

**DAVENPORT & COMPANY LLC
AND SUBSIDIARIES**

Unaudited Mid-Year Consolidated Statement of Financial Condition

June 30, 2011

**DAVENPORT & COMPANY LLC
AND SUBSIDIARIES**

Unaudited Mid-year Consolidated Statement of Financial Condition

June 30, 2011

Assets	6/30/11
Cash and cash equivalents (notes 2 and 11)	\$ 1,901,516
Cash segregated under federal and other regulations (note 3)	2
Deposits with clearing organizations and others	1,053,781
Receivable from broker-dealers and clearing organizations (note 4)	1,851,202
Receivable under securities borrowed agreements (note 11)	37,800
Receivable from customers (note 5)	58,935,981
Receivable from noncustomers (note 5)	5,344,302
Marketable securities owned, at fair value (notes 6 and 12)	13,175,054
Furniture, equipment, software, and leasehold improvements, at cost (less accumulated depreciation and amortization of \$12,321,715 in 2011 and \$11,917,596 in 2010) (note 7)	2,742,190
Notes receivable from employees (note 2)	3,836,823
Prepaid expenses and other assets	5,655,615
	\$ 94,534,266
Liabilities and Members' Interest	
Short-term bank loans (note 8)	\$ 6,590,000
Drafts payable	5,122,759
Payable to broker-dealers and clearing organizations (note 4)	1,046,046
Payable to customers (notes 5 and 11)	28,297,201
Payable to noncustomers (note 5)	92,155
Securities sold, not yet purchased, at market value (notes 6 and 12)	49,965
Accounts payable, accrued expenses, and other liabilities	11,176,176
	52,374,302
Members' interest	42,159,964
Commitments and contingent liabilities (notes 11, 12, and 13)	—
	\$ 94,534,266

See accompanying notes to consolidated financial statements.

**DAVENPORT & COMPANY LLC
AND SUBSIDIARIES**

Notes to Unaudited Mid-Year Statement of Financial Condition

June 30, 2011

(1) Organization and Nature of Business

Davenport & Company LLC (the Company) is a broker-dealer registered under the Securities Exchange Act of 1934 and an investment adviser registered under the Investment Advisers Act of 1940. The Company is a member of the New York Stock Exchange, Inc. and the Financial Industry Regulatory Authority (FINRA). The Company is a limited liability company organized under the laws of the Commonwealth of Virginia. The Company is owned by Davenport & Company of Virginia, Inc., Davenport Corp., and DAVA Corp. (collectively, the Members) who have membership interests of 65%, 19%, and 16%, respectively. The liability of each Member is limited to the balances in each Member's capital account. The Company will continue indefinitely, unless dissolved earlier pursuant to the terms of the operating agreement of the Company. Davenport Financial Advisors LLC (DFA) and Davenport Trust Company (DavTrust) are wholly owned subsidiaries of Davenport & Company LLC. DFA is engaged in the appraisal of businesses and their securities in connection with estate and gift tax, equitable distribution, acquisition advisory, the purchase and sale of listed and unlisted securities, litigation support and other purposes. The services and responsibilities of DFA are separate from those of Davenport & Company LLC, notwithstanding the fact that DFA and Davenport & Company LLC may share employees and facilities. DavTrust is a wholly owned North Carolina corporation formed in 2009 to be the trustee of Davenport's individual retirement accounts. It was capitalized in December 2009 with \$1.5 million, which was held in a local bank account as of June 30, 2011. DavTrust had not begun operations as of June 30, 2011.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company is engaged in a single line of business as a securities broker-dealer, which comprises several classes of services, including principal transactions, agency transactions, investment banking, and investment advisory services. All material intercompany balances and transactions are eliminated in consolidation.

(b) Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

(c) Fair Value

On January 1, 2008, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements* which defines fair value as 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. ASC Topic 820-10 also establishes a framework for measuring fair value in U.S. generally accepted accounting principles and expands disclosures about fair value measurements (note 6). The adoption of this standard did not have a material impact on the Company's financial position, results of operations, or cash flows.

**DAVENPORT & COMPANY LLC
AND SUBSIDIARIES**

Notes to Unaudited Mid-Year Statement of Financial Condition

June 30, 2011

The Company carries cash and cash equivalents, cash segregated under federal and other regulations, securities owned, and securities sold, not yet purchased at fair value. Receivables from brokers-dealers and clearing organizations, receivable under securities borrowed agreements, receivable from customers, receivable from noncustomers, short-term bank loans, drafts payable, payable to brokers-dealers and clearing organizations, payable to customers, and payable to noncustomers are recorded at their carrying amounts, which approximate fair value. The fair value of these items is not materially sensitive to shifts in market interest rates because of the limited term to maturity and/or variable interest rates of many of these instruments.

