

# **Feltl and Company, Inc.**

Minneapolis, Minnesota

## **Balance Sheets**

December 31, 2009 and 2008

# Feltl and Company, Inc.

## Balance Sheets

December 31, 2009 and 2008

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## Independent Auditor's Report

Board of Directors  
Feltl and Company, Inc.  
Minneapolis, Minnesota

We have audited the accompanying balance sheets of Feltl and Company, Inc. as of December 31, 2009 and 2008, that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 audits 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 balance sheets referred to above present fairly, in all material respects, the financial position of Feltl and Company, Inc. as of December 31, 2009 and 2008, in conformity with accounting principles generally accepted in the United States.

*Wipfli LLP*

Wipfli LLP

February 26, 2010  
St. Paul, Minnesota

# Feltl and Company, Inc.

## Balance Sheets

December 31, 2009 and 2008

<i>Assets</i>	2009	2008
Assets:		
Cash and cash equivalents	\$ 3,326,070	\$ 5,419,624
Broker loans receivable	1,754,121	2,020,598
Securities owned, at market	4,664,736	2,262,407
Receivables from brokers, dealers, and others	482,521	367,933
Furniture and equipment, at cost (net of depreciation of \$476,906 and \$437,167 in 2009 and 2008, respectively)	49,385	82,953
Prepaid expenses and other assets	45,579	66,907
<b>TOTAL ASSETS</b>	<b>\$ 10,322,412</b>	<b>\$ 10,220,422</b>
<i>Liabilities and Stockholders' Equity</i>		
Liabilities:		
Accrued employee compensation and benefits	\$ 680,862	\$ 355,035
Amount due clearing firm, secured by securities owned	66,977	128,671
Accounts payable	96,537	293,970
Securities sold, not yet purchased, at market	2,852	7,986
Accrued expenses and other liabilities	166,726	140,985
Total liabilities	1,013,954	926,647
Stockholders' equity:		
Common stock of \$1.00 par value		
Authorized - 1,000 shares		
Issued and outstanding - 528 shares	528	528
Additional paid-in capital	2,363,177	2,363,177
Retained earnings	6,944,753	6,930,070
Total stockholders' equity	9,308,458	9,293,775
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 10,322,412</b>	<b>\$ 10,220,422</b>

See accompanying notes to balance sheets.

# Feltl and Company, Inc.

## Notes to Balance Sheets

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### Note 1      **Summary of Significant Accounting Policies**

#### **Principal Business Activity**

Feltl and Company, Inc (the "Company") is registered as a broker-dealer in securities with the Financial Industry Regulatory Authority (FINRA) and the Securities and Exchange Commission (SEC). The Company engages in the business of acting as a dealer, market maker, investment banker, and providing brokerage services with respect to equity and other securities. The Company does not carry securities accounts for customers or perform custodial functions relating to customer securities and, accordingly, is exempt from SEC Rule 15c3-3. All securities transactions are cleared through a clearing broker on a fully disclosed basis. The Company is required to maintain a minimum balance of \$600,000 in cash and securities accounts with the clearing broker to collateralize certain transactions.

#### **Use of Estimates in Preparation of Financial Statements**

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

#### **Cash Equivalents**

Cash and cash equivalents consist of bank deposits. The Company considers all highly liquid investments with maturities of less than three months to be cash and cash equivalents.

# Feltl and Company, Inc.

## Notes to Balance Sheets

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### Note 1      **Summary of Significant Accounting Policies (Continued)**

#### **Securities Owned**

Securities transactions and related revenues and expenses are recorded on a trade date basis. Securities owned are stated at market value with related changes in unrealized gains or losses reflected in the firm trading profit. Securities owned include U.S. equity securities, certificates of deposit, and debt securities. Market value is generally based on listed market prices. If listed market prices are not available, fair value is determined based on other relevant factors, including broker or dealer price quotations.

All securities owned are pledged to the clearing broker on terms which permit the clearing broker to sell or repledge the securities to others subject to certain limitations.

#### **Revenue Recognition**

The Company recognizes commission revenues and related expenses on trade date. Revenues and related expenses from the sale of private placements and other corporate finance transactions are recognized on closing date. A portion of the Company's commission revenues have been allocated from firm trading profit in the form of sales credits allocated from the Company's traders to the Company's brokers.

The Company's Retail Registered Representatives ("RRR") are independent contractors. As independent contractors, employment taxes and benefits are the responsibility of the RRR. Generally, RRRs are paid 50% to 60% of their adjusted gross commissions, based upon their monthly gross commissions. Adjusted gross commissions represent gross commissions, less direct clearing costs, employee trades, and an amount for other heavily discounted trades.

