$ 4,568	\$ 23,773,945	\$ (77,220)	\$ (4,660,444)	\$ 202,812	\$ (78,835)	\$ 19,164,826
Net Income attributable to Wunderlich Investment Company, Inc.	-	-	-	-	1,826,032	-	-	1,826,032
Other comprehensive income (loss)								
Foreign currency translation adjustment	-	-	-	-	-	(34,457)	-	(34,457)
Comprehensive Income								1,791,575
Issuance of common stock	880,146	889	10,212,535	-	-	-	-	10,213,424
Stock-based compensation expense	-	-	232,774	-	-	-	-	232,774
Net loss attributable to non-controlling interest	-	-	-	-	-	-	(7,437)	(7,437)
Comprehensive loss attributable to non-controlling interest	-	-	-	-	-	-	-	(7,437)
Consolidated comprehensive income (loss)	-	-	-	-	-	-	-	1,784,138
Balance at June 30, 2011	5,457,089	5,457	34,219,254	(77,220)	(2,834,412)	168,355	(86,272)	31,395,162
Net Income attributable to Wunderlich Investment Company, Inc.					(11,043,706)			(11,043,706)
Other comprehensive income (loss)								
Foreign currency translation adjustment						(224,848)		(224,848)
Comprehensive Income								(11,268,554)
Issuance of common stock	285,638	286	2,528,277	-	-	-	-	2,528,563
Issuance of restricted common stock	96,829	97	1,313,954	-	-	-	-	1,314,051
Stock-based compensation expense	-	-	631,841	-	-	-	-	631,841
Net loss attributable to non-controlling interest	-	-	-	-	-	-	(186,020)	(186,020)
Comprehensive loss attributable to non-controlling interest	-	-	-	-	-	-	-	(186,020)
Consolidated comprehensive income (loss)	-	-	-	-	-	-	-	(11,454,574)
Balance at June 30, 2012	5,839,556	\$ 5,840	\$ 38,693,326	\$ (77,220)	\$ (13,878,118)	\$ (56,493)	\$ (272,292)	\$ 24,415,043

See accompanying notes.

Wunderlich Investment Company, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2012	2011
Operating activities		
Net income (loss) attributable to Wunderlich Investment Company, Inc.	\$ (11,043,706)	\$ 1,826,032
Reconciliation of net income (loss) attributable to Wunderlich Investment Company, Inc. to net cash used in operating activities:		
Depreciation and amortization	1,871,128	1,264,230
Unrealized loss on investments	615,243	-
Bad debt expense	324,072	-
Stock-based compensation	631,841	232,774
Net loss attributable to non-controlling interest	(186,020)	(7,437)
Changes in operating assets and liabilities:		
Net receivable from clearing organization	20,894,141	(3,444,372)
Prepaid expenses	(84,656)	(458,293)
Prepaid federal and state taxes	(32,943)	50,050
Deferred expenses	1,019,377	(7,207,974)
Securities owned	11,417,608	(32,302,313)
Securities purchased under agreement to resell	(20,132,233)	4,808,632
Other assets	(2,776,966)	(2,202,347)
Deferred taxes	(363,490)	692,629
Accrued compensation	(2,447,166)	4,046,941
Accounts payable and accrued expenses	2,854,975	23,162
Securities sold, not yet purchased	(7,701,373)	20,639,282
Total adjustments	5,903,538	(13,865,036)
Net cash used in operating activities	(5,140,168)	(12,039,004)
Investing activities		
Purchase of property and equipment	(926,931)	(2,449,747)
Proceeds from sale of fixed assets	-	2,927
Net cash used in investing activities	(926,931)	(2,446,820)

Wunderlich Investment Company, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (continued)

	Year Ended June 30	
	2012	2011
Financing activities		
Issuance of Class A common shares	\$ 3,842,612	\$ 10,213,424
Proceeds from notes payable	2,000,000	2,000,000
Principal payments on notes payable	(2,099,500)	(850,000)
Net cash provided by financing activities	<u>3,743,112</u>	<u>11,363,424</u>
Effect of exchange rate on cash	(62,735)	160,216
Net increase (decrease) in cash and cash equivalents	(2,386,722)	(2,962,184)
Cash and cash equivalents at beginning of year	7,351,027	10,313,211
Cash and cash equivalents at end of year	<u>\$ 4,964,305</u>	<u>\$ 7,351,027</u>
Supplemental disclosures		
Cash paid for interest	\$ 357,331	\$ 114,338
Cash paid during the year for income taxes	<u>\$ 286,363</u>	<u>\$ 73,026</u>

