

#### 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.

## HB&W / History

In 1883, the forerunner of Hazlett Burt & Watson, Inc. opened for business under the name of Hazlett, Wheat & Hayes. The office was located at 1314 Main Street, Wheeling, West Virginia and the principals of the firm were Howard Hazlett, E.P. Wheat and Rudolph A. Hayes. In 1891, Hazlett purchased his partners' interest and re-organized the firm into Howard Hazlett and Company, specializing in stocks and bonds. His son, Howard Hazlett II, joined the firm and the name was changed to Howard C. Hazlett & Son.

In early 1923, D.A. Burt resigned from the Wheeling Steel Corporation and joined the brokerage firm, which then became Hazlett & Burt. They purchased a membership in (a seat on) the New York Stock Exchange and were early promoters of investing in blue chip common stocks.

John C. Watson, one of Weirton Steel's founders, joined the Steubenville, Ohio office of Hazlett & Burt in 1928. Ten years later, on October 1, Watson, Howard Hazlett II, and D.A. Burt, Jr., formed the partnership Hazlett, Burt & Watson, Inc. Hazlett retired from the company in 1948. In 1973, upon the death of D.A. Burt, Jr., the firm was purchased by George S. Weaver, Jr., Stuart F. Bloch, John C. Watson, and other employees. The firm remains employee-owned to this day.

In 2000, Hazlett, Burt & Watson, Inc. converted to a holding company structure (HB&W Inc.) in order to establish a new line of business. In May 2000, the Office of the Comptroller of Currency (OCC) approved Security National Trust Company as a Federally Chartered Special Purpose Independent Trust Company to provide traditional trust services. Security National has grown rapidly and had client assets approximating \$550 million by March 2009. These assets, plus the assets entrusted to Hazlett, Burt & Watson, Inc., currently total in excess of \$1.5 billion.

On August 12, 2003, executives of Hazlett, Burt & Watson, Inc. were accorded the honor of ringing the closing bell at the New York Stock Exchange (NYSE) along with Dick Grasso, chairman and CEO/NYSE, and Catherine Kinney, president and co-chair/NYSE. The firm was recognized as an 80-year member firm that, in the words of Ms. Kinney, "has upheld the best traditions and integrity of the exchange."

As the financial markets have grown more complex over the years, Hazlett, Burt & Watson, Inc. launched a new registered investment advisory division named Security Capital Management (in early 2006). Through Security Capital Management, the firm's financial advisors are able to provide a comprehensive approach to managing our clients' financial needs, going above and beyond providing traditional trading services.

Whether it is the market crash of 1929, the decline in prices of 1987, the bursting of the technology and Internet bubble in 2000, or the 30-50% decline in late 2008 and early 2009, Hazlett, Burt & Watson, Inc. has assisted clients in a quiet, conservative manner to help them endure and ultimately prosper through these volatile periods. George S. Weaver, Jr., Chairman, states, "We continue to have only one goal and that is to make money for our clients."

Today, Hazlett, Burt & Watson, Inc. continues its success as one of the oldest securities firms in the nation. The firm is a member of the New York Stock Exchange (NYSE), the Financial Industry Regulatory Authority (FINRA), the Securities Investor Protection Corporation (SIPC), and the Securities Industry and Financial Markets Association (SIFMA). The firm maintains its corporate headquarters in Wheeling, West Virginia with branch offices in Vienna, West Virginia and Lancaster, Pennsylvania.

