

**AMHERST SECURITIES GROUP, L.P.**

Statement of Financial Condition  
December 31, 2009

(With Independent Auditors' Report Thereon)

**Independent Auditors' Report**

To the Partners of  
Amherst Securities Group, L.P.:

We have audited the accompanying statement of financial condition of Amherst Securities Group, L.P. as of December 31, 2009. This financial statement is the responsibility of the Partnership'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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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 Amherst Securities Group, L.P. as of December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

**PMB Helin Donovan, LLP**

*PMB Helin Donovan, LLP*

Austin, Texas  
February 25, 2010

**AMHERST SECURITIES GROUP, L.P.**

Statement of Financial Condition

December 31, 2009

**ASSETS**

Cash and cash equivalents	\$ 3,765,482
Receivables from clearing broker-dealers	37,328,492
Accrued interest receivable	3,987,188
Securities purchased under agreements to resell	35,537,000
Securities owned, at fair value	980,711,819
Furniture and equipment, net	2,973,794
Receivables from affiliates	5,507,675
Other assets	2,342,236

**TOTAL ASSETS** \$ 1,072,153,686

**LIABILITIES AND PARTNERS' CAPITAL**

**Liabilities**

Securities sold under agreements to repurchase	\$ 626,676,564
Securities sold, not yet purchased, at fair value	42,981,668
Payables to clearing broker-dealers	115,155,131
Accounts payable	716,553
Accrued compensation liability	22,702,454
Accrued tax liability	99,881
Principal and interest payable on securities sold	481,525
Other accrued liabilities	1,106,330
Total liabilities	<u>809,920,106</u>

**Partners' Capital** 262,233,580

**TOTAL LIABILITIES AND PARTNERS' CAPITAL** \$ 1,072,153,686

See accompanying notes to the statement of financial condition and independent auditors' report.

**AMHERST SECURITIES GROUP, LP**  
Notes to the Statement of Financial Condition  
December 31, 2009

**Note 1 - Nature of Business**

Amherst Securities Group, L.P. (“Partnership”) is registered as a broker/dealer with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority (“FINRA”). The Partnership primarily markets and trades fixed income securities to institutions throughout the United States. The Partnership has offices located in California, Colorado, Connecticut, Florida, Illinois, New Jersey, New York, Montana, Texas and Virginia. The Partnership operates under the provisions of Rule 15c3-3 of the SEC and has claimed an exemption from Rule 15c3-3 under section (k)(2)(ii), in which all customer transactions are cleared through another broker-dealer on a fully disclosed basis.

The Partnership is a Texas Limited Partnership. The general partner is ASG General Partner, Inc., which is a wholly owned subsidiary of Amherst Holdings, LLC (“Holdings”). Holdings is the sole limited partner of the Partnership.

**Note 2 - Significant Accounting Policies**

Basis of Accounting

These financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles whereby revenues are recognized in the period earned and expenses when incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

For purposes of the statements of financial condition and cash flows, the Partnership considers short-term investments, which may be withdrawn at any time without penalty, to be cash equivalents.

Furniture and Equipment

Furniture and equipment are stated at cost. Depreciation of furniture and equipment is computed at rates considered sufficient to amortize the cost of the assets over five years using the straight-line method. Leasehold improvements are amortized over the shorter of the estimated life or term of the lease. Assets are periodically reviewed for impairment, if any.

**AMHERST SECURITIES GROUP, LP**  
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Revenue Recognition

Securities owned and securities sold, not yet purchased are valued at fair value with the difference between cost and fair value included in net trading profits. Trading profits also consist of realized gains or losses on firm securities trading accounts, which are reported on a trade date basis net of the related interest income and expense.

Commission revenue and related expense from customer security transactions is recorded on a trade date basis. Customer security transactions that are executed through the Partnership's proprietary trading account are recorded on a trade date basis as principal commission revenue. The related expense is also recorded on a trade date basis.

