

LEGENT CLEARING LLC

STATEMENT OF
FINANCIAL CONDITION

June 30, 2011



CLEARING CORP.

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Omaha, Nebraska 68114

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www.legentclearing.com • Member Finra & SIPC

STATEMENT OF FINANCIAL CONDITION JUNE 30, 2011

ASSETS

Cash and cash equivalents.....	\$ 1,562,149
Cash and securities segregated in compliance with federal and other regulations.....	2,491
Deposits with clearing organizations	4,817,743
Securities owned, at fair value	821,619
Receivable from brokers, dealers and clearing organizations.....	10,586,309
Receivable from customers	143,946,377
Securities borrowed.....	66,737,251
Notes receivable.....	2,154,536
Property and equipment, net of accumulated depreciation and amortization of \$1,331,396	324,154
Intangible assets, net of accumulated amortization of \$3,203,841	1,789,159
Other assets	3,074,846
TOTAL ASSETS.....	<u>\$ 235,816,634</u>

LIABILITIES AND MEMBER'S EQUITY

Payable to customers.....	\$ 59,739,199
Securities loaned	138,513,355
Payable to brokers, dealers, and clearing organizations.....	1,612,931
Payables to related parties.....	65,882
Accounts payable and accrued liabilities	12,530,063
Total liabilities.....	212,461,430
Subordinated borrowings	18,754,685
Member's equity	4,600,519
TOTAL LIABILITIES AND MEMBER'S EQUITY	<u>\$ 235,816,634</u>

See notes to statement of financial condition.

INDEPENDENT AUDITORS' REPORT

To the Board of Managers and Member
Legent Clearing LLC
Omaha, Nebraska

We have audited the accompanying statement of financial condition of Legent Clearing LLC (the "Company"), a wholly-owned subsidiary of Legent Group LLC, as of June 30, 2011. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes 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 statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such statement of financial condition presents fairly, in all material respects, the financial position of Legent Clearing LLC at June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the statement of financial condition, the Company's parent agreed to sell the equity interests of the Company on May 23, 2011.

/s/ Deloitte & Touche LLP

Chicago, Illinois
August 25, 2011

NOTES TO STATEMENT OF FINANCIAL CONDITION as of June 30, 2011

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”) and is headquartered in Omaha, Nebraska.

Nature of Operations The Company is a securities broker-dealer and provides clearing services to other broker-dealers on a fully disclosed basis. The Company is required to comply with all applicable rules and regulations of the Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority, Inc. (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. A significant estimate included in the financial statements is the allowance for doubtful accounts related to notes receivable. 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.

Cash and Securities Segregated in Compliance with Federal and Other 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.

Customer Transactions Receivables from and payables to customers include amounts due on cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected in the statement of financial condition. Customer securities transactions are recorded on a settlement date basis in the statement of financial condition.

Securities Owned Securities owned that are readily marketable are valued at fair value based on quoted market prices. Securities owned that are not readily marketable are carried at fair value based on management’s estimate of fair value. As of June 30, 2011, the Company had securities owned with a fair value of \$299,910 on deposit with the Options Clearing Corporation (OCC) for option contracts written or purchased in customer accounts. The securities cannot be sold or repledged by the OCC.

Securities Borrowed and Securities Loaned Securities borrowed and securities loaned transactions are reported as collateralized financings and recorded at the amount of collateral advanced or received. Securities borrowed transactions generally require the Company to deposit cash with the lender. With respect to securities loaned, the Company generally receives collateral in the form of cash in an amount in

excess of the fair value of securities loaned. The Company monitors the fair value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary.

Property and Equipment 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.

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 member who incurs the tax obligation or receives the tax benefit. The Company has determined that no material uncertain tax positions exist as of June 30, 2011. The Company’s open tax years for federal and state income tax purposes are calendar year 2007 through 2010. It is the policy of the Company to recognize accrued interest and penalties related to uncertain tax positions in income tax expense.

Intangible Assets and Long Lived Assets The Company reviews its long-lived assets and customer relationship intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company evaluates recoverability by comparing the estimated undiscounted future cash flows associated with the asset to the asset’s carrying amount. There were no impairments of intangible assets or long-lived assets in the year ended June 30, 2011. Client relationship intangible assets are being amortized over a period of 10 years.

