

APES  
97



11017269

SECURITIES

Washington, D.C. 20549

SEC Mail  
Mail Processing  
Section

FEB 28 2011

Washington, DC  
106

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	April 30, 2013
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
8- 26614

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

FACING PAGE

## 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 01/01/10 AND ENDING 12/31/10  
MM/DD/YY MM/DD/YY

### A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Capital Brokerage Corporation

OFFICIAL USE ONLY
FIRM I.D. NO.

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

6620 West Broad Street, Building 2

(No. and Street)

Richmond

VA

23230

(City)

(State)

(Zip Code)

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

Linda Bagnell

804-484-7286

(Area Code - Telephone Number)

### B. ACCOUNTANT IDENTIFICATION

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

KPMG LLP

(Name - if individual, state last, first, middle name)

1021 East Cary Street

Richmond

VA

23219

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

SECURITIES AND EXCHANGE COMMISSION <b>RECEIVED</b> FEB 28 2011 BRANCH OF REGISTRATIONS AND EXAMINATIONS
--

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)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

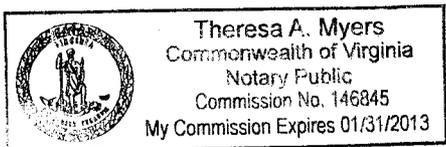
OATH OR AFFIRMATION

I, John G. Apostle, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Capital Brokerage Corporation, as of December 31, 2010, 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:

Commonwealth of Virginia  
County of Henrico

*[Handwritten Signature]*  
Signature  
President  
Title

*Theresa A. Myers* Dated: 2/17/11  
Notary Public



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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

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



**KPMG LLP**  
Suite 2000  
1021 East Cary Street  
Richmond, VA 23219-4023

### **Report of Independent Registered Public Accounting Firm**

The Board of Directors  
Capital Brokerage Corporation:

We have audited the accompanying statement of financial condition of Capital Brokerage Corporation (the Company) as of December 31, 2010 that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Capital Brokerage Corporation as of December 31, 2010 in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the statement of financial condition. The information contained in Schedule 1 is presented for purposes of additional analysis and is not a required part of the statement of financial condition, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the statement of financial condition and, in our opinion, is fairly stated in all material respects in relation to the statement of financial condition.

**KPMG LLP**

February 25, 2011

# CAPITAL BROKERAGE CORPORATION

## Statement of Financial Condition

December 31, 2010

(Dollar amounts in thousands, except share amounts)

### Assets

Cash and cash equivalents	\$	8,728
Commissions receivable		1,693
Other assets		<u>136</u>
Total assets	\$	<u><u>10,557</u></u>

### Liabilities and Shareholder's Interest

#### Liabilities:

Accounts payable and accrued liabilities	\$	4
Payable to affiliates		50
Current income taxes payable to affiliate		<u>1,037</u>
Total liabilities		<u>1,091</u>

#### Commitments and contingencies

#### Shareholder's interest:

Common stock (\$1 par value. Authorized 100,000 shares; issued and outstanding 10,000 shares)		10
Additional paid-in capital		1,935
Retained earnings		<u>7,521</u>
Total shareholder's interest		<u>9,466</u>
Total liabilities and shareholder's interest	\$	<u><u>10,557</u></u>

See accompanying notes to statement of financial condition.

# CAPITAL BROKERAGE CORPORATION

Notes to Statement of Financial Condition

December 31, 2010

(Dollar amounts in thousands)

## (1) Organization and Summary of Significant Accounting Policies

### (a) Organization

Capital Brokerage Corporation, (the Company or CBC), a Washington corporation, was incorporated on July 10, 1981, and is registered as a broker/dealer under the Securities Exchange Act of 1934. The Company is a wholly owned subsidiary of GNA Corporation, which is a wholly owned subsidiary of Genworth Financial, Inc. (Genworth).

The Company is an underwriting broker/dealer and is subject to the rules and regulations of the Securities and Exchange Commission including Net Capital Rule 15c3-1-3(k)(1).

