

**Part 2A of Form ADV: Firm Brochure**

**Rothschild Investment Corporation**

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This brochure provides information about the qualifications and business practices of Rothschild Investment Corporation ("Rothschild"). If you have any questions about the contents of this brochure, please contact Bradley Drake, Vice President, at 312-983-8956 or [bdrake@rothschildinv.com](mailto:bdrake@rothschildinv.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about Rothschild Investment Corporation is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm's CRD number is 728.

**Item 2 MATERIAL CHANGES**

There have been no material changes to Rothschild's Form ADV 2A since the last update (03/28/11).

Consistent with the new rules, we will ensure that clients receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our fiscal year. Furthermore, we will provide clients with other interim disclosures about material changes as necessary.

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#### **Item 4    ADVISORY BUSINESS**

We are proud of our firm's unique position in the investment industry. Established in 1908, Rothschild is the oldest Chicago-based investment company that remains a separate entity under the guidance of its founding family.

We are uniquely structured to assist clients in the management of their personal and corporate finances. The professional staff averages 20 years' experience in working with professionals, business owners, and their retirement funds. In fact, the firm caters to the corporate needs of the closely held business and the personal needs of its owners. Rothschild has made a long-term commitment to working with entrepreneurs and their special investment requirements. The longevity of the firm is testimony to our commitment to service and the implementation of a successful long-term investment philosophy.

Because no two businesses or individual situations are alike, Rothschild specializes in providing highly personalized asset management services for clients. Each account is individually structured and continuously monitored.

Rothschild Investment Corporation is a Registered Investment Advisor under the Investment Advisors Act of 1940. As a fiduciary, it adheres to and is bound by the terms and provisions of that act. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

Listed below are the firm's principal shareholders (i.e., those individuals and/or entities controlling 25% or more of this company):

- Richard F. Karger, Chairman and CEO

#### **Our Philosophy**

Recognizing that investment goals and requirements may vary widely, we stress the importance of establishing meaningful long-term investment objectives for each of our clients. A thorough understanding of overall assets, contribution and payout projections, in addition to client temperament, enables us to evaluate the relative importance of current income versus the potential for capital gains. We are then in a position to recommend an appropriate balance between equity and fixed-income investments to suggest suitable risk parameters for portfolio investments. Our long-term objective is to establish a pattern of positive total return for our clients. We strive to achieve a combined rate of return sufficient to enhance, as well as protect, the real (inflation adjusted) value of our clients' assets.

## **General Approach**

A successful approach to investment management must insure compliance with fiduciary standards while retaining the potential for meeting rate-of-return objectives. This requires both prudence and flexibility. Prudence involves continuous supervision of assets while maintaining meaningful quality standards for investment and diversification of investment risks. Changing market environments necessitates the ability to be flexible.

## **Equity Selection**

We rely primarily on basic fundamental analysis in selecting equity investments. We actively seek new investment candidates which meet our quality and liquidity requirements. Effective equity selection depends largely upon thorough analysis of both intermediate and long-term economic trends and a reasonable assessment of the relative attractiveness of various equity alternatives. An evaluation of future earnings, relative price-earnings ratios, and the consistency of historical results are examples of the criteria used in our selection process. Because over diversification often leads to mediocre results, we concentrate our investments in the industry and market sectors most likely to benefit from anticipated economic developments.

## **Fixed Income Selection**

In today's environment of frequent and sometimes dramatic changes in the level and direction of interest rates, some traditional fixed-income strategies are no longer effective. Our over-riding concern in structuring a bond portfolio is protection of principal. Therefore, we will normally construct investment grade portfolios comprised of laddered, short-term to intermediate-term maturities to protect against credit risk and interest rate risk.

Rothschild offers the following advisory services to our clients:

### **Investment Advisory Services**

Our firm provides continuous advice to clients regarding the investment of their funds based on their individual needs. Through personal discussions with the client, goals and objectives are established based on the client's particular circumstances. We develop the client's personal investment policy and create and manage a portfolio based on that policy. During our data-gathering process, we determine the client's individual objectives, time horizons, risk tolerance, and liquidity needs. As appropriate, we also review and discuss the client's prior investment history, as well as family composition and background.

We manage these advisory accounts on a discretionary or non-discretionary basis. Account supervision is guided by the client's stated objectives (i.e., capital appreciation, growth, income, or growth and income), as well as tax considerations.

Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Our investment recommendations are not limited to any specific product or service offered by a broker-dealer (or insurance company if applicable) and will generally include advice regarding the following securities:

- Exchange-listed securities
- Securities traded over-the-counter
- Foreign issuers
- Warrants
- Corporate debt securities (other than commercial paper)
- Commercial paper
- Certificates of deposit
- Municipal securities
- Variable annuities (if applicable)
- Mutual fund shares
- United States governmental securities
- Options contracts on securities

Because some types of investments involve certain additional degrees of risk, Rothschild will implement/recommend them only when consistent with the client's stated investment objectives, tolerance for risk, liquidity, and suitability.

### **Retirement Plan Consulting Services**

We also provide Retirement Plan Consulting Services separately or in combination. Retirement Consulting Services are comprised of four distinct services. Clients may choose to use any or all of these services.

**Investment Policy Statement Preparation (hereinafter referred to as "IPS"):** We will meet with the client to determine an appropriate investment strategy that reflects the plan sponsor's stated investment objectives for management of the overall plan. Our firm then prepares a written IPS detailing those needs and goals, including an all-encompassing policy under which these goals are to be achieved. The IPS also lists the criteria for selection of investment vehicles as well as the procedures and timing interval for monitoring investment performance.

**Selection of Investment Vehicles:** We will assist plan sponsors in constructing appropriate asset allocation models. We will then review various mutual funds (both index and managed) to determine which investments are appropriate to implement consistent with the client's IPS. The client determines the number of investments to include, based on their IPS.

**Monitoring of Investment Performance:** We will monitor client investments continually, based on the procedures and timing intervals outlined in the Investment Policy Statement. Although our firm is not involved in the purchase or sale of these investments, we will supervise the client's portfolio and make recommendations to the client as market factors and the client's needs dictate.

