NOTICE OF MERGER AND APPRAISAL RIGHTS

MERGER OF

FELIX 2011 ACQUISITION SUB, INC.

with and into

TRADESTATION GROUP, INC.

To Former Holders of Record of Common Stock of TradeStation Group, Inc. entitled to Appraisal Rights:

NOTICE IS HEREBY GIVEN, pursuant to Sections 607.1320 and 607.1322 of the Florida Business Corporation Act (the "FBCA"), that the merger (the "Merger") of FELIX 2011 ACQUISITION SUB, INC., a Florida corporation ("Merger Sub") and a direct wholly-owned subsidiary of MONEX GROUP, INC., a Japanese corporation ("Parent"), with and into TRADESTATION GROUP, INC., a Florida corporation (the "Company" or, when referred to with respect to the period following the Merger, the "Surviving Corporation"), became effective on June 10, 2011 (the "Effective Time"). The Merger was consummated pursuant to the terms of the Agreement and Plan of Merger, dated as of April 20, 2011, among the Company, Merger Sub and Parent (the "Merger Agreement"). The Merger was effected as a merger of subsidiary corporation in accordance with Section 607.1104 of the FBCA. As a result of the Merger, the Surviving Corporation became a wholly-owned subsidiary of Parent.

Pursuant to the terms of the Merger Agreement, each share of the Company's common stock, par value $0.01 per share (a "Share"), issued and outstanding immediately prior to the Effective Time (other than any Shares in respect of which appraisal rights are validly exercised under the FBCA and any Shares owned by the Company, Parent, Merger Sub, or any other direct or indirect wholly-owned subsidiary of the Company or Parent (other than Shares in trust accounts, managed accounts and the like, or otherwise held in a fiduciary or agency capacity for the benefit of customers or clients, or shares held in satisfaction of a debt previously contracted, if any)) was, by virtue of the Merger and without any action on the part of the holder thereof or on the part of the Company, Merger Sub or Parent, converted into the right to receive $9.75 per Share in cash without interest and subject to any required withholding taxes (the "Merger Consideration"). Each holder of a certificate formerly representing any of the Shares (a "Certificate") or of Shares held in book-entry (the "Book-Entry Shares") has ceased to have any rights with respect to such Shares, except for the right to surrender such Certificate or Book-Entry Shares in exchange for payment of the Merger Consideration. Under the FBCA, holders of record of Shares who do not wish to accept the Merger Consideration in exchange for their Shares and who comply with the provisions of the FBCA regarding appraisal rights (a copy of which is attached hereto as **Exhibit A**) have the right to seek an appraisal of the fair value of their Shares. Appraisal rights must be perfected in the manner prescribed by Sections 607.1301 through 607.1333 of the FBCA (a copy of which is attached hereto as **Exhibit A** and summarized below).

Please promptly follow the instructions on the enclosed letter of transmittal (the "Letter of Transmittal") from the paying agent for the Merger, American Stock Transfer & Trust Company, LLC (the "Paying Agent"), to receive the Merger Consideration payable with respect to your Shares. Delivery of Shares may be effected through (a) surrender to the Paying Agent of Certificates representing the Shares, together with a duly completed and validly executed Letter of Transmittal (or a manually signed facsimile thereof) and any other required documents or (b) receipt of an Agent's Message (as defined in the Letter of Transmittal) by the Paying Agent (or such other evidence, if any, of transfer as the Paying Agent may reasonably request) in the case of book-entry transfer. The completed Letter of Transmittal, together with the Certificates being surrendered, should be returned to the Paying Agent in the enclosed envelope, or to the address below.

<u>By Hand or Overnight to:</u>
American Stock Transfer and Trust Company, LLC
Operations Center
Attn: Reorganization Department
6201 – 15th Avenue
Brooklyn, NY 11219

<u>By Mail to:</u>
American Stock Transfer and Trust Company, LLC
Operations Center
Attn: Reorganization Department
PO Box 2042
New York, NY 10272-2042

If you have any questions about the procedure to surrender your Shares, please call American Stock Transfer and Trust Company, LLC, at (877) 248-6417 or (718) 921-8317.

Appraisal Rights of Former Holders

Under Section 607.1302 of the FBCA, a holder of record of Shares who does not wish to accept the Merger Consideration provided in the Merger has the right to demand appraisal of, and to receive payment in cash of the fair value of, his, her or its Shares. Such appraisal right, if the statutory procedures are met, could lead to a judicial determination of the fair value of the Shares, as of the Effective Time, required to be paid in cash to such former holder for his, her or its Shares. In addition, such former shareholder could be entitled to receive payment of interest from the date of consummation of the Merger through the date of the payment of the judgment on the amount determined to be the fair value of his, her or its Shares. Under the FBCA, such determination of fair value would be determined as of immediately prior to effectuation of the Merger using customary and current valuation concepts excluding any appreciation or depreciation in anticipation of the Merger (unless exclusion would be inequitable to the Surviving Corporation and its remaining shareholders) and could be based upon considerations other than, or in addition to, the market value of the Shares. Therefore, the value so determined in any appraisal proceeding could be the same as, more or less than, the Merger Consideration. If any former holder of Shares who demands appraisal under the provisions of the FBCA regarding appraisal rights fails to perfect, or effectively withdraws or loses his, her or its rights to appraisal, as provided under the provisions of the FBCA regarding appraisal rights, the Shares of such former shareholder will be converted into the right to receive the Merger Consideration. A former shareholder, subject to compliance with the deadlines set forth herein, may withdraw his or her demand for appraisal by delivering to the Company a written withdrawal of his, her or its demand for appraisal and acceptance of the Merger Consideration.

A former shareholder seeking to make an appraisal demand must use the form provided herewith as **<u>Exhibit B</u>**. To perfect the appraisal rights, the former shareholder **MUST** complete the enclosed appraisal form and send it, together with one or more Certificates representing his, her or its Shares. In the case of uncertificated Shares, only the completed and executed form need be sent. To validly exercise appraisal rights, such form (and Certificates if applicable) must be received by the Surviving Corporation not later than July 25, 2011 (the "Deadline Date"). The address to send such forms and/or Certificates for purposes of exercising appraisal rights is:

TradeStation Group, Inc.
8050 S.W. 10th Street
Plantation, Florida 33324

Pursuant to Section 607.1322 of the FBCA, the Surviving Corporation estimates that the fair value of the Shares immediately prior to effectuation of the Merger is $9.75 per Share. The Surviving Corporation hereby offers to pay to each former shareholder who is entitled to appraisal rights such estimate of fair value for each Share as to which such former shareholder's appraisal rights shall have been properly perfected in accordance with this Notice and the applicable provisions of the FBCA and not withdrawn.

Pursuant to Section 607.1322 of the FBCA, financial statements of the Company are attached hereto as **Exhibit C**.

This Notice constitutes the notice required by Section 607.1322 of the FBCA. Any former shareholder whose form is not received prior to or on the Deadline Date shall be deemed to have waived the right to demand appraisal with respect to the Shares and such former shareholder shall only be entitled to payment of the Merger Consideration for his, her or its Shares. The Company shall provide to any former shareholder who requests so in writing (the "Requesting Shareholder"), the number of former shareholders who have returned forms by the Deadline Date and the total number of Shares owned by such former shareholders. Such information shall be furnished to the Requesting Shareholder within 10 days after the Deadline Date. Any shareholder wishing to withdraw his, her or its demand for appraisal under Section 607.1323 of the FBCA, must provide written notice to the Company to be received by the Company within 20 days after the Deadline Date (August 14, 2011).

[Signature is on next page.]

IN WITNESS WHEREOF, the undersigned has executed this Notice and caused this Notice to be delivered as of the 14th day of June, 2011.

TRADESTATION GROUP, INC.,
a Florida corporation

By:________________________________
Salomon Sredni, Chief Executive Officer

Exhibit A

Sections 607.1301-607.1333 of the Florida Business Corporation Act

Dissent and Appraisal Rights

607.1301 Appraisal rights; definitions.--The following definitions apply to ss. 607.1302-607.1333:

(1) "Affiliate" means a person that directly or indirectly through one or more intermediaries controls, is controlled by, or is under common control with another person or is a senior executive thereof. For purposes of s. 607.1302(2)(d), a person is deemed to be an affiliate of its senior executives.

(2) "Beneficial shareholder" means a person who is the beneficial owner of shares held in a voting trust or by a nominee on the beneficial owner's behalf.

(3) "Corporation" means the issuer of the shares held by a shareholder demanding appraisal and, for matters covered in ss. 607.1322-607.1333, includes the surviving entity in a merger.

(4) "Fair value" means the value of the corporation's shares determined:

(a) Immediately before the effectuation of the corporate action to which the shareholder objects.

(b) Using customary and current valuation concepts and techniques generally employed for similar businesses in the context of the transaction requiring appraisal, excluding any appreciation or depreciation in anticipation of the corporate action unless exclusion would be inequitable to the corporation and its remaining shareholders.

(c) For a corporation with 10 or fewer shareholders, without discounting for lack of marketability or minority status.

(5) "Interest" means interest from the effective date of the corporate action until the date of payment, at the rate of interest on judgments in this state on the effective date of the corporate action.

(6) "Preferred shares" means a class or series of shares the holders of which have preference over any other class or series with respect to distributions.

(7) "Record shareholder" means the person in whose name shares are registered in the records of the corporation or the beneficial owner of shares to the extent of the rights granted by a nominee certificate on file with the corporation.

(8) "Senior executive" means the chief executive officer, chief operating officer, chief financial officer, or anyone in charge of a principal business unit or function.

(9) "Shareholder" means both a record shareholder and a beneficial shareholder.

607.1302 Right of shareholders to appraisal.--

(1) A shareholder of a domestic corporation is entitled to appraisal rights, and to obtain payment of the fair value of that shareholder's shares, in the event of any of the following corporate actions:

(a) Consummation of a conversion of such corporation pursuant to s. 607.1112 if shareholder approval is required for the conversion and the shareholder is entitled to vote on the conversion under ss. 607.1103 and 607.1112(6), or the consummation of a merger to which such corporation is a party if shareholder approval is required for the merger under s. 607.1103 and the shareholder is entitled to vote on the merger or if such corporation is a subsidiary and the merger is governed by s. 607.1104;

(b) Consummation of a share exchange to which the corporation is a party as the corporation whose shares will be acquired if the shareholder is entitled to vote on the exchange, except that appraisal rights shall not be available to any shareholder of the corporation with respect to any class or series of shares of the corporation that is not exchanged;

(c) Consummation of a disposition of assets pursuant to s. 607.1202 if the shareholder is entitled to vote on the disposition, including a sale in dissolution but not including a sale pursuant to court order or a sale for cash pursuant to a plan by which all or substantially all of the net proceeds of the sale will be distributed to the shareholders within 1 year after the date of sale;

(d) An amendment of the articles of incorporation with respect to the class or series of shares which reduces the number of shares of a class or series owned by the shareholder to a fraction of a share if the corporation has the obligation or right to repurchase the fractional share so created;

(e) Any other amendment to the articles of incorporation, merger, share exchange, or disposition of assets to the extent provided by the articles of incorporation, bylaws, or a resolution of the board of directors, except that no bylaw or board resolution providing for appraisal rights may be amended or otherwise altered except by shareholder approval; or

(f) With regard to a class of shares prescribed in the articles of incorporation prior to October 1, 2003, including any shares within that class subsequently authorized by amendment, any amendment of the articles of incorporation if the shareholder is entitled to vote on the amendment and if such amendment would adversely affect such shareholder by:

1. Altering or abolishing any preemptive rights attached to any of his or her shares;

2. Altering or abolishing the voting rights pertaining to any of his or her shares, except as such rights may be affected by the voting rights of new shares then being authorized of any existing or new class or series of shares;

3. Effecting an exchange, cancellation, or reclassification of any of his or her shares, when such exchange, cancellation, or reclassification would alter or abolish the shareholder’s voting rights or alter his or her percentage of equity in the corporation, or effecting a reduction or cancellation of accrued dividends or other arrearages in respect to such shares;

4. Reducing the stated redemption price of any of the shareholder’s redeemable shares, altering or abolishing any provision relating to any sinking fund for the redemption or purchase of any of his or her shares, or making any of his or her shares subject to redemption when they are not otherwise redeemable;

5. Making noncumulative, in whole or in part, dividends of any of the shareholder’s preferred shares which had theretofore been cumulative;

6. Reducing the stated dividend preference of any of the shareholder’s preferred shares; or

7. Reducing any stated preferential amount payable on any of the shareholder’s preferred shares upon voluntary or involuntary liquidation.

(2) Notwithstanding subsection (1), the availability of appraisal rights under paragraphs (1)(a), (b), (c), and (d) shall be limited in accordance with the following provisions:

(a) Appraisal rights shall not be available for the holders of shares of any class or series of shares which is:

1. Listed on the New York Stock Exchange or the American Stock Exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc.; or

2. Not so listed or designated, but has at least 2,000 shareholders and the outstanding shares of such class or series have a market value of at least $10 million, exclusive of the value of such shares held by its subsidiaries, senior executives, directors, and beneficial shareholders owning more than 10 percent of such shares.

(b) The applicability of paragraph (a) shall be determined as of:

1. The record date fixed to determine the shareholders entitled to receive notice of, and to vote at, the meeting of shareholders to act upon the corporate action requiring appraisal rights; or

2. If there will be no meeting of shareholders, the close of business on the day on which the board of directors adopts the resolution recommending such corporate action.

(c) Paragraph (a) shall not be applicable and appraisal rights shall be available pursuant to subsection (1) for the holders of any class or series of shares who are required by the terms of the corporate action requiring appraisal rights to accept for such shares anything other than cash or shares of any class or any series of shares of any corporation, or any other proprietary interest of any other entity, that satisfies the standards set forth in paragraph (a) at the time the corporate action becomes effective.

(d) Paragraph (a) shall not be applicable and appraisal rights shall be available pursuant to subsection (1) for the holders of any class or series of shares if:

1. Any of the shares or assets of the corporation are being acquired or converted, whether by merger, share exchange, or otherwise, pursuant to the corporate action by a person, or by an affiliate of a person, who:

a. Is, or at any time in the 1-year period immediately preceding approval by the board of directors of the corporate action requiring appraisal rights was, the beneficial owner of 20 percent or more of the voting power of the corporation, excluding any shares acquired pursuant to an offer for all shares having voting power if such offer was made within 1 year prior to the corporate action requiring appraisal rights for consideration of the same kind and of a value equal to or less than that paid in connection with the corporate action; or

b. Directly or indirectly has, or at any time in the 1-year period immediately preceding approval by the board of directors of the corporation of the corporate action requiring appraisal rights had, the power, contractually or otherwise, to cause the appointment or election of 25 percent or more of the directors to the board of directors of the corporation; or

2. Any of the shares or assets of the corporation are being acquired or converted, whether by merger, share exchange, or otherwise, pursuant to such corporate action by a person, or by an affiliate of a person, who is, or at any time in the 1-year period immediately preceding approval by the board of directors of the corporate action requiring appraisal rights was, a senior executive or director of the corporation or a senior executive of any affiliate thereof, and that senior executive or director will receive, as a result of the corporate action, a financial benefit not generally available to other shareholders as such, other than:

a. Employment, consulting, retirement, or similar benefits established separately and not as part of or in contemplation of the corporate action;

b. Employment, consulting, retirement, or similar benefits established in contemplation of, or as part of, the corporate action that are not more favorable than those existing before the corporate action or, if more favorable, that have been approved on behalf of the corporation in the same manner as is provided in s. 607.0832; or

c. In the case of a director of the corporation who will, in the corporate action, become a director of the acquiring entity in the corporate action or one of its affiliates, rights and benefits as a director that are provided on the same basis as those afforded by the acquiring entity generally to other directors of such entity or such affiliate.

(e) For the purposes of paragraph (d) only, the term “beneficial owner” means any person who, directly or indirectly, through any contract, arrangement, or understanding, other than a revocable proxy, has or shares the power to vote, or to direct the voting of, shares, provided that a member of a national securities exchange shall not be deemed to be a beneficial owner of securities held directly or indirectly by it on behalf of another person solely because such member is the recordholder of such securities if the member is precluded by the rules of such exchange from voting without instruction on contested matters or matters that may affect substantially the rights or privileges of the holders of the securities to be voted. When two or more persons agree to act together for the purpose of voting their shares of the corporation, each member of the group formed thereby shall be deemed to have acquired beneficial ownership, as of the date of such agreement, of all voting shares of the corporation beneficially owned by any member of the group.

(3) Notwithstanding any other provision of this section, the articles of incorporation as originally filed or any amendment thereto may limit or eliminate appraisal rights for any class or series of preferred shares, but any such limitation or elimination contained in an amendment to the articles of incorporation that limits or eliminates appraisal rights for any of such shares that are outstanding immediately prior to the effective date of such amendment or that the corporation is or may be required to issue or sell thereafter pursuant to any conversion, exchange, or other right existing immediately before the effective date of such amendment shall not apply to any corporate action that becomes effective within 1 year of that date if such action would otherwise afford appraisal rights.

(4) A shareholder entitled to appraisal rights under this chapter may not challenge a completed corporate action for which appraisal rights are available unless such corporate action:

(a) Was not effectuated in accordance with the applicable provisions of this section or the corporation's articles of incorporation, bylaws, or board of directors' resolution authorizing the corporate action; or

(b) Was procured as a result of fraud or material misrepresentation.

607.1303 Assertion of rights by nominees and beneficial owners.--

(1) A record shareholder may assert appraisal rights as to fewer than all the shares registered in the record shareholder's name but owned by a beneficial shareholder only if the record shareholder objects with respect to all shares of the class or series owned by the beneficial shareholder and notifies the corporation in writing of the name and address of each beneficial shareholder on whose behalf appraisal rights are being asserted. The rights of a record shareholder who asserts appraisal rights for only part of the shares held of record in the record shareholder's name under this subsection shall be determined as if the shares as to which the record shareholder objects and the record shareholder's other shares were registered in the names of different record shareholders.

(2) A beneficial shareholder may assert appraisal rights as to shares of any class or series held on behalf of the shareholder only if such shareholder:

(a) Submits to the corporation the record shareholder's written consent to the assertion of such rights no later than the date referred to in s. 607.1322(2)(b)2.

(b) Does so with respect to all shares of the class or series that are beneficially owned by the beneficial shareholder.

607.1320 Notice of appraisal rights.--

(1) If proposed corporate action described in s. 607.1302(1) is to be submitted to a vote at a shareholders' meeting, the meeting notice must state that the corporation has concluded that shareholders are, are not, or may be entitled to assert appraisal rights under this chapter. If the corporation concludes that appraisal rights are or may be available, a copy of ss. 607.1301-607.1333 must accompany the meeting notice sent to those record shareholders entitled to exercise appraisal rights.