See accompanying notes.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2012

1. Summary of Significant Accounting Policies

Organization and Nature of Operations

Wunderlich Investment Company, Inc. and Subsidiaries (the Company) operates in the investment management business. The Company's primary subsidiary, Wunderlich Securities, Inc. is a securities broker-dealer providing financial advisory, trading and brokerage, equity research and investment banking services to individuals and institutional clients. The Company has 24 branch offices in 14 states and one branch office in Norway.

Basis of Consolidation

The consolidated financial statements include the accounts of Wunderlich Investment Company, Inc., a holding company, and its majority owned subsidiaries, Wunderlich Securities, Inc. (WSI), Wunderlich Capital Markets, Inc. (WCM), Wunderlich Acquisition Holdings, Inc., WS Partners AS, Wunderlich Norway AS, and Paragon Investor Relations Consulting, Inc. All intercompany accounts and transactions have been eliminated in consolidation. The non-controlling interest represents a separate private ownership of 27.8% in Wunderlich Norway AS.

Use of Estimates

The preparation of 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Capital Requirements

WSI, the Company's wholly owned subsidiary, is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1(a)(1)), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At June 30, 2012, WSI had net capital of \$6,513,842, which was \$5,595,530 in excess of its required net capital of \$918,312, and WSI's net capital ratio was 2.11 to 1. At June 30, 2011, WSI had net capital of \$12,184,640, which was \$11,255,652 in excess of its required net capital of \$928,988, and WSI's net capital ratio was 1.14 to 1.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Clearing Arrangement

All customer accounts, other than certain mutual funds and annuities, are carried with First Clearing, LLC (First Clearing), a member of the New York Stock Exchange, Ridge Clearing and Outsourcing (Ridge – through October 2010), a member of the New York Stock Exchange, National Financial Services LLC (NFS), a member of the New York Stock Exchange, MF Global (through October 2011), a member of the Chicago Board Options Exchange, and International Commerce Bank of China Financial Services LLC (ICBC). The Company's commissions are collected by First Clearing, Ridge (through October 2010), NFS, MF Global (through October 2011) and ICBC as the Company's clearing firms. The clearing firms remit the commissions, net of clearing charges, to the Company at least monthly.

Customer Transactions

The Company does not hold any securities in safekeeping for its clients.

Cash and Cash Equivalents

The Company maintains cash balances at creditworthy financial institutions in bank accounts that, at times, may exceed the \$250,000 insured limit set by the Federal Deposit Insurance Corporation. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

For purposes of the consolidated statement of cash flows, the Company considers all money market mutual funds and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Securities Transactions

Proprietary securities transactions in regular-way trades are recorded on the trade date, as if they had settled. Profit and loss arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade date basis. Customers' securities transactions are reported on a trade date basis with related commission income and expenses reported on a trade date basis.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the consolidated statement of financial condition.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Marketable securities are valued at market value, with unrealized gains and losses included in operations.

Deposits With Clearing Organization

The Company maintains a margin account with First Clearing, NFS, RBC, ICBC and MF Global (through October 2011). Depending on the Company's cash needs or the amount of securities inventory at the time, these accounts may represent excess cash on deposit or a margin loan payable.

Included in the net receivable from/payable to clearing organizations are clearing deposit accounts that the clearing companies require the Company to maintain with certain minimum balance in cash or cash equivalents. The deposits are maintained in separate interest bearing accounts. At June 30, 2012 and 2011, the balance in the clearing deposit account at First Clearing amounted to \$250,311 and \$114,929, respectively. At June 30, 2012 and 2011, the balance in the clearing deposit account at NFS amounted to \$500,000 and \$500,000, respectively. At June 30, 2012 and 2011, the balance in the clearing deposit account at MF Global amounted to \$0 and \$500,000, respectively. At June 30, 2012 and 2011, the balance in the clearing deposit account at RBC amounted to \$100,000 and \$100,000, respectively. At June 30, 2012 and 2011, the balance in the clearing deposit account at ICBC amounted to \$500,000 and \$0, respectively.