The Partnership does not carry or clear customer accounts and all customer transactions are executed and cleared with other brokers on a fully disclosed basis. These brokers have agreed to maintain such records of the transactions effected and cleared in the customers' accounts as are customarily made and kept by a clearing broker pursuant to the requirements of Rules 17a-3 and 17a-4 of the Securities and Exchange Commission, and to perform all services customarily incident thereto.

Financial Instruments and Credit Risk

Financial instruments that potentially subject the Partnership to credit risk include cash and cash equivalents, receivables from broker-dealers and clearing organizations, concessions receivable, securities owned, securities purchased under agreements to resell, securities sold under agreements to repurchase, notes receivable, receivables from affiliates and advances to employees. Securities owned consist of securities held for trading purposes. Securities owned and securities sold but not yet purchased are carried at fair value. Securities not readily marketable are carried at fair value as determined by management of the Partnership. The increase or decrease in net unrealized appreciation or depreciation of securities is credited or charged to operations.

Income Taxes

The Partnership is not subject to Federal income taxes. Instead the partners are individually liable for Federal income taxes on their respective share of the Partnership's taxable income. Therefore, no provision or liability for Federal income taxes has been included in these financial statements. The Partnership is subject to taxes in various states.

Resale and Repurchase Agreements

Transactions involving the purchase of securities under agreements to resell ("reverse repurchase agreements") or the sale of securities under agreements to repurchase ("repurchase agreements") are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts. Accrued interest receivable or payable is included in the value presented for reverse repurchase and repurchase agreements, respectively. It is the policy of the Partnership to obtain possession of collateral with a fair value equal to or in excess of the principal amount loaned under resale agreements. At December 31, 2009, the fair value, including accrued interest, of the securities sold subject to repurchase was \$626,676,564. At December 31, 2009, the fair value, including accrued interest, of the securities purchased subject to resell was \$35,537,000.

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Financial Instruments With Off-Balance-Sheet Risk

In the normal course of business, the Partnership enters into transactions in financial instruments with varying degrees of off-balance-sheet risk. These financial instruments may include exchange traded financial futures contracts, options and mortgage-backed to-be-announced securities (“TBAs”) and securities sold, not yet purchased. Futures contracts are executed on an exchange and cash settlement is made on a daily basis for market movements. Accordingly, futures contracts generally do not have credit risk. TBAs are used by the Partnership in order to reduce exposure on securities owned and are net settled on a periodic basis. The Partnership has sold securities, not yet purchased, in order to reduce interest rate exposure on bonds included in securities owned. The Partnership records the change in fair value of these off-balance-sheet transactions as of the balance sheet date and records either an asset or liability and recognizes either a gain or a loss related to these transactions as of the date of the report. The market risk is the potential change in the value of the financial instrument caused by unfavorable changes in interest rates or the market values of the securities underlying the instruments. The Partnership monitors its exposure to market risk through a variety of control procedures, including daily review of trading positions.

Date of Management’s Review

Management has evaluated the financial statements for subsequent events through the issuance date, February 25, 2010.

Recent Accounting Pronouncements

Effective January 1, 2008, the Partnership adopted the provisions of FASB’s authoritative guidance for fair value measurements of certain financial instruments. These provisions define fair value, establish a framework for measuring fair value and a three level hierarchy for fair value measurement, and expand the related disclosure requirements. The provisions indicate, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability based upon an exit price model. The adoption of these provisions did not have a significant impact on the Partnership’s results of operations and financial condition.

Effective January 1, 2008, the Partnership adopted the provisions of FASB’s authoritative guidance for the fair value option of financial assets and financial liabilities. This guidance permits entities to measure financial instruments and certain other items at estimated fair value. Most of the provisions are elective; however, amendments affecting the accounting for certain investments in debt and equity securities apply to all entities that own trading and available-for-sale securities. The fair value option created by the guidance permits entities to measure eligible items at fair value as of specified election dates. The fair value option (a) may generally be applied instrument by instrument, (b) is irrevocable unless a new election date occurs, and (c) must be applied to the entire instrument and not to only a portion of the instrument. The adoption of this guidance did not have a significant impact on the Partnership’s results of operations and financial condition.

