

LEGENT CLEARING LLC

STATEMENT OF
FINANCIAL CONDITION

December 31, 2008

(Unaudited)



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STATEMENT OF FINANCIAL CONDITION December 31, 2008 (Unaudited)

ASSETS

Cash and cash equivalents	\$ 505,123
Cash and securities segregated in compliance with federal regulations	98,609,384
Securities borrowed	3,340,318
Receivable from brokers, dealers, and clearing organizations	4,414,401
Receivable from customers, net of allowance of \$371,452	155,428,926
Securities owned, at fair value	3,963,298
Property and equipment, net of accumulated depreciation of \$1,452,773	618,332
Goodwill	1,937,000
Intangible assets, net of accumulated amortization of \$1,955,592	3,037,408
Deposits with clearing organizations and others	4,217,343
Promissory notes receivable	12,056,751
Other assets	2,958,062
TOTAL ASSETS	\$ 291,086,346

LIABILITIES AND MEMBERS' EQUITY

Payable to customers	\$ 143,138,629
Notes payable to banks	15,860,000
Securities loaned	1,310,925
Payable to brokers, dealers, and clearing organizations	85,345,560
Related party payable	840,917
Accounts payable and accrued liabilities	11,678,404
TOTAL LIABILITIES	\$ 258,174,435
Subordinated borrowings	9,000,000
MEMBERS' EQUITY	23,911,911
TOTAL LIABILITIES & MEMBERS' EQUITY	\$ 291,086,346

See notes to statement of financial condition.

NOTES TO STATEMENT OF FINANCIAL CONDITION as of December 31, 2008

1. Basis of Presentation and Nature of Operations

Basis of Presentation

Legent Clearing LLC (the Company) is a wholly-owned subsidiary of Legent Group LLC (the Parent).

Nature of Operations

The Company is a securities broker-dealer authorized to engage in fully-disclosed and omnibus clearing, sales and trading and brokerage services. The Company is required to comply with all applicable rules and regulations of the Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority (FINRA), and the various securities exchanges in which it maintains membership.

2. Significant Accounting Policies

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 statement of financial condition. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company defines cash and cash equivalents as highly liquid investments with original maturities of three months or less at the time of purchase, other than those held for sale in the ordinary course of business.

Cash and Securities Segregated in Compliance with Federal Regulations

Cash and securities segregated in compliance with federal regulations consist primarily of qualified deposits in special reserve bank accounts for the exclusive benefit of customers in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934 (the Exchange Act) and other regulations.

Securities Borrowed and Securities Loaned

Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to provide the counterparty with collateral in the form of cash or other securities. The Company receives collateral in the form of cash or other securities for securities loaned transactions. The related interest receivable from and the interest payable to broker-dealers are recorded in other receivables and in accounts payable and accrued liabilities, respectively, on the statement of financial condition.

Securities Owned

Securities owned are carried at fair value.

Customer Transactions

Receivables from and payables to customers include amounts due on cash and margin transactions. Securities owned by customers are held as collateral for receivables. Customer securities transactions are recorded on a settlement date basis, which is generally three business days after trade date. Securities owned by customers, including those that collateralize

NOTES TO FINANCIAL STATEMENTS

margin or other similar transactions, are not reflected in the statement of financial condition.

Receivables and Payables — Brokers, Dealers And Clearing Organizations

Receivables from brokers, dealers and clearing organizations include amounts receivable for securities not delivered by the Company to a purchaser by the settlement date (fails to deliver), net receivables arising from unsettled trades and the Company's introducing brokers' margin loans. Payables to brokers, dealers and clearing organizations include amounts payable for securities not received by the Company from a seller by the settlement date (fails to receive), clearing deposits from introducing brokers, commissions, net payables arising from unsettled trades and amounts payable to the Company's introducing brokers.

Fair Value of Financial Instruments

The Company adopted Statement of Financial Accounting Standards Board (FASB) "Fair Value Measurements" (SFAS No. 157) effective July 1, 2008. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the measure date.

SFAS No. 157 also establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is categorized into three levels based on the inputs as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. The types of assets and liabilities that are categorized by the Company as Level 1 generally include exchange traded equities, obligations of U.S. governments and agency securities.

Level 2 inputs are inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs. The types of assets and liabilities that are categorized by the Company as Level 2 generally include corporate debt, municipal debt, mortgage and asset backed securities, mortgage-backed to-be-announced securities (TBAs) and certain equities that are traded over the counter.