Property and Equipment

Property and equipment are recorded at cost. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to seven years.

Income Taxes

The Company accounts for income taxes under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company's deferred taxes primarily result from timing differences in the recognition of depreciation and net operating loss carry-forwards for financial reporting and tax reporting purposes.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The Company accounts for uncertain tax positions in accordance with the provisions of Income Taxes (ASC 740), which provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the consolidated financial statements. The guidance requires the evaluation of tax positions taken or expected to be taken by the Company to determine whether the tax positions are “more likely-than-not” of being sustained by the applicable tax authority upon examination. Tax positions not deemed to meet a “more likely-than-not” threshold would be recorded as tax expense, inclusive of interest and penalties, if any, on the consolidated statements of operations.

Goodwill

At least annually, the Company evaluates its goodwill balance, in accordance with ASC 350, *Intangibles – Goodwill and Other*, to determine if any impairment exists. The Company calculated the estimated fair value of its reporting unit and compared it to the carrying amount of its reporting unit. The Company’s evaluation indicated no impairment of goodwill existed in 2012 or 2011.

Investment Banking

Investment banking revenues include gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking revenues also include fees earned from providing merger and acquisition and financial restructuring advisory services. Investment banking management fees are recorded when earned, sales concessions on trade date, and underwriting fees at the time the underwriting is completed and the income is reasonably determinable.

Commissions

Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

Advertising Costs

All advertising costs are expensed as incurred. Advertising costs for the years ended June 30, 2012 and 2011 was \$31,615 and \$40,712, respectively, and are included in Other Selling, General, and Administrative expenses on the Consolidated Statement of Operations.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Reverse Repurchase Agreements and Repurchase Agreements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) generally are collateralized by security interests in all of the purchased securities of each transaction and are carried at the amounts at which the securities will be subsequently resold or repurchased. Interest is accrued on repurchase or resale contract amounts and is included in other assets or other liabilities on the consolidated statements of financial condition and the respective interest balances on the consolidated statements of operations. Repurchase and reverse repurchase transactions are presented on a net-by-counterparty basis when the requirements of ASC 210-20, *Offsetting*, are satisfied.

Recently Adopted Accounting Standards

In June 2011, the FASB issued an amendment to the Comprehensive Income topic of the ASC. This amendment eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareowners' equity and requires entities to present the components of comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued an amendment to the Comprehensive Income topic of the ASC. This amendment deferred the requirement to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income while the FASB deliberates this aspect of the proposal. The amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance, as amended, is effective for interim and annual periods beginning after Dec. 15, 2011, and will be effective for the Company for the fiscal year beginning July 1, 2012.

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 amends FASB Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, and results in common fair value measurement and disclosure requirements under U.S. GAAP and IFRSs. The amended guidance is effective for annual periods beginning after December 15, 2011, and will be effective for the Company for the fiscal year beginning July 1, 2012. The Company is currently evaluating the impact of the guidance to the consolidated financial statements.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

In December 2011, the FASB issued Update No. 2011-11, *Disclosures About Offsetting Assets and Liabilities*, which enhance disclosures by requiring improved information about financial and derivative instruments that are either 1) offset (netting assets and liabilities) in accordance with Topic 210, *Balance Sheet*, and Topic 815, *Derivatives and Hedging*, or 2) subject to an enforceable master netting arrangement or similar agreement. This guidance is effective for interim and annual reporting periods beginning on or after January 1, 2013 (July 1, 2013 for the Company), and requires retrospective disclosures for comparative periods presented. The Company is currently evaluating the impact the new guidance will have on its consolidated financial statements.

In April 2011, the FASB issued Update No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*, which removes the requirement to consider whether sufficient collateral is held when determining whether to account for repurchase agreements and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity as sales or as secured financings. This guidance is effective for interim and annual reporting periods beginning on or after December 15, 2011 (July 1, 2012 for the Company). The Company is currently evaluating the impact the new guidance will have on its consolidated financial statements.

