

**RIDGE CLEARING & OUTSOURCING SOLUTIONS, INC.**  
**(An indirect wholly-owned subsidiary of Broadridge Financial Solutions, Inc.)**

**STATEMENT OF FINANCIAL CONDITION (UNAUDITED)**  
**AS OF DECEMBER 31, 2010**

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**Ridge Clearing & Outsourcing Solutions, Inc.**  
**(An Indirect Wholly-Owned Subsidiary of Broadridge Financial Solutions, Inc.)**

**STATEMENT OF FINANCIAL CONDITION (UNAUDITED)**  
**AS OF DECEMBER 31, 2010**  
**(Dollars in thousands, except share information)**

**Assets**

Cash and cash equivalents	\$	36,052
Income tax receivable, net, from Broadridge (Note 6)		46,949
Deferred tax asset, net (Note 6)		5,619
Other assets		8,821

**Assets of Discontinued Operations:**

Cash segregated for regulatory purposes (Notes 4 and 10)	24,606
Receivable from customers	1,482
Securities borrowed	1,210
Receivable from brokers, dealers and clearing organizations	7,046
Other assets	<u>1,151</u>

**Total Assets of Discontinued Operations** **\$ 35,495**

**Total Assets** **\$ 132,936**

**Liabilities and Stockholder's Equity**

**Liabilities**

Payable to affiliates (Note 5)	\$	14,439
Accrued expenses and other liabilities		8,865
Restructuring liabilities (Note 8)		1,659

**Liabilities of Discontinued Operations:**

Payable to customers	3,254
Payable to brokers, dealers and clearing organizations	7,300
Accrued expenses and other liabilities	<u>5,744</u>

**Total Liabilities of Discontinued Operations** **\$ 16,298**

**Total Liabilities** **\$ 41,261**

**Stockholder's Equity:**

Common stock \$0.10 par value; authorized 200,000 shares; issued and outstanding 100,000 shares	\$	10
Additional paid-in capital		170,269
Accumulated deficit		<u>(78,604)</u>

**Total Stockholder's Equity** **\$ 91,675**

**Total Liabilities and Stockholder's Equity** **\$ 132,936**

See notes to statement of financial condition.

**Ridge Clearing & Outsourcing Solutions, Inc.**  
**(An Indirect Wholly-Owned Subsidiary of Broadridge Financial Solutions, Inc.)**  
**NOTES TO STATEMENT OF FINANCIAL CONDITION (UNAUDITED)**  
**AS OF DECEMBER 31, 2010**

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**1. Organization**

Ridge Clearing & Outsourcing Solutions, Inc. (the "Company") is wholly-owned by Broadridge Securities Processing Solutions, Inc. (the "Parent"), which in turn, is a wholly-owned subsidiary of Broadridge Financial Solutions, Inc. ("Broadridge"), a leading global provider of investor communication services and securities processing and operations outsourcing solutions to the financial services industry, headquartered in Lake Success, New York.

The Company is a securities broker-dealer registered with the Securities and Exchange Commission ("SEC") and is a member of both the New York Stock Exchange ("NYSE") and the Financial Industry Regulatory Authority ("FINRA"). The Company provides operations outsourcing services relating to a variety of securities clearing, record-keeping, and custody-related functions. The Company's operations outsourcing solutions allow brokers to outsource certain administrative functions relating to clearing and settlement to the Company, from order entry to trade matching and settlement, while maintaining their ability to finance and capitalize their business. The Company's operations outsourcing clients execute and clear their securities transactions and engage the Company to perform a number of related administrative back-office functions, such as record-keeping and reconciliations. In this capacity, the Company is not the broker-dealer of record.

On June 25, 2010, Broadridge and the Company completed the sale of the contracts of substantially all of its securities clearing clients to Penson Financial Services, Inc. ("PFSI"), a wholly-owned subsidiary of Penson Worldwide, Inc. ("PWI"). The transaction is more fully described in Note 3. Subsequent to the sale, the Company will discontinue its securities clearing services business.

**2. Summary of Significant Accounting Policies**

The following is a summary of significant accounting policies applied by the Company in the preparation of its financial statement. These policies are in conformity with accounting principles generally accepted in the United States of America ("GAAP").

