

William Blair

As of June 30, 2011

Consolidated
Statement of
Financial Condition



<i>Assets</i>		<i>Liabilities and Member's Capital</i>	
CASH AND CASH EQUIVALENTS	\$47,800,205	PAYABLES -	
CASH SEGREGATED UNDER FEDERAL REGULATIONS	112,390	The Member	\$120,089,442
RECEIVABLES -		Customers	27,717,564
Customers	\$92,706,954	Partners of the Member	18,714,215
Securities Borrowed	40,507,004	Brokers, Dealers, and Clearing Organizations	2,598,912
Brokers, Dealers, and Clearing Organizations	13,144,549	Other	<u>21,368,106</u>
Deposits with Clearing Organizations	9,183,171		\$190,488,239
Other	<u>21,597,367</u>	SECURITIES SOLD, not yet purchased	42,182,336
	177,139,045	ACCRUED EXPENSES	<u>47,651,880</u>
TRADING SECURITIES -			280,322,455
Corporate Debt	64,380,709	SUBORDINATED BORROWINGS	46,498,000
State and Municipal Obligations	34,667,373	MEMBER'S CAPITAL	<u>124,282,200</u>
Equity	17,157,216		
Government and Government Agencies	<u>6,195,345</u>		
	122,400,643		
FIRM-OWNED INVESTMENTS	6,255,918		
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	17,988,195		
SECURED DEMAND NOTES	46,498,000		
(Collateral market value \$78,683,949)			
FIXED ASSETS			
at cost less accumulated depreciation			
and amortization of \$99,312,972	25,938,689		
OTHER ASSETS	<u>6,969,570</u>		
Total Assets	<u>\$451,102,655</u>	Total Liabilities and Member's Capital	<u>\$451,102,655</u>

The accompanying Notes to Consolidated Statement of Financial Condition are an integral part of this statement

1. Organization and Nature of Operations

The consolidated statement of financial condition includes the accounts of William Blair & Company, L.L.C., a Delaware Limited Liability Company and its wholly owned subsidiary, William Blair International, Limited (WBIL), (collectively, the Company). William Blair & Company, LLC is a wholly owned subsidiary of WBC Holdings, L.P. (the Member). All intercompany balances and transactions have been eliminated in consolidation.

The Company is a registered securities broker-dealer under the Securities Exchange Act of 1934, a registered investment advisor under the Securities Exchange Act of 1940, and a member of the Financial Industry Regulatory Authority (FINRA). Its operations are primarily in Chicago, Illinois. WBIL is registered with the U.K. Financial Services Authority (FSA). The Company makes markets in NASDAQ securities and fixed income obligations. In addition, the Company provides investment banking, execution and clearance services, investment advice, and related services to financial institutions, corporations, governments, individual investors, professional investors, and securities dealers.

2. Significant Accounting Policies

Use of Estimates

The preparation of the consolidated statement of financial condition in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated statement of financial condition and accompanying notes. Management believes that the estimates utilized in preparing its consolidated statement of financial condition are reasonable and prudent. Actual results could differ from those estimates.

Securities Transactions and Revenue

Proprietary and customer securities transactions are recorded on a settlement-date basis. The difference between recording proprietary transactions on a trade-date and settlement-date basis is not material. Futures contracts are marked to the market daily.

Cash and Cash Equivalents

The Company considers highly liquid investments that are purchased with a maturity of three months or less to be cash equivalents. Money market fund investments of \$30.0 million are included in cash and cash equivalents and are valued at reported net asset value.

Cash Segregated Under Federal Regulations

At June 30, 2011, cash of \$112,390 is segregated under federal regulations for the benefit of customers and Proprietary Accounts of Introducing Brokers (PAIB) reserve requirements in accordance with SEC Rule 15c3-3.

Fair Value Measurements

The Company has adopted Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amended Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, by requiring additional disclosures regarding fair value measurements.

Financial instruments are generally recorded at fair value. The Company uses third-party sources combined with internal pricing procedures to determine fair value for all equity and debt securities. The fair value of domestic equity securities and options is the market price obtained from a national securities exchange or the sale price in the over-the-counter markets or, if applicable, the official closing price or, in the absence of a sale on the date of valuation, at the latest bid price.

Long-term, fixed-income securities are valued based on market quotations by independent pricing services that use prices provided by market makers or matrices that produce estimates of fair market values obtained from yield data relating to instruments or securities with similar characteristics or future contractual sale transactions.

Futures contracts are valued based on settlement prices on the exchange that they are traded.