(d) *Securities Transactions*

Proprietary securities transactions in regular way trades are recorded on the settlement date, which is not materially different from the trade date. Profit and loss arising from all securities transactions entered into for the account and risk of the Company are also recorded on the settlement date, which is not materially different from the trade date. Customers' securities transactions and related commission income and expense are reported on a settlement-date basis, unless the effect is materially different than a trade-date basis.

Marketable securities are recorded at estimated fair value.

(e) *Collateral*

The Company reports assets it has pledged as collateral in secured borrowing and other arrangements when the secured party cannot sell or repledge the assets or the Company can substitute collateral or otherwise redeem it on short notice.

(f) *Investment Banking*

Investment banking revenues include gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking revenues also include fees earned from providing merger and acquisition and financial restructuring advisory services from financial advisor fees related to services provided to tax-exempt issues. Investment banking management fees are recorded on the settlement date. Also, sales concessions are recorded on settlement date and underwriting fees are recognized at the time the underwriting is completed and the income is reasonably determinable.

(g) *Investment Advisory Services*

Fee income for investment advisory services is recorded on the accrual basis based on the market value of managed assets. Fees are computed and collected quarterly based upon fee schedules and average month-end portfolio values.

(h) *Income Taxes*

Income taxes are not reflected in the accompanying consolidated financial statements as the responsibility for income taxes is that of the Members and not of the Company.

**DAVENPORT & COMPANY LLC
AND SUBSIDIARIES**

Notes to Unaudited Mid-Year Statement of Financial Condition

June 30, 2011

In June 2006, the FASB issued ASC 740-10, related to *Accounting for Uncertain Tax Positions*. ASC 740-10 requires that a tax position be recognized or derecognized based on a more likely than not threshold. This applies to positions taken or expected to be taken on a tax return. The Company analyzed filing positions in all of the federal and state jurisdictions where they are required to file income tax returns, including its status as a pass-through entity. The Company believes its income tax filing positions, including its status as a pass-through entity, would be sustained on audit and does not anticipate any adjustments that would result in a material change to its consolidated financial position. Therefore, no reserves for uncertain tax positions, nor interest and penalties, have been recorded pursuant to the adoption of this statement. In addition, there was no cumulative effect adjustment related to the adoption.

(i) *Furniture, Equipment, Software, and Leasehold Improvements*

The Company records depreciation and amortization on the straight line method based on estimated useful lives of two years for software and the related software licenses, four years for quotation equipment, six years for data processing and communications equipment, and ten years for furniture and fixtures. Leasehold improvements are amortized over the lesser of the estimated useful lives of the improvements or the terms of the related leases.

(j) *Drafts Payable*

Drafts payable represent amounts drawn by the Company against a bank.

(k) *Notes Receivable from Employees*

From time to time, the Company issues loans to employees. Some of these loans are non-negotiable and forgiven over a pre-determined period of time on a schedule determined by the Company, as long as the employee remains employed by the Company. Forgiveness of the principal and interest amounts will appear as non-cash compensation to the employee in each monthly paycheck.

(l) *Use of Estimates*

The preparation of statements financial condition in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the statements financial condition and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to estimates and assumptions include the fair value of investments and other contingencies.

(3) *Cash Segregated under Federal and Other Regulations*

Cash of \$2 at June 30, 2011 has been segregated in a special reserve bank account for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission (SEC).

**DAVENPORT & COMPANY LLC
AND SUBSIDIARIES**

Notes to Unaudited Mid-Year Statement of Financial Condition

June 30, 2011

(4) Receivable from and Payable to Broker-Dealers and Clearing Organizations

Amounts receivable from and payable to broker-dealers and clearing organizations at June 30, 2011, consisted of the following:

	2011	
	Receivable	Payable
Securities failed to deliver/receive	\$ 105,584	1,043,787
Amounts receivable from/payable to clearing broker	—	—
Amounts receivable from/payable to clearing organizations	1,607,435	2,259
Other	138,183	—
	\$ 1,851,202	1,046,046

The Company clears certain of its transactions through another broker-dealer on an omnibus basis. The amount payable to the clearing broker relates to the aforementioned transactions and is collateralized by securities owned by the Company.

