

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 December 31, 2019, no amounts were outstanding with HB&W, Inc. As of December 31, 2019, the Company is owed \$3,408 from SNTC.

#### 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 December 31, 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 December 31, 2019, the Company has \$2,276,660 included in cash and cash equivalents; \$75,000 included in deposits with clearing organizations; and \$19,696 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 December 31, 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 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 December 31, 2019, the Company has recorded an estimated liability in the amount of approximately \$650,000 for purposes of settling this matter.

## HAZLETT, BURT & WATSON, INC.

Serving the Individual and Institutional  
Investor Since 1883



#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

##### *Opinion on the Financial Statement*

We have audited the accompanying statements of financial condition of Hazlett, Burt & Watson, Inc. as of December 31, 2019, and the related notes (collectively referred to as the financial statement). In our opinion, the statement of financial condition presents fairly, in all material respects, the financial position of Hazlett, Burt & Watson, Inc. as of December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

##### *Basis for Opinion*

This financial statement is the responsibility of Hazlett, Burt & Watson, Inc.'s management. Our responsibility is to express an opinion on Hazlett, Burt & Watson, Inc.'s financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to Hazlett, Burt & Watson, Inc. in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

*Dixon Hughes Goodman LLP*

We have served as Hazlett, Burt & Watson, Inc.'s auditor since 2013.

Richmond, Virginia  
February 27, 2020

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**Mark S. Prince**  
Chairman/Chief Executive Officer

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Senior Executive Vice President

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**Timothy M. Bidwell**  
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## MEMBERS

Financial Industry  
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Securities Investor  
Protection Corporation

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

# HAZLETT, BURT & WATSON, INC.



## Statement of Financial Condition & Report of Independent Registered Public Accounting Firm

December 31, 2019

#### Wheeling, West Virginia

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Chapline Street  
Wheeling, WV 26003  
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Fax: (304) 233-7632

#### Lancaster, Pennsylvania

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P.O. Box 1267  
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#### Vienna, West Virginia

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#### Barnesville, Ohio

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**HAZLETT, BURT & WATSON, INC.**  
**STATEMENT OF**  
**FINANCIAL CONDITION**  
**DECEMBER 31, 2019**

**ASSETS**

Cash and cash equivalents due from financial institutions	\$ 396,421
Cash in money market fund	2,276,660
Total cash and cash equivalents	2,673,081
Deposits with clearing organizations	80,000
Due from clearing firm	19,696
Firm trading account, at fair value	37,044
Receivables from officers and employees	72,000
Due from affiliates	3,408
Furniture, equipment and leasehold improvements	
at cost, less accumulated depreciation of \$591,245	122,525
Real estate and improvements at cost,	
less accumulated depreciation of \$278,987	320,623
Advisory fee receivable	1,906,256
Right of Use asset	116,789
Other assets	129,313
Total Assets	\$ 5,480,735

**LIABILITIES**

Accounts payable and accrued liabilities	\$2,492,118
Lease liability	116,789
	\$2,608,907

**SHAREHOLDER EQUITY**

Capital stock, \$1.6667 par value, 250,000 shares	
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	1,335,234
	2,871,828
	\$ 5,480,735

See accompanying notes to financial statement.

**HAZLETT, BURT & WATSON, INC.**  
**NOTES TO FINANCIAL STATEMENT**  
**DECEMBER 31, 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**

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

Income Tax: 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 December 31, 2019.

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.

Leases: On January 1, 2019, the Company adopted ASU 2016-02, Leases ("Topic 842"), and subsequent related ASUs. The new leasing standard modifies the accounting, presentation, and disclosures for both lessees and lessors. The Company elected the modified retrospective transition option which allows for application of the Topic 842 guidance at the adoption date. No cumulative-effect adjustment to retained earnings as of January 1, 2019 was necessary as a result of adopting the new standard. The Company elected the "package of practical expedients" permitted under the transition guidance which allows the Company not to reassess its prior conclusions regarding lease identification, lease classification of existing leases, and treatment of initial direct costs on existing leases. Any lease arrangements and significant modifications entered into subsequent to the adoption date are accounted for in accordance with the new standard.

