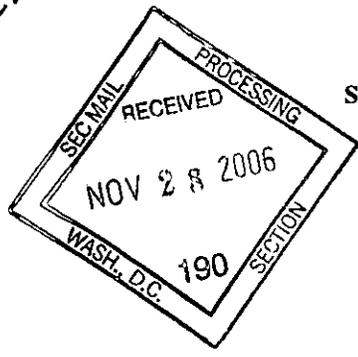


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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER  
8- 12629

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 10/01/05 AND ENDING 09/30/06  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **Nestlerode & <sup>Co.</sup>Loy, Inc.**

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

**430 West Irvin Avenue**

(No. and Street)

**State College**

(City)

**PA**

(State)

**16801**

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Judy L. Loy, CFO

814-238-6249

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

**Klein & Rizzo, Inc.**

(Name - if individual, state last, first, middle name)

**1418 East Third Street**

(Address)

**Williamsport**

(City)

**PA**

(State)

**17701**

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

**PROCESSED**

**DEC 26 2006**

**THOMSON  
FINANCIAL**

**FOR OFFICIAL USE ONLY**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, Judy L. Loy, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Nestlerode & Co., Inc., as of September 30, 2006, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

COMMONWEALTH OF PENNSYLVANIA:

Notarial Seal  
Colleen Small, Notary Public  
Patton Township, Centre County  
My Commission Expires April 8, 2010

Judy L. Loy  
Signature  
CFO  
Title

Colleen Small  
Notary Public

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**NESTLERODE & LOY, INC.**

**FINANCIAL STATEMENTS WITH  
SUPPLEMENTARY INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

# NESTLERODE & LOY, INC.

## FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION YEAR ENDED SEPTEMBER 30, 2006

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	<u>SCHEDULE</u>
COMPUTATION OF NET CAPITAL	A
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# KLEIN & RIZZO<sup>INC.</sup>

• Certified Public Accountants •

American Institute of  
Certified Public Accountants

Pennsylvania Institute of  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

November 14, 2006

Nestlerode & Loy, Inc.  
430 W. Irvin Avenue  
State College, PA 16804

We have audited the accompanying balance sheet of Nestlerode & Loy, Inc. as of September 30, 2006, and the related statements of operations, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nestlerode & Loy, Inc. as of September 30, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules A and B is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is required under Rules 15c3-1 and 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



Klein and Rizzo, Inc.  
Certified Public Accountants

**NESTLERODE AND LOY, INC.**

**BALANCE SHEET**

**SEPTEMBER 30, 2006**

**ASSETS**

**Current Assets**

Cash	\$ 139,690
Accounts receivable- brokers and dealers	30,628
Accounts receivable - 12b-1	5,194
Prepaid expenses	<u>1,328</u>

Total Current Assets \$ 176,840

**Fixed Assets**

Furniture and equipment	290,127
Leasehold improvements	<u>44,763</u>
Total	334,890
Less: Accumulated depreciation and amortization	<u>(298,248)</u>

Total Fixed Assets, Net 36,642

**Other Assets**

Deferred income tax benefit	<u>20,911</u>
-----------------------------	---------------

Total Assets \$ 234,393

The accompanying notes are an integral part of the financial statements.

**NESTLERODE AND LOY, INC.**  
**BALANCE SHEET**  
**SEPTEMBER 30, 2006**

**LIABILITIES AND EQUITY**

**Current Liabilities**

Accounts payable - trade	\$ 5,153
Accounts payable - 12b-1	2,597
Accounts payable - broker	4
Accrued sales bonus	1,331
Accrued and withheld payroll taxes	<u>18,919</u>

Total Current Liabilities \$ 28,004

**Stockholders' Equity**

Preferred stock	20,000
Common stock	24,200
Less: Treasury stock at cost	<u>(11,092)</u>

Total 33,108

Retained Earnings 173,281

Total Stockholders' Equity 206,389

Total Liabilities and Stockholders' Equity \$ 234,393

The accompanying notes are an integral part of the financial statements.

**NESTLERODE AND LOY, INC.**  
**STATEMENT OF RETAINED EARNINGS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Retained Earnings, Beginning	\$ 164,639
Net Income For The Year	<u>8,642</u>
Retained Earnings, Ending	<u><u>\$ 173,281</u></u>

The accompanying notes are an integral part of the financial statements.

**NESTLERODE AND LOY, INC.**  
**STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Revenue		
Commissions	\$ 415,378	
Service fees and other income	425,864	
Interest	343	
	<hr/>	
Total Revenue		\$ 841,585
Operating Expenses		
Commissions	287,534	
Wages	155,085	
Sales bonus	1,331	
Insurance	75,881	
Taxes	34,555	
Pension contributions	13,378	
Contracted services	28,963	
Licenses and fees	6,276	
Research	3,400	
Dues and subscriptions	14,975	
Office expense	33,778	
Supplies	7,607	
Postage	8,257	
Equipment rental	243	
Training and seminars	20,372	
Room rental	890	
Professional fees	14,768	
Advertising	27,474	
Rent	33,600	
Maintenance	2,454	
Property taxes	744	
Telephone	35,218	
Utilities	7,175	
Travel and entertainment	6,676	
Contributions	3,000	
Depreciation	4,456	
Amortization	1,256	
	<hr/>	
Total Operating Expense		<hr/> 829,346
Income Before Taxes on Income		12,239
Income Tax Expense		
Federal income tax	2,159	
State income tax	1,438	
	<hr/>	
Total Income Tax Expense		<hr/> 3,597
Net Income		<hr/> <hr/> \$ 8,642

The accompanying notes are an integral part of the financial statements.

