

Stephens Inc.

(A Wholly Owned Subsidiary of SI Holdings Inc.)

Statement of Financial Condition as of
June 30, 2011 (Unaudited)

STEPHENS INC.
(A Wholly Owned Subsidiary of SI Holdings Inc.)

STATEMENT OF FINANCIAL CONDITION
AS OF JUNE 30, 2011 (UNAUDITED)
(In thousands, except share amounts)

ASSETS

CASH AND CASH EQUIVALENTS	\$ 652
GOVERNMENT SECURITIES — Segregated under federal and other regulations	2,546
RECEIVABLES FROM:	
Brokers and dealers	65,809
Customers	123,136
Officers, directors, and affiliates	8,738
Others	6,335
MARKETABLE SECURITIES — At fair value	63,432
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	38,360
MARKETABLE SECURITIES PLEDGED AS COLLATERAL FOR REPURCHASE AGREEMENTS — At fair value	112,023
NOT READILY MARKETABLE SECURITIES — At fair value	3,392
FURNITURE, FIXTURES, AND EQUIPMENT, LEASEHOLD IMPROVEMENTS — At cost — net of accumulated depreciation and amortization of \$29,246	4,402
OTHER	<u>12,133</u>
TOTAL	<u>\$ 440,958</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES:

Payables to:	
Brokers and dealers	\$ 639
Customers including free credit balances of \$44,225	133,565
Officers, directors, and affiliates	20,057
Securities sold under agreements to repurchase	110,685
Securities sold but not yet purchased — at fair value	450
Accrued compensation	29,775
Short-term borrowings	12,800
Other	<u>16,164</u>
Total liabilities	<u>324,135</u>

STOCKHOLDER'S EQUITY:

Common stock, no par value — 2,000 shares authorized, issued, and outstanding	100,000
Additional paid-in capital	12,000
Retained earnings	<u>4,823</u>
Total stockholder's equity	<u>116,823</u>

TOTAL	<u>\$ 440,958</u>
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STEPHENS INC.
(A Wholly Owned Subsidiary of SI Holdings Inc.)

NOTES TO STATEMENT OF FINANCIAL CONDITION
AS OF JUNE 30, 2011
(Dollars in thousands)

1. ORGANIZATION

Stephens Inc., an S Corporation (the “Company”), is a full-service investment banking firm which is headquartered in Little Rock, Arkansas. The Company is a registered broker/dealer with the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority. The Company is a wholly owned subsidiary of SI Holdings Inc., an S Corporation (the “Parent”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents — For financial reporting purposes, the Company defines cash and cash equivalents as currency on hand and demand deposits with banks.

Securities Transactions — Marketable securities and securities sold but not yet purchased are carried at fair value on a trade date basis.

Securities borrowed are treated as collateralized financing transactions and are recorded at the amount of cash collateral advanced. The Company monitors the market value of the securities borrowed on a daily basis, with additional collateral obtained or refunded as necessary.

Transactions involving sales of securities under agreements to repurchase or purchases of securities under agreements to resell are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts plus accrued interest. The Company’s policy is to take possession of securities with a market value in excess of the principal amount loaned plus accrued interest in order to initially collateralize the purchase of securities under agreements to resell. The Company’s agreements with third parties generally contain contractual provisions to allow for additional collateral to be obtained when necessary. It is the Company’s policy to value collateral daily and to obtain additional collateral when deemed appropriate.

Concentrations of Credit Risk — In the normal course of business, the Company engages in fixed income transactions that expose it to temporary concentrations of credit risk. In the case of repurchase and resale agreements, counterparty risk is evaluated while underwriting is reviewed by an underwriting committee prior to commitment.

Furniture, Fixtures, Equipment, and Leasehold Improvements — Furniture, fixtures, equipment, and leasehold improvements are recorded at cost. Depreciation of furniture, fixtures, and equipment is provided over estimated useful lives of three to ten years using the straight-line method. Leasehold improvements are amortized using the straight-line method over the shorter of 10 years or the lease term. The Company periodically evaluates the carrying value of its furniture, fixtures, and equipment to determine if an impairment exists.

Income Taxes — The Company is a Qualified Subchapter S Corporation and therefore bears no entity level tax.

Use of Estimates — The preparation of statement of financial condition in accordance 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, liabilities, and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates and assumptions and these differences may be material.