## 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**  
**Stuart F. Bloch**  
**John R. Forbes, Jr.\***  
Executive Vice Presidents

**Harold B. Burech**  
**Robert D. Fennell, Jr.\***  
**W. P. Holloway, Jr.**  
**Bernadette M. Smith**  
Senior Vice Presidents

**Nancy L. Deem\***  
**Fred H. Tipper\***  
First Vice President

**Jason L. Marsh**  
Vice President/Assistant Secretary

**Raymond E. Hindy\***  
**C. Lewis Johnson\***  
**Brian A. Kiger**  
**Tarina S. Olson**  
**James A. Pastorius**  
**Steven T. Sell\*\***  
**Kevin A. Stryker**  
**Susan L. Weisenborn**

Vice Presidents

\* Vienna Office

\*\* Lancaster Office

# HAZLETT, BURT & WATSON, INC.



## Unaudited Statement of Financial Condition

**June 30, 2009**

#### Wheeling, West Virginia

Paxton House - 1300 Chapline Street  
Wheeling, WV 26003  
Phone: (304) 233-3312 ♦ (800) 537-8985  
Fax: (304) 233-7632

#### Vienna, West Virginia

1107 9th Street  
Vienna, WV 26105  
Phone: (304) 295-6700  
(800) 443-7449  
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#### Lancaster, Pennsylvania

100 East King Street  
P.O. Box 1267  
Lancaster, PA 17608-1267  
Phone: (717) 397-5988  
(800) 657-9944  
Fax: (717) 397-6012

#### MEMBERS

New York Stock Exchange, Inc.

◆  
Financial Industry  
Regulatory Authority

◆  
Securities Investor  
Protection Corporation

[www.hazlettburt.com](http://www.hazlettburt.com)

**HAZLETT, BURT & WATSON, INC.**  
**UNAUDITED STATEMENT OF**  
**FINANCIAL CONDITION**  
**JUNE 30, 2009**

**Assets**

Cash .....	\$ 69,691
Receivable from officers and employees .....	132,485
Deposits with clearing organizations & others .....	95,000
Firm trading account, at market value .....	1,817,935
Firm investment account:	
Marketable at market value .....	2,032,782
Not readily marketable, at estimated fair value .....	100,445
Due from affiliates .....	1,059,753
Furniture, equipment and leasehold improvements at cost, less accumulated depreciation of \$351,995 .....	82,587
Real estate and improvements at cost, less accumulated depreciation of \$98,847 .....	206,170
Other assets .....	758,310
	<b>\$ 6,355,158</b>

**Liabilities and Shareholder's Equity**

**Liabilities:**

Accounts payable and accrued liabilities .....	\$ 550,086
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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 .....	5,068,478
	<b>\$ 5,805,072</b>
	<b>\$ 6,355,158</b>

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

**HAZLETT, BURT & WATSON, INC.**  
**NOTES TO THE UNAUDITED**  
**STATEMENT OF FINANCIAL CONDITION**  
**JUNE 30, 2009**

**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 June 30, 2009, the Company's ratio of aggregate indebtedness to net capital was approximately .17 to one and net capital, as computed in accordance with Rule 15c3-1, was \$3,213,557, 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 June 30, 2009, 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	\$ 1,847,299	\$ 754,838
Market/Fair Value	1,817,935	2,133,227
Unrealized Appreciation (Depreciation)	<u>\$ (29,364)</u>	<u>\$ 1,378,389</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 June 30, 2009.

**Fair Value Measurements on a Recurring Basis**  
**As of June 30, 2009**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Firm trading account:				
State and municipal debt	\$ 200,955	\$ -	\$ -	\$ 200,955
Equities	145,400	250,000	-	395,400
Firm investment account:				
Cash and Money Market	1,221,580	-	-	1,221,580
Corporate and Other Debt	-	-	60,000	60,000
Equities	2,032,782	-	40,445	2,073,227
	<u>\$ 3,600,717</u>	<u>\$ 250,000</u>	<u>\$ 100,445</u>	<u>\$ 3,951,162</u>

**Level 3 Financial Assets and Liabilities**  
**As of June 30, 2009**

	<u>Beginning Balance</u>	<u>Purchases Issuances and Settlements</u>	<u>Ending Balance</u>
Firm investment account:			
Financial instruments owned	\$ 100,445	\$ -	\$ 100,445

**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 June 30, 2009, Hazlett, Burt & Watson, Inc. is owed \$1,057,375 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 June 30, 2009, Hazlett, Burt & Watson, Inc. is owed \$2,379 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 June 30, 2009, 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 creditworthiness 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.