

FOLIO*fn* INVESTMENTS, INC.  
(A wholly owned subsidiary of FOLIO*fn*, Inc.)  
(S.E.C. I.D. No. 8-52009)

STATEMENT OF FINANCIAL CONDITION  
JUNE 30, 2015

UNAUDITED

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FOLIO*fn* INVESTMENTS, INC.  
McLean, Virginia

**STATEMENT OF FINANCIAL CONDITION**

(unaudited)

June 30, 2015

(In thousands, except per share amounts)

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**ASSETS**

Cash and cash equivalents	\$ 22,026
Cash segregated under federal and other regulations	19,021
Deposits with clearing organizations	4,925
Receivable from customers	2,287
Other receivables	1,097
Dividends and interest receivable	7
Corporate equity securities owned – at fair value	2,319
Corporate debt securities owned – at fair value	5
Intangible asset, net	1,721
Prepaid expenses and other assets	300
Deferred tax assets	<u>146</u>
Total assets	<u>\$ 53,854</u>

**LIABILITIES**

Payable to customers	\$ 17,904
Payable to broker dealers and clearing organizations	1,727
Accounts payable and accrued expenses	2,224
Due to parent	2,047
Deferred revenue	<u>724</u>
Total liabilities	<u>24,626</u>

**STOCKHOLDER'S EQUITY**

Common stock, \$0.0001 par value – 1,000 shares authorized, issued and outstanding	-
Additional paid-in capital	23,854
Retained earnings	<u>5,374</u>
Total stockholder's equity	<u>29,228</u>

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 53,854</u>
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See accompanying notes to financial statement.

## NOTE 1 - ORGANIZATION

FOLIO*fn* Investments, Inc. (the "Company") is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority ("FINRA"). The Company is a Virginia corporation that is a wholly owned subsidiary of FOLIO*fn*, Inc. (the "Parent").

The Company offers Internet-based portfolio creation, trading, and management services. It also provides trade execution, clearance and settlement services.

On January 12, 2015, the Parent entered into an agreement to purchase the brokerage accounts of Freedom Investments, Inc.'s BUYandHOLD division. The brokerage accounts were initially transferred to the Company on February 10, 2015 under a clearing agreement between Freedom Investments, Inc. and the Company. The conversion of the brokerage accounts was completed on February 17, 2015. The acquisition of the brokerage accounts was treated as an asset purchase.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Basis of Presentation: The Company is engaged in a single line of business as a securities broker-dealer, which provides execution of principal and agency transactions over the Internet.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash and short-term investments with original maturities of 90 days or less.

Securities Transactions: Proprietary securities transactions in regular-way trades are recorded on the trade date as if they had settled. Customers' securities transactions are reported on a settlement 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.

Marketable securities primarily consist of corporate equities and are recorded at their fair value in accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*.

Receivable from and Payable to Customers: Receivable from customers represents amounts owed from customers for cash transactions. Payable to customers represents amounts owed to customers for cash transactions.

Payable to Broker-Dealers and Clearing Organizations: This includes amounts that are due upon delivery of securities to the Company. In the event the counterparty does not fulfill its contractual obligation to deliver these securities, the Company may be required to purchase the securities at prevailing market prices to satisfy its obligations.

Intangible Asset, Net: A recognized intangible asset that has a finite useful life is amortized over its estimated life using the straight-line method. The Company's intangible asset consists of an acquired customer list intangible, which will be amortized over three years using the straight-line method. The Company re-evaluates the remaining estimated economic lives of finite-lived intangible assets at least annually. An impairment charge is recognized through earnings if the carrying amount of the intangible asset is not recoverable and its carrying amount exceeds its fair value.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Income Taxes: The Company is included in the federal and certain state income tax returns filed by the Parent, and certain other states require the Company to file income tax returns on a separate basis. Federal and state 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 the Parent for consolidated returns and for states that require separate returns the current tax is remitted or received from the state directly. 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 assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized, based on consideration of available evidence.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company is subject to income tax in the state of Virginia. The Company is no longer subject to examination by taxing authorities for years before 2010.