Recent Accounting Pronouncements — In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This update provides amendments to Accounting Standards Codification Subtopic 820-10 and requires new disclosures for (i) significant transfers in and out of Level 1 and Level 2 and the reasons for such transfers and (ii) activity in Level 3 fair value measurements to show separate information about purchases, sales, issuances and settlements. In addition, this update amends Subtopic 820-10 to clarify existing disclosures around the disaggregation level of fair value measurements and disclosures for the valuation techniques and inputs utilized (for Level 2 and Level 3 fair value measurements). The provisions in ASU No. 2010-06 are applicable to interim and annual reporting periods beginning subsequent to December 15, 2009, with the exception of Level 3 disclosures of purchases, sales, issuances and settlements, which will be required in reporting periods beginning after December 15, 2010. The adoption of this guidance has not had a material impact on the Company's operating results, financial position, or cash flows.

In July 2010, the FASB issued ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 requires additional information about credit risk exposure for financing receivables and the related allowance for loan losses including an allowance rollforward on a portfolio segment basis, the recorded investment in financing receivables on a portfolio segment basis, the nonaccrual status of financing receivables by class, impaired financing receivables by class, aging of past due receivables by class, credit quality indicators by class, troubled debt restructurings information by class, and significant purchases and sales of financing receivables. The disclosures are effective for non-public companies for annual reporting periods ending on or after December 15, 2011. Adoption of this standard will result in additional disclosures in the statement of financial condition.

3. FAIR VALUE MEASUREMENTS

Fair value is defined as 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. In determining fair value, the Company uses various valuation approaches. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Fair value is a market-based measure considered from the perspective of a market participant rather than a Company-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date. The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 — Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary by product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the market place, the liquidity of the markets 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. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3.

A description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value on a recurring basis follows:

U.S. Treasury obligations are valued using quoted market prices. Valuation adjustments are not applied. Accordingly, U.S. Treasury obligations are categorized in Level 1 of the fair value hierarchy.

Mortgage-backed Securities are comprised of agency issued debt and mortgage pass-throughs. Non-callable agency issued debt securities are generally valued using quoted market prices adjusted for risk characteristics. Actively traded non-callable agency issued debt securities are generally categorized in Level 2 of the fair value hierarchy.

The fair value of corporate bonds is estimated using recently executed transactions, market price quotations or bond spreads. Corporate bonds are generally categorized in Level 1 of the fair value hierarchy.

The fair value of municipal bonds is estimated using recently executed transactions, market price quotations and pricing models that factor in, where applicable, interest rates and volatility. These bonds are generally categorized in Level 2 of the fair value hierarchy.

Corporate stocks are exchange traded securities that are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied and they are categorized in Level 1 of the fair value hierarchy.

Not readily marketable securities held in trust are valued using quoted market prices and are categorized in Level 1 of the fair value hierarchy. Other not readily marketable securities are estimated using multiple factors including the cost of the investment, terms and liquidity, developments since the acquisition of the investment, the sales price of recently issued securities, the financial condition and operating results of the issuer, earnings trends and consistency of operating cash flows, the long-term business potential of the issuer, the quoted market price of securities with similar quality and yield that are publicly traded, and other factors generally pertinent to the valuation of investments. These securities are generally categorized in Level 2 of the fair value hierarchy. An investment in a partnership is valued based on calculations of the net reserves and future net revenue of the partnership's interests in owned oil and gas reserves and is categorized in Level 3 of the fair value hierarchy.

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2010
Assets:				
Government securities segregated under federal and other regulations	\$ 2,546	\$ -	\$ -	\$ 2,546
State and municipal obligations		3,174		3,174
Mortgage-backed securities		143,094		143,094
Corporate stocks	9,855			9,855
Money markets, mutual funds and other	192			192
Corporate bonds, debentures and notes	2,740			2,740
U.S. Treasury obligations	16,400			16,400
Not readily marketable securities	<u>1,881</u>	<u>352</u>	<u>1,159</u>	<u>3,392</u>
Total assets at fair value	<u>\$ 33,614</u>	<u>\$ 146,620</u>	<u>\$ 1,159</u>	<u>\$ 181,393</u>
Liabilities — corporate stock	<u>\$ 450</u>	<u>\$ -</u>	<u>\$ -</u>	<u>450</u>
Total liabilities at fair value	<u>\$ 450</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 450</u>

The investment in a partnership categorized in level 3 will be marked to market on a quarterly basis based on a risk adjustment analysis. Any distributions made based on the partnership's earnings will decrease the carrying value of the investment and any allocations of partnership's earnings will increase the carrying value of the investment. Distributions and earnings allocations are included in earnings. A reconciliation of the investment categorized in level 3 is as follows:

BALANCE — December 31, 2010	1,137
Net income allocation	36
Distribution from earnings	<u>(14)</u>
BALANCE — June 30, 2011	<u>\$ 1,159</u>

4. ASSETS SEGREGATED UNDER FEDERAL REGULATIONS

At June 30, 2011, the Company had segregated \$2,546 of marketable securities in an account "for the exclusive benefit of customers" pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934.

