

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: March 31, 2016  
Estimated average burden  
hours per response ..... 12.00

Ma  
3/27



14040188

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

SEC  
Mail Processing  
Section

MAR 04 2014

SEC FILE NUMBER  
8-68964

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

REPORT FOR THE PERIOD BEGINNING 12/01/12 AND ENDING 12/31/13  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

STERLING TRADER EXECUTION SERVICES, INC.

OFFICIAL USE  
ONLY

FIRM ID. NO.

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

225 West Washington, Suite 400

(No. and Street)

Chicago

(City)

Illinois

(State)

60606

(Zip Code)

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

Jeremy Engelbrecht

(312) 377-3137

(Area Code - Telephone No)

B. ACCOUNTANT IDENTIFICATION

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

Ryan & Juraska, Certified Public Accountants

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

141 West Jackson Boulevard, Suite 2250

(Address)

Chicago

(City)

Illinois

(State)

60604

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

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

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).

AB  
3/28

SEC  
Mail Processing  
Section

MAR 04 2014

Washington DC  
405

**STERLING TRADER EXECUTION SERVICES, INC.**

**FINANCIAL STATEMENT  
AND SUPPLEMENTARY SCHEDULES  
PURSUANT TO RULE 17a-5(e)(3)**

**December 31, 2013**

**AVAILABLE FOR PUBLIC INSPECTION**

OATH OR AFFIRMATION

I, **Stephen A. Sierszulski**, swear (or affirm) that, to the best of my knowledge and belief, the accompanying financial statement and supporting schedules pertaining to the firm of **Sterling Trader Execution Services, Inc.** as of **December 31, 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:

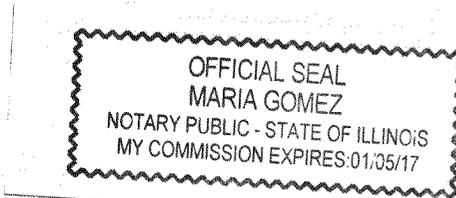
\_\_\_\_\_  
None  
\_\_\_\_\_

*Stephen A. Sierszulski*  
\_\_\_\_\_  
Signature

Chief Executive Officer  
\_\_\_\_\_  
Title

Subscribed and sworn to before me this

28 day of FEB, 2014



*Maria Gomez*  
\_\_\_\_\_  
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 Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of General Creditors.
- (g) Computation of Net Capital for Brokers and Dealers pursuant to Rule 15c3-1.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements for Brokers and Dealers 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 Auditors' Report on Internal Accounting Control.
- (p) Schedule of Segregation Requirements and Funds in Segregation - Customers' Regulated Commodity Futures Accounts Pursuant to CFTC Rule 1.11(d)2(iv).

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



**RYAN & JURASKA**  
Certified Public Accountants  
141 West Jackson Boulevard  
Chicago, Illinois 60604  
Tel: 312.922.0062  
Fax: 312.922.0672

## INDEPENDENT AUDITORS' REPORT

To the Stockholders of Sterling Trader Execution Services, Inc:

### ***Report on the Statement of Financial Condition***

We have audited the accompanying statement of financial condition of Sterling Trader Execution Services, Inc. (the Company) as of December 31, 2013, that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the financial statement.

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

Management is responsible for the preparation and fair presentation of the 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 financial statement that is free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the 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 statement is free from 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 financial statement referred to above present fairly, in all material respects, the financial position of Sterling Trader Execution Services, Inc. as of December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

### ***Report on Other Regulatory Requirements***

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The information contained in the supplementary schedules is presented for the purpose of additional analysis and is not a required part of the financial statement, but is supplementary information 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 statement. The information in the supplementary schedules has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to 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 in the supplementary schedules is fairly stated in all material respects in relation to the financial statement as a whole.