**Accounting Policies Applicable to Both Continuing and Discontinued Operations**

***Use of Estimates*** — The preparation of this financial statement in conformity with GAAP requires management to make estimates and assumptions during the reporting period that affect the related amounts in the financial statement and accompanying notes. Actual results could differ from those estimates. Significant estimates include the outcome of litigation and the carrying amounts of restructuring liabilities.

***Fair Value*** — Substantially all of the Company's assets and liabilities are carried at fair value or contracted amounts which approximate fair value. Assets which are recorded at contracted amounts approximating fair value consist of securities borrowed, customer receivables, receivables from broker-dealers and certain other receivables. Similarly, the Company's short-term liabilities such as securities loaned, customer payables, payables to broker-dealers and certain other payables are recorded at contracted amounts approximating fair value. These instruments generally have variable interest rates and short-term maturities, in many cases overnight, and accordingly, their fair values are not materially affected by changes in interest rates (see Note 11).

***Income Taxes*** — The Company is included in the consolidated Federal and applicable combined state

and local income tax returns of Broadridge. For Federal, state and local income taxes, the Company records an amount equal to its separate tax liability or benefit as if it were filing on an individual company basis. Accumulated tax benefits related to net operating losses and loss carryforwards are recorded as a receivable from Broadridge and are included in the income tax receivable, net from Broadridge on the statement of financial condition. Additionally, in accordance with Broadridge's policy, deferred tax assets and liabilities associated with non-recurring transactions will be settled as part of the income tax receivable balance.

Income taxes are provided under the provisions of Accounting Standards Codification ("ASC") No. 740, *Income Taxes*, ("ASC No. 740") (formerly Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*), which requires the Company to use the asset and liability method. This method requires that deferred taxes be adjusted to reflect the tax rates at which future taxable amounts will be settled or realized (see Note 6).

In assessing the need to record a valuation allowance against its deferred tax assets, management considers whether it is more likely than not that some portion or all of the accumulated tax benefits and deferred tax assets will be realized. The ultimate realization of accumulated tax benefits and deferred tax assets is dependent upon the generation of future taxable income during the year in which temporary differences will reverse and within allowable carry-forward periods for certain tax attributes.

***Fixed Assets, Net*** — Fixed assets, which are included in other assets, consist primarily of leasehold improvements and communication and data processing equipment and are stated at cost less accumulated amortization and depreciation. Leasehold improvements are amortized over the lesser of the terms of the respective leases, including option periods or the estimated lives of the improvements. Depreciation is expensed over the estimated useful lives of the assets, which range from 3 to 7 years.

***Stock-Based Compensation*** — Broadridge accounts for stock-based compensation in accordance with ASC No. 718 *Compensation - Stock Compensation* ("ASC No. 718") (formerly SFAS No. 123R, *Share-Based Payment*). The Company is allocated its share of applicable stock-based compensation expense, which is recorded as a capital contribution within additional paid-in capital (see Note 5).

***Recently Issued Accounting Pronouncements*** — In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2009-13, "*Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force*," an amendment of ASC No. 605-25, "*Revenue Recognition*" (formerly EITF Issue No. 08-01, "*Revenue Arrangements with Multiple Deliverables*"). This standard provides principles for allocation of consideration among its multiple-elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. The ASU introduces an estimated selling price method for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. It is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. ASU No. 2009-13 became effective for the Company in the first fiscal quarter of fiscal year 2011 and did not have an impact on the Company's results of operations, cash flows or financial condition.

***Subsequent Events*** — In preparing the accompanying financial statement, in accordance with ASC No. 855 *Subsequent Events Topic* ("ASC No. 855") (formerly SFAS No. 165, *Subsequent Events*), the Company has reviewed events that have occurred after December 31, 2010, through the date of issuance of this financial statement. During this period, the Company did not have any material subsequent events.

#### ***Accounting Policies Applicable Only to Continuing Operations***

***Cash and Cash Equivalents*** — Cash and cash equivalents include all demand deposits held in banks and certain highly liquid investments with original maturities of 90 days or less. At December 31, 2010 cash equivalents consisted of \$32.5 million invested overnight in money market funds.

#### ***Accounting Policies Applicable Only to Discontinued Operations***

**Customer Securities Transactions** — Customer securities transactions are recorded on a settlement date basis, which is generally three business days after trade date. Receivables from and payables to customers include amounts related to securities transactions. The value of securities owned by customers is not reflected in the accompanying statement of financial condition.