**Employee Communications:** For pension, profit sharing and 401(k) plan clients with individual plan participants exercising control over assets in their own account ("self-directed plans"), we may also provide quarterly educational support and investment seminars designed for the plan participants. Rothschild and the client determine the nature of the topics to be covered under the guidelines established in ERISA Section 404(c). The educational support and investment seminars will NOT provide plan participants with individualized, tailored investment advice or asset allocation recommendations.

### **Amount of Managed Assets**

As of 12/31/2011, we were actively managing \$930,000,000 of clients' assets on a discretionary basis plus \$44,000,000 of clients' assets on a non-discretionary basis.

## Item 5 FEES AND COMPENSATION

### Investment Advisory Services

Our annual fees for Investment Advisory Services are based upon a percentage of assets under management and range from 0.25% to 2.00%. Management fees are charged monthly or quarterly in advance as outlined in the Investment Advisory Services Agreement. Clients direct whether management fees are to be debited from their accounts or billed separately. Fees may vary based upon account circumstances.

An example of our standard Investment Advisory Fee Schedule is shown below:

- |                                    |              |
|------------------------------------|--------------|
| • 3/4 of 1% per annum on the first | \$2,000,000  |
| • 1/2 of 1% per annum on the next  | \$3,000,000  |
| • 3/8 of 1% per annum on the next  | \$5,000,000  |
| • 1/4 of 1% per annum on the next  | \$10,000,000 |

**Limited Negotiability of Advisory Fees:** Although Rothschild has established the aforementioned fee range, we retain the discretion to negotiate alternative fees on a client-by-client basis. We consider client facts, circumstances, and needs in determining the fee schedule. These include the complexity of the client assets placed under management, anticipated future additional assets, related accounts, portfolio style, and account composition, among other factors. The specific annual fee schedule is identified in the contract between the adviser and each client.

We may group certain related client accounts for the purposes of achieving the minimum account size requirements and determining the annualized fee.

Discounts, not generally available to our advisory clients, may be offered to family members and friends of associated persons of our firm.

**Performance-Based Fees (includes Contingency-Based Fees):** Clients of Rothschild can participate in performance-based fee arrangements. To do so, however, a client must be a "qualified client" or a "qualified purchaser." According to the provisions of Reg. 205-3 of the Investment Advisors Act of 1940, a "qualified client" is defined as: (i) a natural person who, or a company that, immediately after entering into an investment advisory contract that provides for a performance fee, has at least \$1,000,000 under the management of the investment advisor; (ii) a natural person who, or company that, the investment advisor reasonably believes, immediately before entering into the contract with its client, either has a net worth of more than \$2,000,000 or is a "qualified purchaser" as defined in Section 2(a)(51)(A) of the Investment Company Act at the time the contract is entered into; and (iii) a natural person who, immediately before entering into the contract, is an executive officer, director, trustee, general partner, or person serving in a similar capacity, of the investment advisor, or a knowledgeable employee of the adviser as described in paragraph (d)(1)(iii)(B) of the rule.



Section 2(a)(51)(A) of the Investment Company Act generally defines a “qualified purchaser” to be: (i) a natural person who owns not less than \$5,000,000 in investments; (ii) a trust that meets certain requirements; and (iii) any person who in the aggregate owns and invests on a discretionary basis not less than \$25,000,000 in investments. An adviser must have reasonable grounds to believe that a client meets the definition of a qualified client before a performance fee may be charged.

**Performanced-Based fees** are structured as follows:

**Service Fee:** 0.35%-1.00% of assets under management (billed monthly or quarterly in advance)

**Performance Fee:** 10%-20% of the net gain of the portfolio's value (using the end date value of the client's account(s) as defined in the contract).

The definition of performance-based fees extends to contingency-based fees. A contingency-based fee is defined as any advisory fee that is waived or refunded, in whole or in part, if a client’s account does not meet specified levels of performance or a fee that is contingent on the investment performance of the funds managed by the advisor as mutually agreed upon by the advisor and the client.

**Contingency-Based fees** are structured as follows:

**Service Fee:** 0.35%-1.00% of assets under management (billed monthly or quarterly in advance)

**Contingency Fee:** 0.90%-1.10% of portfolio value if positive (using the end date value of the client's account(s) as defined in the contract).

Before entering into a performance-based fee agreement, clients must understand the proposed method of compensation and its risks prior to entering into the contract. Accordingly, clients paying performance-based fees are directed to the "Performance-Based Fees" section (Item 6) below for more comprehensive disclosures, including potential conflicts of interest resulting from this type of compensation.

On a case-by-case basis, Rothschild determines the appropriate fee structure based on the size, complexity and investment objectives of the client's account. Fee arrangements may include a combination of a base fee, management fee, and an incentive fee, or a combination thereof. Rothschild and the client mutually agree on the terms and conditions of the fee structure prior to entering into an advisory agreement. Clients will also have to attest to their status as a qualified client or qualified purchaser.

Items such as the details of the fees charged, contract length, termination of the contract, method of calculating the performance fee or contingent fee, etc. will be disclosed in the specific investment management agreement in which Rothschild and the “qualified client” or “qualified purchaser” will enter.

Performance-based fees will only be charged in accordance with the provisions of Reg. 205-3 of the Investment Advisors Act of 1940 and/or applicable state regulations. The performance fee structure will not be offered to any client residing in a state in which such fees are prohibited. The performance-based fee may create an incentive for Rothschild to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Furthermore, as we also have clients who do not pay performance-based fees, we have an incentive to favor accounts that do pay performance-based fees because compensation we receive from these clients is more directly tied to the performance of their accounts.

### **Retirement Plan Consulting Services**

Rothschild offers several fee options for Retirement Plan Consulting Services. Rothschild may be compensated based on an annual percentage of plan assets for services involving ongoing reviews (see our fee schedule below), or we may be compensated by an hourly fee or fixed fee (hourly fees range from \$500-\$1,200 per hour). Alternatively, these different types of fees may also be combined as appropriate for the different types of services requested by the client.