Firm-owned investments primarily include equity securities and other funds that are valued at the underlying fund's reported net asset value on the date of valuation. Firm-owned investments may also include securities for which a market price is not available or the value of which is affected by a significant valuation event. Fair value for these investments is determined in good faith by management.

Financial instruments carried at contract amounts either have short-term maturities (one year or less), are repriced frequently or bear market interest rates and, accordingly, are carried at amounts approximating fair value.

The carrying amount of secured demand notes and subordinated borrowings closely approximates fair value based upon market rates of interest available to the Company at June 30, 2011.

2. Significant Accounting Policies (continued)

Collateralized Agreements

Transactions involving securities purchased under agreements to resell (reverse repurchase agreements) are accounted for as financings and are recorded at the amount of the contract plus accrued interest. The Company's policy is to obtain possession of the reverse purchase agreements collateral and to monitor the value daily. At June 30, 2011 the Company had \$18.0 million in reverse repurchase agreements collateralized by U.S. Treasury securities.

Securities borrowed, collateralized by cash, are treated as collateralized financing transactions and are recorded at the amount of cash collateral advanced. The Company monitors the market value of securities borrowed on a daily basis, with collateral refunded as necessary. Counterparties are principally other brokers and dealers and financial institutions. As of June 30, 2011, the Company has received securities with a market value of \$39.4 million related to the securities borrowed transactions. These securities have been either pledged or otherwise transferred to others in connection with the Company's financing activities or to satisfy its commitments under proprietary and customer short sales. The Company has the right to sell or repledge securities it receives under its securities borrowed transactions.

Fixed Assets

Fixed assets consist of office furnishings, equipment, software, and leasehold improvements. Depreciation on office furnishings and equipment is provided on an accelerated basis over five to seven years (23% of net). Leasehold improvements are amortized on a straight-line basis over the lesser of the lease term or useful life (46% of net). Software developed for internal use is capitalized along with purchased software and amortized on a straight-line basis over three years (31% of net).

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars using current exchange rates at the date of the consolidated statement of financial condition.

Income Taxes

The Company and the Member are pass-through entities disregarded for federal and state income tax purposes. WBIL is subject to U.K. income taxes. Such foreign income taxes paid are allocated to the partners of the Member and are available as foreign tax credits. At June

30, 2011, WBIL has a current year income tax liability of \$49,000, which is included in other payables in the consolidated statement of financial condition.

Management has analyzed the Company's uncertain tax positions with respect to all applicable income tax issues for all open tax years and concluded that no provision for uncertain tax positions is needed.

The Company believes that it is no longer subject to any U.S. federal or state income tax examination for the years prior to 2007 and any U.K. tax examinations for the years prior to 2009.

3. Deposits With Clearing Organizations

At June 30, 2011, cash of \$9.2 million was pledged as collateral to secure deposit requirements at various clearing corporations.

4. Fair Value of Financial Instruments

ASC Topic 820 establishes a fair value hierarchy that prioritizes inputs used in determining the fair value of financial instruments. The degree of judgment utilized in measuring fair value generally correlates to the level of pricing observability. Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal market or, in the absence of a principal market, the most advantageous market. Financial instruments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. These inputs are summarized in the three broad levels below:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Observable market based inputs or unobservable inputs corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data. These financial instruments are measured using management's best estimate of fair value, where inputs into the determination of fair value require significant management judgment or estimation.

The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The Company assesses its financial instruments on a semiannual basis to determine the appropriate classification within the fair value hierarchy, as defined by ASC Topic 820.

4. Fair Value of Financial Instruments (continued)

The following table represents the fair value of financial instruments shown by level as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
	<i>(In Millions)</i>			
Assets				
Cash equivalents	\$ 30.0	\$ -	\$ -	\$ 30.0
Corporate debt	-	64.4	-	64.4
State and municipal obligations	-	34.3	0.4	34.7
Equity securities	15.6	0.2	1.4	17.2
Government and government agencies	-	6.2	-	6.2
Firm-owned investments	5.8	-	0.4	6.2
Total assets	\$ 51.4	\$ 105.1	\$ 2.2	\$ 158.7
Liabilities				
Securities sold, not yet purchased:				
Equity securities	\$ 20.2	\$ 0.3	\$ -	\$ 20.5
Corporate debt	-	10.0	-	10.0
Government	-	11.7	-	11.7
Total liabilities	\$ 20.2	\$ 22.0	\$ -	\$ 42.2

5. Secured Demand Notes and Subordinated Borrowings

At June 30, 2011, the Company had subordinated borrowings of \$46.5 million. Subordinated borrowings represent notes payable to current or former partners of the Member. The partners contributed secured demand notes payable of \$46.5 million to the Company at the time of the issuance of the subordinated borrowings. These secured demand notes are collateralized by cash of \$18.5 million, included in payable to partners of the Member on the consolidated statement of financial condition, and securities with a market value of \$60.2 million. At June 30, 2011, the Company paid an interest rate of 4% on its subordinated borrowings.