**AMHERST SECURITIES GROUP, LP**  
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In May 2009, the FASB issued authoritative guidance for subsequent events. This guidance establishes general standards of accounting and disclosures of events that occur after the balance sheet date but before financial statements are issued or available to be issued. Specifically, these standards set forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance is effective for financial statements issued for fiscal years beginning after June 15, 2009.

In June 2009, the FASB issued authoritative guidance establishing the FASB Accounting Standards Codification (“FASB Codification”) as the source of authoritative non-governmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission (“SEC”), which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the FASB Codification became non-authoritative. This standard is effective for financial statements issued for fiscal years ending after September 15, 2009. As the FASB Codification was not intended to change or alter existing GAAP, it did not have an impact on the Partnership’s financial statements other than for those standards applicable to the Partnership issued thereafter.

**Note 3 - Cash Segregated Under Regulations**

At December 31, 2009, no cash has been segregated in a special reserve bank account for the exclusive benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission. In prior periods, the Partnership had been required to segregate cash in a special reserve account. While there was no requirement at December 31, 2009 to segregate cash, such a requirement may resume in future periods or from time-to-time.

**Note 4 - 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 (an exit price methodology). Determining fair value includes a hierarchy used to classify inputs used in measuring fair value. The hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels which are either observable or unobservable. Observable inputs reflect market data obtained from independent sources while unobservable inputs reflect an entity’s view of market assumptions in the absence of observable market information. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The three levels of the fair value hierarchy are as follows:

Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible to the Partnership for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. These generally provide the most reliable evidence and are used to measure fair value whenever available. The Partnership’s Level 1 assets and liabilities include fixed income debt securities (government mortgage-backed securities), U.S. Treasuries and exchange traded equities. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

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Level 2: Fair value is based upon significant inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable for substantially the full term of the asset or liability through corroboration with observable market data as of the reporting date. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, model-derived valuations whose inputs are observable or whose significant value drivers are observable and other observable inputs. The Partnership's Level 2 assets include fixed income debt securities (structured government, non-government and private issue mortgage-backed securities) and credit default swap agreements where the Partnership has purchased protection. Valuations are generally obtained from third party pricing services for identical or comparable assets or determined through use of valuation methodologies using observable market inputs.

Level 3: Fair value is based on significant unobservable inputs which reflect the entity's or third party pricing service assumptions about the assumptions market participants would use in pricing an asset or liability. Valuations are estimated based on non-binding broker prices or internally developed valuation models or methodologies, discounted cash flow models and other similar techniques. There were no Level 3 investments during the year ended December 31, 2009.

The following table sets forth the Partnership's assets and liabilities that are measured at fair value on a recurring basis as of the date indicated:

<b>Description</b>	<b>December 31, 2009</b>		
	<b>(Dollars in Thousands)</b>		
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>
Financial instruments owned			
US Government securities	\$ 881,779	\$531,512	\$350,267
Non-government bonds	88,514	-	88,514
Equities	46	46	-
Derivatives	10,373	8,079	2,294
<b>Total assets</b>	<b>\$ 980,712</b>	<b>\$539,637</b>	<b>\$441,075</b>
Financial instruments sold, not yet purchased			
US Treasury bonds	\$ 38,086	\$ 38,086	\$ -
US Government securities	4,896	4,896	-
<b>Total Liabilities</b>	<b>\$ 42,982</b>	<b>\$ 42,982</b>	<b>\$ -</b>

Securities owned are held by a clearing organization as collateral for amounts payable to such clearing organization.

