

14. Commitments

As of December 31, 2004 the Company had entered into employment agreements with certain employees. The initial agreements expire on December 31, 2008 and automatically renew for an additional one year period at the end of each year. In the event employment is terminated (other than voluntarily by the employee or by the Company for cause in all agreements or upon disability in one of the agreements), the Company is committed to pay various benefits, including monthly severance of not more than \$35,000 per month. The benefits are to be paid from the date of termination over varying lengths of time in accordance with the terms of each agreement.

15. Deposits with Clearing Organizations and Others

Included in "Deposits with Clearing Organizations and Others" are deposits with clearing organizations in the amount of \$95,000, consisting of \$92,917 in cash and \$2,083 in preferred stock.

16. Exchange Membership

In March 2006, the New York Stock Exchange, Inc. merged with a publicly traded company to form a new organization. As a result of this merger, the Company's membership on the New York Stock Exchange was exchanged for \$300,000 cash and 80,177 restricted shares of the newly formed company. Since that time, the new company merged with a European stock exchange to form NYSE Euronext.

In May 2006, the Company participated in a limited secondary offering of these shares. In that offering, 12,946 shares of the restricted stock were sold for proceeds of approximately \$780,000.

In 2007, previously restricted shares totaling 40,506 of NYSE Euronext became unrestricted and 13,000 shares were sold for proceeds of approximately \$1,055,000. As of December 31, 2007, the Company held 27,506 unrestricted shares and 26,725 restricted shares of NYSE Euronext.

In 2008, previously restricted shares totaling 26,725 of NYSE Euronext became unrestricted and 6,000 shares were sold for proceeds of approximately \$381,343. As of December 31, 2008, the Company held 48,231 unrestricted shares of NYSE Euronext.

BODKIN WILSON & KOZICKI PLLC CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of
Hazlett, Burt & Watson, Inc.:

We have audited the accompanying statement of financial condition of Hazlett, Burt & Watson, Inc., as of December 31, 2008. 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 statement of financial condition presentation. We believe that our audit of the statement of financial condition 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 Hazlett, Burt & Watson, Inc., as of December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

BODKIN WILSON & KOZICKI PLLC
Wheeling, West Virginia
February, 25 2009

OFFICERS

George S. Weaver, Jr
Chairman

Marilynn S. Echols
President/Chief Executive Officer

George S. Weaver, III**
Senior Executive Vice President

Timothy M. Bidwell
Executive Vice President/Chief Operating Officer

Michael T. Barickman
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John R. Forbes, Jr.*
Executive Vice Presidents

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Vice President/Assistant Secretary

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Steven T. Sell**
Kevin A. Stryker
Susan L. Weisenborn
Vice Presidents

* Vienna Office
** Lancaster Office

HAZLETT, BURT & WATSON, INC.



Audited Statement of Financial Condition

December 31, 2008

Wheeling, West Virginia

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MEMBERS

New York Stock Exchange, Inc.



Financial Industry
Regulatory Authority



Securities Investor
Protection Corporation

www.hazlettburt.com

HAZLETT, BURT & WATSON, INC.
AUDITED STATEMENT OF
FINANCIAL CONDITION
DECEMBER 31, 2008

Assets

Cash	\$ 210,698
Receivable from officers and employees	84,645
Deposits with clearing organizations & others	95,000
Firm trading account, at market value	973,978
Firm investment account:	
Marketable at market value	3,836,728
Not readily marketable, at estimated fair value	100,355
Due from affiliates	638,614
Furniture, equipment and leasehold improvements at cost, less accumulated depreciation of \$327,846	106,736
Real estate and improvements at cost, less accumulated depreciation of \$93,503	208,721
Other assets	729,984
	\$ 6,985,459

Liabilities and Shareholder's Equity

Liabilities:

Accounts payable and accrued liabilities	\$ 826,387
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Shareholder's equity:

Capital stock, \$1.6667 par value, 250,000 shares authorized; 203,500 shares outstanding	\$ 339,173
Less - Treasury stock, 2,000 shares	(3,333)
Capital in excess of par value	400,754
Retained earnings	5,422,478
	\$ 6,159,072
	\$ 6,985,459

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

HAZLETT, BURT & WATSON, INC.
NOTES TO THE STATEMENT OF
FINANCIAL CONDITION
DECEMBER 31, 2008

1. Organization and Nature of Business - The Company is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the New York Stock Exchange (NYSE) and the Financial Industry Regulatory Authority (FINRA). In May 2006, the Company formed Security Capital Management (SCM). This division of the Company is registered with the SEC as an Investment Advisor. SCM provides investment management services under an investment advisor model. The Company is a West Virginia S Corporation that is a wholly owned subsidiary of HB&W, Inc.

2. Summary of Significant Accounting Policies

Basis of Accounting - The statement of financial condition is presented using the accrual method of accounting.

Security Transaction Accounting - Firm securities transactions effected in the firm investment account are recorded on a trade date basis. All other firm proprietary and customer security transactions along with related commission revenues and expenses are recorded on a settlement date basis. Settlement is generally required on the third business day following the trade date.

Firm Trading and Investment Accounts - Financial instruments are recorded at fair value in accordance with FASB Statement No. 157.

Depreciation - Depreciation on real estate and improvements, furniture, equipment and leasehold improvements is provided using various methods over their estimated useful lives.

Estimates - The preparation of financial statements 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 may differ from those estimates.