6. Derivative Contracts

The Company entered into exchange-traded futures contracts to hedge the interest rate risk in proprietary fixed income trading positions and fixed income commitments. The notional amount of open futures contracts sold at June 30, 2011, is \$35.8 million. During the year, 22 transactions were entered into at an average of 26 contracts per transaction. Netted against receivables from broker, dealer, and clearing organizations is approximately \$(85,000), which represented the fair value of these contracts at June 30, 2011. The notional amount reflects the volume and activity and does not reflect the risk of loss due to counterparty nonperformance.

7. Commitments and Contingent Liabilities

The contract amounts of open contractual commitments of fixed income securities reflect the Company's extent of involvement in a delayed delivery and do not represent the risk of loss due to counterparty nonperformance. Settlement of these transactions is not expected to have a material effect upon the Company's consolidated financial position or results of operations. At June 30, 2011, the Company had the following open contractual commitments:

Commitments to purchase \$ 30,273,000

Commitments to sell \$ 30,190,000

In the normal course of business, the Company enters into underwriting commitments. Transactions relating to such underwriting commitments that were open at June 30, 2011, and were subsequently settled had no material effect on the consolidated statement of financial condition at that date.

The Company is a defendant in lawsuits incidental to its securities and underwriting business. In the opinion of management, after consultation with outside legal counsel, the ultimate resolution of such litigation will not have a materially adverse effect on the Company's consolidated financial position.

7. Commitments and Contingent Liabilities (continued)

The Company's lease agreements covering office space and certain office equipment require annual lease payments through the year 2020. Future minimum annual lease payments required of the Company at June 30, 2011, are as follows:

Year	Lease Payments <i>(In Millions)</i>
2011	\$ 4.5
2012	9.2
2013	9.2
2014	9.1
2015	8.5
2016–2020	16.0
Total minimum lease payments	56.5
Less sublease rental income	(0.1)
Net minimum lease payments	\$ 56.4

As of June 30, 2011, the Company was contingently liable in the amount of \$246,100 under a letter-of-credit agreement issued in connection with the Company's leasehold improvement obligations.

Guarantees

The Company applies the provisions of the FASB ASC Topic 360, *Guarantees*, which provides accounting and disclosure requirements for certain guarantees. In the normal course of business, the Company provides guarantees to securities clearinghouses. These guarantees are generally required under the standard membership and licensing agreements such that members are required to guarantee the performance of other members. To mitigate these performance risks, the clearinghouses often require members to post collateral (see Note 3). The Company's obligation under such guarantees could exceed the collateral amounts posted; however, the potential for the Company to be required to make payments under such guarantees is deemed remote.

8. Financial Instruments With Off-Balance Sheet Risk

In the normal course of business, the Company's activities involve the clearance, execution, settlement, and financing of various securities transactions. These activities may expose the Company to off-balance sheet risk in the event the customer or counterparty is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

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. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company has established controls to monitor the creditworthiness of counterparties, as well as the quality of pledged collateral, to limit the Company's exposure to counterparty credit risk. The Company also has credit guidelines that limit the Company's credit exposures to any one counterparty. Specific credit risk limits based on the credit guidelines are also in place for each type of counterparty. In the event a counterparty fails to satisfy its obligations, the Company may be required to liquidate the counterparty's position and to purchase or sell the counterparty's collateral at then-prevailing market prices. The Company monitors the margin levels daily and, pursuant to such guidelines, requires the counterparty to deposit additional collateral or to reduce positions when necessary. At June 30, 2011, the Company had \$57.9 million in credit extended to its customers. Management believes the margin deposits held at June 30, 2011, are adequate to minimize the risk of material loss that could be created by the positions currently held.

Contractual commitments and futures contracts provide for the delayed delivery of securities with the seller agreeing to make delivery at a specified future date and price or yield. Risk arises from the potential inability of counterparties to perform under the terms of the contracts and from changes in market value.

