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| OMB APPROVAL | |
| OMB Number: | 3235-0123 |
| Expires: | August 31, 2020 |
| Estimated average burden hours per response..... | 12.00 |

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

| |
|-----------------|
| SEC FILE NUMBER |
| 8-34642 |

**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 07/01/2018 AND ENDING 06/30/2019
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

| | | | |
|---|-----------------|--------------|--------------------------------|
| NAME OF BROKER-DEALER: <u>Firstrade Securities Inc.</u> | | | OFFICIAL USE ONLY |
| ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.) <u>30-50 Whitestone Expressway, Suite A301</u> | | | FIRM I.D. NO. |
| (No. and Street) | | | |
| <u>Flushing</u> | <u>New York</u> | <u>11354</u> | |
| (City) | (State) | (Zip Code) | |
| NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT <u>John Liu</u> | | | <u>718-269-1557</u> |
| | | | (Area Code – Telephone Number) |

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Wei, Wei & Co.,LLP

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

| | | | |
|---------------------------|-----------------|-----------------|--------------|
| <u>133-10 39th Avenue</u> | <u>Flushing</u> | <u>New York</u> | <u>11354</u> |
| (Address) | (City) | (State) | (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)

SEC Mail Processing
AUG 27 2019
Washington, DC

RMS ✓

OATH OR AFFIRMATION

I, John Liu, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Firsttrade Securities Inc. of June 30th, 2019, 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:

Handwritten signature of John Liu

Signature

CEO

Title

KATTY WONG
Notary Public, State of New York
No. 01WO6169734
Qualified in Queens County
Commission Expires: July 2, 2023

Handwritten signature of Katty Wong

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).

FIRSTRADE SECURITIES, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder
of Firstrade Securities, Inc.

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Firstrade Securities, Inc. as of June 30, 2019, and the related notes (collectively referred to as the financial statement). In our opinion, the statement of financial condition presents fairly, in all material respects, the financial position of Firstrade Securities, Inc. as of June 30, 2019 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The financial statement is the responsibility of Firstrade Securities, Inc.'s management. Our responsibility is to express an opinion on Firstrade Securities, Inc.'s financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to Firstrade Securities, Inc. in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

We have served as Firstrade Securities, Inc.'s auditor since 2014.

Flushing, NY
August 23, 2019

FIRSTRADE SECURITIES, INC.
STATEMENT OF FINANCIAL CONDITION

JUNE 30, 2019

ASSETS

CURRENT ASSETS

| | |
|------------------------------|------------------|
| Cash and cash equivalents | \$ 5,760,146 |
| Due from clearing broker | 1,916,458 |
| Accounts receivable | 240,667 |
| Accrued interest receivable | 1,343 |
| Prepaid taxes | 3,360 |
| Prepaid expenses | 127,256 |
| Investments | 48,724 |
| Short-term investments-other | <u>1,311,864</u> |

Total Current Assets 9,409,818

PROPERTY AND EQUIPMENT-NET

298,502

OTHER ASSETS

| | |
|------------------------|----------------|
| Rebate reserve fund | 50,416 |
| Clearing deposits | 1,048,862 |
| Other assets | 89,428 |
| Intangible assets, net | <u>268,483</u> |

Total Other Assets 1,457,189

Total Assets **\$ 11,165,509**

See accompanying notes to the financial statements.

FIRSTRADE SECURITIES, INC.
STATEMENT OF FINANCIAL CONDITION
(CONTINUED)
JUNE 30, 2019
LIABILITIES AND STOCKHOLDER'S EQUITY

| | |
|--|-----------------------------|
| CURRENT LIABILITIES | |
| Accrued expenses | \$ 491,691 |
| Income taxes payable | 121,706 |
| Accrued payroll | 1,638,179 |
| Line of credit | <u>106,850</u> |
| Total Current Liabilities | 2,358,426 |
| OTHER LIABILITIES | |
| Deferred rent | 132,294 |
| Deferred tax liability, net | <u>104,393</u> |
| Total Liabilities | <u>2,595,113</u> |
| STOCKHOLDER'S EQUITY | |
| Preferred stock- \$.10 par value, 4,000,000 shares authorized, none issued or outstanding | - |
| Common stock- \$.01 par value, 32,000,000 shares authorized, 19,003,500 shares issued and 18,603,500 shares outstanding | 190,035 |
| Additional paid-in capital | 2,039,773 |
| Retained earnings | 7,138,088 |
| Less: treasury stock at cost, 400,000 shares | <u>(797,500)</u> |
| Total Stockholder's Equity | <u>8,570,396</u> |
| Total Liabilities and Stockholder's Equity | <u>\$ 11,165,509</u> |

See accompanying notes to the financial statements.

