
WPSTEWART®

2010 ANNUAL REPORT

TABLE OF CONTENTS

Client Assets Under Management	1
Selected Financial Data.....	2
Operating and Financial Review and Prospects	3
Consolidated Statements of Financial Condition.....	12
Consolidated Statements of Operations.....	13
Consolidated Statements of Cash Flows	14
Consolidated Statements of Changes in Shareholders' Equity.....	15
Notes to Consolidated Financial Statements	17
Report of Independent Auditors.....	36
Corporate Information.....	37

Statements made in this report concerning our assumptions, expectations, beliefs, intentions, plans or strategies are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties that may cause actual results to differ from those expressed or implied in these statements. Such risks and uncertainties include, without limitation, the effects of the Company's corporate reorganization, the adverse effect from a decline or volatility in the securities markets, a general downturn in the economy, the effects of economic, financial or political events, a loss of client accounts, inability of the Company to attract or retain qualified personnel, a challenge to our former U.S. tax status, competition from other companies, changes in government policy or regulation, a decline in the Company's products' performance, inability of the Company to implement its operating strategy, the effects of the Company's delisting from the NYSE and deregistration under the Securities Act of 1934, inability of the Company to manage unforeseen costs and other effects related to legal proceedings or investigation of government and self-regulatory organizations, industry capacity and trends, changes in demand for the Company's services, changes in the Company's business strategy or development plans and contingent liabilities. The information in this report is as of the date of this report, and will not be updated as a result of new information or future events or developments.

CLIENT ASSETS UNDER MANAGEMENT

Historical Summary
(U.S. dollars in millions)

	<i>As of, and for the year ended December 31,</i>				
	2010	2009	2008	2007	2006
Assets Under Management:					
Beginning Assets Under Management	\$ 1,542	\$ 1,401	\$ 4,099	\$ 8,111	\$ 9,514
Ending Assets Under Management	\$ 1,631	\$ 1,542	\$ 1,401	\$ 4,099	\$ 8,111
Net Flows of Assets Under Management:					
Existing Accounts:					
Contributions	\$ 102	\$ 91	\$ 134	\$ 303	\$ 780
Withdrawals	(96)	(111)	(582)	(934)	(1,356)
Net Flows to Existing Accounts	6	(20)	(448)	(631)	(576)
Publicly Available Funds:					
Contributions	148	57	51	115	147
Withdrawals	(109)	(76)	(320)	(605)	(295)
Direct Accounts Opened	40	26	11	161	145
Direct Accounts Closed	(91)	(207)	(1,159)	(3,038)	(1,311)
Net New Flows	(12)	(200)	(1,417)	(3,367)	(1,314)
Net Flows of Assets Under Management	\$ (6)	\$ (220)	\$ (1,865)	\$ (3,998)	\$ (1,890)
Account Retention:					
Number of Accounts at Beginning of Period	581	660	955	1,511	1,841
Number of Accounts Closed During Period	102	130	317	577	399
Retention Rate	82.4%	80.3%	66.8%	61.8%	78.3%

SELECTED FINANCIAL DATA

The following table sets forth selected financial and unaudited other data for W.P. Stewart & Co., Ltd. and its subsidiaries, for the periods and as of the dates indicated. The data set forth below are presented on a consolidated basis.

The income statement and balance sheet data set forth below as of and for the years ended December 31, 2010, 2009, 2008, 2007 and 2006 are derived from our audited financial statements. The financial data set forth below should be read in conjunction with “Operating and Financial Review and Prospects” and the consolidated audited financial statements and related notes of W.P. Stewart & Co., Ltd. and its subsidiaries included elsewhere in this annual report.

	<i>As of, and for the year ended, December 31,</i>				
2010	2009	2008	2007	2006	
<i>(In thousands, except per share data)</i>					
Income Statement Data:					
Revenues:					
Fees	\$ 16,078	\$ 16,301	\$ 28,002	\$ 64,322	\$ 107,803
Commissions	782	1,351	5,442	13,875	29,609
Realized Gain on Sale of Aircraft	-	-	-	18,465	-
Realized and Unrealized Gains/(Losses) on Investments	1,279	648	(1,878)	1,460	2,229
Interest and Other	1,548	1,443	1,048	2,266	2,490
	19,687	19,743	32,614	100,388	142,131
Expenses:					
Employee Compensation and Benefits	16,570	22,044	33,424	48,125	43,726
Fees Paid Out	1,667	(238)	3,102	6,626	8,126
Performance Fee Charge	-	-	-	-	2,626
Commissions, Clearance and Trading	486	789	1,305	2,301	5,665
Research and Administration	5,048	7,932	9,472	12,261	13,629
Marketing	1,361	1,428	3,419	6,003	6,309
Depreciation and Amortization	91	722	1,537	5,769	6,573
Impairment of Intangible Asset	-	-	18,692	33,557	-
Other Operating	3,922	7,045	12,135	10,351	11,971
	29,145	39,722	83,086	124,993	98,625
Income/(Loss) Before Taxes	(9,458)	(19,979)	(50,472)	(24,605)	43,506
Provision/(Benefit) for Taxes	2,055	(2,865)	(1,160)	6,796	6,031
Net Income/(Loss)	\$ (11,513)	\$ (17,114)	\$ (49,312)	\$ (31,401)	\$ 37,475
Earnings/(Loss) Per Share ⁽¹⁾⁽³⁾ :					
Basic Earnings/(Loss) Per Share	\$ (2.20)	\$ (3.24)	\$ (10.09)	\$ (6.81)	\$ 8.18
Diluted Earnings/(Loss) Per Share	\$ (2.20)	\$ (3.24)	\$ (10.09)	\$ (6.81)	\$ 8.17
Balance Sheet Data:					
Total Assets	\$ 36,752	\$ 47,308	\$ 54,304	\$ 85,926	\$ 146,551
Total Liabilities	\$ 10,852	\$ 13,644	\$ 11,105	\$ 13,838	\$ 33,785
Shareholders' Equity	\$ 25,900	\$ 33,664	\$ 43,199	\$ 72,088	\$ 112,766
Other Data (Unaudited):					
Net Income/(Loss)	\$ (11,513)	\$ (17,114)	\$ (49,312)	\$ (31,401)	\$ 37,475
Tax-Effectuated Non-Cash Expenses (net)	\$ 8,823	\$ 4,488	\$ 35,105	\$ 63,187	\$ 12,183
Cash Earnings/(Loss) ⁽²⁾⁽³⁾	\$ (2,690)	\$ (12,626)	\$ (14,207)	\$ 31,786	\$ 49,658
Cash Earnings/(Loss) Per Share (diluted) ⁽²⁾⁽³⁾	\$ (0.51)	\$ (2.39)	\$ (2.91)	\$ 6.89	\$ 10.83
Cash Dividends Per Share ⁽³⁾	-	-	-	\$ 5.30	\$ 11.30

(1) Common shares purchased by our employees, restricted shares issued to our employees and options granted to our employees are subject to vesting. For treatment of unvested common shares, unvested options, vested unexercised options and potentially issuable common shares, see Note 4 of the notes to the consolidated financial statements contained herein.

(2) Cash earnings is calculated by adjusting net income/(loss) for non-cash items consisting of unrealized gains and losses and expenses consisting of non-cash compensation, depreciation, amortization and other non-cash charges on a tax-effectuated basis. Cash earnings per share (diluted) is calculated by dividing cash earnings by the number of weighted average diluted shares outstanding.

(3) On November 19, 2008, the Company effected a one-for-ten share consolidation of the Company's authorized and issued common shares pursuant to which every ten common shares, par value \$0.001 per share, were consolidated, reclassified and converted into one new common share, par value \$0.01 per share. All per share dollar figures for the full year 2008 are provided after giving effect to such share consolidation and all prior period per share data have been restated to reflect the share consolidation.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

W.P. Stewart & Co., Ltd., together with its subsidiaries, is a research-focused investment adviser that manages assets for high net-worth individuals and institutions located throughout the world. Our principal source of revenues is investment advisory fees and, accordingly, fluctuations in financial markets and client contributions and withdrawals have a direct effect on revenues and net income. Additionally, fees paid out and commissions, clearance and trading expenses are components of our expenses that are variable in nature and tend to partially offset fluctuations in revenue.

Our advisory fees are computed quarterly based on account market values and fee rates pursuant to investment advisory contracts with clients. Our general policy is to bill clients quarterly, in advance. Under certain client contracts, we are entitled to receive performance fees when the return on assets under management exceeds specified benchmark returns or other performance targets. Performance fees are recorded as of the date on which the performance period ends.

Another component of our revenues has historically been brokerage commissions. Commission revenues earned on our brokerage activities, substantially all of which relate to client accounts, vary directly with account trading activity and new account generation. Therefore, commission revenue is also affected by market conditions. We ceased all brokerage activity as of December 1, 2010 and will therefore no longer have commission revenue following such date.

Interest and other revenue primarily consists of interest earned on our cash management activities, foreign currency, investment and trading realized and unrealized gains and losses, subscription fees earned from our mutual funds and equity income relating to our investments in unconsolidated affiliates.

We provide competitive rewards to our employees through our compensation and

benefits policies, together with our employee equity ownership practices. Employee compensation and benefits are our largest operating expense. We have historically adjusted compensation for all employees depending on our operating results. Certain employees may also be eligible for other cash or non-cash incentive compensation. The most significant component of employee compensation and benefits is compensation paid to our research analysts/portfolio managers. Certain members of our senior investment team have arrangements pursuant to which compensation has both a fixed and variable component. The fixed portion of the compensation is a specified amount. The variable portion of the compensation is based upon an evaluation of the portfolio manager's responsibilities as an analyst/portfolio manager. Additional variable components of compensation may be (a) based upon the performance of the W.P. Stewart U.S. Equity Composite and/or (b) the potential to receive a percentage of performance fees, if any, earned by the team of managers. In addition, a percentage of overall compensation may be received in the form of restricted shares, which vest over time. For the years ended December 31, 2010, 2009 and 2008, our cash compensation and benefit expense for employees was approximately \$10.8 million, \$14.9 million and \$20.3 million, respectively. This decline is reflective of a decrease in our operating results and a reduction in employee headcount.

Fees paid out are paid to select banks, investment firms and individuals with whom we have formal marketing arrangements and that make up our network of symbiotic marketers. We consider the banks, investment firms and individuals who gather assets for us to be symbiotic marketers of our services because of the mutual benefits that flow from the relationship – they are able to offer premier equity investment management services to their clients and we are able to extend the reach of our asset-gathering

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

efforts. These fees are based on the market value of referred accounts and vary based on new account generation and fluctuations in the market value of referred accounts.

Commissions, clearance and trading expenses include fees incurred related to brokerage activities. These transaction-related costs vary directly with trading activity. We ceased all brokerage activity as of December 1, 2010 and will therefore no longer have commissions, clearance and trading expenses following such date.

Research and administration expenses include research, travel and entertainment, communications, information technology systems support and occupancy.

Marketing expenses represent costs associated with our internal marketing initiatives and client servicing activities, and include client seminars, marketing related travel, marketing related compensation and other operational expenses.

Other operating expenses include professional fees consisting of auditing, tax, legal and consulting fees, charitable contributions and other administration expenses.