Use of Estimates: The Company's statement of financial condition is prepared in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the statement of financial condition and disclosures provided, and actual results could differ. It is reasonably possible that our estimates of the deferred tax assets and fair values of financial instruments could change and actual results could differ from those estimates.

**NOTE 3 - CASH SEGREGATED UNDER FEDERAL AND OTHER REGULATIONS**

As of June 30, 2015, cash of \$19,020,880 has been segregated in special reserve bank accounts for the benefit of customers under SEC Rule 15c3-3.

**NOTE 4 - LINE OF CREDIT**

The Parent has entered into a financing agreement with a bank that permits the Company to borrow, on a revolving line of credit basis through April 1, 2016, an amount up to \$40,000,000, bearing interest at the sum of the 30 day LIBOR, plus 2.75%. The interest rate at June 30, 2015 was 2.94%. The outstanding principal balance on the line of credit under the financing agreement at June 30, 2015 was \$0. The revolving line of credit is secured by Parent, pledging 100% of the ownership of the Company. The line is restricted for purposes of making of deposits (including deposits for settlement) with a clearing organization only. Repayments on the line are to occur upon the return of the deposits from the clearing organization.

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FOLIO*fn* INVESTMENTS, INC.  
NOTES TO FINANCIAL STATEMENT  
June 30, 2015

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**NOTE 5 - INCOME TAXES**

The Company accounts for income taxes through the use of the liability method whereby deferred tax assets and liability account balances are determined based on the differences between the financial reporting and the tax reporting basis of assets and liabilities. The Company applies enacted tax rates and laws to determine the amount of the corresponding deferred tax assets and liabilities. The Company uses a valuation allowance to reduce the amount of the deferred tax assets to their estimated realizable value. The Company does not have any tax benefits related to uncertain tax positions.

Deferred tax assets are comprised of the following at June 30, 2015:

Deferred tax assets (in thousands)	
Accounts receivable	\$ 74
Accrued vacation	<u>72</u>
Net deferred tax assets	<u>\$ 146</u>

As of June 30, 2015, the Company had no net operating loss carryforwards for federal or state income tax purposes.

As of June 30, 2015, based upon projections of future taxable income, the Company has determined that it is more likely than not to realize its deferred tax assets in future years.

The Company did not have any unrecognized tax benefits as of June 30, 2015 and does not anticipate any significant accrual of unrecognized tax benefits in the next twelve months.

**NOTE 6 - RELATED-PARTY TRANSACTIONS**

Through an agreement with the Parent, the Company is allocated certain overhead and operating expenses. The Parent also charges the Company a quarterly royalty license fee for the use of its proprietary software. The Company reimburses the Parent monthly for its allocated operating expenses and royalty license fee. At June 30, 2015, the amount due to the Parent for such fees was approximately \$1,303,749. In addition, the Parent pays all direct vendor payments, payroll and taxes from its corporate accounts on behalf of the Company. At June 30, 2015 the amount due to the Parent for such expenditures was \$742,931.

On January 8, 2015, the Parent contributed \$2,000,000 of cash to the Company. On February 27, 2015, the Company contributed \$10,000,000 of cash to the Company.

On February 19, 2015, the Parent contributed a customer list intangible with a value of \$1,962,123 to the Company.

The Parent has established a stock-option plan for all employees. Employees of the Company are eligible to participate in this stock-option plan.

**NOTE 7 - CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule 15c3-1 (the "Rule"). The Company has elected the alternative method of compliance allowed under the Rule whereby "required net capital," as defined, is the greater of 2% of "aggregate debit items," as defined,

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**NOTE 7 - CAPITAL REQUIREMENTS (Continued)**

arising from customer transactions or \$250,000. The Rule prohibits the Company from engaging in any securities transactions should its "net capital" fall below required amounts and may require the Company to restrict its business activities if its net capital falls below amounts defined in the Rule. In computing net capital, items not readily convertible into cash are generally excluded and the Company's position in marketable securities is valued at current market quotations. Net capital and related excess net capital may fluctuate daily. At June 30, 2015, the Company's net capital was \$23,273,501, which exceeded the Rule requirements by \$23,023,501.