Notes Receivable The notes receivable are carried at the unpaid principal balance, net of an allowance for doubtful accounts. Notes receivable represent balances due or note arrangements with the Company’s correspondent broker dealers. The Company evaluates the collectability of the notes and establishes an allowance if one is deemed necessary. As of June 30, 2011, there was no allowance for doubtful accounts. The notes have maturity dates ranging from one to ten years and interest rates ranging from 6% to 10%.

Recently Adopted Accounting Pronouncements In January 2010, the FASB amended the disclosure guidance related to fair value measurements. The amended disclosure guidance requires new fair value measurement disclosures and clarifies existing fair value measurement disclosure requirements. The Company’s disclosures about fair value measurements will reflect the adoption of the amended disclosure guidance related to disclosures about purchases, sales, issuances and settlements of Level 3 instruments in the fiscal year ending June 30, 2012. The remaining fair value measurement disclosure guidance was adopted in the fiscal year ended June 30, 2011.

In July 2010, the FASB issued new disclosure guidance on financing receivables and the allowance for credit losses. The new guidance requires further disaggregation of existing disclosures of loans and the allowance for credit losses by portfolio segment and class, and also requires new disclosures

about credit quality, impaired loans, and past due and nonaccrual loans. The additional disclosures include more information, by type of receivable, on credit quality indicators, including aging and significant purchases and sales. The amendment is effective for annual reporting periods ending on or after December 15, 2011. The Company is currently evaluating the impact the adoption will have on its statement of financial condition, if any.

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 June 30, 2011:

Receivable:

Brokers and dealers	\$ 5,243,251
Clearing organizations.....	4,349,040
Securities failed to deliver.....	994,018
	<u>\$ 10,586,309</u>

Payable:

Clearing organizations.....	\$ 463,188
Securities failed to receive	1,149,743
	<u>\$ 1,612,931</u>

4. Fair Value of Financial Instruments

Fair value is defined 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 measurement date.

In determining fair value, the Company 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 Company does not own any Level 1 assets or liabilities.

Level 2 — Inputs are inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs. The Company's Level 2 assets and liabilities include debt obligations of U.S. government and agency entities.

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. This category includes unregistered equity securities.

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. In 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.

At June 30, 2011, the Company's assets measured at fair value consist of the following:

Assets:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities.....	\$ -	\$ -	\$521,709	\$521,709
U.S. government and agency securities.....	-	299,910	-	299,910
Securities owned ...	\$ -	\$ 299,910	\$521,709	\$821,619

The fair value of the Company's financial instruments reflected in the statement of financial condition (consisting of primarily receivables from and payables to brokers, dealers and clearing organizations and customers, securities borrowed and loaned) except for notes receivable, secured demand note receivable, and subordinated borrowings, approximates the carrying value due to the short-term nature of the financial instruments and repricing characteristics of the financial instruments. Based on the nature of the notes receivable, secured demand note receivable and subordinated borrowings, the Company has concluded that it is not practicable to determine the fair value of these financial instruments.

5. Intangible Assets

The Company tests customer relationship intangible assets for impairment on at least an annual basis. There was no impairment of customer relationship intangible assets as a result of an impairment test in fiscal year 2011. Customer relationships are being amortized over a period of 10 years.

Customer relationships	\$ 4,993,000
Less: Accumulated amortization	<u>(3,203,841)</u>
Intangible assets, net	<u>\$ 1,789,159</u>

6. Property and Equipment

Property and equipment consisted of the following at June 30, 2011:

Furniture and equipment	\$ 1,162,673
Leasehold improvements.....	184,603
Software	<u>308,274</u>
	1,655,550
Less: Accumulated depreciation and amortization.....	<u>(1,331,396)</u>
	<u>\$ 324,154</u>

7. Regulatory Requirements

The Company is subject to the SEC Uniform Net Capital 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 June 30, 2011, the Company had net capital of \$15,326,314 which was \$12,296,581 in excess of the required net capital requirement of \$3,029,733. The Company's percentage of net capital to aggregate debit items was 10.1%. Under the alternate method, the Company may not repay subordinated debt, 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 June 30, 2011, the Company did not have a deposit requirement under the Rule but maintained a deposit of \$1,171.

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). At June 30, 2011, the Company did not have a deposit requirement but maintained a deposit of \$1,319.