Income from our operations in the United States and from our U.S. subsidiaries is subject to income taxes imposed by U.S.

federal, state and local authorities. In addition, our non-U.S. subsidiaries are subject to income taxes imposed by the jurisdictions in which they conduct business. Furthermore, we have valuation allowances on net deferred tax assets in several jurisdictions. Accordingly, our effective tax rate has been driven by the mix of income and losses in the various tax jurisdictions in which we conduct business activity and valuation allowances in certain jurisdictions.

In May 2010, the Company completed a corporate reorganization that changed the corporate tax profile of the Company on a prospective basis. As a result, the majority of the operations will be subject to tax in the U.S. (including state and local tax) and the effective tax rate is expected to be primarily driven by changes in the liability for uncertain tax positions because any future earnings or losses in the U.S. are otherwise expected to attract a 0% tax rate due to the valuation allowances on the net deferred tax assets in those jurisdictions.

Substantially all of our employees are given the opportunity to become shareholders during their first year of employment with us. As a result, virtually all of our employees are shareholders of W.P. Stewart & Co., Ltd. and participate in the results of our operations.

Critical Accounting Policies

Goodwill and Intangible Assets

Our consolidated statement of financial condition has historically included substantial assets in the form of goodwill and intangible assets. We accounted for those assets in accordance with FASB Accounting Standards Codification (“ASC”) 350, “Intangibles – Goodwill and Other.” The intangible assets were among the assets that we acquired in the business acquisitions described in Note 2 of our consolidated financial statements included with this report. We amortized the intangible assets on a straight-line basis over their estimated useful lives, which ranged from five to 20 years. We tested the carrying values of these assets for impairment annually and whenever events or changes in

circumstances indicated that such values might not be recoverable. We recognized impairment losses if and to the extent that the sum of the assets’ expected future undiscounted cash flows were less than their carrying values. We recorded goodwill in our acquisition of W.P. Stewart Asset Management (Europe), Ltd. (formerly TPR & Partners N.V.) (“WPSAM Europe”). Goodwill is the excess of the total acquisition cost over the fair value of the net assets on the date of the acquisition. We did not amortize goodwill, but we tested it annually for impairment. As of December 31, 2008, all intangible assets and goodwill were fully impaired.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Operating Results

Year Ended December 31, 2010 as Compared to Year Ended December 31, 2009

Assets Under Management

Assets under management were approximately \$1.6 billion at December 31, 2010, an increase of approximately \$0.1 billion or 6.6% from approximately \$1.5 billion at December 31, 2009. The increase in assets under management resulted from positive investment performance results for our clients offset to some extent by net outflows of assets. The performance for the W.P. Stewart U.S. Equity Composite for the year ended December 31, 2010 was 13.4%, pre-fee, and 12.4%, post-fee, compared to 15.1% for the S&P 500 Index.

The following table sets forth the total net flows of assets under management for the years ended December 31, 2010 and 2009, which include changes in net flows of existing accounts and net new flows (net contributions to our publicly available funds and flows from new accounts minus closed accounts). The table excludes total capital appreciation or depreciation in assets under management with the exception of the amounts attributable to withdrawals and closed accounts.

Net Flows of Assets Under Management (in millions)

	<i>Years Ended December 31,</i>	
	2010	2009
Existing Accounts:		
Contributions	\$ 102	\$ 91
Withdrawals	(96)	(111)
Net Flows of Existing Accounts	<u>6</u>	<u>(20)</u>
Publicly Available Funds:		
Contributions	148	57
Withdrawals	(109)	(76)
Direct Accounts Opened	40	26
Direct Accounts Closed	(91)	(207)
Net New Flows	<u>(12)</u>	<u>(200)</u>
Net Flows of Assets Under Management	<u>\$ (6)</u>	<u>\$ (220)</u>

Revenues

Revenues were \$19.7 million for each of the years ended December 31, 2010 and 2009. While there was a \$0.2 million, or 1.4%, decrease in fee revenue, and a \$0.6 million, or 42.1% decrease in commission revenue, this was offset by a \$0.6 million, or 97.5%, increase in realized and unrealized gains on investments and a \$0.1 million increase in interest and other revenues.

The average gross fee earned from client accounts, excluding the effect of any performance fees, was 1.06% for the year ended December 31, 2010 and 1.08% for the year ended December 31, 2009. Excluding performance fee based accounts, which pay a lower quarterly base fee plus an annual performance fee at year-end, if earned, the average gross management fee was 1.27% and 1.29% for the years ended December 31, 2010 and 2009, respectively.

The change in fee revenue was the result of a slight increase in assets under management for 2010 offset by a slightly lower average fee rate.

In addition, fee income for the year ended December 31, 2010 includes performance fees of \$26,584 while for the year ended December 31, 2009 performance fees included in fee income were higher at \$1,604,894 (\$546,635 and \$1,094,259 earned for the years ended December 31, 2009 and 2008, respectively).

Commission revenue was lower for the year ended December 31, 2010, compared to the year ended December 31, 2009 due to lower trading volume during the year and because our affiliated broker-dealer ceased operations as of December 1, 2010. Realized and unrealized gains on investments were higher for the year ended December 31, 2010 as compared with the prior year primarily due to gains realized on the liquidation of certain investments and market fluctuations affecting the value of our investments. Interest and

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

other revenues increased slightly primarily due to an increase in income from our unconsolidated affiliates offset by lower interest income earned on our cash management and investment activities.

Expenses

Expenses, excluding income taxes, decreased approximately \$10.6 million, or 26.7%, to \$29.1 million for the year ended December 31, 2010 from \$39.7 million in the prior year.

The most significant items which caused this decrease were

(i) the reduction in employee compensation and benefits aggregating \$5.5 million (including a reduction in cash and non-cash expenses of \$1.3 million related to agreements with employees whose employment with us terminated) which was primarily due to lower operating profits, and a reduction in employee headcount as a result of a corporate reorganization consummated in May 2010,

(ii) a decrease in variable expenses of \$0.3 million in commissions, clearance and trading, which vary with trading activity,

(iii) a decrease in research and administration of \$2.9 million, primarily due to lower travel related expenses, systems expenses, third party research expenses, and lower rental expense due to an offset resulting from the sublease of a portion of the leased space in New York as well as the termination of the leased space in Bermuda following the corporate reorganization in mid-2010,

(iv) a decrease in depreciation and amortization of \$0.6 million as certain fixed assets and leasehold improvements were fully depreciated or amortized in 2009, and

(v) a decrease in other operating expenses of \$3.1 million (including a decrease in cash expenses incurred in 2010 of professional fees of \$1.1 million related to the exploration of a strategic transaction and the corporate restructuring concluded in May 2010 versus

the cash and non-cash expenses incurred in 2009 of \$0.6 million related to an adjustment in the carrying value of an investment in an unconsolidated affiliate and professional fees of \$1.5 million related to the reorganization of our U.S. mutual fund, the exploration of a strategic transaction and our corporate restructuring concluded in May 2010).

These decreases were partially offset by an increase in fees paid out of \$1.9 million, which are directly related to assets under management of referred accounts, and for the year ended December 31, 2009 included an adjustment of \$1.5 million from a reversal of certain fees payable to solicitors.

Our income tax provision increased \$4.9 million to \$2.0 million for the year ended December 31, 2010 from a tax benefit of \$2.9 million in the prior year. The effective U.S. GAAP tax rates were approximately -21.7% for 2010 and 14.3% for 2009. For the year ended December 31, 2010, the increase in the income tax provision was primarily the result of an increase in tax expense (i) due to the inability to benefit from U.S. federal, state and local losses due to the Company's valuation allowance position, (ii) from the impact of changes in the liability for uncertain tax positions and (iii) on operations of two foreign subsidiaries. The effect of these increases was partially offset by a reduction in tax expense resulting from the Company's U.S. effectively connected income. The current effective tax rate is not indicative of the future effective tax rate due to the valuation allowances on net deferred tax assets described above.

Net Income/(Loss)

Our net loss for the year ended December 31, 2010 was \$11.5 million as compared to a net loss of \$17.1 million for the year ended December 31, 2009, a decrease of \$5.6 million, as revenues remained relatively constant while operating expenses decreased as detailed above.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Year Ended December 31, 2009 as Compared to Year Ended December 31, 2008

Assets Under Management

Assets under management were approximately \$1.5 billion at December 31, 2009, an increase of approximately \$0.1 billion or 7.1% from approximately \$1.4 billion at December 31, 2008. The increase in assets under management resulted from positive investment performance results for our clients offset by net outflows of assets. The performance for the W.P. Stewart U.S. Equity Composite for the year ended December 31, 2009 was 34.7%, pre-fee, and 33.7%, post-fee, compared to 26.5% for the S&P 500 Index.

The following table sets forth the total net flows of assets under management for the years ended December 31, 2009 and 2008, which include changes in net flows of existing accounts and net new flows (net contributions to our publicly available funds and flows from new accounts minus closed accounts). The table excludes total capital appreciation or depreciation in assets under management with the exception of the amounts attributable to withdrawals and closed accounts.

Net Flows of Assets Under Management (in millions)

	<i>Years Ended December 31,</i>	
	2009	2008
Existing Accounts:		
Contributions	\$ 91	\$ 134
Withdrawals	(111)	(582)
Net Flows of Existing Accounts	(20)	(448)
Publicly Available Funds:		
Contributions	57	51
Withdrawals	(76)	(320)
Direct Accounts Opened	26	11
Direct Accounts Closed	(207)	(1,159)
Net New Flows	(200)	(1,417)
Net Flows of Assets Under Management	\$ (220)	\$ (1,865)

Revenues

Revenues were \$19.7 million for the year ended December 31, 2009, a decrease of \$12.9 million or 39.6% from \$32.6 million earned for the year ended December 31, 2008. The change was due to an \$11.7 million, or 41.8%, decrease in fee revenue, a \$4.1 million, or 75.2%, decrease in commission revenue, a \$2.5 million, or 134.5%, increase in realized and unrealized gains on investments and a \$0.4 million, or 37.7%, increase in interest and other revenues. The average gross fee earned from client accounts, excluding the effect of any performance fees, was 1.08% for each of the years ended December 31, 2009 and 2008. Excluding performance fee based accounts, which pay a lower quarterly base fee plus an annual performance fee at year-end, if earned, the average gross management fee was 1.29% and 1.27% for the years ended December 31, 2009 and 2008, respectively. The change in fee revenue was the result of a decrease in assets under management for 2009. In addition, fee income for the year ended December 31, 2009 includes performance fees of \$1,604,894 (\$546,635 and \$1,094,259 earned for the years ended December 31, 2009 and 2008, respectively). Commission revenue was lower for the year ended December 31, 2009, compared to the year ended December 31, 2008 due to reduced assets under management for trading and a reduction in our commission rates put into effect during the third quarter of 2008. Realized and unrealized gains on investments were higher for the year ended December 31, 2009 as compared with the prior year primarily due to market fluctuations affecting the value of our investments and the reversal in 2008 of unrealized gains on trading investments from the prior year. Interest and other revenues increased primarily due to a decrease in the losses from our unconsolidated affiliates offset by lower interest income earned on our cash management and investment activities.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Expenses

Expenses, excluding income taxes, decreased approximately \$43.4 million, or 52.2%, to \$39.7 million for the year ended December 31, 2009 from \$83.1 million in the prior year. The most significant items which caused this decrease were (i) the cash and non-cash charges of approximately \$18.7 million recognized in 2008 in respect of a write-off of our customer related intangible assets and goodwill, (ii) the reduction in employee compensation and benefits aggregating \$11.4 million (including a reduction in cash and non-cash expenses of \$1.2 million related to agreements with employees whose employment with us was terminated) which was primarily due to lower operating profits and a more significant reduction in employee headcount in 2008, (iii) decreases in variable expenses of \$3.3 million in fees paid out, which are directly related to assets under management of referred accounts (including an adjustment of \$1.5 million from a reversal of certain fees payable to solicitors), and \$0.5 million in commissions, clearance and trading, which vary with account activity, (iv) a decrease in research and administration of \$1.5 million, primarily due to lower travel related expenses, systems expenses and third party research expenses, partially offset by a charge in 2009 of \$0.7 million related to the disposal of a portion of leased space in New York, (v) a decrease in marketing expenses of \$2.0 million, primarily due to lower marketing related travel expenses and lower compensation costs, (vi) a decrease in depreciation and amortization of \$0.8 million due to the write-off of customer related intangible assets described above, and (vii) a decrease in other operating expenses of \$5.1 million (including a decrease in cash expenses of \$3.8 million related to a strategic transaction completed in the third quarter of 2008 that resulted in an investment in the Company by funds managed by Arrow Capital Management LLC, partially offset by an increase in cash and non-cash expenses incurred in 2009 of \$0.6 million related to an adjustment in the carrying value of an investment in an unconsolidated affiliate and

professional fees of \$1.5 million related to the reorganization of our U.S. mutual fund, the exploration of a strategic transaction and our corporate restructuring which was concluded in May 2010).

