



CREWS & ASSOCIATES, INC.

June 30, 2011

Statement of Financial Condition

(UNAUDITED)

521 President Clinton Ave, Suite 800
Little Rock, Arkansas 72201
501-907-2000
Member SIPC & FINRA

Pursuant to Rule 17a-5 of the Securities and Exchange Commission the Statement of Financial Condition of Crews & Associates, Inc. as of June 30, 2011 is available for examination at the principal office of the Company, and at the Fort Worth, Texas regional office of the Commission.

CREWS & ASSOCIATES, INC.

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Statement of Financial Condition

(UNAUDITED)

Assets

Cash (including \$314,328 segregated under federal regulation)	\$ 1,956,380
Receivables from	
Broker-dealers and clearing organizations	3,975,960
Customers	1,214,680
Marketable securities, at fair value	42,267,689
Lease Inventory	159,376
Furniture, equipment and leasehold improvements, net	1,624,155
Net deferred tax asset	5,002,575
Cash surrender value of life insurance policies	14,177,512
Employee loans receivable and covenants not to compete, net	820,920
Goodwill	772,574
Other assets	<u>1,050,313</u>
Total assets	<u>\$ 73,022,134</u>

Liabilities and Stockholder's Equity

Payables to	
Broker-dealers and clearing organizations	\$ 111,410
Customers	2,519,506
Accounts payable, accrued expenses and other liabilities	6,178,737
Non-qualified deferred compensation	13,299,673
Current Income Tax Liability	836,248
Short-term borrowings	<u>11,400,000</u>
Total liabilities	<u>34,345,574</u>
Stockholder's equity	
Common stock, \$.0005 par value, 5,000,000 shares authorized and 853,220 issued and outstanding	427
Additional paid-in capital	2,838,692
Retained earnings	<u>35,837,441</u>
Total stockholder's equity	<u>38,676,560</u>
Total liabilities and stockholder's equity	<u>\$ 73,022,134</u>

The accompanying notes are an integral part of the statement of financial condition.

CREWS & ASSOCIATES, INC.**June 30, 2011****Notes to Statement of Financial Condition****(UNAUDITED)****1. Description of Business**

Crews & Associates, Inc. (the “Company” or “Crews”) is a registered broker-dealer. The Company is located in Little Rock, Arkansas and is 100% owned by First Security Bancorp (the “Parent”).

Crews is registered with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”). Crews conducts business with other broker-dealers located throughout the United States on behalf of its customers and for its own account.

2. Summary of Significant Accounting Policies

- a. **Revenue Recognition** – Securities transactions are captured on the Company’s computer system and monitored on a trade date basis and are reflected in the accompanying financial statements on a settlement date basis. Recording such transactions on a trade date basis would not result in a material difference in the accompanying statement of financial condition. Investment banking revenue is recorded at the time the transaction is completed and the income is reasonably determinable.
- b. **Cash equivalents** – The Company considers all liquid investments with an original maturity of three months or less to be cash equivalents. At June 30, 2011, the Company did not hold investments considered to be cash equivalents.
- c. **Marketable securities** – Marketable securities are comprised of securities used for trading and are valued at market.
- d. **Lease inventory** -Lease inventory represents leases purchased by the Company and held for sale to outside investors. Lease inventory is valued at market.
- e. **Property, plant and equipment** – Property, plant, and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.
- f. **Impairment of long-lived assets to be held and used** – The Company reviews the carrying value of long-lived assets for impairment whenever certain triggering events or changes in circumstances indicate that the carrying amounts of any asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the excess of the carrying amount over the fair value of the assets. No triggering events or changes in circumstances were identified by management for the period ended June 30, 2011.
- g. **Intangible assets** – Intangible assets consist of goodwill in the amount of \$772,574 at June 30, 2011. Goodwill represents the excess purchase price over the fair value of net assets acquired in business acquisitions. The Company accounts for goodwill in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 350-10, “Goodwill and Other Intangible Assets,” whereby intangible assets are evaluated on at least an annual basis for indicators of impairment. The Company performed its annual impairment test of goodwill during 2010 and concluded that there was no impairment indicated.

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2. Summary of Significant Accounting Policies (cont.)

