

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholder Red Capital Markets, LLC:

We have audited the accompanying statement of financial condition of Red Capital Markets, LLC (the Company) as of March 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, 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 Red Capital Markets, LLC as of March 31, 2011, in conformity with U.S. generally accepted accounting principles.

KPMG, LLP
Dallas, TX
May 27, 2011

RED CAPITAL MARKETS, LLC

STATEMENT OF FINANCIAL CONDITION

March 31, 2011

ASSETS		LIABILITIES AND SHAREHOLDER'S EQUITY	
		LIABILITIES	
Cash and cash equivalents	\$ 10,129,882	Accrued compensation	\$ 761,913
Restricted cash	249,257	Payable to broker-dealers	4,220,143
Securities inventory	6,078,499	Derivative liabilities	1,735,385
Remarketing agent receivables	264,677	Deferred revenue	487,825
Fixed assets, net	301,582	Accounts payable and accrued expenses	175,692
Derivative assets	2,084,625	Accounts payable – affiliate	522,762
Intangible assets, net	6,740,602	Other liabilities	804,759
Other assets, net	1,117,014	TOTAL LIABILITIES	8,708,479
TOTAL ASSETS	\$ 26,966,138	SHAREHOLDER'S EQUITY	
		Paid-in capital	17,667,372
		Retained earnings	590,287
		Total shareholder's equity	18,257,659
		TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 26,966,138

See accompanying notes to Statement of Financial Condition

NOTES TO STATEMENT OF FINANCIAL CONDITION MARCH 31, 2011

(1) ORGANIZATION

Red Capital Markets, LLC (the Company) is a wholly owned subsidiary of Red Capital Group, LLC (the Member), which was purchased effective on May 1, 2010 by a group of investors (the Acquisition), led by ORIX USA Corporation (ORIX USA), which is a majority owned subsidiary of ORIX Corporation (ORIX). ORIX USA holds an 82% interest in Red Capital Group, LLC, with the remaining 18% held by minority investors. Final closing of the Acquisition occurred on May 8, 2010.

The Company's primary businesses are the underwriting of taxable and tax exempt bonds, the syndication sale, and asset management of low income housing tax credit funds, and the sale and secondary trading of taxable and tax exempt bonds and taxable mortgage backed securities. The Company's primary location is Columbus, OH and also has locations in Charlotte, NC, Newport Beach, CA, Reston, VA and San Diego, CA.

The Company is registered as a securities broker and dealer pursuant to the Securities Act of 1934 and is a member of the Financial Industry Regulatory Authority.

Prior to May 1, 2010, the Company was a wholly owned subsidiary of PNC Bank N.A., which is a wholly owned subsidiary of The PNC Financial Services Group, Inc. (PNC). On May 1, 2010, the Company was acquired by ORIX and purchase accounting adjustments related to this acquisition of \$6,900,163 were made to the assets and liabilities of the Company.

(2) SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amounts reported in the statement of financial condition and accompanying notes. Actual results could differ from those estimates.

The Company's accounting policies, which significantly affect the accompanying statement of financial condition, are as follows:

(a) Derivative Instruments

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 815, *Derivative Instruments and Hedging*, requires all derivative instruments to be carried at fair value on the Statement of Financial Condition. The Company uses derivative instruments primarily to protect against the risk of adverse interest rate movements. The Company's derivative financial instruments include forward commitments to buy and sell taxable mortgage backed securities. These derivative instruments are not designated in an ASC Topic 815 hedge relationship. See additional discussion of derivative instruments in note 8.

(b) Customer Accounts

In accordance with Securities Exchange Commission Rule 15(c)3-3, the Company had no requirement to hold a balance at March 31, 2011 in a special reserve account for the exclusive benefit of institutional customers.

(c) Securities Inventory

Securities inventory is carried at its fair value, determined by an independent valuation or by management by considering the value of similar securities and by considering such factors as call protection, interest rates, and time to maturity. Security transactions for all regular way trades are recorded within Securities Inventory on a trade date basis. Security transactions for all other trades are recorded as Derivative assets and liabilities until date of settlement.

(d) Fixed Assets

Fixed assets primarily consist of furniture and equipment. Fixed assets owned by the Company are stated at cost less accumulated depreciation and amortization, which is computed using the straight line method over the estimated useful lives of the assets for financial statement purposes, ranging from three to ten years and accelerated methods for tax reporting. At March 31, 2011, fixed asset accumulated depreciation and amortization was \$110,011.

(e) Cash, Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company had no cash equivalents as of March 31, 2011.

Restricted cash consists of Good Faith Deposits held on behalf of customers as well as a deposit held at Pershing pursuant to the custodial agreement.

(f) Financial Instruments

The Company considers cash, receivables, forward purchase commitments,

forward sale commitments and other payables as financial instruments. Given the short term nature of these assets and liabilities, the respective amounts recorded in the Statement of Financial Condition approximate fair value.