Where we charge an annual fee for Retirement Plan Consulting Services, the fee ranges from 0.10% to 1.25% of plan assets depending on the services requested and the size of the plan. Retirement Plan Consulting Services fees are charged monthly or quarterly in advance as outlined in the appropriate services agreement. Fees may vary based upon account circumstances.

An example of our fee schedule for Retirement Plan Consulting Services is shown below:

<b><u>Assets Under Management</u></b>	<b><u>Annual Fee</u></b>
• under \$1,000,000	1.25%
• \$1,000,000 to \$5,000,000	1.00%
• \$5,000,001 to \$10,000,000	0.75%
• \$10,000,001 to \$25,000,000	0.50%
• Over \$25,000,000	Negotiable

Associated persons of Rothschild may receive commissions for executing securities transactions, or 12b-1 distribution fees from the investment companies chosen by the plan sponsor. In such cases, Rothschild provides full disclosure to plan sponsors regarding such commissions and fees. Rothschild will offset any commissions or fees received by such associated persons from asset-based advisory fees charged by Rothschild for ongoing services. The receipt of such fees and their availability from different vendors may create conflicts of interest.

### **General Information Regarding Fees and Compensation**

**Termination of the Advisory Relationship:** A client agreement may be canceled at any time, by either party, for any reason upon receipt of 30 days written notice. As disclosed above, certain fees are paid in advance of services provided. Upon termination of any account, any prepaid, unearned fees will be promptly refunded. In calculating a client's reimbursement of fees, we will pro rate the reimbursement according to the number of days remaining in the billing period.

**Mutual Fund Fees:** All fees paid to Rothschild for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and/or ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. If the fund also imposes sales charges, a client may pay an initial or deferred sales charge. A client could invest in a mutual fund directly, without our services. In that case, the client would not receive the services provided by our firm which are designed, among other things, to assist the client in determining which mutual fund or funds are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and our fees to fully understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

**Additional Fees and Expenses:** In addition to our advisory fees, clients are also responsible for the fees and expenses that may be charged by custodians and imposed by broker dealers, including, but not limited to, any transaction charges imposed by a broker dealer with which an investment advisor representative effects transactions for the client's account(s). Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.

Management personnel and other related persons of our firm are licensed as registered representatives of a broker-dealer and/or licensed as insurance brokers. In their separate capacities, these individuals are able to implement investment recommendations for advisory clients for separate and typical compensation (i.e., commissions, 12b-1 fees or other sales-related forms of compensation). This presents a conflict of interest to the extent that these individuals recommend that a client invest in a security which results in a commission being paid to Rothschild. Clients are not under any obligation when considering implementation of advisory recommendations. The implementation of any or all recommendations is solely at the discretion of the client.

To avoid any conflict of interest between the client and the firm, Rothschild does not inventory securities for resale to clients. Furthermore, the firm does not make commission payouts to portfolio managers for security transactions conducted for advisory accounts. We recognize that commission costs adversely affect investment performance and we make every effort to keep these costs at a minimum.

**ERISA Accounts:** Rothschild is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts (IRAs) pursuant to the Employee Retirement Income and Securities Act ("ERISA"), and regulations under the Internal Revenue Code of 1986 (the "Code"), respectively. As such, our firm is subject to specific duties and obligations under ERISA and the Internal Revenue Code that include, among other things, restrictions concerning certain forms of compensation. To avoid engaging in prohibited transactions, Rothschild may only charge fees for investment advice about products for which our firm and/or our related persons do not receive any commissions or 12b-1 fees. Conversely, in situations where our firm and/or our related persons only receive commissions or 12b-1 fees for investment advice about products, such fees are used to offset Rothschild's advisory fees.

Because Rothschild is a registered investment adviser and a FINRA member broker-dealer, a conflict could exist where Rothschild acts as both investment advisor and broker for an ERISA client. Therefore, all ERISA clients re-affirm annually their desire to have Rothschild act in both capacities.

**Advisory Fees in General:** Clients should note that similar advisory services may (or may not) be available from other registered (or unregistered) investment advisers for similar or lower fees.

**Limited Prepayment of Fees:** Under limited circumstances, we do require or solicit payment of fees in excess of \$1,200 more than six months in advance of services rendered.

## **Item 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As we disclosed in Item 5 ("Fees and Compensation") of this Brochure, our firm participates in performance-based and contingency-based fee arrangements with certain clients. To participate in a performance-based fee or contingency-based fee arrangement, a client must be a "qualified client" or a "qualified purchaser." On a case-by-case basis, Rothschild determines the appropriate fee structure based on the size, complexity and investment objectives of the client's account. Fee arrangements may include a combination of a base fee, management fee, and an incentive fee, or a combination thereof.

The terms and conditions of the fee structure are mutually agreed upon prior to entering into an advisory agreement. Clients will also have to attest to their status as a "qualified client" or "qualified purchaser". Items such as the details of the fees charged, termination of contract, method of calculating the performance fee or contingency fee will be disclosed in the agreement in which Rothschild and the client enter.

The performance-based fee may create an incentive for Rothschild to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Furthermore, as we also have clients who do not pay performance-based fees, we have an incentive to favor accounts that do pay performance-based fees because compensation we receive from these clients is more directly tied to the performance of their accounts.

## **Item 7    TYPES OF CLIENTS**

Rothschild provides advisory services to the following types of clients:

- Individuals, families, trusts and estates
- High net worth individuals
- Pension and profit sharing plans, IRA's
- Charitable organizations and foundations
- Corporations or other businesses not listed above

Rothschild does not require a minimum dollar value of assets or other condition for opening or maintaining an account.

## Item 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### Methods of Analysis

We may use all or a combination of the following methods of analysis in formulating our investment advice and/or managing client assets:

**Fundamental Analysis:** We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indicating it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

**Technical Analysis:** By analyzing past market movements and applying that analysis to the present, we attempt to recognize recurring patterns of investor behavior and potentially predict future price movement. We may review charts of market and security activity in an attempt to identify when the market (or security) is moving up or down and to predict how long the trend may last and when that trend might reverse.

Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

**Quantitative Analysis:** We may use mathematical models in an attempt to obtain more accurate measurements of a company's quantifiable data, such as the value of a share price or earnings per share, and predict changes to that data.

A risk in using quantitative analysis is that the models used may be based on assumptions that prove to be incorrect.

**Qualitative Analysis:** We evaluate non-quantifiable factors such as quality of management, labor relations, and strength of research and development factors not readily subject to measurement, and predict changes to share price based on that data.

A risk in using qualitative analysis is that our subjective judgment may prove incorrect.

**Asset Allocation:** Rather than focusing primarily on securities selection, we attempt to identify an appropriate ratio of securities, fixed income, and cash suitable to the client's investment goals and risk tolerance.

A risk of asset allocation is that the client may not participate in sharp increases in a particular security, industry or market sector. Another risk is that the ratio of securities, fixed income, and cash will change over time due to stock and market movements and, if not corrected, will no longer be appropriate for the client's goals.

**Mutual Fund and/or ETF Analysis:** We look at the experience and track record of the manager of the mutual fund or ETF to determine if that manager has demonstrated an ability to invest over a period of time and in different economic conditions. We also look at the underlying assets in a mutual fund or ETF to determine if there is significant overlap in the underlying investments held in another fund(s) in the client's portfolio. We also monitor the funds or ETFs to determine if they are continuing to follow their stated investment strategy.

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the holding(s) less suitable for the client's portfolio.

**Risks for all forms of analysis:** Our securities analysis methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

### **Investment Strategy**

Our investment strategy employs a three-pronged approach: asset allocation, theme selection, and individual security selection. As mentioned previously, establishing meaningful long-term investment objectives for our clients is paramount to our investment strategy.

### **Risk of Loss**

Securities investments are not guaranteed and clients may lose money on their investments. We work with clients in helping them understand their tolerance for risk.

## **Item 9     DISCIPLINARY INFORMATION**

We are required to disclose any legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.     There are no legal or disciplinary events which we believe are material to our client's or prospective client's evaluation of our advisory business or the integrity of our management.

## **Item 10    OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

**Firm Registrations:** In addition to Rothschild being a registered investment adviser, our firm is registered as a FINRA member broker-dealer.

**Management Personnel Registrations:** Management personnel of our firm may be separately licensed as registered representatives of Rothschild Investment Corporation, a FINRA member broker-dealer, and/or as licensed insurance representatives. These individuals, in their separate capacity, can effect securities transactions for which they will receive separate, yet customary compensation.

While Rothschild and these individuals endeavor at all times to put the interest of the clients first as part of our fiduciary duty, clients should be aware that the receipt of additional compensation itself creates a conflict of interest, and may affect the judgment of these individuals when making recommendations.

Management personnel of Rothschild may also work with various third-party administrators ("TPA's) who provide back office support services to the sponsors of qualified retirement plans for a fee. In particular, TPA's provide account recordkeeping services and a trading platform (via internet and telephone) by which plan participants may direct the investment of assets in their qualified plan account. TPA's may refer plan sponsors in need of advisory services to our firm. Conversely, we may refer clients in need of third-party administrative services to various TPA's. All fee arrangements are disclosed to the plan sponsors.

Third-party administrative services provided by the TPA are separate and distinct from the advisory services we provide, and are provided for separate and typical compensation. No advisory client is obligated to use the TPA for any third-party administrative services, and no client of the TPA is obligated to utilize our advisory services. Sponsors or trustees of pension, profit-sharing, 401(k), IRA or other client accounts subject to the provisions of ERISA or the prohibited transaction provisions of the Internal Revenue Code are solely responsible for determining whether or not to engage the services of the TPA.

Clients should be aware that the receipt of additional compensation by Rothschild and its management persons or employees creates a conflict of interest that may impair the objectivity of our firm and these individuals when making advisory recommendations. Rothschild endeavors at all times to put the interests of its clients first as part of our fiduciary duty as a registered investment adviser. We take the following steps to address this conflict:



- We disclose to clients the existence of all material conflicts of interest, including the potential for our firm and our employees to earn compensation from advisory clients in addition to our firm's advisory fees;
- We disclose to clients that they are not obligated to follow our investment recommendations or utilize our broker-dealer services;
- We collect, maintain and document accurate, complete and relevant client background information, including the client's financial goals, objectives and risk tolerance;
- We require that our employees seek prior approval of any outside employment activity so that we may ensure that any conflicts of interests in such activities are properly addressed;
- We periodically monitor these outside employment activities to verify that any conflicts of interest continue to be properly addressed by our firm; and
- We educate our employees regarding the responsibilities of a fiduciary, including the need for having a reasonable and independent basis for the investment advice provided to clients.

#### **Item 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws.

Rothschild and our personnel owe a duty of loyalty, fairness and good faith towards our clients, and have an obligation to adhere not only to the specific provisions of the Code of Ethics but to the general principles that guide the Code of Ethics.

Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm's access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our Code of Ethics also provides for oversight, enforcement and recordkeeping provisions.

Rothschild's Code of Ethics further includes the firm's policy prohibiting the use of material non-public information. While we do not believe that we have any particular access to non-public information, all employees are reminded that such information may not be used in a personal or professional capacity.

A copy of our Code of Ethics is available to our advisory clients and prospective clients, and may be requested by contacting Bradley Drake, Vice President, at 312-983-8956, or by email sent to [bdrake@rothschildinv.com](mailto:bdrake@rothschildinv.com).

Rothschild or individuals associated with our firm may buy securities for the firm or for themselves from our advisory clients; or sell securities owned by the firm or the individual(s) to our advisory clients. We will ensure, however, that such transactions are conducted in compliance with all the provisions under Section 206(3) of the Advisers Act governing principal transactions to advisory clients.

