

SECURITI

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

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

CPA  
6/15/12

SEC FILE NUMBER
8-40005 ✓

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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 January 1, 2011 AND ENDING December 31, 2011  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Falcon Research, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

1230 South Myrtle Avenue, Suite 401

(No. and Street)

Clearwater

Florida

33756

(City)

(State)

(Zip Code)

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

Kurt Feshbach

(727) 298-5400

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

Brimmer, Burek & Keelan LLP

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

5601 Mariner Street, Suite 200

Tampa

Florida

(Address)

(City)

(State)

SECURITIES AND EXCHANGE COMMISSION

RECEIVED

(Zip Code)

MAY 30 2012

CHECK ONE:

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

DIVISION OF TRADING & MARKETS

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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SEC 1410 (06-02)

CPA  
6/15/12

OATH OR AFFIRMATION

I, Kurt Feshbach, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Falcon Research, Inc., as of December 31, 2011, 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:

N/A

State of Florida, County of Pinellas  
sworn & subscribed before me February 8, 2012  
by Kurt Feshbach personally known  
Kurt Feshbach  
Signature



President  
Title

Dianne Kiernan  
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).

**Falcon Research, Inc.**  
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**December 31, 2011**

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# Brimmer, Burek & Keelan LLP

## Certified Public Accountants

5601 Mariner Street, Suite 200 • Tampa, Florida 33609  
(813) 282-3400 • Fax (813) 287-8369

### Registered Independent Auditor's Report

Terry R. Brimmer, CPA  
(Retired)

Brian B. Burek, CPA  
Walter C. Copeland, CPA  
Richard M. Herman, CPA

John F. Keelan, CPA

Donald T. Keyes, CPA

Kara K. Keyes, CPA

Frank D. Lagor, CPA

Gemma Thomas  
(License in Colorado)

To the Board of Directors,  
Falcon Research, Inc.:

We have audited the accompanying statement of financial condition of Falcon Research, Inc. (the Company) as of December 31, 2011, and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 statements referred to above present fairly, in all material respects, the financial position of Falcon Research, Inc. as of December 31, 2011, and the results of its operations and its cash flows for the years then ended 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 basic financial statements taken as a whole. The supplementary information, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is required by rule 17a-5 under the Securities Exchange Act of 1934. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Brimmer Burek & Keelan LLP*

Brimmer, Burek & Keelan LLP  
Tampa, Florida

February 25, 2012

A Firm Registered  
with PCAOB

Members of:  
Center for  
Public Company  
Audit Firms

American Institute of  
Certified Public Accountants

Florida Institute of Certified  
Public Accountants

**Falcon Research, Inc.**  
**Statement of Financial Condition**  
**December 31, 2011**

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	2011
<b>Assets</b>	
Current assets	
Cash	\$ 181,563
Receivable from clearing organization	35,266
Accounts receivable	84,719
Marketable securities	33,834
Accrued revenue	2,500
Prepaid expenses	<u>12,631</u>
Total current assets	350,513
Deposit with clearing organization	96,352
Security deposit	1,131
Furniture and equipment - net	<u>9,394</u>
	106,877
<b>Total Assets</b>	<b><u>\$ 457,390</u></b>
<b>Liabilities and Stockholder's Equity</b>	
Current liabilities	
Accounts payable	54,680
Accrued expenses	46,653
Deferred revenue	<u>27,500</u>
Total current liabilities	128,833
<b>Commitments and contingent liabilities</b>	
<b>Stockholder's equity</b>	
Common stock, no par value; 750,000 shares authorized, 120,723 shares issued and outstanding	261,139
Accumulated other comprehensive loss	(30,468)
Additional paid-in capital	264,570
Accumulated deficit	<u>(166,684)</u>
Total stockholder's equity	<u>328,557</u>
<b>Total Liabilities and Stockholder's equity</b>	<b><u>\$ 457,390</u></b>

See the accompanying Notes to the Financial Statements

**Falcon Research, Inc.**  
**Statement of Operations**  
**For the Year Ended December 31, 2011**

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<b>Revenues</b>	<b>2011</b>
Commissions	\$ 467,068
Research Income	883,211
Other income	<u>7,959</u>
<b>Total revenue</b>	<b>1,358,238</b>
 <b>Expenses</b>	
Employee compensation and benefits	650,552
Commissions, clearing fees and floor brokerage	72,881
Professional fees	158,622
Occupancy & equipment rental	46,282
Interest expense	114
Other operating expenses	<u>423,267</u>
<b>Total expenses</b>	<b><u>1,351,718</u></b>
 Net income	 6,520
Other comprehensive loss	<u>(19,582)</u>
Comprehensive loss	(13,062)