(2) In a merger pursuant to s. 607.1104, the parent corporation must notify in writing all record shareholders of the subsidiary who are entitled to assert appraisal rights that the corporate action became effective. Such notice must be sent within 10 days after the corporate action became effective and include the materials described in s. 607.1322.

(3) If the proposed corporate action described in s. 607.1302(1) is to be approved other than by a shareholders' meeting, the notice referred to in subsection (1) must be sent to all shareholders at the time that consents are first solicited pursuant to s. 607.0704, whether or not consents are solicited from all shareholders, and include the materials described in s. 607.1322.

607.1321 Notice of intent to demand payment.--

(1) If proposed corporate action requiring appraisal rights under s. 607.1302 is submitted to a vote at a shareholders' meeting, or is submitted to a shareholder pursuant to a consent vote under s. 607.0704, a shareholder who wishes to assert appraisal rights with respect to any class or series of shares:

(a) Must deliver to the corporation before the vote is taken, or within 20 days after receiving the notice pursuant to s. 607.1320(3) if action is to be taken without a shareholder meeting, written notice of the shareholder's intent to demand payment if the proposed action is effectuated.

(b) Must not vote, or cause or permit to be voted, any shares of such class or series in favor of the proposed action.

(2) A shareholder who does not satisfy the requirements of subsection (1) is not entitled to payment under this chapter.

607.1322 Appraisal notice and form.--

(1) If proposed corporate action requiring appraisal rights under s. 607.1302(1) becomes effective, the corporation must deliver a written appraisal notice and form required by paragraph (2)(a) to all shareholders who satisfied the requirements of s. 607.1321. In the case of a merger under s. 607.1104, the parent must deliver a written appraisal notice and form to all record shareholders who may be entitled to assert appraisal rights.

(2) The appraisal notice must be sent no earlier than the date the corporate action became effective and no later than 10 days after such date and must:

(a) Supply a form that specifies the date that the corporate action became effective and that provides for the shareholder to state:

1. The shareholder's name and address.

2. The number, classes, and series of shares as to which the shareholder asserts appraisal rights.

3. That the shareholder did not vote for the transaction.

4. Whether the shareholder accepts the corporation's offer as stated in subparagraph (b)4.

5. If the offer is not accepted, the shareholder's estimated fair value of the shares and a demand for payment of the shareholder's estimated value plus interest.

(b) State:

1. Where the form must be sent and where certificates for certificated shares must be deposited and the date by which those certificates must be deposited, which date may not be earlier than the date for receiving the required form under subparagraph 2.

2. A date by which the corporation must receive the form, which date may not be fewer than 40 nor more than 60 days after the date the subsection (1) appraisal notice and form are sent, and state that the shareholder shall have waived the right to demand appraisal with respect to the shares unless the form is received by the corporation by such specified date.

3. The corporation's estimate of the fair value of the shares.

4. An offer to each shareholder who is entitled to appraisal rights to pay the corporation's estimate of fair value set forth in subparagraph 3.

5. That, if requested in writing, the corporation will provide to the shareholder so requesting, within 10 days after the date specified in subparagraph 2., the number of shareholders who return the forms by the specified date and the total number of shares owned by them.

6. The date by which the notice to withdraw under s. 607.1323 must be received, which date must be within 20 days after the date specified in subparagraph 2.

(c) Be accompanied by:

1. Financial statements of the corporation that issued the shares to be appraised, consisting of a balance sheet as of the end of the fiscal year ending not more than 15 months prior to the date of the corporation's appraisal notice, an income statement for that year, a cash flow statement for that year, and the latest available interim financial statements, if any.

2. A copy of ss. 607.1301-607.1333.

607.1323 Perfection of rights; right to withdraw.--

(1) A shareholder who wishes to exercise appraisal rights must execute and return the form received pursuant to s. 607.1322(1) and, in the case of certificated shares, deposit the shareholder's certificates in accordance with the terms of the notice by the date referred to in the notice pursuant to s. 607.1322(2)(b)2. Once a shareholder deposits that shareholder's certificates or, in the case of uncertificated shares, returns the executed forms, that shareholder loses all rights as a shareholder, unless the shareholder withdraws pursuant to subsection (2).

(2) A shareholder who has complied with subsection (1) may nevertheless decline to exercise appraisal rights and withdraw from the appraisal process by so notifying the corporation in writing by the date set forth in the appraisal notice pursuant to s. 607.1322(2)(b)6. A shareholder who fails to so withdraw from the appraisal process may not thereafter withdraw without the corporation's written consent.

(3) A shareholder who does not execute and return the form and, in the case of certificated shares, deposit that shareholder's share certificates if required, each by the date set forth in the notice described in subsection (2), shall not be entitled to payment under this chapter.

607.1324 Shareholder's acceptance of corporation's offer.--

(1) If the shareholder states on the form provided in s. 607.1322(1) that the shareholder accepts the offer of the corporation to pay the corporation's estimated fair value for the shares, the corporation shall make such payment to the shareholder within 90 days after the corporation's receipt of the form from the shareholder.

(2) Upon payment of the agreed value, the shareholder shall cease to have any interest in the shares.

607.1326 Procedure if shareholder is dissatisfied with offer.--

(1) A shareholder who is dissatisfied with the corporation's offer as set forth pursuant to s. 607.1322(2)(b)4. must notify the corporation on the form provided pursuant to s. 607.1322(1) of that shareholder's estimate of the fair value of the shares and demand payment of that estimate plus interest.

(2) A shareholder who fails to notify the corporation in writing of that shareholder's demand to be paid the shareholder's stated estimate of the fair value plus interest under subsection (1) within the timeframe set forth in s. 607.1322(2)(b)2. waives the right to demand payment under this section and shall be entitled only to the payment offered by the corporation pursuant to s. 607.1322(2)(b)4.

607.1330 Court action.--

(1) If a shareholder makes demand for payment under s. 607.1326 which remains unsettled, the corporation shall commence a proceeding within 60 days after receiving the payment demand and petition the court to determine the fair value of the shares and accrued interest. If the corporation does not commence the proceeding within the

60-day period, any shareholder who has made a demand pursuant to s. 607.1326 may commence the proceeding in the name of the corporation.

(2) The proceeding shall be commenced in the appropriate court of the county in which the corporation's principal office, or, if none, its registered office, in this state is located. If the corporation is a foreign corporation without a registered office in this state, the proceeding shall be commenced in the county in this state in which the principal office or registered office of the domestic corporation merged with the foreign corporation was located at the time of the transaction.

(3) All shareholders, whether or not residents of this state, whose demands remain unsettled shall be made parties to the proceeding as in an action against their shares. The corporation shall serve a copy of the initial pleading in such proceeding upon each shareholder party who is a resident of this state in the manner provided by law for the service of a summons and complaint and upon each nonresident shareholder party by registered or certified mail or by publication as provided by law.

(4) The jurisdiction of the court in which the proceeding is commenced under subsection (2) is plenary and exclusive. If it so elects, the court may appoint one or more persons as appraisers to receive evidence and recommend a decision on the question of fair value. The appraisers shall have the powers described in the order appointing them or in any amendment to the order. The shareholders demanding appraisal rights are entitled to the same discovery rights as parties in other civil proceedings. There shall be no right to a jury trial.

(5) Each shareholder made a party to the proceeding is entitled to judgment for the amount of the fair value of such shareholder's shares, plus interest, as found by the court.

(6) The corporation shall pay each such shareholder the amount found to be due within 10 days after final determination of the proceedings. Upon payment of the judgment, the shareholder shall cease to have any interest in the shares.

607.1331 Court costs and counsel fees.--

(1) The court in an appraisal proceeding shall determine all costs of the proceeding, including the reasonable compensation and expenses of appraisers appointed by the court. The court shall assess the costs against the corporation, except that the court may assess costs against all or some of the shareholders demanding appraisal, in amounts the court finds equitable, to the extent the court finds such shareholders acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided by this chapter.

(2) The court in an appraisal proceeding may also assess the fees and expenses of counsel and experts for the respective parties, in amounts the court finds equitable:

(a) Against the corporation and in favor of any or all shareholders demanding appraisal if the court finds the corporation did not substantially comply with ss. 607.1320 and 607.1322; or

(b) Against either the corporation or a shareholder demanding appraisal, in favor of any other party, if the court finds that the party against whom the fees and expenses are assessed acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided by this chapter.

(3) If the court in an appraisal proceeding finds that the services of counsel for any shareholder were of substantial benefit to other shareholders similarly situated, and that the fees for those services should not be assessed against the corporation, the court may award to such counsel reasonable fees to be paid out of the amounts awarded the shareholders who were benefited.

(4) To the extent the corporation fails to make a required payment pursuant to s. 607.1324, the shareholder may sue directly for the amount owed and, to the extent successful, shall be entitled to recover from the corporation all costs and expenses of the suit, including counsel fees.

607.1332 Disposition of acquired shares.--Shares acquired by a corporation pursuant to payment of the agreed value thereof or pursuant to payment of the judgment entered therefor, as provided in this chapter, may be held and disposed of by such corporation as authorized but unissued shares of the corporation, except that, in the case of a merger or share exchange, they may be held and disposed of as the plan of merger or share exchange otherwise provides. The shares of the surviving corporation into which the shares of such shareholders demanding appraisal rights would have been converted had they assented to the merger shall have the status of authorized but unissued shares of the surviving corporation.

607.1333 Limitation on corporate payment.--

(1) No payment shall be made to a shareholder seeking appraisal rights if, at the time of payment, the corporation is unable to meet the distribution standards of s. 607.06401. In such event, the shareholder shall, at the shareholder's option:

(a) Withdraw his or her notice of intent to assert appraisal rights, which shall in such event be deemed withdrawn with the consent of the corporation; or

(b) Retain his or her status as a claimant against the corporation and, if it is liquidated, be subordinated to the rights of creditors of the corporation, but have rights superior to the shareholders not asserting appraisal rights, and if it is not liquidated, retain his or her right to be paid for the shares, which right the corporation shall be obliged to satisfy when the restrictions of this section do not apply.

(2) The shareholder shall exercise the option under paragraph (1)(a) or paragraph (b) by written notice filed with the corporation within 30 days after the corporation has given written notice that the payment for shares cannot be made because of the restrictions of this section. If the shareholder fails to exercise the option, the shareholder shall be deemed to have withdrawn his or her notice of intent to assert appraisal rights.

Exhibit B

TradeStation Group, Inc.
8050 S.W. 10th Street
Plantation, Florida 33324

____
Please Date

Re: **Merger of Felix 2011 Acquisition Sub, Inc. with and into TradeStation Group, Inc. effective as of June 10, 2011 (the "Merger")**

Ladies and Gentlemen:

The undersigned wishes to exercise appraisal rights, and demands payment of the fair value of shares of common stock, par value $0.01 per share ("Common Stock"), of TradeStation Group, Inc., a Florida corporation (the "Company"), pursuant to §§ 607.1301–607.1333 of the Florida Statutes. The number, classes and series of shares as to which the undersigned asserts appraisal rights is set forth below.

DESCRIPTION OF SHARES AS TO WHICH APPRAISAL RIGHTS ARE ASSERTED ***(Please fill in. Attach separate schedule if needed)***		
Print Name(s) and Address of Registered Holder Below	**Common Stock, par value $0.01 per share**	
	Certificate No(s)	**Number of Shares**
	TOTAL SHARES F	

The undersigned hereby states that, because the Merger was effectuated pursuant to § 607.1104 of the Florida Statutes, he, she or it was not provided the opportunity to vote and did not vote for the approval of the Agreement and Plan of Merger, dated as of April 20, 2011, among the Company, Monex Group, Inc., a Japanese corporation ("Parent"), and Felix 2011 Acquisition Sub, Inc., a Florida corporation and a direct wholly-owned subsidiary of Parent ("Merger Sub").

Check whether the undersigned: does accept or does not accept the Company's offer as stated in the accompanying appraisal notice of $9.75 per share of Common Stock owned by the undersigned and as to which appraisal rights are perfected and not withdrawn, which represents the Company's estimate of the fair value of each share of Common Stock issued and outstanding immediately before the Merger was effectuated.

If the undersigned indicated above that he, she or it does not accept the Company's offer of its estimate of fair value, please indicate, in the space provided, the undersigned's estimated fair value (on a per share basis) of his, her or its shares of Common Stock, which the undersigned hereby demands from the Company, plus interest: _____________ ____.

DATE: ___________________

SIGNATURE *: _________________________

Print Name: ______________________________

SIGNATURE: __________________________

Print Name: ______________________________

* **Note:** Please sign exactly as your name appears on the stock certificate which evidences the shares of Common Stock as to which you wish to exercise appraisal rights. When shares of Common Stock are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signatory is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signatory is a partnership or other entity, please sign in partnership, or other entity, name by authorized person.

Exhibit C

TRADESTATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

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TRADESTATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share data)

	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS:		
Cash and cash equivalents, including restricted cash of $478 at March 31, 2011 and at December 31, 2010	$ 56,416	$ 41,888
Cash and investments segregated in compliance with federal regulations	1,329,491	1,279,734
Marketable securities	60,889	63,255
Receivables from brokers, dealers, clearing organizations and clearing agents	117,378	80,827
Receivables from brokerage customers	70,891	68,268
Property and equipment, net	17,229	17,974
Deposits with clearing organizations	35,524	35,504
Other assets	7,064	5,716
Total assets	$ 1,694,882	$ 1,593,166
LIABILITIES AND SHAREHOLDERS' EQUITY:		
LIABILITIES:		
Payables to brokers, dealers and clearing organizations	$ 52,853	$ 27,770
Payables to brokerage customers	1,456,536	1,381,105
Accounts payable	1,913	3,767
Accrued expenses	7,511	6,967
Deferred income taxes, net	230	120
Total liabilities	1,519,043	1,419,729
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $.01 par value; 25,000,000 shares authorized, none issued and outstanding	-	-
Common stock, $.01 par value; 200,000,000 shares authorized, 39,163,066 and 39,055,900 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	392	391
Additional paid-in capital	35,673	34,237
Accumulated other comprehensive (loss) income	(30)	1
Retained earnings	139,804	138,808
Total shareholders' equity	175,839	173,437
Total liabilities and shareholders' equity	$ 1,694,882	$ 1,593,166

See accompanying notes.

TRADESTATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share data)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
REVENUES:		
Brokerage commissions and fees	$ 27,123	$ 26,948
Interest income	3,576	2,293
Brokerage interest expense	-	-
Net interest income	3,576	2,293
Subscription fees and other	1,498	1,628
Gains (losses) on marketable securities, net	(51)	1,221
Net revenues	32,146	32,090
EXPENSES:		
Employee compensation and benefits	11,694	11,194
Clearing and execution	7,258	7,184
Data centers and communications	3,828	3,502
Marketing	2,392	1,532
Professional services	751	697
Occupancy and equipment	802	752
Depreciation and amortization	1,918	950
Other	1,702	1,794
Total expenses	30,345	27,605
Income before income taxes	1,801	4,485
INCOME TAX PROVISION	805	1,811
Net income	$ 996	$ 2,674
EARNINGS PER SHARE:		
Basic	$ 0.03	$ 0.07
Diluted	$ 0.03	$ 0.07
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	39,120	40,502
Diluted	39,536	40,940

See accompanying notes.

TRADESTATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2011	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 996	$ 2,674
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,918	950
Stock-based compensation expense	1,065	798
Unrealized loss (gain) on investments	20	(1,221)
(Increase) decrease in:		
Cash and investments segregated in compliance with federal regulations	(20,859)	(27,657)
Trading investments transactions, net	(20,457)	(351,287)
Receivables from brokers, dealers, clearing organizations and clearing agents	(36,551)	(5,361)
Receivables from brokerage customers, net	(2,623)	(1,247)
Other assets	(1,258)	1,102
Increase (decrease) in:		
Payables to brokers, dealers and clearing organizations	2,942	(2)
Payables to brokerage customers	75,431	401,798
Securities loaned	22,141	-
Accounts payable	(1,854)	121
Accrued expenses	536	(20)
Net cash provided by operating activities	21,447	20,648
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,153)	(2,397)
Purchases of available-for-sale marketable securities	(26,147)	(10,190)
Proceeds from maturities of available-for-sale marketable securities	20,001	25,464
Net cash (used in) provided by investing activities	(7,299)	12,877
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	145	199
Excess tax benefits from stock option exercises	235	108
Repurchase and retirement of common stock	-	(3,725)
Net cash provided by (used in) financing activities	380	(3,418)
NET INCREASE IN UNRESTRICTED CASH AND CASH EQUIVALENTS	14,528	30,107

(continued on following page)

TRADESTATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2011	**2010**
UNRESTRICTED CASH AND CASH EQUIVALENTS, beginning of period	41,410	56,688
UNRESTRICTED CASH AND CASH EQUIVALENTS, end of period	$ 55,938	$ 86,795
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ 45	$ -

See accompanying notes.

TRADESTATION GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All notes and related disclosures applicable to the three months ended March 31, 2011 and 2010 are unaudited)

(1) NATURE OF OPERATIONS AND BASIS OF PRESENTATION

TradeStation Group, Inc. (the "Company"), a Florida corporation formed in 2000, is the successor company to a publicly-held trading software company that was formed in 1982. The Company is listed on The NASDAQ Global Select Market under the symbol "TRAD." TradeStation Securities, Inc., a licensed securities broker-dealer and a registered futures commission merchant, and TradeStation Technologies, Inc., a trading technology company, are the Company's two established operating subsidiaries. The Company has two other subsidiaries, TradeStation Europe Limited and TradeStation Forex, Inc. TradeStation Europe Limited, a company organized under the laws of England and Wales, is authorized and regulated by the UK Financial Services Authority ("FSA") and holds what is known as a "Passport" to introduce brokerage accounts for residents of countries within the European Economic Area. TradeStation Forex, Inc., a Florida corporation, was recently formed to assume, own and conduct all of the Company's forex brokerage business (such business was historically owned and conducted by TradeStation Securities using an established forex dealer to clear its forex business). In January 2011, TradeStation Forex was registered with the Commodity Futures Trading Commission ("CFTC") as a Retail Foreign Exchange Dealer and approved by the National Futures Association ("NFA") as a forex dealer member. In April 2011, TradeStation Forex received $30.3 million as a transfer from Gain Capital Group, LLC ("Gain Capital") of substantially all of TradeStation Securities' forex accounts that were introduced by TradeStation Securities to Gain Capital, and commenced operations as a forex dealer using the "agency broker model" (at which time TradeStation Securities ceased conducting any forex business).

The accompanying consolidated financial statements include the results of the Company and its subsidiaries, all of which are wholly owned. All intercompany accounts and transactions have been eliminated.