Rothschild may, at times, effect an agency cross transaction for an advisory client, provided that the transaction is consistent with our firm's fiduciary duty to the client and that all requirements outlined in Sec. 206(3)-2 of the Investment Advisers Act of 1940 are met. An agency cross transaction is a transaction where our firm acts as an investment adviser in relation to a transaction in which Rothschild, or any person controlled by or under common control with our firm, acts as broker for both the advisory client and for another person on the other side of the transaction.

Our Code of Ethics is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts.

Our firm and/or individuals associated with our firm may buy or sell securities for their personal accounts identical to or different from those recommended to our clients. In addition, any related person(s) may have an interest or position in a certain security(ies) which may also be recommended to a client.

It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account, thereby preventing such employee(s) from benefiting from transactions placed on behalf of advisory accounts.

We may aggregate our employee trades with client transactions where possible and when compliant with our duty to seek best execution for our clients. In these instances, participating clients will receive an average share price, and transaction costs (excluding commissions) will be shared equally and on a pro-rata basis. In the instances where there is a partial fill of a particular batched order, we will allocate all purchases pro-rata, with each account paying the average price. Our employee accounts may be included in the pro-rata allocation.

As these situations represent actual or potential conflicts of interest to our clients, we have established the following policies and procedures for implementing our firm's Code of Ethics to ensure our firm complies with its regulatory obligations and provides our clients and potential clients with full and fair disclosure of such conflicts of interest:

1. No principal or employee of our firm may put his or her own interest above the interest of an advisory client.
2. No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is a result of information received as a result of his or her employment unless the information is also available to the investing public.
3. It is the expressed policy of our firm that no person employed by us may purchase or sell any security prior to a transaction(s) being implemented for an advisory account. This prevents such employees from benefiting from transactions placed on behalf of advisory accounts.
4. Our firm requires prior approval for any IPO or private placement investments by related persons of the firm.
5. We maintain a list of all reportable securities holdings for our firm and anyone associated with this advisory practice that has access to advisory recommendations ("access person"). These holdings are reviewed on a regular basis by our firm's Chief Compliance Officer or his/her designee.
6. We have established procedures for the maintenance of all required books and records.
7. All clients are fully informed that related persons may receive separate commission compensation when effecting transactions during the implementation process.
8. Clients can decline to implement any advice rendered, except in situations where our firm is granted discretionary authority.
9. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
10. We require delivery and acknowledgement of the Code of Ethics by each supervised person of our firm.
11. We have established policies requiring the reporting of Code of Ethics violations to our senior management.
12. Any individual who violates any of the above restrictions may be subject to termination.

As disclosed in the preceding section of this Brochure (Item 10), related persons of our firm may be separately registered as securities representatives and/or licensed as insurance representatives. Please refer to Item 10 for important conflict of interest disclosures.

## Item 12    **BROKERAGE PRACTICES**

Rothschild may recommend a custodian or clients may choose an outside custodian. Custodians are used for reasons such as client preference, ease of safekeeping of securities, inability to easily transfer assets, ease of processing trades, etc. Rothschild utilizes the clearing and custody services of Pershing LLC. In addition, clients have outside custody arrangements with other Brokerage Firms (Charles Schwab, and Fidelity), Banks, and Mutual Fund Companies. Rothschild is independently owned and has no affiliation with Pershing or any other custodian.

The use of Pershing's clearing and custody services is not contingent upon Rothschild committing any specific amount of business (assets in custody or trading commissions) to Pershing. It is typical that custodial services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that may be generally available only to institutional investors or would require a significantly higher minimum initial investment.

Clients may or may not directly benefit from products and services offered to us by Pershing. Products and services that might assist Rothschild in managing and administering client accounts include, but are not limited to, software and other technology that:

13. Provide access to client account data (such as trade confirmations and account statements);
  - Facilitate trade execution and allocate aggregated trade orders for multiple client accounts;
  - Provide research, pricing and other market data;
  - Facilitate payment of our fees from clients' accounts; and
  - Assist with back-office functions, recordkeeping and client reporting.

Additionally, in some cases Pershing may offer other services intended to help us manage and further develop our business enterprise. These services may include:

- Compliance, legal and business consulting; and
- Publications and conferences on practice management and business succession;

Pershing may make available, arrange and/or pay third-party vendors for the types of services rendered to Rothschild. Pershing may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to our firm. Pershing may also provide other benefits such as educational events or occasional business entertainment of our personnel. Rothschild's receipt of additional services does not diminish our duty to act in the best interests of our clients, including seeking best execution of trades for client accounts.

In situations where an outside custodian is chosen, clients are required to provide a trading authorization and log-in information for access to their accounts. Clients will also enter into an investment advisory agreement with Rothschild for the management of their assets at the outside custodian. Outside custody services are generally available at no additional charge to clients, but it is on a case-by-case basis depending on the particulars of the situation. Some clients may be charged a special fee for certain arrangements.

Brokerage custodians and Mutual Fund custodians generally do not charge separately for custody services, but instead are compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through the custodian or that settle into the custodian's account. However, Bank custody (and Trust custody) facilities generally do charge a custodial fee. In most instances involving a Bank (or Trust) custodian, clients enter into a separate custody fee arrangement with the Custodian.

In evaluating whether clients custody their assets at Pershing or an outside custodian, we may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors we consider and not solely on the nature, cost or quality of custody and brokerage services provided, which may create a potential conflict of interest. Custodians disclose to clients the products and services and other arrangements they have with Rothschild.

#### **Research and Other Soft Dollar Benefits:**

Research services obtained through the use of soft dollars may be developed by brokers to whom brokerage is directed or by third-parties which are compensated by the broker. Rothschild does not attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those services among clients, believing that the research we receive will help us to fulfill our overall duty to our clients.

A client may pay brokerage commissions that are used, in part, to purchase research services that are not used to benefit that specific client. Broker-dealers we select may be paid commissions for effecting transactions for our clients that exceed the amounts other broker-dealers would have charged for effecting these transactions if we determine in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers.