- h. **Employee loans receivable and covenants not to compete** – In the ordinary course of business, the Company enters into agreements with certain employees for covenants not to compete and employee loans. These amounts are being amortized over the term of the agreements which range from four to six year periods. The net unamortized balance was \$820,920 at June 30, 2011.
- i. **Income taxes** – The Company will be included in the consolidated federal income tax return of the Parent. Federal income taxes are calculated as if the companies filed on a separate return basis, and the amount of current tax or benefit calculated is either remitted to or received from the Parent. 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.
- ASC 740, “Income Taxes,” clarifies the accounting for uncertainty in income taxes recognized in the financial statement and requires the impact of a tax position to be recognized in the financial statements if that position is more likely than not of being sustained by the taxing authority. A deferred tax liability is recognized for all temporary differences that will result in future taxable income; a deferred tax asset is recognized for all temporary differences that will result in future tax deductions, subject to reduction of the asset by a valuation allowance in certain circumstances. This valuation allowance is recognized if, based on an analysis of available evidence, management determines that it is more likely than not that some portion or all of the deferred tax asset will not be realized. The valuation allowance is subject to ongoing adjustment based on changes in circumstances that affect management’s judgment about the realizability of the deferred tax asset. Adjustments to increase or decrease the valuation allowance are charged or credited, respectively, to income tax expense.
- The Company is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2006. The Company’s federal tax return and its state tax return are not currently under examination. The Company recognizes interest accrued related to unrecognized tax benefits and penalties in income tax expense. During the six months ended June 30, 2011, the Company did not recognize any interest or penalties. The Company did not have any interest or penalties accrued at June 30, 2011.
- j. **Related party transactions** – In the normal course of business, the Company purchases and sells securities for Company officers and its stockholder. These transactions have substantially the same terms as those with unrelated parties.
- k. **Use of estimates** – The preparation of the statement of financial condition 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, liabilities and disclosures about contingent assets and liabilities. The estimates and assumptions used in the accompanying statement of financial condition are based upon management’s evaluation of the relevant facts and circumstances as of the date of the statement of financial condition. However, actual results may differ from the estimates and assumptions used in the accompanying statement of financial condition.
- l. **Recent accounting pronouncements** – In August 2009, the FASB issued ASC Update 2009-05, “Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value.” This update provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. ASC Update 2009-05 also clarifies that when estimating a fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to existence of a restriction that prevents the transfer of the liability. ASC Update 2009-05 is effective for the Company January 1, 2010. The adoption of this standard did not have a material effect on the Company’s results of operations or financial position.

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2. Summary of Significant Accounting Policies (cont.)

- I. Recent accounting pronouncements (cont.)** In January 2010, the FASB issued Account Standards Update (“ASU”) 2010-06, “Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements.” This ASU provides amendments to Subtopic 820-10, “Fair Value Measurement and Disclosures,” that require a reporting entity to disclose separately the amounts of significant transfers in and out of Level I and II fair value measurements and describe the reasons for the transfers. It also requires present activity in Level III, including purchases, sales, issuances and settlements to be presented on a gross basis rather than as a net number. It clarifies the level of disaggregation of fair value measurements to be presented for each class of assets and liabilities. Additionally, disclosures related to inputs and valuation techniques used to measure fair value are required for Level II and III fair value measurements. This ASU is effective for fiscal years beginning on or after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level III fair value measurements. This disclosure will be effective for fiscal years beginning on or after December 15, 2010. The adoption of this standard in its entirety did not have a material effect on the Company’s results of operations or financial position.

3. Cash Segregated Under Federal Regulation

Statutory rules require customer funds be segregated in a special reserve bank account, “for the exclusive benefit of customers” based on the computation required under SEC Rule 15c3-3. While not required based on the regulatory calculation the Company maintained \$314,328 in a special reserve bank account at June 30, 2011.

4. Receivables from and Payables to Broker – Dealers and Clearing Organizations, and Customers

The balances shown as receivables from and payables to broker – dealers and clearing organizations, and customers represent amounts due in connection with normal trading transactions executed for customers or the Company. These receivables and payables are generally collateralized by securities held by or due to the Company. To further minimize the risks associated with these balances, the Company monitors the credit standing of each broker – dealer and clearing organization and customer with whom it conducts business. In addition, the Company monitors the market value of collateral held and the market value of the securities due from others. Because these receivable balances are generally collateralized, the Company has not historically incurred any significant losses related to bad debt. Accordingly, the Company has not recorded an allowance for doubtful accounts at June 30, 2011.

At June 30, 2011, receivables from customers consisted of \$873,464 from institutional firms and \$341,216 from retail customers. Payables consisted of \$2,418,763 to institutional firms and \$100,743 to retail customers. The institutional firms represent financial institutions, and retail customers represent a diversified clientele, both located throughout the United States.

