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SECURITIES AND EXCHANGE COMMISSION  
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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

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

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Southern Trust Securities, Inc. (formerly Capital Investment Services Inc.)

OFFICIAL USE ONLY  
FIRM ID. NO.

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

145 Almeria Ave.

(No. and Street)

Coral Gables

Florida

33134

(City)

(State)

(Zip Code)

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

Robert J. Escobio, President

(305) 446-4800

(Area Code -- Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

Rothstein, Kass & Company, P.C.

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

4 Becker Farm Road

Roseland

New Jersey

07068

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

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\*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).

SEC 1410 (06-02)

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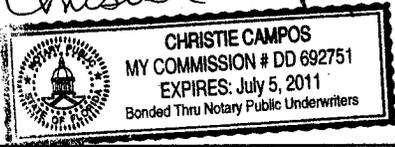
JD  
3/9/2011

# OATH OR AFFIRMATION

I, Robert J. Escobio, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Southern Trust Securities, Inc., 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*Christie Campos*



Notary Public

*[Handwritten Signature]*

Signature

*CEO*

Title

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 Proprietor's 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.
- (o) Independent auditor's report on internal accounting control.
- (p) Schedule of segregation requirements and funds in segregation--customers' regulated commodity futures account pursuant to Rule 171-5.

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

**SOUTHERN TRUST SECURITIES, INC.**  
STATEMENT OF FINANCIAL CONDITION  
AND  
INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2010

# **SOUTHERN TRUST SECURITIES, INC.**

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Certified  
Public  
Accountants

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Beverly Hills  
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New York  
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San Francisco  
Walnut Creek

# Rothstein Kass

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of  
Southern Trust Securities, Inc.

We have audited the accompanying statement of financial condition of Southern Trust Securities, Inc. (the "Company") as of December 31, 2010. The statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on the statement of financial condition based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 Southern Trust Securities, Inc. as of December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the statement of financial condition. The supplementary information listed in the accompanying table of contents 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 Regulation 1.16 under the Commodity Exchange Act. 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.

*Rothstein, Kass & Company, P.C.*

Roseland, New Jersey  
February 23, 2011

# SOUTHERN TRUST SECURITIES, INC.

## STATEMENT OF FINANCIAL CONDITION

December 31, 2010

### ASSETS

Cash	\$	88,524
Securities owned, at fair value		787,334
Commissions receivable		3,656
Due from clearing broker		86,657
Property and equipment, net		49,137
Due from related parties		110,494
Other assets		<u>10,203</u>
	\$	<u>1,136,005</u>

### LIABILITIES AND STOCKHOLDER'S EQUITY

#### Liabilities

Accounts payable and accrued expenses	\$	140,215
Obligation under capital lease		<u>6,509</u>
		<u>146,724</u>

#### Stockholder's equity

Common stock, \$100,000 par value, 1,000 shares authorized, 3.45 shares issued and outstanding		345,000
Additional paid-in capital		5,728,365
Accumulated deficit		<u>(5,084,084)</u>
		<u>989,281</u>
	\$	<u>1,136,005</u>

# SOUTHERN TRUST SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENT

### 1. Nature of operations

Southern Trust Securities, Inc. (the "Company"), a Florida Corporation, was organized on June 10, 1999. The Company is registered as an introducing broker/dealer with the Securities and Exchange Commission ("SEC") and, is a member of the National Futures Association ("NFA") and the Financial Industry Regulatory Authority ("FINRA").

The Company is an introducing broker clearing customer trades on a fully disclosed basis through a clearing firm. Under this basis, it forwards all customers transactions to another broker who carries all customers' accounts and maintains and preserves books and records. The Company's operations also consist of providing investment banking services.

The Company is a wholly-owned subsidiary of Southern Trust Securities Holding Corp. ("STSHC").

### 2. Summary of significant accounting policies

#### *Basis of Presentation*

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

#### *Securities Owned*

All securities owned are valued at market and unrealized gains and losses are reflected in revenues.

#### *Property and Equipment*

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from three to ten years. Repairs and maintenance are expensed as incurred while betterments and improvements are capitalized.

#### *Valuation of Investments in Securities at Fair Value – Definition and Hierarchy*

In accordance with GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. In accordance with GAAP, a fair value hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

# SOUTHERN TRUST SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENT

### 2. Summary of significant accounting policies (continued)

#### *Valuation of Investments in Securities at Fair Value – Definition and Hierarchy (continued)*

The fair value hierarchy is categorized into three levels based on the inputs as follows:

*Level 1* - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

*Level 2* - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

*Level 3* - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including, the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined.

Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls, is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

# SOUTHERN TRUST SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENT

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### 2. Summary of significant accounting policies (continued)

#### *Valuation Techniques*

The Company values investments in securities that are freely tradable and are listed on a national securities exchange or reported on the NASDAQ national market at their last sales price as of the last business day of the year.

#### *Derivative Contracts*

The Company records its derivative activities at fair value. Gains and losses from derivative contracts are included in trading income in the statement of operations. Derivative contracts include future and option contracts related to foreign currencies, government bonds and other securities.

The fair value of the derivate contracts traded by the Company is generally based on quoted prices in active markets on national exchanges. The derivative contracts, such as options and futures, which are listed on a national securities exchange or reported on the NASDAQ national market, are generally categorized in Level 1 of the fair value hierarchy.

#### *Offsetting of Amounts Related to Certain Contracts*

The Company has elected to offset fair value amounts recognized for cash collateral receivables and payables against fair value amounts recognized for net derivative positions executed with the same counterparty under the same master netting arrangement. At December 31, 2010, the Company offset cash collateral receivables of \$44,223 against its net derivative positions.

#### *Revenue and Expense Recognition from Securities Transactions*

The Company records all securities transactions, including commission revenue and related expenses, on a trade-date basis.

#### *Income Taxes*

The Company's taxable income or loss is included in the consolidated income tax returns of STSHC. Current and deferred income taxes are allocated to the members of the consolidated group as if each member were a separate taxpayer.

# SOUTHERN TRUST SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENT

### 2. Summary of significant accounting policies (continued)

#### *Income Taxes (continued)*

The Company follows an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for difference between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce the deferred income tax assets to the amount expected to be realized.

The determination of the Company's provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items and the probability of sustaining uncertain tax positions. The benefits of uncertain tax positions are recorded in the Company's financial statements only after determining a more-likely-than-not probability that the uncertain tax positions will withstand challenge, if any, from tax authorities. When facts and circumstances change, the Company reassesses these probabilities and records any changes in the financial statements as appropriate. Accrued interest and penalties related to income tax matters are classified as a component of income tax expense.

In accordance with GAAP, the Company is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized could result in the Company recording a tax liability that would reduce stockholders equity. This policy also provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities. Management's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof.

The Company files its income tax returns in consolidation with STSHC the U.S. federal and various state and local jurisdictions. Generally, the tax filings are no longer subject to income tax examinations by major taxing authorities for years before 2007. Any potential examinations may include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with U.S. federal, state and local tax laws. The Company's management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months.

#### *Interest and Penalty Recognition on Unrecognized Tax Benefits*

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

# SOUTHERN TRUST SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENT

### 2. Summary of significant accounting policies (continued)

#### *Recently Adopted Accounting Pronouncements*

In January 2010, the FASB issued an *Accounting Standards Update* to require new disclosures related to transfers into and out of Levels 1 and 2 of the fair value hierarchy and additional disclosure requirements related to Level 3 measurements. The guidance also clarifies existing fair value measurement disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The additional disclosure requirements are effective for the first reporting period beginning after December 15, 2009, except for the additional disclosure requirements related to Level 3 measurements, which are effective for fiscal years beginning after December 15, 2010. The adoption of the additional requirements is not expected to have any financial impact on the Company's financial statements.

#### *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements, as well as their related disclosures. Such estimates and assumptions also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 3. Fair value measurements

The Company's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with GAAP guidance for fair value measurement. See Note 2 for a discussion of the Company's policies regarding this hierarchy.

The Company's financial assets and liabilities measured at fair value on a recurring basis include those securities classified as securities owned on the statement of financial condition.

The following table presents information about the Company's assets and liabilities measured at fair value as of December 31, 2010:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (level 2)	Significant Unobservable Inputs (Level 3)	Collateral Held at Broker	Balance as of December 31, 2010
<b>Assets</b>					
Securities owned, at fair value:					
Money market	\$ 706,132				\$ 706,132
Options and futures	3,139			44,223	47,362
Equity securities	33,840				33,840
	<u>\$ 743,111</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,223</u>	<u>\$ 787,334</u>

# SOUTHERN TRUST SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENT

### 4. Derivative contracts

In the normal course of business, the Company utilizes derivative contracts in connection with its proprietary trading activities. Investments in derivative contracts are subject to additional risks that can result in a loss of all or part of an investment. The Company's derivative activities and exposure to derivative contracts are classified by the following primary underlying risks: interest rate, credit, foreign currency exchange rate, commodity price, and equity price risks. In addition to its primary underlying risks, the Company is also subject to additional counterparty risk due to inability of its counterparties to meet the terms of their contracts.