**Note 5 - Property and Equipment**

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

Computer equipment and software	\$ 2,970,803
Furniture and fixtures	1,717,515
Leasehold improvements	1,193,686
Total property and equipment	5,882,004
Less accumulated depreciation and amortization	(2,908,210)
Net property and equipment	\$ 2,973,794

**AMHERST SECURITIES GROUP, LP**  
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**Note 6 - Receivables and Payables to Clearing Broker-Dealers**

The Partnership conducts substantially all business through its primary clearing broker (Pershing), which settles all trades for the Partnership, on a fully disclosed basis, on behalf of its customers. As of December 31, 2009, the Partnership had a net payable of \$1,746,920 against the change in fair value of certain credit default swaps (“CDS”) where the counterparties are prime brokers.

	<b>Receivable</b>	<b>Payable</b>
Receivable from clearing organizations	\$36,446,760	
Cash collateral deposited with counterparty for fair value adjustments on credit default swap agreements	881,732	
Payable to clearing organization		\$112,526,479
Cash collateral deposited by counterparty for fair value adjustments on credit default swap agreements		2,628,652
	\$37,328,492	\$115,155,131

**Note 7 - Net Capital Requirements**

The Partnership is subject to the SEC uniform net capital rule (Rule 15c3-1), which requires the maintenance of a minimum amount of net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Rule 15c3-1 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, 2009, the Partnership had net capital and net capital requirements of \$218,440,827 and \$9,109,313, respectively. The Partnership’s aggregate indebtedness to net capital ratio was 0.63 to 1.

**Note 8 - Employee Benefit Plans**

Holdings indirectly sponsors a 401(k) plan for all eligible employees of the Partnership, Holdings and Amherst Derivative Trading, LLC. Participants are permitted to defer compensation up to a maximum of 90% of their income not in excess of the limit determined by the Internal Revenue Service. Holdings may elect to make additional contributions to the plan at its discretion. The cost of additional contributions is allocated to each employer company. A discretionary contribution was approved by the Board of Managers of Holdings related to the financial year ended December 31, 2009. A total cash payment of \$500,000 will be used along with any forfeiture within the existing plan to provide eligible employees of the Partnership with matching contributions. The amount has been recorded in these financial statements as a portion of accrued compensation liability.

**Note 9 - Commitments and Contingencies**

Liabilities Subordinated to the Claims of General Creditors

From March 24, 2009 through May 7, 2009, the Partnership borrowed \$50 million from Holdings under a 45-day temporary subordinated loan approved by FINRA.

**AMHERST SECURITIES GROUP, LP**  
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Clearing Agreement

Pershing LLC (“Pershing”) acts as the primary clearing broker to clear and carry, on a fully disclosed basis, the Partnership’s margin, cash, and proprietary accounts, and the Partnership is a correspondent of Pershing. The clearing agreement with Pershing calls for a minimum quarterly charge of \$45,000. The Partnership had entered its agreement with Pershing in December of 2007 while still maintaining a clearing relationship with JPMorgan Clearing Corp, (“JPM Clearing”), who, at the time was the Partnership’s primary clearing broker. During the first half of 2009, the Partnership discontinued its clearing relationship with JPM Clearing.

Restricted Cash

Letters of credit, related to office leases, have been issued by the Partnership’s financial institution and the issuer of the letters of credit requires that cash collateral equal to the face value of the combined letters of credit remain on deposit with the financial institution for the term of the letters of credit. The letters of credit may be renewed annually upon mutual agreement of terms by the financial institution and the Partnership. The Partnership has the obligation of providing acceptable letters of credit to the lessors in order to comply with the terms of the lease for the portion of the lease term for which the letters of credit must be in place. As of December 31, 2009, \$311,662 was pledged as collateral for the letters of credit outstanding.

Lease Commitments

The Partnership leases office facilities under non-cancellable operating lease agreements which expire at various times through December 2016. The Partnership also leases various types of equipment under operating lease agreements expiring at various dates through December 2010.