5. Marketable Securities

Marketable securities consisted of the following trading securities, stated at quoted market values:

State and municipal government obligations	\$ 31,389,573
U.S. government obligations	7,845,742
Corporate obligations	1,538,919
Certificates of Deposits	124,593
Other	<u>1,368,862</u>
	<u>\$ 42,267,689</u>

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6. Furniture, Equipment and Leasehold Improvements

The furniture, equipment and leasehold improvements were as follows:

Leasehold improvements	\$ 663,333
Furniture and equipment	<u>4,596,332</u>
	5,259,665
Accumulated depreciation	<u>(3,635,510)</u>
Furniture, equipment and leasehold improvements, net	<u>\$ 1,624,155</u>

7. Short-Term Borrowings

At June 30, 2011, the Company had a revolving line of credit with a balance of \$400,000 outstanding under this arrangement. The revolving line of credit bears interest at a variable rate based on the financial institution's internal rate (1.45% at June 30, 2011) and is collateralized by marketable securities owned by the Company. Availability is determined daily by the lender based primarily on average quarterly balances.

At June 30, 2011, the Company had a \$20,000,000 line of credit agreement with a related party financial institution. At June 30, 2011 \$11,000,000 was outstanding. The lines of credit bear interest at the greater of 4.5% or the London Interbank Offered Rate (4.5% at June 30, 2011) and are collateralized by marketable securities owned by the Company.

At June 30, 2011, the Company had a \$10,000,000 revolving line of credit agreement with the Parent of which there was no outstanding balance at June 30, 2011. The revolving line of credit bears interest at a fixed rate (5% at June 30, 2011). The loan is uncollateralized.

At June 30, 2011, the Company had a \$10,000,000 revolving line of credit agreement with a bank, of which there was no outstanding balance at June 30, 2011. The revolving line of credit bears interest at the greater of 5.0% or the Wall Street Journal (WSJ) Prime Rate (5.0% at June 30, 2011). The loan is uncollateralized.

As of June 30, 2011, the Company had no outstanding obligations which were subordinated to claims of general creditors.

8. Income Taxes

The Company utilizes the liability method to determine deferred income taxes. Under this method, deferred income taxes are determined by applying statutory tax rates in effect at the financial statement date to differences between the book basis and the tax basis of assets and liabilities.

The deferred income tax asset reflected in the accompanying statement of financial condition resulted primarily from the recognition of the nonqualified deferred compensation liability for financial reporting purposes which are not yet deductible for income tax reporting purposes.

Total deferred tax assets and deferred tax liabilities are as follows:

Deferred tax assets	\$5,330,649
Deferred tax liabilities	<u>(328,074)</u>
Net Deferred tax asset	<u>\$5,002,575</u>

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9. Commitments and Contingencies

The following schedule reflects the future minimum rental payments required under operating leases that have non-cancelable lease terms in excess of one year as of June 30, 2011:

	Lease <u>Commitments</u>	Less <u>Sub-lease</u>	Net Lease <u>Commitments</u>
Six months ending December 31, 2011	\$ 909,179	\$ (53,130)	\$ 856,049
Year ending December 31, 2012	1,147,649	(108,043)	1,039,606
Year ending December 31, 2013	921,433	(110,226)	811,207
Year ending December 31, 2014	891,500	(112,420)	779,080
Year ending December 31, 2015	<u>222,875</u>	<u>(18,798)</u>	<u>204,077</u>
	<u>\$ 4,092,636</u>	<u>\$ (402,617)</u>	<u>\$ 3,690,019</u>

The company leases their office space from the Parent.

In the normal course of business, the Company is occasionally a party to lawsuits and claims. In some of the lawsuits, relating primarily to its securities business, the plaintiff's claim substantial amounts. The costs to defend and settle such a matter have been included in professional and other expense in the accompanying statement of operations. Management, after consultation with counsel, believes that resolution of all such matters are not expected to have a material adverse affect on the balance sheet, statement of operations or statement of cash flows of the Company. Factors considered by management in reaching this conclusion are the loss and damages sought by the plaintiffs, the merits of the claims, the total cost of defending the litigation, the potential for fines and penalties from regulatory agencies and the likelihood of a successful defense against the claims

In connection with its retail brokerage business, the Company performs securities execution, clearance and settlement on behalf of its customers for whom it commits to settle trades submitted by such customers. The Company stands ready to meet the obligations of its customers with respect to securities transactions. If the customer fails to fulfill its obligation, the Company must fulfill the customer's obligation with the trade counterparty. The Company is fully secured by assets in the customer's account, as well as any proceeds received from the securities transaction entered into by the Company on behalf of the customer. In addition, the Company controls this risk by establishing credit limits for such activities and by monitoring its customers' compliance with their contractual obligations and the related exposure on a daily basis.