Chicago, Illinois  
February 28, 2014

**STERLING TRADER EXECUTION SERVICES, INC.**

**Statement of Financial Condition**

**December 31, 2013**

---

**Assets**

Cash	\$	10,828
Receivable from broker-dealer		23,675
Accounts receivable		3,676
Other assets		<u>1,067</u>
	\$	<u><u>39,246</u></u>

**Liabilities and Stockholders' Equity**

Liabilities		
Accounts payable and accrued expenses	\$	10,389
Stockholders' equity		
Common stock, .001 par value; 1,000,000 shares authorized; 1,000,000 shares issued and outstanding		380,080
Additional paid in capital		78,000
Retained Deficit		<u>(429,223)</u>
		<u>28,857</u>
	\$	<u><u>39,246</u></u>

See accompanying notes.

# STERLING TRADER EXECUTION SERVICES, INC.

## Notes to Financial Statements

December 31, 2013

---

### 1. Organization and Business

Sterling Trader Execution Services, Inc. (the "Company") is a corporation organized under the laws of the State of Delaware on August 11, 2011. The Company became a registered broker-dealer with the Securities and Exchange Commission ("SEC") and a member of Financial Industry Regulatory Authority ("FINRA") as of December 1, 2012. The Company is a wholly-owned subsidiary of Sterling Trader Holdings, LLC (the "Parent").

The Company operates an alternative trading system, matching orders in exchange-listed stocks between subscribers on an agency basis. The Company also refers potential clients to other broker-dealers, for which the Company receives compensation via a referral agreement with the broker-dealer, should the broker-dealer engage in business with the referred client.

### 2. Summary of Significant Accounting Policies

#### Revenue and Expense Recognition from Securities Transactions

Securities transactions and the related revenues and expenses are recorded on a trade-date basis. Revenue is categorized by Service Income, which includes port fees and other technology services, Commissions, which are fees charged for order matching services on the Company's alternative trading system, and other revenue, such as rebates from the Company's clearing firm.

#### Income Taxes

The Company provides for taxes in accordance with ASC 740, "Accounting for Income Taxes", which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are recognized based on the difference between the financial statement and tax basis of liabilities and assets using enacted tax rates. No provision has been made for federal U.S. income taxes as the taxable income or loss of the Company is included in the respective income tax return of the Parent. In accordance with U.S. GAAP, the Company is required to determine whether its tax positions are more likely than not to be sustained upon examination by the applicable taxing authority, based on the technical merits of the position. Generally, the Company is no longer subject to income tax examinations by major taxing authorities for the years before 2010. Based on its analysis, there were no tax positions identified by management which did not meet the "more likely than not" standard as of and for the year ended December 31, 2013.

#### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

## **STERLING TRADER EXECUTION SERVICES, INC.**

### **Notes to Financial Statements, Continued**

**December 31, 2013**

---

#### **3. Off-Balance-Sheet Risk**

Customer transactions are introduced to and cleared through the Company's broker on a fully disclosed basis. Under the terms of its clearing agreements, the Company is required to guarantee the performance of its customers in meeting contracted obligations. In conjunction with the broker, the Company seeks to control the risks associated with its customer activities by requiring customers to maintain collateral in compliance with various regulatory and internal guidelines and, pursuant to such guidelines, customers may be required to deposit additional collateral, or reduce positions, where necessary.

#### **4. Concentration of Credit Risk**

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 of a trading error where the Company is at fault, leaving the company long or short stock which the Company would then purchase or sell, possibly at a loss, in order to cover the position.

Commissions receivable represent a concentration of credit risk. The Company does not anticipate nonperformance by its customers or the broker. In addition, the Company has a policy of reviewing, as considered necessary, the creditworthiness of the brokers with which it conducts business.

#### **5. Receivable from Broker Dealer**

At December 31, 2013, the Company had a receivable from Electronic Transaction Clearing, Inc. totaling \$23,675 resulting from transaction expenses exceeding commissions collected from customer transactions.

#### **6. Fair Value Disclosure**

ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.

## STERLING TRADER EXECUTION SERVICES, INC.

### Notes to Financial Statements, Continued

December 31, 2013

---

#### 6. Fair Value Disclosure, continued

- 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 are unobservable inputs for the asset or liability and rely on management's own assumptions that market participants would use in pricing the asset or liability. The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.

At December 31, 2013, the Company held no Level 1, Level 2, or Level 3 investments.

