

**Report of Independent Certified Public Accountants**

Stockholders and Chairman  
SAMCO Capital Markets, Inc.  
Austin, Texas

We have audited the accompanying statement of financial condition of SAMCO Capital Markets, Inc. (the Company), a wholly owned subsidiary of SAMCO Holdings, Inc., as of December 31, 2008, and the related statements of income, stockholder's equity, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 statements are 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 financial statements referred to above present fairly, in all material respects, the financial position of SAMCO Capital Markets, Inc. at December 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. The schedule is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*BDO Seidman, LLP*

Dallas, Texas  
February 13, 2009

**SAMCO CAPITAL MARKETS, INC.**

**Statement of Financial Condition  
December 31, 2008**

<b>Assets:</b>	
Cash and cash equivalents	\$ 755,342
Receivable from clearing organizations	5,991,685
Securities owned:	
Marketable, at market value	16,009,955
Not readily marketable, at estimated fair value	365,298
Accounts receivable	188,349
Prepaid expenses	142,646
Fixed assets, net of accumulated depreciation of \$2,701,003	765,484
Other assets	<u>127,963</u>
Total assets	\$ <u>24,346,722</u>
<b>Liabilities:</b>	
Payable to clearing organizations	\$ 17,046,320
Accounts payable and accrued liabilities	<u>1,745,550</u>
Total liabilities	18,791,870
<b>Stockholder's Equity:</b>	
Common stock, \$.01 par value, 2,000 shares authorized, 1,000 issued and outstanding	10
Additional paid-in capital	5,992,571
Retained earnings	<u>(437,729)</u>
Total stockholder's equity	<u>5,554,852</u>
Total liabilities and stockholder's equity	\$ <u>24,346,722</u>

*See accompanying notes to financial statement*

**SAMCO CAPITAL MARKETS, INC.**

**STATEMENT OF  
FINANCIAL CONDITION  
DECEMBER 31, 2008**

*6805 Capital of Texas Highway  
Suite 350  
Austin, Texas 78731  
Phone: 512.794.9100*

**Member:  
FINRA  
SIPC**

*A Subsidiary of  
SAMCO Holdings, Inc.*

# SAMCO CAPITAL MARKETS, INC.

## NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS

SAMCO Capital Markets, Inc. (SAMCO or the Company) is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority, Inc. (FINRA).

The broker dealer business consists of buying, selling and trading of securities, as well as several types of financial services, including investment banking, financial advisory, underwriting and agency transactions.

The Company introduces its customers on a fully disclosed basis and clears all of its transactions through Penson Financial Services, Inc. (PFSI), which is affiliated with the Company by way of indirect common ownership and Chairman of the Board of Directors. Accordingly, the Company operates under the exemptive provisions of the SEC Rule 15c3-3(k)(2)(ii).

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies which are followed consistently by the Company in the preparation of its financial statements. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Securities Transactions - Proprietary security transactions are recorded on a trade-date basis. Profit and loss arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade-date basis and are recorded in net trading income on the statement of income.

Securities owned and securities sold, not yet purchased are valued at market value. Securities traded on a national exchange are valued at the last sales price. Securities for which over-the-counter market quotations are available are valued at the average of the last bid/asked price. Securities not readily marketable are valued at fair value as determined by management.

Effective January 1, 2008, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The implementation of SFAS 157 did not cause a change in the method of calculating fair value of assets or liabilities, with the exception of incorporating a measure of the Company's own non-performance risk or that of its counterparties as appropriate, which was not material.

SFAS No. 157 establishes a three-tier fair value hierarchy, which categorizes the inputs used in measuring fair value. These categories include (in descending order of priority): Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following table shows assets and liabilities measured at fair value as of December 31, 2008 on the Company's balance sheet, and the input categories associated with those assets and liabilities:

Description	Fair Value Measurements at Reporting Date Using			
	Total Fair Value Assets (Liabilities) at 12/31/08	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Receivable from clearing organization.....	\$ 5,991,685	\$ 5,991,685	\$ -	\$ -
Securities owned marketable.....	16,009,955	16,009,955	-	-
Not readily marketable.....	365,298	-	-	365,298
Payable to clearing organization.....	(17,046,320)	(17,046,320)	-	-

SFAS 157, paragraph 32, requires that entities provide reconciliation for the beginning and ending balances for Level 3 assets and liabilities measured at fair value.

Changes in Level 3 assets and liabilities are measured at fair value on a recurring basis for the year ended December 31, 2008.

	Assets - Investments in Securities, at Fair Value
Beginning Balance.....	\$ 443,446
Realized and Unrealized.....	-
Purchases and Sales.....	(78,148)
Ending Balance.....	<u>365,298</u>

	Changes in Unrealized Gains (Losses) as of December 31, 2008.....
	<u>\$ -</u>

Cash and Cash Equivalents - The Company considers cash equivalents to be highly liquid investments with original maturities at time of purchase of less than 90 days that are not held for sale in the ordinary course of business.

Investment Banking - Investment banking revenues include fees earned from providing advisory services for merger-and-acquisition transactions, capital raising activities, and related financial advisory work. Revenue is recorded when earned as specified by the terms of the contract.

Commissions - Commissions and clearing fees are recorded on a settlement date basis as securities transactions occur.

Financial Advisory Fees - Financial advisory fees include consulting fees earned from providing financial advice to municipalities. Revenue is recorded when earned as specified by the terms of the contract.

Underwriting Income - Underwriting revenue includes gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as an underwriter or agent. Underwriting management fees and sales commissions are recorded on a settlement day basis, when the related income is readily determinable.