In addition, the Company enters into when-issued transactions and underwriting commitments. Such commitments require that the Company purchase securities at specified prices. To manage the off-balance sheet risk related to these commitments, the Company generally sells the issue to third parties on a when-issued basis. At June 30, 2011, the Company had firm commitments to purchase securities totaling \$6,251,000 and no commitments to sell securities.

The Company maintains, at various financial institutions, cash balances which may exceed the federally insured amounts at various times during the year.

CREWS & ASSOCIATES, INC.**June 30, 2011****Notes to Statement of Financial Condition****(UNAUDITED)****10. Net Capital Requirement**

As a registered broker-dealer, Crews is subject to the Uniform Net Capital Rule 15c3-1 administered by the SEC. Crews has elected to compute its net capital requirement under the aggregate indebtedness method of the rule, which does not allow the aggregate indebtedness of Crews, as defined under the rule, to exceed 15 times regulatory net capital. At June 30, 2011, Crews had an aggregate indebtedness to net capital ratio of 1.05 to 1 with \$22,012,326 of regulatory net capital, which was \$20,466,190 in excess of the required minimum regulatory net capital of \$1,546,136.

11. Related Party Transactions

At June 30, 2011, the Company had \$11,000,000 outstanding under a line of credit agreement with a bank that is a subsidiary of the Parent. Total borrowings available pursuant to this agreement totaled \$20,000,000 at June 30, 2011. In addition, the Company had customer deposits of approximately \$43,000,000 held at a bank that is a subsidiary of the Parent at June 30, 2011. Also, the Company had a \$10,000,000 revolving line of credit agreement with the Parent with no balance outstanding at June 30, 2011.

12. Deferred Compensation

The Company has a nonqualified deferred compensation arrangement for certain employees, which permits participants to defer a portion of their compensation ("Participant Deferrals") and provides that the Company will make matching contributions up to a specified dollar amount. The Participant Deferrals are fully vested and are credited with the gain or loss associated with the investment choices selected by the participant as provided by the plan. The Company contribution is credited with interest at a specified rate set each year by the Company. The rate was 4.20% per annum as of June 30, 2011 and vests over a 10-year period. The Company funds its obligations under these arrangements through the purchase of life insurance policies. The cash surrender value of these life insurance policies was \$14,177,512 as of June 30, 2011. The Company's net benefit obligation under these arrangements which is reflected in nonqualified deferred compensation in the accompanying statement of financial condition was \$13,299,673 at June 30, 2011.

13. Retirement Plan

The Company sponsors a defined contribution plan (the "401(k) Plan"), which is intended to provide assistance in accumulating personal savings for retirement. The 401(k) Plan is qualified as a tax-exempt plan under Sections 401(a) and 401(k) of the Internal Revenue Code. The 401(k) Plan covers all full-time employees of the Company once they have completed six months of service. Participants may make rollover contributions and deferral contributions through payroll deductions. The Company may, at its discretion, make matching contributions for the benefit of each participant making a deferral contribution. During 2011, the Company matched 10% of a participant's deferral contribution. The Company may also make a discretionary non-elective contribution, as determined by the Company. There was no discretionary non-elective contribution made as of June 30, 2011.

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14. Fair Value

The Company measures certain of its financial assets and liabilities on a fair value basis using various valuation techniques and assumptions, depending on the nature of the financial asset or liability. Additionally, fair value is used either annually or on a nonrecurring basis to evaluate certain financial assets and liabilities for impairment or for disclosure purposes.

Hierarchical levels defined by ASC 820-10 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities are as follows:

- Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities carried at Level I fair value generally are G-7 government and agency securities, equities listed in active markets and investments in publicly traded mutual funds with quoted market prices.
- Level II – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life. Fair valued assets and liabilities that are generally included in this category are non-G-7 government securities, municipal bonds, certain hybrid financial instruments, certain mortgage and asset backed securities, and certain corporate debt.
- Level III – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Generally, assets and liabilities carried at fair value and included in this category are certain mortgage and asset-backed securities, certain corporate debt, certain municipal debt and certain private equity investments.