Certain items obtainable with soft dollars may not be used exclusively for either execution or research services. The cost of such "mixed-use" products or services will be fairly allocated and RIC makes a good faith effort to determine the percentage of such products or services which may be considered as investment research. The portions of the costs attributable to non-research usage of such products or services are paid by our firm to the broker-dealer in accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934.

When Rothschild uses client brokerage commissions to obtain research or brokerage services, we receive a benefit to the extent that we do not have to produce such products internally or compensate third-parties with our own money for the delivery of such services. Therefore, such use of client brokerage commissions may result in a conflict of interest, because we may have an incentive to direct client brokerage to those brokers who provide research and services we utilize, even if these brokers do not offer the best price or commission rates for our clients. We believe, based on the quality of the research and the thoroughness of the service, clients pay equitable commissions.

**Brokerage for Client Referrals:**

As previously disclosed in Item 10, Rothschild is also registered as a broker-dealer. Registered representatives of our firm are compensated for referrals (commissions) and may receive a percentage of the investment advisory fee paid by the client referred to Rothschild. In situations where Rothschild does not act as broker, we may have arrangements to compensate or be compensated, by any broker/dealer, for client referrals. When referrals fees are paid, such arrangements are disclosed to the client. In addition, the impact of any referral fee is borne by Rothschild or other broker/dealer.

**Directed Brokerage:**

There are other brokerage firms that have lower commission rates than Rothschild. Commissions paid through Rothschild may vary based upon account circumstances. We retain the discretion to negotiate alternative commission rates on a client-by-client basis.

Clients may elect to direct brokerage to a specific broker(s) for trade execution. Clients are informed that if they elect to direct brokerage transactions through other brokerage firms, Rothschild may not be able to obtain best execution for them because we are unable to negotiate on their behalf. As a result, clients who direct brokerage transactions may pay higher commission rates or may receive less favorable prices.

**Aggregate Orders:**

We aggregate client orders when advantageous to clients. Clients will receive an average share price and execution costs will be shared equally on a pro-rata basis. No particular group or client(s) will be favored over others. In situations where it is not possible to execute all shares of an aggregate order, Rothschild will allocate the executed portion of the trade among participating accounts in an equitable manner. The goal is for clients to benefit from lower execution costs and better prices.

## **Item 13 REVIEW OF ACCOUNTS**

### **Investment Advisory Services**

**Reviews:** While the underlying securities within Investment Advisory Services accounts are continually monitored, these accounts are reviewed at least quarterly. Accounts are reviewed in the context of each client's stated investment objectives and guidelines. More frequent reviews may be triggered by material changes in the client's individual circumstances, in addition to market, political, or economic developments. Reviews are conducted by the manager(s) assigned to the relationship.

Managers are supervised by Richard F. Karger, Chairman, and Bradley Drake, Vice President.

**Reports:** In addition to the monthly statements and confirmations of transactions that clients receive from their custodian, we provide monthly /quarterly reports summarizing account performance, balances and holdings. Clients are encouraged to carefully review the statements provided by their custodian.

### **Retirement Plan Consulting Services**

**Reviews:** Rothschild will review the client's Investment Policy Statement (IPS) whenever the client advises us of a change in circumstances regarding the needs of the plan. We will also review the investment options of the plan according to the agreed upon time intervals established in the IPS. Such reviews will generally occur quarterly. These accounts are reviewed by the manager(s) assigned to the account.

Managers are supervised by Richard F. Karger, Chairman, and Bradley Drake, Vice President.

**Reports:** These client accounts will receive reports as contracted for at the inception of the advisory relationship.

## **Item 14 CLIENT REFERRALS AND OTHER COMPENSATION**

**Client Referrals:** Rothschild may pay referral fees to independent persons or firms ("Solicitors") for introducing clients to us. Whenever we pay a referral fee, we require that the prospective client be provided with a copy of this document (our Firm Brochure) and a separate disclosure statement that includes the following information:

- The Solicitor's name and relationship with our firm;
- The fact that the Solicitor is being paid a referral fee;
- The amount of the fee; and
- Whether the fee paid to us by the client will be above our normal fees in order to compensate the Solicitor.

As a matter of firm practice, the impact of any referral fee is borne by Rothschild.

**Other Compensation:** Our firm and/or our officers and representatives are eligible to receive compensation (including bonuses) for referring clients and for certain types of investment products that we recommend. While we endeavor at all times to put the interests of our clients first as part of our fiduciary duty, the possibility of receiving incentive compensation creates a conflict of interest as disclosed in Item 10 of this Brochure.

Rothschild endeavors at all times to put the interests of its clients first as part of our fiduciary duty as a registered investment adviser.

## **Item 15 CUSTODY**

We previously disclosed in Item 5 of this Brochure that clients direct us to directly debit advisory fees from their accounts.

As part of this billing process, the client's custodian is advised of the amount of the fee to be deducted from that client's account. On at least a quarterly basis, the custodian is required to send to the client a statement showing all transactions within the account during the reporting period.

Because the custodian does not calculate the amount of the fee deducted, it is important for clients to carefully review their custodial statements to verify the accuracy of the calculation, among other things. Clients should contact us directly if they believe that there may be an error in their statement.

In addition to the periodic statements that clients receive directly from their custodians (electronically or by mail), we also send account statements directly to our clients on a monthly / quarterly basis. We urge our clients to carefully compare the information provided on these statements to ensure that all account transactions, holdings, and values are correct and current.

According to a recent SEC ruling, investment advisers have custody of client funds if certain conditions are met. Rothschild has custody in certain account situations, such as when an account is billed more than \$1,200 six months in advance. When Rothschild has custody of client funds, the SEC requires an annual surprise audit by an independent CPA firm. Rothschild complies with this requirement.



## **Item 16 INVESTMENT DISCRETION**

Clients may hire us to provide discretionary asset management services, in which case we place trades in a client's account without contacting the client prior to each trade to obtain the client's permission.

Our discretionary authority includes the ability to do the following without contacting the client:

- Determine the security to buy or sell; and/or
- Determine the amount of the security to buy or sell

Clients give us discretionary authority when they sign a discretionary agreement with our firm, and may limit this authority by giving us written instructions. Clients may also change/amend such limitations by once again providing us with written instructions.

