

Janney Montgomery Scott LLC

Consolidated Statement of Financial Condition

September 30, 2005
(Unaudited)

Assets

Cash	\$ 60,479,682
Restricted cash	2,261,712
Receivable from brokers, dealers and clearing organizations:	
Securities borrowed	1,307,234,590
Securities failed to deliver	13,903,715
Clearing organizations	689,038
Other	11,430,822
Receivable from customers (net of \$1,016,462 allowance for doubtful accounts)	446,344,460
Receivable from noncustomers	268,930
Securities owned, at market value	86,692,199
Investment in subsidiaries, partnerships and affiliates	6,860,081
Exchange memberships, at cost (market value \$11,463,500)	2,747,017
Furniture, equipment and leasehold improvements at cost (net of accumulated depreciation and amortization of \$51,076,479)	9,944,487
Goodwill	51,285,098
Other assets	127,337,685
Total assets	<u>\$ 2,127,479,516</u>

Liabilities and member's equity

Short-term bank loans	\$ 115,963,471
Payable to brokers, dealers and clearing organizations:	
Securities loaned	1,466,344,609
Clearing organizations	6,163,393
Securities failed to receive	8,982,560
Other	38,401
Payable to customers	94,196,586
Securities sold, not yet purchased, at market value	14,902,049
Accounts payable and accrued liabilities	100,849,569
	<u>1,807,440,638</u>
Subordinated note payable	22,000,000
Member's equity	<u>298,038,878</u>
Total liabilities and member's equity	<u>\$ 2,127,479,516</u>

See accompanying notes.

Janney Montgomery Scott LLC

Notes to Consolidated Financial Statement

September 30, 2005

1. Organization

Janney Montgomery Scott LLC (the “Company”) is a broker-dealer registered in fifty states, the District of Columbia and Puerto Rico, and a wholly owned subsidiary of Independence Square Properties LLC (the “Member”), which is a wholly owned subsidiary of The Penn Mutual Life Insurance Company (“Penn Mutual”).

Grant Street Capital Management LLC (the “General Partner”) is the general partner of two partnerships, Grant Street Capital Partners LP and Grant Street Capital Partners (QP) LP (the “Partnerships”). The General Partner is a wholly owned subsidiary of the Company, and all of the managing directors of the General Partner are officers or other employees of the Company. The General Partner, has control of the Partnership. Therefore, the Partnerships are consolidated in these financial statements. At September 30, 2005, aggregate assets, liabilities and equity in the Partnerships was approximately \$19,600,000, \$3,300,000 and \$16,300,000, respectively. The Company’s ownership interest in the Partnerships was approximately \$600,000 at September 30, 2005.

2. Summary of Significant Accounting Policies

Restricted Cash

Restricted cash at September 30, 2005 was \$2,261,712, which represents cash in an escrow account in connection with the acquisition of Parker/Hunter Inc. This cash is not available to the Company for general corporate use.

Securities Transactions

Proprietary and customer transactions in securities and listed options, including the related revenues and expenses, are recorded on a settlement-date basis, generally the next business day following the trade date for options and the third business day for securities. There would be no material effect on the financial statements if proprietary transactions and their revenues and expenses and commission revenue and expenses on customer transactions were recorded on a trade-date basis.

Securities owned and securities sold but not yet purchased are valued at market value except for fixed income instruments whose value is determined by matrix pricing utilized by a recognized independent pricing service.

Investment Banking

Investment banking revenues are recorded as follows: management fees and underwriting fees as of the offering date and related sales commissions on settlement date.

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Notes to Consolidated Financial Statement (continued)

2. Summary of Significant Accounting Policies (continued)

Securities Lending Activities

Securities borrowed and securities loaned are generally reported as collateralized financings. Securities borrowed transactions require the Company to deposit cash, letters of credit, or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash or other collateral. In both types of transactions, the collateral deposited or received is in an amount generally in excess of the market value of securities borrowed or loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained, deposited, or refunded as necessary.

Financial Instruments

Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments*, requires the Company to report the fair value of financial instruments, as defined. The fair value of the Company's subordinated debt is not determinable, as it's between related parties. Substantially all other of the Company's assets and liabilities are carried at fair value or contracted amounts that approximate fair value.

Goodwill

The Company accounts for goodwill according to the requirements of Financial Accounting Standards Board Statement No. 142, *Goodwill and Other Intangible Assets* ("FAS 142"). Upon adoption of FAS 142, the Company ceased amortization of goodwill in accordance with FAS 142 and reevaluates the book value of goodwill at least annually for impairment. As of September 30, 2005 no impairment has been recorded. Prior to the adoption of FAS 142, the Company recorded accumulated amortization of goodwill in the amount of \$15,891,236.

