

H. C. DENISON CO.

Statement of Financial Condition

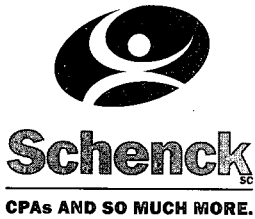
September 30, 2011

Together With Independent Auditors' Report

H. C. DENISON CO.

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	2
FINANCIAL STATEMENT	
Statement of Financial Condition	3 - 4
Notes to Statement of Financial Condition	5 - 10



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
H. C. Denison Co.
Sheboygan, Wisconsin

We have audited the accompanying statement of financial condition of H. C. Denison Co. as of September 30, 2011. This financial statement is the responsibility of the Company's management. 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 statement of financial condition is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of H. C. Denison Co. as of September 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

Schenck SC

Certified Public Accountants

Sheboygan, Wisconsin
November 21, 2011



H. C. DENISON CO.

Statement of Financial Condition
September 30, 2011

ASSETS

Cash and cash equivalents	\$ 364,722
Cash - Segregated for reserve requirement	185,242
Cash - Segregated at clearing house	104,541
Receivables:	
Customers	233,299
Commissions	40,008
Interest and dividends	4,935
Other	970
Securities owned, at fair value	283,716
Property and equipment, net of accumulated depreciation of \$109,827	<u>29,482</u>

\$ 1,246,915

See notes to statement of financial condition.

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities

Note payable	\$ 190,000	
Payables:		
Customers	134,802	
Brokers and dealers	23,101	
Other	22,555	
Accrued liabilities:		
Salaries, commissions and related withholdings	20,162	
Property taxes	<u>7,819</u>	
Total liabilities		\$ 398,439

Stockholder's equity

Common stock, no par value:		
Authorized, 2,000 shares		
Issued and outstanding, 1,803 shares	1,482,778	
Accumulated deficit	<u>(634,302)</u>	
Total stockholder's equity		<u>848,476</u>
		<u>\$ 1,246,915</u>

H. C. DENISON CO.

Notes to Statement of Financial Condition
September 30, 2011

Note 1 - Nature of business and significant accounting policies

A. Nature of business

H. C. Denison Co. (Company) is a broker and dealer in securities located in Sheboygan, Wisconsin. The Company is registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA).

B. Subsequent events

The Company has evaluated events and transactions for potential recognition or disclosure in the statement of financial condition through November 21, 2011, the date which the statement of financial condition was available to be issued.

C. Use of estimates

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Reserve for bad debts

No reserve for bad debts is deemed necessary because the Company holds purchased securities until the customer remits payment and does not pay customers for sales until the securities are presented.

E. Securities owned and revenue recognition of securities transactions

Customers' and brokers' and dealers' securities and commodities transactions are recorded on a settlement date basis. Securities and commodities transactions of the Company are recorded on a trade date basis.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition.

Securities are recorded at fair value. See Notes 11 and 7 for a discussion of fair value measurements.

F. Commissions

Commissions and related clearing expenses are recorded on the trade date basis as securities transactions occur.

H. C. DENISON CO.

Notes to Statement of Financial Condition, Continued
September 30, 2011

Note 1 - Nature of business and significant accounting policies, continued

G. Property, equipment and depreciation

Property and equipment are stated at cost. Expenditures for additions and improvements are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed currently as incurred. Properties sold or otherwise disposed of are removed from the property accounts, with gains or losses on disposal credited or charged to operations.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method.

H. Income taxes

The Company has elected, by consent of its stockholder, to be taxed as an S corporation under the provisions of the Internal Revenue Code and Wisconsin Statutes. Under those provisions, the Company does not pay federal and Wisconsin corporate income taxes on its taxable income and is not allowed a net operating loss carryover or carryback as a deduction. Instead, the stockholder is liable for individual income taxes on the taxable income of the Company. Accordingly, no provision for income taxes has been made by the Company. The Company periodically makes distributions to the stockholder for income taxes.

The Company has adopted the guidance for accounting for uncertainties in income taxes which is part of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. This guidance increases the relevancy and comparability of financial reporting by clarifying the way companies account for uncertainties in income taxes for tax positions taken or expected to be taken. It makes recognition and measurement more consistent as well as offering clear criteria for subsequently recognizing, derecognizing and measuring such tax positions for financial statement purposes.

The Company's federal income tax returns are subject to examination generally for three years after they are filed and its state income tax returns generally for four years after they are filed.

H. C. DENISON CO.

Notes to Statement of Financial Condition, Continued
September 30, 2011

Note 1 - Nature of business and significant accounting policies, continued

I. Fair value measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures on fair value measurements with respect to financial assets and liabilities that are measured at fair value within the financial statements on a recurring basis, and with respect to nonfinancial assets and liabilities that are measured at fair value within the financial statements on a nonrecurring basis, such as long lived and intangible assets.

