

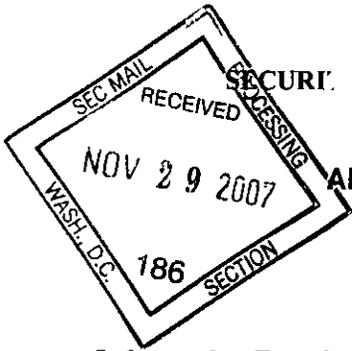
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Washington, D.C. 20549

MISSION



ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	February 28, 2010
Estimated average burden hours per response	12

SEC FILE NUMBER
8-3149

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Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 10/01/06 AND ENDING 9/30/07 X

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Stone & Youngberg LLC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

One Ferry Building

(No. and Street)

San Francisco

CA

94111

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT:

Mitchell H. Gage, Chief Financial Officer

415-445-2300

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Moss Adams LLP

(No. and Street)

One California Street

San Francisco

California

94111

(Address)

(City)

(State)

PROCESSED

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

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FINANCIAL

FOR OFFICIAL USE ONLY

\* Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

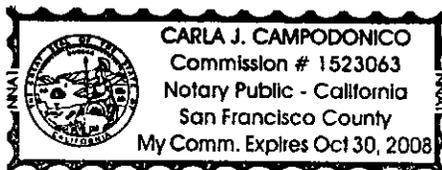
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1/8/08 YH

# OATH OR AFFIRMATION

I, Mitchell H. Gage, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of Stone & Youngberg LLC, as of and for the year ending September 30, 2007, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

None



[Signature]  
Signature

Chief Financial Officer  
Title

[Signature]  
Notary Public

This report\*\* contains (check all applicable boxes):

- Independent Auditors' Report
- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Operations.
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Member's Equity.
- (f) Statement of Changes in Subordinated Liabilities.
- (g) Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934.
- (h) Computation for Determination of Reserve Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934.
- (i) Information Relating to the Possession or Control Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934 (Not Applicable).
- (j) A Reconciliation, including Appropriate Explanations, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements under Rule 15c3-3 (Not Applicable).
- (k) A Reconciliation Between the Audited and Unaudited Statements of Financial Condition with Respect to Methods of Consolidation (Not Applicable).
- (l) An Oath or Affirmation.
- (m) A Copy of the SIPC Supplemental Report (Not Required).
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit (Supplemental Report on Internal Control).

\*\* For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**STONE & YOUNGBERG LLC**

(SEC ID. NO. 8-3149)

**Statement of Financial Condition  
as of September 30, 2007 and  
Independent Auditors' Report**

\* \* \* \* \*

**PUBLIC DOCUMENT**

Filed pursuant to Rule 17a-5(e)(3) as a **PUBLIC DOCUMENT.**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Stone & Youngberg LLC

We have audited the accompanying Statement of Financial Condition of Stone & Youngberg LLC (the Firm) as of September 30, 2007 that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Firm's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Firm's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of the Firm as of September 30, 2007 in conformity with accounting principles generally accepted in the United States of America.

*Moss Adams LLP*

San Francisco, California  
November 28, 2007

**STONE & YOUNGBERG LLC**

**STATEMENT OF FINANCIAL CONDITION AS OF SEPTEMBER 30, 2007**

**ASSETS**

CASH		\$ 856,716
SECURITIES OWNED:		
Marketable, at market value	\$ 87,571,952	
Non-marketable, at estimated fair value	<u>12,338,822</u>	99,910,774
SUBORDINATED SECURED DEMAND NOTES RECEIVABLE		2,202,000
FIXED ASSETS, net of accumulated depreciation and amortization of \$4,746,304		1,606,987
OTHER ASSETS		<u>4,726,769</u>
Total Assets		<u>\$ 109,303,246</u>

**LIABILITIES AND MEMBER'S EQUITY**

PAYABLE TO CLEARING ORGANIZATION		\$ 4,534,245
ACCOUNTS PAYABLE & ACCRUED EXPENSES		19,280,631
SECURITIES SOLD, NOT YET PURCHASED, at market value		50,467,041
PAYABLE TO STONE & YOUNGBERG HOLDINGS LLC		2,647,592
SUBORDINATED SECURED DEMAND NOTES PAYABLE		<u>2,202,000</u>
Total Liabilities		\$ 79,131,509
MEMBER'S EQUITY		<u>30,171,737</u>
Total Liabilities & Member's Equity		<u>\$ 109,303,246</u>

The accompanying notes are an integral part of this financial statement.