Our income tax benefit increased \$1.7 million to \$2.9 million for the year ended December 31, 2009 from \$1.2 million in the prior year. The effective U.S. GAAP tax rates were approximately 14.3% for 2009 and 2.3% for 2008. For the year ended December 31, 2009, the increase in income tax benefit was primarily the result of an increase in the tax benefits (i) on operations of U.S. subsidiaries subject to tax resulting from net operating loss carrybacks related to the legislation extending the carryback period and (ii) from the impact of changes in the liability for uncertain tax positions. The effects of these tax benefits were partially offset by increases in tax expense resulting from (i) the Company's U.S. effectively connected income and (ii) the inability to benefit from U.S. state and local losses due to the Company's valuation allowance position. The current effective tax rate is not indicative of the future effective tax rate due to the valuation allowances on net deferred tax assets described above.

Net Income/(Loss)

Our net loss for the year ended December 31, 2009 was \$17.1 million as compared to a net loss of \$49.3 million for the year ended December 31, 2008, a decrease of \$32.2 million, as revenues decreased while operating expenses decreased at a greater rate as detailed above.

Inflation

Our assets are largely liquid in nature and, therefore, not significantly affected by inflation. However, the rate of inflation may affect our expenses, such as information technology and occupancy costs, which may not be readily recoverable in the pricing of the services that we provide. To the extent inflation results in rising interest rates and has other negative effects upon the securities markets, it may adversely affect our financial position and results of operations.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Contractual Obligations and Contingent Commitments

W.P. Stewart & Co., Ltd. has contractual obligations to make future payments under non-cancelable operating lease agreements and has contingent commitments as disclosed in the notes to the consolidated financial statements.

The following tables set forth these contractual obligations and contingent commitments as of December 31, 2010:

Contractual Obligations <i>(in millions)</i>	2011	2012- 2013	2014- 2015	2016- Thereafter	Total
Minimum Rental					
Commitments ⁽¹⁾	\$ 2.1	\$ 4.2	\$ 4.3	\$ 4.2	\$ 14.7

(1) See Note 16 to the consolidated financial statements for additional information.

Contingent Commitments <i>(in millions)</i>	<i>Amount of Commitment Expiration Per Period</i>				
	2011	2012- 2013	2014- 2015	2016- Thereafter	Total
Commitments under					
letters of credit ⁽²⁾	-	-	-	\$ 0.2	\$ 0.2

Future settlement of liabilities for unrecognized tax benefits of \$5.3 million at December 31, 2010, are not included above as the timing and amount of future cash payments are not determinable at this time. ⁽³⁾

(2) See Note 8 to the consolidated financial statements for additional information.

(3) See Note 14 to the consolidated financial statements for additional information.

Liquidity and Capital Resources

Our financial condition is highly liquid with principal assets including cash and cash equivalents, investments, trading, investments available for sale and receivables from clients. Cash equivalents are primarily short-term, highly liquid investments with an original maturity of three months or less at the date of purchase (see Note 18). Liabilities include operating payables and accrued compensation. In general, our investment advisory activities do not require us to maintain significant capital balances. However, our advisory activities for clients in The Netherlands require us to maintain certain minimum levels of capital. Prior to 2011, the activities of W.P. Stewart Securities LLC (“WPSSL”), our broker-dealer subsidiary which ceased operations in December 2010, also required certain

minimum levels of capital. We have consistently maintained net capital in excess of the prescribed amounts. Historically, we have met our liquidity requirements with cash generated from our operations. Nevertheless, we operated at a loss for each of the four fiscal years ended December 31, 2007 through 2010.

At December 31, 2010, we had cash and marketable securities of \$25.8 million and did not have any debt. At August 8, 2011, we had cash and marketable securities of approximately \$25.2 million and did not have any debt. We anticipate that in the near-term our current cash reserve in addition to cash generated from operations will be sufficient to meet our cash requirements for operating activities and other cash obligations as they come due, as well as our anticipated capital

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

requirements. However, unless we return to profitability on a cash basis, our liquidity, facilities and overall financial position will weaken. A continued operating loss will not be sustainable in the long run. Therefore, we have taken and will continue to take steps to retain our current client base, improve our level of assets under management and rationalize our expense base to reflect our current position and current market conditions. In 2007, we initiated an expense reduction program that continued into 2010. Under that program we reduced our employee headcount from 113 at December 31, 2006 to 104 at December 31, 2007 to 43 at December 31, 2008. At December 31, 2009 and December 31, 2010, we had 47 and 41 employees, respectively. In addition, we sold our corporate jet in the third quarter of 2007 and have undertaken other cost-cutting efforts, including the completion of the Company's corporate restructuring and reorganization in May 2010. In this restructuring, the Company reorganized from an exempted company incorporated with limited liability under the laws of Bermuda to a Delaware corporation. In addition, the Company's subsidiaries, WPSSL and W.P. Stewart Asset Management Ltd., redomiciled to Delaware. Our Bermuda office was closed and operations previously conducted in Bermuda were concentrated in New York. In that regard, in May 2010, Kirk Management, the joint venture company that owned our headquarters building in Bermuda completed its sale of the building. It is expected that Kirk Management will distribute its assets, including the proceeds of the sale, to its joint venture partners, The Bank of Bermuda and the Company. Furthermore, in December 2010, WPSSL, our broker-dealer subsidiary ceased operations and we entered into a relationship with Pershing Advisor Solutions LLC ("PAS") whereby PAS and its affiliate Pershing LLC would provide prime brokerage and brokerage related services to the Company and its clients. This new arrangement with PAS is intended to streamline operations and help reduce certain costs related to the operations of our broker-dealer. Further, in January 2009, our common

shares were delisted from the New York Stock Exchange and we filed a Certification and Notice of Termination of Registration on Form 15 with the SEC to suspend the registration of the Company's shares under the Exchange Act. Also, in connection with the restructuring completed in May 2010 mentioned above, our common shares were delisted from the Bermuda Stock Exchange and are currently only traded in the Pink Sheets under the symbol "WPSL". These delistings and deregistration have resulted in, and are expected to continue to result in, significant cost savings. Despite our cost cutting initiatives, we continue to operate at a loss. As it is described above, we intend to improve our revenues and/or rationalize our expenses further so that we can return to profitability on a cash basis. However, there can be no assurance that we will achieve sufficient revenues or cost reductions to be successful.

Historically, we had a policy of declaring quarterly cash dividends on our common shares, which were funded out of operating cash flow. In October 2007, we announced that we were suspending regular quarterly cash dividend payments in order to preserve cash resources in connection with our business turnaround efforts. Presently we do not intend to pay any cash dividends for 2010. Historically, our board of directors has also considered opportunities for share repurchases with a view toward increasing long-term shareholder value to the extent warranted in relation to our cash position and earnings. During the year ended December 31, 2010, we repurchased 287,133 common shares from employees and former employees for an aggregate purchase price of \$1,469,098. Further, from January 1, 2011 through August 1, 2011, we repurchased an additional 450,000 common shares from funds managed by Arrow Capital Management and an employee for an aggregate purchase price of \$2,389,500. Additionally, our Board of Directors has approved a stock repurchase program of up to 10% of the currently outstanding shares of the Company from time to time in the discretion of the Board's Executive Committee, whether

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

in open market transactions or privately negotiated transactions. Repurchased shares are cancelled or held in treasury for general

corporate purposes. We intend to fund any such repurchases with cash on hand.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	<i>December 31,</i>		
	2010	2009	2008
Assets:			
Cash and cash equivalents	\$ 23,676,690	\$ 21,407,458	\$ 35,158,939
Fees receivable	204,718	755,093	502,288
Receivable from clearing broker	-	13,039	19,042
Investments in unconsolidated affiliates (net of accumulated amortization of \$0, \$617,790 and \$617,790 for 2010, 2009 and 2008, respectively)	2,017,832	1,757,919	2,343,506
Receivables from affiliates, net	536,784	476,830	551,192
Investments, trading (cost \$1,719,847, \$2,785,735 and \$2,813,255 for 2010, 2009 and 2008, respectively)	2,058,284	3,311,434	2,691,108
Investments, available for sale (cost \$12,400, \$7,968,192 and \$96,518 for 2010, 2009 and 2008, respectively)	23,730	8,484,910	88,567
Furniture, equipment, software and leasehold improvements (net of accumulated depreciation and amortization of \$3,570,177, \$7,862,722 and \$7,262,931 for 2010, 2009 and 2008, respectively)	418,081	663,607	1,372,674
Interest receivable on shareholders' notes	-	17,709	17,709
Income taxes receivable	4,795,996	6,995,505	7,864,696
Deferred income taxes	437,392	363,555	26,400
Other assets	2,582,134	3,061,412	3,668,140
	\$ 36,751,641	\$ 47,308,471	\$ 54,304,261
Liabilities and Shareholders' Equity:			
Liabilities:			
Employee compensation and benefits payable	\$ 2,633,827	\$ 4,642,976	\$ 453,800
Fees payable	163,898	97,755	1,702,699
Vendor payables	2,719,774	5,011,748	4,048,874
Accrued expenses and other liabilities	5,334,677	3,892,192	4,900,000
	10,852,176	13,644,671	11,105,373
Shareholders' Equity:			
Common shares, \$0.01 par value (12,500,000 shares authorized; 5,379,036 shares issued, 5,376,536 shares outstanding for 2010; 5,587,464 shares issued, 5,584,964 shares outstanding for 2009; and 5,544,699 shares issued and outstanding for 2008)	53,790	55,875	55,447
Additional paid-in-capital	138,134,599	134,021,928	127,125,627
Accumulated other comprehensive income	566,310	1,164,630	477,478
Retained earnings/(deficit)	(112,849,909)	(101,337,258)	(84,223,614)
Common shares held in treasury, at cost, \$0.01 par value (2,500 shares at December 31, 2010 and December 31, 2009, respectively)	(5,325)	(5,325)	-
	25,899,465	33,899,850	43,434,938
Less: notes receivable for common shares	-	(236,050)	(236,050)
	25,899,465	33,663,800	43,198,888
	\$ 36,751,641	\$ 47,308,471	\$ 54,304,261

