



**STATEMENT OF
FINANCIAL CONDITION**

unaudited, as of March 31, 2009

Assets

Cash and Cash Equivalents	\$ 53,043,504
Receivables:	
Customers, net	71,235,225
Brokers, Dealers and Clearing Organizations	1,502,338
Related Parties	7,999,845
Other	4,518,823
Total	85,256,231
Securities at Market Value	37,604,326
Income Taxes Receivable	103,669
Equipment and Leasehold Improvements	
Less Depreciation and Amortization	9,145,808
Notes Receivable, net	21,253,187
Goodwill, net	2,395,337
Other Assets	8,616,327
Deferred Tax Asset, net	6,368,585
Total Assets	\$ 223,786,974

Liabilities and Stockholder's Equity

Liabilities:	
Checks in advance of deposits	\$ 6,303,790
Payables:	
Customers	39,899,307
Brokers, Dealers and Clearing Organizations	7,434,136
Related Parties	1,443,975
Market Value of Securities Sold But Not Yet Purchased	2,299,932
Accrued Payroll and Profit Sharing	29,673,235
Other Payables and Accrued Liabilities	9,473,538
Total Liabilities	96,527,913
Stockholder's Equity:	
Common Stock (\$.10 par value. Authorized 3,000,000 Shares; 1,000 Issued and Outstanding)	100
Additional Paid-in Capital	17,064,313
Retained Earnings	110,194,648
Total Stockholder's Equity	127,259,061
Total Liabilities and Stockholder's Equity	\$ 223,786,974

D.A. Davidson & Co. is subject to the Uniform Net Capital Rule (SEC Rule 15c3-1) pursuant to the Securities Exchange Act of 1934. Under the alternate method, the Company is required to maintain a net capital amount in excess of the greater of \$250,000 or two percent of the aggregate debit balances as defined in the Formula for Reserve Requirements under SEC Rule 15c3-3. At March 31, 2009, the Company's Net Capital of \$61,390,927 was 86.29 percent of aggregate debit balances and net capital exceeded the required capital of \$1,422,943 by \$59,967,984. 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.

(a) Revenue Recognition

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 principal trading. 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 are valued at market value, and securities not readily marketable are valued at fair value as determined by the Company with the related gains and losses recorded in principal trading. 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 market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

(c) Securities

Securities at March 31, 2009 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, or estimated fair value, with unrealized gains and losses included in investment income.

(d) Income Taxes

The Company and its sister corporations are included in the consolidated federal and combined state income tax returns filed by the Parent. 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

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income tax payments made by the Company on behalf of the Parent and sister corporations. As of March 31, 2009, receivables were \$10,000, and payables were \$0.

The Company accounts for income taxes under the asset and liability method. 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.

(e) *Cash Equivalents*

Cash equivalents consist primarily of money market funds which invest in United States Treasury bills, notes and commercial paper with original maturities of 90 days or less and amounted to \$44,500,000 at March 31, 2009. The Company places its cash in high quality credit institutions. At times, cash balances may exceed Federal Deposit Insurance Corporation (FDIC) insurance limits.

(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 Other Intangible Assets*

Goodwill represents the excess of costs 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 in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*. As of March 31, 2009, 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 goodwill. 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

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the reporting unit and determined that the unit's fair value exceeds its carrying value, and consequently, no impairment is evident at March 31, 2009.

(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 \$660,000 at March 31, 2009. Allowances for estimated losses and impairment on customer accounts and notes receivable totaled \$975,264 at March 31, 2009.

(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 securities that are not readily marketable, allowances for doubtful and impaired receivables, and the volatility of Parent's stock used in computing the SFAS 123R value of stock options granted.

(k) Stock-Based Compensation

On October 1, 2006, the Company adopted the provisions of SFAS No. 123R, Share-Based Payment (SFAS 123R), which requires recognition of expense related to the fair value of share-based compensation. As a nonpublic entity that used the minimum value method of measuring equity share options and similar instruments for pro forma disclosure purposes under Statement 123, the Company adopted SFAS 123R using the prospective transition method. Under the prospective transition method, SFAS 123R applies to new awards and to awards modified, repurchased, or cancelled after the required effective date. Any awards outstanding at the date of initial application are accounted for using the accounting principles originally applied to those awards (the provisions of Opinion 25 and its related interpretive guidance).

Compensation cost recognized for the period ended March 31, 2009 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 SFAS 123R, recognized using the straight-line attribution method.

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(l) *Impairment of Long-Lived Assets*

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets such as property, plant and equipment, and intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an asset is deemed impaired and an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. The Company did not record any impairment charges during the period ended March 31, 2009. At March 31, 2009, there were no long-lived assets that were considered impaired.

(m) *Advertising*

The Company expenses its advertising costs as incurred.

(n) *Recent Accounting Pronouncements*

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. FIN 48 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. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is currently effective for the Company's fiscal year beginning October 1, 2009. The Company is assessing the impact that FIN 48 may have on its financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurement. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS 157 became effective for the Company's fiscal year beginning October 1, 2008.