# Feltl and Company, Inc.

## Notes to Balance Sheets

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### Note 1      **Summary of Significant Accounting Policies (Continued)**

#### **Revenue Recognition (Continued)**

Commission or fees for principal and agency trades, managed money, mutual funds, insurance products, fixed-income products and mortgage-backed securities are included in adjusted gross commissions. Commissions for private placements are not included in adjusted gross commissions and are paid at a lower rate plus an allocated amount for warrants, when available.

The Company's Institutional Registered Representatives are considered employees, receive a lower percentage of gross commissions than a RRR, and are reimbursed by the Company for their direct expenses.

#### **Income Taxes**

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code and comparable state regulations. Under these provisions, the Company does not pay federal or state corporate income taxes on its taxable income. Instead, the stockholders report on their personal income tax returns their proportionate share of the Company's taxable income and tax credits. Retained earnings at December 31, 2009, includes \$6,913,000 of undistributed income which has been taxed on the stockholders' personal income tax returns. The Company regularly assesses the outcome of uncertain tax positions, if any, and would accrue for any potential tax liabilities, if applicable.

#### **Furniture and Equipment**

Depreciation on furniture and equipment is provided using double declining balance method over the estimated useful lives of the assets, ranging from three years to five years.

# Feltl and Company, Inc.

## Notes to Balance Sheets

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### **Note 1**      **Summary of Significant Accounting Policies (Continued)**

#### **Broker Loans Receivable**

Included in brokers loans receivable are forgivable loans made to investment executives and other revenue-producing employees, typically in connection with recruitment. Such forgivable loans are amortized as compensation expense over the life of the note, generally six months to five years, using the straight line method.

#### **Subsequent Events**

Subsequent events have been evaluated through February 26, 2010, which is the date the financial statements were available to be issued.

### **Note 2**      **Receivables from Brokers, Dealers, and Others**

Included in the receivables from brokers, dealers, and others are unsettled inventory trades. The Company's principal source of short-term financing is provided by the clearing broker from which it can borrow on an uncommitted basis against its inventory positions, subject to collateral maintenance requirements.

The Company conducts business with brokers and dealers who are members of the major securities exchanges. The Company monitors the credit standing of such brokers and dealers, and the market value of collateral, and requests additional collateral as deemed appropriate.

# Feltl and Company, Inc.

## Notes to Balance Sheets

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### **Note 3      Financial Instruments with Off-Balance Sheet Risk**

In the ordinary course of business, the Company's securities activities involve execution, settlement, and financing of various securities transactions as principal and agent. These activities may expose the Company to credit and market risks in the event customers, other brokers and dealers, banks, depositories, or clearing organizations are unable to fulfill contractual obligations. Such risks may be increased by volatile trading markets. The Company clears all transactions for its customers on a fully disclosed basis with a clearing firm that carries all customer accounts and maintains related records. Nonetheless, the Company is liable to the clearing firm for the transactions of its customers. These activities may expose the Company to off-balance sheet risk in the event that a counterparty is unable to fulfill its contractual obligations. The Company maintains all of its securities owned at a clearing firm, and these securities owned collateralize amounts due to the clearing firm.

The Company has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded these obligations in the financial statements at December 31, 2009, at fair values of the related securities and will incur a loss if the fair value of the securities increases subsequent to December 31, 2009.

### **Note 4      Concentration of Credit Risk**

The Company maintains its cash in bank deposit accounts at various financial institutions. The balances, at times, may exceed federally insured limits. At December 31, 2009 and 2008, the Company exceeded the insured limits by approximately \$610,000 and \$2,330,000, respectively.

### **Note 5      Leases**

The Company leases office space and various items of equipment under noncancelable operating leases generally varying from one to five years with certain renewal options for like terms.

# Feltl and Company, Inc.

## Notes to Balance Sheets

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### Note 5 Leases (Continued)

Future minimum payments, by year and in the aggregate, under the noncancelable operating leases with initial or remaining terms in excess of one year consisted of the following:

	<b>Operating Leases</b>
2010	\$ 536,790
2011	339,946
2012	148,011
2013	126,544
2014	126,544
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Total minimum lease payments	\$ 1,277,835

### Note 6 Retirement Plan

The Company sponsors a 401(k) profit sharing plan covering substantially all employees. Employees are allowed to make voluntary contributions to the plan. The Company may make discretionary contributions to the plan at the discretion of the Board of Directors.