#### 7. Guarantees

Accounting Standards Codification Topic 460 ("ASC 460"), Guarantees, requires the Company to disclose information about its obligations under certain guarantee arrangements. ASC 460 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. This guidance also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement, as well as indirect guarantees of the indebtedness of others.

Certain derivatives contracts that the Company has entered into meet the accounting definition of a guarantee under ASC 460. Derivatives that meet the ASC 460 definition of guarantees include futures contracts and written options. The maximum potential payout for these derivatives contracts cannot be estimated as increases in interest rates, foreign exchange rates, securities prices, commodities prices and indices in the future could possibly be unlimited.

The Company records all derivative contracts at fair value. For this reason, the Company does not monitor its risk exposure to derivatives contracts based on derivative notional amounts; rather the Company manages its risk exposure on a fair value basis. The Company believes that the notional amounts of the derivative contracts generally overstate its exposure. Aggregate market risk limits have been established, and market risk measures are routinely monitored against these limits. The Company believes that market risk is substantially diminished when all financial instruments are aggregated.

**STERLING TRADER EXECUTION SERVICES, INC.**

**Notes to Financial Statements, Continued**

**December 31, 2013**

---

**8. Minimum Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15(c)3-1). Under this rule, the Company is required to maintain "net capital" equal to 6 ⅔ % of "aggregate indebtedness", as defined.

At December 31, 2013, the Company had net capital and net capital requirements of \$24,114 and \$5,000, respectively.

As needed by the Company, in the course of normal business activities, the Parent will provide liquidity to the Company in the form of a short-term note, a long-term subordinated loan agreement, or a direct infusion of capital. There is no pre-set minimum or maximum dollar amount of liquidity that will be available via this liquidity facility. The amount of liquidity available to the Company is determined by the Parent at the time of the request and in its sole discretion.

**9. Subsequent Events**

The Company's management has evaluated events and transactions through February 28, 2014, the date the financial statements were issued, noting no material events requiring disclosure in the Company's financial statements.

**STERLING TRADER EXECUTION SERVICES, INC.**

**Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3**

**December 31, 2013**

---

The Company did not handle any customer cash or securities during the period ended December 31, 2013 and does not have any customer accounts.

**STERLING TRADER EXECUTION SERVICES, INC.**

**Information Relating to Possession or Control Requirements pursuant to Rule 15c3-3**

**December 31, 2013**

---

The Company did not handle any customer cash or securities during the period ended December 31, 2013 and does not have any customer accounts.

**STERLING TRADER EXECUTION SERVICES, INC.**

**Computation of Net Capital for Broker and Dealers pursuant to Rule 15c3-1**

**December 31, 2013**

---

**Computation of net capital**

Total stockholders' equity		\$	28,857
Deductions and /or charges:			
Nonallowable assets:			
Accounts receivable	\$	3,676	
Other assets		<u>1,067</u>	<u>(4,743)</u>
Net capital		\$	<u><u>24,114</u></u>

**Computation of basic capital requirement**

Minimum net capital required (greater of \$5,000 or 6 2/3% of aggregate indebtedness)			<u>5,000</u>
Net capital in excess of net capital requirement		\$	<u><u>19,114</u></u>

**Computation of aggregate indebtedness**

Aggregate indebtedness		\$	<u>693</u>
Ratio of aggregate indebtedness to net capital		%	<u><u>2.87</u></u>

There are no material differences between the above computation and the Company's corresponding amended unaudited Form FOCUS Part II filing as of December 31, 2013.

See accompanying notes.



**RYAN & JURASKA**

Certified Public Accountants

141 West Jackson Boulevard  
Chicago, Illinois 60604

Tel: 312.922.0062

Fax: 312.922.0672

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL**

To the Stockholders of  
Sterling Trader Execution Services, Inc:

In planning and performing our audit of the financial statement of Sterling Trader Execution Services, Inc (the Company), as of December 31, 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 statement, 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 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 previously 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 statement 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 statement 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 December 31, 2013, to meet the SEC's objectives.

This report is intended solely for the information and use of management, the SEC, FINRA 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.

*Ryan & Juraska*

Chicago, Illinois  
February 28, 2014