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31,

	2010	2009	2008
Revenue:			
Fees (includes fees from affiliates of \$987,289, \$1,024,077 and \$1,862,488 for 2010, 2009 and 2008, respectively)	\$ 16,077,616	\$ 16,300,824	\$ 28,001,942
Commissions	781,623	1,350,944	5,442,196
Realized and unrealized gains/(losses) on investments	1,279,339	647,945	(1,878,472)
Interest and other	1,548,042	1,443,699	1,048,152
	19,686,620	19,743,412	32,613,818
Expenses:			
Employee compensation and benefits	16,569,791	22,043,945	33,423,801
Fees paid out	1,666,712	(238,152)	3,101,457
Commissions, clearance and trading	486,392	789,014	1,305,301
Research and administration	5,047,545	7,932,095	9,471,949
Marketing	1,360,920	1,427,933	3,418,827
Depreciation and amortization	90,791	722,419	1,536,981
Impairment of intangible asset and goodwill	-	-	18,692,283
Other operating	3,922,337	7,045,410	12,135,265
	29,144,488	39,722,664	83,085,864
Income/(loss) before taxes	(9,457,868)	(19,979,252)	(50,472,046)
Provision/(benefit) for taxes	2,054,783	(2,865,608)	(1,160,165)
Net income/(loss)	\$ (11,512,651)	\$ (17,113,644)	\$ (49,311,881)
Earnings/(loss) per share:			
Basic earnings/(loss) per share	\$ (2.20)	\$ (3.24)	\$ (10.09)
Diluted earnings/(loss) per share	\$ (2.20)	\$ (3.24)	\$ (10.09)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	2010	2009	2008
Cash flows from operating activities:			
Net (loss)/income	\$ (11,512,651)	\$ (17,113,644)	\$ (49,311,881)
Adjustments to reconcile net (loss)/income to net cash (used for)/provided by operating activities:			
(Gain)/loss on investment in unconsolidated affiliate	-	624,882	-
(Gain)/loss on sale of trading securities	(675,405)	27,204	407,158
(Gain)/loss on sale of available for sale securities	(688,181)	-	-
(Gain)/loss on disposition of furniture, equipment, software and leasehold improvements	(40,755)	1,450	91,271
Unrealized (gain)/loss on trading securities	187,261	(700,147)	1,446,366
Unrealized (gain)/loss on available for sale securities	(3,910)	4,890	24,780
Amortization of bond premium	156,296	35,378	-
Depreciation and amortization	90,791	722,419	20,229,264
Equity in income of unconsolidated affiliates	(259,913)	(39,295)	644,784
Non-cash compensation	5,809,574	7,114,588	13,088,358
Write-off of notes receivable for common shares	6,160	-	-
Changes in operating assets and liabilities:			
Fees receivable	550,375	(252,805)	1,746,679
Receivable from clearing broker	13,039	6,003	71,197
Proceeds from sale of trading securities	3,682,366	764,283	9,508,647
Purchase of trading securities	(1,941,072)	(763,967)	(2,982,390)
Receivables from affiliates, net	(59,954)	74,362	1,435,068
Income taxes receivable	2,199,509	869,191	(3,447,254)
Deferred income taxes	(73,837)	(337,155)	701,600
Interest receivable on shareholders' notes	17,709	-	(4,562)
Other assets	479,278	606,728	83,285
Employee compensation and benefits payable	(2,009,149)	4,189,176	(2,353,342)
Fees payable	66,143	(1,604,944)	(526,939)
Vendor payables	(2,291,974)	962,874	147,630
Accrued expenses and other liabilities	1,442,485	(1,007,808)	-
Net cash (used for)/provided by operating activities	<u>(4,855,815)</u>	<u>(5,816,337)</u>	<u>(9,000,281)</u>
Cash flows provided by/(used for) investing activities:			
Proceeds from sale of available for sale securities	8,964,325	-	-
Purchase of available for sale securities	(511,800)	(7,871,674)	-
Investment in unconsolidated affiliate	-	-	(50,000)
Purchase of furniture, equipment, software and leasehold improvements	(11,785)	(21,301)	(58,901)
Proceeds from disposition of furniture, equipment, software and leasehold improvements	207,275	6,500	158,563
Net cash provided by/(used for) investing activities	<u>8,648,015</u>	<u>(7,886,475)</u>	<u>49,662</u>
Cash flows (used for)/provided by financing activities:			
Proceeds from issuance of common shares	-	-	8,016,000
Repurchase of common shares	(1,469,098)	(217,859)	(1,774)
Purchase of common shares held in treasury	-	(5,325)	-
Proceeds from notes receivable for common shares	-	-	9,519
Net cash (used for)/provided by financing activities	<u>(1,469,098)</u>	<u>(223,184)</u>	<u>8,023,745</u>
Effect of exchange rate changes in cash	(53,870)	174,515	(703,820)
Net increase/(decrease) in cash and cash equivalents	<u>2,269,232</u>	<u>(13,751,481)</u>	<u>(1,630,694)</u>
Cash and cash equivalents, beginning of year	<u>21,407,458</u>	<u>35,158,939</u>	<u>36,789,633</u>
Cash and cash equivalents, end of year	<u>\$ 23,676,690</u>	<u>\$ 21,407,458</u>	<u>\$ 35,158,939</u>
Supplemental disclosures of cash flows information			
Cash paid during the period for:			
Income taxes	\$ 2,071,682	\$ 1,288,210	\$ 1,578,000
Interest	\$ -	\$ 35,836	\$ 74
Supplemental Schedule of Non-Cash Investing and Financing Activities:			

The Company cancelled outstanding notes of \$236,050, \$0 and \$1,017 for the years ended December 31, 2010, 2009 and 2008, respectively (see Note 9).

The Company issued 79,580, 123,000 and 56,000 common shares for the years ended December 31, 2010, 2009 and 2008, recorded with a fair value of \$427,690, \$578,500 and \$700,000, respectively and cancelled 875, 45,542 and 114,374 forfeited restricted common shares for the years ended December 31, 2010, 2009 and 2008 recorded with a fair value of \$88,988, \$3,434,650 and \$12,463,260, respectively (see Note 12).

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2010, 2009 and 2008

	Common Shares		Additional Paid-In Capital
	Shares	Amount	
Balance @ December 31, 2007	5,102,207	\$ 51,022	\$ 106,077,793
Issuance of common shares, @ \$0.01 par value			
Cash	501,000	5,010	8,010,990
Restricted shares	56,000	560	(560)
Cash-in-lieu paid and cancellation of common shares on one-for-ten share consolidation, @ \$0.01 par value	(76)	(1)	(1,209)
Repurchase and cancellation of common shares, @ \$0.01 par value	(36)	-	(564)
Cancellation of common shares, @ \$0.01 par value	(22)	-	(1,017)
Forfeiture of common shares, @ \$0.01 par value	(114,374)	(1,144)	1,144
Non-cash compensation			13,039,050
Net (loss)			
Other comprehensive income			
Proceeds from notes receivable for common shares			
Balance @ December 31, 2008	5,544,699	55,447	127,125,627
Issuance of common shares, @ \$0.01 par value			
Restricted shares	123,000	1,230	(1,230)
Repurchase of common shares held in treasury, @ \$0.01 par value			
Repurchase and cancellation of common shares, @ \$0.01 par value	(34,693)	(347)	(217,512)
Forfeiture of common shares, @ \$0.01 par value	(45,542)	(455)	455
Non-cash compensation			7,114,588
Net (loss)			
Other comprehensive income			
Balance @ December 31, 2009	5,587,464	55,875	134,021,928
Issuance of common shares, @ \$0.01 par value			
Restricted shares	79,580	795	(795)
Repurchase and cancellation of common shares, @ \$0.01 par value	(287,133)	(2,871)	(1,466,227)
Forfeiture of common shares, @ \$0.01 par value	(875)	(9)	9
Non-cash compensation			5,579,684
Net (loss)			
Other comprehensive income			
Balance @ December 31, 2010	5,379,036	\$ 53,790	\$ 138,134,599

The accompanying notes are an integral part of these consolidated financial statements.

	Accumulated Other Comprehensive Income	Retained Earnings/(Deficit)	Treasury Shares		Notes Receivable	Total
			Shares	Amount		
\$	1,166,913	\$ (34,911,733)	-	\$ -	\$ (295,894)	\$ 72,088,101
						8,016,000
						-
						(1,210)
						(564)
					1,017	-
						-
		(49,311,881)			49,308	13,088,358
	(689,435)					(49,311,881)
						(689,435)
					9,519	9,519
	477,478	(84,223,614)	-	-	(236,050)	43,198,888
						-
			(2,500)	(5,325)		(5,325)
						(217,859)
						-
		(17,113,644)				7,114,588
	687,152					(17,113,644)
						687,152
	1,164,630	(101,337,258)	(2,500)	(5,325)	(236,050)	33,663,800
						-
						(1,469,098)
						-
		(11,512,651)			236,050	5,815,734
	(598,320)					(11,512,651)
						(598,320)
\$	566,310	\$ (112,849,909)	(2,500)	\$ (5,325)	\$ -	\$ 25,899,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

The accompanying consolidated financial statements of W.P. Stewart & Co., Ltd., a Delaware corporation incorporated on April 1, 2010 and a registered investment adviser under the United States of America (“U.S.”) Investment Advisers Act of 1940, as amended (“WPS & Co., Ltd.” and, together with its predecessor and subsidiaries, the “Company”), are presented on a consolidated basis. Prior to a corporate reorganization concluded on May 28, 2010, the Company was a Bermuda exempt company incorporated on August 16, 1996. In the corporate reorganization, following a sanction hearing before the Supreme Court of Bermuda, the Company completed a share exchange transaction effected by a scheme of arrangement (the “Scheme of Arrangement”) between the Company and the holders of its common shares pursuant to which each

holder of common shares of the Company that were issued and outstanding immediately before the transaction was effected transferred such common shares to a newly incorporated Delaware corporation wholly owned by the Company (the “Delaware Company”) solely in exchange for the same number of shares of common stock of the Delaware Company. Immediately after effecting the Scheme of Arrangement, the Company completed an amalgamation with and into the Delaware Company, with the Delaware Company continuing as the surviving corporation in the amalgamation and with the Delaware Company being renamed “W.P. Stewart & Co., Ltd.”. As a result of this transaction the Company reorganized from an exempted company incorporated with limited liability under the laws of Bermuda to a Delaware corporation.

Note 2: Background and Organization

For the years ended December 31, 2010, 2009 and 2008, the consolidated Company consisted of several affiliated entities under common control, which provide investment advisory and related services including securities brokerage. The background and organization of the principal entities presented in the Company’s consolidated financial statements are set out below.

The Company’s subsidiaries and affiliates include:

- W.P. Stewart Asset Management Ltd. (“WPSAM”), a wholly-owned subsidiary, is a registered investment adviser under the U.S. Investment Advisers Act of 1940 with clients throughout the world. On May 28, 2010, as part of the corporate reorganization, WPSAM re-domiciled from a Bermuda company to a Delaware corporation.