(2) *Net Capital Requirements*

D.A. Davidson & Co. is subject to the Uniform Net Capital Rule (SEC Rule 15c3-1) pursuant to the Securities Exchange Act of 1934. Under the alternate method, the Company is required to maintain a net capital amount in excess of the greater of \$250,000 or 2% of aggregate debit balances as defined in the Formula for Reserve Requirements under SEC Rule 15c3-3. At March 31, 2009, the Company's net capital of \$61,390,927 was 86.29% of aggregate debit items and net capital exceeded the required capital of \$1,422,943 by \$59,967,984.

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(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:

	<u>Receivable</u>	<u>Payable</u>
March 31, 2009:		
Deposits for securities borrowed/loaned	\$ 0	–
Securities failed-to-deliver/receive	531,106	6,117,246
Unsettled proprietary trades	0	437,728
Other	971,232	879,162
	<u>\$ 1,502,338</u>	<u>7,434,136</u>

The Company held no securities belonging to counterparties as collateral under stock borrow agreements, with the right to re-pledge or sell the assets, as of March 31, 2009.

(4) Securities Owned and Sold, Not Yet Purchased

Securities owned and sold, not yet purchased, consist of trading and investment securities as follows:

	<u>Owned</u>	<u>Sold, Not Yet Purchased</u>
Bonds	\$ 23,801,918	2,250,532
Stocks	12,777,356	49,400
Other	1,025,052	–
	<u>\$ 37,604,326</u>	<u>2,299,932</u>

Other securities includes private investments which are not readily marketable. Securities not readily marketable also includes certain non-rated municipal bonds and warrants, totaling \$7,166,249 as of March 31, 2009, for which there is no market on a securities exchange or no independent publicly quoted market. The Company records its investments in securities which are not readily marketable at estimated fair value.

(5) Secured and Unsecured Loans

The Company has two revolving lines of credit with banks totaling \$80,000,000, secured by certain Company or customer margin assets, and one unsecured revolving line of credit with a bank 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 line. One of the revolving lines of credit has a maturity date of January 31, 2010, the other has no expiration date and there were no outstanding borrowings under these lines of credit at March 31, 2009.

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(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 seven 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 under the retirement savings portion of the plan. Contributions are 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 at September 30, 2008 are as follows:

	<u>September 30, 2008</u>
Deferred tax assets:	
Employee compensation and benefits	\$ 5,116,083
Equipment and leasehold improvements, principally differences in depreciation	1,076,583
Allowance for doubtful receivables	18,006
Accrued expenses	275,847
Other	429,109
Total deferred tax assets	<u>6,915,628</u>
Deferred tax liabilities:	
Prepaid expenses	415,488
State taxes	131,555
Total deferred tax liabilities	<u>547,043</u>
Net deferred tax asset	<u>\$ 6,368,585</u>

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,

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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. The Company adjusts the classification of deferred taxes annually at fiscal year end. This adjustment between current and deferred taxes does not have a significant impact on the statement of financial condition.

(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 1. Additional related parties consist of significant shareholders of the Parent, directors and principal officers.

Notes receivable consist of loans to the Company's financial consultants. 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 consultants' bonus compensation.

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

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 \$5,094,954 of receivables and \$712,096 of payables at March 31, 2009.

(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, 2009, and subsequently settled, had no material effect on the statement of financial condition.

The Company's normal business activities also 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. These risks are not recorded in the statement of financial condition.

As part of its normal brokerage activities, the Company sells securities not yet purchased (short sales) for its own account and will therefore be obligated to purchase such securities at a later date. The Company has recorded these obligations in the statement of financial condition at market values of the related securities and will incur a loss in the event prices increase subsequent to year end.

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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A portion of the Company's customer activity involves the sale of securities not yet purchased and the writing of option contracts. Such transactions may require the Company to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's obligation.

The Company arranges secured financing by pledging firm and unpaid customer securities for bank loans, securities loaned, and to satisfy deposits required by various clearing organizations. In the event the counterparty is unable to return such securities pledged, the Company may be exposed to the risks of acquiring the securities at prevailing market prices or holding collateral possessing a market value less than that of the related pledged securities. The Company seeks to control these risks by monitoring the market value of securities pledged and requiring adjustments of collateral levels where necessary.

The Company is engaged in various trading and brokerage activities whose counterparties primarily include broker-dealers, banks, and other financial institutions. In the event the 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 Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

(10) Fair Value Considerations

Substantially all the Company's financial instruments are carried at fair value or amounts that approximate fair value. Receivables from customers, primarily consisting of floating rate loans collateralized by margin securities, earn interest at rates similar to other such loans made throughout the industry. The Company's remaining financial instruments are generally short-term in nature and liquidate at their carrying values. The estimated fair value amounts have been determined by the Company using available market information and appropriate methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

(11) 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, 2009:

		<u>Related Party</u>	<u>Third Party</u>
2010	\$	761,542	5,640,904
2011		772,965	5,002,447
2012		784,559	3,923,230
2013		796,328	3,350,936
2014		536,168	1,462,928
Thereafter		0	1,035,976
	\$	<u>3,651,562</u>	<u>20,416,421</u>

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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 approximately \$7,173,304 at March 31, 2009. 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 financial condition, results of operations or liquidity of the Company.