**Drafts Payable** — The Company presents overdraft bank account balances as a drafts payable liability account, as appropriate. In accordance with related bank agreements, such overdrafts are funded by the Company on a following-day basis.

**Securities Borrowed and Loaned** — Securities borrowed and loaned are recorded based on the amount of cash collateral advanced or received. Securities borrowed transactions facilitate the settlement process and require the Company to deposit cash with the lender. The Company takes possession of securities borrowed, monitors the market value of both securities borrowed and securities loaned and obtains additional collateral as appropriate.

**Receivable From and Payable to Brokers, Dealers and Clearing Organizations** — Receivable from brokers, dealers and clearing organizations primarily consist of securities failed to deliver and deposits held at clearing organizations. The value of correspondents' securities held by the Company as custodian is not reflected in the accompanying statement of financial condition. Payable to brokers and dealers primarily consists of payables to correspondents.

### 3. **Discontinued Operations**

On June 25, 2010, the Company and Broadridge completed the sale of the contracts of substantially all of the securities clearing clients of the Company to PFSI, for an aggregate purchase price of \$35.2 million. The purchase price paid to Broadridge consists of (i) a five-year subordinated note from PWI in the principal amount of \$20.6 million bearing interest at an annual rate equal to the London Inter-Bank Offer Rate ("LIBOR") plus 550 basis points, and (ii) 2,455,627 shares of PWI's common stock (representing 9.5% of PWI's outstanding common stock as of May 31, 2010), at the June 25, 2010 closing price of PWI's common stock of \$5.95 per share. The purchase price is subject to certain adjustments post-closing including adjustments to reflect certain recently signed correspondent clearing contracts. The Company will discontinue its securities clearing services business but will continue to provide operations outsourcing solutions aligned with Broadridge's Securities Processing Solutions business.

The assets and liabilities associated with the securities clearing business, totaling \$35.5 million and \$16.3 million, respectively, have been reclassified to Assets of discontinued operations and Liabilities of discontinued operations on the statement of financial condition.

### 4. **Securities Pledged**

The Company segregates cash in special reserve accounts for the exclusive benefit of customers and proprietary accounts of introducing brokers ("PAIB") pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934 ("Rule 15c3-3"). At December 31, 2010, the Company had segregated cash of approximately \$24.6 million, in compliance with Rule 15c3-3. This amount is included in cash segregated for regulatory purposes within assets of discontinued operations in the statement of financial condition.

Under ASC No. 860, *Transfers and Servicing* ("ASC No. 860") (formerly SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*), the Company is required to disclose the market value of collateral received under securities borrowed transactions, customer and correspondent agreements which it has the ability to sell or repledge and the amount of collateral that has been pledged or resold. As of December 31, 2010, the Company has received securities collateral primarily in connection with securities borrowed transactions and customer margin loans with a market

value of approximately \$1.8 million which it can sell or repledge. Of this amount, approximately \$1.2 million has been pledged or sold as of December 31, 2010 primarily in connection with street-side settlement.

## 5. Related Party Transactions

Broadridge funds payroll and accounts payable on behalf of the Company. The Company subsequently reimburses Broadridge for such payments. Broadridge also funded expenses related to the sale of the clearing business. The Company is also charged by Broadridge for the services and expense allocations described below. At December 31, 2010, the Company had recorded approximately \$14.4 million of intercompany payables related to the above. All intercompany payables are included in payable to affiliates in the statement of financial condition.

**Outsourcing** — The Company targets large financial institutions that currently clear on a fully-disclosed basis, offering them an opportunity to convert to a self-clearing model which utilizes the Company's operations outsourcing solutions, as well as solutions from other Broadridge wholly-owned entities.

**Clearance Processing Services** — The Company receives services from other Broadridge wholly-owned entities, primarily related to data processing, statement and confirm printing and postage. The Company is charged for services based on the other entities' cost of providing such services.

**Technology Infrastructure and Support Services** — The Company is allocated expenses relating to technology infrastructure and support services.

**Overseas Operational Support Services** — The Company outsources part of its operations to Broadridge Financial Solutions Private Limited (India), a wholly-owned Broadridge entity.

**Stock-Based Compensation** — For the six months ended December 31, 2010, Broadridge funded stock-based compensation costs on behalf of the Company. The Company treated such costs as a capital contribution as there is no intent to repay Broadridge.