#### *Options*

The Company is subject to equity price risk in the normal course of pursuing its investment objectives. Option contracts give the Company the right, but not the obligation, to buy or sell within a limited time, a financial instrument, commodity or currency at a contracted price that may also be settled in cash, based on differentials between specified indices or prices.

The Company is exposed to counter-party risk from the potential that a seller of an option contract does not sell or purchase the underlying asset as agreed under the terms of the option contract. The maximum risk of loss from counterparty risk to the Company is the fair value of the contracts and the premiums paid to purchase its open option contracts. The Company considers the credit risk of the intermediary counterparty to its option transactions in evaluating potential credit risk.

#### *Futures Contracts*

The Company is subject to equity price risk in the normal course of pursuing its investment objectives. The Company may use futures contracts to gain exposure to, or hedge against, changes in the value of equities. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date. At December 31, 2010, there is one futures contract held and is classified by commodity price risk.

# SOUTHERN TRUST SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENT

### 4. Derivative contracts (continued)

#### *Impact of Derivatives on the Statement of Financial Condition and Statement of Operations*

The following table identifies the fair value amounts of derivative instruments included in the statement of financial condition as securities owned, categorized by primary underlying risk, at December 31, 2010. The following table also identifies the net gain and loss amounts included in the statement of operations as trading income, categorized by primary underlying risk, for the year ended December 31, 2010.

<u>Primary underlying risk</u>	<u>Derivative assets</u>	<u>Amount of gain (loss)</u>
<b>Commodity price</b>		
Options and futures	\$ 3,139	\$ 33,674
<b>Total</b>	<u>\$ 3,139</u>	<u>\$ 33,674</u>

### 5. Property and equipment

Property and equipment consisted of the following at December 31, 2010:

Furniture and fixtures	\$ 72,179
Office equipment	33,041
Capitalized leases	<u>17,543</u>
	122,763
Less: accumulated depreciation	<u>(73,626)</u>
	<u>\$ 49,137</u>

Depreciation expense for the year ended December 31, 2010 was \$17,197.

### 6. Related party transactions

#### *Occupancy*

Through February 28, 2010, the Company leased its Coral Gables, FL office from STSHC under a five year operating lease agreement, originally scheduled to expire in April 2012, which provided for monthly payments of base rent and quarterly payments of operating expenses. The lease also provided for increases in base rent on each of its anniversary dates and operating expenses are determined based on actual costs incurred by STSHC on the property. In March of 2010, STSHC terminated the lease agreement and the Company is no longer required to pay any rent or operating expenses.

# SOUTHERN TRUST SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENT

### 6. Related party transactions (continued)

Total rent expense under this lease agreement for the year ended December 31, 2010 was approximately \$15,000 in base rent and \$14,000 in operating expenses.

#### *Administrative Support*

The Company provides certain administrative support services to Southern Trust Securities Asset Management, Inc. ("STSAM"), a wholly-owned subsidiary of STSHC. The Company owed STSAM \$48,665 at December 31, 2010 which is included in "due from related parties".

STSHC owed the Company \$159,160 at December 31, 2010 which is included in "due from related parties".

### 7. Income taxes

The Company files consolidated tax returns with its parent. In accordance with GAAP, allocation of the consolidated income tax expense is necessary when separate financial statements are prepared for the affiliates. As a result, the Company uses a method that allocates current and deferred taxes to members of the consolidated group by applying the liability method to each member as if it were a separate taxpayer.

At December 31, 2010, the Company had net operating loss ("NOL") carry-forwards for federal and state income purposes approximating \$2,093,000. These losses are available for future years and expire through 2029. Utilization of these losses may be severely or completely limited if the Company undergoes an ownership change pursuant to Internal Revenue Code Section 382.