8. Financial Instruments With Off-Balance Sheet Risk (continued)

Securities sold, not yet purchased consist primarily of equity and corporate debt securities and are valued at fair value. Securities sold, not yet purchased obligate the Company to purchase the securities at a future date at then-prevailing prices, which may differ from the fair values reflected in the consolidated statement of financial condition. Accordingly, these transactions result in off-balance sheet risk as the Company's ultimate obligation to satisfy the sale of securities sold, not yet purchased may exceed the amount reflected in the consolidated statement of financial condition.

The Company's customer financing and securities settlement activities may require the Company to pledge securities as collateral in support of various secured financing sources such as bank loans and securities loaned. The Company obtained margin collateral from customers with a market value of \$97.5 million at June 30, 2011, none of which was used to collateralize bank loans or securities loaned. The Company pledges securities as collateral to satisfy margin deposits of various clearing organizations. The Company monitors the market value of securities pledged on a daily basis and requires adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes credit limits for such activities and monitors compliance on a daily basis.

9. Related-Party Transactions

Included in other receivables is \$10.7 million of fee receivables from the William Blair Mutual Funds, Inc. (the Funds). The Company serves as the Funds' investment advisor and provides administrative services to the Funds under a management agreement. Included in firm-owned investments is \$1.3 million of investments in various affiliated partnerships and the Funds.

The payable to the Member is payable on demand and incurs interest based on LIBOR.

10. Net Capital Requirements

The Company is subject to the net capital rules of the SEC and FINRA. The Company computes its net capital requirement under the alternative method provided for in Rule 15c3-1, which requires that the Company maintain net capital equal to the greater of \$1.0 million or 2% of aggregate debit items, as defined. At June 30, 2011, the Company had net capital of \$100.8 million and required net capital of \$1.1 million. The Company's ratio of net capital to aggregate debit items was 189%.

Prepayment of subordinated borrowings and other equity withdrawals are subject to certain notification and other provisions of the SEC Uniform Net Capital Rule and the rules of certain other regulatory bodies.

11. Consolidated Subsidiaries

The assets of \$13.6 million and the capital of \$10.4 million of WBIL are included in the consolidated computation of the Company's net capital because the assets of the subsidiary are readily available for the protection of the Company's customers, broker-dealers, and other creditors as permitted by Rule 15c3-1. At June 30, 2011, WBIL had net capital of \$5.5 million and required net capital of \$250,000. Excess net capital of \$5.3 million is included as an allowable credit in the Company's computation of net capital.

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Chief Financial Officer

Edward McC. Blair, Jr.
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*Operations Manager,
Planning*

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Manager

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R. Scott Patterson

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Brian F. Scullion, M.D.

Jonathan P. Skinner

Brent M. Smith

Samuel J. Tinaglia

W. Britton Trukenbrod

Michael R. Ward

London

Matthew B. Gooch,
Manager

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Daniel J. Nichols

James J. Palmich

Eric B. Rowley

Eric P. Vanderoeff

London

Ralph A. Mastrangelo,
Manager

John J. Allen

Zurich

Christopher B. Fuchs,
Manager

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Manager

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William W. Benton

Stephanie G. Braming

John L. Brennan

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Ronald J. Bukovac

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F. Conrad Fischer

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Richard D. Gottfred

W. George Greig*

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Mark T. Leslie

Matthew A. Litfin

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Kenneth J. McAtamney

Todd M. McClone

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John V. McLaughlin

David C. Merjan

David S. Mitchell

Jack C. Murphy

Terrence J. O'Bryan

Christina M. O'Hara

Casey K. Preyss

Gregory J. Pusinelli

M. Patrick Quinn

David P. Ricci

Neal L. Seltzer

Ward D. Sexton

Richard W. Smirl

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Raymond J. Teborek

D. Michael Thompson

Jeffrey A. Urbina

Christopher T. Vincent

Kurt M. Wiese

Colin J. Williams

Thomas A. Wilson, Jr.

PRIVATE CLIENT ADVISORS

Richard P. Kiphart*,
Manager

Edward J. Dellin

Stephen E. Elkins

Robert C. Fix

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William O. Kasten

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Alan A. Lazzara

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James E. Washburn

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Philip M. DeNicola

Thomas L. Greene

Philip E. Gutman, Jr.

Barbara J. Semens

Bennet Wang

Taxable Fixed Income

Daniel R. Glynn, Jr.

Patrick J. Mullenix

Aaron M. Stout

* *Executive Committee Member*

William Blair

+1 312 236 1600 tel
+1 312 456 7891 fax
williamblair.com

William Blair & Company, L.L.C.
222 West Adams Street
Chicago, Illinois 60606