

SEATTLE-NORTHWEST SECURITIES CORPORATION AND SUBSIDIARIES  
(SEC I.D. NO. 008-27862)

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION  
JUNE 30, 2010

ASSETS

Cash	\$	755,892
Deposits with Clearing Organization		787,116
Receivables		
Brokers and Dealers		3,754,266
Customers		59
Non-Customers		807,662
Securities Purchased Under Agreements to Resell		15,798,181
Securities Owned		19,154,370
Office Furniture, Equipment and Leasehold Improvements, net of Accumulated Depreciation and Amortization of \$2,551,500		365,671
Intangible Asset Associated with Customer Relationships		258,333
Other Assets		384,869
	\$	42,066,419

LIABILITIES AND SHAREHOLDERS' EQUITY

Bank Loans	\$	13,500,000
Securities Sold Under Agreements to Repurchase		1,710,925
Payables to Brokers and Dealers		244,590
Payables to Customers and Non-Customers		100,000
Securities Sold But Not Yet Purchased		15,388,756
Accounts Payable		351,338
Accrued Liabilities		1,738,007
	\$	33,033,616
Commitments and Contingencies (Note 5)		
Liabilities Subordinated to Claims of General Creditors (Note 7)		--
Shareholders' Equity		9,032,803
	\$	42,066,419

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL  
CONDITION  
JUNE 30, 2010

Note 1 - Organization and Summary of Significant Accounting Policies

**Organization** - Seattle-Northwest Securities Corporation (the Company) is a registered broker-dealer with the Securities and Exchange Commission (SEC). The Company operates primarily in the Northwest, however it also serves institutional and broker-dealer clients throughout the United States. The Company is also engaged in investment management services through SNW Asset Management, a wholly-owned subsidiary. The consolidated financial statements include the amounts of the Company and its wholly-owned subsidiary. All material intercompany balances and transactions are eliminated in consolidation. The Company is wholly-owned by its employees either directly or through an Employee Stock Ownership Plan (ESOP). As of June 30, 2010, the ESOP owned approximately 99% of Seattle-Northwest Securities Corporation outstanding common stock.

**FASB Codification** - On July 1, 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) became the single authoritative source for nongovernmental U.S. generally accepted accounting principles (GAAP). The ASC supersedes all previous authoritative GAAP applicable to the Company and is effective for the year ended December 31, 2009. The ASC did not affect the application of GAAP, but did affect the GAAP references included within the notes to the consolidated financial statements.

**Receivables From and Payables to Brokers and Dealers** - Such amounts principally represent the contract value of securities that have not been delivered or received by settlement date.

**Receivables From and Payables to Customers and Non-Customers** - Such amounts principally represent amounts due on cash and margin transactions. Securities owned by customers and non-customers are held as collateral for receivables. Such collateral is not reflected in the Company's consolidated financial statements.

**Other Receivables** - Such amounts principally represent amounts invoiced for financial advisory work performed. The Company provides an allowance for doubtful accounts based on management's evaluation of existing accounts outstanding and historical experience related to such activity. At December 31, 2009, allowances for estimated losses on accounts were immaterial.

**Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase** - Securities purchased under agreements to resell and securities sold under agreements to repurchase are financing transactions that are collateralized by negotiable securities, in amounts equaling 100% of the agreements, and are carried at the amounts at which the securities will be subsequently repurchased or resold, as specified in the respective agreements, including accrued interest. The Company's policy is to take possession of securities purchased under agreements to resell. Securities sold under agreements to repurchase are held by nationally recognized dealers or clearing houses. The Company monitors daily the market value of the securities acquired or sold as compared to the amounts due or owed under the resell or repurchase agreements, including accrued interest. The Company enters into new resell or repurchase agreements if any material deficiencies exist. The Company offsets certain resell and repurchase agreements that are executed with the same counterparty and meet criteria for the legal right of offset.