At December 31, 2009, the future minimum rental payments required under the various lease agreements are as follows:

<u>Year Ending December 31,</u>	
2010	\$ 3,586,040
2011	1,664,221
2012	1,425,229
2013	1,286,356
2014	1,054,085
Thereafter	<u>1,580,985</u>
Total	<u>\$ 10,596,916</u>

**AMHERST SECURITIES GROUP, LP**  
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(Continued)

**Note 10 - Related Party Transactions**

At December 31, 2009, the Partnership serves as the primary operating entity within the group that includes Amherst Holdings, LLC and Amherst Derivative Trading, LLC. As such, the Partnership makes disbursements and pays employment costs on behalf of these related entities. All disbursements and employee costs are allocated to the other entities based upon either specific identification or upon relative use of the costs incurred. Total amounts due from entities consolidated under Amherst Holdings, LLC were:

Due from Amherst Holdings, LLC	\$ 4,455,084
Due from Amherst Derivatives Trading, LLC	1,044,603
Due from Amherst Funding Group, L.P.	7,710
Due from Amherst Services Corp.	<u>278</u>
Total receivables from affiliates	<u>\$ 5,507,675</u>

See Note 9 for related party transactions that occurred during the year ended December 31, 2009 related to activity in subordinated debt.

**Note 11 - Fair Value of Financial Instruments**

The financial instruments of the Partnership are reported at fair values, or at carrying amounts that approximate fair values because of the short maturity of the instruments, except repurchase and reverse repurchase agreements. The following methods and assumptions were used by the Partnership to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Repurchase Agreements: The fair value estimates are based on the fair market value of the collateral.

Reverse Repurchase Agreements: The fair value estimates are based on dealer quotes.

**Note 12 - Off-Balance-Sheet Risk and Concentration of Credit Risk**

As discussed in Note 2, the Partnership's customers' securities transactions are introduced on a fully disclosed basis with its clearing broker dealers. The clearing broker dealers carry all of the accounts of the customers of the Partnership and are responsible for execution, collection and payment of funds, and receipt and delivery of securities relative to customer transactions. Off-balance-sheet risk exists with respect to these transactions due to the possibility that customers may be unable to fulfill their contractual commitments wherein the clearing broker dealers may charge any losses it incurs to the Partnership. The Partnership seeks to minimize this risk through procedures designed to monitor the credit worthiness of its customers and that customer transactions are executed properly by the clearing broker dealers.

The Partnership has \$1,057 million or approximately 99%, of its total assets in cash and cash equivalents, securities owned and receivables from or held by its primary clearing organization. The Partnership also has \$785 million or approximately 97% of its total liabilities in securities sold, principal and interest payable on securities sold short and payable to its clearing organization.

The Partnership has sold securities, not yet purchased. The Partnership has recorded these obligations in the financial statements at the December 31, 2009 at the fair values of the securities sold short and will incur a loss if the fair value of the securities increases subsequent to December 31, 2009.

**AMHERST SECURITIES GROUP, LP**  
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The Partnership has invested in credit-default swap (“CDS”) agreements for hedging purposes. As of December 31, 2009 the notional amounts of the underlying corporate bonds are \$135,000,000, with \$20,000,000 in long positions and \$155,000,000 in short positions. The Partnership had a \$2,293,985 fair value adjustment recorded as an asset within securities owned on the balance sheet.

The Partnership has invested in TBAs agreements for hedging purposes. As of December 31, 2009 the notional amounts of the expected agency bonds are \$569,700,000, with \$703,450,000 in long positions and \$133,750,000 in short positions. The Partnership had a \$8,079,076 fair value adjustment recorded as an asset within securities owned on the balance sheet.

**Note 13 - Subsequent Events**

In January 2010, the Partnership distributed to the General Partner, which is wholly owned by Holdings, its entire capital balance of \$152,827.