3. Lease Commitments

The Company leases office facilities and equipment under noncancelable leases which expire at different dates from 2009 through 2013. The annual rental commitment pursuant to these leases is approximately \$94,437 in 2009. Certain existing leases contain renewal options.

4. Net Capital Requirement

The Company is subject to the net capital rule (Rule 15c3-1) of the Securities and Exchange Commission. This rule requires that the ratio of aggregate indebtedness to net capital not exceed 15 to one. At December 31, 2008, the Company's ratio of aggregate indebtedness to net capital was approximately .20 to one and net capital, as computed in accordance with Rule 15c3-1, was \$4,139,661, as compared to a minimum net capital requirement of \$250,000.

5. Employee Benefits

The Company has a discretionary, trustee profit sharing 401(k) plan covering substantially all employees who have attained age 21 and one year of service. The plan is funded through contributions of both employee and employer. The 401(k) provision of the plan was implemented during 2004 and called for a mandatory 3% safe harbor employer contribution of all eligible employee earnings. The safe harbor contribution for 2008 was \$91,251 and is included in the Company's total contribution for 2008 of \$296,868.

6. Payable to Banks

The Company maintains a line of credit at a local bank in the amount of \$200,000. As of December 31, 2008, the Company had not drawn on the available credit. This line of credit is unsecured, is payable on demand and carries an interest rate of 4%.

7. Income Taxes

The Company has elected by unanimous consent to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay Federal or State corporate income taxes on its taxable income. Instead, all taxable income flows through to the shareholder.

8. Firm Trading and Investment Accounts

The statement of financial condition reflects the fair value of marketable securities and not readily marketable securities in the firm trading and investment accounts. The related cost and unrealized appreciation (depreciation) are as follows:

	<u>Firm Trading</u>	<u>Investment</u>
Cost	\$ 843,002	\$ 2,010,164
Market/Fair Value	<u>973,978</u>	<u>3,937,083</u>
Unrealized Appreciation (Depreciation)	<u>\$ 130,976</u>	<u>\$ 1,926,919</u>

9. Fair Value

FASB Statement No. 157 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB Statement No. 157, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included with level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.)

The following tables present the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2008.

Fair Value Measurements on a Recurring Basis
As of December 31, 2008

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Firm trading account:				
U.S. Government and agency	\$ 20	\$ -	\$ -	\$ 20
Corporate and othe debt	1,010	-	-	1,010
State and municipal debt	149,908	-	-	149,908
Equities	573,040	250,000	-	823,040
Firm investment account:				
Cash and Money Market	1,253,346	-	-	1,253,346
Corporate and Other Debt	-	-	60,000	60,000
Equities	2,583,382	-	40,355	2,623,737
	<u>\$ 4,560,706</u>	<u>\$ 250,000</u>	<u>\$ 100,355</u>	<u>\$ 4,911,061</u>

Level 3 Financial Assets and Liabilities
As of December 31, 2008

	<u>Beginning Balance</u>	<u>Purchases Issuances and Settlements</u>	<u>Ending Balance</u>
Firm investment account:			
Financial instruments owned	\$ 40,205	\$ 60,150	\$ 100,355

10. Related Party Transactions

During 1999 a West Virginia Corporation, HB&W, Inc. was formed to serve as a holding company for Hazlett, Burt & Watson, Inc. and Security National Trust Co. Security National Trust Co. is a national nondepository bank that provides trust and custodial services. Both Hazlett, Burt & Watson, Inc. and Security National Trust Co. are 100% owned subsidiaries of HB&W, Inc.

Hazlett, Burt & Watson, Inc. advances funds to HB&W, Inc. as needed on an interest free basis. As of December 31, 2008, Hazlett, Burt & Watson, Inc. is owed \$636,375 from HB&W, Inc.

In addition, Hazlett, Burt & Watson, Inc. periodically provides brokerage, clerical, computer support and miscellaneous services at cost and leases office space to Security National Trust Co. in the Wheeling, West Virginia office. The terms of the lease require Security National Trust Co. to pay \$30,000 per year for the period January 1, 2005 through December 31, 2009. As of December 31, 2008, Hazlett, Burt & Watson, Inc. is owed \$2,239 from Security National Trust Co.

Security National Trust Co. acts as Trustee and Custodian of the Hazlett, Burt & Watson, Inc. Profit Sharing 401(k) Plan, which Plan has been adopted by both companies for substantially all of its employees. Security National Trust Co. charges the standard and customary fees for providing these services.

Security National Trust Co. maintains a line of credit at Hazlett, Burt & Watson, Inc. in the amount of \$500,000. As of December 31, 2008, Security National Trust Co. had not drawn on the available credit. This line of credit is unsecured, is payable on demand and carries an interest rate of prime less 1%.

11. Financial Instruments with Off-Balance-Sheet Risk

The Company operates as a fully disclosed broker - dealer with National Financial Services (NFS). Subsequent to becoming a fully disclosed broker, the Company's brokerage activities involve the trading, execution and settlement of various customer and firm securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

12. Risks and Uncertainties

The Company has significant investments in various securities. Investments in these securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with these investment securities, it is at least reasonably possible that changes in the values of these securities will occur in the near term and that such changes could materially effect the amounts reported in the Statements of Financial Condition.

13. Concentrations of Credit Risk

The Company currently maintains operations in Wheeling and Vienna, West Virginia and in Lancaster, Pennsylvania. At these locations the Company engages in various trading and brokerage activities whose counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the credit-worthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.