**NOTE 8 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK**

As a securities broker, the Company executes and settles various securities transactions for its own account for individual customers and with other brokers (counterparties). These activities may expose the Company to off-balance-sheet and credit risks if counterparties to these transactions are unable to fulfill their contractual obligations.

In accordance with industry practice, customers, and other brokers are not required to deliver cash or securities to the Company until settlement date, which is generally three business days after trade date. In volatile securities markets, the price of a security associated with a transaction could widely fluctuate between the trade date and settlement date. The Company is exposed to risk of loss should any counterparty to a securities transaction fail to fulfill its contractual obligations and the Company would then be required to buy or sell securities at prevailing market prices.

Payables to customers and brokers and dealers include amounts that are due upon delivery to the Company of underlying securities. If the counterparty to any of these transactions does not deliver the associated securities, the Company may be required to purchase securities at prevailing market prices in excess of the liability recorded in the statement of financial condition.

The Company controls the above risks through a variety of reporting and control procedures. The Company's customer securities activities are all transacted on a cash basis. The Company requires that customers have sufficient cash deposited in their accounts to cover purchase transactions before such transactions are executed.

At June 30, 2015 the Company had balances totaling \$27,037,501 held on deposit at U.S. Bank, \$10,000,000 held on deposit at EagleBank, \$3,012,081 held on deposit at SunTrust Bank, and \$739,869 held on deposit at Wells Fargo, of which, \$250,000 is insured at each institution by the Federal Deposit Insurance Corporation ("FDIC").

**NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The financial instruments of the Company are reported in the statement of financial condition at fair values or at carrying amounts that approximate fair values because of the short maturity of the instruments.

The Company determines fair value of investments with a focus on exit price from the perspective of a market participant based upon quoted prices when available or through the use of alternative approaches when market quotes are not readily accessible or available.

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FOLIO*fn* INVESTMENTS, INC.  
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**NOTE 9 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

The fair value hierarchy of the Company's inputs used in the determination of fair value for assets and liabilities during the current period consists of three levels. Level 1 inputs are comprised of unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. Level 2 inputs include quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs incorporate the Company's own best estimate of what market participants would use in pricing the asset or liability at the measurement date where consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

If inputs used to measure an asset or liability fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the asset or liability. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The following table presents the assets carried on the statement of financial condition at fair value on a recurring basis by level within the valuation hierarchy as of June 30, 2015 (in thousands).

	Assets at Fair Value as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Corporate equity securities	\$ 2,319	\$ -	\$ -	\$ 2,319
Corporate debt securities	5	-	-	5
Total	\$ 2,324	\$ -	\$ -	\$ 2,324

The Company keeps a diverse inventory of exchange traded corporate equities for testing purposes and as inventory to sell to its customers.

**NOTE 10 – INTANGIBLE ASSET, NET**

No intangible assets existed as of December 31, 2014. The gross and net carrying values of the Company's intangible asset as of June 30, 2015, are as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Amount	Amortization Period in Years
Customer list intangible	\$ 1,963	\$ (242)	\$ 1,721	3

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**NOTE 10 – INTANGIBLE ASSET, NET** (Continued)

Assuming no future impairment of this asset, the following table represents the Company's future annual amortization expense (in thousands):

Years ending December 31,

2015	\$	327
2016		654
2017		654
2018		<u>86</u>
Total future amortization expense	\$	<u>1,721</u>

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

The nature of the Company's business subjects it to claims, lawsuits, regulatory examinations, and other proceedings in the ordinary course of business. The ultimate outcome of such matters cannot be determined at this time and the results of these matters cannot be predicted with certainty. There can be no assurance that these matters will not have a material adverse effect on the Company in any future period and a substantial judgment could have a material adverse impact on the Company's financial condition. However, it is the opinion of management, after consultation with legal counsel, that the ultimate outcome of any such matters foreseeable at this time will not have a material adverse impact on the financial condition of the Company.

The Company also provides guarantees to securities clearinghouses under their standard membership agreement, which requires members to guarantee the performance of other members. Under the agreement, if another member becomes unable to satisfy its obligations to the clearing house, other members would be required to meet shortfalls. The Company's liability under these agreements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the potential requirement for the Company to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these transactions.