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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

SEC FILE NUMBER
8 - 48183

FACING PAGE  
Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/09 AND ENDING 12/31/09  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Kaufman Bros., L.P.

OFFICIAL USE ONLY
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

800 Third Avenue

(No. and Street)

New York

New York

10022

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Gerard A. Durkin

(212) 292-8120

(Area Code -- Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Rothstein, Kass & Company, P.C.

(Name -- if individual, state last, first, middle name)

4 Becker Farm Road

Roseland

New Jersey

07068

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (06-02)

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3/8/2010

OATH OR AFFIRMATION

I, Gerard A. Durkin, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Kaufman Bros., L.P., as of December 31, 2009, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Handwritten signature of Gerard A. Durkin over a signature line. Below the signature line is the title 'CFO'.

MELISSA MARTINEZ
Notary Public, State of New York
No. 01MA6106361
Qualified in Kings County
Commission Expires 3/11/2012

Handwritten signature of Melissa Martinez over a signature line. Below the signature line is the title 'Notary Public'.

This report\*\* contains (check all applicable boxes):

- (a) Facing page.
(b) Statement of Financial Condition.
(c) Statement of Income (Loss).
(d) Statement of Changes in Financial Condition.
(e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
(f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
(g) Computation of Net Capital.
(h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
(i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
(j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
(l) An Oath or Affirmation.
(m) A copy of the SIPC Supplemental Report.
(n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
(o) Independent auditor's report on internal accounting control.
(p) Schedule of segregation requirements and funds in segregation--customers' regulated commodity futures account pursuant to Rule 171-5.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**KAUFMAN BROS., L.P. AND SUBSIDIARY**

**STATEMENT OF FINANCIAL CONDITION  
AND  
INDEPENDENT AUDITORS' REPORT**

**DECEMBER 31, 2009**

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# KAUFMAN BROS., L.P. AND SUBSIDIARY

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Certified  
Public  
Accountants

Rothstein, Kass & Company, P.C.  
4 Becker Farm Road  
Roseland, NJ 07068  
tel 973.994.6666  
fax 973.994.0337  
www.rkco.com

Beverly Hills  
Dallas  
Denver  
Grand Cayman  
Irvine  
New York  
Roseland  
San Francisco  
Walnut Creek

# Rothstein Kass

## INDEPENDENT AUDITORS' REPORT

To the Partners of  
Kaufman Bros., L.P.

We have audited the accompanying consolidated statement of financial condition of Kaufman Bros., L.P. and Subsidiary (collectively "the Partnership") as of December 31, 2009. This consolidated statement of financial condition is the responsibility of the Partnership's management. Our responsibility is to express an opinion on this consolidated statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated statement of financial condition is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated statement of financial condition, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated statement of financial condition referred to above presents fairly, in all material respects, the consolidated financial position of Kaufman Bros., L.P. and Subsidiary as of December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

*Rothstein, Kass & Company, P.C.*

Roseland, New Jersey  
February 23, 2010

# KAUFMAN BROS., L.P. AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

December 31, 2009

### ASSETS

Cash and cash equivalents	\$ 1,346,781
Receivable from clearing broker	581,813
Fees receivable, net	579,017
Miscellaneous receivable	65,821
Securities owned, non-marketable, at fair value	3,962
Investments, at fair value	153,641
Certificate of deposit	102,086
Property and equipment, net	139,534
Prepaid expenses	55,305
Other assets	<u>72,972</u>
Total assets	<u>\$ 3,100,932</u>

### LIABILITIES AND PARTNERS' CAPITAL

#### Liabilities

Accrued compensation costs	\$ 606,967
Accounts payable and accrued expenses	500,666
Capital lease obligation	14,710
Subordinated loans	<u>925,000</u>
Total liabilities	2,047,343

#### Partners' capital

Partners' capital	<u>1,053,589</u>
Total liabilities and partners' capital	<u>\$ 3,100,932</u>

# KAUFMAN BROS., L.P. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENT

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### 1. Nature of operations

Kaufman Bros., L.P. and Subsidiary (collectively the "Partnership") is a Delaware limited partnership formed to engage primarily in investment banking, brokerage and securities trading, corporate consulting and other related activities. Kaufman Bros., L.P. ("Kaufman Bros.") is managed by KB Management, LLC (the "General Partner") and is a registered broker-dealer pursuant to the Securities Exchange Act of 1934. Additionally, Kaufman Bros. is a member of the Financial Industry Regulation Authority, Inc. ("FINRA").