Income Tax - The Company is included in the consolidated federal and state tax returns filed by SAMCO Holdings, Inc. (SHI). Federal income taxes are calculated as if the Company filed on a separate return basis, and the amount of current tax or benefit calculated is either remitted to or received from SHI. The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in deferred tax liabilities or assets between years.

Fixed Assets - Fixed assets consist of furniture and equipment that is stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, generally three to five years. Depreciation expense for the year ended December 31, 2008 totaled \$272,172.

## NOTE 3 - RECEIVABLE FROM CLEARING ORGANIZATION

At December 31, 2008, amounts receivable from clearing organization represent the deposit maintained by the Company with PFSI in accordance with a correspondent clearing agreement.

## NOTE 4 - INVESTMENTS

Marketable securities owned and sold, not yet purchased, consist of trading and investment securities at market values, as follows:

	Owned	Not Yet Purchased
Obligations of U.S. government.....	\$11,141,409	\$ 364,148
Federal, state and municipal government obligations...	1,584,138	-
Corporate obligations.....	1,806,091	954,223
Corporate stocks.....	75,317	84,629
	<u>\$14,606,955</u>	<u>\$1,403,000</u>

Securities not readily marketable include investments in equity securities in privately held companies.

## NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable represents outstanding invoices for financial advisory fee billings and an intercompany receivable.

## NOTE 6 - PREPAID EXPENSES

Prepaid expenses include \$58,468 in registration fees paid to FINRA to register the Company and certain representatives in each state that the Company operates in for 2009, \$9,478 for prepaid quotation services, and \$74,700 for prepaid insurance.

## NOTE 7 - PAYABLE TO CLEARING ORGANIZATION

At December 31, 2008, the Company owed PFSI, its clearing organization, \$17,046,320. All of the Company's securities are held at the clearing organization. The securities are pledged as collateral for amounts due to the clearing organization and any obligations arising out of securities sold, not yet purchased. Interest costs associated with margin lending activity vary based on current interest rates.

## NOTE 8 - TRANSACTIONS WITH RELATED PARTIES

The Company settles transactions with PFSI for its investment activities. The clearing and depository operations for the Company's investment activities are performed pursuant to agreements with this clearing organization. The Company is subject to credit risk to the extent the brokers with which the Company conducts business are unable to deliver cash balances or securities, or clear security transactions on the Company's behalf. The Company monitors the financial condition of the brokers with which the Company conducts business and believes the likelihood of loss under those circumstances is remote.

During the year ended December 31, 2008, clearing fees paid to PFSI totaled approximately \$694,156. These amounts are included in clearing and exchange fees on the statement of operations.

## NOTE 9 - INCOME TAXES

The Company is included in the consolidated federal income tax return filed by its Parent, SHI. Federal income taxes are calculated as if the Company filed a separate federal income tax return. The Company has federal and state income tax net operating loss carryovers available, and sufficient in amount, to offset current year income. The federal and state net operating loss carryovers were offset, in full, by a valuation allowance. As such, the current year income tax expense is offset, in full, by the deferred income tax benefit. The Company files its own state income tax returns, in addition to state income tax returns filed on a combined basis with SHI and other affiliated members. Further, state tax expense is immaterial in those states imposing tax on a basis other than net income.

## NOTE 10 - PROFIT SHARING PLAN

The Company sponsors a defined contribution 401(k) profit sharing plan (the Plan) that covers substantially all employees. Under the Plan, the Company may make a discretionary contribution determined by the Board of Directors. All employees are eligible to participate in the Plan, based on meeting certain age and term of employment requirements. During 2008, the Company contributed \$53,525 on behalf of the employees.

## NOTE 11 - COMMITMENTS AND CONTINGENCIES

Leases - The Company leases its office facilities under non-cancelable leases. The following is a schedule of the approximate future minimum lease payments required under the leases:

2009.....	\$ 611,249
2010.....	546,423
2011.....	517,031
2012.....	236,917
Thereafter.....	377,825
Total.....	<u>\$2,289,445</u>

For the year ended December 31, 2008, the Company's rental expense totaled \$640,152.

## NOTE 12 - GUARANTEES

FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires the Company to disclose information about its obligations under certain guarantee arrangements. FIN 45 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 non-occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. FIN 45 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. In this regard, the Company has agreed to indemnify its clearing organization for losses that it may sustain from the customer accounts introduced by the Company. As of December 31, 2008, there were no amounts to be indemnified to the clearing organization for these accounts.

## NOTE 13 - 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 and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2008, the Company had net capital of \$3,133,820 which was \$2,883,820 in excess of its required net capital of \$250,000. The Company's ratio of aggregate indebtedness to net capital was .56 to 1.

## NOTE 14 - FINANCIAL INSTRUMENTS

### *Financial Instruments with Off-Balance-Sheet Risk*

In the normal course of business, the Company executes, as agent or principal, transactions on behalf of customers. If the transactions do not settle because of failure to perform by either the customer or the counterparty, the Company may be obligated to discharge the obligation of the nonperforming party and, as a result, may incur a loss if the market value of the securities is different from the contract amount of the transaction.

The Company does not anticipate nonperformance by customers or counterparties in the above situation. The Company's policy is to monitor its market exposure and counterparty risk. In addition, the Company has a policy of reviewing, as considered necessary, the credit standing of each customer with which it conducts business. Additionally, the Company is subject to credit risk if the clearing organization is unable to repay the balance in the Company's accounts.

### *Concentration of Credit Risk*

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to continually monitor its market exposure and counterparty risk. The Company does not anticipate non-performance by counterparties and maintains a policy of reviewing the credit standing of all parties; including customers, with whom it conducts business.