- W.P. Stewart Securities LLC (“WPSSL”), a wholly-owned subsidiary, acted as an introducing broker until

December 1, 2010, clearing all transactions with, and for, customers of its affiliates on a fully-disclosed basis through an independent clearing broker. Until February 2011, WPSSL was a registered broker-dealer under the U.S. Securities Exchange Act of 1934, as amended, and was a member of the Financial Industry Regulatory Authority (“FINRA”). On May 28, 2010, as part of the corporate reorganization, WPSSL re-domiciled from a Bermuda company to a Delaware limited liability company. As of December 1, 2010, WPSSL ceased all operations and in February 2011, the withdrawal of its registration as a broker-dealer became effective.

- W.P. Stewart Fund Management Limited (“WPS Dublin”), was a wholly-owned subsidiary of WPSAM. The primary business of WPS Dublin was to provide management and administrative services to investment funds. WPS Dublin was formerly the manager of W.P. Stewart Funds plc and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

W.P. Stewart (Distributor) Funds plc, two umbrella-type open-ended investment companies regulated by the Irish Financial Services Regulatory Authority (“IFSRA”), formerly regulated by the Central Bank of Ireland. In late 2007 and during 2008, all of the investment funds under the W.P. Stewart Funds plc and W.P. Stewart (Distributor) Funds plc umbrella investment companies liquidated after all investors had voluntarily redeemed from the funds. As a result of the closure of these investment funds, the directors of WPS Dublin, at an extraordinary general meeting held on August 22, 2008, adopted resolutions to voluntarily wind up the activities of WPS Dublin and place the company in voluntary liquidation as of February 6, 2009. On May 31, 2010, the Liquidator submitted the final statement of accounts and the liquidation was completed.

- WPS Advisors, Inc. (formerly known as W.P. Stewart & Co., Inc.) (“WPSI”), a wholly-owned subsidiary, is a registered investment adviser under the U.S. Investment Advisers Act of 1940. Its principal business is to provide investment research and sub-advisory services to the Company.

- W.P. Stewart & Co. (Europe), Ltd. (“WPS Europe”), is a wholly-owned subsidiary of the Company. WPS Europe was authorized and regulated by the UK Financial Services Authority (“FSA”) and previously was regulated by the Investment Management Regulatory Organization Limited (“IMRO”).

Business Acquisitions

In 1999 the Company acquired 50% of TPRS Services N.V. (“TPRS”) and 100% of First Long Island Investors, Inc. (“FLII”). On December 29, 2000, the Company acquired

Its principal business was to provide investment research and sub-advisory services to the Company. In May 2009, WPS Europe filed an application with FSA to withdraw its permission to operate as a regulated entity and in July 2009, such request was approved by FSA.

- W.P. Stewart Fund Management S.A. (“WPSFM SA”), is a wholly-owned subsidiary, subject to the jurisdiction of the Luxembourg Commission de Surveillance du Secteur Financier (“CSSF”). The primary business of WPSFM SA is providing management and administrative services to investment funds. WPSFM SA is currently the manager of W.P. Stewart Holdings Fund (formerly W.P. Stewart Holdings N.V.), an open-ended investment company under the jurisdiction of the CSSF and listed on the Euronext Amsterdam and the W.P. Stewart Global Growth Fund, an open-ended investment company under the jurisdiction of the CSSF.

In October 2006, the Company commenced investment activities in WPS International Partners, L.P., an investment partnership, wholly-owned by the Company. This investment partnership was formed to hold a portfolio of listed equity securities which are classified as investments, trading in the consolidated statements of financial condition.

the remaining 50% of TPRS. Intangible assets arising from the Company’s business acquisitions were comprised primarily of customer relationships.

The following table shows the purchase price and amortization for the year ended December 31, 2008.

Acquisition	Purchase Price Allocation	Intangible Amortization for the Year
TPRS	\$ 16,390,894	\$ 109,656
FLII	10,879,093	346,545
	\$ 27,269,987	\$ 456,201

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On November 14, 2001, the Company acquired a controlling interest in TPR & Partners N.V. (“TPR”), an asset-gathering firm based in The Netherlands via the acquisition of shares in a Bermuda holding company that indirectly owns 100% of the shares of TPR. Going forward, the Bermuda company, which is named W.P. Stewart Asset Management (Europe), Ltd. (“WPSAM Europe”), serves as the umbrella for the Company’s European asset gathering and client servicing activities. The acquisition price of \$8,052,000 less the fair value of net assets acquired of \$170,203 was allocated to intangible assets and goodwill. The former beneficial owners of TPR, one of whom prior to October 1, 2008 was an executive officer of the Company, and their assigns continued to hold the remaining 3,000 shares of WPSAM Europe until July 1, 2006, at which

time the Company acquired those shares at a fair value price of \$6,000,000, which was allocated to intangible assets and goodwill in the amounts of \$2,950,000 and \$3,050,000, respectively.

In the third quarter of 2008, due to a loss of assets under management, the fees from which supported the customer related intangible assets of the TPRS, FLII and WPSAM Europe acquisitions, the Company recognized an impairment loss of \$8,799,815, which represented the remaining balance of customer related intangible assets for each respective acquisition. Also, in the third quarter of 2008, due to a decline in the Company’s market capitalization as compared with shareholders’ equity, there was an impairment of goodwill resulting in a write-off of the entire balance in the amount of \$8,681,797.

Note 3: Accounting Policies

These consolidated financial statements are presented in conformity with accounting principles generally accepted in the U.S. The functional currency for the Company and its affiliates is the U.S. dollar with the exceptions of WPS Europe and W.P. Stewart Asset Management (Europe), N.V. (“WPSAM Europe N.V.”), a wholly-owned subsidiary of WPSAM Europe, for which the pound sterling and the euro, respectively, are the functional currencies.

The process of preparing consolidated financial statements in conformity with generally accepted accounting principles in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

The financial statements have been prepared on a going concern basis. However,

although there were positive cash flows for the year ended December 31, 2010, the Company has incurred losses for the years ended December 31, 2010, 2009 and 2008 and has negative cash flows for the years ended December 31, 2009 and 2008. The Company would need to increase assets under management or reduce expenses to continue to have positive cash flows. There is no assurance that the Company will be able to achieve positive cash flows in the future.

Principles of Consolidation

The Company consolidates all affiliated entities in which it has a majority ownership interest or maintains effective control. All material inter-company transactions have been eliminated.

Cash and Cash Equivalents

The Company considers cash in banks, money market funds and short-term highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. The Company

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

maintains a large majority of its cash in two banks.

Fees Receivable

The Company's advisory fees are computed quarterly based on account market values and fee rates pursuant to investment advisory contracts with clients. Such account market values are calculated using quoted prices from exchanges for actively traded listed securities. The Company's general policy is to bill all clients quarterly in advance. The Company has recorded an allowance for uncollectible amounts; such estimate is based on the Company's historical collection experience and a review of the current status of fees receivable. It is reasonably possible that the Company's estimate of the allowance for uncollectible amounts will change. For the year ended December 31, 2010, fee income includes \$6,737 collected which was fully reserved for in 2008. The Company does not have an allowance for uncollectible amounts at December 31, 2010. For the year ended December 31, 2009, fee income includes \$24,862 collected which was fully reserved for in 2008 and fees receivable is presented net of an allowance for uncollectible amounts of \$580,988. For the year ended December 31, 2008, fee income and fees receivable are presented net of an allowance for uncollectible amounts of \$605,850.

Investments in Unconsolidated Affiliates

The Company includes its investments in the common stock of investees in which it owns between 20-50% in the caption "Investments in Unconsolidated Affiliates" and accounts for such investments under the equity method of accounting.

Investments, Trading and Available for Sale

Investments in equity and municipal securities have been classified as either "trading" or "available for sale" in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 320, "Investments - Debt and Equity Securities"

and, as such, are recorded at quoted market values. Transactions are recorded on a trade date basis. For the years ended December 31, 2010, 2009 and 2008 unrealized gains and losses on investments classified as trading in the amounts of \$(187,261), \$700,147 and \$(1,446,366) are recorded as profit or loss whereas unrealized gains and losses on investments classified as available for sale are recorded in accumulated other comprehensive income within shareholders' equity.

Fair Value Measurements

The Company accounts for certain financial instruments at fair value in accordance with the provisions of ASC 820, "Fair Value Measurements and Disclosures". ASC 820 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. ASC 820 requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy (see Note 18).

Furniture, Equipment, Software and Leasehold Improvements

Furniture, equipment, software and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated life of the improvements.

Fees and Fees Paid Out

Fees for the management of clients' accounts are based on terms stated in client contracts and are based upon a percentage of assets under management determined as of the last day of the prior quarter as specified in the contracts. Fees are recognized in the period in which they are earned. Under certain client contracts, the Company is entitled to receive performance fees when the return on assets under management exceeds specified benchmark returns or other performance targets. Performance fees are recorded as of the date on which the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

performance period ends. Fee income for the year ended December 31, 2010 includes performance fees of \$26,584. Fee income for the year ended December 31, 2009 includes performance fees of \$546,635 and \$1,094,259 earned for the years ended December 31, 2009 and 2008, respectively. Fees for the referral of certain accounts are paid to solicitors and are based on terms stated in contracts with such parties. Such amounts, included in fees paid out, are based upon a percentage of the fee revenue generated from the referred accounts and are recognized in the same period as the corresponding revenue. For the year ended December 31, 2009, fees paid out includes a reversal of fees which were not paid to solicitors in the amount of \$1,474,121.

Commissions

Commissions on brokerage activities and related trading costs are recorded on a trade date basis.

Income Taxes

The Company uses the asset and liability method required by ASC 740 to record income taxes. Under ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to an amount that, in the opinion of management, is more likely than not realizable.

The Company applies ASC 740 recognition and measurement principles with respect to accounting for uncertain tax positions. Those principles require that the Company determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based

upon the technical merits of the position. Once it is determined that a position meets this recognition threshold, the position is measured to determine the amount of benefit to be recognized in the financial statements. The Company records interest and penalties on uncertain tax positions as a component of the tax provision.

Foreign Currency Translation

The Company accounts for foreign currency translation in accordance with ASC 830, "Foreign Currency Matters". Assets and liabilities are translated at the exchange rate in effect at year-end, and revenue and expenses are translated at the average rates of exchange prevailing during the year. Gains or losses resulting from foreign currency transactions are included in net income. The U.S. dollar effect that arises from translating the net assets of WPS Europe and WPSAM Europe N.V. is recorded in "accumulated other comprehensive income", a separate component of shareholders' equity.

Intangible Assets and Goodwill

Intangible assets arising from the Company's business acquisitions (see Note 2) were amortized on a straight-line basis over periods of five to 20 years. The carrying value of the intangibles acquired was reviewed for impairment annually or whenever events or changes in circumstances indicated that they may not be recoverable based upon expectations of future undiscounted cash flows over their remaining lives. Where the undiscounted cash flow is less than the carrying amount of the asset, an impairment loss was recognized. The loss was the difference between the fair value of the asset and the carrying value of the asset.