The accompanying consolidated financial statements include the accounts of Kaufman Bros. and its wholly-owned subsidiary, KBRO Capital, LLC ("KBRO LLC"). KBRO LLC was formed on November 15, 1999 as a limited liability company under the laws of the State of New York. KBRO LLC engages primarily in venture capital activities.

### 2. FINRA approved change in control

On February 28, 2009, the Partnership entered into a Binding Letter of Intent (the "Letter of Intent") with a potential new limited partner in the Partnership. The Letter of Intent provided for the funding of capital contributions of up to \$1,000,000 by the limited partner for Partnership working capital in exchange for a non-dilutive fifty-one percent (51%) ownership interest in both the Partnership and its General Partner, KB Management LLC. The new limited partner in the Partnership satisfied the capital contribution obligations on time and in full under the terms and conditions of the Letter of Intent.

On March 31, 2009, the General Partner restructured the Partnership. Under the authority of the amended and restated Limited Partnership Agreement the General Partner required the involuntary withdraw, upon notice, of itself and all limited partners that had not participated in the necessary capital raise as of March 31, 2009 (the "non-participating limited partners"). All non-participating limited partners and the General Partner were treated similarly and were eligible to receive withdrawal payments, which the General Partner determined to be zero for all non-participating limited partners and the General Partner.

Simultaneous with the restructuring on March 31, 2009, only participating limited partners and the General Partner were admitted or permitted to remain in the Partnership, and their interests were carried on the Partnership's books according to pro rata capital contributions of the participating limited partners.

Effective April 1, 2009, the General Partner was retroactively deemed to own a non-dilutive one-percent (1%) interest in the Partnership to preserve the federal income tax treatment of the Partnership and its General Partner. As of December 31, 2009, KB Management LLC remains the sole General Partner of the Partnership.

On October 20, 2009, the General Partner approved the exchange of an additional non-dilutive five percent (5%) interest in the Partnership, with the new limited Partner that was party to the letter of intent, in exchange for \$100,000.

FINRA formally reviewed and approved the Partnership's change in control under Rule 1017 Continuance in Membership Application and reviewed whether the change of control, arbitration award reserve and related disclosures were consistent with high standards of commercial honor and just and equitable principals of trade.

# KAUFMAN BROS., L.P. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENT

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### 3. Summary of significant accounting policies

#### *Basis of Presentation*

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

These financial statements were approved by the management and available for issuance on February 23, 2010. Subsequent events have been evaluated through this date.

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of Kaufman Bros. and KBRO LLC. All significant inter-Partnership transactions and balances have been eliminated in consolidation.

#### *Cash and Cash Equivalents*

The Partnership considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consisted of money market accounts at December 31, 2009.

#### *Fees Receivable*

The Partnership carries its fees receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Partnership evaluates its fees receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. Accounts are written-off as uncollectible once the Partnership has exhausted its collection means. There was no allowance for doubtful accounts as of December 31, 2009.

#### *Securities Owned, non-marketable at Fair Value*

Securities not readily marketable represent warrants and restricted stocks, some of which are thinly traded and are valued at fair value as determined by the General Partner. Fair value is based upon the consideration of factors such as the value of the underlying security, restrictions on the conversion of the warrant and liquidity of the security. As of December 31, 2009, the General Partner determined that the fair value of all warrants and restricted stocks is approximately \$3,900.

# KAUFMAN BROS., L.P. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENT

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### 3. Summary of significant accounting policies (continued)

#### *Valuation of Investments in Securities and Securities at Fair Value - Definition and Hierarchy*

In accordance with GAAP, 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 Partnership uses various valuation approaches. In accordance with GAAP, a fair value hierarchy for inputs is 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 Partnership. Unobservable inputs reflect the Partnership's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy 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 Partnership 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 availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including, the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Partnership in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls, is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Partnership's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Partnership uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

# KAUFMAN BROS., L.P. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENT

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### 3. Summary of significant accounting policies (continued)

#### *Valuation Techniques*

The Partnership values investments in securities and securities sold short that are freely tradable and are listed on a national securities exchange or reported on the NASDAQ national market at their last sales price as of the last business day of the year.

#### *Investments, at Fair Value*

KBRO LLC holds a 4.35% equity interest in GLQ Entrepia, Inc., a 0.76% equity interest in Entrepia Fund II, L.P. and a 0.66% equity interest in Global Ling International Fund I, LLC. These private investment partnership investments are recorded at fair value, based upon management's assessment of the underlying net asset values.

