



**STATEMENT OF
FINANCIAL CONDITION**

unaudited, as of March 31, 2011

Assets

Cash and cash equivalents.....	\$ 8,383,950
Receivables:	
Customers, net	129,866,220
Brokers, dealers and clearing organizations.....	12,466,301
Related parties	13,194,665
Other	7,989,768
Securities.....	37,771,160
Equipment and leasehold improvements less depreciation and amortization.....	9,009,038
Notes receivable, net	30,369,626
Goodwill and other intangible assets.....	4,053,120
Other assets.....	8,404,932
Deferred tax asset, net	8,704,729
Total assets	\$ 270,213,509

Liabilities and Shareholder's Equity

Liabilities:	
Checks in advance of deposits	\$ 11,824,870
Secured loans.....	18,700,000
Payables:	
Customers	34,947,188
Brokers, dealers and clearing organizations	2,858,360
Related parties	380,133
Securities sold, not yet purchased	4,513,200
Accrued employee compensation.....	32,811,478
Income taxes payable.....	247,579
Other payables and accrued liabilities	7,026,017
Total liabilities	113,308,825
Shareholder's equity:	
Common stock (\$.10 par value. Authorized 3,000,000 shares; 1,000 shares issued and outstanding)	100
Additional paid-in capital	23,734,043
Retained earnings	133,170,541
Total shareholder's equity.....	156,904,684
Total liabilities and shareholder's equity	\$ 270,213,509



D.A. Davidson & Co. is subject to the Uniform Net Capital Rule (15c3-1) pursuant to the Securities Exchange Act of 1934. The Company has elected to use the alternative method permitted by Rule 15c3-1 which requires that it maintain net capital in excess of the greater of \$250,000 or 2% of the aggregate debit balances arising from customer transactions as defined in the Formula Reserve Requirements under SEC Rule 15c3-3. At March 31, 2011, the Company's net capital of \$68,437,652 was 50.2 % of aggregate debit items and net capital exceeded the required capital of \$2,725,030 by \$65,712,622. The Statement of Financial Condition of the most recent annual audit report pursuant to Rule 17a5 of the Securities Exchange Act of 1934 is available for examination at the principal office of the company and the regional office of the Securities and Exchange Commission in Los Angeles, California.

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(1) Summary of Significant Accounting Policies

Organization

D.A. Davidson & Co. (the Company) is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority. The Company is a Montana corporation that is a wholly-owned subsidiary of Davidson Companies (the Parent). The Company's activities as a securities broker-dealer comprise several classes of services, including principal transactions, agency transactions, investment banking and investment advisory services. These services are provided to its customers throughout the nation from its offices primarily located in the Pacific Northwest and Rocky Mountain regions.

The Company follows accounting standards set by the Financial Accounting Standards Board, commonly referred to as the "FASB". The FASB sets generally accepted accounting principles (GAAP) that we follow to ensure we consistently report our financial condition, results of operations, and cash flows. References to GAAP issued by the FASB in these footnotes are to the *FASB Accounting Standards Codification*, sometimes referred to as the Codification or ASC.

(a) Revenue Recognition

Revenues from customer securities transactions are reported on a trade date basis. Proprietary securities transactions are reported on a trade date basis and the related gains or losses are recorded in trading revenue. Amounts receivable and payable for proprietary securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition. Marketable securities and securities not readily marketable are valued at fair value with the related gains and losses recorded in trading revenue. Investment banking revenues include management fees earned from securities offerings in which the Company acts as an underwriter or agent and fees earned from providing financial advisory services. Investment banking management fees and sales commissions are recorded on the offering date, and underwriting fees are recognized at the time the underwriting is completed and the gain or loss is readily determinable. Advisory and administrative fees are recorded as earned, with billed but not paid amounts reflected as accounts receivable and amounts received but not earned reflected as deferred fee income. Investment company administrative 12b-1 fees are recorded when received.

(b) Securities Lending Activities

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

(c) Securities

Securities at March 31, 2011 consist of bonds, stocks and other investments. The Company classifies its investments as trading securities. Securities are bought and held principally as inventory for the purpose of sales in the near term. Securities are recorded at fair value.