Goodwill from the Company's acquisition of TPR (see Note 2) was accounted for pursuant to ASC 350, "Intangibles – Goodwill and Other". In accordance with ASC 350, goodwill is not amortized but is tested annually for impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Earnings Per Share

Basic earnings per share is computed by dividing the net income applicable to common shares outstanding by the weighted average number of shares outstanding, excluding unvested shares issued to employees of the Company or its affiliates, unvested options, vested unexercised options and potentially issuable common shares. Diluted earnings per share is computed using the same method as basic earnings per share, but also reflects, in years with net income, the impact of unvested shares issued to employees of the Company or its affiliates and the dilutive effect of unvested options, vested unexercised options issued to employees of the Company or its affiliates and potentially issuable common shares, using the treasury stock method.

On January 1, 2009, the Company adopted ASC 260-10-45, "Earnings per Share – Overall – Other Presentation Matters". The guidance in ASC 260-10-45 applies to the calculation of earnings per share for share-based payment awards with rights to dividends or dividend equivalents. It clarifies that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The adoption of ASC 260-10-45 did not have a material impact on the Company's calculation of earnings per share.

Share-Based Compensation

The Company accounts for share-based employee compensation in accordance with the method prescribed by ASC 718, "Compensation – Stock Compensation". ASC 718 requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of ASC 718 include share options, restricted share awards, certain performance-based awards, share appreciation rights, and employee share purchase plans (see Notes 11 and 12).

Business Segments

The Company operates predominantly in one business segment, the investment advisory and asset management industry.

Share Consolidation

On November 19, 2008, the Company effected a one-for-ten share consolidation of the Company's authorized and issued common shares pursuant to which every ten common shares, par value \$0.001 per share, were consolidated, reclassified and converted into one new common share, par value \$0.01 per share. All share and option numbers, as well as, per share dollar amounts for the year ended December 31, 2008 are provided after giving effect to such share consolidation and all prior period share and option numbers and per share data have been restated to reflect the share consolidation. In connection with the share consolidation, the Company paid shareholders cash in lieu of fractional shares in the aggregate amount of \$1,210.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 4: Earnings Per Share

	2010	2009	2008
Basic Earnings/(Loss) Per Share:			
Net (loss)	\$ (11,512,651)	\$ (17,113,644)	\$ (49,311,881)
Weighted average basic shares outstanding	5,234,651	5,278,126	4,886,968
Net (loss) per share	\$ (2.20)	\$ (3.24)	\$ (10.09)
Diluted Earnings/(Loss) Per Share:			
Net (loss)	\$ (11,512,651)	\$ (17,113,644)	\$ (49,311,881)
Weighted average basic shares outstanding	5,234,651	5,278,126	4,886,968
Add: Unvested shares, unvested options, vested unexercised options and dilutive potentially issuable common shares	-	-	-
Weighted average diluted shares outstanding	5,234,651	5,278,126	4,886,968
Net (loss) per share	\$ (2.20)	\$ (3.24)	\$ (10.09)

Basic earnings per share is computed by dividing the net income applicable to common shares outstanding by the weighted average number of shares outstanding, excluding unvested shares issued to employees of the Company or its affiliates, unvested options, vested unexercised options and potentially issuable common shares. Diluted earnings per share is computed using the same method as basic earnings per share, but also reflects, in years with net income, the impact of unvested shares issued to employees of the Company or its affiliates and the dilutive effect of unvested options, vested unexercised options issued to employees of the Company or its affiliates and potentially issuable common shares,

using the treasury stock method. For the years ended December 31, 2010, 2009 and 2008, there were a total of 32,527, 14,560, and 0 shares that were not included in the total weighted average diluted shares outstanding due to their anti-dilutive nature.

On December 31, 2010, 2009 and 2008, 5,376,536, 5,584,964 and 5,544,699 shares, respectively, were issued and outstanding. The shareholders of record are entitled to full voting rights (see Note 13) and dividends on these shares; 257,772, 290,105 and 320,781 of these shares were unvested and held by the Company's or affiliates' employees on December 31, 2010, 2009 and 2008, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 5: Comprehensive Income

The following table details the components of comprehensive income as described in ASC 220, "Comprehensive Income".

	2010	2009	2008
Net income/(loss)	\$ (11,512,651)	\$ (17,113,644)	\$ (49,311,881)
Other comprehensive income/(loss), net of tax:			
Reclassification adjustment for unrealized gains/(losses) on available for sale securities included in interest and other	-	(52,301)	-
Unrealized gains/(losses) on available for sale securities	(544,676)	564,938	14,385
Foreign currency translation adjustment	(53,644)	(174,515)	(703,820)
Comprehensive income/(loss)	\$ (12,110,971)	\$ (16,426,492)	\$ (50,001,316)

Note 6: Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates include the following:

	2010	2009	2008
Investment in Bowen Asia Limited	\$ -	\$ -	\$ 656,461
Investment in Kirk Management Ltd.	2,017,832	1,757,919	1,687,045
Total	\$ 2,017,832	\$ 1,757,919	\$ 2,343,506

In December 2009, pursuant to a Share Transfer Agreement, the Company transferred all of the shares owned in Bowen Asia Limited ("Bowen"), representing ownership of approximately 35%, to certain transferees, all of whom were employees of Bowen. As consideration, the Company received \$1 from each of the six transferees plus an option to purchase for \$1 approximately 4.9% of the outstanding shares of Bowen from two shareholders owning approximately 49% of Bowen's equity interests. The option is exercisable for \$1 at any time so long as the Company does not terminate its sub-advisory relationship with Bowen, and is accompanied by a right of

participation in any sale of shares of Bowen by the grantors of the option.

The Company owns a 40% interest in Kirk Management Ltd., a real estate joint venture incorporated in Bermuda. Until May 2010, Kirk Management Ltd. owned Trinity Hall, a building located in Hamilton, Bermuda, which was leased by the Company from the joint venture and served as the Company's headquarters prior to the reorganization concluded in May 2010. It is expected that Kirk will distribute its assets, including the proceeds of the sale of the building, to its joint venture partners, The Bank of Bermuda and the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 7: Related Party Transactions

Research and administrative expenses include travel expenses of \$0, \$70,787 and \$156,505 for the years ended December 31, 2010, 2009 and 2008, respectively, which were paid to Shamrock Aviation, Inc. (“Shamrock”), a company owned by principal shareholders of the Company.

Prior to January 2010, a portion of the office space located in New York was occupied by Stewart family interests. WPSI was reimbursed for rent and other costs associated with the space, which amounted to \$199,254 and \$155,499 for the years ended December 31, 2009 and 2008, respectively.

The Company pays Bowen, an entity that through mid-December 2009 was an unconsolidated affiliate of the Company (see Note 6), fees for solicitation, sub-advisory and research services. Such costs amounted to \$0, \$265,834 and \$520,906 for the years ended December 31, 2010, 2009 and 2008, respectively. The other principal owners of Bowen are a beneficial owner of a minority interest in the Company and, through December 31, 2008, an executive officer of the Company.

In December 2009, pursuant to a Share Transfer Agreement, the Company transferred all of the shares owned in Bowen, representing ownership of approximately 35%, to certain transferees, all of whom were employees of Bowen and one of whom is a beneficial owner of a minority interest in the Company. As consideration, the Company received \$1 from each of the six transferees plus an option to purchase for \$1 approximately 4.9% of the outstanding shares of Bowen from two shareholders owning approximately 49% of Bowen’s equity interests, one of whom is a beneficial owner of a minority interest in the Company. The option is exercisable for \$1 at any time so long as the Company does not terminate its sub-advisory relationship with Bowen, and is accompanied by a right of participation in any sale of shares of Bowen by the grantors of the option.

The Company paid Carl SpänglerKapitalanlageges. m.b.H., (“CSK”)

fees for solicitation services. CSK is controlled by Bankhaus Carl Spängler & Co. AG, the Chief Executive Officer of which was one of the Company’s directors prior to May 2009. These fees amounted to \$0, \$0 and \$20,163 for the years ended December 31, 2010, 2009 and 2008, respectively.

Certain directors of the Company serve as directors of funds from which the Company receives investment advisory fees, fund management fees, subscription fees and commissions. Such fees and commissions were \$1,837,084, \$1,467,737 and \$2,989,607 for the years ended December 31, 2010, 2009 and 2008, respectively.

The Company owns a 40% interest in Kirk Management Ltd. (see Note 6), a real estate joint venture incorporated in Bermuda. The remaining 60% interest is owned by The Bank of Bermuda, the Chief Executive Officer of which, prior to 2004, was an individual who served on the Board of Directors of the Company until May 2010. Such individual remained a non-executive director of The Bank of Bermuda and during the period from May 2005 through March 31, 2006 was an executive officer of the Company. Prior to May 2010, Kirk Management Ltd. also owned and leased to the Company its Hamilton, Bermuda headquarters. Included in research and administration expenses is rent expense of \$75,000, \$180,000 and \$180,000 for each of the years ended December 31, 2010, 2009 and 2008, respectively (see Note 6).

Included in receivables from affiliates, net, at December 31, 2010, 2009 and 2008 is a subordinated loan of \$212,526 and accrued interest on such loan in the amount of \$34,132 due from Kirk Management Ltd. The loan has no fixed repayment date.

Included in other operating expenses for the year ended December 31, 2008, is the write-off of a receivable in the amount of \$238,710 from WPS II, Inc., a former significant shareholder of the Company prior to its liquidation in December 2008.

Included in research and administration expenses for the years ended December 31,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2008 is rent expense in the amount of \$205,535 which was paid to a company owned by the former principals of WPSAM Europe N.V., one of whom was an executive officer of the Company through September 30, 2008.

Included in other operating expenses for the years ended December 31, 2010, 2009 and 2008 are contributions in the amounts of \$26,000, \$25,500 and \$35,000 paid to the W.P. Stewart & Co. Foundation, Inc. (the "Foundation"), a private charitable foundation.

On August 1, 2008, pursuant to an Investment Agreement entered into among the Company and several funds (collectively, the "Arrow Funds"), managed by Arrow Capital Management LLC ("Arrow"), the Company sold an aggregate of 501,000 of its common shares to the Arrow Funds in a private placement. The common shares were purchased at a price per share of \$16.00 for

total consideration of \$8,016,000. In addition, the Company was advised by Arrow on the same day that the Arrow Funds also purchased an aggregate of 1,669,093 common shares of the Company in their tender offer for up to 1,990,200 of the Company's common shares, which tender offer expired at 5:00 p.m. on Monday, July 28, 2008. After giving effect to the Arrow Funds' purchase of a total of 2,170,093 common shares in the private placement and the tender offer, the Arrow Funds held in the aggregate approximately 39.2% of the outstanding common shares of the Company. However, the Arrow Funds are limited by the Company's Bye-Laws to a 24% aggregate voting interest in the Company, with each of the Arrow Funds, prior to May 28, 2010, limited to a voting interest of 9.5% individually (see Notes 13 and 19).

Note 8: Commitments and Contingencies

At December 31, 2010, the Company was contingently liable on one irrevocable standby letter of credit in the amount of \$200,000 in favor of WPSI's landlord, which letter of credit is collateralized by a fixed deposit cash account that will remain intact over the term of the lease. Additionally, at December 31, 2010 the Company was conditionally liable on a deposit account that served as collateral for the lease in Netherlands for the Company's Dutch subsidiary in the amount of \$29,000. Prior to June 11, 2010, the Company was also liable on a letter of credit in the amount of \$1,000,000 in favor of Wachovia Corporate Services Inc. ("Wachovia") which collateralized amounts received from the Company's clients that Wachovia wired daily to the Company's account at The Bank of Bermuda. This amount was collateralized by a fixed deposit cash account. In addition, prior to March 26, 2010, the Company was contingently liable under a third letter of credit in the amount of \$800,000 in favor of WPS Europe's landlord which was

guaranteed by the Company, and was collateralized by a fixed deposit cash account in the same amount. The total amounts of \$200,000, \$2,000,000 and \$2,000,000 are reflected in other assets at December 31, 2010, 2009 and 2008, respectively.