**STONE & YOUNGBERG LLC**

**NOTES TO STATEMENT OF FINANCIAL CONDITION**

**YEAR ENDED SEPTEMBER 30, 2007**

**Organization and Significant Accounting Policies**

**The Firm** - Stone & Youngberg LLC, a California limited liability company (the "Firm"), is an investment bank specializing in fixed income securities. The Firm is a registered broker-dealer with the Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority ("FINRA"). The Firm is wholly owned by Stone & Youngberg Holdings LLC ("Holdings"), a Delaware limited liability company. Holdings is also the owner of S&Y Asset Management LLC and S&Y Financial Services Group LLC, and the Managing Member of S&Y Capital Group LLC, collectively "the affiliated companies".

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates include the determination of the fair value of non-marketable securities, depreciation and amortization and expense allocations. Actual results could differ from those estimates.

**Cash** - Cash consists of demand deposits in banks. There are no withdrawal restrictions on cash.

**Securities Owned and Securities Sold, Not Yet Purchased** - Marketable securities owned and securities sold, not yet purchased, are reported at quoted market prices as of September 30, 2007. Securities sold, not yet purchased, represent obligations of the Firm to deliver the specified security at a contracted price, thereby creating a liability to purchase the security at prevailing prices.

Non-marketable securities owned include investment securities which are not actively traded. The Firm may also own securities that are restricted from sale until certain conditions are satisfied. Non-marketable securities owned are reported at estimated fair value as determined by management. Factors considered by management in valuing non-marketable investments include the type of investment, purchase cost, relative volume owned versus market averages, and current purchases and sales of the same or similar investments by other investors. However, because of the inherent uncertainty of valuation, management's estimate of fair values may differ significantly from the values that would have been used had an active market existed for the securities and the differences could be material.

**Income Taxes** - Income taxes are paid by the individual member; therefore, no provision for such taxes has been made in the balance sheet.

**Securities Transactions** - All transactions entered into for the account and risk of the Firm are recorded on a trade-date basis.

**Fixed Assets** - Fixed assets represent furniture, equipment, and leasehold improvements and are recorded at cost, less accumulated depreciation and amortization. Depreciation is computed using an accelerated depreciation method. Amortization of leasehold improvements is computed using an accelerated depreciation method over the shorter of the lease term or the estimated useful lives of the improvements.

### Securities Owned and Securities Sold, Not Yet Purchased

Marketable securities owned and securities sold, not yet purchased, as of September 30, 2007 consist of the following:

	<u>Securities Owned</u>	<u>Securities Sold Not Yet Purchased</u>
State and Municipal Obligations	\$ 50,505,481	\$ 5,943
Corporate Bonds, Debentures and Notes	9,275,683	23,020
Obligations of U.S. Government	26,423,027	50,438,078
Stock and Funds	1,367,761	0
Total	<u>\$ 87,571,952</u>	<u>\$ 50,467,041</u>

Non-marketable securities owned at estimated fair value of \$12,338,822 as of September 30, 2007 consist of state and municipal obligations.

Included in securities owned are securities pledged as collateral for letters of credit related to leases for office space and for the deposit with the Firm's clearing agent. The value of the pledged securities as of September 30, 2007 was \$775,000.

### Receivable From and Payable to Clearing Organization

The Firm clears its transactions through another broker-dealer on a fully disclosed basis. A receivable from the clearing organization is the result of the Firm's activity with this clearing organization. The Firm may also have a payable to the clearing organization related to these transactions, which is collateralized by securities owned by the Firm. A payable primarily relates to the financing of the Firm's inventory by the clearing organization. The Firm is charged 50 basis points over the Fed Funds rate on the payable balance. The Firm had a payable to the clearing organization of \$4,534,245 at September 30, 2007.

### Subordinated Borrowings

The Firm has entered into secured demand note agreements with various members from Holdings. Borrowings under secured demand note collateral agreements of \$2,202,000 are due February 2008 and pay interest at 8% and are secured by securities and cash with a market value at September 30, 2007 of \$2,584,223. The demand notes receivable are also due February 2008. The borrowings are included in computing net capital under the SEC's uniform net capital rule. To the extent that such borrowings are required for the Firm's continued compliance with minimum net capital requirements, they may not be repaid.