(5) Receivables from and Payable to Customers and Noncustomers

Amounts receivable from and payable to customers and noncustomers (principally directors of the Company) include amounts due on cash and margin transactions. Securities owned by customers and noncustomers are held as collateral for receivables. Such collateral is not reflected in the consolidated financial statements and may be repledged by the Company. See further discussion of collateral at notes 8 and 12.

(6) Securities Owned and Securities Sold, Not Yet Purchased

(a) Securities owned and securities sold, not yet purchased, consisted of trading securities at June 30, 2011 are as follows:

	2011
Owned:	
Marketable securities, at market value:	
State and municipal obligations (primarily located in the Commonwealth of Virginia)	\$ 10,041,362
Auction rate preferred securities	1,687,500
Corporate bonds	1,001,941
Corporate stocks	444,251
	\$ 13,175,054
Sold, not yet purchased at market value – corporate stocks	\$ 49,965

**DAVENPORT & COMPANY LLC
AND SUBSIDIARIES**

Notes to Unaudited Mid-Year Statement of Financial Condition

June 30, 2011

- (b) On January 1, 2008, the Company adopted the provisions of ASC 820-10, *Fair Value Measurement*. The fair values of the financial instruments shown in the above table as of June 30, 2011 represent management's best estimates of the amounts that would be received to sell those assets in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs.

ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3 inputs are unobservable inputs.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

**DAVENPORT & COMPANY LLC
AND SUBSIDIARIES**

Notes to Unaudited Mid-Year Statement of Financial Condition

June 30, 2011

The following table presents assets and liabilities that are measured at fair value on a recurring basis at June 30, 2011:

	Fair value measurements at reporting date using			
	June 30, 2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Trading securities:				
State and municipal obligations	\$ 10,041,362	—	10,041,362	—
Auction rate preferred securities	1,687,500	—	—	1,687,500
Corporate bonds	1,001,941	—	1,001,941	—
Corporate stocks	444,251	358,871	—	85,380
Total	\$ 13,175,054	358,871	11,043,303	1,772,880
Liabilities:				
Securities sold not yet purchased:	49,965	24,902	25,063	

(7) Furniture, Equipment, Software, and Leasehold Improvements

Furniture, equipment, software, and leasehold improvements are summarized as follows:

	2011
Furniture	\$ 3,763,755
Equipment	5,096,089
Software	2,849,010
Leasehold improvements	3,355,051
	15,063,905
Less accumulated depreciation and amortization	12,321,715
Total furniture, equipment, software, and leasehold improvements, net	\$ 2,742,190

**DAVENPORT & COMPANY LLC
AND SUBSIDIARIES**

Notes to Unaudited Mid-Year Statement of Financial Condition

June 30, 2011

(8) Short-Term Bank Loans

Short-term bank loans are used to finance loans to customers and noncustomers who have purchased securities under margin agreements and to finance trading and investment securities. These loans are generally made at the short-term collateralized borrowing rate (1.13% June 30, 2011) and are payable on demand. In addition, the Company has a \$1 million unsecured line of credit with a commercial bank. The interest rate on this line of credit is prime (3.25% at June 30, 2011) and any borrowings are payable upon demand.

Short-term bank loans and related collateral outstanding at June 30, 2011 were as follows:

	<u>Loans</u> <u>2011</u>	<u>Collateral</u> <u>2011</u>
Collateralized by company securities	\$ 6,490,000	8,812,310
Collateralized by customer securities	—	4,230,823
Collateralized by noncustomer securities	—	1,701
Unsecured line of credit	100,000	—
	<u>\$ 6,590,000</u>	<u>13,044,834</u>

(9) Subordinated Borrowings

The Company has approval from the NYSE for a Revolving Note and Cash Subordination Agreement (the Agreement) with a bank for up to \$7,500,000 at prime (3.25% at June 30, 2011) + 1%. The Company must pay a commitment fee of 1/8% for any unused portion of the Agreement. There were no amounts outstanding under the Agreement at June 30, 2011.

The subordinated borrowings are available in computing net capital under the SEC's Uniform Net Capital Rule (Rule 15c3-1). To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

(10) Employee Benefit Plans

The Company has a defined contribution profit sharing plan and a 401(k) plan covering substantially all employees. Contributions to the profit sharing plan are made solely at the discretion of the board of managers. Participants in the 401(k) plan are allowed to make tax deferred contributions under Section 401(k) of the Internal Revenue Code and requires the Company to make a "Safe Harbor" contribution to the plan equal to 3% of compensation.