The deferred tax asset at December 31, 2010 is summarized as follows:

Deferred tax assets:	
Net operating loss carryforwards	\$ 781,170
Other	5,420
	<hr/>
Deferred tax assets	786,590
Less: Valuation allowance	(786,590)
	<hr/>
Net deferred tax asset	\$ -

# SOUTHERN TRUST SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENT

### 7. Income taxes (continued)

A reconciliation of income tax expense computed at the U.S. federal, state and local statutory rates and the Company's effective tax rate is as follows:

Statutory federal income tax expense	(34) %
State and local income tax (net of federal benefits)	(4)
Valuation allowance	<u>38</u>
	<u>- %</u>

The Company has taken a 100% valuation allowance against the deferred tax asset attributable to the NOL carry-forwards of \$2.1 million at December 31, 2010, due to the uncertainty of realizing the future tax benefits.

### 8. Employee benefit plan

The Company has established a retirement and savings plan for the benefit of employees who have at least one hour of service and have attained the age of 21 years. Under the provisions of the plan, participants may contribute up to 25 percent of their compensation up to the IRS prescribed limit. The Company has the option of matching a percentage of employee contributions. The Company did not make any matching contributions to the plan in 2010.

### 9. Net capital requirement

The Company is a member of FINRA and is subject to the SEC Uniform Net Capital Rule 15c3-1. This Rule requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 and that equity capital may not be withdrawn or dividends paid if the resulting net capital ratio would exceed 10 to 1. The Company is also subject to the Commodity Futures Trading Commission's minimum financial requirements which require that the Company maintain net capital, as defined for securities brokers and dealers, equal to or in excess of the greater of \$45,000 or the amount of net capital required by the SEC Rule 15c3-1. At December 31, 2010, the Company's net capital was approximately \$799,000 which was approximately \$699,000 in excess of its minimum requirement of \$100,000.

### 10. Exemption from Rule 15c3-3

The Company is exempt from the SEC Rule 15c3-3 pursuant to the exemptive provision under sub-paragraph (k) (2) (ii) and, therefore, is not required to maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers."

# SOUTHERN TRUST SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENT

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### 11. Concentration of risk

#### *Off-balance Sheet Risk*

Pursuant to a clearance agreement, the Company introduces all of its securities transactions to a clearing broker on a fully-disclosed basis. All of the customers' money balances and long and short security positions are carried on the books of the clearing broker. In accordance with the clearance agreement, the Company has agreed to indemnify the clearing broker for losses, if any, which the clearing broker may sustain from carrying securities transactions introduced by the Company. In accordance with industry practice and regulatory requirements, the Company and the clearing broker monitor collateral on the customers' accounts. In addition, the receivable from clearing broker is pursuant to the clearance agreement.

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 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.

#### *Credit Risk*

The Company maintains its cash in financial institutions, which at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not subject to any significant credit risk on cash.

### 12. Commitments and contingencies

#### *Legal Claims*

In the ordinary course of business, incidental to the Company's operations, the Company retains outside counsel to address claims with which the Company is involved. As of December 31, 2010, the Company was not aware of any legal proceedings, which management has determined to be material to its business operations; however, the Company has been named in the following three actions which it is vigorously defending and which actions, based on management's assessment in coordination with outside litigation counsel, the Company believes to be frivolous and without merit:

# SOUTHERN TRUST SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENT

### 12. Commitments and contingencies (continued)

#### *Legal Claims (continued)*

Salvatore Frieri, individually and as beneficiary of the Robert J. Escobio and Salvador Frieri-Gallo Trust, Plaintiff v. Robert Escobio, individually and as trustee of the Robert J. Escobio and Salvador Frieri-Gallo Trust, Southern Trust Securities Holding Corporation and Southern Trust Securities, Inc f/k/a Capital Investment Services, Inc., Defendants, in the Circuit Court of the Eleventh Judicial Circuit In and For Miami-Dade County, Florida, Case No. 08-07586 CA 08. The initial complaint in this action was filed on February 12, 2008. An amended complaint was filed on October 14, 2008. The amended complaint attempts to plead various causes of action related to the purchase and sale by the Salvador Frieri-Gallo Trust of STSHC's stock in a private placement in 2005. The plaintiff seeks rescission of the transaction. Management does not believe there is any merit to plaintiff's claims and the case is in an early stage.