(g) Recently Issued Accounting Standards Fair value measurements and disclosures

In January 2010, the FASB issued new guidance impacting ASC Topic 820, *Fair Value Measurements and Disclosures*. The new guidance requires a gross presentation of purchases and sales of Level 3 activities and adds a new requirement to disclose transfers in and out of Level 1 and Level 2 measurements. The guidance related to the transfers between Level 1 and Level 2 measurements is effective for the Company beginning on January 1, 2010. The guidance that requires increased disaggregation of the Level 3 activities is effective for the Company beginning on April 1, 2011. The adoption of this guidance did not have a material effect on the Company's financial statements or related disclosures.

(3) FAIR VALUE MEASUREMENTS

Effective with the adoption of ASC Topic 820, the Company determines the fair value of its financial instruments based on the fair value hierarchy established in that standard, which requires an entity to maximize the use of quoted price and observable inputs and to minimize the use of unobservable inputs when measuring fair value. Various valuation techniques are utilized, depending on the nature of the financial instrument, including the use of market prices for identical instruments and market prices for similar instruments. When possible, active and observable market data for identical or similar financial instruments are utilized. Alternatively, fair value is determined using assumptions that management believes a market participant would use in pricing the asset or liability.

ASC Topic 820 creates a three level hierarchy under which individual fair value estimates are to be ranked based on the relative reliability of the inputs used in the valuation. This hierarchy is the basis for the disclosure requirements, with fair value estimates based on the least reliable inputs requiring more extensive disclosures about the valuation method used and the gains and losses associated with those estimates. Level 1 assets and liabilities are measured using observable or quoted market prices for identical instruments in active markets. Level 2 assets and liabilities are measured using observable inputs other than quoted prices in active markets. Level 3 assets and liabilities are measured using significant unobservable inputs and significant management assumptions. The fair value of securities held by the Company is generally based on listed market prices which results in those securities being considered Level 1 or 2 in the ASC Topic 820 hierarchy.

A summary of assets and liabilities at March 31, 2011 that the Company measures at fair value is presented below:

		Level 1	Level 2	Level 3	Total
Assets:					
Securities inventory	\$	4,220,000	1,858,499	—	6,078,499
Derivative assets		—	2,084,625	—	2,084,625
Total	\$	4,220,000	3,943,124	—	8,163,124
Liabilities:					
Derivative liabilities	\$	—	1,735,385	—	1,735,385
Total	\$	—	1,735,385	—	1,735,385

There were no transfers between Level 1 and Level 2 during the period.

(4) SECURITIES INVENTORY

The Company's securities inventory at March 31, 2011 was comprised of the following:

	Fair value	Decrease in fair value
Fixed-rate, taxable, multifamily agency mortgage-backed securities	\$ 1,858,499	(13,615)
Variable-rate, tax-exempt municipal bonds	4,220,000	—
	\$ 6,078,499	(13,615)

(5) NOTES PAYABLE

The Company has a revolving promissory demand note from ORIX USA that it uses to fund its operations. Under terms of the note, the Company may borrow up to \$50,000,000 at an interest rate equal to the LIBOR Index Monthly rate plus 365 basis points. At March 31, 2011, the Company had no borrowings outstanding under this note and no accrued interest payable.

(continued)

**NOTES TO STATEMENT OF FINANCIAL CONDITION
MARCH 31, 2011 (continued)**

The Company has a debt agreement from Pershing, LLC that it uses to fund its trading activity. Under terms of the agreement, the Company may borrow up to the house margin requirement based on its securities inventory established on a daily basis by Pershing at an interest rate equal to the Pershing daily cost of funds, as defined, plus 75 basis points. At March 31, 2011, the Company had no borrowings outstanding under this agreement and accrued interest payable of \$20,419.

(6) NET CAPITAL REQUIREMENTS

The Company is subject to the uniform net capital rule 15c3-1 (Rule) of the Securities Exchange Commission. Under the Rule, the Company is required to maintain minimum net capital of \$250,000, and aggregate indebtedness cannot exceed a ratio of 15 to 1. The Company's net capital and excess net capital calculated in accordance with the Rule at March 31, 2011 was \$9,177,333 and \$8,927,333, respectively. The ratio of aggregate indebtedness to net capital as calculated in accordance with the Rule was 0.30 to 1 at March 31, 2011.

(7) INCOME TAXES

As part of the Acquisition, PNC retained the income tax liability as of April 30, 2010. On May 1, 2010, the Company was converted from a corporation to a Delaware limited liability company. The Company has been structured to qualify as a pass through entity not required to pay income tax at the state or federal level. The Member intends that the Company be treated as a disregarded entity for all federal and state income tax purposes.

