

ROMANO BROTHERS & COMPANY
STATEMENT OF FINANCIAL CONDITION
as of June 30, 2011

(Unaudited)

ASSETS

Cash and Cash Equivalents	\$ 907,450
Receivables from brokers, dealers and clearing organizations	132,698
Securities owned, at market	1,447,063
Furniture, equipment and leasehold improvements (less accumulated depreciation and amortization of \$590,601)	16,425
Other assets	<u>741,723</u>
Total Assets	\$ <u>3,245,359</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Payables to brokers, dealers and clearing organizations	-0-
Accounts payable and accrued expenses	543,834
Deferred income taxes payable	<u>586,500</u>
Total Liabilities	<u>1,130,334</u>

Stockholders' Equity

Common stock, no par value; 500,000 shares authorized; 44,000 shares issued and outstanding	218,687
Retained earnings	3,297,608
Treasury Stock, 12,200 shares of common stock in treasury, at cost	<u>(1,401,270)</u>
Total Stockholders' Equity	<u>2,115,025</u>

<u>Total Liabilities and Stockholders' Equity</u>	\$ <u>3,245,359</u>
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ROMANO BROTHERS AND COMPANY

NOTES TO FINANCIAL STATEMENTS June 30, 2011

1. Nature of Business

Romano Brothers and Company (the "Company") was incorporated in the State of Illinois on October 2, 1968. The Company is a registered securities broker-dealer and a registered investment advisor. The Company's primary source of revenue is management fees derived from investment and cash management services provided to those customers that choose to have their accounts professionally managed. The Company also engages in the proprietary trading of fixed income products and exchange-traded equity securities.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies, which have been followed in preparing the accompanying financial statements, is set forth below.

Income Recognition

Securities transactions and related revenue and expenses are recorded on a trade date basis and, accordingly gains and losses are recorded on unsettled transactions. Management fee income is recorded on an accrual basis.

All financial instruments are recorded in the statement of financial condition at fair value in accordance with Accounting Standards Codification (ASC) 820 – Fair Value Measurement and Disclosures (See Note 7).

Furniture, Equipment and Leasehold Improvements

Furniture and equipment are recorded at cost and depreciated by straight-line and various accelerated methods over the estimated useful lives of the assets. Leasehold improvements are amortized by the straight line method over the term of the associated lease. For the year ended June 30, 2011, depreciation and amortization totaled approximately \$955.00.

Income Taxes

For income tax reporting purposes, the Company has elected to file as a small business corporation under Subchapter S of the Internal Revenue Code. Accordingly, no provision for federal income taxes has been made in the financial statements as the taxable income is included in the stockholders' individual income tax returns.

The Company is subject to tax imposed by Section 1374 of the Internal Revenue Code ("built-in gains tax"), which requires corporate-level tax on S corporations that dispose of assets that appreciated in value during the period that the corporation filed as a C corporation. S corporations subject to built-in gains tax are required to pay tax at the highest corporate rate on all built-in gains realized during the ten year period following the date of election to file as an S corporation.

ROMANO BROTHERS AND COMPANY

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011

2. Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. Credit Concentration

At June 30, 2011, a significant credit concentration consisted of approximately \$1.6 million, representing the market value of the Company's accounts carried by its clearing broker, Mesirow Financial Inc. Management does not consider any credit risk associated with this net receivable to be significant.

4. Off-Balance Sheet Risk

Customer transactions are introduced and cleared through the Company's broker on a fully disclosed basis. Under the terms of its clearing agreements, the Company is required to guarantee the performance of its customers in meeting contracted obligations. In conjunction with the broker, the Company seeks to control the risks associated with its customer activities by requiring customers to maintain collateral in compliance with various regulatory and internal guidelines. Customers may be required to deposit additional collateral, or reduce positions, where necessary.

The Company engages in various transactions with broker-dealers and clearing organizations. In the event the counterparties do not fulfill their obligations, the Company may be exposed to credit risk. The risk of default depends on the creditworthiness of the counterparties to these transactions. It is the Company's policy to monitor the creditworthiness of each party with which it conducts business.

5. Commitments

The Company conducts its operations in leased office facilities and annual rentals are charged to current operations. The lease is subject to an escalation clause based on the operating expenses of the lessor. Rent expense for the year ended June 30, 2011 totaled approximately \$179,000.

ROMANO BROTHERS AND COMPANY

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011

5. Commitments, continued

The approximate minimum annual rental commitments under non-cancelable operating leases are as follows:

	<u>Amount</u>
2011 (as of 6/30/11)	\$ 83,500
2012	<u>169,000</u>
	<u>\$ 252,500</u>

In accordance with the stockholders' agreement, the Company may be required to purchase shares of stock under certain conditions, as defined in the agreement.

6. Profit Sharing Plan

The Company has a profit sharing plan covering substantially all eligible employees. The Company's contribution is discretionary. Total profit sharing expense for the year was approximately \$120,000.

7. Fair Value Disclosure

ASC 820, Fair Value Measurements and Disclosures requires enhanced disclosures about investments that are measured and reported at fair value. 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. ASC 820 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 assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 Inputs Valuation is based on quoted prices in active markets for identical asset or liabilities at the reporting date.

Level 2 Inputs Valuation is based on other than quoted prices included with Level 1 that are observable for substantially the full term of the asset or liability, either directly or indirectly. Level 2 assets include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and inputs other than quoted prices that are observable, such as models or other valuation methodologies.

ROMANO BROTHERS AND COMPANY

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2011

7. Fair Value Disclosure, continued

Level 3 Inputs Valuation is based on unobservable inputs for the valuation of the asset or liability. Level 3 assets include investments for which there is little, if any, market activity. These inputs require significant management judgment or estimation.

The following table presents the Company's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2011:

	<u>Level 1</u>
Assets	
Securities owned	
Corporate stocks	\$ 1,000,551
Certificates of deposit	24,544
State and municipal deposits	<u>421,885</u>
Total securities owned	<u>\$ 1,446,980</u>

At June 30, 2011, the Company held no Level 2 or Level 3 investments.

8. Receivable From Broker-Dealer

Amounts receivable from broker-dealer at June 30, 2011, consist of the following:

	<u>Receivable</u>
Cash	\$ 817,284
Fees and commissions	<u>132,698</u>
	<u>\$ 949,982</u>

9. Net Capital Requirements

The Company is a broker-dealer subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c31-1). Under this rule, the Company is required to maintain "net capital" equivalent to \$100,000 or 6 and 2/3 percent of "aggregate indebtedness", whichever is greater, as these terms are defined.

At June 30, 2011, the Company had net capital and net capital requirements of \$1,180,023 and \$100,000, respectively.

ROMANO BROTHERS AND COMPANY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2011

10. Subsequent Events

The Company's management has evaluated events and transactions through July 26, 2011, the date the financial statements were issued, noting no material events requiring disclosure in the Company's financial statements.