The accompanying consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K of TradeStation Group for the year ended December 31, 2010. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company's consolidated financial position as of March 31, 2011 and the consolidated results of operations and cash flows for each of the periods presented have been recorded. The results of operations and cash flows for an interim period are not necessarily indicative of the results of operations or cash flows that may be reported for the year or for any subsequent period.

The Company has performed an evaluation of subsequent events through the date these financial statements were issued and filed with the Securities and Exchange Commission ("SEC").

Recently Issued Accounting Standards

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06, Improving Disclosures about Fair Value Measurements ("ASU 2010-06"). ASU 2010-06 amends the Fair Value Measurements and Disclosures Topic (the "Fair Value Measurements and Disclosures Topic") of the FASB Accounting Standards Codification ("ASC") to require additional disclosures regarding fair value measurements. The amended guidance requires entities to disclose additional information regarding assets and liabilities that are transferred between levels of the fair value hierarchy. Entities are also required to disclose information in the Level 3 Rollforward about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, ASU 2010-06 clarifies existing guidance pertaining to the level of disaggregation at which fair value disclosures should be made and the requirements to disclose information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. The guidance in ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the requirement to separately disclose purchases, sales, issuances and settlements in the Level 3 Rollforward, which becomes effective for fiscal years (and for interim periods within those fiscal years) beginning after December 15, 2010. The Company's adoption of ASU 2010-06, effective January 1, 2010, and the deferred portion of ASU 2010-06, effective January 1, 2011, did not have a material impact on its consolidated financial position, results of operations or cash flows.

(2) STOCK-BASED COMPENSATION

Stock Compensation

The Company records stock-based compensation expense for employee services based upon the grant-date fair value of those awards in accordance with the provisions of the Compensation-Stock Compensation Topic of the FASB ASC (the "Compensation-Stock Compensation Topic"). The Company currently uses the Black-Scholes option pricing model to determine the fair value of stock option awards. The determination of the fair value of stock option awards on the date of grant using an option-pricing model is affected by the market price of the stock, exercise price of the award, expected term of the award, estimated volatility of the stock over the term of the award, risk-free interest rate and expected dividend yield. Separate assumptions are used for employee officer options and non-officer employee options (both of which, subject to certain vesting-acceleration events, vest over a five-year period) and non-employee director options (which, subject to certain vesting-acceleration events, vest over a three-year period).

The assumptions used to estimate the fair value of each option grant on the date of grant using the Black-Scholes model are as follows:

	For the Three Months Ended March 31,	
	2011	**2010**
Risk free interest rate	3%	3%
Dividend yield	-	-
Volatility ranges	53%	55%
Weighted-average volatility	53%	55%
Weighted-average life (years)	7.1	7.3

In accordance with the Compensation-Stock Compensation Topic, the Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. Historical data are used to estimate pre-vesting option forfeitures, and stock-based compensation expense is recorded only for those awards that are expected to vest. All stock-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods.

During the three months ended March 31, 2011 and 2010, the Company recorded stock-based compensation expense of $1.1 million ($807,000 net of tax) and $798,000 ($660,000 net of tax), respectively. The $1.1 million of stock-based compensation expense recorded during the three months ended March 31, 2011 included $520,000 related to restricted stock grants and $68,000 related to performance shares (restricted stock units). The $798,000 of stock-based compensation expense recorded during the three months ended March 31, 2010 included $245,000 related to restricted stock grants and $20,000 related to performance shares (restricted stock units).

Stock-based Awards

During the three months ended March 31, 2011, the Company granted options to purchase an aggregate of 213,115 shares of common stock with a weighted-average, grant-date, Black-Scholes fair value of $4.02 per share. Such options vest ratably in annual increments over a five-year period and are exercisable at a price of $7.11 per share, which was the closing price of the Company's common stock on the date the options were granted. During the three months ended March 31, 2010, the Company granted options to purchase an aggregate of 345,047 shares of common stock with a weighted-average, grant-date, Black-Scholes fair value of $3.80 per share. Such options vest ratably in annual increments over a five-year period and are exercisable at a price of $6.41 per share, which was the closing price of the Company's common stock on the date the options were granted.

During the three months ended March 31, 2011, the Company issued 188,607 restricted shares of common stock, which had a fair market value of $1.3 million at the grant date. During the three months ended March 31, 2010, the Company issued 299,402 restricted shares of common stock, which had a fair market value of $1.9 million at the grant date. These restricted shares of common stock were granted to certain officers of the Company as awards under the Company's Incentive Stock Plan, vest 50% on the third anniversary of the date of grant and 100% on the sixth anniversary (except for one award which vests 50% on the third anniversary of the date of grant and 100% on the fifth anniversary), and include 100% automatic vesting acceleration upon retirement, death, disability or change in control of the Company. All of these restricted shares contain a provision whereby, if employment terminates prior to full vesting, the non-vested shares will automatically be forfeited and the Company will reacquire the non-vested shares for no consideration.

During the three months ended March 31, 2011, the Company also issued performance shares (more commonly referred to as restricted stock units) representing the right to receive an aggregate of 188,638 shares of common stock with a fair market value of approximately $1.3 million. During the three months ended March 31, 2010, the Company issued performance shares representing the right to receive an aggregate of 152,331 shares of common stock with a fair market value of approximately $976,000 on the date of grant. Performance shares awarded by the Company vest 60% on the third anniversary of the date of grant, 20% on the fourth anniversary of the date of grant and 20% on the fifth anniversary of the date of grant, with 100% acceleration upon retirement, death or disability. Performance shares automatically convert into shares of the Company's common stock upon vesting. All of the performance shares were granted under the Incentive Stock Plan. Unvested performance shares expire upon the termination of an employee's employment with the Company. Generally speaking, performance shares are intended to replace employee stock option grants in the Company's annual equity-based compensation grants to its general employee base under the Company's Incentive Stock Plan.

During the three months ended March 31, 2011, stock options for 25,642 shares of the Company's common stock were exercised under the Company's Incentive Stock Plan. During the three months ended March 31, 2010, stock options for 62,037 shares of the Company's common stock were exercised under the Incentive Stock Plan.

During the three months ended March 31, 2011, the Company issued 8,836 shares of common stock under the Company's employee stock purchase plan, relating to the six-month plan period ended December 31, 2010, at an average price of $6.75 per share. During the three months ended March 31, 2010, the Company issued 12,217 shares of common stock under the Company's employee stock purchase plan, relating to the six-month plan period ended December 31, 2009, at an average price of $6.71 per share. The Company does not currently intend to offer plan periods following the June 30, 2011 expiration of the current plan period.

(3) EARNINGS PER SHARE

Weighted average shares outstanding for the three months ended March 31, 2011 and 2010 are calculated as follows (in thousands):

	For the Three Months Ended March 31,	
	2011	**2010**
Weighted average shares outstanding (basic)	39,120	40,502
Impact of dilutive stock-based payments after applying the treasury stock method	416	438
Weighted average shares outstanding (diluted)	39,536	40,940

Stock options, non-vested restricted shares and performance shares outstanding for the three months ended March 31, 2011 which were not included in the calculation of diluted earnings per share because their weighted average effect would have been anti-dilutive are as follows (in thousands):

	For the Three Months Ended March 31,	
	2011	**2010**
Stock options	2,525	2,170
Restricted shares of common stock (non-vested)	171	231
Performance shares of common stock (non-vested)	94	74

4) COMPREHENSIVE INCOME

Comprehensive income is defined as the change in a business enterprise's equity during a period arising from transactions, events or circumstances relating to non-owner sources, such as unrealized gains or losses on available-for-sale securities and foreign currency translation adjustments. It includes all changes in equity during a period except those resulting from investments by, or distributions to, owners.

A reconciliation of net income to comprehensive income is as follows (in thousands):

	For the Three Months Ended March 31,	
	2011	**2010**
Net income	$ 996	$ 2,674
Unrealized losses on securities, net of tax	(30)	(6)
Comprehensive income	$ 966	$ 2,668

(5) CASH AND INVESTMENTS SEGREGATED IN COMPLIANCE WITH FEDERAL REGULATIONS

TradeStation Securities is obligated by rules mandated by two of its primary regulators, the SEC and the CFTC, to set aside cash or qualified securities to satisfy regulations promulgated to protect customer assets. Cash and investments segregated in compliance with federal regulations, consisting primarily of U.S. Treasury securities, of $1.33 billion (which includes $1.4 million of interest receivable) and $1.28 billion (which includes $337,000 of interest receivable) as of March 31, 2011 and December 31, 2010, respectively, have been segregated in special reserve accounts at JPMorgan Chase ($1.27 billion as of March 31, 2011 and $1.22 billion as of December 31, 2010) and R.J. O'Brien & Associates, LLC ("R.J. O'Brien") ($60.5 million as of March 31, 2011 and $64.1 million as of December 31, 2010) for the exclusive benefit of customers under Rule 15c3-3 under the Securities Exchange Act of 1934 ("Rule 15c3-3") and the Commodity Exchange Act. Of the $1.33 billion in cash and investments segregated in compliance with federal regulations as of March 31, 2011, $904.5 million was related to Rule 15c3-3 and $423.6 million was related to CFTC requirements. Of the $1.28 billion in cash and investments segregated in compliance with federal regulations as of December 31, 2010, $857.4 million was related to Rule 15c3-3 and $421.9 million was related to CFTC requirements. By the second business day of each week, under Rule 15c3-3, if required, this amount is adjusted based upon the previous week-end or month-end calculation. For example, based on this requirement, on April 1, 2011 cash and investments segregated in compliance with federal regulations increased by $11.7 million, and cash and cash equivalents decreased by $11.7 million. On January 4, 2010, TradeStation Securities converted its futures accounts, held at R.J. O'Brien as clearance agent, from clearance on a fully-disclosed basis to omnibus clearance. As a result of converting to omnibus clearance, TradeStation Securities received from R.J. O'Brien approximately $349.0 million in futures customers' funds which were then appropriately segregated in accordance with Commodity Exchange Act rules.

(6) RECEIVABLES FROM BROKERAGE CUSTOMERS

Receivables from brokerage customers consist primarily of margin loans to TradeStation Securities' equities brokerage customer accounts of approximately $70.9 million and $68.3 million at

March 31, 2011 and December 31, 2010, respectively. Securities owned by brokerage customers are held as collateral for such margin loans. Such collateral is not reflected in the consolidated financial statements. At March 31, 2011 and December 31, 2010, TradeStation Securities was charging a base margin debit interest rate of 7.75% per annum on debit balances.

"Margin" requirements determine the amount of collateral required to be held in an account for the purchase of equities on credit. Margin lending is subject to the margin rules of the Board of Governors of the Federal Reserve System, the margin requirements of the Financial Industry Regulatory Authority ("FINRA"), limits imposed by clearing agent firms, and TradeStation Securities' own internal policies. Nearly all equities accounts at TradeStation Securities are margin accounts. While not, technically speaking, an extension of credit, TradeStation Securities also provides leverage, the effect of which is similar to margin lending, to its customers' futures and forex accounts. By permitting customers to purchase and maintain positions on margin or using leverage, TradeStation Securities takes the risk that a market decline will reduce the value of the collateral securing its margin loan or the leveraged amount to an amount that renders the margin loan or leverage provided less secured or unsecured. Under applicable securities laws and regulations, once a margin account for equities has been established, TradeStation Securities is obligated to require from the customer initial margin of no lower than 50% for purchases of securities and then is obligated to require the customer to maintain its equity in the account equal to at least 25% of the value of the securities in the account. However, TradeStation Securities' current internal requirement is that the customer's equity not be allowed to fall below 35% of the value of the securities in the account. If it does fall below 35%, TradeStation Securities requires the customer to increase the account's equity to 35% of the value of the securities in the account (if not, TradeStation Securities will perform closing transactions to bring the customer account above the maintenance requirement). TradeStation Securities (and TradeStation Forex as of April 2011) also monitor the futures and forex leverage they provide on an intra-day basis and, pursuant to exchange guidelines and other applicable rules, requires customers to deposit additional collateral, or to reduce positions, when necessary to reduce excessive leverage to an acceptable level (prior to April 2011, under TradeStation Securities' contractual relationship with Gain Capital, Gain Capital had this responsibility with respect to forex accounts). All of these requirements can be, and often are, raised as TradeStation Securities (and TradeStation Forex, as of April 2011) deem necessary for certain accounts, groups of accounts, securities or positions, or groups of securities or positions. However, there is no assurance that a customer will be willing or able to satisfy a margin call or pay unsecured indebtedness owed to TradeStation Securities (or TradeStation Forex).

(7) RECEIVABLES FROM BROKERS, DEALERS, CLEARING ORGANIZATIONS AND CLEARING AGENTS

Amounts receivable from brokers, dealers, clearing organizations and clearing agents for equities accounts were as follows as of March 31, 2011 and December 31, 2010, respectively (in thousands):

	March 31, 2011	December 31, 2010
Securities borrowed from broker-dealers	$ 116,928	$ 80,200
Fees and commissions receivable from clearing agents	438	313
Securities failed to deliver to broker-dealers and other	12	314
	$ 117,378	$ 80,827

Securities borrowed transactions in equities accounts require TradeStation Securities to provide the counterparty with collateral in the form of cash and are recorded at the amount of cash collateral advanced to the lender. TradeStation Securities monitors the market value of securities borrowed on a daily basis, and collateral is adjusted as necessary based upon market prices. See Note 12 – COMMITMENTS AND CONTINGENCIES – *General Contingencies and Guarantees*. As of March 31, 2011 and December 31, 2010, TradeStation Securities serviced most of its institutional equities accounts through J.P. Morgan Clearing Corp. and, prior to April 2011, its forex accounts through Gain Capital all on a fully-disclosed basis. On or about April 8, 2011, TradeStation Forex received $30.3 million as a transfer from Gain Capital of substantially all of TradeStation Securities' forex accounts that were introduced by TradeStation Securities to Gain Capital, and commenced operations as a forex dealer using the "agency broker model" (at which time TradeStation Securities ceased conducting any forex business). On January 4, 2010, TradeStation Securities assumed more direct control over its futures business by converting its clearance of futures accounts using R.J. O'Brien from a fully-disclosed basis to an omnibus clearance basis. As a result of converting to omnibus clearance, TradeStation Securities received from R.J. O'Brien approximately $349.0 million in futures customers' funds which were then appropriately segregated in accordance with Commodity Exchange Act rules. J.P. Morgan Clearing Corp., R.J. O'Brien, and Gain Capital (with respect to the applicable periods described above) are collectively referred to as "clearing agents" or "clearing agent firms." These clearing agents, at the times they act or have acted as such, provide services, handle TradeStation Securities' customers' funds, hold securities, futures and forex positions, and remit monthly activity statements to the customers on behalf of TradeStation Securities. With respect to R.J. O'Brien, as of January 4, 2010, its clearance and settlement on an omnibus basis means that TradeStation Securities deals directly with its futures account customers on such matters, using R.J. O'Brien's assistance as a back-office vendor pursuant to an industry-standard facilities management agreement between the companies.

(8) PAYABLES TO BROKERS, DEALERS AND CLEARING ORGANIZATIONS

Amounts payable to brokers, dealers, and clearing organizations consist of the following as of March 31, 2011 and December 31, 2010 (in thousands):

	March 31, 2011	December 31, 2010
Securities loaned to brokers-dealers	$ 49,312	$ 27,170
Payables to brokers	3,399	499
Payables to clearing organizations	142	101
	$ 52,853	$ 27,770

(9) PAYABLES TO BROKERAGE CUSTOMERS

As of March 31, 2011, payables to brokerage customers consisted primarily of cash balances in customer accounts. At March 31, 2011 and December 31, 2010, payables to brokerage customers totaled $1.46 billion and $1.38 billion, respectively. Of the $1.46 billion in payables to brokerage customers as of March 31, 2011, payables to equities customers were $1.04 billion and payables to commodities customers were $412.6 million. Of the $1.38 billion in payables to brokerage customers as of December 31, 2010, payables to equities customers were $970 million and payables to commodities customers were $410.6 million. The payables related to equities customers are the principal source of funding for margin lending. At March 31, 2011 and December 31, 2010, TradeStation Securities was not paying interest on cash balances in customer accounts.

(10) NET CAPITAL REQUIREMENTS

TradeStation Securities is subject to the net capital requirements of the SEC's Uniform Net Capital Rule (Rule 15c3-1), which is administered by the SEC and FINRA, and the CFTC financial requirement (Regulation 1.17 under the Commodity Exchange Act), which is administered by the CFTC and the NFA. Under these rules, TradeStation Securities calculates its net capital requirements using the "alternative method," which requires the maintenance of minimum net capital, as defined by the rules, equal to the highest of: (i) $1,000,000; (ii) 8.0% of domestic and foreign domiciled customer and non-customer (excluding proprietary) risk maintenance margin/performance bond requirements for all domestic and foreign futures, options on futures contracts and cleared over-the-counter derivatives positions, excluding the risk margin associated with naked long option positions; or (iii) 2.0% of aggregate customer debit balances. At March 31, 2011, TradeStation Securities had net capital of approximately $60.2 million (40.4% of aggregate debit items), which was approximately $57.0 million in excess of its required net capital of approximately $3.2 million. At December 31, 2010, TradeStation Securities had net capital of approximately $68.4 million (51% of aggregate debit items), which was approximately $65.6 million in excess of its required net capital of approximately $2.8 million. At March 31, 2011 and December 31, 2010, TradeStation Forex had net capital of approximately $23.0, $3.0 million higher than its $20.0 million minimum net capital required to be maintained by a CFTC-registered, NFA-member retail foreign currency dealer (RFED).

(11) FAIR VALUE MEASURES

The Fair Value Measurements and Disclosures Topic establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. In accordance with guidance under the Fair Value Measurements and Disclosures Topic, three levels of inputs may be used to measure fair value:

Level 1 – Level 1 inputs are quoted prices in active markets for identical assets or liabilities. The Company's Level 1 assets consist of U.S. Treasury Bills and Notes ("U.S. Treasuries") and actively-traded, marketable, exchange-listed equity securities. As of March 31, 2011, the Company's U.S. Treasuries had maturities ranging from April 2011 to February 2014.

Level 2 – Level 2 inputs are observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's Level 2 assets consist of variable rate demand note ("VRDN") securities issued by various state agencies throughout Florida. The Company's VRDN investments are federal tax-exempt instruments of high credit quality, secured by direct-pay letters of credit from a major financial institution. These investments have variable rates tied to short-term interest rates. Interest rates are reset weekly and these VRDN securities can be tendered for sale upon notice (generally no longer than seven days) to the remarketing agent. Although the Company's VRDN securities are issued and rated as long-term securities (with a maturity date of March 2023), they are priced and traded as short-term instruments. The Company classifies these short-term investments as available-for-sale in accordance with the Investments-Debt and Equity Securities Topic of the FASB ASC. The investments are carried at cost or par value, which approximates the fair market value.