(8) DERIVATIVE INSTRUMENTS

As part of its business of selling and trading taxable mortgage backed securities, the Company's risk management strategy includes executing forward commitments to sell taxable mortgage backed securities to unaffiliated counterparties. Simultaneously with the execution of these forward commitments, the Company enters into an agreement with an affiliate to acquire the mortgage backed security specified in the forward sales commitment. Concurrent with the Company's execution of the forward commitment and its agreement with the affiliate, the affiliate has a loan commitment with a borrower. In addition, the Company's risk management strategy also includes executing forward purchase commitments to acquire taxable mortgage backed securities from unaffiliated counterparties.

The forward sale commitments, treated as derivatives under ASC Topic 815 are used to economically hedge changes in fair value of the commitment to purchase the same mortgage backed security that may occur due to movements in interest rates.

The Company values derivatives at fair value.

Fair Values of Derivative Instruments as of March 31, 2011

At March 31, 2011, the Company had mandatory commitments to deliver \$24,204,838 of fixed and variable rate mortgage backed securities and written commitments to purchase \$24,204,838 of the same types of securities from its affiliate, respectively. In addition, the Company had commitments to deliver \$34,207,916 of fixed rate mortgage backed securities and written commitments to purchase \$34,207,916 of the same types of securities from unaffiliated counterparties at March 31, 2011.

DERIVATIVE ASSETS		
Derivatives not accounted for as hedging instruments	Statement of financial condition location	Fair value
Forward commitments:		
Interest rate contracts	Derivatives assets	\$ 2,084,625
Total		\$ 2,084,625

DERIVATIVE LIABILITIES		
Derivatives not accounted for as hedging instruments	Statement of financial condition location	Fair value
Forward commitments:		
Interest rate contracts	Derivatives liabilities	\$ 1,735,385
Total		\$ 1,735,385

(9) INDEMNIFICATIONS

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. 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.

(10) RECEIVABLE FROM BROKER-DEALERS AND PAYABLE TO BROKER-DEALERS

Receivables from broker-dealers include receivables from the settlement of securities transactions executed for customers of the Company. Payables to broker-dealers include payables from the settlement of securities transactions executed for customers of the Company. The receivables generally are collected and payables generally are paid within thirty days and are collateralized by securities in physical possession, on deposit, receivable from or deliverable to customers, or other broker-dealers. At March 31, 2011, Payable to broker-dealers was comprised solely of payable to clearing brokers.

(11) BENEFIT PLAN

The Company participates in the ORIX USA Corporation Savings and Investment Plan. Substantially all employees are eligible to contribute a portion of their pretax compensation to this defined contribution plan. ORIX USA may make contributions to the plan for employees the first month following the date of hire in the form of a 50% match of each dollar contributed on the first 12.5% of pay.

(12) PURCHASED TAX CREDIT ASSET MANAGEMENT CONTRACTS

On May 1, 2010, as part of the Acquisition, the Company recognized identifiable intangible assets related to its rights to manage certain low income housing tax credit investor funds. These contracts were measured at their acquisition date fair value of \$5,364,000. The value for these rights is amortized based on its expected useful life of nine years using the straight line method. At March 31, 2011, accumulated amortization of the contracts was \$546,333.

(13) PURCHASED REMARKETING AGENT AGREEMENTS

On May 1, 2010, as part of the Acquisition, the Company recognized identifiable intangible assets related to its rights to serve as remarketing agent for certain tax exempt issues of variable rate demand notes. Under the terms of the remarketing agreements, an investor in the variable rate demand notes may put the note back to the Company under certain conditions in which case the Company would remarket the note to another investor.

These contracts were measured at their acquisition date fair value of \$2,141,000. The value for these rights is amortized based on its expected useful life of nine years using the straight line method. At March 31, 2011, accumulated amortization of the agreements was \$218,065.

(14) RELATED PARTY TRANSACTIONS

During the 11-month period ended March 31, 2011, the Company syndicated three tax credit funds to Red Capital Community Development Company, LLC. The Company has deferred \$450,408 in syndication fees pending sale to third party.

(15) SUBSEQUENT EVENTS

The Company has evaluated events and transactions for recognition and disclosure and determined there are no items to disclose.

Securities Investor Protection Corporation (SIPC)

Red Capital Markets, LLC is a member of the Securities Investor Protection Corporation (SIPC). Information about SIPC, including an explanatory brochure, is available at www.sipc.org or by calling 202-371-8300.

Member FINRA

Red Capital Markets, LLC is a member of the Financial Industry Regulatory Authority (FINRA). You may obtain information about FINRA as well as access FINRA's BrokerCheck® program by visiting the FINRA web site (www.finra.org) or contacting them at 800-289-9999.

FINRA BrokerCheck® is a free tool to help investors check the professional background of current and former FINRA-registered securities firms and brokers.



**STATEMENT
of
FINANCIAL
CONDITION
AND REPORT OF
INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

as of

March 31, 2011

Red Capital Markets, LLC

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OTHER OFFICES:
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MEMBER FINRA/SIPC