See the accompanying Notes to the Financial Statements

**Falcon Research, Inc.**  
**Statement of Changes in Stockholder's Equity**  
**For the Year Ended December 31, 2011**

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	<u>Common Stock</u>	<u>Paid-In Capital</u>	<u>Comprehensive Loss</u>	<u>Accumulated Deficit</u>	<u>Total</u>
<b>December 31, 2010</b>	261,139	\$ 264,570	\$ (10,886)	\$ 101,096	\$ 615,919
Change in gross unrealized gains (losses)			(19,582)		(19,582)
Capital contributions	-	-	-	-	-
Capital distributions	-	-	-	(274,300)	(274,300)
Net income	-	-	-	6,520	6,520
<b>December 31, 2011</b>	<u>\$ 261,139</u>	<u>\$ 264,570</u>	<u>\$ (30,468)</u>	<u>\$ (166,684)</u>	<u>\$ 328,557</u>

See the accompanying Notes to the Financial Statements

**Falcon Research, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2011**

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	2011
<b>Cash flows from operating activities</b>	
Net income	\$ 6,520
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation	3,045
(Increase) decrease in:	
Receivable from clearing organization	3,837
Accounts receivable	(59,719)
Accrued revenue	(2,500)
Prepaid expenses	(1,701)
(Decrease) increase in:	
Accounts payable	(31,437)
Accrued expense	(8,468)
Deferred revenue	8,500
Net cash used in operating activities	<u>(81,923)</u>
<b>Cash flows from investing activities</b>	
Deposit with clearing organization	245
Marketable securities, at market value	(232)
Purchase of furniture & equipment	<u>(5,199)</u>
Net cash used in investing activities	(5,186)
<b>Cash flows from financing activities</b>	
Distributions paid	<u>(274,300)</u>
Net cash used in financing activities	(274,300)
Net change in cash	(361,409)
<b>Cash</b>	
Beginning of year	<u>542,972</u>
End of year	<u>\$ 181,563</u>
<b>Supplemental disclosure of cash flow information</b>	
Cash paid during the year for:	
Interest	\$ 114

See the accompanying Notes to the Financial Statements

**Falcon Research, Inc.**  
**Notes to Financial Statements**  
**December 31, 2011**

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**Note 1 - Summary of Significant Accounting Policies**

Organization:

Falcon Research, Inc. ("the Company") was incorporated in the State of California on November 8, 1983. The Company is a registered broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investors Protection Corporation ("SIPC").

In the latter part of 2004, the Company elected to move its Office of Supervisory Jurisdiction to Clearwater, Florida. The move occurred in January 2005. In order to register the Company to conduct business in the state of Florida, the Company was required to register a new corporation name, Falcon Research of Tampa Bay, Inc., and then file to operate in Florida under the name Falcon Research, Inc.

On September 7, 2007, the FINRA granted the membership application of the Company with regard to the Membership Agreement Change reducing the minimum net capital requirement from \$100,000 to \$5,000.

In December 2010, the Company simultaneously filed a Certificate of Dissolution with the State of California and Certificate of Domestication with State of Florida as Falcon Research, Inc.

The Company does not hold customer funds or securities and conducts business on a fully disclosed basis, whereby another broker/dealer clears all transactions. The Company primarily earns commissions through the sale of equities.

In the normal course of business, the Company's customer activities involve the execution and settlement of various customer securities and financial instrument transactions. These activities may expose the Company to off-balance-sheet credit risk in the event the customer is unable to fulfill its contractual obligations.

Principal Business Activity:

The Company primarily earns commissions through the sale of equities and fees through the sale of research.

The Company recognizes research consulting revenue in accordance with Accounting Standards Codification ("ASC") 605, *Revenue Recognition*. Revenue is not recognized until it is realized or realizable and earned. The criteria to meet this guideline are: (a) persuasive evidence of an arrangement exists; (b) delivery has occurred or services have been rendered; (c) the price to the buyer is fixed or determinable; and (d) collectability is reasonably assured. Research consulting revenue is included in research income on the Statement of Operations.