#### *Property and Equipment*

Property and equipment is stated at cost less accumulated depreciation and amortization. The Partnership provides for depreciation and amortization as follows:

<b>Asset</b>	<b>Estimated Useful Life</b>	<b>Principal Method</b>
Furniture and fixtures	5 years	Straight-line
Computer hardware and software	3 years	Straight-line
Leasehold improvements	Lease term	Straight-line

#### *Commission Revenue from Securities Transactions*

Proprietary securities transactions are recorded on a trade-date basis. Commission revenues and related expenses resulting from customers' securities transactions are recorded on a trade-date basis.

#### *Investment Banking Fees, General Advisory and Other*

Investment banking fees include consulting fees which are recognized based on the terms of the contracts and are recorded when the services are rendered. Other investment banking fees include public offering fees such as financing and underwriting fees, which are recorded when the particular offer is issued.

#### *Income Taxes*

The Partnership is not subject to federal or state income taxes and, accordingly, no provision for these income taxes has been made in the accompanying consolidated financial statements. The partners are required to report their proportional share of gains, losses, credits and deductions on their respective income tax returns. The Partnership is subject to New York City unincorporated business tax ("UBT"). At December 31, 2009, the Partnership had approximately \$114,000 of net operating loss carryforwards ("NOL's") relating to New York City UBT, which expire in 2029. The Partnership has a deferred tax asset of approximately \$4,500, which The Partnership has decided to fully reserve for, as it is more likely than not that the Partnership will not be able to utilize these deferred tax assets for UBT purposes against future income.

# KAUFMAN BROS., L.P. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENT

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### 3. Summary of significant accounting policies (continued)

#### *Income Taxes (continued)*

The determination of the Partnership's provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items and the probability of sustaining uncertain tax positions. The benefits of uncertain tax positions are recorded in the Partnership's financial statements only after determining a more-likely-than-not probability that the uncertain tax positions will withstand challenge, if any, from tax authorities. When facts and circumstances change, the Partnership reassesses these probabilities and records any changes in the consolidated financial statements as appropriate. Accrued interest and penalties related to income tax matters are classified as a component of income tax expense.

In accordance with GAAP, the Partnership is required to determine whether a tax position of the Partnership is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Generally, the Partnership is no longer subject to income tax examinations by major taxing authorities for years before 2006. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized could result in the Partnership recording a tax liability that would reduce net assets. This policy also provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities. It must be applied to all existing tax positions upon initial adoption and the cumulative effect, if any, is to be reported as an adjustment to net assets as of January 1, 2009. Based on its analysis, the Partnership has determined that the adoption of this policy did not have a material impact on the Partnership's financial statements upon adoption. However, management's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof.

#### *Use of Estimates*

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# KAUFMAN BROS., L.P. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENT

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### 4. Property and equipment

Property and equipment consist of the following at December 31, 2009:

	Cost	Accumulated Depreciation and Amortization	Net Book Value
Furniture and fixtures	\$ 67,611	\$ 63,187	\$ 4,424
Computer hardware and software	79,488	43,490	35,998
Leasehold improvements	135,452	36,340	99,112
	<u>\$ 282,551</u>	<u>\$ 143,017</u>	<u>\$ 139,534</u>

At December 31, 2009, the above property and equipment includes capital leases of \$114,214 and related accumulated amortization of \$99,934.

Depreciation expense for the year ended December 31, 2009 was \$70,888.

### 5. Securities owned, non-marketable at fair value

Details of securities owned, non-marketable, at December 31, 2009 are as follows:

	Non-marketable securities
Warrants	\$ 2,500
Restricted stock	<u>1,462</u>
	<u>\$ 3,962</u>

# KAUFMAN BROS., L.P. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENT

### 6. Fair value measurements

The Partnership's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with GAAP. See Note 3 for a discussion of the Partnership's fair value policies.

The following table presents information about the Partnership's assets measured at fair value as of December 31, 2009:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balances as of December 31, 2009
<b>Assets</b>				
Securities owned, non- marketable, at fair value	\$ -	\$ -	\$ 3,962	\$ 3,962
Investments, at fair value			153,641	153,641
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 157,603</u>	<u>\$ 157,603</u>

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Partnership has classified within the Level 3 category. As a result, the gains and losses for assets and liabilities within the Level 3 category may include changes in fair value that were attributable to both observable (e.g., changes in market price) and unobservable (e.g., changes in risk of value) inputs.