**Securities Valuation** - Securities inventory, which includes securities owned and securities sold but not yet purchased, is carried at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. GAAP 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 assumption 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 is categorized into three levels based on the inputs as follows:

**Level 1** - Valuations based on unadjusted 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 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

**Level 2** - Valuations based on 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 Company has various types of bonds in its securities inventory balance. All securities are categorized as Level 2 and are valued using observable inputs such as spreads to comparable agency securities, treasury securities, or published pricing scales.

**Office Furniture, Equipment and Leasehold Improvements** - Office furniture and equipment are carried at cost and are principally depreciated over their estimated useful lives according to accelerated methods of depreciation for both book and tax purposes. Leasehold improvements are also carried at cost and are amortized on an accelerated basis over the shorter of the term of the office lease or their estimated useful lives.

**Intangible Asset Associated with Customer Relationships** - In August 2007 and August 2002, the Company entered into a business combination and asset purchase transaction, respectively, to purchase customer relationships served by independent advisors for a purchase price of \$250,000 each. The assets acquired by the Company primarily involve contracts with customers that will continue to be served by the Company. The resulting intangible assets are being amortized on a straight-line basis over a period of ten years. The Company performs impairment analyses annually. An asset is deemed impaired if the sum of the expected future cash flows is less than the carrying amount of the asset. If impaired, an impairment loss is recognized to reduce the carrying value of the assets to fair value.

**Income Taxes** - The Company has been recognized by the Internal Revenue Service as a Subchapter S Corporation, which is a non-taxable entity. As the Company became a non-taxable entity effective July 1, 2003, the Company may be subject to taxes on any built-in gains if certain assets are sold prior to July 1, 2013.

Effective January 1, 2009 the Company adopted FASB Accounting Standards Codification (ASC) 740-10, relating to accounting for uncertain tax positions. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest, penalties and disclosure required. The Company does not have any uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The U.S. federal statute of limitations remains open for 2006 and onward.

**Financial Instruments** - The Company's financial instruments consist of cash, accounts receivable, securities purchased under agreements to resell, securities owned, deposits with clearing organizations, bank loans, securities sold under agreements to repurchase, corporate and municipal securities sold short, payables to brokers and dealers, accounts payable, accrued liabilities and liabilities subordinated to claims of general creditors. The fair values of these financial instruments approximate their carrying values.

**Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**Concentration of Credit Risk** - The Company is engaged in various trading and brokerage activities whose counterparties primarily include brokers and 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. The Company has sold securities under agreements to repurchase with two counterparties totaling \$1,710,925 and 100% of total securities sold under agreements to repurchase. The Company has purchased securities under agreements to resell with three counterparties totaling \$15,798,181 and 100% of total securities purchased under agreements to resell.

The Company maintains its cash balances in financial institutions which at times, may exceed federally insured limits. The Company has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk.

Note 2 - Bank Loans

In the normal course of business, the Company borrows from a bank on a demand basis. Borrowings are secured by receivables from brokers, dealers and customers and securities owned, in amounts equaling 100% of outstanding borrowings, pledged as collateral. The Company had outstanding borrowings from the bank of \$13,500,000 as of June 30, 2010. At June 30, 2010, the stated interest rate on these borrowings was 1.81%.

**Note 3 - Securities Owned and Securities Sold But Not Yet Purchased**

Securities owned at June 30, 2010 consist of:

U.S. Government and Federal Agency Securities	\$14,495,784
Municipal Securities	3,079,222
Corporate Securities	1,579,364
	<u>\$19,154,370</u>

Securities sold but not yet purchased at June 30, 2010 consist of:

U.S. Government and Federal Agency Securities	\$(15,388,756)
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**Note 4 - Related Parties**

Certain related-party transactions, which are principally the execution of security trades and shareholder loans, occur between the Company, its principal shareholders and its related ESOP. Security trades are consummated under terms and conditions that are considered to be comparable to other customers. At June 30, 2010, the amount of non-forgivable shareholder loans included in other receivables was \$800.

**Note 5 - Commitments and Contingencies**

In the normal course of business, the Company enters into when-issued and underwriting commitments. The price of the underlying securities and date when the securities will be delivered and paid for are fixed at the time the transaction is negotiated. Losses may arise due to changes in the market value of the securities or from the inability of counterparties to meet the terms of the contract. Open commitments at June 30, 2010, which were subsequently settled, had no material effect on the financial condition of the Company.