At December 31, 2010, WPSSL had net capital, as defined, of \$732,937 that exceeded the required minimum net capital of \$100,000 by \$632,937.

WPSSL conducted business with a clearing broker on behalf of its customers subject to a clearing agreement. With effect from January 31, 2007, in the event of termination prior to the end of the first three years of the clearing agreement, WPSSL would be liable for repayment of a forgivable loan in the amount of \$500,000 plus accrued interest that was made by the clearing broker to WPSSL under the clearing agreement, as well as all costs and expenses of terminating the clearing agreement. The total amount of \$579,010 which includes accrued interest in the amount of \$79,010 is included in vendor payables at December 31, 2009. On February

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5, 2010, WPSSL satisfied the requirements of the forgivable loan in favor of its clearing broker and was released from all obligations.

The Company has committed to make future issuances of 22,000 common shares as non-cash incentive employee compensation. The commitments made by the Company to issue such shares are conditioned upon the satisfaction of certain individual employee performance conditions relating to Company profitability, investment performance or both. Any shares that may be issued by the

Company in the future in satisfaction of those commitments will be restricted shares. When issued, these restricted shares will remain subject to vesting requirements over time, with limited exceptions permitting accelerated or immediate vesting. The dilutive effect of these potentially issuable common shares is included in the weighted average diluted shares outstanding in accordance with ASC 260, "Earnings Per Share" (see Note 12).

Note 9: Notes Receivable for Common Shares

Pursuant to employee or director purchase agreements for common shares, in the event a purchaser is no longer in the employment of, or no longer serves as a director of, the Company or any of its affiliates, the purchaser shall transfer to the Company all rights to the shares that have not vested at the time of such termination. The remaining balance of the outstanding notes receivable related to the unvested shares shall be abated.

During 2010, the remaining balance of \$236,050 in outstanding notes receivables

was voluntarily abated by the Company. As a consequence, there are no related future payments.

Pursuant to the terms of the purchase agreements, during the year ended December 31, 2008, 22 unvested common shares of former employees were repurchased and their installment notes totaling \$1,017 were abated.

Interest income on all such notes was \$5,469 for the year ended December 31, 2008.

Note 10: 2001 Employee Equity Incentive Plan

The W.P. Stewart & Co., Ltd. 2001 Employee Equity Incentive Plan, as amended (the "Plan") provided for awards of common shares of the Company, to be granted to eligible employees of the Company and its affiliates in the form of restricted common shares and/or options. The exercise price of the options is equal to the market value of the Company's shares on the date of the grant. All awards that vest are exercisable in equal annual amounts on each of the first seven anniversaries of the grant dates. The dilutive effect of unvested options and vested unexercised options is included in the weighted average diluted shares outstanding in accordance with ASC 260, "Earnings Per Share".

On May 12, 2003, the Board of Directors approved an amendment to the Plan that (i) increased the total number of common shares available for awards under the Plan from 250,000 to a total of 300,000, inclusive of awards previously granted, and (ii) increased the duration of the period during which vested options may be exercised from one year to two years with respect to any option grants made in the future.

As provided in the Plan, as of July 24, 2004 no further grants may be awarded under the Plan. However, previously issued grants will extend beyond that date as expressly provided in the Plan documents.

In 2010, pursuant to the terms of the Plan, 2,303 vested options granted in 2002 expired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In 2009, pursuant to the terms of the Plan, 448 and 285 unexercised options granted in 2001 and 2002, respectively, were forfeited by former employees of the Company. Additionally, in 2009, 4,784 and 2,309 vested options granted in 2001 and 2002, respectively, expired.

In 2008, pursuant to the terms of the Plan, 1,069 and 700 unexercised options granted in 2001 and 2002, respectively, were forfeited by former employees of the Company. Additionally, in 2008, 5,247 and 2,595 vested options granted in 2001 and 2002, respectively, expired.

Note 11: Share Options

The Company accounts for share-based employee compensation in accordance with the fair value method and recognizes compensation expense based on the fair value of the share options granted in 2003 and future years over the related vesting periods. The amount of share-based compensation recognized for the years ended December 31, 2010, 2009 and 2008 for share options granted in 2003, was \$0, \$271 and \$291,

respectively. During 2010, 85 vested options granted in 2003 expired. During 2009, 86 vested options granted in 2003 expired. During 2008, 214 unexercised options granted in 2003 were forfeited by former employees of the Company and 86 vested options granted in 2003 expired. There were no share options granted after December 31, 2003.

The options outstanding as of December 31, 2010, 2009 and 2008 for grants awarded during the year ended December 31, 2003, are set forth below:

December 31,	Exercise Price	Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
2010	\$202.00	171	2	\$202.00
2009	\$202.00	256	3	\$202.00
2008	\$202.00	342	4	\$202.00

The Company accounts for share-based employee compensation in accordance with the method prescribed by ASC 718, "Compensation – Stock Compensation", which requires compensation cost related to share-based payment transactions to be recognized in the financial statements. Share-based payment transactions within the scope of ASC 718 include share options, restricted

share awards, certain performance-based awards, share appreciation rights, and employee share purchase plans.

The following range assumptions were applied in determining the effect on compensation expense in accordance with ASC 718 for the years ended December 31, 2009 and 2008:

	2009	2008
Expected Life	1 to 7 years	1 to 7 years
Risk free interest rate	4.22% - 4.42%	4.22% - 4.42%
Dividend yield	-	-
Volatility	25% - 41%	25% - 41%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The options outstanding as of December 31, 2009 and 2008 for grants made prior to January 1, 2003 are set forth below:

December 31,	Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
2009	\$165.80 - \$284.20	2,303	1	\$229.14
		<u>2,303</u>		
2008	\$208.00	5,232	1	\$208.00
	\$165.80 - \$284.20	4,897	2	\$220.10
		<u>10,129</u>		

Options exercisable at December 31, 2010, 2009 and 2008 were 0, 2,303 and 7,841, respectively.

Note 12: Restricted Shares

During 2010, 79,580 restricted shares were granted as employee non-cash compensation and during 2010 875 restricted shares were forfeited by former employees of the Company. Dividends of \$16,700 paid on those forfeited shares prior to January 1, 2010, was charged to compensation expense.

During 2009, 123,000 restricted shares were granted as employee non-cash compensation and during 2009 45,542 restricted shares were forfeited by former employees of the Company. Dividends of \$71,175 paid on those forfeited shares prior to January 1, 2009, was charged to compensation expense.

During 2008, 56,000 restricted shares were granted as employee non-cash compensation and during 2008 114,374 restricted shares were forfeited by former employees of the Company. Dividends of \$122,632 paid on those forfeited shares prior

to January 1, 2008, was charged to compensation expense.

These shares are subject to vesting schedules and resale restrictions set forth in the associated Restricted Share Agreements. Unearned compensation equivalent to the market value of the shares at the date of grant was charged to shareholder's equity as of that date and is being amortized over the one through five year vesting periods as specified in the terms of the individual Restricted Share Agreements. Unearned compensation charged to additional paid-in capital, a component of shareholders' equity at December 31, 2010, 2009 and 2008 was \$427,690, \$578,500 and \$700,000, respectively. Compensation expense resulting from the amortization of the unearned compensation for the years ended December 31, 2010, 2009 and 2008 was \$5,537,024, \$7,020,479 and \$12,736,102, respectively.

Note 13: Shareholders' Voting Rights

Prior to the corporate reorganization concluded on May 28, 2010, the Company's Bye-Laws limited the voting power of natural persons to 5%, and the voting power of other entities, "groups" (as defined in the U.S. Securities Exchange Act of 1934) and persons

other than natural persons (legal persons) to 9.5%, of the votes attributable to the outstanding shares of the Company, regardless of how many of our shares (including common shares) they owned or controlled. This restriction did not apply to

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

parties who were shareholders immediately before our initial public offering, including certain individuals designated by the Company's Board of Directors. Votes that could have been cast by shareholders but for these voting restrictions were allocated to the other holders of the common shares pro-rata based on the number of shares they hold, except that no shareholder subject to the restrictions could receive an allocation to the extent that it would result in the shareholder holding more than 5% (for natural persons) or 9.5% (for legal persons, entities or groups) of the total voting power.

The Company's current Bylaws provide (and prior to the reorganization in May 2010, the Bye-Laws did provide) that no person or group (other than direct or indirect

subsidiaries of the Company, certain employee benefit plans designated by the Board of Directors which may be established by the Company or as otherwise exempted by the Board of Directors) deemed to be a beneficial owner of common shares may vote more than 20% of the total number of votes attributable to the common shares outstanding.

In connection with the Investment Agreement dated May 20, 2008, among the Company, and the Arrow Funds, the Company's Board of Directors granted a waiver allowing the Arrow Funds as a group to vote up to 24% of the Company's voting power in the event their ownership is at or above such level.

Note 14: Income Taxes

Income from the Company's operations in the United States and from its U.S. subsidiaries is subject to income taxes imposed by U.S. federal, state and local authorities. In addition, the Company's non-U.S. subsidiaries are subject to income taxes imposed by the jurisdictions in which those subsidiaries conduct business.

Under current Bermuda law and as in effect at the time the Company was domiciled in Bermuda, the Company and its Bermuda subsidiaries were not required to pay any Bermuda taxes on their income or capital gains. The Company's remaining Bermuda subsidiary will continue to be exempt from taxes in Bermuda until at least March 2016.

The income tax provision/(benefit), for the years ended December 31, 2010, 2009 and 2008 is as follows:

	2010	2009	2008
Current tax expense/(benefit)	\$ 2,128,621	\$ (2,528,453)	\$ (1,861,765)
Deferred tax expense/(benefit)	(73,838)	(337,155)	701,600
Net tax expense/(benefit)	\$ 2,054,783	\$ (2,865,608)	\$ (1,160,165)

For the years ended December 31, 2010, 2009 and 2008, the Company's effective tax rates were -21.7%, 14.3% and 2.3%, respectively. In 2010, the effective tax rate differed from the statutory rate of 34% due to an increase in the reserve for uncertain tax positions related to an on-going New York state audit, a change in the realizability of the deferred tax assets in two jurisdictions, tax on

two of the Company's Curacao based subsidiaries that were liquidated in 2010 and tax on effectively connected U.S. income prior to the Company's U.S. domestication transaction. In 2009 and 2008, the effective tax rates result from tax expense on the Company's U.S. effectively connected income, tax benefits on operations of U.S. subsidiaries subject to tax resulting from net

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

operating loss carrybacks related to the legislation extending the carryback period, and the inability to benefit U.S. state and local losses due to the Company's valuation

allowance position, and for the year ended December 31, 2009, the impact of changes in the liability for uncertain tax positions.

