
H. C. DENISON CO.

Statement of Financial Condition

September 30, 2009

Together With Independent Auditors' Report

H. C. DENISON CO.

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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, 2009. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. 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 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, 2009, in conformity with accounting principles generally accepted in the United States of America.

Schenck SC

Certified Public Accountants

Sheboygan, Wisconsin
November 20, 2009

H. C. DENISON CO.

Statement of Financial Condition
September 30, 2009

ASSETS

Cash and cash equivalents	\$ 476,809
Cash - Segregated for reserve requirement	235,057
Cash - Segregated at clearing house	120,858
Receivables:	
Customers	67,876
Brokers and dealers	50,531
Commissions	60,322
Interest and dividends	9,677
Other	1,808
Securities owned, at fair value	691,812
Federal tax deposit	2,258
Property and equipment, net of accumulated depreciation of \$88,499	<u>48,554</u>

\$ 1,765,562

See notes to financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Payables:

Customers	\$ 628,701
Brokers and dealers	235,503
Other	15,252

Accrued liabilities:

Salaries, commissions and related withholdings	24,637
Property taxes	<u>7,165</u>

Total liabilities \$ 911,258

Stockholders' equity

Common stock, no par value:

Authorized, 1,524 shares	
Issued and outstanding, 1,322 shares	1,227,000
Accumulated deficit	<u>(372,696)</u>

Total stockholders' equity 854,304

\$ 1,765,562

H. C. DENISON CO.

Notes to Statement of Financial Condition
September 30, 2009

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 statement of financial condition was approved and available for issue by management on November 19, 2009, and subsequent events were evaluated through this date.

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 certificates 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, 2009

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 stockholders, 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. Instead, the stockholders are liable for their respective shares of the Company's taxable income on their individual tax returns. The Company periodically makes distributions to the stockholders for income taxes.

I. New accounting standards

Fair value measurements. Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 in financial statements. Effective October 1, 2008, the Company adopted provisions of ASC 820 with respect to financial assets and liabilities that are measured at fair value within the financial statements on a recurring basis. The partial adoption of ASC 820 did not have a material impact on the Company's financial statements. The Company does not expect the application of the provisions of ASC 820 to its nonfinancial assets and liabilities to have a material effect on its financial statements when it becomes effective beginning October 1, 2009.

H. C. DENISON CO.

Notes to Statement of Financial Condition, Continued
September 30, 2009

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

I. New accounting standards, continued

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.

See Note 7 for fair value measurements.

Accounting for uncertainty in income taxes. FASB has issued guidance for accounting for uncertainties in income taxes as part of Accounting Standards Codification (ASC) 740-10. 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 will be required to adopt this new guidance as of October 1, 2009, with any cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company has not yet determined the impact of adoption of this guidance on the Company's statement of financial condition.

As permitted by this guidance, the Company has elected to defer the application until issuance of its September 30, 2010 financial statements. For financial statements covering periods prior to the fiscal year September 30, 2010, the Company has evaluated uncertain tax positions in accordance with existing generally accepted accounting principles and makes such accruals and disclosures as might be required thereunder.

H. C. DENISON CO.

Notes to Statement of Financial Condition, Continued
September 30, 2009

Note 2 - Concentration and risks

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.

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, 2009, cash segregated for reserve requirement consists of:

Cash on deposit	\$	187,389
Certificates of deposit		<u>47,668</u>
	\$	<u>235,057</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 and margin 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, 2009 consist of the following:

	<u>Receivable</u>	<u>Payable</u>
Securities failed-to-deliver	\$ 50,531	\$ -
Unsettled regular-way transactions	-	235,503

H. C. DENISON CO.

Notes to Statement of Financial Condition, Continued
September 30, 2009

Note 7 - Securities owned and fair value measurements

The following table presents, for each of the fair value hierarchy levels, the Company's financial assets and liabilities at September 30, 2009 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 and warrants	\$ 32,628	\$ 24,751	\$ -	\$ 7,877
Corporate bonds	122,979	-	122,979	-
U.S. Government obligations	10,468	10,468	-	-
Municipal bonds	<u>525,737</u>	<u>-</u>	<u>525,737</u>	<u>-</u>
Total assets measured at fair value on a recurring basis	<u>\$ 691,812</u>	<u>\$ 35,219</u>	<u>\$ 648,716</u>	<u>\$ 7,877</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, 2009:

	<u>Stocks and Warrants</u>
Balance, beginning of year	\$ 10,533
Sales (no realized gains or losses)	<u>(2,656)</u>
Balance, end of year	<u>\$ 7,877</u>

Note 8 - Notes payable

Community Bank

At September 30, 2009, the Company had available a line of credit of \$500,000 which matures January 27, 2010 and is secured by substantially all assets of the Company. There was \$0 outstanding at September 30, 2009. The Company also had available a \$1,000,000 line of credit, which matures March 9, 2010, had \$0 outstanding at September 30, 2009 and is unsecured. The interest rate charged is the bank's prime rate subject to a minimum of 4.5% (4.5% at September 30, 2009). These lines of credit are guaranteed by the majority stockholder of the Company.

J P Morgan Chase Bank, N.A.

At September 30, 2009, the Company had available lines of credit totaling \$600,000 which mature December 31, 2009. There was \$0 outstanding at September 30, 2009. The interest rate charged is the 30-day LIBOR rate plus 250 basis points (2.75% at September 30, 2009). These lines of credit are secured by specific securities in inventory and guaranteed by the majority stockholder of the Company.

H. C. DENISON CO.

Notes to Statement of Financial Condition, Continued
September 30, 2009

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, 2009, the Company had net capital of \$759,373, which was \$509,373 in excess of its required net capital of \$250,000. The Company's net capital ratio was .5803 to 1.

Note 10 - Commitments

The Company leases its Sheboygan office facility from a former stockholder for \$12,244 per month under a noncancelable operating lease which expires December 1, 2012.

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, 2009:

<u>Year ending</u> <u>September 30,</u>	
2010	\$ 146,928
2011	146,928
2012	146,928
2013	<u>24,488</u>
	<u>\$ 465,272</u>

A copy of the Company's financial report on Form X-17A-5 as of September 30, 2009 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.