In September 2011, the FASB issued Update No. 2011-08, *Testing Goodwill for Impairment*, which amends Topic 350, *Intangibles – Goodwill and Other*. This update permits entities to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit. This update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (July 1, 2012 for the Company), with early adoption permitted. The Company is currently evaluating the impact the new guidance will have on its goodwill impairment analysis.

2. Fair Value Measurement

The fair value hierarchy prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurement (continued)

liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income, or cost approach, as specified by ASC 820, are used to measure fair value.

The measurement of fair value is based upon a hierarchy that gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). The Company's investments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy, and its applicability to the Company's investments, are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date of identical, unrestricted assets.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. The nature of these financial instruments includes instruments for which quoted prices are available but traded less frequently.

Level 3 – Pricing inputs are unobservable for the asset, and reflect management's own assumptions to determine fair value.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurement (continued)

The following table is a summary of the levels used, as of June 30, 2012, in valuing the Company's assets and liabilities carried at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
Assets				
Securities owned:				
U.S. government securities	\$ 67,030,124	\$ –	\$ –	\$ 67,030,124
U.S. government agency securities	–	12,954,688	–	12,954,688
State and Local securities	–	1,276,395	–	1,276,395
Corporate securities:				
Fixed income securities	–	189,362	–	189,362
Equity securities	425,616	–	–	425,616
	\$ 67,455,740	\$ 14,420,445	\$ –	\$ 81,876,185
Liabilities				
Securities sold, not yet purchased:				
U.S. government securities	\$ 71,981,111	\$ –	\$ –	\$ 71,981,111
U.S. government agency securities	–	19,619,262	–	19,619,262
State and Local securities	–	38,901	–	38,901
Corporate securities:				
Fixed income securities	–	334,083	–	334,083
Equity securities	24,217	–	–	24,217
	\$ 72,005,328	\$ 19,992,246	\$ –	\$ 91,997,574

The following table is a summary of the levels used, as of June 30, 2011, in valuing the Company's assets and liabilities carried at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
Assets				
Securities owned:				
U.S. government securities	\$ 57,494,759	\$ –	\$ –	\$ 57,494,759
U.S. government agency securities	–	32,275,387	–	32,275,387
State and Local securities	–	780,243	–	780,243
Corporate securities:				
Fixed income securities	–	199,928	–	199,928
Equity securities	1,119,512	–	–	1,119,512
Non-U.S. Corporate Securities	–	2,039,066	–	2,039,066
Futures	141	–	–	141
	\$ 58,614,412	\$ 35,294,624	\$ –	\$ 93,909,036

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurement (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Liabilities				
Securities sold, not yet purchased:				
U.S. government securities	\$ 64,636,495	\$ –	\$ –	\$ 64,636,495
U.S. government agency securities	–	34,975,545	–	34,975,545
State and Local securities	–	43,284	–	43,284
Corporate securities:				
Fixed income securities	1,006	–	–	1,006
Equity securities	1,054	–	–	1,054
Futures	41,563	–	–	41,563
	<u>\$ 64,680,118</u>	<u>\$ 35,018,829</u>	<u>\$ –</u>	<u>\$ 99,698,947</u>

Transfers Between Level 1 and Level 2 During the Year Ended June 30, 2012

For assets and liabilities that were transferred between Level 1 and Level 2, fair values are ascribed as if the assets or liabilities had been transferred as of July 1, 2011.

During the fiscal year ending June 30, 2012, the Company reclassified \$14,420,445 in assets comprised of U.S. Government Agency and Municipal debt and \$19,992,246 of liabilities comprised of U.S. Government Agency and Municipal debt from Level 1 to Level 2. The reclassification was made upon further evaluation that determined that agency and municipal debt securities do not meet Level 1 requirements since they are not traded as frequently or in an active market that is accessible as of the measurement date.

