NOTE 9 – CONCENTRATIONS OF CREDIT RISK

The clearing and depository operations for the Company's securities transactions are performed by its clearing firm pursuant to a clearance agreement. At June 30, 2019, all of the securities owned, which are presented on the accompanying Statement of Financial Condition, are held by the clearing firm, who is the custodian. The clearing firm is a member of a nationally recognized exchange. Included on the balance sheet at June 30, 2019, the Company has $2,224,021 included in cash and cash equivalents; $75,000 included in deposits with clearing organizations; and $147,306 as a receivable from clearing firm. The Company consistently monitors the credit worthiness of the clearing firm to mitigate the Company's exposure to credit risk.

The Company currently maintains operations in Wheeling and Vienna, West Virginia, Barnesville, Ohio 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.

In the normal course of its business, the Company is contingently liable to its clearing brokers/dealers for margin requirements of customer margin securities transactions, the failure to deliver securities sold or nonpayment of securities purchased by a customer.

NOTE 10 – DEPOSITS WITH CLEARING ORGANIZATIONS

Included in the statement of financial condition in the line titled, "Deposits with Clearing Organizations" are deposits with clearing organizations in the amount of $80,000, consisting of $80,000 in cash as of June 30, 2019.

NOTE 11 – RISKS AND UNCERTAINTIES

The Company accrues for estimated loss contingencies related to legal and regulatory matters when available information indicates that it is probable a liability had been incurred and the Company can reasonably estimate the amount of that loss. However, actual results may differ from those estimates.

On February 12, 2018, the SEC Division of Enforcement announced the Share Class Selection Disclosure Initiative ("SCSD Initiative") pursuant to which investment advisers were encouraged to self-report possible securities laws violations relating to the failure to make certain disclosures concerning mutual fund share class selections. The Company has notified the Enforcement Division that it is participating in the SCSD Initiative, and will continue to work with the SEC Staff to address this matter. As of June 30, 2019, the Company has recorded an estimated liability in the amount of $150,000 for purposes of settling this matter.

On March 8, 2018, pursuant to a routine regulatory examination, the SEC Office of Compliance Inspections and Examinations raised concerns with the Company that certain ticket charges related to the management of investment advisory accounts may not have been appropriately disclosed to the clients incurring these fees. The Company has engaged legal counsel, with respect to this matter, and continues to work through counsel, with the SEC, to resolve their concerns. The Company estimates that the resolution of this matter will result in refunding portions of these charges collected during the period under review. As of June 30, 2019, the Company has recorded an estimated liability in the amount of $625,000 for purposes of settling this matter.

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. The combined assets under administration and managed by Hazlett, Burt & Watson, Inc. and Security National Trust Company currently total in excess of $2 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 Emeritus, 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 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, Lancaster, Pennsylvania, and Barnesville, Ohio.

OFFICERS

Mark S. Prince
Chairman/Chief Executive Officer

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

Michael T. Barickman
Timothy M. Bidwell
Marilynn S. Echols
Jason L. Marsh
George S. Weaver, Jr.
Executive Vice Presidents

Harold B. Burech
Nancy L. Deem *
W. Peter Holloway, Jr.
Gregory F. Marquart
Jeanne M. Miller**
Senior Vice Presidents

Joshua E. Braunlich
C. Lewis Johnson*
Walker P. Holloway, III
Shawn P. Rohrig
First Vice Presidents

Melanie C. Herbst
Raymond E. Hindy *
E. Christopher Johns **
Joyce A. Libby**
Thomas J. Morrison
Tarina S. Olson
James A. Pastorius
Steven T. Sell **
Michelle L. Theiss
Vice Presidents

*** Vienna Office**
**** Lancaster Office**

MEMBERS

Financial Industry Regulatory Authority
◆
Securities Investor Protection Corporation

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HAZLETT, BURT & WATSON, INC.

Unaudited Statement of Financial Condition

June 30, 2019

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HAZLETT, BURT & WATSON, INC.
STATEMENT OF FINANCIAL CONDITION
JUNE 30, 2019

ASSETS	
Cash and cash equivalents due from financial institutions	$ 419,948
Cash in money market fund	2,348,228
Total cash and cash equivalents	2,768,176
Deposits with clearing organizations	80,000
Due from clearing firm	147,306
Firm trading account, at fair value	175,179
Due from affiliates	3,123
Furniture, equipment and leasehold improvements at cost, less accumulated depreciation of $567,256	136,598
Real estate and improvements at cost, less accumulated depreciation of $265,075	317,335
Advisory fee receivable	1,800,162
Other assets	420,962
	$ 5,848,841
LIABILITIES	
Accounts payable and accrued liabilities	$ 3,037,428
SHAREHOLDER'S EQUITY	
Capital stock, $1.6667 par value, 250,000 shares authorized; 205,500 shares issued; 203,500 shares outstanding	339,173
Less – Treasury stock, 2,000 shares at cost	(3,333)
Capital in excess of par value	1,200,754
Retained earnings	1,274,819
	2,811,413
Total Liabilities and Shareholder's Equity	$ 5,848,841

See accompanying notes to financial statement

HAZLETT, BURT & WATSON, INC.
NOTES TO FINANCIAL STATEMENT
JUNE 30, 2019

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

Hazlett, Burt & Watson, Inc. (the "Company") is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and is a member of 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.