## Fixed Assets

Following is a summary of fixed assets as of September 30, 2007:

Equipment	\$ 2,321,326
Furniture	2,363,698
Leasehold Improvements	<u>1,668,267</u>
	\$ 6,353,291
Less: Accumulated depreciation and amortization	<u>(4,746,304)</u>
	<u>\$ 1,606,987</u>

## New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board issued Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands financial statement disclosures about fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact of adopting FAS 157.

## Member's Equity

The Firm is wholly owned by Holdings. Member's equity at September 30, 2007 includes equity of \$27,275,867 and undistributed earnings of \$2,895,870. During the year ended September 30, 2007, the Firm made a distribution of net income to Holdings of \$5,503,839 and received contributions of capital from Holdings of \$5,702,000. All withdrawals of member's equity require the approval of the NASD.

Under the Firm's compensation plan (the "Plan"), certain employees are granted shares of equity in Holdings. The shares granted are subject to a cliff vesting period from the date of issuance or related to the achievement of certain performance measurements by a predetermined period. Employee compensation expense for the Plan is recorded on a straight-line basis over the vesting period or on a straight-line basis over the period until certain performance criteria are estimated to be achieved. As of September 30, 2007, the Firm has \$650,000 in grants outstanding with \$377,936 recorded in member's equity reflecting vested interests.

## Related Party Transactions

The Firm makes disbursements related to certain compensation, benefits, occupancy and information technology services on behalf of its affiliates. The Firm makes disbursements related to certain compensation, benefits, occupancy and information technology services on behalf of its affiliates. Charges the Firm allocated to its affiliates on a monthly basis were determined based on headcount and estimated utilization of the Firm's time and resources. Management believes that, in general, specific identification of certain of these expenses is not practicable, and the methods used to allocate the expenses to the affiliates are reasonable.

The Firm maintains an inter-company relationship with Holdings recorded as payable to Stone & Youngberg Holdings LLC. Charges for the services allocated to affiliates are charged against that account. The balance in the payable to Stone & Youngberg Holdings LLC as of September 30, 2007 was \$2,647,592.

The Firm occasionally extends forgivable loans to its employees. The principal amount of these loans, plus interest, is forgiven over a pre-determined period subject to continued employment with the Firm. The forgivable loans outstanding to employees at September 30, 2007 were \$1,926,136 and have vesting periods ranging from five to seven years.

The Firm occasionally conducts securities transactions with affiliated entities. The transactions are executed at prices determined by management to be market prices.

### **Benefit Plan**

The Firm has a 401(k) plan for eligible employees who have meet certain service requirements.

### **Net Capital Requirements**

The Firm is subject to the regulations and guidelines of the SEC and the NASD, including the SEC's "Net Capital Rule," which requires the Firm to maintain a ratio of aggregate indebtedness to net capital, as defined, not exceeding 15 to 1. At September 30, 2007, the Firm's net capital ratio was 1.19 to 1 and net capital as computed was \$16,192,582 which exceeded the SEC's requirement of \$1,285,375 by \$14,907,207.

### **Commitments and Contingencies**

In the normal course of business, transactions with customers and brokers generally settle three business days after trade-date. The Firm is therefore exposed to risk of loss on these transactions in the event of the customer's or broker's inability to meet the terms of their contracts in which case the Firm may have to purchase or sell securities at prevailing market prices. The Firm seeks to control the risk associated with non-performance of customers or brokers by reconciling information it receives from its clearing broker on a daily basis. Also in the normal course of business, the Firm enters into underwriting commitments. Transactions relating to such underwriting commitments that were open on September 30, 2007 and were subsequently settled had no material effect on the balance sheet as of that date.

The Firm has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Firm has recorded these obligations in the financial statements at September 30, 2007, at market values of the related securities and will incur a loss if the market value of the securities increases subsequent to September 30, 2007.

The Firm is obligated under leases for office space and certain equipment at September 30, 2007. Minimum annual lease payments under such leases are due in the following years ending September 30:

2008	\$ 3,067,914
2009	3,121,149
2010	3,017,301
2011	2,804,058
2012	2,522,882
Thereafter	<u>3,862,312</u>
Total	<u>\$ 18,395,616</u>

The leases for office space contain some escalation provisions and renewal options.

The Firm is currently involved in various legal matters arising primarily from its investment banking and brokerage activities. Although the ultimate outcome of these matters cannot be ascertained at this time, it is the opinion of management, based on discussions with legal counsel, that the resolution of these matters will not in the aggregate have a material adverse effect upon the Firm's financial position or results of operations.

\* \* \* \* \*

**END**