Effective May 1, 2008, the Company merged with AssetMark Capital Corporation, an affiliated introducing broker/dealer registered in California, with CBC being the surviving entity. The merger had an immaterial impact on the Company's operations, and financial and net capital position.

### (b) Revenues and Expenses

In 2010, almost all of the Company's revenues were derived from related parties. The Company acts as the principal underwriter (as defined in the Investment Company Act of 1940) of flexible and single premium variable life insurance and variable annuity contracts issued by various affiliated insurance companies and as the underwriter of mutual funds for Genworth Financial Wealth Management, Inc. The accompanying financial statements might not necessarily be indicative of the Company's financial condition or results of operation had the Company operated on an autonomous basis during the year ended December 31, 2010.

Revenue and expenses related to the sale of variable life insurance and variable annuity products of affiliated insurance companies are recorded on the accrual basis, based on the trade date, as commission revenue from affiliate insurance product sales and commission expense on affiliate insurance product sales in the statement of income.

In 2010, a significant portion of commission revenue from other product sales was derived from 12b-1 fees and service fees paid by third-party investment companies to the Company as the underwriter of various contracts issued by Genworth affiliated life insurance companies.

### (c) Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

### (d) Liabilities Subordinated to Claims of General Creditors

The Company did not carry liabilities subordinated to claims of general creditors during the year ended December 31, 2010 and, therefore, has not included a statement of changes for such activities.

# CAPITAL BROKERAGE CORPORATION

## Notes to Statement of Financial Condition

December 31, 2010

(Dollar amounts in thousands)

*(e) Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts and related disclosures. Actual results may differ from those estimates. Subsequent events have been considered for disclosure through February 25, 2011 and there were no material subsequent events, except as disclosed in footnote 7.

*(f) Income Taxes*

The Company is currently included in the consolidated federal income tax return of Genworth and subject to a tax-sharing arrangement that allocates tax liability on a separate company basis, but provides benefit for current utilization of losses and credits.

The Company is included in 23 combined/unitary state income tax returns of Genworth and files separate state income tax returns in 21 states. The Company calculates its state income tax rate based on its separate state return filings and its portion of the combined/unitary state returns. For 2010, the Company had a blended state income tax rate of 8.14%.

Deferred tax assets and/or liabilities are determined by multiplying the difference between the financial reporting and tax reporting bases for assets and liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances on deferred tax assets are estimated based on the Company's assessment of the probability of realizing such amounts.

**(2) Income Taxes**

The total federal and state income tax expense for the year ended December 31, 2010 consisted of the following components:

Current federal income tax expense	\$	1,338
Current state income tax expense		<u>163</u>
Total current federal and state income tax expense	\$	<u><u>1,501</u></u>

The following reconciles the federal statutory tax rate of 35% to the reported income tax:

Expected federal income tax expense computed at statutory corporate tax rate	35.0%
State income tax, net of federal benefit	3.4%
Other, including prior year adjustments	<u>9.4%</u>
Total federal and state income tax expense	<u><u>47.8%</u></u>

Based on an analysis of the Company's tax position, there were no deferred tax assets and therefore no valuation allowance for the deferred tax assets is deemed necessary as of December 31, 2010.

## CAPITAL BROKERAGE CORPORATION

### Notes to Statement of Financial Condition

December 31, 2010

(Dollar amounts in thousands)

The Company has a current income tax liability of \$1,037 as of December 31, 2010.

As of January 1, 2010 and December 31, 2010 the Company had no unrecognized tax benefits. Accordingly, there would be no effective tax rate impact from recognition of previously unrecognized tax benefits. The December 31, 2010 statement of financial condition includes no amounts for interest or penalties related to unrecognized tax benefits, and no such amounts were recognized as components of income tax expense.

The Company files U.S. federal income tax returns (included in the Genworth consolidated returns) and various state and local income tax returns. The Company is no longer subject to U.S. federal income tax examinations for years prior to 2007 (except for potential adjustments to carry backs). Potential state and local examinations for those years are generally restricted to results that are based on closed U.S. Federal examinations. The Internal Revenue Service (IRS) is currently reviewing the U.S. income tax returns for the 2007 and the 2008 tax years. The Company was included in consolidated returns with its former parent, General Electric Company ("GE"), in 2003 and 2004. The IRS has completed its examination of these GE consolidated returns and the appropriate adjustments under the Tax Matters Agreement (TMA) and other tax sharing arrangements with GE are still in process.

