



# Statement of Financial Condition

## June 30, 2009

### Assets

|   |                             |
|---|-----------------------------|
| Cash and cash equivalents   | \$ 526,687                  |
| Cash segregated in compliance with federal and other regulations                    | 67,194,450                  |
| Receivable from broker-dealers and clearing organizations                           | 849,559                     |
| Receivable from customers   | 24,351,928                  |
| Securities owned at market value  | 51,895,618                  |
| Goodwill  | 7,129,258                   |
| Furniture, equipment and leasehold improvements,<br>net of accumulated depreciation | 229,460                     |
| Other assets  | 861,795                     |
| <b>Total Assets</b>   | <b><u>\$153,038,755</u></b> |

### Liabilities & Stockholder's Equity

#### Liabilities

|  |                              |
|--|------------------------------|
| Payable to customers                                     | \$119,677,438                |
| Payable to non customers                                 | 451,998                      |
| Drafts payable   | 1,473,860                    |
| Payable to broker-dealers and clearing organizations     | 596,398                      |
| Securities sold, not yet purchased                       | 492,876                      |
| Accounts payable, accrued expenses and other liabilities | 655,757                      |
| <b>Total Liabilities</b>                                 | <b><u>\$ 123,348,327</u></b> |

#### Stockholder's Equity

|  |                             |
|--|-----------------------------|
| Common stock; \$1.00 par value, 5,000,000 shares authorized, 8,000<br>issued and outstanding | \$8,000                     |
| Paid in capital  | \$19,292,352                |
| Retained earnings  | <u>\$10,390,076</u>         |
| <b>Stockholder's Equity</b>  | <b><u>\$29,690,428</u></b>  |
| <b>Total Liabilities &amp; Stockholder's Equity</b>  | <b><u>\$153,038,755</u></b> |

*The Accompanying Notes are an Integral Part of this Financial Statement*

### Notes to Statement of Financial Condition as of June 30, 2009

#### 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

##### Basis of Presentation

StockCross Financial Services, Inc. (The "Company") is a broker/dealer registered with the Securities and Exchange Commission ("SEC") and is a member of the New York Stock Exchange, Inc. and Financial Industry Regulatory Authority ("FINRA").

##### Securities Transactions and Commissions

Customers' securities transactions are recorded on a settlement date basis, generally three business days following the transaction. Commission and other securities transactions are recorded on a trade-date basis as the securities transactions occur. Securities owned and securities borrowed are recorded at current market value.

##### Securities Borrowed and Loaned

Securities borrowed are recorded at the amount of cash collateral advanced. Securities borrowed transactions require the Company to deposit cash, letters of credit, or other collateral with the lenders. For securities loaned, the Company monitors the market value of the securities borrowed and securities loaned, with additional collateral obtained or refunded as necessary.

#### Goodwill

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually for impairment in accordance with this statement. Goodwill is tested for impairment annually. Using cash flow and marketing analysis, management determined in 2008 that carrying value of goodwill was not impaired and therefore there was no impact on the Company's results of operations or financial position as of December 31, 2008.

#### Income Taxes

Effective in 2006, the Company elected subchapter S subsidiary status for federal income tax purposes. As a subchapter S subsidiary, the Company is a disregarded entity for federal tax purposes and as such the Parent company's stockholder reports the income attributable to the Company on their personal income tax return. Accordingly, there is no provision necessary for federal income taxes. The Company is subject to state and local excise and income taxes in certain jurisdictions.

#### Furniture Equipment and Leasehold Improvements

Furniture equipment and leasehold improvements are carried at less accumulated depreciation and amortization. Depreciation and amortization are recorded on a straight-line basis over the lesser of the estimated useful lives of the related assets or non-cancelable lease terms, as appropriate.

#### Drafts Payable

Drafts payable represent checks drawn by the Company against customer accounts that were deposited subsequent to year-end.

#### Concentrations of Credit Risk and Estimates

The Company is engaged in various trading and brokerage activities whose contra-parties include broker-dealers, banks and other financial institutions. In the event contra-parties do not fulfill their obligations, the Company may sustain a loss if the market value of the instrument is different from the contract value of the transactions. The risk of default primarily depends upon the credit worthiness of the contra-parties involved in the transactions. It is the Company's policy to review, as necessary, the credit standing of each contra-party with which it conducts business.

#### Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Company to use estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### 2 SECURITIES OWNED, SECURITIES BORROWED AND SECURITIES SOLD, BUT NOT YET PURCHASED

Securities owned and securities borrowed consist primarily of U.S. government obligations, certificates of deposit and trading securities in U.S. public entities at quoted market value.

#### 3 COMMITMENTS AND CONTINGENCIES:

##### Lease Commitments

The Company rents office space and leases computers and other equipment under various operating leases.

At June 30, 2009 minimum future rental on non-cancelable leases are as follows:

|      |                     |
|------|---------------------|
| 2009 | \$367,000           |
| 2010 | 545,000             |
| 2011 | 334,000             |
| 2012 | 167,000             |
| 2013 | 48,000              |
|      | <u>\$ 1,461,000</u> |

# Statement of Financial Condition

June 30, 2009

#### **4 FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:**

The Company enters into various transactions to meet the needs of customers, conduct trading activities and manage market risks and are, therefore subject to varying degrees of market and credit risk.

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

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, The Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance-sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations.

The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires customers to deposit additional collateral or reduce positions, when necessary.

The Company's customer financing and securities settlement activities may require the Company to pledge customer securities as collateral in support of various secured financing sources such as bank loans and securities loaned. In the event the counter-party is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company may be exposed to risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes credit limits for such activities and monitors compliance on a daily basis.

#### **5 RECEIVABLE FROM AND PAYABLE TO CUSTOMERS**

Accounts receivable from and payable to customers include amounts due from cash and margin transactions. Securities owned by customers are held as collateral for receivables.

#### **6 CASH AND SECURITIES SEGREGATED IN COMPLIANCE WITH FEDERAL AND OTHER REGULATIONS:**

Cash of \$67,194,450 and securities of \$38,286,525 included in securities owned, have been segregated in a special reserve account for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission.

#### **7 PAYABLE TO NON-CUSTOMERS**

Payable to non-customers include amounts due on cash and margin transactions on accounts owned and controlled by principal officers, directors and stockholders.

#### **8 NET CAPITAL REQUIREMENT**

The Company as a broker-dealer is subject to the Uniform Net Capital Rule of the SEC (Rule 15c3-1). Under the alternate method permitted by this, net capital, as defined, shall not be less than 2% of aggregate debit items arising from customer transactions. On June 30, 2009 the Company's net capital was \$20,241,392 which was \$19,704,138 in excess of its required net capital of \$537,254. The Company's percentage of aggregate debit balance to net capital was 75.3% as of June 30, 2009.

#### **9 INCENTIVE PLAN**

With the approval the board of directors and stockholder, the Company adopted an incentive plan (the "Plan") in 2007 to provide annual incentives to certain employees or directors. The incentive will be the award of cash settled stock appreciation rights ("SARs") based on shares of common stock not to exceed 100,000 shares awarded to any participant for a calendar year. SARs which satisfy the vesting requirements set forth in the Plan will entitle the participant to receive a cash settle payment equal to the appreciation in the fair market value of a stated number of shares of common stock from the grant date to the date of exercise. The grant price for a particular SAR will be set forth in the award notice. At December 31, 2008, there were approximately 342,000 nonvested SARs outstanding with no intrinsic value.