The Company has adopted the *Fair Value Measurements* topic of the FASB ASC effective October 1, 2008. This topic defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. Fair value is defined as the price that would

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be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation techniques used are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following hierarchy:

- Level 1 securities include inputs based on quoted prices in active markets for identical securities, which provides the most reliable fair value measurement. This category generally includes actively traded equity securities, mutual funds and US government obligations.
- Level 2 securities include inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. These observable inputs include quoted prices for similar securities, and bond pricing models based on interest rates, credit risk, and remaining maturity for similar securities. This category generally includes corporate bonds, municipal bonds and government agency mortgage backed bonds.
- Level 3 securities do not have observable pricing inputs as of the measurement date. These securities are valued based on management's best estimate of fair value, which may include significant judgment or estimation. Factors that may be considered in the valuation estimate include the cost, terms and liquidity of the security, the financial condition and operating results of the issuer, market prices of similar securities, pricing models based on estimated cash flows and yields, the values established in the financial statements of limited partnership investments, and other factors generally applicable to the valuation of securities. This category includes certain sanitation improvement district obligations, auction rate preferred securities and limited partnership investments owned by the Company.

See footnote 4 for further information regarding Securities Owned and Sold, Not Yet Purchased.

(d) *Income Taxes*

The Company and its sister corporations are included in the consolidated U.S. federal and various combined state income tax returns filed by the Parent. The Company is no longer subject to U.S. federal, state, and local income tax examinations by authorities for fiscal years ending prior to September 30, 2003. Federal income taxes are calculated as if the companies filed on a separate return basis. Amounts are included in related parties receivables and payables for income tax payments made by the Company on behalf of the Parent and sister corporations. As of March 31, 2011, receivables were \$674,482 and payables were \$337,609.

The Company accounts for income taxes in accordance with the *Income Taxes* topic of FASB ASC. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. When applicable, a valuation allowance is established to reduce any deferred tax asset when it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

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The Company records uncertain tax positions when the effect of the outcome is considered probable and reasonably estimable. As of March 31, 2011, the Company has not made any accruals for uncertain tax positions.

(e) Cash

The Company has cash deposit accounts with financial institutions in which the balances may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant risk.

(f) Receivable From and Payable to Customers

Accounts receivable from and payable to customers include amounts due on cash and margin transactions. Securities owned by customers are held as collateral for receivables.

(g) Equipment and Leasehold Improvements

Equipment and leasehold improvements are recorded at cost. Depreciation is provided on a straight-line or accelerated basis using estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease. Estimated useful lives range from 2 to 10 years.

(h) Goodwill and Intangible Assets

Goodwill represents the excess of consideration given over fair value of net assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values. As of March 31, 2011 the balance of goodwill was \$2,395,337.

The Company is required to identify the related reporting unit that pertains to any goodwill balance and to test goodwill for impairment by comparing the fair value of the reporting unit to the carrying amount of the reporting unit. The Company has identified its related reporting unit as its equity capital markets business and has allocated goodwill accordingly. The Company estimated the fair value of the reporting unit and determined that the unit's fair value exceeds its carrying value, and consequently, no impairment was evident at March 31, 2011.

In connection with the March 2009 acquisition of the assets and operations of Ruan Securities, the Company recorded an intangible asset of \$1,348,060 identifiable with the Ruan customer base, which is being amortized over the estimated useful life of seven years. As of March 31, 2011, the balance of this intangible asset was \$591,117.

In connection with the December 2010 acquisition of the assets and operations of Silversteep Partners, the Company recorded an intangible asset of \$1,200,000 identifiable with the Silversteep customer base, which is being amortized over the estimated useful life of three years. As of March 31, 2011, the balance of this intangible asset was \$1,066,667.

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(i) Allowance for Doubtful and Impaired Receivables

The Company provides an allowance for losses on doubtful and impaired customer accounts and notes receivable based on management's evaluation of existing accounts outstanding and historical experience related to such activity. A receivable is considered impaired when, based upon current information and events, it is probable that the Company will be unable to collect, on a timely basis, all principal and interest according to the contractual terms of the receivable's original agreement. When a specific receivable is determined to be doubtful or impaired, the allowance for receivables is increased through a charge to expense for the amount of the estimated loss or impairment.

The Company's investment in impaired customer accounts and notes receivable for which there is no related allowance for credit losses totaled \$612,500 at March 31, 2011, and allowances for estimated losses and impairment on customer accounts and notes receivable totaled \$138,397.

(j) 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The Company considers its more significant estimates to include the accrual for legal claims, reserves for claims under the Company's self-insured employee medical plan, the valuation of Level 3 securities, allowances for doubtful and impaired receivables, and the estimated value of stock options granted.