Level 3 – Level 3 inputs are unobservable inputs regarding financial instruments that are supported by little or no market activity and whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation. The Company did not hold any Level 3 assets during the three months ended March 31, 2011.

The following table summarizes the basis used to measure the fair value of securities on a recurring basis in the Company's consolidated balance sheet as of March 31, 2011 (in thousands):

	March 31, 2011			
	Level I	**Level II**	**Level III**	**Fair Value**
Investments segregated in compliance with federal regulations	$ 1,279,122	$ -	$ -	$ 1,279,122
Marketable securities	$ 55,189	$ 5,700	$ -	$ 60,889
Deposits with clearing organizations	$ 27,984	$ -	$ -	$ 27,984

The Company purchased available-for-sale marketable securities of approximately $26.1 million and had proceeds from the sale or maturity of available-for-sale marketable securities of approximately $20.0 million during the three months ended March 31, 2011. As of March 31, 2011, the Company had approximately $35.8 million of available-for-sale marketable securities.

Broker-dealers are required to account for investments in marketable securities as trading investments. The Company's broker-dealer, TradeStation Securities, had net trading investment transactions (purchases, net of proceeds and interest accreted) of $20.5 million during the three months ended March 31, 2011. The Company capitalized its recently-formed subsidiary, TradeStation Forex, with $23.0 million, of which $22.7 million was invested in U.S. Treasuries that had maturities longer than 90 days. As of March 31, 2011, TradeStation Securities and TradeStation Forex had investments of approximately $1.32 billion. Unrealized net marked-to-market losses from these trading investments were approximately $51,000 during the three months ended March 31, 2011. Such unrealized net losses and net gains are reflected in the accompanying consolidated statements of income.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents, brokerage receivables and brokerage payables

For these financial instruments, the carrying amount is a reasonable estimate of fair value.

Marketable securities

For investments in U.S. Treasuries, the fair value equals the quoted market price of each U.S. Treasury Bill or U.S. Treasury Note. Investments in VRDN's are carried at cost or par value, which approximates the fair market value. The fair value of equity securities equals the quoted market prices for such securities.

The estimated fair values of the Company's financial instruments are as follows (in thousands):

	March 31, 2011	
	Carrying Amount	**Fair Value**
Financial assets:		
Cash and cash equivalents	$ 56,416	$ 56,416
Cash and investments segregated in compliance with federal regulations	1,329,491	1,329,491
Marketable securities	60,889	60,889
Receivables from brokers, dealers, clearing organizations and clearing agents	117,378	117,378
Receivables from brokerage customers, net	70,891	70,891
Deposits with clearing organizations	35,524	35,524
Financial liabilities:		
Payables to brokers, dealers and clearing organizations	52,853	52,853
Payables to brokerage customers	1,456,536	1,456,536

(12) COMMITMENTS AND CONTINGENCIES

Restricted Cash

As of March 31, 2011 and December 31, 2010, the Company had $478,000 of restricted cash supporting a ten-year lease agreement for its corporate headquarters.

Operating Leases

The Company has a ten-year lease expiring in August 2012 (with two 5-year renewal options) that commenced in the summer of 2002 for an approximately 70,000-square-foot corporate headquarters in Plantation, Florida. Rent escalations, free rent, and leasehold and other incentives are recognized on a straight-line basis over the initial ten-year term of this lease. In addition to its corporate headquarters, the Company has seven non-cancelable operating leases for facilities (including three data centers) with expirations ranging from June 2011 to May 2016. Future minimum lease payments as of March 31, 2011 under all operating leases are as follows (in thousands):

2011	$ 4,593
2012	3,901
2013	657
2014	504
2015	414
Thereafter	57
	$ 10,126

During the three months ended March 31, 2011 and 2010, total rent expense (which is included in occupancy and equipment and data centers and communications expenses in the accompanying consolidated statements of income) was approximately $2.0 million and $1.7 million, respectively.

Purchase Obligations

As of March 31, 2011, the Company had various purchase obligations through December 2014 totaling approximately $3.6 million, as follows: approximately $2.7 million, $792,000, $69,000, and $46,000 during the remainder of 2011, 2012, 2013 and 2014, respectively, related primarily to back-office systems and telecommunications services.

Litigation and Claims

On or about December 20, 2007, TradeStation Technologies was named as one of several defendants in a complaint filed in the United States District Court, Southern District of Texas, styled *Amacker, et. al. v. Renaissance Asset Management (RAM), et. al*. Other named defendants include Anthony Michael Ramunno, Man Financial Inc., MF Global, Inc., Lind-Waldock & Company, LLC, Vision, LP, Vision Financial Markets, LLC, R.J. O'Brien, and FXCM Holdings, LLC. The initial complaint alleged that over forty plaintiffs are entitled to damages because the plaintiffs were investors in a fraudulent commodity pool operated by Mr. Ramunno and RAM. The initial complaint alleged that TradeStation Technologies conducted trades on behalf of and at the request of Mr. Ramunno and RAM. The initial complaint attempted to allege the following claims: (i) violations of the Commodity Exchange Act and accompanying regulations; (ii) common law fraud under Texas law; (iii) statutory fraud under the Texas Business and Commerce Code; (iv) breach of fiduciary duties under Texas law; (v) negligent and intentional misrepresentations under Texas law; and (vi) negligence under Texas law. Plaintiffs filed a Second Amended Complaint that contained similar factual allegations and attempted to allege a single claim for aiding and abetting liability under the Commodity Exchange Act. The Second Amended Complaint asserted actual damages of at least $32.0 million. On October 10, 2008, the court dismissed the case for failure to state a claim upon which relief may be granted. On December 2, 2008, plaintiffs filed a notice of appeal with the United States Court of Appeals for the Fifth Circuit, and, on February 2, 2009, plaintiffs filed their Appellants' Brief with that court. On March 6, 2009, TradeStation Technologies filed its Opposition Brief. Oral arguments on the appeal were held on September 2, 2009. No decision has yet been issued by the appeals court.

On or about February 9, 2010, TradeStation Securities and TradeStation Group were named as the only defendants in a complaint filed in the United States District Court, Northern District of Illinois, Eastern Division, styled *Trading Technologies International, Inc. v. TradeStation Securities, Inc. and TradeStation Group, Inc.* The complaint, as amended, alleges that TradeStation Securities and TradeStation Group have infringed and continue to infringe several patents held by Trading Technologies International, Inc. The plaintiff seeks a judgment enjoining the alleged infringement and awarding unspecified damages and costs. TradeStation Securities and TradeStation Group filed their answer on August 31, 2010 generally denying the allegations and asserting a variety of affirmative defenses. The FRCP Rule 26(a)(1) Initial Disclosures have been exchanged, and plaintiff's Initial Infringement Contentions and Defendants' Non-Infringement Contentions have been filed. Discovery has commenced and trial was initially scheduled for July 16, 2012, but will not go forward at that time because, on February 3, 2011, a Federal Judge granted Trading Technologies' motion to consolidate 12 similar actions against various defendants, including the case against TradeStation Securities and TradeStation Group, into one case. On February 26, 2011, TradeStation filed a motion to de-consolidate itself. The case was scheduled for a status conference on February 28, 2011. At that conference, TradeStation was given permission by the judge to file a summary judgment motion that, in the Company's opinion, seeks to eliminate the crux of the plaintiff's claims. While it is too early to predict the outcome of this matter, management believes the case to be without merit.

In May 2010, TradeStation Securities was served with a CFTC reparations complaint in the case styled *ATS Capital Management Corp. v. TradeStation Securities and John Sendlosky*, CFTC Docket No. 10-R015. The complaint alleges the wrongful liquidation of two E-Mini futures positions, one in 2007 and the other in 2008, and seeks damages of $529,950. On September 2, 2010, the Administrative Law Judge dismissed the complaint with prejudice on the grounds that the identical case was decided in TradeStation Securities' favor in a National Futures Association arbitration conducted in May 2009. On September 17, 2010, the complainant filed its Notice of Appeal to the Commodity Futures Trading Commission and the parties have since submitted their legal briefs and are awaiting a decision. While it is too early to predict the outcome of this matter, management believes the appeal to be without merit and intends to oppose it vigorously.

On May 3, 2011, a Direct Shareholder Class Action Complaint Based on Breach of Fiduciary Duties titled *Don Coishi, Individually, and on Behalf of All Others Similarly Situated, Plaintiff, vs. TradeStation Group, Inc., Salomon Sredni, Denise E. Dickins, Michael W. Fipps, Nathan D. Leight, Charles F. Wright, Felix 2011 Acquisition Sub, Inc. and Monex Group, Inc., Defendants,* Case No. 11-10195, was filed in the Circuit Court of the Seventeenth Judicial Circuit in and for Broward County, Florida (the "Coishi Complaint"). The Coishi Complaint names as defendants the Company and the members of its Board of Directors, as well as Monex Group, Inc. ("Monex Group") and its wholly-owned subsidiary, Felix 2011 Acquisition Sub, Inc. (the "Merger Sub"). The Coishi Complaint alleges, among other things, that the Company's directors have violated applicable law by breaching their fiduciary duties (including the duties of loyalty, due care and candor) owed to the Plaintiff and the proposed class of holders of the Company's common stock (other than the Defendants and affiliates thereof) in connection with the proposed acquisition of the Company by Monex Group and Merger Sub through a cash tender offer followed by a second step merger (collectively, the "Transaction"), and further alleges that the Company, Monex Group and Merger Sub aided and abetted the alleged breaches of the fiduciary duties. The Coishi Complaint also alleges that the Transaction yields an unfair price. The Coishi Complaint seeks injunctive relief (including to enjoin the consummation of the Transaction), rescission of the Agreement and Plan of Merger dated April 20, 2011 among the Company, Monex Group and Merger Sub and an award of reasonable attorney's fees and expenses, in addition to other relief. The Company believes the allegations of the Coishi Complaint lack merit and will contest this action vigorously.

TradeStation Securities is also engaged in routine regulatory matters and civil litigation or other dispute resolution proceedings. The pending regulatory and other matters could ultimately result in censures, sanctions, fines, damage awards, settlement payments and/or other negative consequences.

While no assurances can be given, the Company does not believe that the ultimate outcome of any of the above legal matters or claims will result in a material adverse effect on its consolidated financial position, results of operations or cash flows.

The Company decided, as of June 1, 2002, not to carry errors or omissions insurance that covers third-party claims made by brokerage customers or software subscribers as a result of alleged human or system errors, failures, acts or omissions. This decision was made based upon the Company's assessment of the potential risks and benefits, including significant increases in premium rates, deductibles and coinsurance amounts, reductions in available per occurrence and aggregate coverage amounts, and the unavailability of policies that sufficiently cover the types of risks that relate to the Company's business. The Company recently reviewed this insurance with insurance agents and its view remains unchanged.

Management Continuity Agreements

In December 2005, the Company entered into a management continuity agreement with three of its executive officers, one of whom is no longer with the Company. Each management continuity agreement provides for potential severance payments during the 100-day period following a change in control, as that term is defined in the agreement, of an amount equal to up to two years of the executive's annual compensation. The management continuity agreements do not commit the Company to retain any executive's services for any fixed period of time, do not provide for severance payments unless the Company undergoes a change in control, and did not represent new hires or appointments. As of March 31, 2011, the aggregate potential severance payments under the management continuity agreements were approximately $1.0 million. See also Note 16 – SUBSEQUENT EVENTS.

General Contingencies and Guarantees

In the ordinary course of business, there are various contingencies which are not reflected in the consolidated financial statements. These include customer activities involving the execution, settlement and financing or provision of leverage for various customer securities and futures transactions. These activities may expose the Company to off-balance sheet credit risk in the event the customers are unable to fulfill their contractual obligations.

In margin transactions, TradeStation Securities may be obligated for credit extended to its customers by TradeStation Securities or its clearing agents that is collateralized by cash and securities in the customers' accounts. In connection with securities activities, TradeStation Securities also executes customer transactions involving the sale of securities not yet purchased ("short sales"), all of which are transacted on a margin basis subject to federal, self-regulatory organization and individual exchange regulations and TradeStation Securities' and its clearing agents' internal policies. New short sales rules have been imposed by regulatory authorities and more may be imposed in the near future. Additionally, TradeStation Securities may be obligated for credit extended to its customers by its clearing agents for futures transactions that are collateralized by cash and futures positions in the customers' accounts. In all cases, such transactions may expose TradeStation Securities to significant off-balance sheet credit risk in the event customer collateral is not sufficient to fully cover losses that customers may incur. In the event customers fail to satisfy their obligations, TradeStation Securities may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customers' obligations.

TradeStation Securities seeks to manage the risks associated with its customers' activities by requiring customers to maintain collateral in their margin and leveraged accounts in compliance with various regulatory requirements, internal requirements, and the requirements of clearing agents. TradeStation Securities and its clearing agents monitor required margin and leverage levels on an intra-day basis and, pursuant to such guidelines, require the customers to deposit additional collateral or to reduce positions when necessary. TradeStation Forex, beginning in April 2011, is responsible for monitoring required leverage levels for all forex business (prior to April 2011, under TradeStation Securities' contractual relationship with Gain Capital, Gain Capital had this responsibility). For further discussion, see Note 6 – RECEIVABLES FROM BROKERAGE CUSTOMERS.

TradeStation Securities loans securities temporarily to other broker-dealers in connection with its broker-dealer business. TradeStation Securities receives cash as collateral for the securities loaned.

Increases in securities prices may cause the market value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities, TradeStation Securities may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its client obligations. TradeStation Securities seeks to manage this risk by requiring credit approvals for counterparties, by monitoring the market value of securities loaned on a daily basis and requiring additional cash as collateral when necessary.

TradeStation Securities borrows securities temporarily from other broker-dealers in connection with its broker-dealer business. TradeStation Securities deposits cash as collateral for the securities borrowed. Decreases in securities prices may cause the market value of the securities borrowed to fall below the level of required collateral. In the event the counterparty to these transactions does not return the cash deposited, TradeStation Securities may be exposed to the risk of selling the securities at prevailing market prices. TradeStation Securities seeks to manage this risk by requiring credit approvals for counterparties, by monitoring the collateral values on a daily basis, and by requiring additional collateral as needed.

The customers' financing and securities settlement activities may require TradeStation Securities and its clearing agents to pledge customer securities as collateral in support of various secured financing sources, which may include bank loans. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, TradeStation Securities may be exposed to the risk of needing to acquire the securities at prevailing market prices in order to satisfy its obligations. TradeStation Securities seeks to manage this risk by monitoring the market value of securities pledged on a daily basis.

TradeStation Securities provides guarantees to its clearing organizations and exchanges under their standard membership agreements, which require members to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearing organization or exchange, other members would be required to meet shortfalls. TradeStation Securities' liability under these arrangements is not quantifiable. However, management believes that the possibility of TradeStation Securities being required to make payments under these arrangements is remote, although less remote than it was prior to the events that led to the recent global economic crisis. Accordingly, no liability has been recorded for these potential events.

(13) INCOME TAXES

During the three months ended March 31, 2011, the Company recorded an income tax provision of $805,000 based upon its current estimated annual effective income tax rate of approximately 40%, and $89,000 of certain one-time state income tax accruals and other discrete items. During the three months ended March 31, 2010, the Company recorded an income tax provision of $1.8 million based upon its then-estimated annual effective income tax rate of approximately 40%.

As of March 31, 2011, the Company did not have any net operating loss carryforwards. The Company did not have an unrecognized tax benefit as of March 31, 2011, but had an unrecognized tax benefit of approximately $111,000 as of December 31, 2010. If these tax benefits had been recognized in the consolidated financial statements, they would not have had a material impact on the Company's annual effective tax rate because the difference is temporary in nature. The Company does not anticipate any significant changes in uncertain tax positions over the next twelve months.

As of March 31, 2011, the Company was subject to federal income taxes in the U.S. and income taxes in six states, and in the United Kingdom. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to be applied. In March 2011, the Company was notified that it will undergo a routine tax examination by a state authority for the 2007 through 2009 fiscal years and such examinations are in progress. The Company is no longer subject to U.S. federal tax examinations or state and local tax examinations for periods prior to 2006.

Any interest and penalties, if incurred in connection with an income tax examination, would be recognized as components of income tax expense.

(14) SEGMENT AND RELATED INFORMATION

The Company operates in two principal business segments: (i) brokerage services; and (ii) software products and services. After elimination of intercompany charges, 94% of the Company's consolidated net revenues in the three month periods ended March 31, 2011 and 2010 were generated by the brokerage services segment. The Company evaluates the performance of its segments based on revenue and income before income taxes. The brokerage services segment represents the operations of TradeStation Securities and TradeStation Europe Limited (and, beginning April 2011, TradeStation Forex) and the software products and services segment represents the operations of TradeStation Technologies. Intercompany transactions between segments are based upon intercompany licensing and support and expense-sharing agreements, which reflect current business relationships and are designed to comply with applicable regulatory requirements. All significant intercompany transactions and balances have been eliminated in consolidation.

	For the Three Months Ended March 31,	
	2011	**2010**
Revenues:	(in thousands)	
Brokerage services		
Revenues, excluding interest	$ 26,731	$ 26,606
Interest income	3,538	2,281
Interest expense	-	-
Gains (losses) on marketable securities, net	(51)	1,221
	30,218	30,108
Software products and services		
Revenues, excluding interest	16,603	16,194
Interest income	38	12
	16,641	16,206
Eliminations of intercompany charges to brokerage services segment	(14,713)	(14,224)
	$ 32,146	$ 32,090
Income (loss) before income taxes:		
Brokerage services	$ (4,651)	$ (2,058)
Software products and services	6,452	6,543
	$ 1,801	$ 4,485

	As of March 31, 2011	As of December 31, 2010
Identifiable assets:	(in thousands)	
Brokerage services	$ 1,634,737	$ 1,532,723
Software products and services	60,145	60,443
	$ 1,694,882	$ 1,593,166

(15) STOCK BUY-BACK PLAN

In October 2006, the Company's Board of Directors authorized, and the Company announced, the use of up to $60 million of the Company's available and unrestricted cash, over a four-year period, to repurchase shares of its common stock in the open market or through privately-negotiated transactions. The stock repurchases were authorized to be made pursuant to a Rule 10b5-1 plan. The four-year period commenced on November 13, 2006 and was completed on November 12, 2010. During the three months ended March 31, 2010, the Company used approximately $3.7 million to purchase 518,169 shares of its common stock at an average price of $7.19 per share. For the entire plan, the Company used $59.8 million to purchase 7,036,472 shares of its common stock at an average price of $8.50 per share. All shares purchased have been retired.

