



OATH OR AFFIRMATION

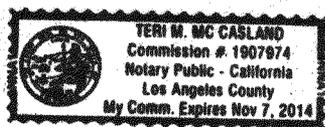
I, Jon M. Kmett, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Stern Fisher Edwards Inc, as of September 30, 2013, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Signature of Jon M. Kmett

President Title

Signature of Notary Public

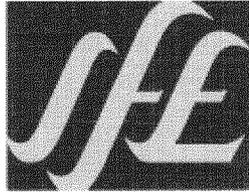
Notary Public



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. (Filed concurrently and included in the Public Report as a separate document.)

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



STERN FISHER EDWARDS INC  
(SEC FILE NO. 8-22274)

SEC  
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DEC 2-2013

Washington DC  
404

**STATEMENT OF FINANCIAL CONDITION  
AS OF SEPTEMBER 30, 2013  
AND  
INDEPENDENT AUDITORS' REPORT  
AND  
SUPPLEMENTAL REPORT ON INTERNAL CONTROL**

**SEC**  
Mail Processing  
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**STERN FISHER EDWARDS INC**  
(SEC FILE NO. 8-22274)

**STATEMENT OF FINANCIAL CONDITION**  
**AS OF SEPTEMBER 30, 2013**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**  
**AND**  
**SUPPLEMENTAL REPORT ON INTERNAL CONTROL**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Stern Fisher Edwards Inc

We have audited the accompanying statement of financial condition of Stern Fisher Edwards Inc (the Company) as of September 30, 2013, and the related notes.

### *Management's Responsibility for the Financial Statement*

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statement in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Stern Fisher Edwards Inc as of September 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

Long Beach, California  
November 26, 2013

**STERN FISHER EDWARDS INC**

**STATEMENT OF FINANCIAL CONDITION  
SEPTEMBER 30, 2013**

**ASSETS**

<b>ASSETS</b>	
Cash and cash equivalents	\$ 225,130
Deposit with clearing broker	50,000
Commissions receivable	8,240
Other assets	4,532
Investments	<u>9,633</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 297,535</u></b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ <u>138,499</u>
<b>COMMITMENTS AND CONTINGENCIES (Notes 3 and 8)</b>	
<b>STOCKHOLDERS' EQUITY</b>	
Common stock, no par value, 100,000 shares authorized, 6,095 shares issued and outstanding	92,558
Retained earnings	<u>66,478</u>
	<u>159,036</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 297,535</u></b>

The accompanying notes are an integral part of these financial statements.

## STERN FISHER EDWARDS INC

### NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2013

#### **NOTE 1 – Organization and Nature of Business**

Stern Fisher Edwards Inc (the “Company”) is a broker-dealer registered with the Securities and Exchange Commission. The Company engages in the sale of equity and debt securities.

#### **NOTE 2 – Significant Accounting Policies**

##### *Securities Transactions*

All securities transactions are executed and cleared by National Financial Services on a fully disclosed basis. Securities transactions and related commission revenues and expenses are recorded on a settlement-date basis. The financial statement effect of recording these transactions at settlement date rather than trade date is not significant. Investments are valued at fair market value as determined by quoted market prices.

##### *Use of Estimates and Assumptions*

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 and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

##### *Cash and Cash Equivalents*

Investments with original maturities of three months or less are considered by the Company to be cash and cash equivalents.

##### *Fair Value Measurements*

The Company follows the guidance for fair value measurements of financial and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring or nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

**STERN FISHER EDWARDS INC**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013**

**NOTE 2 – Significant Accounting Policies (Continued)**

*Fair Value Measurements (Continued)*

The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The Company's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The Company's financial assets carried at fair value on a recurring basis consist of common stocks whose fair values are measured using quoted market prices multiplied by the quantity held.

*Income Taxes*

Income taxes are provided for the effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of certain assets and liabilities for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Deferred income taxes are provided for temporary differences relating to certain items of revenue and expense which are recognized in different periods for tax and accounting purposes. Deferred income taxes relate to the current year's California franchise tax, and differences in timing of investment gains and losses. Deferred tax assets of \$346 are reported in the other assets line item on the statement of financial condition.

**STERN FISHER EDWARDS INC**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013**

**NOTE 2 – Significant Accounting Policies (Continued)**

*Income Taxes (Continued)*

The Company recognizes the tax benefits from uncertain income tax positions taken or expected to be taken in a tax return only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being recognized. Additionally, previously recognized tax positions that no longer meet the more-likely-than-not threshold should be derecognized in the first financial reporting period in which that threshold is no longer met. Changes in recognition or measurement will be reflected in the period in which the change in judgment occurs. The Company had no material adjustments to its liabilities for unrecognized income taxes for uncertain income tax positions and believes their estimates are appropriate based on current facts and circumstances.

The Company's income tax filings are subject to audit by various taxing authorities. The Company's open audit periods are three and four years for federal and state tax filings, respectively. In evaluating the Company's tax provisions and accruals, future taxable income, the reversal of temporary differences, interpretations, and tax planning strategies are considered.

*Subsequent Events*

The Company has evaluated subsequent events through November 26, 2013, the date the financial statements were available to be issued. (See Note 9.)

**NOTE 3 – Clearing Broker Agreement**

The Company has a clearing agreement with a clearing broker. Under the terms of the agreement, the Company is required to maintain a \$50,000 good faith deposit. In addition, the Company is contingently liable to the clearing broker in the event of nonperformance by its introduced customers. It is the Company's policy to continuously monitor its exposure to this risk through reviewing, as necessary, the credit standing of each counterparty.