Employee Loans and Advances

The Company provides certain Financial Consultants with loans as part of the Company's retention strategy of its key revenue producing employees. These loans are generally forgivable over a four to ten year period based upon continued employment with the Company. If the employee leaves before the term of the loan expires, the individual is required to repay the remaining balance.

Income Taxes

The Company is included in a consolidated federal income tax return filed by Penn Mutual. In accordance with the tax allocation policy of the consolidated group, the Company determines its federal income tax liability on a separate-return basis and makes the required tax payments to the Member.

Janney Montgomery Scott LLC

Notes to Consolidated Financial Statement (continued)

2. Summary of Significant Accounting Policies (continued)

Promotional Advertising

In accordance with SOP 93-7, the Company expenses advertising costs as incurred.

Investments in Subsidiaries, Partnerships and Affiliates

The Company's other investments represent its investments in limited partnerships and limited liability corporations which approximates fair value.

Furniture, Equipment, and Leasehold Improvements

All furniture, equipment, and leasehold improvements are recorded at cost, net of accumulated depreciation and amortization. Amortization on leasehold improvements is provided on a straight-line basis over six years or the length of the lease, whichever is shorter. Furniture and equipment are depreciated using the modified accelerated cost recovery system generally over two to seven years. As of September 30, 2005 furniture & equipment, and leasehold improvements are \$50,495,339 and \$10,525,627 respectively. Accumulated depreciation on furniture & equipment and leasehold improvements are \$44,457,573 and \$6,618,906 respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

4. Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased, consist of the following at September 30, 2005:

	Owned	Sold, Not Yet Purchased
U.S. Government and agency obligations	\$ 8,678,416	\$(10,742,883)
State and municipal obligations	38,901,217	(259,664)
Corporate obligations	13,855,057	(222,799)
Equities, insurance, & mutual funds	25,257,509	(3,676,703)
	<u>\$ 86,692,199</u>	<u>\$(14,902,049)</u>

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Notes to Consolidated Financial Statement (continued)

5. Short-term Bank Loans

The Company borrows from two banks in connection with the securities settlement process and to finance margin loans made to customers. The Company is required to collateralize amounts borrowed in excess of \$50,000,000 from one of these banks. At September 30, 2005, these two banks extended short-term bank loans in the amount of \$74,500,000 which was collateralized by customer-owned securities valued at approximately \$103,289,979. The bank loans are demand obligations and generally require interest based upon the Federal Funds rate. At September 30, 2005, the weighted-average interest rate on these borrowings was 3.98. All of the remaining bank loans, which consist of overdrafts of depository accounts of \$41,463,471 are not collateralized.

6. Subordinated Note Payable

The subordinated note payable (the "Note") is subordinated to the claims of general creditors and consists of a note issued pursuant to a cash subordination agreement in the amount of \$22,000,000, which is due to Penn Mutual on July 16, 2008. The Note was approved by the New York Stock Exchange, Inc. (the "NYSE") and is available in computing net capital under the Securities and Exchange Commission's (the "SEC") Uniform Net Capital Rule ("Rule 15c3-1"). Interest is payable semi-annually on July 15 and January 15, at a floating rate which was 4.79% at September 30, 2005. The Note may only be repaid contingent upon the Company's continued compliance with its minimum net capital requirements. Interest payable on the Note was \$219,542 as of September 30, 2005 included in accounts payable and other liabilities.

7. Member's Equity

The Company entered into an operating agreement with the Member which sets forth the rights, obligations, and duties with respect to the Company. According to the operating agreement, the Member shall not be personally liable to creditors of the Company for debts, obligations, liabilities, or losses of the Company, except as required by law. The Member has the right, but is not required, to make capital contributions upon request of the Company. The Member may require the Company to make distributions of cash or property at such times and amounts as it determines, subject to regulatory limitations and approval.

8. Income Taxes

Deferred income tax assets and liabilities arise from temporary differences between the tax basis of an asset or liability and its reported amount in the statement of financial condition. At September 30, accounts payable and accrued liabilities include \$478,203 due to the Member for estimated taxes. In addition, the Company had a net deferred income tax asset of \$11,066,272, consisting of \$13,823,572 in deferred tax assets and \$2,757,300 in deferred tax liabilities. The Company's deferred tax asset, included in other assets, primarily reflects accrued expenses, which are not currently deductible for income tax purposes net of tax liabilities related to the acquisition of Parker/Hunter.

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Notes to Consolidated Financial Statement (continued)

9. Regulatory Requirements

The Company is subject to Rule 15c3-1 of the SEC and the capital rules of the NYSE. The Company has elected to use the alternative method permitted by Rule 15c3-1 which requires that it maintain minimum net capital, as defined, equal to the greater of \$1,000,000 or 2% of aggregate debit balances arising from customer transactions, as defined. The NYSE may prohibit a member firm from expanding its business or paying cash dividends/distributions if resulting net capital would be less than 5% of aggregate debit items, as defined, and may require a member firm to reduce its business if its net capital is less than 4% of aggregate debit items, as defined. At September 30, 2005, the Company's net capital was \$139,767,326 of which was \$130,378,501 in excess of 2% of aggregate debit items, as defined, and the Company's net capital percentage was 29.77%.