3. Property and Equipment

Property and equipment and the related accumulated depreciation consists of the following at June 30:

	<u>2012</u>	<u>2011</u>
Office furniture and equipment	\$ 6,358,103	\$ 5,640,356
Leasehold improvements	947,877	738,695
	<u>7,305,980</u>	<u>6,379,051</u>
Less accumulated depreciation	<u>(4,465,464)</u>	<u>(3,025,011)</u>
	<u>\$ 2,840,516</u>	<u>\$ 3,354,040</u>

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Property and Equipment (continued)

Depreciation expense for the years ended June 30, 2012 and 2011, was \$1,440,453 and \$1,197,939, respectively.

4. Deferred Expense

Wunderlich Securities, Inc. has entered into employment agreements with certain employees. Wunderlich Securities, Inc. advanced amounts to the employees in return for the employees' commitment to be employed for a specified period. The agreements call for Wunderlich Securities, Inc. to forgive these advances over the employment periods which range from 30 to 72 months. The advances are expensed ratably over the term of the agreements. Total expense for the years ended June 30, 2012 and 2011, was \$3,743,484 and \$2,149,250, respectively, and was included in employee compensation and benefits.

5. Income Taxes

The provision for income taxes consisted of the following for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Current:		
Federal	\$ –	\$ –
State	104,875	37,149
	<u>104,875</u>	<u>37,149</u>
Deferred:		
Federal	(281,140)	381,136
State	2,123	145,205
	<u>(279,017)</u>	<u>526,341</u>
Total tax expense (benefit)	<u>\$ (174,142)</u>	<u>\$ 563,490</u>

The provision for income taxes differs from the amount computed using the statutory federal income tax rate of 34% to income before income taxes, primarily due to state income taxes, the effect of permanent difference related to meals and entertainment expenses and the effect of changes in valuation allowances.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Income Taxes (continued)

Deferred income taxes reflect net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant temporary differences relate to compensation accruals, net operating loss carryforwards, depreciation and amortization of intangible assets.

	<u>2012</u>	<u>2011</u>
Deferred tax assets	\$ 5,287,731	\$ 270,078
Deferred tax liabilities	(1,426,177)	(840,401)
Valuation allowance	(4,068,387)	—
Net deferred tax asset (liability)	<u>\$ (206,833)</u>	<u>\$ (570,323)</u>

In accordance with ASC 740, due to the Company's cumulative loss position, management recorded a valuation allowance for the total amount of its net deferred tax asset.

As of June 30, 2012, the Company had net operating loss carryforwards for federal, state and Norwegian tax purposes of \$7,518,587, \$10,540,979 and \$2,165,456, respectively. These carryforwards expire between June 30, 2016 and June 30, 2032; the Norwegian based NOLs do not expire.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Debt

The Company's debt obligations consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Notes Payable		
Subordinated note payable to a clearing organization in the amount of \$1,000,000, annual interest payment at the prime rate plus .25%, currently 3.5%, annual principal payments of \$200,000 plus accrued interest. The note was paid in full on August 30, 2011.	\$ —	\$ 200,000
Subordinated note payable to a clearing organization in the amount of \$750,000, annual interest payment at the prime rate plus .25%, currently 3.5%; annual principal payments of \$150,000 plus accrued interest. The note was paid in full on May 31, 2012	—	150,000
Subordinated note payable to a clearing organization in the amount of \$1,500,000, annual interest payment at the prime rate plus .25%, currently 3.5%; seven annual principal payments of \$214,286 plus accrued interest due beginning on September 30, 2012	1,500,000	—
Subordinated note payable to a clearing organization in the amount of \$2,000,000, back-end interest payment of 4.5%, initial principal payment of \$1,081,500 on October 29, 2011, and monthly payments of \$83,500 due November 2011 – September 2012	250,500	2,000,000
	1,750,500	2,350,000
Bank Notes		
Line of credit due to a commercial bank; up to \$500,000 interest payable monthly at the prime rate, currently 3.25%; due November 3, 2012	500,000	—
Term loan due to a Norwegian commercial bank; \$1,169,353, interest payable quarterly at the 3 month LIBOR rate + 300 BPS, due in equal installments on December 31, 2012 and August 19, 2014	1,169,353	1,076,568
	\$ 1,669,353	\$ 1,076,568

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Debt (continued)

At June 30, 2012, future maturities of debt are as follows:

2013	\$ 1,049,462
2014	214,286
2015	798,962
2016	214,286
2017	214,286
Thereafter	428,571
	<u>\$ 2,919,853</u>

7. Stock-Based Compensation

The Company has established an incentive stock option plan, Wunderlich Securities, Inc. 2000 Long-Term Incentive and Compensation Plan (the Plan). The purpose of the Plan is to promote the Company's long-term growth and profitability by providing the Company's employees with incentives to improve stockholder value. The Plan permits the granting of stock options on up to 550,000 shares of common stock of Wunderlich Investment Company, Inc. Total stock options expense for the years ended June 30, 2012 and 2011, was \$494,259 and \$232,774, respectively, and was included in employee compensation and benefits. There were no options exercised during the years ended June 30, 2012 and 2011.

The options are granted at an exercise price equal to the estimated fair value and employees vest over a three-year period beginning in the third year after the grant. The options expire six and half years after their issuance. Options currently outstanding expire in 2017 and are valued using the Black-Sholes model. Additional information with respect to the Company's outstanding stock options is set forth below:

	Weighted- Average Price	Number
Options outstanding at beginning of year	\$ 8.86	260,193
Expired	-	-
Terminated	10.51	(26,683)
Vested and exercised	-	-
Granted	14.40	153,000
Options outstanding at end of year	<u>\$ 10.94</u>	<u>386,510</u>

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Stock-Based Compensation (continued)

The Company has issued 96,829 shares of restricted stock during the fiscal year ending June 30, 2012. The restricted stock awards generally vest between 5 and 6 years. The aggregate value of the restricted stock awards is recognized as an expense over the applicable vesting period. Total restricted stock expense for the years ended June 30, 2012 and 2011, was \$137,583 and \$0, respectively. The number of restricted stock awards outstanding and the weighted-average grant-date fair value at June 30, 2012 was 96,829 and \$13.50. There were no outstanding restricted stock awards for the fiscal year ending June 30, 2011.

8. Profit-Sharing Plan

The Company has a 401(k) profit-sharing plan for all non-Norway based full-time employees. The 401(k) plan provides for voluntary contributions to the plan. The Company matches fifty percent of employee's contributions up to four percent of employee's eligible compensation. The Company's match for the years ended June 30, 2012 and 2011, was \$423,484 and \$359,217, respectively. In addition to this match, the Company may make discretionary profit sharing contributions to this plan. However, for the years ended June 30, 2012 and 2011, no such contributions were made. Employees become fully vested in employer contributions after three years of service.

The Company has a Wealth Accumulation Plan (WAP) as a result of the addition of five branches during the fiscal year ending June 30, 2011. The WAP does not allow for voluntary contributions or matching contributions to the plan. Employees become fully vested in the balances rolled over from the legacy plan five years from the original contribution date.

The Company has a pension plan for all of its Norway based full-time employees. The plan, which is required under Norwegian law, is funded entirely by the Company and has both defined benefit and defined contribution components to it. The Company's pension plan (income) expense for the years ended June 30, 2012 and 2011 was \$29,967 and \$(142,899), respectively. The liability associated with the pension plan as of June 30, 2012 and 2011 was \$0 and \$293,428, respectively.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Commitments and Contingencies

At June 30, 2012, the Company was obligated under various leases for office space and equipment. The future minimum lease payments as of June 30 are as follows:

2013	\$ 3,112,375
2014	2,605,888
2015	1,717,978
2016	1,491,158
Thereafter	1,203,022
	<u>\$ 10,130,421</u>

Rent expense for the years ending June 30, 2012 and 2011, was approximately \$4,084,665 and \$3,394,292, respectively.

As part of its building leases, the Company obtained multiple letters of credit from banks during the year ended June 30, 2012, in the amounts of \$27,000 for its Chicago building lease and \$72,270 and \$187,374 for its New York City building leases. During the period ended June 30, 2011, the letter of credit amounts for the Chicago and New York leases totaled \$173,000; \$72,270 and \$187,374, respectively.

Legal Matters

The Company is involved in various legal matters arising in the ordinary course of business; however, management does not believe that any ongoing litigation will materially affect the consolidated financial statements.