## **Item 17 VOTING CLIENT SECURITIES**

As a matter of firm policy, we do not vote proxies on behalf of clients. Therefore, although our firm may provide investment advisory services relative to client investment assets, clients maintain exclusive responsibility for: (1) directing the manner in which proxies solicited by issuers of securities beneficially owned by the client shall be voted, and (2) making all elections relative to any mergers, acquisitions, tender offers, bankruptcy proceedings or other type events pertaining to the client's investment assets. Clients are responsible for instructing each custodian of the assets, to forward to the client copies of all proxies and shareholder communications relating to the client's investment assets.

We may provide clients with assistance regarding proxy issues if they contact us with questions at our principal place of business.

## **Item 18 FINANCIAL INFORMATION**

Under certain circumstances we do require or solicit payment of fees in excess of \$1,200 per client more than six months in advance of services rendered. Therefore, we are required to include a financial statement.

As an advisory firm that maintains discretionary authority for client accounts or has custody (previously disclosed in Item 15.), or, as disclosed above, is required to provide a copy of our firm's balance sheet, we are also required to disclose any financial condition that is likely to impair our ability to meet our contractual obligations. Rothschild has no additional financial circumstances to report.

Rothschild has not been the subject of a bankruptcy petition at any time.

# **Rothschild Investment Corporation**

Statement of Financial Condition  
December 31, 2011

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Filed as PUBLIC information pursuant to Rule 17a-5(d)  
under the Securities Exchange Act of 1934.

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

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	April 30, 2013
Estimated average burden hours per response.....	12.00

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

SEC FILE NUMBER
8-16429

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 01/01/2011 AND ENDING 12/31/2011  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **Rothschild Investment Corporation**

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

**311 S. Wacker Drive, Suite 6500**

OFFICIAL USE ONLY

FIRM I.D. NO.

(No. and Street)  
**Chicago** **Illinois** **60606**  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
**Bradley C. Drake** **(312) 983-8956**  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

**McGladrey & Pullen, LLP**

(Name - if individual, state last, first, middle name)  
**One South Wacker Drive, Suite 800** **Chicago** **Illinois** **60606-3392**  
(Address) (City) (State) (Zip Code)

**CHECK ONE:**

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

**FOR OFFICIAL USE ONLY**

\*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)

## OATH OR AFFIRMATION

I, Bradley C. Drake, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Rothschild Investment Corporation, as of December 31, 2011, 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:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

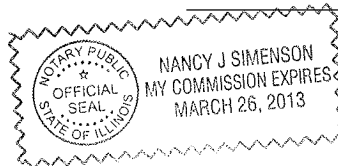
Bradley C. Drake

Signature

CFO

Title

Nancy J. Simenson  
Notary Public  
February 24, 2012



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 Proprietors' 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 control

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

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Statement of Financial Condition	2
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## Independent Auditor's Report

To the Board of Directors  
Rothschild Investment Corporation  
Chicago, Illinois

We have audited the accompanying statement of financial condition of Rothschild Investment Corporation (the Company) as of December 31, 2011, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement 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 statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit of the statement of financial condition provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Rothschild Investment Corporation as of December 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Chicago, Illinois  
February 28, 2012

**Rothschild Investment Corporation**

**Statement of Financial Condition  
December 31, 2011**

<b>Assets</b>	
Cash	\$ 466,810
Receivable from and deposit with clearing broker	886,190
Securities owned, at fair value	3,392,355
Furniture, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$204,386)	335,158
Prepaid expenses	162,877
Other assets	230,591
	<hr/>
<b>Total assets</b>	<b>\$ 5,473,981</b>
	<hr/>
<b>Liabilities and Stockholders' Equity</b>	
Liabilities	
Accounts payable and accrued expenses	\$ 906,729
Deferred rent	399,528
	<hr/>
<b>Total liabilities</b>	<b>1,306,257</b>
	<hr/>
Stockholders' equity	4,167,724
	<hr/>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 5,473,981</b>
	<hr/>

See Notes to Statement of Financial Condition.

## Rothschild Investment Corporation

### Notes to Statement of Financial Condition

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#### **Note 1. Nature of Organization and Significant Accounting Policies**

**Nature of organization:** Rothschild Investment Corporation (the Company) is a registered securities broker-dealer and a registered investment advisor. As a broker-dealer, the Company provides brokerage services to retail and institutional customers located primarily throughout the Midwestern United States, with customer transactions cleared through another broker on a fully disclosed basis. As an investment advisor, the Company provides investment management services to individuals, trusts and retirement plans.

The Company operates under the provisions of Paragraph (k)(2)(ii) of Rule 15c3-3 of the Securities Exchange Act of 1934 and, accordingly, is exempt from the remaining provisions of that rule. Essentially, the requirements of Paragraph (k)(2)(ii) provide that the Company clear all transactions on behalf of customers on a fully disclosed basis with a clearing broker-dealer, and promptly transmit all customer funds and securities to the clearing broker-dealer. The clearing broker-dealer carries all of the accounts of the customers and maintains and preserves all related books and records as are customarily kept by a clearing broker-dealer.

The following is a summary of the Company's significant accounting policies:

**Accounting policies:** The Company follows the accounting standards set by the Financial Accounting Standards Board (FASB). The FASB sets generally accepted accounting principles (GAAP) that the Company follows to ensure consistent reporting of financial condition, results of operations, and cash flows.

**Use of estimates:** The preparation of financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Securities owned:** Transactions in securities are recorded on a trade-date basis and are carried at fair value, with resulting unrealized gains and losses reflected in revenue.

**Furniture, equipment and leasehold improvements:** Furniture and equipment are carried at cost and are depreciated using a straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized by the straight-line method over the lesser of the term of the lease or the economic useful lives of the improvements.

**Deferred rent:** Operating lease obligations, including incentives, are amortized on a straight-line basis over the term of the lease.