5. RECEIVABLES AND PAYABLES

Brokers and Dealers — Receivables from brokers and dealers at June 30, 2011, consist of the following:

Unsettled regular-way trades	\$ 52,396
Securities borrowed	7,721
Securities failed to deliver	1,861
Other	<u>3,831</u>
	<u>\$ 65,809</u>

Payables to brokers and dealers at June 30, 2011, consist of the following:

Securities failed to receive	\$ 576
Dealer free credits	<u>63</u>
	<u>\$ 639</u>

Customers — Receivables from customers primarily consist of amounts due on cash and margin securities transactions. The value of securities owned by customers and held as collateral for these receivables is not reflected in the statement of financial condition. No allowance for doubtful accounts is considered necessary. Payables to customers primarily represent cash on deposit with the Company.

Officers, Directors, and Affiliates — Receivables from and payables to officers, directors, and affiliates result from securities transactions executed in the ordinary course of business and carry the same terms and conditions as transactions with non-related parties.

Others — Receivables from others result primarily from the Company's brokerage activities.

6. MARKETABLE SECURITIES AND SECURITIES SOLD, NOT YET PURCHASED

The components of marketable securities and securities sold, not yet purchased at June 30, 2011, are as follows:

	Owned	Sold, Not Yet Purchased
State and municipal obligations	\$ 3,174	\$ -
Mortgage-backed securities	143,094	
Corporate stocks	9,855	450
Money markets, mutual funds and other	192	
Corporate bonds, debentures and notes	2,740	
U.S. Treasury obligations	16,400	
Less marketable securities pledged as collateral for repurchase agreements	<u>(112,023)</u>	
Total	<u>\$ 63,432</u>	<u>\$ 450</u>

7. BORROWINGS

The Company had short-term bank borrowings outstanding at June 30, 2011 of \$12,200. During the year, short-term borrowings averaged \$1,680 per month, with a maximum indebtedness of approximately \$22,200. The weighted-average interest rate on these borrowings approximated 1.40% and the interest rate as of June 30, 2011 was 1.375%.

As of June 30, 2011, the Company had no outstanding obligations that were subordinated to claims of general creditors.

8. NET CAPITAL REQUIREMENTS

The Company is subject to the Uniform Net Capital Rule 15c3-1 (the "Rule") under the Securities Exchange Act of 1934. The Company has elected to compute its net capital requirement under the aggregate indebtedness method of the Rule, which does not allow aggregate indebtedness to exceed 15 times net capital. At June 30, 2011, the Company had an aggregate indebtedness to net capital ratio of 2.60 with \$76,802 of net capital, which was \$63,492 in excess of its required minimum net capital of \$13,311. The Company is also subject to the Commodity Futures Trading Commission's minimum financial requirements (Regulation 1.17).

The Company operates in a highly regulated industry. Applicable laws and regulation restrict permissible activities and investments. These policies require compliance with various financial and client-related regulations. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions. In addition, the Company is also subjected to comprehensive examinations and supervisions by various governmental and self-regulatory agencies. These regulatory agencies generally have broad discretion to prescribe greater limitations on the operations of a regulated entity for the protection of investors or public interest. Furthermore, where the agencies determine that such operations are unsafe or unsound, fail to comply with applicable law, or are otherwise inconsistent with the laws and regulations or with the supervisory policies, greater restrictions may be imposed.

9. EMPLOYEE BENEFIT PLANS

The Company has a 401(k) profit sharing plan which allows employees to begin making contributions on the first payroll date of the second calendar month following their date of hire. Participants are eligible for Company matching contributions at the beginning of the calendar quarter following six months of employment with a minimum of 500 hours worked. The plan was amended in 2009 to provide that Company contributions for each plan year are made at the discretion of the Company's Board of Directors. Participants are fully vested in the Company's contributions after five years of service, and have graduated vesting up to the five years. Forfeitures of the Company's contributions are used to pay for plan expenses or to increase the Company's contributions.