As a clearing broker/dealer, the Company has elected to compute a reserve requirement for Proprietary Accounts of Introducing Broker/Dealers (the "PAIB"), as defined. The PAIB is completed to allow each correspondent firm that uses the Company as its clearing broker/dealer to classify its assets held by the Company as allowable assets in the correspondents' net capital calculation. At September 30, 2005 the Company has no reserve requirement for PAIB.

10. Intangible Assets & Goodwill

SFAS No. 142 provides that goodwill is not amortized and the value of an identifiable intangible asset must be amortized over its useful life, unless the asset is determined to have an indefinite useful life. Goodwill and indefinite-life intangible assets are analyzed at least annually for impairment. Estimated amortization expense on identifiable intangible assets for each of the next five years is as follows:

2006	\$ 1,594,000
2007	1,393,500
2008	1,159,000
2009	966,000
2010	731,000
2011 and thereafter	2,034,500
	<u>\$ 7,878,000</u>

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Notes to Consolidated Financial Statement (continued)

11. Commitments and Contingencies

At September 30, the Company's future minimum rental commitments on the leases for its main office and 99 sales offices under noncancelable operating leases were as follows:

2006	\$ 13,506,581
2007	12,297,335
2008	11,515,448
2009	10,792,334
2010	10,397,285
2011 and thereafter	19,762,914
	<u>\$ 78,271,899</u>

The Company, together with various other brokers, dealers, corporations, and individuals, has been named as a defendant in a number of actual and purported class-action lawsuits, many of which involve material or undeterminable amounts and alleged violations of federal and state securities laws. The Company is also a defendant in other lawsuits and regulatory matters incidental to its securities business. Management of the Company believes, after consultation with outside legal counsel, that the resolution of these various matters will not result in any material adverse impact on the financial position of the Company. However, the results of operations could be materially affected during any period if liabilities in that period differ from the Company's prior estimates, and the Company's cash flow could be materially affected during any period in which these matters are resolved. In accordance with SFAS No. 5 "Accounting for Contingencies," the Company has established provisions for estimated losses from pending complaints, legal actions, investigations, and proceedings. The ultimate costs of litigation-related charges can vary significantly from period to period, depending on such factors as market conditions, the size and volume of customer complaints and claims, including class action suits and recoveries from indemnification, contribution or insurance reimbursements. At September 30, 2005 the Company's liability for losses and contingencies was \$4,226,647.

The Company has investments in various partnerships to which it is required to commit a maximum amount of capital. As of September 30, 2005, the Company has contributed \$8,391,344 as an investment and is committed to an additional \$1,608,656. Under the terms of the partnership agreements, certain losses are allocated to the Company and the general partners before being allocated to the limited partners. The Company may in the future, under certain conditions, be required to contribute additional capital up to its maximum commitment with no resulting investment value. The Company has outstanding underwriting agreements and when-issued contracts which commit it to purchase securities at specified future dates and prices. The Company pre-sells such issues to manage risk exposure related to these off-balance-sheet commitments. Subsequent to September 30, 2005, such transactions settled with no material effect on the financial statements as of that date.

Notes to Consolidated Financial Statement (continued)

12. Financial Instruments with Off-Balance-Sheet Risk and Concentrations of Credit Risk

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.

In addition, the Company has sold securities, on a proprietary basis, 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 financial statements at September 30, 2005, at market values of the related securities, and will incur a loss if the market value of the securities increases subsequent to September 30, 2005.

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 owned by the customers, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions 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 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.

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Notes to Consolidated Financial Statement (continued)

12. Financial Instruments with Off-Balance-Sheet Risk and Concentrations of Credit Risk (continued)

At September 30, 2005, customer margin securities of \$583,800,662 and stock borrowings of approximately \$1,291,437,945 were available to the Company to utilize as collateral on various borrowings or other purposes. The Company utilized \$103,289,979 of these available securities as collateral for bank loans and \$1,288,745,345 in stock loan agreements.

At September 30, 2005, the Company had utilized \$29,304,970 of securities owned by customers as collateral for Option Clearing Corporation (“OCC”) margin requirements.

13. Employee Benefit Plans

The Company has a qualified defined contribution profit-sharing plan which covers all employees who meet certain eligibility requirements. Contributions to this plan are determined on a discretionary basis by the Board of Managers.

The Company has a nonqualified deferred compensation plan for certain financial consultants, which provides for full vesting after five or ten years. The participants’ balances change based on a variable rate of return.