FIRSTRADE SECURITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

1. ORGANIZATION

Firstrade Securities, Inc. (the "Company") is a registered broker-dealer in securities under the Securities and Exchange Act of 1934. The Company acts as an introducing broker and provides discount brokerage services for its clients.

On October 2, 2017, all the Company's shareholders exchanged their common stock for common stock of Firstrade Holding Corporation. This exchange made the Company a wholly-owned subsidiary of Firstrade Holding Corporation. On October 24, 2017, the Company transferred 100% ownership in Firstrade Advisory LLC to Firstrade Holding Corporation. Firstrade Advisory LLC became an Affiliate of Firstrade Securities, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Method of Accounting

The Company's financial statements are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Income is recognized as earned and expenses are recognized as incurred.

b) Use of Estimates

The preparation of financial statements in accordance 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, the disclosure 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 those estimates.

c) Cash and Cash Equivalents

The Company considers all demand and time deposits and all highly liquid financial instruments purchased with original maturities of three months or less to be cash equivalents.

FIRSTRADE SECURITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Fair Value Measurements

The Company follows the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Section 820 for fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in valuing assets and liabilities. Level 1 inputs have the highest reliability and are related to identical assets and liabilities with unadjusted quoted prices in active markets. Level 2 inputs relate to assets and liabilities not in level 1 which are observable either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability and are used to the extent that observable inputs do not exist.

e) Investment Valuations

Investments are carried at the values shown in Note 4 of the financial statements. The fair value of alternative investments has been estimated using the Net Asset Value ("NAV") as reported by the management of the respective alternative investment fund. FASB guidance provides for the use of the NAV as a "Practical Expedient" for estimating fair value of alternative investments. The NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the Company's ability to redeem its interest in the near term.

f) Property and Equipment

Property and equipment are stated at cost. Major expenditures for the acquisition of property, equipment and betterments that substantially increase useful lives of the fixed assets are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income. Depreciation is provided utilizing the double declining balance half year convention method over the estimated useful lives of the assets (five to seven years). Leasehold improvements are amortized over the lesser of the term of the lease or the estimated useful lives of the improvements.

FIRSTRADE SECURITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

g) Intangibles

Intangible assets consist of trademarks and software and are recorded at cost. Amortization of trademarks is computed using the straight-line method over a period of 15 years. Software development costs are amortized using the straight-line method over a useful life of 3 years; these costs which include consulting fees, payroll and payroll related costs are associated with various ongoing computer software based projects.

h) Income Taxes

Deferred income tax assets and liabilities are computed for differences between financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the period in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. These components of temporary differences are amortization of software development costs, depreciation, accrued vacation, and unrealized gains/losses on investments.

i) Accounting for Uncertainty in Income Taxes

Management has determined that the Company had no uncertain tax positions that would require financial statement recognition. The Company is no longer subject to U.S. federal, state or local income tax audits for periods prior to July 1, 2015.

j) Newly Adopted Accounting Standard

The Company adopted ASU2015-17, Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes. The objective of this update was to simplify the presentation of deferred taxes by requiring all deferred tax assets and liabilities, net, to be classified as non-current in the statement of financial position. The adoption of this update did not have a material effect on the statement of financial position.

k) Subsequent Events Evaluation by Management

The Company has evaluated subsequent events transactions for the potential recognition or disclosure in the financial statements through August 23, 2019, the date the financial statements were available to be issued.

FIRSTRADE SECURITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

3. NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1) which requires the maintenance of minimum net capital of \$250,000 or 6-2/3% of aggregate indebtedness. The ratio of aggregate indebtedness to net capital shall not exceed 15 to 1, both as defined. At June 30, 2019, the Company had net capital of \$7,393,266 under Rule 15c3-1, which was 7,143,266 in excess of its required net capital of \$250,000. The Company's percentage of aggregate indebtedness to net capital was 32%.