(16) SUBSEQUENT EVENT

On April 20, 2011, the Company announced that it entered into a definitive agreement pursuant to which Monex Group, a Japanese online brokerage firm, will acquire all the outstanding common stock of the Company for $9.75 per share, or approximately $411 million in aggregate, through a cash tender offer followed by a merger, subject to holders of a majority of the Company's outstanding shares of common stock (on a fully diluted basis) tendering their shares, obtaining required regulatory approvals, and satisfying other customary closing conditions. Pursuant to that definitive agreement, the tender offer is to commence by May 10, 2011 and, once commenced, is scheduled to be concluded twenty (20) business days from that date, or June 7, 2011, subject to a majority of shares being tendered, the required regulatory approvals being obtained, and the other customary closing conditions being satisfied by such date. The closing of the tender offer is expected to be followed promptly by a statutory merger, i.e., one that does not require shareholder approval.

Also on April 20, 2011, the Company and the Company's Chief Executive Officer, Salomon Sredni, entered into an Employment and Management Continuity Agreement (the "Management Continuity Agreement"), pursuant to which Mr. Sredni would be employed as Chief Executive Officer of the Company, would have a position on the Global Management Committee of Monex (which will oversee the Asia, U.S. and E.U. operations of Monex) and would be a member of the Board. The term of the Management Continuity Agreement will commence on the effective time of the Merger and end on the three-year anniversary thereof unless extended by mutual agreement between the Company and Mr. Sredni. The terms and provisions of the Management Continuity Agreement are subject to and contingent upon the completion of the transactions contemplated by the Merger Agreement and will not become effective until the effective time of the Merger.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of TradeStation Group, Inc.

We have audited the accompanying consolidated balance sheets of TradeStation Group, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TradeStation Group, Inc. and subsidiaries at December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), TradeStation Group, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Certified Public Accountants

Boca Raton, Florida
March 11, 2011

TRADESTATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2010	December 31, 2009
ASSETS:		
Cash and cash equivalents, including restricted cash of $478 at December 31, 2010 and $717 at December 31, 2009	$ 41,888	$ 57,405
Cash and investments segregated in compliance with federal regulations	1,279,734	785,208
Marketable securities	63,255	76,342
Receivables from brokers, dealers, clearing organizations and clearing agents	80,827	32,226
Receivables from brokerage customers	68,268	45,034
Property and equipment, net	17,974	7,578
Deferred income taxes, net	-	1,276
Deposits with clearing organizations	35,504	38,521
Other assets	5,716	5,606
Total assets	$ 1,593,166	$ 1,049,196
LIABILITIES AND SHAREHOLDERS' EQUITY:		
LIABILITIES:		
Payables to brokers, dealers and clearing organizations	$ 27,770	$ 114
Payables to brokerage customers	1,381,105	868,741
Accounts payable	3,767	2,627
Accrued expenses	6,967	7,206
Deferred income taxes, net	120	-
Total liabilities	1,419,729	878,688
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $.01 par value; 25,000,000 shares authorized, none issued and outstanding	-	-
Common stock, $.01 par value; 200,000,000 shares authorized, 39,055,900 and 40,692,328 shares issued and outstanding at December 31, 2010 and December 31, 2009, respectively	391	407
Additional paid-in capital	34,237	42,728
Accumulated other comprehensive income	1	5
Retained earnings	138,808	127,368
Total shareholders' equity	173,437	170,508
Total liabilities and shareholders' equity	$ 1,593,166	$ 1,049,196

See accompanying notes.

TRADESTATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	For the Years Ended December 31,		
	2010	2009	2008
REVENUES:			
Brokerage commissions and fees	$ 108,318	$ 121,258	$ 129,304
Interest income	10,429	5,957	25,937
Brokerage interest expense	-	-	3,166
Net interest income	10,429	5,957	22,771
Subscription fees and other	6,376	7,638	8,357
Gains (losses) on marketable securities, net	3,849	(142)	-
Net revenues	128,972	134,711	160,432
EXPENSES:			
Employee compensation and benefits	44,583	41,715	40,166
Clearing and execution	28,716	31,182	38,914
Data centers and communications	14,211	11,480	9,216
Marketing	6,838	6,610	5,805
Professional services	3,640	3,372	3,453
Occupancy and equipment	3,188	3,072	2,989
Depreciation and amortization	5,311	4,362	4,218
Other	8,692	6,849	5,632
Total expenses	115,179	108,642	110,393
Income before income taxes	13,793	26,069	50,039
INCOME TAX PROVISION	2,353	10,279	19,402
Net income	$ 11,440	$ 15,790	$ 30,637
EARNINGS PER SHARE:			
Basic	$ 0.29	$ 0.38	$ 0.71
Diluted	$ 0.28	$ 0.38	$ 0.70
WEIGHTED AVERAGES SHARES OUTSTANDING:			
Basic	39,815	41,507	43,235
Diluted	40,237	41,981	43,912

See accompanying notes.

TRADESTATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE, January 1, 2008	-	43,839	$ 438	$ 62,579	$ 80,941	$ -	$143,958
Issuance of common stock from exercise of stock options and purchase plan	-	233	2	1,211	-	-	1,213
Stock-based compensation	-	-	-	3,951	-	-	3,951
Excess tax benefit from stock option exercises	-	-	-	240	-	-	240
Repurchase and retirement of common stock	-	(1,683)	(16)	(14,982)	-	-	(14,998)
Vesting of restricted stock	-	32	-	-	-	-	-
Net income	-	-	-	-	30,637	-	30,637
BALANCE, December 31, 2008	-	42,421	424	52,999	111,578	-	165,001
Issuance of common stock from exercise of stock options and purchase plan	-	329	3	1,459	-	-	1,462
Stock-based compensation	-	-	-	2,729	-	-	2,729
Excess tax benefit from stock option exercises	-	-	-	381	-	-	381
Repurchase and retirement of common stock	-	(2,090)	(21)	(14,839)	-	-	(14,860)
Vesting of restricted stock	-	32	1	(1)	-	-	-
Unrealized gain on available for sale securities, net of taxes	-	-	-	-	-	5	5
Net income	-	-	-	-	15,790	-	15,790
BALANCE, December 31, 2009	-	40,692	407	42,728	127,368	5	170,508
Issuance of common stock from exercise of stock options and purchase plan	-	175	2	523	-	-	525
Issuance of restricted stock for acquisition	-	-	-	450	-	-	450
Stock-based compensation	-	-	-	3,140	-	-	3,140
Excess tax benefit from stock option exercises	-	-	-	353	-	-	353
Repurchase and retirement of common stock	-	(1,886)	(19)	(12,956)	-	-	(12,975)
Vesting of restricted stock	-	75	1	(1)	-	-	-
Unrealized loss on available for sale securities, net of taxes	-	-	-	-	-	(4)	(4)
Net income	-	-	-	-	11,440	-	11,440
BALANCE, December 31, 2010	-	39,056	$ 391	$ 34,237	$138,808	$ 1	$173,437

See accompanying notes.

TRADESTATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the Years Ended December 31,		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 11,440	$ 15,790	$ 30,637
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	5,311	4,362	4,218
Stock-based compensation expense	3,169	2,758	3,966
Deferred income tax provision (benefit)	1,205	1,725	(461)
Gain on investments in stock exchanges	-	-	(130)
Unrealized (gain) loss on marketable securities, net	(3,694)	142	-
(Increase) decrease in:			
Cash and investments segregated in compliance with federal regulations	(39,450)	623,854	(150,134)
Trading investments transactions, net	(436,355)	(839,264)	-
Receivables from brokers, dealers, clearing organizations and clearing agents	(48,601)	(21,087)	12,287
Receivables from brokerage customers	(23,234)	(14,718)	63,616
Prepaid income taxes	-	(971)	-
Deposits with clearing organizations	-	20,499	(24,055)
Other assets	(604)	(1,251)	1,902
Increase (decrease) in:			
Payables to brokers, dealers and clearing organizations	27,656	27	(724)
Payables to brokerage customers	512,364	207,695	71,392
Accounts payable	1,140	(736)	950
Accrued expenses	(77)	(586)	35
Net cash provided by (used in) operating activities	10,270	(1,761)	13,499
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(15,178)	(5,260)	(3,767)
Decrease in restricted cash	239	239	239
Purchase of available–for-sale marketable securities	(34,170)	(26,977)	-
Proceeds from sale/maturities of marketable securities	35,658	4,278	395
Net cash used in investing activities	(13,451)	(27,720)	(3,133)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	525	1,462	1,214
Excess tax benefit from stock option exercises	353	209	273
Repurchase and retirement of common stock	(12,975)	(14,860)	(14,999)
Net cash used in financing activities	(12,097)	(13,189)	(13,512)
NET DECREASE IN UNRESTRICTED CASH AND CASH EQUIVALENTS	(15,278)	(42,670)	(3,146)
UNRESTRICTED CASH AND CASH EQUIVALENTS, beginning of year	56,688	99,358	102,504
UNRESTRICTED CASH AND CASH EQUIVALENTS, end of year	$ 41,410	$ 56,688	$ 99,358

(continued on following page)

TRADESTATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
(In thousands)

	For the Years Ended December 31,		
	2010	2009	2008
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	$ -	$ 8	$ 2,724
Cash paid for income taxes	$ 6,335	$ 9,728	$ 19,417

See accompanying notes.

(1) DESCRIPTION OF BUSINESS

TradeStation Group, Inc. (the "Company"), a Florida corporation formed in 2000, is the successor company to a publicly-held trading software company that was formed in 1982. TradeStation Group is listed on The NASDAQ Global Select Market under the symbol "TRAD." TradeStation Securities, Inc., a licensed securities broker-dealer and a registered futures commission merchant, and TradeStation Technologies, Inc., a trading technology company, are the Company's two established operating subsidiaries. The Company has two other subsidiaries. TradeStation Europe Limited, a company organized under the laws of England and Wales, is authorized and regulated by the UK Financial Services Authority (FSA), and holds what is known as a "Passport," to introduce brokerage accounts for residents of countries within the European Economic Area. TradeStation Forex, Inc., a Florida corporation, was recently formed to assume, own and conduct all of the Company's forex brokerage business (such business has historically been owned and conducted by TradeStation Securities using an established forex dealer to clear its forex business). In January 2011, TradeStation Forex was registered with the Commodity Futures Trading Commission ("CFTC") as a Retail Foreign Exchange Dealer and approved by the National Futures Association ("NFA") as a forex dealer member. Accordingly, As of January 2011, TradeStation Forex's minimum net capital requirement was $20 million. Later in 2011, TradeStation Forex expects to receive a transfer of all of TradeStation Securities' forex accounts and commence operations as a forex dealer (at which time TradeStation Securities will cease its forex business).

The Company's core product/service, which is offered by TradeStation Securities (as well as TradeStation Europe and, later in 2011, TradeStation Forex), is *TradeStation*, an award-winning electronic trading platform that enables traders to test and automate "rules-based" trading strategies (both technical and fundamental) across multiple asset classes, namely, equities, equity and index options, futures (chiefly electronic futures contracts), and foreign currencies (forex). The *TradeStation* electronic trading platform seamlessly integrates powerful strategy trading software tools, historical and streaming real-time market data, and electronic order-routing and execution. The *TradeStation* platform's electronic order-routing of trades means, with respect to equities, equity and index options, and futures transactions, Internet connections to all major U.S., and some major European, electronic exchanges and marketplaces, or electronic access provided by certain market makers or other third parties who offer or enable 'best execution.' In each of these electronic marketplaces, buyers and sellers participating on the network are matched, often instantaneously following the placement of their orders. In addition to strategy trading tools, real-time market data and order placement and routing, the *TradeStation* electronic trading platform offers powerful automated and manual advanced order placement functions and capabilities, and numerous advanced charting and analytics features.

TradeStation Securities is a leading online brokerage firm that serves the active trader and certain institutional trader markets, and is the Company's principal operating subsidiary. TradeStation Securities is a member and subject to the rules and requirements of the New York Stock Exchange (NYSE), Financial Industry Regulatory Authority (FINRA), Securities Investor Protection Corporation (SIPC), NFA, the Depository Trust & Clearing Corporation (DTCC), Options Clearing Corporation (OCC), Boston Options Exchange (BOX), Chicago Board Options Exchange (CBOE), Chicago Stock Exchange (CHX), International Securities Exchange (ISE), NASDAQ OMX, EDGA Exchange (EDGA), EDGX Exchange (EDGX), and BATS Exchange (BATS). TradeStation Securities' business is also subject to the rules and requirements of the Securities and Exchange Commission (SEC), CFTC and state regulatory authorities (the firm is registered to conduct its brokerage business in all 50 states and the District of Columbia). TradeStation Securities self-clears most of its equities and equity and index options business, and uses an established futures clearing firm to clear its futures business on an omnibus clearance basis. The DTCC and the OCC, together with other organizations, if any, that perform similar clearing or depository rules for their members, are collectively referred to in this report as "clearing organizations."

Beginning in September 2004, TradeStation Securities commenced equities self-clearing operations for its active trader client base and, beginning on March 29, 2005, following issuance of its membership in the Options Clearing Corporation ("OCC"), TradeStation Securities commenced self-clearing of its standardized equity options trades for its active trader client base. Clearing operations include the confirmation, settlement, delivery and receipt of securities and funds and record-keeping functions involved in the processing of securities transactions. As the clearing broker for its equities active trader client base, TradeStation Securities maintains custody and control over the assets in those clients' accounts and provides the following back office functions: maintaining customer accounts; extending credit in a margin account to the customer; settling stock transactions with the National Securities Clearing Corporation (and, for options, with the OCC); settling commissions and clearing fees; preparing customer trade confirmations and statements; performing designated cashier functions, including the delivery and receipt of funds and securities to or from the customer; possession or control of customer securities, safeguarding customer funds, transmitting tax accounting information to the customer and to the applicable tax authorities; and forwarding prospectuses, proxies and other shareholder information to customers.

TradeStation Securities clears most institutional account trades through J.P. Morgan Clearing Corp. on a fully-disclosed basis and provides order execution services on a Delivery Versus Payment/Receipt Versus Payment ("DVP/RVP") basis with the orders cleared and settled by the client's prime brokerage firm. Through December 31, 2009, futures trades were cleared through R.J. O'Brien & Associates on a fully-disclosed basis, and for certain institutional futures accounts, order execution services are provided on a "give-up" basis with the orders cleared and settled by the client's prime brokerage firm. Forex trades are cleared through GAIN Capital Group, Inc. on a fully-disclosed basis (J.P. Morgan Clearing Corp., R.J. O'Brien & Associates, and GAIN Capital are collectively referred to as "clearing agents" or "clearing agent firms").

Effective January 4, 2010, the Company converted its futures accounts, held at R.J. O'Brien & Associates, from a fully disclosed basis to an omnibus relationship also with R.J. O'Brien & Associates. As such, the Company received approximately $349 million in futures customers' funds which were appropriately segregated in accordance with the Commodity Exchange Act rules.

TradeStation Technologies develops and offers strategy trading software tools and subscription services. TradeStation Europe Limited introduces United Kingdom and other European accounts to TradeStation Securities.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

When completing the consolidated financial statements included herein, the Company evaluated subsequent events up to and including the date that this Annual Report on Form 10-K was filed with the SEC.

The following is a summary of significant accounting policies adhered to in the preparation of these consolidated financial statements:

Principles of Consolidation **–** The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

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.

Cash and Cash Equivalents – The Company classifies all highly-liquid investments with an original maturity of three months or less as cash equivalents. Cash and cash equivalents consist primarily of cash and money market funds held primarily at two major financial institutions. Cash and cash equivalents at December 31, 2010 and 2009 include restricted cash of $478,000 and $717,000, respectively, supporting the lease on the Company's corporate headquarters. Based upon the year-end calculation of cash and investments segregated in compliance with federal regulations (see below), the cash and cash equivalents balance may increase or decrease on the first or second business day subsequent to year end. On January 4, 2010, cash and cash equivalents decreased by $7.7 million. See *Cash and Investments Segregated In Compliance With Federal Regulations* below, and Note 16 – COMMITMENTS AND CONTINGENCIES – *Restricted Cash*.

Cash and Investments Segregated In Compliance With Federal Regulations **–** TradeStation Securities is obligated by rules mandated by two of its primary regulators, the SEC and the CFTC, to set aside cash or qualified securities to satisfy regulations promulgated to protect customer assets. Cash and investments segregated in compliance with federal regulations, consisting primarily of U.S. Treasury securities, of $1.28 billion (which includes $337,000 of interest receivable) and $785.2 million (which includes $349,000 of interest receivable) as of December 31, 2010 and December 31, 2009, respectively, have been segregated in special reserve accounts at JPMorgan Chase ($1.22 billion as of December 31, 2010 and $0 as of December 31, 2009) and R.J. O'Brien ($64.1 million as of December 31, 2010 and $0 as of December 31, 2009) for the exclusive benefit of customers under Rule 15c3-3 under the Securities Exchange Act of 1934 ("Rule 15c3-3") and the Commodity Exchange Act. Of the $1.28 billion in cash and investments segregated in compliance with federal regulations as of December 31, 2010, $857.4 million was related to Rule 15c3-3 and $421.9 million was related to CFTC requirements. All of the $785.2 million balance as of December 31, 2009 was related to Rule 15c3-3. By the second business day of each week, under Rule 15c3-3, if required, this amount is adjusted based upon the previous week-end or month-end calculation. Based on this requirement, on January 3, 2011 cash and investments segregated in compliance with federal regulations decreased by $3.9 million, and marketable securities increased by $3.9 million. Additionally, on January 4, 2010 cash and investments segregated in compliance with federal regulations increased by $7.7 million and cash and cash equivalents decreased by $7.7 million. On January 4, 2010, TradeStation Securities converted its futures accounts, held at R.J. O'Brien & Associates as clearance agent, from clearance on a fully-disclosed basis to omnibus clearance. As a result of converting to omnibus clearance, TradeStation Securities received from R.J. O'Brien approximately $349.0 million in futures customers' funds which were then appropriately segregated in accordance with Commodity Exchange Act rules.

Marketable Securities **–** The Company's investments in marketable securities are carried at fair value and are designated as available-for-sale, except for securities owned by the Company's brokerage subsidiaries, TradeStation Securities and TradeStation Forex, which are required to be accounted for as trading investments. Unrealized gains and losses on available-for-sale investments, net of deferred income taxes, are reflected as accumulated other comprehensive income. Realized gains and losses on available-for-sale investments are determined on the specific identification method and are reflected on the consolidated statements of income. Unrealized and realized gains and losses on securities accounted for as trading investments are reflected on the consolidated statements of income. Declines in fair value of investments that are considered other than temporary are accounted for as realized losses. See Note 3 – FAIR VALUE MEASURES. Based upon the year-end calculation of cash and investments segregated in compliance with federal regulations (see above), the marketable securities balance may increase or decrease on the first or second business day subsequent to year end. On January 3, 2011, marketable securities increased by $3.9 million. See *Cash and Investments Segregated In Compliance With Federal Regulations* above.