(k) Stock-Based Compensation

The Parent's stock option plan provides for the granting of Parent common stock options to officers, key employees and directors of the Company. The Company accounts for its share-based compensation in accordance with the *Stock Compensation* topic of FASB ASC, which requires recognition of expense related to the fair value of share-based compensation.

Compensation cost recognized for the period ended March 31, 2011 includes compensation cost for all share-based compensation granted subsequent to October 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of the *Stock Compensation* topic, recognized using the straight-line attribution method.

(l) Long-Lived Assets

The Company's long-lived assets, such as property, plant and equipment, and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. The Company did not record any impairment charges during the period ended March 31, 2011 as there were no long-lived assets that were considered impaired.

(m) Advertising

The Company expenses its advertising costs as incurred.

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(n) Notes Receivable

Notes receivable consist of unsecured loans to Company employees. These notes earn interest at rates consistent with current market rates and are repaid over a term of three to ten years. Repayment is generally made with the employees' bonus compensation.

(o) Recent Accounting Pronouncements

In June 2009, the FASB issued FASB ASC 105, *Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the Company has updated references to GAAP in its financial statements issued on or after the period ended September 30, 2009. The adoption of FASB ASC 105 did not impact the Company's financial position or results of operations.

The Company adopted the provisions of *Accounting for Uncertainty in Income Taxes Recognized in a Company's Financial Statements*, which is included in the *Income Tax* topic of the FASB ASC, effective October 1, 2009. This guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The topic also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of these provisions did not impact the Company's financial position, results of operations, or cash flows.

(2) Net Capital Requirements

D.A. Davidson & Co. is subject to the Uniform Net Capital Rule (15c3-1) pursuant to the Securities Exchange Act of 1934. The Company has elected to use the alternative method permitted by Rule 15c3-1 which requires that it maintain net capital in excess of the greater of \$250,000 or 2% of aggregate debit balances arising from customer transactions as defined in the Formula Reserve Requirements under SEC Rule 15c3-3. At March 31, 2011, the Company's net capital of \$68,437,652 was 50.2% of aggregate debit items and net capital exceeded the required capital of \$2,725,030 by \$65,712,622.

(3) Receivables From and Payable to Brokers, Dealers and Clearing Organizations

Amounts receivable from and payable to brokers, dealers and clearing organizations consist of the following at March 31, 2011:

	<u>Receivable</u>	<u>Payable</u>
Securities failed-to-deliver/receive	\$ 1,271,771	2,341,169
Unsettled proprietary trades	9,437,443	—
Other	1,757,087	517,191
	<u>\$ 12,466,301</u>	<u>2,858,360</u>

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(4) Securities Owned and Sold, Not Yet Purchased

The following table summarizes Securities Owned and Sold, Not Yet Purchased as of March 31, 2011:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Securities Owned:				
Bonds:				
Corporate	\$ —	2,850,560	—	2,850,560
Municipal	—	14,533,143	6,987,479	21,520,621
Other	—	6,398,967	—	6,398,967
Stocks	3,385,947	—	—	3,385,947
Auction rate preferred securities	—	—	3,013,000	3,013,000
Limited partnerships	—	—	602,065	602,065
	<u>\$ 3,385,947</u>	<u>23,782,670</u>	<u>10,602,544</u>	<u>37,771,160</u>
Securities Sold, Not Yet Purchased:				
Bonds:				
Other	\$ —	4,293,735	—	4,293,735
Stocks	219,465	—	—	219,465
	<u>\$ 219,465</u>	<u>4,293,735</u>	<u>—</u>	<u>4,513,200</u>

Following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value:

	Level 3 Beginning Balance October 1, 2010	Purchase of Investments	Sale/Redemption of Investments	Realized Gain/(Loss)	Change in Unrealized Gain/(Loss)	Level 3 Ending Balance March 31, 2011
2010						
Securities Owned:						
Municipal bonds	\$ 7,310,492	5,268,892	(5,386,913)	27,512	(232,504)	6,987,479
Auction rate preferred securities	7,038,000	—	(4,025,000)	—	—	3,013,000
Limited partnerships	606,956	—	(4,891)	—	—	602,065
	<u>\$ 14,955,448</u>	<u>5,268,892</u>	<u>(9,416,804)</u>	<u>27,512</u>	<u>(232,504)</u>	<u>10,602,544</u>

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(5) Secured and Unsecured Loans

The Company has two revolving lines of credit totaling \$80,000,000, secured by certain Company or customer margin assets, and one unsecured revolving line of credit for \$10,000,000. The revolving lines of credit bear interest at an intra-day federal funds rate plus .625% for the secured lines and 1.0% for the unsecured. One of the revolving lines of credit has a maturity date of January 31, 2012, the others have no expiration date. As of March 31, 2011, there was \$18,700,000 outstanding under the lines of credit.

