



CONSOLIDATED FINANCIAL STATEMENTS

Wunderlich Investment Company, Inc. and Subsidiaries
Years Ended June 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP



Wunderlich Investment Company, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended June 30, 2011 and 2010

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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, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders' 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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 as of June 30, 2011 and 2010, 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

November 18, 2011

Wunderlich Investment Company, Inc. and Subsidiaries

Consolidated Statements of Financial Condition

	June 30	
	2011	2010
Assets		
Cash and cash equivalents	\$ 7,351,027	\$ 10,313,211
Cash segregated under federal and other regulations	24,930	24,930
Securities owned, at estimated fair value	93,909,036	61,606,724
Securities purchased under agreement to resell	1,680,979	6,489,611
Receivable from clearing organization	22,310,148	18,865,776
Prepaid expenses	1,484,790	1,032,365
Deferred expenses	9,592,368	2,384,394
Property and equipment, net of accumulated depreciation	3,354,040	2,111,639
Goodwill	2,603,422	2,603,422
Other assets	4,861,417	2,522,370
Prepaid federal and state taxes	-	15,627
	<u>\$ 147,172,157</u>	<u>\$ 107,970,069</u>
Liabilities and stockholders' equity		
Liabilities:		
Accrued compensation	\$ 8,825,611	\$ 4,931,253
Accounts payable and accrued expenses	3,255,546	2,537,757
Securities sold, not yet purchased, at market value	99,698,947	79,059,665
Notes payable	2,350,000	700,000
Bank notes	1,076,568	1,576,568
Deferred taxes	570,323	-
Total liabilities	<u>115,776,995</u>	<u>88,805,243</u>
Stockholders' equity:		
Class A common stock: \$.001 par value; 10,000,000 shares authorized; 5,457,089 and 4,576,943 shares issued and outstanding at June 30, 2011 and 2010, respectively	5,457	4,568
Additional paid-in capital	34,219,254	23,773,945
Treasury stock	(77,220)	(77,220)
Accumulated deficit	(2,834,412)	(4,660,444)
Foreign currency translation adjustment	168,355	202,812
Non-controlling interest	(86,272)	(78,835)
Total stockholders' equity	<u>31,395,162</u>	<u>19,164,826</u>
Total liabilities and stockholders' equity	<u>\$ 147,172,157</u>	<u>\$ 107,970,069</u>

See accompanying notes.

Wunderlich Investment Company, Inc. and Subsidiaries

Consolidated Statements of Operations

	Year Ended June 30	
	2011	2010
Revenues:		
Commissions and trading gains	\$ 105,384,331	\$ 67,270,570
Interest and dividend income	2,502,333	534,036
Total revenues	107,886,664	67,804,606
Expenses:		
Employee compensation and benefits	79,776,311	52,747,800
Communications	6,094,950	3,818,934
Occupancy and equipment	5,444,884	4,031,943
Insurance	390,533	268,982
Professional fees	3,192,512	1,777,219
Brokerage and clearing costs	4,472,571	3,949,778
Interest expense	144,338	208,622
Other selling, general, and administrative expenses	5,988,480	3,720,040
Total expenses	105,504,579	70,523,318
Income (loss) before taxes	2,382,085	(2,718,712)
Tax expense	(563,490)	(355,019)
Net income (loss)	1,818,595	(3,073,731)
Net income (loss) attributable to non-controlling interest	(7,437)	(185,055)
Net income (loss) attributable to Wunderlich Investment Company, Inc.	\$ 1,826,032	\$ (2,888,676)

See accompanying notes.

Wunderlich Investment Company, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