Receivables from Brokers, Dealers, Clearing Organizations and Clearing Agents **–** Receivables from brokers, dealers, clearing organizations and clearing agents consist primarily of securities borrowed from broker-dealers (see *Securities Borrowed and Loaned* below). In addition, the Company services some of its securities customer accounts through J.P. Morgan Clearing Corp. and its futures and forex customer accounts through R.J. O'Brien & Associates (through December 31, 2009) and GAIN Capital, Inc., respectively, on a fully-disclosed basis. These clearing agents provide services, handle TradeStation Securities' customers' funds, hold securities, futures and forex positions, and remit monthly activity statements to the customers on behalf of TradeStation Securities. The receivables from these clearing agents relate primarily to commissions earned by TradeStation Securities for trades executed and/or cleared by the clearing agents on behalf of TradeStation Securities. See *Brokerage Commissions and Fees* below, and Note 4 – RECEIVABLES FROM BROKERS, DEALERS, CLEARING ORGANIZATIONS AND CLEARING AGENTS.

Securities Borrowed and Loaned **–** Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to provide the counterparty with collateral in the form of cash. The Company receives collateral in the form of cash for securities loaned transactions. For these transactions, the fees earned or incurred by the Company are recorded as interest income. The related interest receivable from and the brokerage interest payable to broker-dealers are included in Receivables from Brokers, Dealers, Clearing Organizations and Clearing agents and in Payables to Brokers, Dealers and Clearing Organizations, respectively, on the accompanying consolidated balance sheets. See Note 4 – RECEIVABLES FROM BROKERS, DEALERS, CLEARING ORGANIZATIONS AND CLEARING AGENTS.

Receivables from Brokerage Customers **–** TradeStation Securities performs periodic credit evaluations and provides allowances for potential credit losses based upon their assessment of specifically identified unsecured receivables and other factors. See Note 5 – RECEIVABLES FROM BROKERAGE CUSTOMERS.

Property and Equipment **–** Property and equipment are stated at cost less accumulated depreciation and amortization. Property and equipment are depreciated or amortized using the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are charged to expense when incurred; betterments are capitalized and amortized over the lesser of their useful life or the remaining initial term of the lease. Upon the sale or retirement of assets, the cost and accumulated depreciation are removed from the accounts, and any gain or loss is recognized currently. See Note 6 - PROPERTY AND EQUIPMENT, NET.

Impairment of Long-Lived Assets – The Company evaluates long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses are recognized if the carrying amount exceeds the sum of the undiscounted cash flows estimated to be generated by those assets. The amount of impairment loss is calculated as the amount by which the carrying value exceeds fair value. No impairment occurred during the years ended December 31, 2010, 2009 or 2008.

Related-Party Loans – Certain directors and executive officers of the Company maintain margin accounts with TradeStation Securities. There were no margin loans to directors or executive officers outstanding as of December 31, 2010 or 2009. Any margin loans made in these accounts are in the ordinary course of TradeStation Securities' business on terms no more favorable than those available for comparable transactions in other brokerage accounts.

Software Development Costs – In accordance with the Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") Software Topic and the FASB ASC Intangibles-Goodwill and Other Topic, the Company examines its software development costs after technological feasibility has been established to determine the amount of capitalization that is required. Based on the Company's technology development process, technological feasibility is established upon completion of a working model. The costs that are capitalized are amortized over the period of benefit of the related products. For the periods presented, the technological feasibility of the Company's products to be sold and marketed to its customers, and the general release of such software generally coincide, and, as a result, such costs were not capitalized as of December 31, 2010 or 2009. The Company capitalized costs associated with the development of internal-use software of $545,000 and $1.1 million during the years ended December 31, 2010 and 2009, respectively. Such costs are included in property and equipment, net. Amortization related to capitalized internal-use software was $253,000 in 2010. No amortization of these costs was recorded prior to 2010 since the internal-use software was not yet operational. During 2010, the Company also capitalized $5.0 million of software technology acquired from third parties. Amortization expense in 2010 related to these acquisitions was $576,000. During 2010, 2009 and 2008, total software development costs (comprised primarily of employee compensation and benefits), excluding capitalized internal-use software, were approximately $11.5 million, $10.4 million and $7.1 million, respectively.

Payables to Brokerage Customers – Payables to equities brokerage customers consist primarily of cash balances in brokerage customer accounts. At December 31, 2010 and 2009, payables to customers totaled $1.38 billion and $868.7 million, respectively. These funds are the principal source of funding for margin lending. At December 31, 2010 and 2009, TradeStation Securities was not paying interest on cash balances in brokerage customer accounts.

Fair Value of Financial Instruments – The carrying amounts of cash and cash equivalents; cash and investments segregated in compliance with federal regulations; marketable securities; receivables from brokers, dealers, clearing organizations and clearing agents; receivables from brokerage customers; deposits with clearing organizations, payables to brokers, dealers and clearing organizations; and payables to brokerage customers approximate fair value as of December 31, 2010 and 2009 due to the short-term nature of these instruments.

Securities and Futures Transactions **–** Customer securities transactions are recorded on a settlement date basis with such transactions generally settling three business days after the trade date. The Company records revenues and expenses related to customer securities transactions on a trade date basis (see *Brokerage Commissions and Fees* below). Securities owned by customers, including those that collateralize margin loans or similar transactions, are not reflected in the Company's consolidated financial statements. Customer futures and forex transactions and related revenues and expenses are recorded on a trade date basis (see *Brokerage Commissions and Fees* below). Futures and forex positions owned by customers are not reflected in the Company's consolidated financial statements.

Brokerage Commissions and Fees **–** Brokerage commissions and related clearing costs are recorded on a trade date basis as transactions occur. Brokerage fees are recorded on an accrual basis when services are provided.

Net Interest Income **–** Interest income and brokerage interest expense are recorded on an accrual basis as interest is earned or incurred.

Subscription Fees and Other Revenues **–** The Company provides investment analysis trading tools, including streaming real-time market information, to non-brokerage customers via the Internet in exchange for monthly subscription fee payments. In addition to these services, payment of subscription fees give customers access to certain customer support services such as telephone, electronic mail and web-site support. Revenues are recognized on a monthly basis as the service is provided. Payments received in advance of service are deferred and recognized on a monthly basis as service is provided. Other revenues consist primarily of fees for the Company's training workshops, sales of training manuals, direct sales of legacy software products, and royalties. Revenues for training workshops are recognized during the period in which the workshop takes place. Revenues from training manuals and direct sales of legacy software products are recognized when the product is shipped. Royalty revenues, which are derived from contracts with market data vendors under which the Company has agreed to enable its trading software products to be technically compatible with the vendors' data services, are recorded when earned, in accordance with the terms of the applicable contracts.

Advertising **–** Advertising, which is included within marketing expense, is expensed when the initial advertising activity takes place. Advertising expense was approximately $6.2 million, $6.0 million and $5.3 million for the years ended December 31, 2010, 2009 and 2008, respectively. There were no advertising costs capitalized as of December 31, 2010 and 2009.

Operating Leases **–** Rental payments, free rent, and leasehold and other incentives are recognized on a straight-line basis over the life of a lease. Leasehold improvements are amortized over the shorter of their economic life or the initial lease term. See Note 16 – COMMITMENTS AND CONTINGENCIES **–** *Operating Leases*.

Stock-Based Compensation **–** The Company accounts for stock-based compensation in accordance with the Compensation-Stock Compensation Topic of the FASB ASC (the "Compensation-Stock Compensation Topic"). This topic requires all share-based payments to employees, including grants of employee stock options, shares of restricted stock and performance shares, to be recognized in the income statement based on their fair values. It also requires the benefit of tax deductions in excess of recognized compensation costs to be reported as financing cash flow, rather than an operating cash flow. See Note 10 – STOCK-BASED COMPENSATION.

Income Taxes **–** The Company accounts for income taxes in accordance with the Income Taxes Topic of the FASB ASC (the "Income Taxes Topic"). The Income Taxes Topic requires that deferred income tax balances be recognized based on the differences between the financial statement and income tax bases of assets and liabilities using the enacted tax rates. The Income Taxes Topic also clarifies accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. See Note 12 - INCOME TAXES.

Earnings Per Share **–** Earnings per share is calculated in accordance with the Earnings Per Share Topic of the FASB ASC (the "Earnings Per Share Topic"), which requires presentation of basic and diluted earnings per share. Basic earnings per share is computed by dividing the net income available to common shareholders by the weighted average shares of outstanding common stock during the period. The calculation of diluted earnings per share is similar to basic earnings per share except that the denominator includes dilutive common stock equivalents such as stock options and unvested restricted stock and performance shares. See Note 13 – EARNINGS PER SHARE.

Comprehensive Income **–** Comprehensive income is defined as the change in a business enterprise's equity during a period arising from transactions, events or circumstances relating to non-owner sources, such as unrealized holding gains or losses on available-for-sale securities and foreign currency translation adjustments. It includes all changes in equity during a period except those resulting from investments by, or distributions to, owners. See Note 14 – COMPREHENSIVE INCOME.

Segment Information **–** Segment information is required to be presented in accordance with the Segment Reporting Topic of the FASB ASC (the "Segment Reporting Topic"). The Segment Reporting Topic requires segmentation if warranted by management's approach to the Company's business and the Company's internal organization and disclosure of revenue and operating income based upon internal accounting methods. During each of the three years in the period ended December 31, 2010, management evaluated and operated its business as two segments: (i) brokerage services and (ii) software products and services. See Note 17 - SEGMENT AND RELATED INFORMATION.

Foreign Currency Translation **–** Management has determined that the functional currency of the United Kingdom subsidiary is the U.S. dollar. Accordingly, monetary accounts maintained in currencies other than the dollar are re-measured into dollars in accordance with the Foreign Currency Matters Topic of the FASB ASC. Therefore, the effects of foreign currency translation adjustments arising from differences in exchange rates from period to period are included in net income.

Recently Issued Accounting Standards **–** In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 amends the Fair Value Measurements and Disclosures Topic of the FASB ASC (the "Fair Value Measurements and Disclosures Topic") to require additional disclosures regarding fair value measurements. The amended guidance requires entities to disclose additional information regarding assets and liabilities that are transferred between levels of the fair value hierarchy. Entities are also required to disclose information in the Level 3 Rollforward about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, ASU 2010-06 clarifies existing guidance pertaining to the level of disaggregation at which fair value disclosures should be made and the requirements to disclose information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. The guidance in ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the requirement to separately disclose purchases, sales, issuances and settlements in the Level 3 Rollforward, which becomes effective for fiscal years (and for interim periods within those fiscal years) beginning after December 15, 2010. The Company's adoption of ASU 2010-06, effective January 1, 2010, did not have a material impact on its consolidated financial position, results of operations or cash flows during the year ended December 31, 2010. The Company does not expect the deferred portion of the adoption of ASU 2010-06 to have a material impact on its consolidated financial statements.

(3) FAIR VALUE MEASURES

The Fair Value Measurements and Disclosures Topic establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. In accordance with guidance under the Fair Value Measurements and Disclosures Topic, three levels of inputs may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities. The Company's Level I assets consist of U.S. Treasury Bills and Notes ("U.S. Treasuries") and actively-traded marketable exchange-listed securities. As of December 31, 2010, the Company's U.S. Treasuries had maturities ranging from January 2011 to December 2011.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's Level II assets consist of variable rate demand note ("VRDN") securities issued by various state agencies throughout Florida. The Company's VRDN investments are federal tax-exempt instruments of high credit quality, secured by direct-pay letters of credit from a major financial institution. These investments have variable rates tied to short-term interest rates. Interest rates are reset weekly and these VRDN securities can be tendered for sale upon notice (generally no longer than seven days) to the remarketing agent. Although the Company's VRDN securities are issued and rated as long-term securities (with maturities ranging from 2021 through 2023), they are priced and traded as short-term instruments. The Company classifies these short-term investments as available-for-sale in accordance with the Investments-Debt and Equity Securities Topic of the FASB ASC. The investments are carried at cost or par value, which approximates the fair market value.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation. The Company did not hold any Level III assets during the year ended December 31, 2010.

The following table summarizes the basis used to measure the fair value of securities on a recurring basis in the Company's consolidated balance sheet as of December 31, 2010 (in thousands):

	December 31, 2010			
	Level I	**Level II**	**Level III**	**Fair Value**
Investments segregated in compliance with federal regulations	$ 1,245,410	$ -	$ -	$ 1,245,410
Marketable securities	$ 57,555	$ 5,700	$ -	$ 63,255
Deposits with clearing organizations	$ 27,981	$ -	$ -	$ 27,981

The Company purchased available-for-sale marketable securities of approximately $34.2 million and had proceeds from the sale or maturity of available-for-sale marketable securities of approximately $35.7 million during the year ended December 31, 2010. As of December 31, 2010, the Company had approximately $29.7 million of available-for-sale marketable securities.

As described in Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, broker-dealers are required to account for investments in marketable securities as trading investments. The Company's broker-dealer, TradeStation Securities, had net trading investment transactions (purchases, net of proceeds and interest accreted) of $413.6 million during the year ended December 31, 2010. The Company capitalized its recently formed subsidiary, TradeStation Forex, with $23.0 million of which TradeStation Forex invested $22.7 million in U.S. Treasury securities that had maturities longer than 90 days. As of December 31, 2010, TradeStation Securities and TradeStation Forex had trading investments of approximately $1.30 billion. Unrealized net gains from these trading investments were approximately $3.7 million during the year ended December 31, 2010. Such unrealized net losses and net gains are reflected in the accompanying consolidated statements of income.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents, brokerage receivables and brokerage payables

For these financial instruments, the carrying amount is a reasonable estimate of fair value.

Marketable securities

For investments in U.S. Treasuries, the fair value equals the quoted market price of each U.S. Treasury Bill or Treasury Note. Investments in VRDN's are carried at cost or par value, which approximates the fair value. The fair value of equity securities equals the quoted market prices for such securities.

The estimated fair values of the Company's financial instruments are as follows (in thousands):

	December 31, 2010	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 41,888	$ 41,888
Cash and investments segregated in compliance with federal regulations	1,279,734	1,279,734
Marketable securities	63,255	63,255
Receivables from brokers, dealers, clearing organizations and clearing agents	80,827	80,827
Receivables from brokerage customers, net	68,268	68,268
Deposits with clearing organizations	35,504	35,504
Financial liabilities:		
Payables to brokers, dealers and clearing organizations	27,770	27,770
Payables to brokerage customers	1,381,105	1,381,105

(4) RECEIVABLES FROM BROKERS, DEALERS, CLEARING ORGANIZATIONS AND CLEARING AGENTS

Amounts receivable from brokers, dealers, clearing organizations and clearing agents consist of the following as of December 31, 2010 and 2009 (in thousands):

	2010	2009
Securities borrowed from broker-dealers	$ 80,200	$ 30,490
Fees and commissions receivable from clearing agents	313	947
Securities failed to deliver to broker-dealers and other	314	789
	$ 80,827	$ 32,226

(5) RECEIVABLES FROM BROKERAGE CUSTOMERS

Receivables from brokerage customers consist primarily of margin loans to TradeStation Securities' brokerage customers of approximately $68.3 million at December 31, 2010 and approximately $45.0 million at December 31, 2009. Securities owned by brokerage customers are held as collateral for margin loans. Such collateral is not reflected in the consolidated financial statements. TradeStation Securities was charging a base margin debit interest rate of 7.75% per annum as of December 31, 2010 and 2009, on debit balances in brokerage customer accounts.

"Margin" requirements determine the amount of equity required to be held in an account for the purchase of equities on credit. Margin lending is subject to the margin rules of the Board of Governors of the Federal Reserve System, the margin requirements of FINRA, limits imposed by clearing agent firms, and TradeStation Securities' own internal policies. By permitting customers to purchase and maintain securities positions on margin, TradeStation Securities takes the risk that a market decline will reduce the value of the collateral securing its margin loan to an amount that renders the margin loan unsecured. Under applicable securities laws and regulations, once a margin account has been established, TradeStation Securities is obligated to require from the customer initial margin of no lower than 50% for purchases of securities and then is obligated to require the customer to maintain its equity in the account equal to at least 25% of the value of the securities in the account. However, TradeStation Securities' current internal requirement is that the customer's equity not be allowed to fall below 35% of the value of the securities in the account. If it does fall below 35%, TradeStation Securities requires the customer to increase the account's equity to 35% of the value of the securities in the account (if not, TradeStation Securities will perform closing transactions to bring the customer account above the maintenance requirement). These requirements can be, and often are, raised as TradeStation Securities deems necessary for certain accounts, groups of accounts, securities or groups of securities. However, there is no assurance that a customer will be willing or able to satisfy a margin call or pay unsecured indebtedness owed to TradeStation Securities.

(6) PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consist of the following as of December 31, 2010 and 2009 (in thousands):

	Estimated Useful Life In Years	2010	2009
Computers and software	3-5	$ 41,039	$ 25,857
Furniture and equipment	3-7	4,039	3,720
Leasehold improvements	5-10	1,597	1,466
		46,675	31,043
Accumulated depreciation and software amortization		(28,701)	(23,465)
		$ 17,974	$ 7,578

Depreciation and amortization expense related to property and equipment was approximately $5.2 million, $4.4 million and $4.2 million, for the years ended December 31, 2010, 2009 and 2008, respectively.

(7) DEPOSITS WITH CLEARING ORGANIZATIONS

As a self-clearing broker-dealer, TradeStation Securities is subject to clearing organization and other cash deposit requirements which are, and may continue to be, large in relation to the Company's total liquid assets, and which may fluctuate significantly from time to time based upon the nature and size of TradeStation Securities' active trader and institutional clients' trading activity. As of December 31, 2010 and 2009, TradeStation Securities had U.S. Treasuries and cash as security deposits totaling approximately $35.5 million and $38.5 million, respectively, with clearing organizations for the self-clearing of stock trades and standardized equity option trades. The decrease in deposits as of December 31, 2010, compared to December 31, 2009, was related to decreased deposit requirements for the self-clearing of standardized equity option trades. Deposits are recorded at market value.

(8) PAYABLES TO BROKERS, DEALERS AND CLEARING ORGANIZATIONS

Amounts payable to brokers, dealers, and clearing organizations consist of the following as of December 31, 2010 and 2009 (in thousands):

	2010	2009
Securities loaned from brokers-dealers	$ 27,170	$ -
Payables to brokers	499	55
Payables to clearing organizations	101	59
	$ 27,770	$ 114

(9) SHAREHOLDERS' EQUITY

Preferred Stock

The Company has authorized 25 million shares of preferred stock with a par value of $.01 per share. To date, no specific preferences or rights have been established with respect to any of these shares, nor have any of these shares been issued.

Common Stock

The Company has authorized 200 million shares of common stock with a par value of $.01 per share. As of December 31, 2010 and 2009, 39,055,900 and 40,692,328 shares, respectively, were issued and outstanding.