Topic 842 requires recognition of operating leases on the Statement of Financial Condition as Right of Use ("ROU") assets and lease liabilities. ROU assets represent our right to use underlying assets for the lease terms and lease liabilities represent our obligation to make lease payments arising from the leases. ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. We use our estimated incremental borrowing rate in determining the present value of lease payments for operating leases.

For operating leases, the Company recognized lease liabilities, with corresponding ROU assets,

based on the present value of unpaid lease payments for existing operating leases longer than twelve months as of January 1, 2019. As a result, the Company recognized ROU assets in the amount of \$116,789 and corresponding lease liabilities in the amount of \$116,789 in other liabilities as of December 31, 2019. The December 31, 2019 incremental borrowing rates determined on a collateralized basis for the remaining lease terms were utilized when determining the present value of lease payments.

Subsequent Events: The company evaluated the effect subsequent events would have on the financial statements through February 27, 2020, which is the date the financial statement was issued.

**NOTE 3 - OPERATING LEASES**

The Company leases certain properties under operating leases. Certain leases include one or more options to renew, with renewal terms that can extend the lease term up to 3 additional years. The exercise of lease renewal options is at our sole discretion. When it is reasonably certain that we will exercise our option to renew or extend the lease term, that option is included in estimating the value of the ROU asset and a lease liability. At December 31, 2019, we did not have any leases that had not yet commenced for which we had created a ROU asset and a lease liability. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. Most of our lease agreements include periodic rate adjustments for inflation. The depreciable life of ROU assets and leasehold improvements are limited to the shorter of the useful life or the expected lease term. Leases with an initial term of 12 months or less are not recorded on our Statement of Financial Condition.

The following tables present supplemental balance sheet information related to operating leases. ROU assets are included in other assets and lease liabilities are included in other liabilities.

**Supplemental Balance Sheet Information: December 31, 2019**

ROU assets	\$ 116,789
Lease liabilities	\$ 116,789
Weighted-average remaining lease terms	15 months
Weighted-average discount rate	4.75%

The following schedule summarized aggregate future minimum lease payments under these operating leases at December 31, 2019:

2020	\$ 81,541
2021	35,248
Thereafter	-
	\$ 116,789

**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 December 31, 2019, the Company had net capital of \$2,049,510, which was \$1,799,510 in excess of its required minimum net capital of \$250,000. The Company's percentage of aggregate indebtedness to net capital was 121.6% at December 31, 2019.

**NOTE 5 - SHORT-TERM BORROWINGS**

The Company maintains a credit facility with WesBanco Bank. The facility permits the Company to borrow amounts up to \$500,000. The interest rate on borrowings under this credit facility is a fluctuating rate equal to a minimum of 4.75% at December 31, 2019. This credit facility does not expire. There were no borrowings outstanding on this credit facility at December 31, 2019.

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 December 31, 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 5.75% percent at December 31, 2019. The Company had no short term borrowings outstanding under these agreements at December 31, 2019.

**NOTE 6 - FIRM TRADING ACCOUNT**

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 December 31, 2019:

	Firm Trading
Amortized Cost:	
Certificate of deposits	\$ 36,849
Total Amortized Cost	36,849
Fair Value:	
Certificate of deposits	37,044
Total fair value	37,044
Unrealized gains	\$ 195

**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:

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

**Level 2:** 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.

**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.)

Investment securities: 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 December 31, 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 December 31, 2019			
	Level 1	Level 2	Level 3	Fair Value
Firm trading account:				
Certificate of deposits	\$ 37,044	\$ -	\$ -	\$ 37,044
	\$ 37,044	\$ -	\$ -	\$ 37,044

**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.