4. INVESTMENTS

The following table shows the major categories of investments measured at fair value at June 30, 2019, grouped by the fair value hierarchy:

| <u>Description</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Quoted prices in markets that are not level 1 for similar assets (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> | <u>Total</u> |
|----------------------------|---|---|--|--------------|
| Equities | \$ 23,401 | \$ 25,323 | \$ - | \$ 48,724 |
| Certificates of deposit | - | 1,311,864 | - | 1,311,864 |
| Total at fair value | \$ 23,401 | \$ 1,337,187 | \$ - | \$ 1,360,588 |

Securities traded in secondary markets are typically valued using unadjusted vendor prices. These prices are reviewed and may be adjusted using quoted market prices for similar securities if determined necessary. These securities are classified as Level 2 of the hierarchy. As of June 30, 2019, the above worthless securities are valued at approximately \$101,000 using unadjusted vendor prices with a \$25,000 valuation adjustment using quoted market prices for similar securities. Such a valuation is, therefore, subjective and may not be a true measure of the real worth of these instruments.

The amount of total gain for the year included in changes in net assets attributed to the change in unrealized gains/loss relating to assets still held at June 30, 2019 was approximately \$10,000.

At June 30, 2019, the Company had no open capital commitments with limited partnerships.

FIRSTRADE SECURITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

5. CERTIFICATES OF DEPOSIT

Certificates of deposit, with a 12 month or less maturity, totaling \$1,311,864 are included in short-term investments-other in the accompanying statement of financial condition. The certificates bear interest ranging from 2.03% to 2.64% with penalties for early withdrawal.

Any penalties for early withdrawal would not have a material effect on the financial statements.

6. LINE OF CREDIT

The Company has a line of credit of \$1,000,000 with a bank, which expires on August 1, 2020. The loan is collateralized by a \$1,000,000 certificate of deposit. As of June 30, 2019, the outstanding balance is \$106,850. Interest will be charged at the bank's time certificate of deposit annual percentage rate plus 2%.

7. Recently Issued Accounting Pronouncements

In February 2016, ASU No. 2016-02 was issued related to leases. The new guidance modifies the classification criteria and requires lessees to recognize the assets and liabilities arising from most leases on the balance sheet. This update is effective in fiscal years, including interim periods, beginning after December 15, 2019 and early adoption is permitted. The Company is currently evaluating the updated guidance.

In May 2014, ASU No. 2014-09 was issued related to revenue from contracts with customers. This ASU was further amended in August 2015, March 2016, April 2016, May 2016 and December 2016 by ASU No. 2015-14, No. 2016-08, No. 2016-10, No. 2016-12 and No. 2016-20, respectively. The new standard provides a five-step approach to be applied to all contracts with customers and also requires expanded disclosures about revenue recognition. In August 2015, the effective date was deferred to reporting periods, including interim periods, beginning after December 15, 2019 and will be applied retrospectively. Early adoption is not permitted. The Company believes that the adoption of this ASU is not expected to have a material impact on the Company's financial statements.

FIRSTRADE SECURITIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

8. PROPERTY AND EQUIPMENT

Property and equipment and their useful lives as of June 30, 2019, consist of the following:

| | <u>Useful Life in Years</u> | |
|----------------------------------|-----------------------------|-----------------------|
| Leasehold improvements | 10 | \$ 2,575 |
| Equipment | 5-7 | 2,239,898 |
| Furniture and fixtures | 5-7 | <u>274,006</u> |
| Total property and equipment | | 2,516,479 |
| Less: accumulated depreciation | | <u>(2,217,977)</u> |
| Property and equipment-net | | <u>\$ 298,502</u> |

Depreciation and amortization expense for the year ended June 30, 2019 was \$141,738.

9. INTANGIBLE ASSETS

On August 11, 2017, Firstrade Securities Inc. signed a contract with Ally Investment Securities LLC to acquire accounts which are valued at \$400,000.