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The fair value hierarchy specified by ASC 820 is as follows:

- Level 1 - Quoted prices in active markets for identical assets and liabilities
- Level 2 - Quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Note 2 - Concentration, risks and uncertainties

The Company maintains cash deposits at several banks. Deposits at each bank are insured by the Federal Deposit Insurance Corporation up to \$250,000 per entity. The Company's cash deposits, at times, exceed these limits.

The Company's securities are subject to various risks, including market, credit and interest rate risks.

H. C. DENISON CO.

Notes to Statement of Financial Condition, Continued
September 30, 2011

Note 3 - Cash - Segregated for reserve requirement

The Company is required to maintain sufficient bank accounts and qualified securities as a reserve to protect customer interests pursuant to Securities and Exchange Commission Rule 15c3-3. At September 30, 2011, cash segregated for reserve requirement consists of:

Cash on deposit	\$	147,882
Certificates of deposit		<u>37,360</u>
	\$	<u>185,242</u>

Note 4 - Cash - Segregated at clearing house

The Company is required to maintain cash balances at Depository Trust and Clearing Corporation. These segregated cash balances fluctuate periodically based on activity. Depository Trust and Clearing Corporation holds securities owned by the Company and is the Company's primary clearing agent.

Note 5 - Receivable from and payable to customers

Accounts receivable from and payable to customers include amounts due on cash transactions. Securities owned and not yet paid for by customers are held as collateral for receivables. Such collateral is not reflected in the financial statements.

Note 6 - Receivable from and payable to brokers and dealers

Accounts receivable from and payable to brokers and dealers consist of cash due or payable on security transactions. The security transactions are settled when the underlying securities are delivered. Securities sold but not yet delivered are held as collateral for monies due upon delivery. Securities held as collateral pending payment are not reflected in the financial statements. Monies owed against securities not yet received are held pending receipt of securities.

Amounts receivable from and payable to brokers and dealers at September 30, 2011 consist of the following:

	<u>Receivable</u>	<u>Payable</u>
Unsettled regular-way transactions	\$ -	\$ 23,101

H. C. DENISON CO.

Notes to Statement of Financial Condition, Continued
September 30, 2011

Note 7 - Securities owned and fair value measurements

The following table presents, for each of the fair value hierarchy levels, determined on the basis of the nature and risks, the Company's financial assets and liabilities at September 30, 2011 that are measured at fair value on a recurring basis:

<u>Assets</u>	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Securities owned:				
Stocks	\$ 17,036	\$ 12,641	\$ -	\$ 4,395
Corporate bonds:				
A credit rating	12,822	-	12,822	-
A- credit rating	6,572	-	6,572	-
BBB credit rating	21,070	-	21,070	-
BBB- credit rating	46,122	-	46,122	-
U.S. Government obligations	12,093	12,093	-	-
Municipal bonds:				
AA- credit rating	15,150	-	15,150	-
BBB+ credit rating	32,268	-	32,268	-
BBB credit rating	86,351	-	86,351	-
No public rating requested	5,049	-	5,049	-
Certificate of deposit	<u>29,183</u>	<u>-</u>	<u>29,183</u>	<u>-</u>
Total assets measured at fair value on a recurring basis	<u>\$ 283,716</u>	<u>\$ 24,734</u>	<u>\$ 254,587</u>	<u>\$ 4,395</u>

The following table sets forth a summary of changes in the fair value of the Company's Level 3 assets for the year ended September 30, 2011:

	<u>Stocks</u>
Balance, beginning of year	\$ 7,611
Sales (no realized gains or losses)	<u>(3,216)</u>
Balance, end of year	<u>\$ 4,395</u>

Note 8 - Note payable

At September 30, 2011, the Company had available with Community Bank & Trust, a line of credit of \$1,000,000 which matures May 1, 2012 and is secured by substantially all assets of the Company. There was \$190,000 outstanding at September 30, 2011. The interest rate charged is the bank's prime rate subject to a minimum of 5.5% (5.5% at September 30, 2011). The line of credit is guaranteed by the stockholder of the Company.

H. C. DENISON CO.

Notes to Statement of Financial Condition, Continued
September 30, 2011

Note 9 - Net capital requirements

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, 2011, the Company had net capital of \$783,474, which was \$533,474 in excess of its required net capital of \$250,000. The Company's net capital ratio was 0.3660 to 1.

Note 10 - Related party transactions and lease commitment

The Company leases its Sheboygan office facility from a former stockholder for \$12,375 per month, adjusted annually based on the change in the consumer price index, under a noncancelable operating lease which expires December 1, 2012. The Company is required to pay real estate taxes, insurance and the cost of the normal repairs and maintenance to the building.

Following is a schedule by years of future minimum rental payments required under operating leases that have initial noncancelable lease terms in excess of one year as of September 30, 2011:

<u>Year ending</u> <u>September 30,</u>	
2012	\$ 148,500
2013	<u>24,750</u>
	<u>\$ 173,250</u>

A copy of the Company's financial report on Form X-17A-5 as of September 30, 2011 is available for examination and copying at the Company's office at 618 N. 7th Street, Sheboygan, Wisconsin, and at the office of the Securities and Exchange Commission in Chicago, Illinois.