Common Stock Buyback Plan

In October 2006, the Company's Board of Directors authorized, and the Company announced, the use of up to $60 million of the Company's available and unrestricted cash, over a four-year period, to repurchase shares of its common stock in the open market or through privately-negotiated transactions. The stock repurchases were authorized to be made pursuant to a Rule 10b5-1 plan. The four-year period commenced on November 13, 2006 and ended on November 12, 2010. Pursuant to the buyback plan, up to $1,250,000 of company cash during each full calendar month (and prorated amount during the first and last months) of the four-year period (i.e., up to $15 million per 12-month period and up to $60 million for the four-year period) was authorized to be used to purchase company shares at prevailing prices, subject to compliance with applicable securities laws, rules and regulations, including Rules 10b5-1 and 10b-18. The buyback plan did not obligate the Company to acquire any specific number of shares in any period, and could have been modified, suspended, extended or discontinued at any time without prior notice.

During the year ended December 31, 2010, the Company used $13.0 million to purchase 1,886,217 shares of its common stock at an average price of $6.88 per share. Since commencement of this stock buyback plan on November 13, 2006 through November 12, 2010, the Company used $59.8 million to purchase 7,036,472 shares of its common stock at an average price of $8.50 per share. All shares purchased have been retired.

Stock Option Plans

See Note 10 – STOCK-BASED COMPENSATION for discussion of stock plans and employee stock purchase plan.

(10) STOCK-BASED COMPENSATION

The Company believes that stock-based compensation is an integral way to provide incentives which will attract and retain highly-competent persons at all levels of the Company, as employees, as independent directors, and as independent contractors providing consulting or advisory services to the Company, by providing them opportunities to acquire the Company's common stock or to receive monetary payments based on the value of such shares.

Stock Plans

The Company has reserved 12 million shares of its common stock for issuance under the TradeStation Group Incentive Stock Plan, as amended and restated (the "Incentive Stock Plan"). The Company's Board of Directors authorized, and in June 2006 the Company's shareholders approved, an increase in the number of shares to that 12-million number, as well as an extension of the expiration date of the Incentive Stock Plan to June 5, 2016. Under the Incentive Stock Plan, incentive and nonqualified stock options, stock appreciation rights, stock awards, performance shares and performance units are available to employees or consultants. Through December 31, 2010, only stock options, restricted shares and performance shares of common stock had been granted. The terms of each stock option, restricted share agreement and performance share agreement are determined by the Compensation Committee of the Board of Directors. Options under the Incentive Stock Plan are generally granted by the Company at an exercise price equal to the fair value (as defined in the Incentive Stock Plan) at the date of grant, vest over a period of five years, and expire ten years after the grant date. Restricted stock awards under the Incentive Stock Plan have been granted by the Company with vesting terms typically of 50% after three years and 100% after six years (except for one award which vests 50% on the third anniversary of the date of grant and 100% on the fifth anniversary for tax reasons applicable to the United Kingdom), and a small minority of those awards have 20% vesting each one-year anniversary (depending on the award). Performance shares vest 60% on the third anniversary of the date of grant, 20% on the fourth anniversary of the date of grant and 20% on the fifth anniversary of the date of grant. Restricted shares and performance shares contain a provision for 100% acceleration upon retirement, death, disability and change in control of the Company. Restricted shares contain a provision whereby, if employment or service terminates prior to full vesting, the non-vested shares will automatically be forfeited and the Company will reacquire the non-vested shares for no consideration. Upon termination of employment the unvested portion of performance shares shall automatically terminate and become null and void.

Certain stock options granted to the Company's Chief Executive Officer, Chief Financial Officer, General Counsel and former Chief Growth Officer prior to February 2007 contained a provision resulting in 100% acceleration of vesting if the aggregate beneficial ownership of William Cruz and Ralph Cruz, the Company's founders and former Co-Chairmen of the Board, fell beneath 25%. See *Vesting Acceleration of Certain Options* below for a discussion of the effects of this provision during the year ended December 31, 2008.

On October 25, 2005, the Company (i) globally amended the terms of all outstanding stock option agreements pursuant to the Incentive Stock Plan for non-executive employees, and (ii) adopted a new form of stock option agreement for future grants to non-executive employees, in each case, to provide for the accelerated vesting of all unvested options in the event the Company undergoes a change in control and the optionee's employment is terminated by the Company (or its successor) without cause within one year following the change in control. This change did not result in any additional compensation expense during 2005, as the employees did not receive any additional benefits as a result of the change and the unvested options continued to vest as employees continued to provide services to the Company.

In December 2006, the Company's Board of Directors authorized an amendment to the Incentive Stock Plan to change the definition of fair market value to the closing price of the Company's stock on the date of grant (or the closing price on the next trading date if shares were not traded on the date of grant).

At December 31, 2010, there were 2,650,885 shares available for future grants under the Incentive Stock Plan. In February 2011, the Company issued performance shares (more commonly referred to as restricted stock units) representing the right to receive an aggregate of 188,638 shares of common stock. Such performance shares, which had a fair market value of approximately $1.3 million on the date of grant, vest 60% on the third anniversary of the date of grant, 20% on the fourth anniversary of the date of grant and 20% on the fifth anniversary of the date of grant with 100% acceleration upon retirement, death and disability. Performance shares will automatically convert into shares of the Company's common stock upon vesting. All of the performance shares were granted under the Incentive Stock Plan in the ordinary course. Unvested performance shares will expire upon the termination of an employee's employment with the Company. In February 2011, the Company also issued options to purchase an aggregate of 213,115 shares of common stock to certain officers of the Company. Such options vest ratably in annual increments over a five-year period, with 100% acceleration upon death, disability and change in control, and are exercisable at $7.11 per share, which was the closing price of the Company's common stock on the date the options were granted. All of the options were granted under the Incentive Stock Plan in the ordinary course, and expire, if they remain unexercised, on the tenth anniversary of the date on which they were granted. In February 2011, the Company also issued 188,607 restricted shares of Company common stock to certain officers. The restricted shares, which had a fair market value of approximately $1.3 million, were granted as a stock award under the Incentive Stock Plan and vest 50% on the third anniversary of the date of grant and 100% on the sixth anniversary (except for one award which vests 50% on the third anniversary of the date of grant and 100% on the fifth anniversary for tax reasons applicable to the United Kingdom) with 100% acceleration upon retirement, death, disability and change in control of the Company. All of the restricted shares contain a provision whereby, if employment terminates prior to full vesting, the non-vested shares will automatically be forfeited and the Company will reacquire the non-vested shares for no consideration. Upon termination of employment the unvested portion of performance shares shall automatically terminate and become null and void.

The Company had reserved 700,000 shares of its common stock for issuance under the TradeStation Group Amended and Restated Nonemployee Director Stock Option Plan (the "Old Director Plan"). Under the Old Director Plan, non-qualified stock options providing for the purchase of 188,000 shares had been issued which had an exercise price equal to the fair value (as defined in the Old Director Plan) of shares of common stock at the date of grant, vest over a period of 3 years and expire 5 years after the date of grant. On June 1, 2010, the Company adopted, after receiving approval from its shareholders, the TradeStation Group Nonemployee Director Incentive Stock Plan (the "New Director Plan"). The Company has reserved 512,000 shares of its common stock for issuance under the New Director Plan. Under the New Director Plan, an independent director is eligible to be granted one or a combination of (a) stock options, (b) stock appreciation rights, (c) stock awards, (d) performance shares, and (e) performance units. In any calendar year, no awards under the New Director Plan may be granted to any individual director having an aggregate fair market value on the date of grant in excess of $120,000. The terms of each grant are determined by the Board of Directors. To date, only restricted shares of common stock have been issued under the New Director

Plan. During the year ended December 31, 2010, the Company granted 37,440 restricted shares of Company common stock to nonemployee directors. These restricted shares had an aggregate fair market value of approximately $240,000 on the date of grant and vest over a period of three years. All of the restricted shares contain a provision whereby, if service on the board of directors terminates prior to full vesting, the non-vested shares will automatically be forfeited and the Company will reacquire the non-vested shares for no consideration. At December 31, 2010, there were 474,560 shares available for future grants under the New Director Plan.

See *General Stock Option Information* below for additional information about options outstanding as of December 31, 2010.

Employee Stock Purchase Plan

The Company has reserved 500,000 shares of common stock for issuance under the TradeStation Group Employee Stock Purchase Plan (the "Purchase Plan"). Under the Purchase Plan, participating employees may purchase common stock through accumulated payroll deductions. The exercise price of the options for each six-month Purchase Plan period is equal to 85% of the fair market value of the Company's common stock on the exercise date (i.e., the end of the six-month period). During the years ended December 31, 2010, 2009 and 2008, 17,492, 29,114 and 20,985 shares of common stock were issued under the Purchase Plan at an average price of $6.42, $6.25 and $10.04, respectively. As of December 31, 2010 there were 157,273 shares available for future grants under the Purchase Plan.

Stock Compensation

The Company currently uses the Black-Scholes option pricing model to determine the fair value of stock option awards. The value of restricted and performance shares is based on the stock price of the award on the date of grant. The determination of the fair value of stock option awards on the date of grant using an option-pricing model is affected by the market price of the stock, exercise price of the award, expected term of the award, estimated volatility of the stock over the term of the award, risk-free interest rate and expected dividend yield. Separate assumptions are used for employee officer options, non-officer employee options (both of which, subject to certain vesting-acceleration events, vest over a five-year period) and non-employee director options (which, subject to certain vesting-acceleration events, vest over a three-year period).

For both employee and non-employee director stock option awards, the expected term of all options granted is estimated by taking a weighted average of the historical holding term from grant date to exercise date and the historical holding term from grant date to post-vest cancellation date. The expected volatility assumptions are based upon a cumulative look-back of historical volatility calculated on a daily basis over the expected term of an award. The risk-free interest rate used in the option valuation model is based upon the U.S. Treasury note yield with a remaining term similar to the expected term of the particular options awarded. The Company does not anticipate paying any cash dividends in the foreseeable future and, therefore, an expected dividend yield of zero is used in the valuation model.

In accordance with the Compensation-Stock Compensation Topic, the Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. Historical data to estimate stock-based forfeitures are used, and stock-based compensation expense is recorded only for those awards that are expected to vest. All stock-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods.

The assumptions used to estimate the fair value of each option grant on the date of grant using the Black-Scholes model are as follows:

	2010	2009	2008
Risk free interest rate	3%	2%	3%
Dividend yield	-	-	-
Volatility ranges	55%	51-60%	50-65%
Weighted-average volatility	55%	59%	61%
Weighted-average life (years)	7.3	6.4	5.2

The Company's stock-based compensation expense resulting from guidance in the Compensation-Stock Compensation Topic is included in employee compensation and benefits in its consolidated statements of income for the years ended December 31, 2010, 2009 and 2008. Such stock-based compensation expense was $3.2 million, $2.8 million and $4.0 million for the years ended December 31, 2010, 2009 and 2008, respectively. The $3.2 million and $2.8 million of stock-based compensation expense recorded in 2010 and 2009, respectively, included $1,347,000 and $960,000, respectively, related to restricted stock grants and $140,000 related to performance shares (restricted stock units) in 2010.

In accordance with the Compensation-Stock Compensation Topic, the Company's stock-based compensation expense includes the cost related to its Purchase Plan. The amount of compensation expense for Purchase Plan transactions is the difference between the fair value of the stock to be purchased and the purchase price of the stock (i.e., the expense recorded is equal to the 15% discount). The stock-based compensation expense related to the Purchase Plan is recognized ratably over the six-month purchase period and the discount amount along with any payroll withholdings is recognized as a liability on the consolidated balance sheet until the related stock is issued. The Company recorded $16,000, $39,000 and $41,000 of expense related to its Purchase Plan during the years ended December 31, 2010, 2009 and 2008, respectively, and such amounts are included in the stock-based compensation expense discussed above. As of December 31, 2010 and 2009, the Company had a stock-based compensation liability of $25,000 associated with its Purchase Plan discounts. Such amounts are recorded in accrued expenses in the accompanying consolidated balance sheets.

As of December 31, 2010, there was total unrecognized compensation cost of approximately $3.3 million, $4.4 million and $732,000, adjusted for estimated forfeitures, related to non-vested stock options, restricted stock and performance shares, respectively, granted to the Company's employees and non-employee directors. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures, and is expected to be recognized over a weighted average period of 1.7 years for stock options, 2.1 years for restricted stock and 2.2 years for performance shares.

Vesting Acceleration of Certain Options

Certain stock options granted prior to February 2007 to the Company's Chief Executive Officer, Chief Financial Officer, General Counsel and former Chief Growth Officer and certain options granted prior to June 2007 to certain non-employee directors contain a provision resulting in 100% acceleration of vesting if the aggregate beneficial ownership of William Cruz and Ralph Cruz, the Company's former non-executive Co-Chairmen, falls below 25%. As a result of the aggregate beneficial ownership of William Cruz and Ralph Cruz falling below 25% in April 2008, the Company recorded compensation expense associated with the accelerated vesting of these options. The additional compensation expense from this acceleration during the year ended December 31, 2008 was $860,000, of which $528,000 was associated with the Company's Chief Executive Officer. This additional compensation expense of $860,000 is included in the $4.0 million total stock-based compensation expense for the year ended December 31, 2008.

General Stock Option Information

The following table sets forth the summary of option activity under all of the Company's stock option programs for the years ended December 31, 2010, 2009 and 2008:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, December 31, 2007	2,697,102	$ 7.90	5.7	
Granted	372,438	10.81		
Forfeited	(75,109)	11.84		
Expired	(85,173)	8.99		
Exercised	(212,213)	4.52		
Outstanding, December 31, 2008	2,697,045	8.42	6.2	
Granted	682,540	6.07		
Forfeited	(55,094)	9.70		
Expired	(159,875)	8.99		
Exercised	(299,641)	4.16		
Outstanding, December 31, 2009	2,864,975	8.25	5.8	
Granted	345,047	6.41		
Forfeited	(104,722)	8.66		
Expired	(174,359)	10.82		
Exercised	(157,272)	2.49		
Outstanding, December 31, 2010	2,773,669	8.17	5.6	$ 2,127,332
Vested and expected to vest in the future	1,068,205	7.67	7.9	$ 504,845
Exercisable, December 31, 2010	1,674,328	8.50	4.1	$ 1,603,425

The weighted average fair value of options granted, the fair value of shares vested, and the tax benefits and intrinsic value related to total stock options exercised during the years ended December 31, 2010, 2009 and 2008 are as follows (in thousands, except the weighted average of fair value of options granted):

	2010	**2009**	**2008**
Weighted average fair value of options granted	$3.80	$3.29	$5.98
Fair value of shares vested	$1,799	$1,834	$3,467
Tax benefits related to stock options exercised	$426	$337	$323
Intrinsic value of stock options exercised	$678	$947	$948

The intrinsic value represents the difference between the fair market value of the Company's common stock on the date of exercise and the exercise price of each option.

Upon the exercise of stock options, the Company issues new shares of common stock from its shares authorized and available for issuance. In October 2006, the Company announced a stock buyback plan, which ended on November 12, 2010. For further discussion, see Note 9 – SHAREHOLDERS' EQUITY - *Common Stock Buyback Plan.*

General Restricted Stock Information

The following table sets forth the summary of restricted stock awards during the years ended December 31, 2010, 2009 and 2008:

	Shares of Restricted Stock	Weighted Average Fair Value
Outstanding, December 31, 2007	245,870	$12.25
Granted	105,574	11.42
Vested	(32,460)	13.02
Outstanding, December 31, 2008	318,984	11.90
Granted	225,048	5.87
Vested	(32,464)	13.02
Forfeited	(42,466)	10.99
Outstanding, December 31, 2009	469,102	9.01
Granted	378,801	6.45
Vested	(57,997)	12.03
Forfeited	(49,688)	7.35
Outstanding, December 31, 2010	740,218	7.57

Performance Shares

The following table sets forth the summary of performance shares during the year ended December 31, 2010:

	Performance Shares	Weighted Average Fair Value
Outstanding, December 31, 2009	-	-
Granted	152,331	$6.41
Forfeited	(7,898)	6.41
Outstanding, December 31, 2010	144,433	6.41

(11) EMPLOYEE BENEFIT PLANS

The Company provides retirement benefits through a defined contribution 401(k) plan (the "401(k) Plan") established during 1994. All employees with at least three months of continuous service are eligible to participate and may contribute up to 60% of their compensation up to the annual limit set by the Internal Revenue Service. Employer matching contributions are discretionary, as defined in the 401(k) Plan, and are vested 20% for each year of service. Matching contributions accrued under this plan were approximately $203,000, $373,000 and $337,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

(12) INCOME TAXES

The components of income tax provision for the years ended December 31, 2010, 2009 and 2008, are as follows (in thousands):

	2010	2009	2008
Current income tax provision:			
Federal	$ 4,968	$ 7,594	$ 17,515
State	(3,820)	1,274	2,348
	1,148	8,868	19,863
Deferred income tax (benefit) provision:			
Federal	1,001	1,444	(394)
State	204	(33)	(67)
	1,205	1,411	(461)
Total income tax provision	$ 2,353	$ 10,279	$ 19,402

Deferred income tax assets (liabilities) are recorded when revenues and expenses are recognized in different periods for financial and income tax reporting purposes. The temporary differences that created deferred income tax assets (liabilities) are as follows as of December 31, 2010 and 2009 (in thousands):

	2010	2009
Deferred income tax assets:		
Net operating loss carryforwards	$ 111	$ 301
Deferred revenue and accrued liabilities	328	461
Reserves and allowances	33	33
Stock-based compensation	1,990	1,469
Other	49	68
Subtotal deferred income tax assets	2,511	2,332
Deferred income tax (liabilities):		
Property and equipment depreciation	(1,256)	(1,056)
Mark to market loss/(gain)	(1,375)	-
Subtotal deferred income tax (liabilities)	(2,631)	(1,056)
Total deferred income tax (liabilities) assets, net	$ (120)	$ 1,276

In accordance with the Income Taxes Topic, deferred income tax assets should be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred income tax assets will not be realized. On a periodic basis, management evaluates and determines the amount of the valuation allowance required and adjusts such valuation allowance accordingly. There was no valuation allowance on the Company's deferred income tax assets as of December 31, 2010 and 2009. On a periodic basis, management will continue to evaluate its remaining deferred income tax assets to determine if a valuation allowance is required.

As of December 31, 2010, for financial reporting purposes, the Company estimates that it had available for federal income tax purposes total net operating loss carryforwards of approximately $316,000. These net operating loss carryforwards expire in 2019. The Company utilized research and development tax credits of approximately $821,000, $376,000 and $282,000 during the years ended December 31, 2010, 2009 and 2008, respectively. The Company had income taxes receivable of $2.8 million and $971,000 as of December 31, 2010 and 2009, respectively.