Changes in Level 3 assets measured at fair value for the year ended December 31, 2009:

	Level 3					Change in Unrealized Gains (Losses) for Investments still held at December 31, 2009
	Beginning Balance January 1, 2009	Unrealized Gains (Losses)	Net Transfers In and/or (Out) of	Valuation Adjustment	Ending Balances December 31, 2009	
<b>Assets</b>						
Securities owned, non- marketable, at fair value	\$ 13,750	\$ -	\$ (4,899)	\$ (4,889)	\$ 3,962	\$ -
Investments, at fair value	173,898	(4,932)	(15,325)		153,641	(6,129)
	<u>\$ 187,648</u>	<u>\$ (4,932)</u>	<u>\$ (20,224)</u>	<u>\$ (4,889)</u>	<u>\$ 157,603</u>	<u>\$ (6,129)</u>

# KAUFMAN BROS., L.P. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENT

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### 6. Fair value measurements (continued)

Unrealized gains and losses are included in trading and investments in the consolidated statement of operations. Valuation adjustments are determined by management based on current market conditions and the amount of risk that pertains to the particular security, and are included in trading and investments in the consolidated statement of operations.

### 7. Obligations under capital leases

Aggregate minimum lease payments for obligations under capital leases, with imputed interest of 10.8%, per annum, in the periods subsequent to December 31, 2009 are as follows:

<b>Year ending December 31,</b>	
2010	<u>\$ 15,104</u>
Total minimum lease payments	15,104
Less amount representing interest	<u>(394)</u>
Present value of minimum lease payments	<u>\$ 14,710</u>

### 8. Commitments and contingencies

The Partnership leases office space in New York City, expiring May 31, 2017, San Francisco, California, expiring October 31, 2011 and Boston, Massachusetts expiring August 31, 2011, under operating leases having non-cancelable lease terms in excess of one year. In addition to base rent, certain of the leases provide for the Partnership to pay a proportionate share of operating costs and are subject to escalation clauses based on the Consumer Price Index.

At December 31, 2009, future aggregate minimum annual rent payments under these leases are approximately as follows:

<b>Year ending December 31,</b>	
2010	\$ 934,000
2011	900,000
2012	707,000
2013	708,000
2014	708,000
Thereafter	<u>1,711,000</u>
	<u>\$ 5,668,000</u>

Rent expense, including certain other rent charges, for the year ended December 31, 2009 was approximately \$948,000.

# KAUFMAN BROS., L.P. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 8. Commitments and contingencies (continued)

The New York City lease calls for a security deposit of \$100,000, which has been satisfied by a letter of credit. The Partnership has collateralized such letter of credit with a certificate of deposit. The security deposit for the California lease was satisfied by a cash deposit with the landlord in the amount of \$6,230. The security deposit for the Boston lease was satisfied by a cash deposit with the landlord in the amount of \$13,440.

In 2007, a former limited partner asked to be reinstated to the Partnership. In 2008, an Arbitration Award granted the former limited partner re-instatement and a monetary award equal to a pro rata share of prior distributions made to the remaining limited partners in 2007 and 2008. The Arbitration Award did not find fault by the Partnership or its General Partner. In November 2009, the Partnership and former limited partner confirmed the Arbitration Award by mutual stipulation. As of March 31, 2009, this Partner was formally removed from the Partnership. As of December 31, 2009, the Partnership recorded a partner distribution accrual of \$139,000, which management believes to be adequate to cover the Arbitration Award.

In the normal course of business, the Partnership has been named as a defendant in various matters. Management of the Partnership believes that the resolution of these matters will not have a material adverse effect on the financial condition, results of operations or cash flows of the Partnership.

### 9. Employee benefit plan

All employees of the Partnership are eligible to participate in the Partnership's qualified 401(k) retirement plan (the "Plan"). Employer contributions to the Plan are at the Partnership's discretion. For the year ended December 31, 2009, the Partnership did not make any contributions to the Plan.

### 10. Liabilities subordinated to claims of general creditors

At December 31, 2009, FINRA had approved three subordinated loan agreements between the Partnership and its General Partner. The terms of the subordinated loan agreements are as follows:

- \$525,000 loan agreement maturing on August 1, 2012 and bearing interest at 2% over the average six month LIBOR rate (.49% at December 31, 2009) calculated on a monthly basis
- \$200,000 loan agreement maturing on September 1, 2012 and bearing interest at 2% over the average six month LIBOR rate (.49% at December 31, 2009) calculated on a monthly basis
- \$200,000 loan agreement maturing on December 1, 2012 and bearing interest at 2% over the average six month LIBOR rate (.49% at December 31, 2009) calculated on a monthly basis

The loan agreements have been approved as regulatory capital and constitute part of the Partnership's net capital under the Securities and Exchange Commissions (the "SEC") Uniform Capital Rule 15c3-1.

As of January 1, 2009, there were two subordinated loans for \$100,000 each which were due in 2009. These two loans were retired early, and with FINRA approval the two loans were combined to one subordinated loan for \$200,000, maturing on September 1, 2012.