8. Benefit Plans

The Company has a 401(k) and profit sharing plan which is made available to all employees. Profit sharing contributions and matching 401(k) contributions are determined at the discretion of the Board of Members and Managers.

9. Notes Payable to Banks

The Company has available uncommitted secured lines of credit available for borrowing as needed. As of June 30, 2011, there were no borrowings outstanding. These credit facilities bear interest at rates based on the Federal Funds rate.

10. Subordinated Borrowings

As of June 30, 2011, the Company had borrowings of \$11,500,000 under a subordinated revolving loan facility from the Parent. These borrowings bear interest rates ranging from 0.25% to 5.0% and mature on dates ranging from November 7, 2011 to May 23, 2012.

On March 18, 2011, the Company borrowed an additional \$5,000,000 from the Parent which bears interest of 0.25% per annum and matures on March 18, 2014.

During fiscal year 2011, the Company entered into a subordinated borrowing of \$1,236,822 with an entity controlled by a certain member of the Parent, through the conversion of an existing payable to this entity. This borrowing bears interest at a rate based on the prime rate plus 1.5% (4.75% as of June 30, 2011) and matures on May 31, 2012. Additionally, the Company has a subordinated borrowings of \$1,017,863 with the same related party. The borrowing bears interest at a rate based on the prime rate plus 1% (4.25% as of June 30, 2011) and matures on April 16, 2012.

The borrowings were approved by FINRA as subordinated debt available in computing net capital under Rule 15c3-1. These debt facilities are subordinated to the claims of general creditors and to the extent that these debt facilities are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid. FINRA requires more than three months advance notification of intent not to extend the maturity of a subordinated loan agreement. The Company made no such notifications as of August 25, 2011.

11. Commitments and Contingencies

The Company leases office space and computer equipment under operating leases, which expire at varying dates from September 2011 to March 2016.

Following is a schedule of the remaining lease payments:

Year Ending June 30:	
2012.....	\$ 433,548
2013.....	317,549
2014.....	73,129
2015.....	74,450
2016.....	56,580
Thereafter	<u>-</u>
Total minimum obligations	<u>\$ 955,256</u>

The Company is subject to lawsuits, arbitration, 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 in all but one lawsuit. In the one lawsuit, the Company has reserved \$1,475,000, which is included in accounts payable and accrued liabilities on the Statement of Financial Condition. On February 28, 2011, the federal judge presiding over the case mediated a settlement agreement for \$1,475,000. The courts conducted a fairness hearing on June 24, 2011. The briefing on the objection has been completed and the motion for final approval pending before the court.

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.

12. 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. The Company monitors required margin levels daily, and pursuant to such guidelines, 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 policy to review, as necessary, the credit standing of each counterparty.

The Company temporarily loans securities 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 temporarily borrows securities 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 fair 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 June 30, 2011, non-customer and customer margin securities of approximately \$199,449,469 and stock borrowings of approximately \$66,737,251 were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company utilized \$138,513,355 of these available securities as collateral for securities loaned, and \$6,641,701 for OCC margin requirements.

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.

13. Related Party Transactions

As of June 30, 2011, the Company had payables to the Parent of \$8,787. The Company also had subordinated borrowings of \$16,500,000 with the Parent as of June 30, 2011.

As of June 30, 2011, the Company had \$57,095 of payables to and subordinated borrowings of \$2,254,685 with an entity controlled by a certain member of the Company's Parent.

14. Pending Transaction

On May 23, 2011, the Parent and the controlling member of the Parent, entered into a Purchase Agreement with an entity established by a private equity firm, pursuant to which, among other things, this entity has agreed to purchase from the Parent, and the Parent has agreed to sell to this entity, all of the outstanding equity interests in the Company. The transaction is subject to regulatory approval. The effects of this transaction have not been reflected in the statement of financial condition as of June 30, 2011.

The Statement of Financial Condition filed pursuant to Rule 17a-5(d) under the Securities and Exchange Act of 1934 is available for inspection at the Company's main office located at 9300 Underwood Avenue, Omaha, NE 68114 and at the Denver Regional Office of the Securities and Exchange Commission.

Net Capital as of July 31, 2011

(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 July 31, 2011, Legent Clearing LLC had net capital and a net capital requirement of \$15,207,117 and \$3,195,477, respectively.