	Class A Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Earnings (Deficit)	Foreign Currency Translation Adjustment	Non-Controlling Interest	Total Stockholders' Equity
	Shares	Amount						
Balance at July 1, 2009	4,003,015	\$ 4,003	\$ 18,641,555	\$ -	\$ (1,771,768)	\$ -	\$ -	\$ 16,873,790
Net loss attributable to Wunderlich Investment Company, Inc.	-	-	-	-	(2,888,676)	-	-	(2,888,676)
Other comprehensive income (loss)								
Foreign currency translation adjustment	-	-	-	-	-	202,812	-	202,812
Comprehensive loss								(2,685,864)
Issuance of common stock	573,928	565	5,021,304	-	-	-	-	5,021,869
Purchase of treasury stock	-	-	-	(77,220)	-	-	-	(77,220)
Stock-based compensation expense	-	-	111,086	-	-	-	-	111,086
Sale of non-controlling interest	-	-	-	-	-	-	66,143	66,143
Net loss attributable to non-controlling interest	-	-	-	-	-	-	(185,055)	(185,055)
Other comprehensive income (loss) attributable to non-controlling interest:								
Foreign currency translation adjustment attributable to non-controlling interest	-	-	-	-	-	-	40,077	40,077
Comprehensive loss attributable to non-controlling interest								(144,978)
Consolidated comprehensive loss								(2,830,842)
Balance at June 30, 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

See accompanying notes.

Wunderlich Investment Company, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2011	2010
Operating activities		
Net income (loss) attributable to Wunderlich Investment Company, Inc.	\$ 1,826,032	(2,888,676)
Reconciliation of net income (loss) attributable to Wunderlich Investment Company, Inc. to net cash used in operating activities:		
Depreciation and amortization	1,264,230	848,629
Unrealized loss on investments	–	96,834
Loss on sale of fixed assets	–	4,479
Stock-based compensation	232,774	111,086
Net loss attributable to non-controlling interest	(7,437)	(185,055)
Changes in operating assets and liabilities:		
Receivable from clearing organization	(3,444,372)	(15,974,315)
Prepaid expenses	(458,293)	(452,715)
Prepaid federal and state taxes	50,050	59,971
Deferred expenses	(7,207,974)	354,909
Securities owned	(32,302,313)	(61,092,344)
Securities purchased under agreement to resell	4,808,632	(6,489,611)
Other assets	(2,202,347)	(237,818)
Deferred taxes	692,629	1,120,180
Accrued compensation	4,046,941	1,203,646
Accounts payable and accrued expenses	23,162	1,098,285
Securities sold, not yet purchased	20,639,282	79,050,615
Total adjustments	(13,865,036)	(483,224)
Net cash used in operating activities	(12,039,004)	(3,371,900)
Investing activities		
Purchase of property and equipment	(2,449,747)	(990,239)
Proceeds from sale of fixed assets	2,927	6,998
Acquisition of a business, net of cash acquired	–	115,464
Net cash used in investing activities	(2,446,820)	(867,777)

Continued on next page.

Wunderlich Investment Company, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (continued)

	Year Ended June 30	
	2011	2010
Financing activities		
Issuance of Class A common shares	\$ 10,213,424	\$ 5,021,869
Sale of non-controlling interest	–	66,143
Proceeds from notes payable	2,000,000	1,076,568
Principal payments on notes payable	(850,000)	(350,000)
Purchase of common stock	–	(77,220)
Net cash provided by financing activities	<u>11,363,424</u>	<u>5,737,360</u>
Effect of exchange rate on cash	160,216	85,163
Net increase (decrease) in cash and cash equivalents	(2,962,184)	1,582,846
Cash and cash equivalents at beginning of year	10,313,211	8,730,365
Cash and cash equivalents at end of year	<u>\$ 7,351,027</u>	<u>\$ 10,313,211</u>
Supplemental disclosures		
Cash paid for interest	\$ 114,338	\$ 86,500
Cash paid during the year for income taxes	<u>\$ –</u>	<u>\$ 24,590</u>

See accompanying notes.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2011

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 two branch offices 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 16.5% in Wunderlich Norway AS.

Use of Estimates

The preparation of 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 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, 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. At June 30, 2010, WSI had net capital of \$7,071,828, which was \$6,530,941 in excess of its required net capital of \$540,887, and the WSI's net capital ratio was 1.15 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), National Financial Services LLC (NFS), a member of the New York Stock Exchange, RBC Capital Markets Corporation (RBC), a member of the New York Stock Exchange and MF Global, Inc. (MF Global), a member of the Chicago Board Options Exchange. The Company's commissions are collected by First Clearing, Ridge, NFS, RBC and MF Global 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 several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000.

For purposes of the 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 statement of financial condition.