# KAUFMAN BROS., L.P. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENT

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### 11. Off-balance-sheet risk

Pursuant to a clearance agreement, the Partnership introduces all of its securities transactions to National Financial Services LLC (or "clearing broker") on a fully disclosed basis. All of the customers' money balances and long and short security positions are carried on the books of the clearing broker. In accordance with the clearance agreement, the Partnership has agreed to indemnify the clearing broker for losses, if any, which the clearing broker may sustain from carrying securities transactions introduced by the Partnership. In accordance with industry practice and regulatory requirements, the Partnership and the clearing broker monitor collateral on the customers' accounts.

In addition, the due from and payables to the clearing broker are pursuant to the clearance agreement.

In the normal course of business, securities transactions of brokerage customers of the Partnership are cleared through a clearing broker. Pursuant to an agreement between the Partnership and the clearing broker, the clearing broker has the right to charge the Partnership for unsecured losses that result from a customer's failure to complete such transactions. During the year ended December 31, 2009, no such losses were incurred.

### 12. Concentration of credit risk

The Partnership maintains its cash in financial institutions, which at times, may exceed federally insured limits. The Partnership has not experienced any losses in such accounts and believes it is not subject to any significant credit risk on cash. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution through December 31, 2013.

The Partnership is engaged in trading activities with various counterparties. In the event counterparties do not fulfill their obligations, the Partnership may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Partnership's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

### 13. Exemption from Rule 15c3-3

The Partnership is exempt from the SEC Rule 15c3-3 pursuant to the exemptive provisions of sub-paragraph (k)(2)(ii) as it clears all customer transactions through another broker-dealer on a fully disclosed basis.

### 14. Net capital requirements

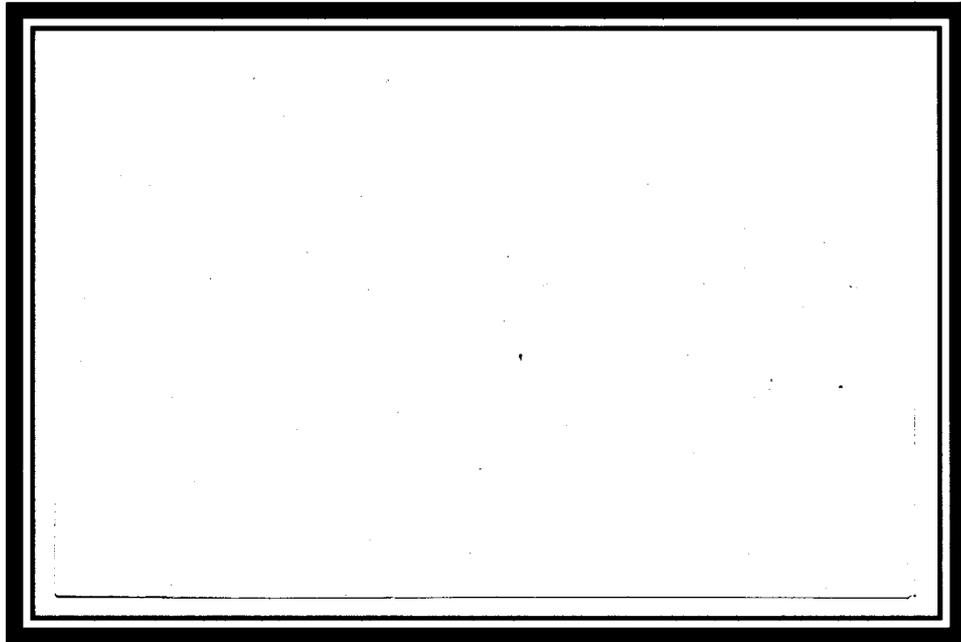
Kaufman Bros. is a member of FINRA and is subject to the SEC Uniform Net Capital Rule 15c3-1. This rule requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 and that equity capital may not be withdrawn if the resulting net capital ratio would exceed 10 to 1. The firm's aggregate indebtedness is 1.4 to 1 which is within the statutory limits. At December 31, 2009, the net capital (unconsolidated) of Kaufman Bros. was approximately \$800,000 which was approximately \$538,000 in excess of its minimum requirement of \$250,000.

Proprietary accounts held at the clearing broker ("PAIB Assets") are considered allowable assets in the computation of net capital pursuant to an agreement between the Partnership and the clearing broker, which requires, among other things, for the clearing broker to perform a computation for PAIB Assets similar to the customer reserve computation set forth in SEC Rule 15c3-3.

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