Level 3 inputs are unobservable inputs for the asset or liability and typically reflect the Company's assumptions that it believes market participants would use in pricing the asset or liability. The types of assets and liabilities that are categorized by the Company as Level 3 generally include high yield corporate debt and securities with inactive markets.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The

Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

Income Taxes

The Company and its Parent have elected, under the provision of the Internal Revenue Code, to be treated as a Limited Liability Company. The income and losses of the Company and its Parent are passed through to the members who incur the tax obligation or receive the tax benefit.

Goodwill and Intangible Assets, Net

The Company has recorded goodwill from the purchase business combination of its Parent to the extent the purchase price of the acquisition exceeded the fair value of the net identifiable assets of the Company. The Company's acquired intangible assets consist of client relationship intangible assets. The Company tests goodwill and customer relationship intangible assets for impairment on at least an annual basis.

Property and Equipment, Net

Property and equipment is recorded at cost less allowances for depreciation and amortization. Depreciation is computed using the straight-line method over the remaining useful lives of the assets, ranging from 3 to 7 years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the life of the lease.

Promissory Notes

Promissory notes are recorded at unpaid principal balance net of bad debt allowance. The Company evaluates the collectability of the notes and establishes an allowance if one is deemed necessary.

Recently Issued Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115" (SFAS No. 159). This statement provides a fair value option election that allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities, with changes in fair value recognized in earnings as they occur. SFAS No. 159 permits the fair value option election on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. SFAS No. 159 is effective for the Company beginning on July 1, 2008. The Company has no plans to apply the elective provisions of SFAS No. 159.

3. Receivable From and Payable to Brokers, Dealers, And Clearing Organizations

Receivable from and payable to brokers, dealers, and clearing organizations are comprised of the following as of December 31, 2008:

Receivable:

Securities failed to deliver	\$ 1,181,011
Clearing organizations	3,233,390
Brokers and dealers	-
	<u>\$ 4,414,401</u>

Payable:

Securities failed to receive	\$ 1,500,587
Clearing organizations	82,686,311
Brokers and dealers	1,158,662
	<u>\$ 85,345,560</u>

4. Fair Value of Financial Instruments

The following table presents information about the Company's assets measured at fair value in accordance with SFAS 157, as of December 31, 2008:

Assets	Level 1	Level 2	Level 3	Total
Equities	\$ -	\$ -	\$ 867,104	\$ 867,104
U.S. Government and agency securities	3,040,281	-	-	3,040,281
Other	55,915	-	-	55,915
Securities Owned	<u>\$ 3,096,196</u>	<u>\$ -</u>	<u>\$ 867,104</u>	<u>\$ 3,963,299</u>

NOTES TO FINANCIAL STATEMENTS

5. Goodwill and Acquired Intangible Assets

The Company tests goodwill and customer relationship intangible assets for impairment on at least an annual basis. There was no impairment of goodwill or customer relationship intangible assets taken as a result of the impairment test in fiscal year 2008. Customer relationships are being amortized over a period of 10 years.

6. Property and Equipment

Property and equipment consisted of the following at December 31, 2008:

Furniture and equipment	\$ 1,562,191
Leasehold improvements	188,806
Software	217,283
Internally developed software.	102,825
	<u>2,071,105</u>
Less: Accumulated depreciation and amortization . . .	<u>(1,452,773)</u>
	<u>\$ 618,332</u>

7. Regulatory Requirements

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1 of the Exchange Act). Under this rule, the Company has elected to operate under the alternate method and is required to maintain minimum net capital of \$250,000 or 2% of aggregate debit balances arising from client transactions, as defined. On December 31, 2008, the Company had net capital of \$11,156,969 which was \$9,351,940 in excess of the required net capital requirement of \$1,805,029. Under the alternate method, the Company may not repay subordinated borrowings, pay cash distributions, or make any unsecured advances or loans to its parent or employees if such payment would result in net capital of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement.

The Company, as a clearing broker, is subject to SEC Customer Protection Rule (Rule 15c3-3 of the Exchange Act) which requires segregation of funds in a special reserve account for the benefit of customers. At December 31, 2008 the Company had segregated cash of \$95,756,120 under Rule 15c3-3. On January 2, 2009, a withdrawal of \$9,150,000 was made to satisfy the December 31, 2008 Rule 15c3-3 deposit requirement of \$85,977,379.

Certain broker-dealers have chosen to maintain brokerage customer accounts at the Company. To allow these broker-dealers to classify their assets held by the Company as allowable assets in their computation of net capital, the Company computes a separate reserve requirement for Proprietary Accounts of Introducing Brokers (PAIB reserve requirement). At December 31, 2008 the Company had segregated cash of \$2,853,264 for PAIB. On January 2, 2009, an additional deposit of \$300,000 was made to satisfy the December 31, 2008 PAIB deposit requirement of \$2,848,662.