The Company is a fully-disclosed introducing broker. The Company has contracted with National Financial Services ("NFS") to execute and clear all customer trades, as well as for the purpose of carrying the securities positions of the customers, along with any corresponding margin balances. Per the agreement with NFS, the Company does not reflect any receivables or liabilities for customer accounts in its financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Cash and cash equivalents:</u> Cash and cash equivalents include cash and deposits with financial institutions with maturities fewer than 90 days and money market mutual funds.

<u>Income Tax:</u> 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, HB&W, Inc. .

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 has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2019.

<u>Estimates:</u> 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.

<u>New accounting pronouncement:</u> In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after the date of initial application, with an option to elect to use certain transaction relief. The Company adopted the provisions of this guidance during the first quarter 2019, and recorded right-of-use assets in the amount of $197,272, and lease liabilities in the same amount. The Company has elected the modified retrospective method and has included any cumulative-effect adjustments as of the date of adoption.

NOTE 3 – LEASE COMMITTMENTS

The Company leases office facilities and equipment under noncancelable leases which expire at different dates from 2019 through 2021. Certain existing leases contain renewal options. Minimal lease payments under these operating leases are as follows:

2019	$ 42,434
2020	74,014
2021	38,390
	$ 154,838

NOTE 4 – NET CAPITAL REQUIREMENT

The Company is subject to regulatory capital requirements set forth by the Securities and Exchange Commission Uniform Net Capital Rule, which requires that "aggregate indebtedness" shall not exceed fifteen times "net capital" as defined by the Rule and "net capital", shall at least be $250,000. At June 30, 2019, the Company had net capital of $1,869,573, which was $1,619,573 in excess of its required minimum net capital of $250,000. The Company's percentage of aggregate indebtedness to net capital was 154.2% at June 30, 2019.

NOTE 5 – SHORT-TERM BORROWINGS

The Company maintains its proprietary trading accounts with its clearing broker. These accounts hold the Company's securities inventory and are collateralized by deposits totaling $75,000 at June 30, 2019, as well as all the Company's securities inventory. The Company may borrow up to an agreed-upon percentage of the value of the collateral as specified in the clearing agreements. The accounts bear interest at a rate of 7.00% percent at June 30, 2019. The Company had no short term borrowings outstanding under these agreements at June 30, 2019.

NOTE 6 – FIRM TRADING ACCOUNTS

The statements of financial condition reflect the fair value of marketable securities and not readily marketable securities in the firm trading and investment accounts. The related amortized cost and fair value are as follows as of June 30, 2019:

	Firm Trading
Amortized Cost:	
Certificate of deposits	$ 77,956
State and municipal bonds	20,000
Equities	71,000
Total Amortized Cost	168,956
Fair value:	
Certificate of deposits	$ 78,031
State and municipal bonds	20,048
Equities	77,100
Total fair value	175,179
Unrealized gains	$ 6,223

NOTE 7 - FAIR VALUE

Fair Value Measurements (ASC 820-10) 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 ASC 820-10, 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:

<u>Level 1:</u> Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.

<u>Level 2:</u> Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

<u>Level 3:</u> 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.)

<u>Investment securities:</u> The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

There have been no changes in the methodologies used at June 30, 2019.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis:

Fair Value Measurements on a Recurring Basis
As of June 30, 2019

	Level 1	Level 2	Level 3	Fair Value
Firm trading account:				
Certificate of deposits	$ 78,031	–	$ –	$ 78,031
State and municipal bonds	–	$ 20,048	–	20,048
Equities	77,100	–	–	77,100
	$ 155,131	$ 20,048	$ –	$ 175,179

NOTE 8 – 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 Company. Security National Trust Company is a national non-depository bank that provides trust and custodial services. Both Hazlett, Burt & Watson, Inc. and Security National Trust Company 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. This amount is payable on demand. As of June 30, 2019, no amounts were outstanding with HB&W, Inc. As of June 30, 2019, the Company is owed $3,123 from SNTC.