The Income Taxes Topic also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. As required by the Income Taxes Topic, effective January 1, 2007, the Company evaluated its tax positions for which the statute of limitations remain open. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company had a liability for unrecognized tax benefits of $111,000 and $301,000 as of December 31, 2010 and 2009, respectively. If this tax benefit is recognized in the consolidated financial statements, it would not have a material impact to the Company's annual effective income tax rate because the difference is temporary in nature. The Company does not anticipate any significant changes in uncertain tax positions over the next twelve months.

A reconciliation of the difference between the expected income tax provision using the statutory federal tax rate (35% in 2010, 2009 and 2008) and the Company's actual income tax provision is as follows (in thousands):

	2010	2009	2008
Income tax provision using statutory federal tax rate	$ 4,828	$ 9,124	$ 17,514
State income tax provision, net of federal income tax benefit	363	870	1,624
Permanent differences	855	768	952
Benefit from state apportionment changes, net of federal income tax	(2,659)	-	-
Research and development credits	(821)	(376)	(282)
Other, net	(213)	(107)	(406)
Total income tax provision	$ 2,353	$ 10,279	$ 19,402

As of December 31, 2010, the Company was subject to federal income taxes in the U.S. and income taxes in five states, and in the United Kingdom. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to be applied. In July 2009, the Company was notified by the Internal Revenue Service that it would undergo a routine U.S. federal tax examination for the 2007 fiscal year. In March 2010, the Company was notified that it would undergo a routine U.S. federal tax examination for the 2008 fiscal year and that it would undergo routine tax examinations by a state tax authority for the 2007 and 2008 fiscal years. In March 2011, the Company was notified that it will undergo a routine tax examination by another state authority for the 2007 through 2009 fiscal years. The U.S. federal tax examinations for the 2007 and 2008 fiscal years were completed with no significant adjustments. The examinations by one of the state tax authorities for the 2007 and 2008 fiscal years were completed with no adjustments. The Company is no longer subject to U.S. federal tax examinations or state and local tax examinations for periods prior to 2006.

Any interest and penalties, if incurred in connection with any income tax examination, would be recognized as components of income tax expense.

(13) EARNINGS PER SHARE

Weighted average shares outstanding for the years ended December 31, 2010, 2009 and 2008 are calculated as follows (in thousands):

	2010	2009	2008
Weighted average shares outstanding - basic	39,815	41,507	43,235
Impact of dilutive stock-based payments after applying the treasury stock method	422	474	677
Weighted average shares outstanding - diluted	40,237	41,981	43,912

Stock options and non-vested restricted and performance shares of common stock outstanding for the years ended December 31, 2010, 2009 and 2008, which were not included in the calculation of diluted earnings per share because their weighted average effect would have been anti-dilutive, are as follows (in thousands):

	For the Year Ended December 31,		
	2010	2009	2008
Stock options	2,416	2,255	2,139
Restricted shares of common stock (non-vested)	369	114	319
Performance shares of common stock (non-vested)	126	-	-

(14) COMPREHENSIVE INCOME

A reconciliation of net income to comprehensive income is as follows (in thousands):

	2010	2009	2008
Net income	$ 11,440	$ 15,790	$ 30,637
Unrealized gain/(loss) on available for sale securities, net of tax	(4)	5	-
Comprehensive income	$ 11,436	$ 15,795	$ 30,637

(15) NET CAPITAL REQUIREMENTS

TradeStation Securities is subject to the net capital requirements of the SEC's Uniform Net Capital Rule (Rule 15c3-1), which is administered by the SEC and FINRA, and the CFTC financial requirement (Regulation 1.17 under the Commodity Exchange Act), which is administered by the CFTC and the NFA. Under these rules, TradeStation Securities calculates its net capital requirements using the "alternative method," which requires the maintenance of minimum net capital, as defined by the rules, equal to the highest of: (i) $1,000,000; (ii) 8.0% of domestic and foreign domiciled customer and non-customer (excluding proprietary) risk maintenance margin/performance bond requirements for all domestic and foreign futures, options on futures contracts and cleared over-the-counter derivatives positions excluding the risk margin associated with naked long option positions; or (iii) 2.0% of aggregate customer debit balances. At December 31, 2010, TradeStation Securities had net capital of approximately $68.4 million (51% of aggregate debit items), which was approximately $65.6 million in excess of its required net capital of approximately $2.8 million. At December 31, 2009, TradeStation Securities had net capital of approximately $85.6 million (95% of aggregate debit items), which was approximately $83.8 million in excess of its required net capital of approximately $1.8 million.

(16) COMMITMENTS AND CONTINGENCIES

Restricted Cash

The Company had restricted cash of $478,000 and $717,000 as of December 31, 2010 and 2009, respectively, in support of a ten-year lease agreement for its corporate headquarters.

Operating Leases

The Company has a ten-year lease expiring in August 2012 (with two 5-year renewal options) that commenced in the summer of 2002 for an approximately 70,000 square foot corporate headquarters in Plantation, Florida. Rent escalations, free rent, and leasehold and other incentives are recognized on a straight-line basis over the initial term of this lease.

In addition to its corporate headquarters, the Company has seven non-cancelable operating leases for facilities with expirations ranging from June 2011 to February 2016. Future minimum lease payments as of December 31, 2010 under all operating leases are as follows (in thousands):

2011	$	5,788
2012		3,190
2013		492
2014		503
2015		415
2016		57
	$	10,445

During 2010, 2009 and 2008, total rent expense (which in the accompanying consolidated statements of income is included in occupancy and equipment and data centers and communications) was approximately $7.0 million, $5.5 million and $4.9 million, respectively.

Purchase Obligations

As of December 31, 2010, the Company had various purchase obligations through December 2014 of approximately $5.4 million as follows: $4.5 million during 2011; $792,000 during 2012; $69,000 during 2013 and $46,000 during 2014, related primarily to telecommunications services, software maintenance and back office systems. The Company recorded $4.3 million, $2.9 million and $2.8 million of expense associated with these purchase obligations (included in the accompanying consolidated statements of income) for the years ended December 31, 2010, 2009 and 2008, respectively.

Litigation and Claims

On or about December 20, 2007, TradeStation Technologies was named as one of several defendants in a complaint filed in the United States District Court, Southern District of Texas, styled *Amacker, et. al. v. Renaissance Asset Management (RAM)*, et. al. Other named defendants include Anthony Michael Ramunno, Man Financial Inc., MF Global, Inc., Lind-Waldock & Company, LLC, Vision, LP, Vision Financial Markets, LLC, R.J. O'Brien & Associates, Inc., and FXCM Holdings, LLC. The initial complaint alleged that over forty plaintiffs are entitled to damages because the plaintiffs were investors in a fraudulent commodity pool operated by Mr. Ramunno and RAM. The initial complaint alleged that TradeStation Technologies conducted trades on behalf of and at the request of Mr. Ramunno and RAM. The initial complaint attempted to allege the following claims: (i) violations of the Commodity Exchange Act and accompanying regulations; (ii) common law fraud under Texas law; (iii) statutory fraud under the Texas Business and Commerce Code; (iv) breach of fiduciary duties under Texas law; (v) negligent and intentional misrepresentations under Texas law; and (vi) negligence under Texas law. Plaintiffs filed a Second Amended Complaint that contained similar factual allegations and attempted to allege a single claim for aiding and abetting liability under the Commodity Exchange Act. The Second Amended Complaint asserted actual damages of at least $32.0 million. On October 10, 2008, the court dismissed the case for failure to state a claim upon which relief may be granted. On December 2, 2008, plaintiffs filed a notice of appeal with the United States Court of Appeals for the Fifth Circuit, and, on February 2, 2009, plaintiffs filed their Appellants' Brief with that court. On March 6, 2009, TradeStation Technologies filed its Opposition Brief. Oral arguments on the appeal were held on September 2, 2009. No decision has yet been issued by the appeals court.

On or about February 9, 2010, TradeStation Securities and TradeStation Group were named as the only defendants in a complaint filed in the United States District Court, Northern District of Illinois, Eastern Division, styled *Trading Technologies International, Inc. v. TradeStation Securities, Inc. and TradeStation Group, Inc.* The complaint, as amended, alleges that TradeStation Securities and TradeStation Group have infringed and continue to infringe several patents held by Trading Technologies International, Inc. The plaintiff seeks a judgment enjoining the alleged infringement and awarding unspecified damages and costs. TradeStation Securities and TradeStation Group filed their answer on August 31, 2010 generally denying the allegations and asserting a variety of affirmative defenses. The FRCP Rule 26(a)(1) Initial Disclosures have been exchanged, and plaintiff's Initial Infringement Contentions and Defendants' Non-Infringement Contentions have been filed. Discovery has commenced and trial was initially scheduled for July 16, 2012, but will not go forward at that time because, on February 3, 2011, a Federal Judge granted Trading Technologies' motion to consolidate 12 similar actions against various defendants, including the case against TradeStation Securities and TradeStation Group, into one case. On February 26, 2011, TradeStation filed a motion to de-consolidate itself. The case is scheduled for a status conference on February 28, 2011. At that conference, TradeStation was given permission by the judge to file a summary judgment motion that, in the Company's opinion, seeks to eliminate the crux of the plaintiff's claims. While it is too early to predict the outcome of this matter, management believes the case to be without merit.

In May 2010, TradeStation Securities was served with a CFTC reparations complaint in the case styled *ATS Capital Management Corp. v. TradeStation Securities and John Sendlosky*, CFTC Docket No. 10-R015. The complaint alleges the wrongful liquidation of two E-Mini futures positions, one in 2007 and the other in 2008, and seeks damages of $529,950. On September 2, 2010, the Administrative Law Judge dismissed the complaint with prejudice on the grounds that the identical case was decided in TradeStation Securities' favor in a National Futures Association arbitration conducted in May 2009. On September 17, 2010, the complainant filed its Notice of Appeal to the Commodity Futures Trading Commission and the parties have since submitted their legal briefs and are awaiting a decision. While it is too early to predict the outcome of this matter, management believes the appeal to be without merit and intends to oppose it vigorously.

TradeStation Securities is also engaged in routine regulatory matters and civil litigation or other dispute resolution proceedings. The pending regulatory and other matters could ultimately result in censures, sanctions, fines, damage awards, settlement payments and/or other negative consequences.

While no assurances can be given, the Company does not believe that the ultimate outcome of any of the above legal matters or claims will result in a material adverse effect on its consolidated financial position, results of operations or cash flows.

The Company decided, as of June 1, 2002, to no longer carry errors or omissions insurance that covers third-party claims made by brokerage customers or software subscribers as a result of alleged human or system errors, failures, acts or omissions. This decision was made based upon the Company's assessment of the potential risks and benefits, including significant increases in premium rates, deductibles and coinsurance amounts, reductions in available per occurrence and aggregate coverage amounts, and the unavailability of policies that sufficiently cover the types of risks that relate to the Company's business. The Company recently reviewed this insurance with insurance agents and its view remains unchanged.

Management Continuity Agreements

In December 2005, the Company entered into a management continuity agreement with three of its executive officers, one of whom is no longer with the Company. Each management continuity agreement provides for potential severance payments during the 100-day period following a change in control, as that term is defined in the agreement, of an amount equal to up to two years of the executive's annual compensation. The management continuity agreements do not commit the Company to retain any executive's services for any fixed period of time, do not provide for severance payments unless the Company undergoes a change in control, and did not represent new hires or appointments. As of December 31, 2010, the aggregate potential severance payments under the management continuity agreements were approximately $1.0 million**.**

General Contingencies and Guarantees

In the ordinary course of business, there are various contingencies which are not reflected in the consolidated financial statements. These include customer activities involving the execution, settlement and financing or provision of leverage for various customer securities and futures transactions. These activities may expose the Company to off-balance sheet credit risk in the event the customers are unable to fulfill their contractual obligations.

In margin transactions, TradeStation Securities may be obligated for credit extended to its customers by TradeStation Securities or its clearing agents that is collateralized by cash and securities in the customers' accounts. In connection with securities activities, TradeStation Securities also executes customer transactions involving the sale of securities not yet purchased ("short sales"), all of which are transacted on a margin basis subject to federal, self-regulatory organization and individual exchange regulations and TradeStation Securities' and its clearing agents' internal policies. New short sales rules have been imposed by regulatory authorities and more may be imposed in the near future. Additionally, TradeStation Securities may be obligated for credit extended to its customers by its clearing agents for futures transactions that are collateralized by cash and futures positions in the customers' accounts. In all cases, such transactions may expose TradeStation Securities to significant off-balance sheet credit risk in the event customer collateral is not sufficient to fully cover losses that customers may incur. In the event customers fail to satisfy their obligations, TradeStation Securities may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customers' obligations.

TradeStation Securities seeks to manage the risks associated with its customers' activities by requiring customers to maintain collateral in their margin and leveraged accounts in compliance with various regulatory requirements, internal requirements, and the requirements of clearing agents. TradeStation Securities and its clearing agents monitor required margin and leverage levels on an intra-day basis and, pursuant to such guidelines, require the customers to deposit additional collateral or to reduce positions when necessary. For further discussion, see Note 5 – RECEIVABLES FROM BROKERAGE CUSTOMERS.

TradeStation Securities loans securities temporarily to other broker-dealers in connection with its broker-dealer business. TradeStation Securities receives cash as collateral for the securities loaned. Increases in securities prices may cause the market value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities, TradeStation Securities may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its client obligations. TradeStation Securities mitigates this risk by requiring credit approvals for counterparties, by monitoring the market value of securities loaned on a daily basis and requiring additional cash as collateral when necessary.

TradeStation Securities borrows securities temporarily from other broker-dealers in connection with its broker-dealer business. TradeStation Securities deposits cash as collateral for the securities borrowed. Decreases in securities prices may cause the market value of the securities borrowed to fall below the level of required collateral. In the event the counterparty to these transactions does not return the cash deposited, TradeStation Securities may be exposed to the risk of selling the securities at prevailing market prices. TradeStation Securities seeks to manage this risk by requiring credit approvals for counterparties, by monitoring the collateral values on a daily basis, and by requiring additional collateral as needed.

The customers' financing and securities settlement activities may require TradeStation Securities and its clearing agents to pledge customer securities as collateral in support of various secured financing sources, which may include bank loans. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, TradeStation Securities may be exposed to the risk of needing to acquire the securities at prevailing market prices in order to satisfy its obligations. TradeStation Securities seeks to manage this risk by monitoring the market value of securities pledged on a daily basis.

TradeStation Securities provides guarantees to its clearing organizations and exchanges under their standard membership agreements, which require members to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearing organization or exchange, other members would be required to meet shortfalls. TradeStation Securities' liability under these arrangements is not quantifiable. However, management believes that the possibility of TradeStation Securities being required to make payments under these arrangements is remote. Accordingly, no liability has been recorded for these potential events.

(17) SEGMENT AND RELATED INFORMATION

For each of the three years in the period ended December 31, 2010, the Company operated in two principal business segments: (i) brokerage services and (ii) software products and services. The Company evaluates the performance of its segments based on revenue and income before income taxes. The brokerage services segment represents the operations of TradeStation Securities and the software products and services segment represents the operations of TradeStation Technologies. Intercompany transactions between segments are based upon an intercompany licensing and support agreement and an expense-sharing agreement, which reflect current business relationships and complies with applicable regulatory requirements. All significant intercompany transactions and balances have been eliminated in consolidation.

	For the Years Ended December 31,		
	2010	**2009**	**2008**
		(in thousands)	
Net revenues*:			
Brokerage services			
Revenues, excluding interest	$ 110,845	$ 119,871	$ 128,235
Interest income	10,351	5,864	25,174
Interest expense	-	-	(3,166)
	121,196	125,735	150,243
Software products and services			
Revenues, excluding interest	65,712	61,888	54,875
Interest income	78	93	763
	65,790	61,981	55,638
Elimination of intercompany charges to brokerage services	(58,014)	(53,005)	(45,449)
	$ 128,972	$ 134,711	$ 160,432

	As of or for the Years Ended December 31,		
	2010	2009	2008
		(in thousands)	
Income before income taxes:			
Brokerage services	$ (12,956)	$ (2,058)	$ 25,174
Software products and services	26,749	28,127	24,865
	$ 13,793	$ 26,069	$ 50,039
Income tax (benefit) provision:			
Brokerage services	$ (7,305)	$ (159)	$ 10,051
Software products and services	9,658	10,438	9,351
	$ 2,353	$ 10,279	$ 19,402
Identifiable assets:			
Brokerage services	$ 1,532,723	$ 980,147	$ 783,783
Software products and services	60,443	69,049	53,649
	$ 1,593,166	$ 1,049,196	$ 837,432
Depreciation and amortization**:			
Brokerage services	$ 1,618	$ 1,018	$ 907
Software products and services	3,693	3,344	3,311
	$ 5,311	$ 4,362	$ 4,218
Capital expenditures:			
Brokerage services	$ 1,854	$ 205	$ 482
Software products and services	13,774	5,055	3,285
	$ 15,628	$ 5,260	$ 3,767

* Revenues (all in U.S. dollars) derived from customers outside of the United States for the years ended December 31, 2010, 2009 and 2008 were approximately $19.3 million, $17.5 million, and $22.5 million, respectively.

** Depreciation expense for certain shared corporate assets held in software products and services is partially allocated to brokerage services.

(18) UNAUDITED QUARTERLY FINANCIAL INFORMATION

The following tables summarize selected unaudited quarterly financial data for the years ended December 31, 2010 and 2009 (in thousands, except earnings per share data).

	2010				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Net revenues	$ 32,090	$ 38,369	$ 29,577	$ 28,936	$ 128,972
Total expenses	27,605	30,025	29,251	28,297	115,179
Income before income taxes	4,485	8,344	326	639	13,793
Net income	2,674	4,940	3,056	770	11,440
Earnings per share:					
Basic	$ 0.07	$ 0.12	$ 0.08	$ 0.02	$ 0.29
Diluted	0.07	0.12	0.08	0.02	0.28
Weighted average shares outstanding:					
Basic	40,502	40,044	39,624	39,105	39,815
Diluted	40,940	40,508	39,996	39,523	40,237

	2009				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Net revenues	$ 35,970	$ 35,198	$ 32,356	$ 31,187	$ 134,711
Total expenses	28,149	27,603	26,293	26,597	108,642
Income before income taxes	7,821	7,595	6,063	4,590	26,069
Net income	4,680	4,681	3,697	2,732	15,790
Earnings per share:					
Basic	$ 0.11	$ 0.11	$ 0.09	$ 0.07	$ 0.38
Diluted	0.11	0.11	0.09	0.07	0.38
Weighted average shares outstanding:					
Basic	42,202	41,658	41,285	40,882	41,507
Diluted	42,561	42,210	41,792	41,361	41,981