**Investment advisory fees:** Investment advisory fees are received quarterly but are recognized as earned on a pro rata basis.

**Commissions:** Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

**Income taxes:** The Company has elected to be taxed as an S corporation under the Internal Revenue Code. As a result, the Company does not pay any federal corporate income taxes. Instead, stockholders are liable for individual federal income taxes on their respective shares of the Company's taxable income. Accordingly, no provision or benefit for federal income taxes has been made in these financial statements.



## Rothschild Investment Corporation

### Notes to Statement of Financial Condition

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#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

FASB provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-than-likely-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-than-likely-not threshold would be recorded as a tax benefit or expense and liability in the current year. Management has determined that there are no material uncertain tax positions through December 31, 2011.

The Company is generally not subject to examination by the U.S. Federal and state tax authorities for tax years before 2008.

**Subsequent events:** The Company has evaluated subsequent events for potential recognition and/or disclosure through the date these financial statements were issued.

#### Note 2. Receivable from and Deposit with Clearing Broker

The Company clears customer transactions on a fully disclosed basis and proprietary transactions through the Company's clearing broker.

Amounts receivable from and on deposit with the clearing broker at December 31, 2011, consist of the following:

Cash	\$	108,068
Money market funds		677,672
Deposit		100,000
Fees and commissions receivable		450
	\$	<u>886,190</u>

The deposit is required to be maintained in accordance with the Company's clearing broker agreement.

#### Note 3. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies.

## Rothschild Investment Corporation

### Notes to Statement of Financial Condition

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#### Note 3. Fair Value Measurements (Continued)

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The following table presents the Company's assets measured at fair value at December 31, 2011 using the fair value hierarchy:

Description	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Receivable from and deposit with clearing broker				
Money market funds	\$ 677,672	\$ -	\$ -	\$ 677,672
Securities owned				
Common stock				
Stock in exchanges	3,373,800	-	-	3,373,800
Other	18,555	-	-	18,555
	<u>\$ 4,070,027</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,070,027</u>

Securities traded on a national securities exchange and money market funds are stated at the last reported sales price on the day of valuation. These financial instruments are classified as Level 1 in the fair value hierarchy.

Effective January 1, 2011, the Company adopted the FASB update to provide more and improved disclosures about fair value measurements. This update requires that a reporting entity disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers.

#### Note 4. Common Stock

The Company has two classes of common stock. There are 500,000 shares of \$2 par value Class A voting common stock authorized and 266,501 shares issued at December 31, 2011. Net of Class A common shares held in Treasury, there were 179,225 shares outstanding at December 31, 2011.

There are 500,000 shares of \$.10 par value Class B nonvoting common stock authorized and 269,942 shares issued at December 31, 2011. Net of Class B common shares held in Treasury, there were 180,392 shares outstanding at December 31, 2011.

## **Rothschild Investment Corporation**

### **Notes to Statement of Financial Condition**

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#### **Note 4. Common Stock (Continued)**

The Company's certificate of incorporation provides, among other things, that the Company has the option, under certain circumstances and subject to minimum capital requirements, to purchase a stockholder's interest within a specified period of time, as defined.

#### **Note 5. Commitments and Contingencies**

The Company leases office space under a noncancelable operating lease agreement that expires in March 2017. The future minimum annual rentals, exclusive of additional payments that may be required for certain increases in taxes and operating costs, are:

2012	\$	352,944
2013		378,975
2014		390,345
2015		402,055
2016		414,117
Thereafter		104,289
	\$	<u>2,042,725</u>

In the normal course of business, the Company is subject to litigation, claims and regulatory and arbitration matters. The Company vigorously defends against these matters, and in the opinion of management, the resolution of these matters will not result in any material adverse effect on the Company's financial position.

#### **Note 6. Profit Sharing Plan**

The Company has a discretionary profit sharing plan that covers all eligible employees. Profit sharing amounts may be contributed at the option of the Company's Board of Directors.

The Company earns commissions from executing trades for the profit sharing plan. In addition, the Company earns investment advisory fees for services rendered to the plan that were absorbed by the Company.

#### **Note 7. Indemnifications**

In the normal course of business, the Company enters into contracts that contain a variety of representations and warranties that provide indemnifications under certain circumstances. The Company's maximum exposure under these agreements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications. Management of the Company expects the risk of loss to be remote.

## **Rothschild Investment Corporation**

### **Notes to Statement of Financial Condition**

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#### **Note 8. Financial Instruments with Off-Balance-Sheet Risk**

Customers' transactions are introduced to and cleared through Pershing, LLC, the Company's clearing broker. Under the terms of its clearing agreement, the Company guarantees the performance of its customers in meeting contracted obligations. In conjunction with the clearing broker, the Company seeks to control the risks associated with its customer activities by requiring customers to maintain collateral in compliance with various regulatory and internal guidelines. Compliance with the various guidelines is monitored daily and, pursuant to such guidelines, the customers may be required to deposit additional collateral, or reduce positions where necessary.

The Company is exposed to off-balance-sheet counterparty risk resulting from principal transactions in securities. Such risk arises in the event that counterparties fail to satisfy their obligations and the related collateral is insufficient. The Company monitors such risk on a daily basis.

The receivable from and deposit with the clearing broker, and cash equivalents held by the clearing broker, resulting from the Company's trading and brokerage activities, represent a concentration of credit risk. The Company does not anticipate nonperformance by its customers or clearing broker. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

The Company maintains cash in its trading accounts at its clearing broker and in bank deposit accounts. The cash in bank deposit accounts may at times exceed federally insured limits. The Company has not experienced any losses in such accounts. Management believes the Company is not exposed to any significant credit risk on cash.

At December 31, 2011, cash on deposit with the Company's clearing broker may serve as collateral for amounts due to the clearing broker and securities sold short, not yet purchased, if any.

#### **Note 9. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. The rule also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2011, the Company had net capital of \$2,514,497, which was \$2,264,497 in excess of its required net capital of \$250,000. The Company's net capital ratio was 0.36 to 1.