**STERN FISHER EDWARDS INC**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013**

**NOTE 4 – Fair Value Hierarchy**

As discussed in Note 2, the Company follows the guidance for fair value measurements of financial and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring or nonrecurring basis. The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets that are measured at fair value on a recurring basis at September 30, 2013:

	<u>September 30, 2013</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Common stocks	\$ 9,633	\$ 9,633	_____	_____
Total	<u>\$ 9,633</u>	<u>\$ 9,633</u>	<u>None</u>	<u>None</u>

**STERN FISHER EDWARDS INC**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013**

**NOTE 5 – Related-Party Transactions**

The stockholders of the Company have common ownership of an affiliated company, SFE Investment Counsel Inc. (SFEIC), which performs investment advisory services. Under the terms of a management service agreement, the Company pays a monthly management fee to SFEIC for general and administrative expenses, which include payroll, rent and other operating and overhead expenses. During the year ended September 30, 2013, the management fee expense incurred under the management service agreement totaled \$327,000. The agreement is cancellable by either party with thirty days written notice. At September 30, 2013, the amount owed by the Company to SFEIC totaled \$122,146, which is reported in the accounts payable and accrued expenses line item on the accompanying statement of financial condition.

**NOTE 6 – Net Capital Requirements**

As a registered broker/dealer, 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 aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At September 30, 2013, under the most restrictive requirement, the Company had net capital of \$151,161, which was \$101,161 in excess of its required net capital of \$50,000. The Company's ratio of aggregate indebtedness to net capital was 0.92 to 1.

**NOTE 7 – Reserve Requirements**

The Company is exempt from the provisions of SEC Rule 15c3-3 (pursuant to paragraph (k)(2)(ii) of such Rule) under the Securities Exchange Act of 1934 as an introducing broker or dealer that clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, promptly transmits all customer funds and securities to the clearing broker or dealer, and does not otherwise hold funds or securities of customers. Operating under such exemption, the Company is not required to prepare a computation for Determination of Reserve Requirements for Brokers or Dealers under SEC Rule 15c3-3.

STERN FISHER EDWARDS INC

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

NOTE 8 – Commitments and Contingencies

*Off-Balance-Sheet and Concentration of Credit Risk*

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. Counterparties to these activities primarily include broker/dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to credit risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instruments. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

*Leases*

The Company has a lease agreement for its office facilities under which it is a joint tenant with SFEIC, an affiliated company. Under the terms of the management service agreement discussed in Note 5, SFEIC pays the monthly lease expense for the office facility, as well as the other various equipment leases which were entered into by the Company. The Company's portion of lease expense is included in the management fee paid to SFEIC. The following are future minimum commitments of noncancelleable operating leases under which the Company would be obligated should SFEIC not perform under the management service agreement:

<u>Years Ending September 30,</u>	<u>Office</u>	<u>Equipment</u>	<u>Total</u>
2014	\$ 238,153	\$ 1,145	\$ 239,298
2015	247,679		247,679
2016	213,234		213,234
	<u>\$ 699,066</u>	<u>\$ 1,145</u>	<u>\$ 700,211</u>

**STERN FISHER EDWARDS INC**

**NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013**

**NOTE 8 – Commitments and Contingencies (Continued)**

***Legal Proceedings***

The Company is involved in claims arising from transactions involving a previously affiliated entity where the Company and SFEIC are named as defendants. The affiliated limited liability company was registered with the Securities and Exchange Commission as an investment advisor that was a subtenant of the Company also receiving payroll and administrative services. Management and legal counsel have settled three of five client claims. Of the three accounts, settlement agreements have been reached allocating a portion to the Company and the balance to SFEIC. The Company's maximum exposure is \$500,000, of which the entire amount constitutes a loss under the Security Dealers Blanket Bond, as determined by their insurance provider. In the event the Company is not reimbursed the entire allocated loss, SFEIC will reimburse any remaining amounts paid by the Company.

**NOTE 9 – Subsequent Events**

The Financial Industry Regulatory Authority (FINRA) has provided notice to the Company, dated November 21, 2013, stating that the Company appears to lack sufficient net capital due to potential losses as a result of the alleged claims discussed further in Note 8. The Company is currently working with FINRA to correct the alleged violation through an infusion of capital, subordinated loans, and insurance recoveries. As of the report date, the Company has not been requested to amend or revise their Form X-17A-5, Part II filing as of September 30, 2013.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL  
CONTROL REQUIRED BY SEC RULE 17a-5(g)(1) FOR A  
BROKER-DEALER CLAIMING AN EXEMPTION  
FROM SEC RULE 15c3-3**

To the Board of Directors of  
Stern Fisher Edwards Inc

In planning and performing our audit of the financial statements of Stern Fisher Edwards Inc (the Company), as of and for the year ended September 30, 2013, 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 17a5(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 such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13
2. 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

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 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 and 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.

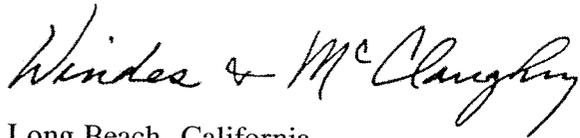
*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A significant deficiency* is a deficiency, or a combination of 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 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 that we consider to be material weaknesses, as defined previously.

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, as described in the second paragraph of this report, were adequate at September 30, 2013, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the Financial Industry Regulatory Authority, 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.

A handwritten signature in cursive script that reads "Windes & McCaughy". The signature is written in dark ink and is positioned above the typed name and date.

Long Beach, California  
November 26, 2013