In the normal course of business, the Company's customer activities involve the execution and settlement of various customers' securities and financial instrument transactions. These activities may expose the Company to off-balance-sheet credit risk in the event the customer is unable to fulfill its contractual obligations. At December 31, 2011, the Company did not incur any financial loss related to these obligations. The Company does not hold customer funds or securities and conducts business on a fully disclosed basis, whereby another broker/dealer clears all transactions.

Clients' securities and principal transactions together with the related commission revenues and expenses of the Company are recorded on the trade date.

Financial Statement 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, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Falcon Research, Inc.**  
**Notes to Financial Statements**  
**December 31, 2011**

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**Note 1 - Summary of Significant Accounting Policies (Continued)**

Cash and Cash Equivalents:

The Company considers all highly liquid temporary cash investments with an original maturity of three months or less when purchased, to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts:

The Company's commissions receivable are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial. Receivables for research are charged off when they are deemed uncollectible, which may arise when customers file for bankruptcy or are otherwise deemed unable to repay the amounts owed to the Company.

Income Taxes:

The Company, with the consent of its Stockholder, has elected to be an S Corporation and, accordingly, has its income taxed under Sections 1361-1379 of the Internal Revenue Code. Subchapter S of the Code provides that the Stockholder, rather than the Company, is subject to tax on the Company's taxable income. Therefore, no provision or liability for Federal Income Taxes is included in these financial statements.

The Company has elected to report the statement of changes in stockholder's equity without disclosing the accumulated adjustment account and other equity accounts pertinent to an S Corporation. There is no financial impact to these financial statements.

Fixed Assets:

Furniture and equipment are stated at cost. Depreciation charges with respect to furniture and equipment have been made by the Company on the straight-line method over the estimated useful lives of the assets; 5 years for furniture and equipment.

Expenditures for maintenance and repairs are charged to revenues as incurred. Expenditures for betterments and major renewals are capitalized and, therefore, are included in property and equipment.

For furniture and equipment not fully depreciated, which is retired or sold, the cost of the asset is credited to the respective asset account, and the related accumulated depreciation is charged to the accumulated depreciation account. The gain or loss from sale or retirement of furniture and equipment is reflected in the statements of operations. There is no gain or loss from the sale or retirement of furniture and equipment for 2011.

Recent Accounting Pronouncements:

**Fair Value Measurements and Disclosures**

In May 2011, the FASB issued accounting updates to ASC 820, Fair Value Measurements Topic — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which provide clarifying guidance on how to measure fair value and additional disclosure requirements. The amendments prohibit the use of blockage factors at all levels of the fair value hierarchy and provide guidance on measuring financial instruments that are managed on a net portfolio basis. Additional disclosure requirements include transfers between Levels 1 and 2; and for Level 3 fair value measurements, a description of our valuation processes and additional information about unobservable inputs impacting Level 3 measurements. ASU 2011-04 will be effective for the Company's fiscal year ending December 31, 2012 and will be applied prospectively. The adoption of this guidance will not have an impact on our financial condition, results of operations or cash flows.

### **Comprehensive Income**

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and allows two options for presenting the components of net income and other comprehensive income: (1) in a single continuous statement of comprehensive income or (2) in two separate but consecutive statements, consisting of a statement of net income followed by a separate statement of other comprehensive income. ASU 2011-05 will be effective for the Company's fiscal year ending December 31, 2012 and will be applied prospectively. The adoption of ASU 2011-05 will change the manner in which the components of other comprehensive income are presented in the financial statements, but is not expected to have any other material impact on the Company's financial statements.

### Concentration of Credit Risk

The Company is engaged in various trading and brokerage activities in which counter-parties primarily include broker-dealers, banks, and other financial institutions. In the event counter-parties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counter-party or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counter-party.

The Company's revenues and profitability are affected by many conditions, including changes in economic conditions, inflation, political events, investor sentiment, and the changing security laws. These factors are unpredictable and beyond the Company's control, earnings may fluctuate significantly from year to year.

### Concentration of Customers

Approximately 37% of the Company's revenues were concentrated with two customers, each of which exceeded 10% individually.

### Fair Value of Financial Instruments

Due to their short-term nature, the carrying amounts reported in the financial statements approximate the fair value for cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses

### Impairment of Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of any asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the difference between the future discounted cash flows compared to the carrying amount of the asset.