(6) Employee Benefit Plans

Employees of the Company participate in the Parent's retirement savings and profit sharing plan and employee stock ownership plan. Each plan is a defined contribution plan covering all employees who have completed a year of service. Participants become 100% vested in the employer contribution account after six years of service. The proportionate cost of the respective plans is borne by the Company through annual contributions in amounts determined by the board of directors of the Parent. Investments of the employee stock ownership plan consist entirely of common stock of the Parent. The Parent's common stock is appraised twice annually including as of the end of each plan year by an independent certified business appraiser to determine the current fair market value.

Participants may contribute to the Parent's retirement savings and profit sharing plan based on a participant's choice of a percentage up to limits established by the plan.

(7) Income Taxes

Differences between the financial statement carrying amounts and the tax bases of assets and liabilities that give rise to significant portions of deferred tax assets and liabilities are as follows as of September 30, 2010:

Deferred tax assets:	
Employee compensation and benefits	\$ 7,401,435
Equipment and leasehold improvements, principally difference in depreciation	1,135,445
Allowance for doubtful receivables	169,459
Accrued expenses	500,604
State taxes	56,785
Capital loss carryovers	225,739
Other	261,222
Total deferred tax assets	<u>9,750,689</u>
Deferred tax liabilities:	
Prepaid expenses	901,362
Other	144,598
Total deferred tax liabilities	<u>1,045,960</u>
Net deferred tax asset	<u>\$ 8,704,729</u>

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In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the existence of, or generation of, taxable income in the periods in which those temporary differences are deductible. Management considers the scheduled reversal of deferred tax liabilities, taxes paid in carryback years, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and estimates of future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

(8) Related Party Transactions

The Parent wholly owns the Company and the Company's five sister corporations: Davidson Investment Advisors, Inc., Davidson Travel, Inc., Davidson Trust Co., Davidson Fixed Income Management, Inc. and Davidson Funding Company I. Additional related parties consist of significant shareholders of the Parent, directors and principal officers.

In the normal course of business, the Company advances funds to and receives funds from the Parent and sister corporations. These receivables and payables bear interest at broker call rates and consisted of \$12,494,218 of receivables and \$360,818 of payables at March 31, 2011.

The Company rents its Great Falls, Montana office space, at terms which it considers to be fair market value, from a Partnership whose partners include the Chairman of the Parent and his immediate family.

(9) Off-Balance-Sheet Risk

In the normal course of business, the Company enters into when-issued underwriting and purchase commitments. Transactions relating to such commitments open at March 31, 2011, and subsequently settled, had no material effect on the financial statements.

The Company's normal business activities involve the execution, settlement and financing of various securities transactions. These activities may expose the Company to credit and market risks in the event the customer or counterparty is unable to fulfill its contractual obligations. Such risks may be increased by volatile trading markets.

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 customers' accounts. A portion of the Company's customer activity includes the sale of securities not yet purchased and the writing of option contracts, substantially all of which are transacted on a margin basis. Customer 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 customers fail to satisfy their obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customers' obligations. The Company seeks to control the risk 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 customers to deposit additional collateral or to reduce positions when necessary.

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(10) Commitments and Contingencies

The Company conducts its operations from leased facilities. The following is a schedule by year of future minimum rental payments required under leases that have remaining non-cancelable lease terms in excess of one year as of March 31, 2011:

	Related Party	Third Party
2012	\$ 784,559	6,346,585
2013	796,328	6,151,268
2014	536,168	4,193,413
2015	0	3,080,785
2016	-	2,243,805
Thereafter	-	2,401,713
	<u>\$ 2,117,055</u>	<u>24,417,569</u>

The Company has a partially self-insured plan for eligible employee medical and dental expenses. Stop loss insurance is maintained for individual claims in excess of \$125,000 for each policy year. In addition, the Company has an aggregate stop loss in place of \$8,752,361 at March 31, 2011. The Company is also self-insured for employee short-term disability coverage. The maximum coverage period is fifty weeks. Benefits are subject to certain weekly compensation limits.

The Company is involved in various claims and litigation. In the opinion of management, following consultation with legal counsel, the ultimate liability or disposition thereof is not expected to have a material adverse effect on the financial condition, results of operations or liquidity of the Company.