(11) Securities Borrowing Activities

Securities borrowed are generally reported as collateralized financing transactions and are recorded in the accompanying consolidated Statement of Financial Condition at the amount of cash collateral advanced. Securities borrowed transactions require the Company to deposit cash with the lender. The Company

**DAVENPORT & COMPANY LLC
AND SUBSIDIARIES**

Notes to Unaudited Mid-Year Statement of Financial Condition

June 30, 2011

monitors the market value of securities borrowed on a daily basis, with additional collateral obtained or refunded as necessary.

Cash deposited with lenders under securities borrowing agreements totaled \$37,800 at June 30, 2011. The fair value of the underlying securities used by the Company primarily to effectuate short sales made by customers approximated \$38,018 at June 30, 2011.

(12) Financial Instruments

The financial instruments of the Company are reported in the consolidated statements of financial condition at market or fair values, or at carrying amounts that approximate fair values because of the short maturity of the instruments.

In the normal course of its business, the Company enters into various transactions involving off-balance-sheet financial instruments. These financial instruments include the purchase and sale of securities pursuant to new issuances. These transactions are used to meet the needs of customers, conduct trading activities, and manage market risks and are, therefore, subject to varying degrees of market and credit risk.

In addition, the Company has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded these obligations in the consolidated financial statements at the market values of the related securities and will incur a loss if the market value of the securities increases subsequent to year-end.

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

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transaction may expose the Company to significant off-balance-sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary.

The Company's customer financing and securities settlement activities require the Company to pledge customer securities as collateral in support of various secured financing sources such as bank loans and securities loaned. In the event the counterparty is unable to meet its contractual obligation to return

**DAVENPORT & COMPANY LLC
AND SUBSIDIARIES**

Notes to Unaudited Mid-Year Statement of Financial Condition

June 30, 2011

customer securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes credit limits for such activities and monitors compliance on a daily basis.

The Company has a concentration of credit risk in the Commonwealth of Virginia since a significant portion of its customer base resides in that state. This is mitigated through the Company's policy of maintaining custody of collateral for all of its margin account customers in accordance with various regulatory and internal guidelines.

(13) Commitments and Contingencies

The Company leases its office space and certain office equipment and software under operating leases expiring at various dates through 2019. Minimum future rental payments required under such leases that have initial or remaining noncancelable lease terms in excess of one year at June 30, 2011 are as follows:

2011	\$ 1,826,756
2012	2,919,592
2013	1,409,102
2014	1,042,238
2015	679,626
2016 and thereafter	<u>2,795,916</u>
Total minimum lease payments	\$ <u><u>10,673,230</u></u>

Rental expense was approximately \$2,001,217 for the period ended June 30, 2011.

The Company is a party to certain legal and regulatory actions arising in the normal course of business. Management of the Company, after consultation with outside legal counsel, believes that the resolution of these various actions will not result in any material adverse effects on the consolidated financial position, results of operations, or liquidity of the Company.

(14) Variable Interest Entities (VIEs)

The Company has determined that two entities in which it is the managing member meet the definition of a VIE. However, after further guidance and analysis, the Company is not the primary beneficiary of these entities and accordingly, does not consolidate its financial interest in these entities. The entities are limited liability companies, which invest in marketable securities. These limited liability companies have assets of approximately \$144,519,786 at June 30, 2011. The Company has no exposure to loss as it has no capital invested in the entities. Management fees received by the Company from these entities were approximately \$1,672,000 for the period ended June 30, 2011.

(15) Net Capital Requirements and Capital Redemption Agreement

The Company is subject to the SEC Rule 15c3-1 and the New York Stock Exchange, Inc., which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the rule, which requires that the Company and its subsidiaries maintain minimum net capital, as defined, equal to the greater of \$1,500,000 or 2% of aggregate debit balances arising from customer transactions. The net capital rules also provide that equity capital may not be withdrawn or cash distributions paid if resulting net capital would be less than 5% of aggregate debits. At June 30, 2011, the Company's net capital, as defined, of \$27,741,844 was 48% of aggregate debit balances and was \$26,241,844 in excess of the minimum net capital required.

The Members have agreements with holders of all their outstanding common stock, whereby the Members are required to repurchase the stock in the event of the stockholder's death or retirement. The Company has agreements with the Members, whereby it will distribute to the Members capital sufficient for the Members to complete the redemption, subject to compliance with the rules of the New York Stock Exchange, Inc. The purchase price for such shares and the related units of the Company are determined by the Members' boards of directors and the Company's board of managers, respectively.