**Occupancy and Equipment** — The Company leases space at its headquarters in Lake Success, New York. The space is shared with Broadridge. Although the Company is the lessee on the lease agreement, the lease is managed by Broadridge. The Company also occupies space in Journal Square, New Jersey that is leased by Broadridge.

**Dividends** — The Company paid \$100.0 million and \$10.0 million cash dividends to the Parent on July 2, 2010 and December 10, 2010, respectively, upon receipt of FINRA approval, and a \$2.3 million non-cash dividend to the Parent on October 13, 2010, of its 80,000 shares of Chicago Board Options Exchange, Incorporated ("CBOE") Class A common stock.

## 6. Income Taxes (*dollars in thousands*)

The Company has entered into a formal tax sharing agreement with Broadridge whereby the Company's current and future year tax losses, and tax loss carryforwards resulting from prior period losses, can be utilized by Broadridge to apply to Broadridge's consolidated net taxable income on Broadridge's U.S. federal tax return and any relevant consolidated state tax returns. The deferred tax assets and deferred tax liabilities related to the sale of discontinued operations are recorded on Broadridge. The impact on the Company is included in the deferred portion of the tax provision and the income tax receivable, net, from Broadridge in the statement of financial condition. As of December 31, 2010, the income tax receivable, net, from Broadridge was \$46.9 million, and the net deferred tax asset was \$5.6 million, both of which were recorded in the statement of financial condition.

The Company believes that it is more likely than not that it will be able to generate sufficient taxable income in future years to realize the benefits from its deferred tax asset. The Company also believes that

the income tax receivable from Broadridge will be settled during fiscal year 2011. However, a valuation allowance for only non-combined state net operating loss carryforwards has been recorded, as the Company realizes tax benefits associated with the filing of only consolidated/combined tax returns with Broadridge for federal and certain state income taxes.

As of December 31, 2010, the Company had no unrecognized tax benefits. The Company is currently not under any U.S. or foreign income tax exam for any of its open tax years.

## 7. Employee Benefit Plans

Certain employees of the Company participate in Broadridge's employee benefit plans. These plans include a benefit plan providing health benefits to eligible employees and their families, a defined benefit pension plan and a 401(k) retirement and savings plan. The costs of these plans were allocated to the Company by Broadridge.

Additionally, certain employees of the Company participate in Broadridge's stock-based compensation plans which provide for grants of restricted stock units and stock options of Broadridge. The costs of these plans were allocated to the Company by Broadridge. The Company treated the stock-based compensation costs as a capital contribution as there is no intent to repay Broadridge.

## 8. Commitments and Contingencies

**Leases** — The Company leases office space under non-cancelable operating lease agreements with third parties, that have initial non-cancelable terms in excess of one year and which expire on various dates through 2017. These operating leases are subject to escalation based on increases in costs incurred by the lessor. At December 31, 2010, non-cancelable contractual operating leases with third parties had the following minimum lease commitments (*dollars in thousands*):

### Year ending June 30

2011	\$ 5,268
2012	5,344
2013	2,403
2014	2,473
2015	2,541
Thereafter	<u>4,443</u>
	<u>\$ 22,472</u>

Lease commitments include remaining lease obligations for a facility that was exited and the facility in Lake Success, NY. Not included in the lease commitments above are expected receipts of sublease payments of \$3.0 million related to the facility that was exited (see "Restructuring Liabilities" below).

**Restructuring liabilities** — Concurrent with the November 2004 acquisition of the Company, the Company's management formulated a plan to restructure the Company. In accordance with Emerging Issues Task Force ("EITF") Issue 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*, certain costs related to the plan were recognized as assumed liabilities, consisting primarily of facilities leases, relocation costs and severance costs. Additionally, unrelated to the acquisition, the Company took a charge related to involuntary employee termination benefits and a charge for the fair value of the remaining lease obligation for a facility that was exited, in accordance with ASC 420, *Exit or Disposal Cost Obligations* ("ASC 420") (formerly SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*). A roll forward of the total restructuring liabilities from June 30, 2010 to December 31, 2010 is as follows (*dollars in thousands*):

	<b>Facilities Costs</b>
Balance as of June 30, 2010	\$ 2,422
Utilization — six months ended December 31, 2010	<u>(763)</u>
Balance as of December 31, 2010	<u>\$ 1,659</u>

The lease and subleases terminate in 2012.