The Company participated in a nonqualified, unfunded deferred compensation plan (the "Plan"), however, the Plan was terminated in May 2011.

10. RELATED-PARTY TRANSACTIONS

The Company rents certain real property from an affiliate and other related parties under noncancelable operating leases. At June 30, 2011, the future minimum rental commitments under these leases are as follows:

Years Ending December 31	Amount
2012	\$ 3,127
2013	3,127
2014	3,127
2015	2,145
2016	26
Thereafter	-
	<u>\$ 11,552</u>

The Company holds a position in marketable securities of companies in which officers, directors, and affiliates are members of the Boards of Directors. Total investment in related entities was \$3,477 which is included in marketable securities.

11. COMMITMENTS AND CONTINGENCIES

In addition to the lease commitment discussed in Note 10, the Company has commitments related to other office space and software maintenance agreements. At June 30, 2011, the future minimum payments required under these agreements are as follows:

Years Ending December 31	Amount
2012	\$ 4,892
2013	4,776
2014	3,952
2015	3,479
2016	3,404
Thereafter	<u>12,915</u>
	<u>\$ 33,418</u>

The Company is a defendant in several lawsuits and arbitrations, which arose from its usual business activities. Certain of these lawsuits arose from the Company's participation as a member of the selling group or the underwriting syndicate in public offerings of securities. The Company also is involved, from time to time, in investigations and proceedings by governmental and self-regulatory agencies, certain of which may result in adverse judgments, fines, or penalties. Although the ultimate outcome of these actions cannot be ascertained at this time, and the results of legal proceedings cannot be predicted with certainty, management, based on its understanding of the facts and consultation with outside counsel, does not believe that the ultimate resolution of these matters will have a materially adverse effect on the Company's financial position, results of operations or cash flows.

The Company also provides guarantees to securities clearinghouses and exchanges under their standard membership agreement, which requires members to guarantee the performance of other members. Under the agreement, if another member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. The Company's liability under these agreements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the potential requirement for the Company to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these transactions.

The Company provides indemnification in connection with securities offering transactions in which it is involved. When the Company is an underwriter or placement agent, it provides a limited indemnification to the issuer related to its actions in connection with the offering and, if there are other underwriters, indemnification to the other underwriters intended to result in an appropriate sharing of the risk of participating in the offering. It is not possible to quantify the aggregate exposure to the Company resulting from these types of indemnification provisions. The Company has not recorded a liability for such exposure as the likelihood of being required to pay is remote.

12. DISCLOSURES ABOUT FINANCIAL INSTRUMENTS

Off-Balance-Sheet Risk — The Company enters into various transactions involving off-balance-sheet financial instruments, which primarily include securities purchased and sold on a when-issued basis, securities to-be-announced, and options.

The Company has sold securities not yet purchased and, therefore, will be obligated to purchase such securities at a future date. The Company has exposure to losses if the market values of these securities increase prior to purchase.

The Company's clearance activities involve the execution, settlement, and financing of various customer securities and commodities transactions on either a cash or margin basis. In margin transactions, the Company extends credit to the customer, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customer's account. Customer transactions may expose the Company to off-balance-sheet risks in the event the customer is unable to fulfill its contractual obligation or the margin requirements are not sufficient to fully cover losses that the customer may incur. The Company controls this risk by establishing credit limits for such activities and monitoring its customers' compliance and exposure on a daily basis.

As a registered futures commission merchant, the Company introduces customer transactions to another broker on a fully disclosed basis that involve the purchase and sale of commodity futures contracts (including options on futures), but it does not carry any accounts related to commodities transactions for customers.

Futures contracts are executed on an exchange, and cash settlement is made on a daily basis for market movements. Accordingly, futures contracts generally do not have credit risk. The Company is also exposed to market risk, which is substantially dependent upon the value of the underlying financial instruments and is affected by market forces such as volatility and changes in interest and foreign exchange rates.

13. COLLATERAL

The Company receives collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, the Company is permitted to sell or repledge the securities held as collateral and use the securities to enter into securities lending arrangements or deliver

to counterparties to cover short positions. At June 30, 2011, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was \$192,525 and the fair value of the firm's collateral that had been sold or repledged was \$17,933.

14. SUBSEQUENT EVENTS

The Company evaluated subsequent events through August 1, 2011, the date the statement of financial condition was issued, and identified no subsequent events that should be disclosed in the notes to the statement of financial condition.

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