10. Reverse Repurchase and Repurchase Agreements

The Company enters into repurchase agreements with the obligation to repurchase the securities sold reflected as a liability in the Consolidated Statement of Financial Condition. These agreements carry risks of changes in fair value similar to securities held in the Company's inventory. The Company also enters into reverse repurchase agreements. The amounts advanced under these agreements represent short-term loans and are reflected as a receivable in the Consolidated Statement of Financial Condition. Securities purchased under agreements to resell are held in safekeeping in the Company's name. Should the market value of the underlying securities decrease below the amount recorded, the counterparty is required to place an equivalent amount of additional securities in safekeeping in the name of the Company.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Reverse Repurchase and Repurchase Agreements (continued)

The Company minimizes credit risk associated with these activities by monitoring credit exposure and collateral values on a daily basis and may require additional collateral to be deposited or returned when deemed appropriate. The Company had one counterparty in each fiscal year, ICBC during the current year and MF Global during 2011 (through October 2011), with which \$98,084,605 and \$92,360,416 of reverse repurchase agreements were outstanding at June 30, 2012 and 2011, respectively. The Company had \$76,271,393 and \$90,679,437 of repurchase agreements outstanding at June 30, 2012 and 2011, respectively. The amounts have been reported net on the Consolidated Statements of Financial Condition in accordance with ASC 210-20. All repurchase and reverse repurchase agreements have maturities of less than 30 days.

11. Counterparty Credit Risk

In the ordinary course of business, the Company may be subject to a concentration of credit risk to a particular counterparty, borrower or issuer, including sovereign issuers, or to a particular clearing firm or exchange.

Credit concentrations may arise from market making, client facilitation, investing, underwriting, lending and collateralized transactions and may be impacted by changes in economic, industry or political factors. The firm seeks to mitigate credit risk by actively monitoring exposures and obtaining collateral from counterparties as deemed appropriate.

12. Related Parties

In 2012 and 2011, the Company paid COIL, the majority shareholder of the Company, for consulting services related to running the overall business. For the years ended June 30, 2012 and 2011, the Company expensed consulting fees to COIL of \$510,305 and \$558,432, respectively, and is included in Professional fees on the Consolidated Statements of Operations. As of June 30, 2012 and 2011, the amount payable to COIL for consulting fees was \$443,780 and \$416,612, respectively, and is included in accrued expenses on the Consolidated Statements of Financial Condition.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Related Parties (continued)

Members of senior management of the Company are closely related to certain members of senior management at Financial Federal Savings Bank. The Company has a line of credit from Financial Federal Savings Bank in the amount of \$500,000. The details of the line of credit can be found in footnote 6, above. Interest expense related to the line of credit with Financial Federal Savings Bank during the years ending June 30, 2012 and 2011 were \$17,085 and \$20,911, respectively. As of June 30, 2012 and 2011, the Company owed interest to Financial Federal Savings Bank in the amount of \$1,976 and \$135, respectively.

13. Subsequent Events

The Company has analyzed subsequent events through February 15, 2013, the date the financials were available to be issued. Based on the evaluation, the Company identified the following as subsequent events:

On January 22, 2013, the Company and Delta Environmental Investment, LLC (DEI) entered into a settlement agreement in connection with DEI's purchase of stock issued by Eaton-Moery Environmental Services, Inc. via a Regulation D private placement. The Company has agreed to pay \$300,000 on or before February 28, 2013 in exchange for a full and final release of all claims and a dismissal with prejudice of their lawsuit. The amount has been recognized and is included in Other Selling, General, and Administrative expenses on the Consolidated Statement of Operations.

In February 2013, the Company's subsidiaries Wunderlich Acquisition Holdings Inc. (WAH) and WS Partners AS (WSP) entered into an agreement with Agasti Capital Markets AS to sell all of Wunderlich Securities AS for \$2,049,186 in addition to an "earn out" on the production of Wunderlich Securities AS. The sale was used to repay the outstanding loans held by WAH and WSP, with all excess amounts being retained, currently, in the bank accounts of the respective sellers. As of the date that the financial statements were available to be issued, management of the Company was unable to estimate the financial effect of the transaction.

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