#### **(3) Financial Instruments**

The financial instruments of the Company are reported in the Statement of Financial Condition at fair values, or at carrying amounts that approximate fair values because of the short maturity of the instruments.

#### **(4) Related-Party Transactions**

The Company has a service fee agreement with Genworth Life and Annuity Insurance Company (GLAIC), whereby the Company will reimburse GLAIC \$1,400, per quarter for a total of \$5,600 for the year related to the underwriting, distributing, and servicing of GLAIC variable annuity products. The Company also incurs and pays other, non-management fee related expenses to affiliates.

In 2008, the Company entered into a distribution agreement with Genworth Variable Insurance Trust "GVIT." GVIT is a trust engaged in business as an investment company. The Company sells and distributes shares of GVIT and in consideration for these services received \$1,715 in commissions in 2010 which is classified in commissions from other product sales.

#### **(5) Commitments and Contingencies**

During the normal course of operating our business, the Company may be subject to litigation. It is the policy of the Company to evaluate each individual situation and vigorously defend any cases it deems without merit. The Company believes that the outcome of such litigation will not have a material effect on its financial position or results of operations

## CAPITAL BROKERAGE CORPORATION

### Notes to Statement of Financial Condition

December 31, 2010

(Dollar amounts in thousands)

#### **(6) Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1) which requires the maintenance of minimum net capital and requires that the ratio of aggregated indebtedness to net capital, both as defined therein, shall not exceed 15 to 1 (and the rule also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2010, the Company had net capital of \$7,480 which was \$7,407 in excess of its required minimum net capital of \$73. As of December 31, 2010, the Company's ratio of aggregate indebtedness to net capital was 0.15 to 1.

#### **(7) Subsequent Event**

On January 6, 2011, Genworth announced that it is discontinuing new sales of retail variable annuities and group variable annuities. The Company will continue to service current holders of Genworth annuity contracts. The Company's commission revenue and expense related to the sales of variable annuity products may significantly decline as a result of this announcement.

## CAPITAL BROKERAGE CORPORATION

Computation of Net Capital Under  
Rule 15c3-1 of the Securities and Exchange Commission

December 31, 2010

(Dollar amounts in thousands)

Net capital:	
Total shareholder's interest	\$ 9,466
Deduction of nonallowable assets and net capital adjustments:	
Commissions receivable	(1,693)
Other assets	(136)
Haircut on cash equivalents	(157)
Net capital	<u>7,480</u>
Total aggregate indebtedness	<u>1,091</u>
Computation of basic net capital requirement:	
Greater of:	
6-2/3% of total aggregate indebtedness or	73
Minimum net capital requirements of Company	5
Net capital requirement	<u>73</u>
Excess net capital – net capital less net capital requirement	\$ <u>7,407</u>
Excess net capital at 1,000% – net capital less 10% of total aggregate indebtedness	\$ <u>7,371</u>
Ratio: Aggregate indebtedness to net capital	0.15 to 1

Reconciliation with the Company's computation (included in Part II of Form X-17A-5) as of  
December 31, 2010

	<u>Total shareholder's interest</u>	<u>Total nonallowable assets</u>	<u>Total aggregate indebtedness</u>	<u>Net capital</u>
As reported in the Company's Part II (unaudited) Focus Report filed January 26, 2011	\$ 9,653	2,111	1,186	7,385
Tax adjustments	(187)	(282)	(95)	95
	<u>\$ 9,466</u>	<u>1,829</u>	<u>1,091</u>	<u>7,480</u>

See accompanying report of independent registered public accounting firm.



**CAPITAL BROKERAGE CORPORATION**

Statement of Financial Condition and Supplementary Information  
Required by SEC Rule 17a-5

December 31, 2010

(With Report of Independent Registered Public Accounting Firm Thereon)