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

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Deposits With Clearing Organization

The Company maintains a margin account with First Clearing, NFS and MF Global. 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 receivable from 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, 2011 and 2010, the balance in the clearing deposit account at First Clearing amounted to \$114,929 and \$114,754, respectively. At June 30, 2011 and 2010, the balances in the clearing deposit account at Ridge amounted to \$0 and \$252,364, respectively. At June 30, 2011 and 2010, the balance in the clearing deposit account at NFS amounted to \$500,000 and \$0, respectively. At June 30, 2011 and 2010, the balance in the clearing deposit account at MF Global amounted to \$500,000 and \$700,000, 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.

The Company accounts for uncertain tax positions in accordance with Accounting Standards Codification 740, *Accounting for Uncertainty in Income Taxes* (ASC 740). ASC 740 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.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 statements of operations.

Goodwill

At least annually, the Company evaluated 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 testwork indicated no impairment of goodwill existed in 2011 or 2010.

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, 2011 and 2010, was \$40,712 and \$32,830, respectively.

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

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

repurchase or resale contract amounts and is included in other assets or other liabilities on the statement of financial condition and the respective interest balances on the statements of operations. Repurchase and reverse repurchase transactions are presented on a net-by-counterparty basis when the requirements of ASC 210-20, *Offsetting*, formally FIN 41, are satisfied.

Recently Adopted Accounting Standards

On January 21, 2010, the FASB issued Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amended FASB Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, to require additional disclosures regarding fair value measurements. The amended guidance requires entities to disclose additional information regarding assets and liabilities that are transferred between levels of the fair value hierarchy. Entities are also required to disclose information in the Level 3 rollforward about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, ASU 2010-06 also amends Topic 820 to further clarify existing guidance pertaining to the level of disaggregation at which fair value disclosures should be made and the requirements to disclose information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. The Company adopted the guidance in ASU 2010-06 on July 1, 2010, and the adoption did not have material impact on the financial statements.

In May 2011, the 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 on July 1, 2012. The Company is currently evaluating the impact of the guidance to the financial statements.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurement

ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which 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 liability or, in the absence of 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 fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the company has the Company has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumption about the assumptions that market participants would use in pricing the asset or liability. (The observable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.)

As classified in the hierarchy defined in ASC 820, all investments held by the Company would be considered Level 1, as their fair market values are determined using unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Securities owned are carried at estimated fair value and consists of the following as of June 30:

	<u>2011</u>	<u>2010</u>
U.S. governmental obligations	\$ 91,809,204	\$ 59,575,940
State and local government obligations	780,243	751,876
Corporate securities	1,319,589	1,278,908
	<u>\$ 93,909,036</u>	<u>\$ 61,606,724</u>

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Fair Value Measurement (continued)

Securities sold, not yet purchased are carried at estimated fair value and consists of the following as of June 30:

	<u>2011</u>	<u>2010</u>
U.S. governmental obligations	\$ 99,612,040	\$ 77,179,251
State and local government obligations	43,284	1,864,930
Corporate securities	43,623	15,484
	<u>\$ 99,698,947</u>	<u>\$ 79,059,665</u>

3. Acquisitions

On August 19, 2009, the company purchased SSB Securities ASA from the Norwegian based bank Sandnes Sparebank. SSB Securities ASA, subsequently renamed Wunderlich Securities AS, is a Norwegian company registered as a broker dealer providing brokerage and corporate finance services within the Nordic market. The Company paid \$1,454,649 for its 100% stake in the company. The total estimated fair value of the assets acquired and liabilities assumed was \$1,901,693 and \$447,044, respectively.

4. Property and Equipment

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

	<u>2011</u>	<u>2010</u>
Office furniture and equipment	\$ 5,640,356	\$ 3,361,523
Leasehold improvements	738,695	573,752
	<u>6,379,051</u>	<u>3,935,275</u>
Less accumulated depreciation	<u>(3,025,011)</u>	<u>(1,823,636)</u>
	<u>\$ 3,354,040</u>	<u>\$ 2,111,639</u>

Depreciation expense for the years ended June 30, 2011 and 2010, was \$1,197,938 and \$712,229, respectively.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. 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, 2011 and 2010, was \$2,149,250 and \$410,001, respectively, and was included in employee compensation and benefits.