In connection with securities purchases, the Company is required to hold liquid assets as collateral with the custodian sufficient to cover the purchase price. At June 30, 2010, \$425,000 was held as collateral.

The aggregate annual non-cancelable rental commitments at June 30, 2010 under all office leases, subject to certain escalation charges, are as follows:

2010	\$308,480
2011	587,693
2012	575,771
2013	576,781
2014	355,368
	<u>\$2,404,093</u>

**Note 6 - ESOP**

The Company's ESOP covers all of the Company's eligible employees. An employee is eligible to participate in the ESOP on either July 1 or January 1 following their date of hire. Plan contributions are based on a percentage of an employee's elective deferrals as well as Company profitability. Employees vest in plan contributions over a three-year period. The amount of the annual Company contribution under the ESOP is determined based on the return on shareholders' equity achieved during the Company's fiscal year as well as the amount of total compensation an employee defers.

**Note 7 - Buy-Sell Agreement**

The Company has an agreement for the purchase and sale of stock that limits ownership and transferability of its shares amongst its employees and its ESOP. The agreement specifies the Company can redeem and cancel its shares at the fair market value of those shares in the event of death, disability or retirement of a shareholder/employee or under other circumstances with payment being made, if the Company so desires, in the form of a note which may be subordinated. Repayment of principal is made in four annual installments bearing interest at variable rates.

**Note 8 - Capital Requirements**

The Company is required to maintain minimum capital as defined in certain "net capital rules" of the SEC. In 2009, the Company adopted 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 as defined in the Formula Reserve Requirements under Rule 15c3-3. At June 30, 2010, the Company's net capital was \$7,023,671, which exceeded minimum capital requirements by \$6,773,671. At June 30, 2010, the Company had no aggregate debit balances.

Pursuant to SEC regulations, an independent auditor's report on internal control was filed along with the Company's annual audit report to the SEC. A copy of this report is currently available at the SEC's principal office in Washington D.C. and the SEC's Pacific Regional office in San Francisco.

**Note 9 - Common Stock Purchase Loans**

The Company has issued common stock to shareholders in exchange for common stock purchase loans. The loans have ten-year maturities, bear interest at 1.25% to 1.50% above the broker call rate, are adjusted on a monthly basis, and are secured by the common stock purchased by the shareholders.

**Note 10 - Fair Value Measurements**

The Company's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy. See Note 1 for a discussion of the Company's fair value measurement accounting policies.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2010:

	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT OTHER NONOBSERVABLE INPUTS (LEVEL 3)	BALANCE AS OF JUNE 30, 2010
<b>ASSETS</b>				
SECURITIES OWNED		19,154,370		19,154,370
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL		15,798,181		15,798,181
		<u>34,952,551</u>		<u>34,952,551</u>
<b>LIABILITIES</b>				
SECURITIES SOLD BUT NOT YET PURCHASED		(15,388,756)		(15,388,756)
SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE		(1,710,925)		(1,710,925)

**OFFICE LOCATIONS**

*Corporate Headquarters*  
1420 Fifth Avenue, Suite 4300  
Seattle, Washington 98101  
206.628.2882

*Portland Branch Office*  
1000 SW Broadway, Suite 1800  
Portland, Oregon 97205  
503.275.8325

*Boise Branch Office*  
101 S. Capital Boulevard, Suite 603  
Boise, ID 83702  
208.344.8577

*Salt Lake City Branch Office*  
6955 Union Park Center, Suite 850  
Cottonwood Heights, UT 84047  
801.255.0424

*Los Angeles Office*  
445 S. Figueroa, Suite 2600  
Los Angeles, CA 90071  
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MSRB, FINRA and SIPC

SEATTLE-NORTHWEST  
SECURITIES CORPORATION  
AND SUBSIDIARIES

Consolidated Statement  
of Financial Condition  
(Unaudited)

June 30, 2010