In November 2008, the STS initiated legal action against two individuals and their related company. One of the individuals named in the suit is also an individual who has brought legal action against STS, as discussed in the preceding paragraph. STS's actions seek to recover compensation owed to it for work performed in connection with extensive financial and investment advice work, and services provided in preparation of a bid for Defendants regarding the restructuring, financing, investing, and acquisition of an interest in Aerovias Nacionales de Colombia S.A. Avianca ("Avianca S.A.") and its subsidiaries ("Avianca") in connection with Avianca's bankruptcy reorganization under Chapter 11 of the U.S. Bankruptcy Code. After serving one of the individuals and the related company, STS moved for and obtained defaults against these two Defendants on September 17, 2009. These two Defendants moved to set aside the defaults against them, which the Court set aside on November 2, 2009. On December 11, 2009, these two Defendants filed a Motion to Dismiss based on alleged failure to join an indispensable party, the ACDAC (Pilot Association). We do not believe that motion has any merit. We have served process on the second individual defendant. Based on information that is now available, STS claims the Defendants owe it approximately \$8.35 million dollars plus prejudgment interest from on or about January 2005. In the opinion of outside counsel, it is too early to predict the ultimate recovery from Defendants.

On December 7, 2010, STS filed a FINRA arbitration against Joseph Meuse, Rosewood Securities, LLC, BP Capital, LLC, and China Values Technology, Inc. The FINRA filing was amended on January 18, 2011, before FINRA commenced serving the Respondents. STS seeks to recover compensation it was entitled to receive for acting as placement agent under an agreement involving an offering of securities in a reverse merger into a publicly traded company, Respondent China Valves, which closed on May 18, 2009. The Agreement provided that STS would receive 23,490 warrant shares of China Valves, but it only received 5,739 warrant shares. Thus, STS has sued the Respondents to recover the additional 17,751 warrant shares that it should have received on May 18, 2009, their valued, lost profits, and lost opportunity costs caused by the failure to timely deliver the shares as required. The Respondents, in response to STS's pre-filing demands for payment, each blamed the other for the claimed failures to timely deliver the missing warrant shares.

# SOUTHERN TRUST SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENT

### 12. Commitments and contingencies (continued)

#### *Legal Claims (continued)*

Outside counsel, believes that it is likely that STS will obtain an award against one or more of the Respondents, but it still has not been determined who is telling the truth as to when and where the missing warrant shares are, because arbitration proceedings have just begun. Respondents have not filed their answers and no discovery has yet commenced.

On or about December 28, 2010, plaintiffs attempted to serve process on STSCH by serving STS, with an Amended Complaint filed in the United States Federal District Court for the Southern District Court of New York. The trust of the Amended Complaint seems to be that Plaintiffs invested about \$12.5 million in a company named Aamaxen Transport Group, Inc. ("AAXT"), pursuant to a Securities Purchase Agreement, dated April 14, 2008, in exchange for AAXT's Series A Convertible Preferred Stock. AAXT, a publicly traded company, shares are listed on the OTC Bulletin Board. AAXT, a Delaware Company, has its principal place of business in Shanghai, China. AAXT was to ultimately invest in and own a significant beneficial interest in Shanghai Atrip Medical Technology, Co., Ltd. ("SMT"), another Chinese company. Plaintiffs claim the transaction did not take place as agreed and that the Chinese principals in certain of the entities involved continued to maintain control over some entities, when they should not have and AAXT and other Plaintiffs' invested funds were ultimately embezzled. The investors sued those allegedly involved in the embezzlement, the attorneys involved in the transactions, and those who allegedly provided investment banking advice. The Amended Complaint includes STSHC along with certain entities controlled by Joseph Meuse and used to provide investment, business, and structuring advice under the names Belmont Partners, LLC ("Belmont") and Rosewood Securities, LLC ("Rosewood"). The Amended Complaint defines Belmont to include Belmont Partners, Rosewood, or Meuse. STSHC had nothing to do with this matter. STS, which was not named a defendant, had a branch office agreement, whereby Rosewood operated as a branch office of STS managed by Meuse during part of the period involved. As determined so far, STS had no involvement in the transaction and whose only possible connection the parties was through the Rosewood branch office agreement, which was terminated in December 2009. STSHC retained New York counsel to represent it in this case. Counsel received an order from the Court extending the date for STSHC to respond to the Amended Complaint until March 11, 2011.

Based on what is known, management does not believe that STSHC had any involvement whatsoever and is not a proper defendant, and it also does not believe STS had any involvement, other than the possibility that the Rosewood branch office having some as yet unknown involvement without STS's knowledge or participation. At this point, little is known about the facts, since the case was only recently filed against STSHC.

# SOUTHERN TRUST SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENT

### 12. Commitments and contingencies (continued)

#### *Capital Lease - Future Minimum Lease Payments*

The Company leases certain office equipment under an agreement that is classified as a capital lease. At December 31, 2010 office equipment with a cost basis of \$17,543 and accumulated depreciation of \$13,157 is recorded under a capital lease.