# Feltl and Company, Inc.

## Notes to Balance Sheets

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### **Note 7      Regulatory Requirements**

The Company is subject to the net capital requirements of FINRA and the Uniform Net Capital requirements of the SEC under Rule 15c3-1, which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. FINRA and the SEC requirements also provide that equity capital may not be withdrawn or cash dividends paid if aggregate indebtedness to net capital exceeds 10 to 1. At December 31, 2009, the Company had regulatory net capital of \$7,287,473, which was \$7,037,473 in excess of its required net capital of \$250,000. The Company is required to maintain a ratio of aggregate indebtedness to net capital no greater than 15 to 1. The Company's aggregate indebtedness to net capital ratio was 0.14 to 1.0. At December 31, 2008 the Company had regulatory net capital of \$7,010,266 which was \$6,760,267 in excess of its required net capital of \$250,000. The Company's aggregate indebtedness to net capital ratio was 0.13 to 1.0.

### **Note 8      Commitments and Contingencies**

The Company may be involved from time to time in various claims and legal proceedings of a nature considered normal to its business dealings. While any proceeding or litigation has an element of uncertainty, management of the Company believes that the outcome of any pending or threatened actions will not have a material adverse effect on the business or financial condition of the Company.

The Company has been named in a lawsuit related to the merger between two companies which are not related to the Company. The plaintiff is seeking \$3,000,000. Management of the Company, based on discussions with internal general counsel, believes that the majority, if not all, of the claim will be dismissed and that there will not be any material adverse impact on the Company's financial condition.

# Feltl and Company, Inc.

## Notes to Balance Sheets

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### **Note 8**      **Commitments and Contingencies** (Continued)

The Company extends margin credit to its customers through its clearing broker. In the event of a customer no-pay or default margin account, the Company is responsible for covering the shortage. All shortages may be paid through liquidation of customer securities held. At December 31, 2009 and 2008, there were no customer commitments that were in default.

The Company engages in underwriting activities and enters into firm commitments with certain customers for initial public offerings. Once an initial public offering starts trading on the open market, the Company is liable for funding all shares under the firm commitment. As of December 31, 2009 and 2008 there were no outstanding firm commitments with customers.

### **Note 9**      **Fair Value Measurements**

Following is a description of the valuation methodology used for assets measured at fair value on a recurring or nonrecurring basis, as well as the classification of the assets within the fair value hierarchy. Generally accepted accounting principles 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 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 a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach as specified by generally accepted accounting principles are used to measure fair value.

# Feltl and Company, Inc.

## Notes to Balance Sheets

### Note 9 Fair Value Measurements (Continued)

*Securities owned* - Securities owned may be classified as Level 1, Level 2, or Level 3 measurements within the fair value hierarchy. Level 1 securities include equity securities traded on a national exchange. The fair value measurement of a Level 1 security is based on the quoted price of the security. Level 2 securities include U.S. government and agency securities, obligations of states and political subdivisions, corporate debt securities, and mortgage related securities. The fair value measurement of a Level 2 security is obtained from an independent pricing service and is based on recent sales of similar securities and other observable market data. Level 3 securities include trust preferred securities that are not traded in a market. The fair value measurement of a Level 3 security is based on a discounted cash flow model that incorporates assumptions market participants would use to measure the fair value of the security.

Information regarding the fair value of assets measured at fair value on a recurring basis as of December 31 follows:

	Assets Measured at Fair Value	Recurring Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>2009</b>				
Securities owned:				
Certificates of deposit	\$ 3,411,818	\$ -	\$ 3,411,818	\$ -
Equity securities	637,742	637,742	-	-
Debt securities	615,176	-	615,176	-
Total securities owned	\$ 4,664,736	\$ 637,742	\$ 4,026,994	\$ -

# Feltl and Company, Inc.

## Notes to Balance Sheets

### Note 9 Fair Value Measurements (Continued)

	Assets Measured at Fair Value	Recurring Fair Value Measurements Using		
		Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In Thousands)</i>				
<b>2008</b>				
Securities owned:				
Certificates of deposit	\$ 1,115,962	\$ -	\$ 1,115,962	\$ -
Equity securities	344,172	344,172	-	-
Debt securities	802,273	-	802,273	-
<b>Total securities owned</b>	<b>\$ 2,262,407</b>	<b>\$ 344,172</b>	<b>\$ 1,918,235</b>	<b>\$ -</b>

## Independent Auditor's Report on Internal Controls

Board of Directors  
Feltl and Company, Inc.  
Minneapolis, Minnesota

In planning and performing our audit of the financial statements of Feltl and Company, Inc. as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13.
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the board of governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, such that there is reasonable possibility that a material misstatement of the Company's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2009, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*Wipfli LLP*

Wipfli LLP

February 26, 2010

St. Paul, Minnesota