**Litigation** — The Company is subject to various claims and litigation in the normal course of business. The Company does not believe that the resolution of these matters will have a material impact on the financial statement.

**Concentration Risk** — The Company's revenues are concentrated primarily from two clients, either one of which the termination would impact the Company's profitability.

## 9. Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk

The paragraphs below relate to the Company's discontinued securities clearing business. When the business is completely wound down, such risks will no longer be applicable.

The Company's securities activities primarily involve executions, settlement and financing of various securities transactions for a nationwide retail and institutional, customer and non-customer client base, introduced by its correspondent broker-dealers. These activities may expose the Company to risk in the event customers, other brokers and dealers, banks, clearing organizations or depositories are unable to fulfill contractual obligations.

The Company conducts business with brokers and dealers, clearing organizations and depositories that are primarily located in the New York area. Banking activities are conducted mainly with domestic commercial banks, to support customer securities activities of correspondent broker-dealers.

The Company's exposure to credit risk associated with transactions in which the Company extends credit to customers and non-customers is measured on an individual customer or counterparty basis. To reduce the potential for risk concentration, credit limits are established and continually monitored in light of changing customer and market conditions. The Company seeks to control the risk associated with these activities by requiring customers and non-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, requests the deposit of additional collateral or reduces securities positions, when necessary. In addition, the Company's correspondent broker-dealers may be required to maintain deposits relating to its security clearance activities.

The Company records customers' securities transactions on a settlement date basis, which is generally three business days after trade date. The Company is therefore exposed to off-balance sheet risk of loss on unsettled transactions in the event customers and other counterparties are unable to fulfill contractual obligations.

The Company's securities lending activities require the Company to pledge securities as collateral. In the event the counterparty is unable to meet its contractual obligation, the Company may be exposed to off-balance sheet risk of acquiring securities at prevailing market prices. The Company monitors the credit standing of counterparties with whom it conducts business. Risk is further controlled by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral level in the event of excess market exposure or instituting securities buy-in procedures when required.

The Company also provides guarantees to securities clearinghouses and exchanges. Under the standard membership agreement, members are required to guarantee the performance of the other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearinghouse, the other members would be required to meet any 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 arrangements is remote. Accordingly, no contingent liability is carried on the statement of financial condition for these transactions.

## 10. Regulatory Requirements

As a registered broker-dealer and member of the NYSE and FINRA, the Company is subject to the Uniform Net Capital Rule 15c3-1 of the Securities Exchange Act of 1934 ("Rule 15c3-1"). The Company computes its net capital under the alternative method permitted by Rule 15c3-1, which requires the Company to maintain minimum net capital equal to the greater of \$0.25 million or 2% of aggregate debit items arising from customer transactions. The NYSE and FINRA may require a member firm to reduce its business if its net capital is less than 4% of aggregate debit items, or may prohibit a member firm from expanding its business or paying cash dividends if resulting net capital would be less than 5% of aggregate debit items. At December 31, 2010, the Company had net capital of \$28.6 million, which was approximately 702.74% of aggregate debit items and exceeded the minimum requirements by \$28.3 million.

The Company is also subject to the customer protection requirements of Rule 15c3-3 of the Securities Exchange Act of 1934 ("Rule 15c3-3"). In addition, in order to allow correspondent broker-dealers to classify their assets held by the Company as allowable assets in their computation of net capital, the Company has agreed to compute a separate reserve requirement for the PAIB.

At December 31, 2010 cash of approximately \$14.5 million and \$10.1 million had been segregated in special reserve accounts for the exclusive benefit of customers and PAIB, respectively, exceeding actual requirements by approximately \$12.1 million and \$7.6 million, respectively, in accordance with Rule 15c3-3.

## 11. Fair Value of Financial Instruments

ASC No. 820-10, *Fair Value Measurements and Disclosures* ("ASC No. 820-10") (formerly SFAS No. 157, *Fair Value Measurements*), defines the fair value of a financial instrument as the amount 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. Fair value measurements do not include transaction costs.

ASC No. 820-10 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 Inputs that are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The following table summarizes the Company's financial assets measured at fair value as of December 31, 2010 (*dollars in thousands*):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash and cash equivalents -				
Money market funds	\$ <u>32,500</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>32,500</u>
Total	\$ <u>32,500</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>32,500</u>

The Company did not have any financial assets that met the classification of Level 3 assets as of and during the six months ended December 31, 2010.

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