### **Note 2 - Deposits with Clearing Organization**

The Company has a brokerage agreement with Penson Financial Services, Inc. ("Clearing Broker") to carry its account and the accounts of its customers as customers of the Clearing Broker. The Clearing Broker has custody of the Company's cash balances which serve as collateral for any amounts due to the Clearing Broker as well as collateral for securities sold short or securities purchased on margin. Interest is paid monthly on these cash deposits at the average overnight repurchase rate. The balance at December 31, 2011, includes interest earned for a deposit total of \$96,352. The Penson Financial Services, Inc. agreement requires the Company to maintain \$100,000 on deposit. The agreement states that, at any time, Penson can require the Company to fulfill that obligation. At December 31, 2011, Penson did not require the Company to maintain a \$100,000 deposit.

### **Note 3 - Marketable Securities, At Market**

Marketable securities, at market value consist of corporate stocks. At December 31, 2011, the stocks are recorded at their fair market value of \$33,834. The accounting for the mark-to-market on the proprietary trading is included in net dealer inventory and investment gains (losses) account as gross unrealized losses of \$19,582. The securities have a cost basis of \$64,070.

**Falcon Research, Inc.**  
**Notes to Financial Statements**  
**December 31, 2011**

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**Note 4 - Furniture and Equipment, Net**

Furniture and equipment are recorded at cost and summarized by major classifications as follows:

		Depreciable <u>Life Years</u>
Furniture & equipment	\$208,505	5
Less: accumulated depreciation	<u>(199,112)</u>	
Furniture, equipment and leaseholds, net	<u>\$ 9,393</u>	

Depreciation expense for the year ended December 31, 2011 was \$3,046.

**Note 5 - Commitments**

The Company leases its office in Clearwater, Florida. As of December 31, 2011, the Company incurred \$39,139 in rent expense.

Effective January 1, 2009, the Company is committed to a three year operating lease for 2,295 square feet of office space.

Effective January 1, 2012, the Company extended its operating lease to an additional three years for 2,815 square feet of office space. Approximate payments of the operating lease are as follows:

2012	22,285
2013	27,812
2014	<u>28,938</u>
Total	<u>\$79,035</u>

**Note 6 - Contingencies**

The Company maintains its cash accounts in a financial institution. Accounts at the financial institution are insured by the Federal Deposit Insurance Corporation ("FDIC"). At times, cash and cash equivalents may be uninsured or in deposit accounts that exceed FDIC insurance limit. Periodically, the Company evaluates the credit worthiness of the financial institutions and has determined the credit exposure to be negligible.

**Note 7 - Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (rule 15c3-1). This rule requires the maintenance of minimum net capital of \$5,000, and also requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2011, the Company had net capital in excess of its required net capital.

**Note 8 - Regulation**

The Company is registered as a broker-dealer with the SEC. The securities industry in the United States is subject to extensive regulation under both federal and state laws. The SEC is the federal agency responsible for the administration of the federal securities laws. Much of the regulation of broker-dealers has been delegated to self-regulatory organizations, such as FINRA, which has been designated by the SEC as the Company's primary regulator. These self-regulatory organizations adopt rules, subject to approval by the SEC, that govern the industry and conduct periodic examinations of the Company's operations. The primary purpose of these requirements is to enhance the protection of customer assets. These laws and regulatory requirements subject the Company to standards of solvency with respect to capital requirements, financial reporting requirements, record keeping and business practices.

Securities firms are also subject to regulation by state securities administrators in those states in which they conduct business.

**Falcon Research, Inc.**  
**Notes to Financial Statements**  
**December 31, 2011**

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**Note 9 - Information relating to the possession or control requirements under SEC Rule 15c3-3**

The Company has complied with the exemptive requirements of SEC Rule 15c3-3(k)(2)(ii) and did not maintain possession or control of any customer funds or securities as of December 31, 2011.

**Note 10 - Fair Value of Assets and Liabilities**

Fair Value accounting establishes a hierarchy for disclosing assets and liabilities measured at fair value based on the inputs used to value them. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are based on market pricing data obtained from sources independent of the Company.

A quoted price in an active market provides the most reliable evidence of fair value and is generally used to measure fair value whenever available. Unobservable inputs reflect management's judgment about the assumptions market participants would use in pricing the asset or liability. Where inputs used to measure fair value of an asset or liability are from different levels of the hierarchy, the asset or liability is categorized based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input requires judgment. The fair value hierarchy includes three levels based on the objectivity of the inputs as follows:

Level 1 inputs are quoted prices in active markets as of the measurement date for identical assets or liabilities that the Company has the ability to access. This category includes active exchange-traded money market funds, mutual funds, and equity securities.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. This category includes corporate debt securities, certificates of deposit, commercial paper, U.S. agency and municipal debt securities, and U.S. Treasury securities.

Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The Company does not have any financial assets or liabilities utilizing Level 3 inputs as of December 31, 2011.

Recurring Fair Value Measurements:

The following table presents the Company's fair value hierarchy as of December 31, 2011 for assets and liabilities measured at fair value:

	Quoted Prices in Active Markets for Identical Assets at (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
<u>Assets</u>				
Marketable securities	\$ 33,834	\$ 0	\$ 0	\$33,834
Not readily marketable securities	\$ 0	\$ 0	\$ 0	\$0
Debt securities	\$ 0	\$ 0	\$ 0	\$0

Other Fair Value Disclosures

Descriptions of the valuation methodologies used to estimate the fair value of assets and liabilities not recorded at fair value are as follows:

Cash and cash equivalents, receivables, payables, and accrued expenses and other liabilities include cash and highly liquid investments, receivables and payables from/ to brokers, dealers and clearing organizations, receivables and payables from/ to brokerage clients, drafts, accounts, taxes, interest, and compensation payable. Assets and liabilities

**Falcon Research, Inc.**  
**Notes to Financial Statements**  
**December 31, 2011**

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in these categories are short-term in nature and accordingly are recorded at amounts that approximate fair value.

**Note 11 - Subsequent Events**

Other than the operating lease amendment discussed in Note 5 – Commitments, management evaluated all activity and concluded that no subsequent events have occurred as of February 25, 2012, the financial issuance date, that would require recognition in the Company's financial statements.

**Falcon Research, Inc.**  
**Computations of Net Capital Under Rule 15c3-1 of the Securities and**  
**Exchange Commission**  
**For the Year Ended December 31, 2011**

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	2011
<b>Net capital</b>	
Total stockholder's equity	\$ 328,557
Deductions and/or charges	
Nonallowable assets	
Petty cash	(200)
Accounts receivable	(84,719)
Furniture, equipment & leasehold improvements, net	(9,393)
Prepaid expenses	(12,631)
Accrued receivable	(2,500)
Security deposit	<u>(1,131)</u>
Net capital before haircuts on securities	217,983
Less: Adjustments to net capital	
Haircuts on securities	<u>(6,868)</u>
Net capital	<u>\$ 211,115</u>
<b>Aggregate Indebtedness</b>	
Items included in statement of financial condition	
Accounts payable	\$ 54,680
Accrued expenses	46,653
Deferred revenue	<u>27,500</u>
Total aggregate indebtedness	<u>\$ 128,833</u>
<b>Computation of Basic Net Capital Requirement</b>	
Minimum net capital under rule 15c3-1(a)(1)(i)	\$ 8,589
Minimum net capital under rule 15c3-1(a)(2)(vi)	\$ 5,000
Required minimum net capital [greater of rule 15c3-1(a)(1)(i) or rule 15c3-1(a)(2)(vi)]	\$ 8,589
Excess net capital	\$ 202,526
Ratio: Aggregate Indebtedness to Net Capital	<u>.61 to 1</u>

See accompanying notes and registered independent auditor's report

**Falcon Research, Inc.**  
**Reconciliations Pursuant to Rule 17a-5(d)(4) of the Securities and**  
**Exchange Commission**  
**For the Year Ended December 31, 2011**

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	2011
Reconciliation with the Company's computation (included in Part II of Form X-17a-5 as of December 31, 2011 Net capital, as reported in Company's Part II (unaudited) FOCUS report	<u>\$ 211,115</u>
Net capital per audited financial statements	<u>\$ 211,115</u>

\*There were no differences between the unaudited focus report and the audited report



## Brimmer, Burek & Keelan LLP

### Certified Public Accountants

5601 Mariner Street, Suite 200 • Tampa, Florida 33609  
(813) 282-3400 • Fax (813) 287-8369

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Gemma Thomas

(License in Colorado)



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### Registered Independent Auditor's Report on Internal Accounting Control Required by SEC Rule 17a-5(g)(1) for a Broker-Dealer Claiming an Exemption from SEC Rule 15c3-3

#### Board of Directors

Falcon Research, Inc.:

In planning and performing our audit of the financial statements of Falcon Research, Inc. (the Company), as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3e.

Because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures in any of the following:

2. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13.
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

4. Obtaining and maintaining physical possession of control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a deficiency, or combination of control deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2011, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, the SEC, and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*Brimmer Burek & Keelan LLP*

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Tampa, Florida

February 25, 2012