Intangible assets consist of the following as of June 30, 2019:

| | <u>Useful Life In Years</u> | |
|--------------------------------|---------------------------------|-----------------------|
| Trademark | 15 | \$ 8,788 |
| Purchase of customer accounts | 5 | 400,000 |
| Software development costs | 3 | <u>4,944,604</u> |
| Total intangible assets | | 5,353,392 |
| Less: accumulated amortization | | <u>(5,084,909)</u> |
| Intangible assets, net | | <u>\$ 268,483</u> |

FIRSTRADE SECURITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

9. INTANGIBLE ASSETS (continued)

Amortization expense for the year ended June 30, 2019 was \$80,064. Future estimated amortization expense is as follows:

| <u>Year Ended June 30,</u> | |
|----------------------------|-------------------|
| 2020 | \$ 81,098 |
| 2021 | 80,064 |
| 2022 | 80,064 |
| 2023 | 26,731 |
| Thereafter | <u>526</u> |
| | <u>\$ 268,483</u> |

10. INCOME TAXES

For the year ended June 30, 2019, the Company does not file a separate Federal and New York State and City tax return. The Company's net income is included in the consolidated income tax return of Firstrade Holding Corporation. The Company will reimburse Firstrade Holding Corporation for its pro-rata share of income taxes, if any.

Deferred taxes, net at June 30, 2019, relate to the following items:

| | |
|------------------------------|-------------------|
| Deferred tax liabilities | |
| Software development costs | \$ 351 |
| Unrealized gain/loss | 12,455 |
| Depreciation | <u>101,534</u> |
| Total deferred tax liability | 114,340 |
| Less: | |
| Deferred tax assets | |
| Accrued vacation | <u>9,947</u> |
| Deferred tax liability, net | <u>\$ 104,393</u> |

FIRSTRADE SECURITIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

12. COMMITMENTS

Operating Leases

The Company has only one lease for office space which expires on January 7, 2024. Future minimum lease payments at June 30, 2019 are approximately as follows:

Year Ended June30,

| | |
|------|---------------------|
| 2020 | \$ 299,000 |
| 2021 | 308,000 |
| 2022 | 317,000 |
| 2023 | 327,000 |
| 2024 | <u>337,000</u> |
| | <u>\$ 1,588,000</u> |

13. FINANCIAL INSTRUMENTS AND CREDIT RISK CONCENTRATION

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. The Company maintains its cash with various financial institutions. The Company monitors the credit quality of the financial institutions and does not anticipate any exposure. The total cash balance in each financial institution is insured by the FDIC up to \$250,000. Uninsured funds as of June 30, 2019 were approximately \$ 5,793,000. The amount due from the clearing broker was collected in the subsequent month.

14. RESERVE ACCOUNT FOR CUSTOMER CREDIT BALANCES

In the course of doing business, the Company offers certain customers promotional rebates. As a result, the Company is required to have a segregated reserve account for the unpaid promotional rebates in accordance with SEC Rule 15c3-3. At June 30, 2019, these customer rebates totaled \$7,632. The balance of the rebate reserve account as of June 30, 2019 was \$50,416.



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder
of Firstrade Securities, Inc.

We have reviewed management's statements, included in the accompanying Statement of Exemption Form SEC Rule 15c3-3, in which (1) Firstrade Securities, Inc. (the "Company") identified the following provisions of 17 C.F.R. §15c3-3(k) under which the Company claimed an exemption from 17 C.F.R. §240.15c3-3:(k)(2)(ii) (the "exemption provisions") and (2) Firstrade Securities, Inc. stated that the Company met the identified exemption provisions throughout the most recent fiscal year without exception. The Company's management is responsible for compliance with the exemption provisions and its statements.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about the Company's compliance with the exemption provisions. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph (k)(2)(ii) of Rule 15c3-3 under the Securities Exchange Act of 1934.

Wei Wei & Co. LLP

Flushing, New York
August 23, 2019

Firstrade Securities, Inc.

Exemption Report

June 30, 2019

Firstrade Securities, Inc. clears all customer transactions through another broker-dealer on a fully disclosed basis and therefore claims exemptive provision (K)(2)(ii) of SEC Rule 15c3-3, which exempts the Corporation from the computation for determination of reserve requirements as provided for in that Rule.

Firstrade Securities has met the identified exemptive provision (K)(2)(ii) of SEC Rule 15c3-3 throughout the fiscal year ended June 30, 2019 without exception.



John Liu

Chairman and CEO

Note:

The firm has a reserve bank account for unpaid promotional rebates. The promotional rebates are not pay in term of cash to customer. The rebates are processed through the firm's clearing firm, Apex Clearing. When customer fills out a claim form, the clearing firm credits the customer's account and deducts the amount from firm's operation account at Apex Clearing. All of the firm's operation accounts are included in the monthly settlement calculation with Apex.