7. Income Taxes

The provision for income taxes consisted of the following for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Current:		
Federal	\$ –	\$ 45,234
State	<u>(37,149)</u>	<u>1,477</u>
	<u>(37,149)</u>	46,711
Deferred:		
Federal	<u>(381,136)</u>	(395,541)
State	<u>(145,205)</u>	(6,189)
	<u>(526,341)</u>	<u>(401,730)</u>
	<u>\$ (563,490)</u>	<u>\$ (355,019)</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)

7. 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>2011</u>	<u>2010</u>
Deferred tax assets	\$ 270,078	\$ 1,512,031
Deferred tax liabilities	(840,401)	(441,424)
Valuation allowance	-	(1,070,607)
Net deferred tax asset (liability)	<u>\$ (570,323)</u>	<u>\$ -</u>

As of June 30, 2011, the Company had net operating loss carryforwards for federal and state tax purposes of \$419,738 and \$1,226,929, respectively. These carryforwards expire between June 30, 2016 and June 30, 2025.

The Company has reviewed its tax positions and has concluded that no provision for uncertain income tax positions is required in the financial statements.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Debt

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

	<u>2011</u>	<u>2010</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 due on August 30	\$ 200,000	\$ 400,000
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 due on May 31	150,000	300,000
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.	2,000,000	–
	<u>2,350,000</u>	<u>700,000</u>
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, 2010; secured by personal guarantees from officers of the Company	–	500,000
Term loan due to a Norwegian commercial bank; \$1,076,568, interest payable quarterly at the 3 month LIBOR rate + 300 BPS, due in equal installments on December 31, 2012 and August 19, 2014	<u>1,076,568</u>	<u>1,076,568</u>
	<u>\$ 1,076,568</u>	<u>\$ 1,576,568</u>

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Debt (continued)

At June 30, 2011, future maturities of debt are as follows:

2012	\$ 2,099,500
2013	788,784
2014	—
2015	538,284
	<u>\$ 3,426,568</u>

9. 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 400,000 shares of common stock of Wunderlich Investment Company, Inc. Total stock options expense for the years ended June 30, 2011 and 2010, was \$232,774 and \$111,086, respectively, and was included in employee compensation and benefits. The total value and cash received from options exercised during the years ended June 30, 2011 and 2010, was \$0 and \$21,875, respectively.

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 2015 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	\$ 8.75	161,200
Expired	—	—
Terminated	8.75	(24,600)
Vested and exercised	—	—
Granted	9.00	123,593
Options outstanding at end of year	<u>\$ 8.86</u>	<u>260,193</u>

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. 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, 2011 and 2010, was \$359,217 and \$266,265, respectively. In addition to this match, the Company may make discretionary profit sharing contributions to this plan. However, for the years ended June 30, 2011 and 2010, no such contributions were made. Employees become fully vested in employer contributions after three years of service.

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, 2011 and 2010 was \$(142,899) and \$138,704, respectively. The liability associated with the pension plan as of June 30, 2011 and 2010 was \$293,428 and \$161,910, respectively.

11. Commitments and Contingencies

Leases

At June 30, 2011, the Company was obligated under various leases for office space and equipment. The future minimum lease payments as of June 30 are as follows:

2012	\$ 3,494,654
2013	2,815,444
2014	2,291,350
2015	1,394,771
Thereafter	1,176,244
	<u>\$ 11,172,463</u>

Rent expense for the years ending June 30, 2011 and 2010, was approximately \$3,394,292 and \$2,742,067, respectively.

As part of its building leases, the Company obtained a letter of credit from a bank in the amount of \$173,000 for its Chicago building lease and \$34,283 and \$37,987 for its New York City building leases.

Wunderlich Investment Company, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingencies (continued)

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 financial statements. Additionally, the Company has accrued approximately \$50,000 as a reserve for legal expenses.

12. 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 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 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.

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, MF Global, with which \$92,360,416 and \$65,165,910 of reverse repurchase agreements were outstanding at June 30, 2011 and 2010, respectively. The Company had \$90,679,437 and \$58,676,299 of repurchase agreements that were outstanding at June 30, 2011 and 2010, respectively. The amounts have been reported net on the Statement of Financial Condition in accordance with ASC 210-20. All repurchase and reverse repurchase agreements have maturities of less than 30 days.

13. Subsequent Events

The Company has analyzed subsequent events through November 18, 2011, the date the financials were issued.

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