The Company's deferred tax assets/(liabilities), for the years ended December 31, 2010, 2009 and 2008 is as follows:

	2010	2009	2008
Total deferred tax assets	\$ 21,268,907	\$ 12,605,326	\$ 10,150,515
Total deferred tax liabilities	-	-	-
Net deferred tax asset before valuation allowance	21,268,907	12,605,326	10,150,515
Valuation allowance	(20,831,514)	(12,241,771)	(10,124,115)
Net deferred tax asset	\$ 437,393	\$ 363,555	\$ 26,400

The total deferred tax assets in each of the years reflected above primarily relate to net operating losses and compensation expense for restricted share grants. The Company's valuation allowance position is the result of the recent history of cumulative losses and the inability to support the deferred tax assets through additional net operating loss carryback claims. If any of the valuation allowance were to be reversed, the resulting tax benefit would be reflected in continuing operations.

At December 31, 2010, 2009 and 2008, the Company had federal net operating losses available to be carried forward of approximately \$7.0 million, \$1.4 million and \$1.4 million, respectively, and also had New York State and New York City net operating losses available to be carried forward of approximately \$91.7 million, \$39.4 million and \$20.4 million at December 31, 2010, 2009 and 2008, respectively. All of these net operating losses will begin to expire in 2027. The Company's losses subsequent to December 31, 2009 cannot be carried back to a profitable tax year under current law. In addition, at December 31, 2010, 2009 and 2008, WPS Europe had approximately \$26.4 million, \$24.5 million and \$21.1 million, respectively, of unused tax losses available to be carried forward in the United Kingdom with no expiration period. The Company

believes it is more likely than not that the income tax benefits associated with these net operating losses are not likely to be realized.

For the years ended December 31, 2010, 2009 and 2008, the Company had liabilities for uncertain tax positions of \$5,334,677, \$3,892,192 and \$4,900,000, respectively. The total balance of gross unrecognized tax benefits of \$5,334,677, if recognized, would affect the Company's effective income tax rate in future periods. The total interest and penalties included in accrued expenses and other liabilities and the provision/(benefit) for taxes for the years ended December 31, 2010 and 2009 is \$1,606,045 and \$960,909, respectively.

The Company and its subsidiaries are predominantly subject to examination by the U.S. Internal Revenue Service ("IRS"), New York State and New York City. Currently, the Company is undergoing a New York State audit for the tax years ended December 31, 2006 and 2007. In 2010, the Joint Committee on Taxation of the U.S. Congress concluded its review of the net operating loss carryback claim for the year ended December 31, 2008 for one of the Company's subsidiaries. Furthermore, in 2009, the Company concluded a tax examination of one of the Company's subsidiaries with New York City for the years ended December 31, 2003 through 2007 and the IRS concluded an

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

examination for the years ended December 31, 2006 and 2007 of one of the Company's U.S. subsidiaries. The earliest tax year for which the statute of limitations is open for examination by the IRS is 2003 for one of the Company's subsidiaries and for New York State and New York City is 2006.

It is reasonably possible that the total amounts of unrecognized tax benefits for uncertain tax positions could increase or decrease by approximately \$1 million within the next 12 months as a result of developments with respect to the New York State audit.

Note 15: Pension Benefits

The Company sponsors both a defined contribution profit-sharing plan (including a 401(k) feature) and a defined contribution money-purchase plan in the U.S. The Company also sponsors similar defined contribution retirement plans in both Bermuda and the United Kingdom. These plans cover substantially all employees who

meet the minimum age, service and eligibility requirements.

Total employer contributions amounted to \$777,663, \$795,741 and \$1,255,775 for the years ended December 31, 2010, 2009 and 2008, respectively. Participants are immediately vested in their account balances.

Note 16: Lease Commitments

The Company has several lease agreements in various locations including New York, London, Curaçao and The Netherlands. The lease agreements are for various periods through December 31, 2017. The leases are subject to escalation charges based on increases in real estate taxes and maintenance costs. Until June 2010, the Company also had a lease agreement for its corporate headquarters in Hamilton, Bermuda.

Future minimum rental commitments under non-cancellable operating leases in effect as of December 31, 2010 were as follows:

2011.....	\$ 2,062,209
2012.....	2,045,255
2013.....	2,177,785
2014.....	2,170,800
2015.....	2,093,974
Thereafter (through 2017)....	4,187,948
	\$ 14,737,971

Total rent expense for all operating leases was \$2,040,995, \$3,323,883 and \$3,553,597 and for the years ended December 31, 2010, 2009 and 2008, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 17: Geographic Area Data

The Company's primary business is the provision of investment advisory services to clients located throughout the world, in primarily two geographic areas, as follows:

Fee Revenue	2010	2009	2008
U.S.	\$ 12,167,474	\$ 12,994,434	\$ 21,699,874
Non-U.S.	3,910,142	3,306,390	6,302,068
Total	\$ 16,077,616	\$ 16,300,824	\$ 28,001,942

Note 18: Fair Value Measurements

The Company accounts for certain financial instruments at fair value in accordance with the provisions of ASC 820, "Fair Value Measurements and Disclosures". ASC 820 defines fair value, establishes a fair value hierarchy on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments is determined using various techniques that involve some level of estimation and judgment, the degree of which is dependent on the price transparency and the complexity of the instruments.

In accordance with ASC 820, the Company categorized its financial instruments measured at fair value into the following three-level fair value hierarchy based upon the level of judgment associated with the inputs used to measure the fair value. The hierarchy established under ASC 820 gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). As required by ASC 820, the Company's investments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair

value hierarchy under ASC 820, and its applicability to the Company's portfolio investments, are described below:

Level 1 – Pricing inputs are quoted prices available in active markets for identical investments as of the reporting date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market. As required by ASC 820, the Company does not adjust the quoted price for these investments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to these investments.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or

similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following table presents the financial instruments carried at fair value as of December 31, 2010:

	Level 1	Level 2	Level 3	Total
Trading Securities	\$ 2,058,284	-	-	\$ 2,058,284
Available for sale securities	\$ 23,730	-	-	\$ 23,730
% of Total Assets	5.7%	-	-	5.7%

The following table presents the financial instruments carried at fair value as of December 31, 2009:

	Level 1	Level 2	Level 3	Total
Trading Securities	\$ 3,311,434	-	-	\$ 3,311,434
Available for sale securities	\$ 8,453,497	\$ 31,413	-	\$ 8,484,910
% of Total Assets	24.9%	0.1%	-	24.9%

The following table presents the financial instruments carried at fair value as of December 31, 2008:

	Level 1	Level 2	Level 3	Total
Trading Securities	\$ 2,691,108	-	-	\$ 2,691,108
Available for sale securities	\$ 24,710	\$ 63,857	-	\$ 88,567
% of Total Assets	5.0%	0.1%	-	5.1%

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. In accordance with ASC 820, the Company's cash equivalents, short-term investments, marketable equity securities and corporate bonds are classified within Level 1 based on the fact that cash equivalents, marketable securities and corporate bonds are valued using quoted market prices in an active

market or alternative pricing sources and models utilizing market observable inputs.

At December 31, 2009 and 2008, the Company's available for sale investment categorized within Level 2 was classified as such as the valuation was based on quoted prices for identical instruments in a non-active market. The investment was in a fund which was comprised of marketable securities in international markets. This investment was liquidated in 2010.

Note 19: Subsequent Events

During the six months ended June 30, 2011, 105,000 restricted shares with a fair value of \$828,500 were granted to our employees, 10,000 restricted shares were forfeited by a former employee of the

Company upon his separation from the Company, and the Company repurchased 50,000 common shares from an employee for an aggregate purchase price of \$265,500. Also during the six months ended June 30,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2011, the Company repurchased an aggregate of 400,000 common shares from two of the Arrow Funds for a total purchase price of \$2,124,000.

In May 2011, subsequent to the repurchase of shares from the Arrow Funds, the Board of Directors of the Company approved a stock repurchase program of up to 10% of the then currently outstanding shares of the Company from time to time in the discretion of the Board's Executive Committee, whether in open market transactions or privately negotiated transactions.

In January 2011, WPS International Partners, L.P. ceased investment activities and distributed its net assets to the partners,

the Company and one of its subsidiary's. WPS International Partners, L.P. was an investment partnership, wholly-owned by the Company, formed to hold a portfolio of listed equity securities which were classified as investments, trading in the consolidated statements of financial condition at December 31, 2010, 2009 and 2008.

Subsequent to January 1, 2011, the Company ceased any contributions to the U.S. defined contribution money-purchase plan and the Bermuda defined contribution retirement plan. The Company is currently in the process of winding down the Bermuda Plan as part of the reorganization and closure of the Bermuda office.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and
Shareholders of W.P. Stewart & Co., Ltd

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of operations, changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of W.P. Stewart & Co., Ltd. and its subsidiaries (the "Company") at December 31, 2010, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



PricewaterhouseCoopers LLP
New York, New York
September 12, 2011

CORPORATE INFORMATION

BOARD OF DIRECTORS

William P. Stewart ⁽¹⁾

*Executive Chairman
W.P. Stewart & Co., Ltd.*

Charles H. Price

*Managing Principal
Palmer Capital LLP
London, England*

Mark I. Phelps ⁽¹⁾

*President & Chief Executive Officer
W.P. Stewart & Co., Ltd.*

Mal T. Serure ⁽¹⁾

*Managing Member
Arrow Capital Management LLC
New York, NY*

Alfred J. Mulder

*Chairman, Investment Committee
Greenfield Capital Partners
Nice, France*

Alexandre von Furstenberg

*Founder and CIO
Ranger Global Advisers, LLC
Los Angeles, CA*

CORPORATE OFFICERS

Executive Officers

Mark I. Phelps

President & Chief Executive Officer

Mark D. Bergen

Managing Director - Chief Operating Officer & Chief Financial Officer

James T. Tierney, Jr.

Managing Director – Chief Investment Officer

GENERAL COUNSEL & SECRETARY

Seth L. Pearlstein

Legend:

(1) Member of the Executive Committee of the Board of Directors

C O R P O R A T E I N F O R M A T I O N

Principal Offices and Operating Subsidiaries

W.P. Stewart & Co., Ltd. ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾

New York, New York, USA

W.P. Stewart Asset Management Ltd. ⁽³⁾

New York, New York, USA

WPS Advisors, Inc. ⁽²⁾⁽³⁾

New York, New York, USA

W.P. Stewart Asset Management (NA), Inc. ⁽⁴⁾

New York, New York, USA

W.P. Stewart Asset Management (Europe) N.V. ⁽⁴⁾

Schiphol, The Netherlands

W.P. Stewart & Co. (Europe), Ltd.

London, England, UK

W.P. Stewart Fund Management S.A. ⁽⁵⁾

Luxembourg

Other Information

Corporate Jurisdiction

In May 2010, the Company completed a corporate restructuring and reorganization whereby the Company reorganized from an exempted company incorporated with limited liability under the laws of Bermuda to a Delaware corporation.

Common Share Listing

The Company's common stock is currently traded in the U.S. on the Pink Sheets under the trading symbol "WPSL".

Independent Auditors

PricewaterhouseCoopers LLP
New York, New York

Registrar & Transfer Agent

Computershare Trust Company, N.A.
P.O. Box 43069
Providence, Rhode Island 02940-3069
USA

Legend:

(1) Headquarters

(2) Research Center

(3) Investment Management

(4) Client Service and Asset Gathering

(5) Fund Management

WPSTEWART®

527 Madison Avenue
20th Floor
New York, New York 10022
www.wpstewart.com