The following table sets forth the Company's financial assets and liabilities at June 30, 2011 that are accounted for at fair value on a recurring basis.

	Quoted Prices in Active Markets for Identical Assets (Level I)	Other Observable Inputs (Level II)	Unobservable Inputs (Level III)	Total
Marketable Securities				
State and municipal	\$ -	\$ 26,967,957	\$ 4,421,616	\$ 31,389,573
U.S. Government obligations	-	7,845,742	-	7,845,742
Corporate obligations	-	992,038	546,881	1,538,919
Certificates of deposit	-	124,593	-	124,593
Other	-	-	1,368,862	1,368,862
Mortgages	-	-	-	-
Subtotal	\$ -	\$ 35,930,330	\$ 6,337,359	\$ 42,267,689
Lease Inventory	-	-	\$ 159,376	159,376
Total	\$ -	\$ 35,930,330	\$ 6,496,735	\$ 42,427,065

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14. Fair Value (cont.)

	Quoted Prices in Active Markets for Identical Assets (Level I)	Other Observable Inputs (Level II)	Unobservable Inputs (Level III)	Total
Cash surrender value of life of insurance policies	\$ -	\$ 14,177,512	\$ -	\$ 14,177,512
Total assets at fair value	\$ -	\$ 50,107,842	\$ 6,496,735	\$ 56,604,577
Nonqualified deferred compensation liabilities	\$ -	\$ 13,299,673	\$ -	\$ 13,299,673
Total Liabilities at fair value	\$ -	\$ 13,299,673	\$ -	\$ 13,299,673

For marketable securities traded in an active market, fair values are measured on a recurring basis, obtained from an independent pricing service and based on quoted market prices if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable securities, broker quotes or comprehensive interest rate tables and pricing matrices. For investment securities traded in a market that is not active, fair value is determined using unobservable inputs or value drivers and is generally determined using expected cash flows and appropriate risk-adjusted discount rates. Expected cash flows are based primarily on the contractual cash flows of the instrument, and the risk-adjusted discount rate is typically the contractual coupon rate of the instrument on the measurement date, adjusted for changes in interest rate spreads of the yields on comparable corporate or municipal bonds, similar mortgage backed asset obligations and the yields on U.S. Treasuries between the date of purchase and the measurement date.

The Deferred Compensation Plan (the "Plan") is comprised of individual life insurance policies issued. The Plan allows the owner to invest premiums in a group of private mutual funds available only to the policyholders. The Cash Surrender Value ("CSV") is calculated daily based on the Net Asset Value ("NAV") of the investment elections, as directed by the Company. The NAV's are provided daily to the Company's third party record keeper. The deferred compensation liability is calculated daily based on the NAV's of the investment elections, as directed by the Plan's participants (the Company's employees). The Plan participants make investment elections from the same set of mutual funds. The participant liability and CSV are based on the same NAV's. As such, these private mutual funds will mirror the results of many of the similarly styled funds traded in the public sector. Based on the nature of the funds, the ability of the fund manager to report NAV's daily and third party record keeping, these assets and liabilities are considered Level II.

The following table presents additional information about financial assets and liabilities measured at fair value on a recurring basis and for which the Company has utilized Level III inputs or value drivers to determine fair value.

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14. Fair Value (cont.)

	<u>Municipals</u>	<u>Corporates</u>	<u>U.S. Governments</u>	<u>Other</u>	<u>Lease Inventory</u>	<u>Total</u>
Balances – December 31, 2010	\$ 5,501,493	\$ 2,949,499	\$ -	\$ 5,468	\$ -	\$ 8,456,460
Purchases	7,543,167	7,004,008	828,205	2,835,113	159,376	18,369,869
Sells	(8,809,488)	(10,441,550)	(828,205)	-	-	(20,079,243)
Realized Gains (Losses)	126,144	1,034,924	-	(1,471,719)	-	(310,651)
Transfers In/Out	<u>60,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,300</u>
Balances - June 30, 2011	<u>\$ 4,421,616</u>	<u>\$ 546,881</u>	<u>\$ -</u>	<u>\$ 1,368,862</u>	<u>\$ 159,376</u>	<u>\$ 6,496,735</u>

15. Subsequent Events Evaluation Date

The Company evaluated the events and transactions subsequent to its June 30, 2011 statement of financial condition date and, in accordance with FASB ASC 855-10-50, "Subsequent Events," determined there were no significant events to report through August 22, 2011, which is the date the Company issued its statement of financial condition.