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of December 31, 2010, are as follows:

#### **For the year ending December 31,**

	2011	\$	7,630
	2012		<u>2,180</u>
Total minimum lease payments			9,810
Less: Amount representing supplies and maintenance included in total amounts above			<u>(2,610)</u>
Net minimum lease payments			7,200
Less: Amount representing interest			<u>(691)</u>
Present value of net minimum lease payments		\$	<u><u>6,509</u></u>

# SOUTHERN TRUST SECURITIES, INC.

## SUPPLEMENTARY INFORMATION COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION AND REGULATION 1.17 OF THE COMMODITY FUTURES TRADING COMMISSION

December 31, 2010

<b>Net capital</b>		
Total stockholder's equity		\$ 989,281
<b>Less: non-allowable assets</b>		
Other assets		10,203
Property and equipment, net		49,137
Due from related parties		110,494
		<u>169,834</u>
<b>Net capital before haircuts</b>		819,447
<b>Less:</b>		
Securities haircuts		<u>20,783</u>
<b>Net capital</b>		<u>\$ 798,664</u>
<b>Aggregate indebtedness</b>		<u>\$ 146,724</u>
<b>Computed minimum net capital required</b> (6-2/3% of aggregate indebtedness)		<u>\$ 9,782</u>
<b>Minimum net capital required</b> (under SEC Rule 15c3-1)		<u>\$ 100,000</u>
<b>Excess net capital</b>		<u>\$ 698,664</u>
<b>Percentage of aggregate indebtedness to net capital</b>	\$ 146,724	
	<u>\$ 798,664</u>	
		<u>18%</u>

There are no material differences between the computation of net capital presented above and the computation of net capital reported on the Company's amended unaudited Form X-17A-5, Part IIA filing as of December 31, 2010.

**SOUTHERN TRUST SECURITIES, INC.**  
**145 Almeria Ave.**  
**CORAL GABLES, FL 33134**



Securities and Exchange Commission  
Office of Filings and Information Services  
Registration Branch  
Mail Stop 8031  
100 F Street, N.E.  
Washington, D.C. 20549

Re: SIPC Agreed Upon Procedures Report  
December 31, 2010  
SEC File No. 8-52282

Gentlemen:

In accordance with Rule 17a-5(e)(3), we respectfully request that the above-referenced Independent Accountants' Report on Applying Agreed-Upon Procedures Related to the SIPC Assessment Reconciliation Required by SEC Rule 17a-5(e)(4) and the related SIPC General Assessment Reconciliation Recalculation, which is attached separately, be deemed confidential pursuant to the rule.

Very truly yours,

  
\_\_\_\_\_  
John Cavallone

2/28/11  
Date

Certified  
Public  
Accountants

Rothstein, Kass & Company, P.C.  
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San Francisco  
Walnut Creek

## Rothstein Kass

### **INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES RELATED TO THE SIPC ASSESSMENT RECONCILIATION REQUIRED BY SEC RULE 17a-5**

To the Board of Directors of Southern Trust Securities, Inc.

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments (Form SIPC-7) to the Securities Investor Protection Corporation (SIPC) for the year ended December 31, 2010, which were agreed to by Southern Trust Securities, Inc. ("the Company") and the Securities and Exchange Commission, the Financial Industry Regulatory Authority, Inc., and SIPC, solely to assist you and the other specified parties in evaluating the Company's compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). The Company's management is responsible for the Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records noting no differences;
2. Compared the amounts reported on the audited Form X-17A-5 for the year ended December 31, 2010 with the amounts reported in Form SIPC-7 for the year ended December 31, 2010 noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers noting no differences; and
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers supporting the adjustments noting no differences.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the Company's compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

*Rothstein, Kass & Company, P.C.*

Roseland, New Jersey  
February 23, 2011

**Rothstein Kass**

# SOUTHERN TRUST SECURITIES, INC.

## SCHEDULE OF SECURITIES INVESTOR PROTECTION CORPORATION ASSESSMENTS AND PAYMENTS

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Year Ended December 31, 2010

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SIPC Net Operating Revenues Per General Assessment Reconciliation Form SIPC-7	<u>\$ 2,246,715</u>
General Assessments at .0025	\$ 5,617
Payment Remitted with Form SIPC-6	<u>(1,155)</u>
Amount Due with Form SIPC-7T	<u>\$ 4,462</u>

Rothstein Kass