8. Benefit Plans

The Company has a 401(k) plan which is made available to all employees. Contributions are determined by the Board of Members and Managers. The 401(k) plan also includes a profit sharing feature.

9. Notes Payable to Banks

The Company has available secured lines of credit of \$395,000,000. As of December 31, 2008, there was a balance of \$10,860,000 under these lines secured by customer securities with a fair value of \$32,537,134. These credit facilities bear interest at rates based on the Federal Funds rate.

The Company also has available unsecured lines of credit in the amount of \$13,000,000. As of December 31, 2008, there was a balance of \$5,000,000 under these lines. These credit facilities bear interest at a rate based on the Federal Funds rate.

10. Subordinated Borrowings

The Company has subordinated borrowings of \$9,000,000 from the Parent as of December 31, 2008. The subordinated borrowings bear interest at a rate based on the prime rate, and are scheduled to be repaid ranging from May 3, 2009 to November 6, 2009. The borrowings have been approved by FINRA as subordinated borrowings available in computing net capital under Rule 15c3-1. Such borrowings are subordinated

to the claims of general creditors and to the extent that these borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

11. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss. The Company's clearing agreements with broker-dealers for which it provides clearing services indemnify the Company if customers fail to satisfy their contractual obligation.

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

The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. Pursuant to such guidelines the Company monitors required margin levels daily and requires the customer to deposit additional collateral or to reduce positions, when necessary.

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review the credit standing of each counterparty, as necessary.

The Company loans securities temporarily to other broker-dealers in connection with its business. The Company receives cash as collateral for the securities loaned. Increases in securities prices may cause the market value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by requiring credit approvals for counterparties, by monitoring the market value of securities loaned on a daily basis, and by requiring additional cash as collateral when necessary.

The Company borrows securities temporarily from other broker-dealers in connection with its business. The Company deposits cash as collateral for the securities borrowed. Decreases in securities prices may cause the market value of the securities borrowed to fall below the amount of cash deposited as collateral. In the event the counterparty to these transactions does not return the cash deposited, the Company may be exposed to the risk of selling the securities at prevailing market prices. The Company controls this risk by requiring credit approvals for counterparties, by monitoring the collateral values on a daily basis, and by requiring collateral to be returned by the counterparties, when necessary.

As of December 31, 2008, customer margin securities of approximately \$98,264,165 and stock borrowings of approximately \$3,051,600 were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had loaned or repledged approximately \$77,720,190 of that collateral as of December 31, 2008.

The Company provides guarantees to securities clearinghouses and exchanges. Under related agreements, the Company is generally required to guarantee the performance of other members. Under the agreements, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, the potential for the Company to be required to make payments under these agreements is remote. Accordingly, no contingent liability is carried on the statement of financial condition for these transactions.

12. Related Party Transactions

Certain directors and employees of the Company and members of the Company's Parent maintain margin accounts. The Company had margin loans to directors, employees, and certain members of the Company's Parent of approximately \$163,354 at December 31, 2008. These loans are made in the ordinary course of the Company's business on terms no more favorable than those available on comparable transactions with other parties.

As of December, 2008, the Company has payables to the Parent of \$840,917. The Company also has subordinated borrowings of \$9,000,000 with the Parent as of December 31, 2008.

13. Commitments and Contingencies

The Company leases office space under operating leases, which expire at varying dates from March 2010 to April 2013.

Following is a schedule of the remaining lease payments:

Year Ending June 30:	
2009	\$ 184,079
2010	350,763
2011	284,880
2012	284,880
2013	237,400

The Company is subject to lawsuits, arbitrations, claims, and other legal proceedings in connection with its business. A substantial adverse judgment or other unfavorable resolution of these matters could have a material adverse effect on the Company's statement of financial condition. Management is of the opinion that the Company has adequate legal defenses with respect to the legal proceedings to which it is a defendant or respondent and the outcome of these pending proceedings is not likely to have a material adverse effect on the statement of financial condition of the Company. However, the Company is unable to predict the outcome of these matters.

In the normal course of business, the Company discusses matters with its regulators raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines, or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company's statement of financial condition. However, the Company is unable to predict the outcome of these matters.

STATEMENT OF FINANCIAL CONDITION
 (Unaudited)

Legent Clearing LLC ("Legent") is subject to the Uniform Net Capital Rule (15c3-1) of the Securities and Exchange Commission and is required to maintain a minimum amount of net capital. We compute our net capital under the alternate method, as defined in the Rule. As of January 31, 2009 Legent Clearing had net capital and net capital requirement of \$10,882,937 and \$1,838,329 respectively.