**NESTLERODE AND LOY, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Cash Flows From Operating Activities:		
Net income	\$	8,642
Adjustments to reconcile net income		
to cash used for operating activities:		
Depreciation		4,456
Amortization		1,256
Deferred income taxes		3,597
(Increase) decrease in:		
Accounts receivable		(896)
Prepaid expenses		8,417
Increase (decrease) in:		
Accounts payable		1,399
Accrued sales bonus		(1,729)
Accrued and withheld payroll taxes		<u>3,091</u>
 Total Cash Flows Provided By Operating Activities		 \$ 28,233
Cash Flows From Investing Activities:		
Purchase of fixed assets		<u>(917)</u>
 Net Increase in Cash		 27,316
 Cash at Beginning of Year		 <u>112,374</u>
 Cash at End of Year		 <u><u>\$ 139,690</u></u>
 Supplemental Disclosure of Cash Flow Information		
Income Taxes Paid		<u><u>\$ -</u></u>

The accompanying notes are an integral part of the financial statements.

**NESTLERODE & LOY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Note 1 - Significant Accounting Policies

Operation

Nestlerode & Loy, Inc. (formerly Nestlerode & Company, Inc.) was incorporated on September 17, 1965, for the purpose of providing brokerage and investment advisory services. The Company maintains an office in State College, PA.

Uses of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles may require the use of estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash Equivalents

For purposes of the statement of cash flows, the company considers all short-term instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at September 30, 2006.

Allowance For Bad Debts

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for bad debts is required.

Depreciation and Amortization

Fixed assets are recorded at cost. Furniture and equipment are depreciated using accelerated methods over 5 and 7 years. Leasehold improvements are depreciated using the straight line method over 31.5 and 39 years. Computer software costs are depreciated using the straight line method over 3 years. Depreciation expenses totaled \$4,456 and amortization expenses totaled \$1,256 for the year ended September 30, 2006.

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 9 Accounting for Income Taxes, which requires an asset and liability approach to financial accounting and reporting of income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

As of September 30, 2006, the Company has a net operating loss carryforward for federal and state income tax purposes totaling approximately \$46,600 (federal) and \$139,300 (state), available to offset future taxable income. These loss carryforwards expire at September 30, 2023 through 2025 for federal income tax purposes and from September 30, 2021 through 2025 for state income tax purposes, unless utilized sooner.

**NESTLERODE & LOY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Note 2 - Net Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule which requires the maintenance of minimum net capital. A computation of net capital under Rule 15c3-1 is included as Schedule A of this report.

Note 3 - Customer Accounts Fully Disclosed

The Company does not hold any customer securities. All such accounts are carried at First Southwest Company, Dallas, Texas. Therefore, the Company claims exemption from the reporting requirements of Rule 15c3-3.

Note 4 - Liabilities Subordinated to Claims of General Creditors

There are no liabilities subordinated to claims of general creditors.

Note 5 - Details of stockholder's equity at September 30, 2006 is as follows:

	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Treasury Stock</u>
Value	\$ 20,000	\$ 24,200	\$ 11,092
Par Value	None	None	
Shares Authorized	<u>5,000,000</u>	<u>5,000,000</u>	
Shares Issued	<u>3,620,000</u>	<u>2,466,000</u>	
Shares Outstanding	<u>2,420,000</u>	<u>2,420,000</u>	
Treasury Stock Shares	<u>1,200,000</u>	<u>46,000</u>	<u>1,246,000</u>

The common stock is the voting stock of Nestlerode & Loy, Inc. The preferred stock has no voting rights and is not entitled to participate in the management of Nestlerode & Loy, Inc. There was no activity involving the shares authorized, issued or outstanding during the year ended September 30, 2006.

**NESTLERODE & LOY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Note 6 - Income Taxes

Deferred tax asset of \$20,911 as of September 30, 2006, represent the tax effect of deductible temporary differences in book and tax reporting. The deductible difference relates to the benefit derived from the net operating loss carryforward.

The deferred tax asset related to:

Net operating loss carryforward	
Federal	\$ 6,992
State	<u>13,919</u>
	<u>\$ 20,911</u>

Income tax expense (benefit) consisted of the following:

Current	
Federal	\$ -
State	-
Tax benefit or net operating loss carry forward	
Federal	2,159
State	<u>1,438</u>
	<u>\$ 3,597</u>

Note 7 - Pension Plan

Effective January 1, 1997, the Company established a SIMPLE pension plan under section 408(p) of the Internal Revenue Code for the benefit of eligible employees. Eligibility is limited to employees who are reasonably expected to receive \$5,000 in compensation for the calendar year. The Company may contribute amounts as determined by the Board of Directors, which is currently a matching contribution up to a limit of 3% of the employee's compensation. Company contributions totaled \$13,378 for the year ended September 30, 2006.

Note 8 - Related Party Transactions

The company leases office space from West Irvin Associates, a related party. Lease payments were \$2,800 per month for the year ended September 30, 2006. The Company also pays the real estate taxes for the property. The total lease payments to West Irvin Associates for the year ended September 30, 2006, including real estate taxes, were \$34,343.

Note 9 - Subsequent Events

The Company has decided to change its clearing firm from First Southwest Company to RBC Dain Correspondent Services effective December 2, 2006. There will be no change in the type of services provided the Company.

**SUPPLEMENTARY INFORMATION**

**NESTLERODE AND LOY, INC.**  
**COMPUTATION OF NET CAPITAL UNDER RULE 15C3-1**  
**SEPTEMBER 30, 2006**

Net Capital

Total stockholders' equity	\$ 206,389
Deduct stockholders' equity not allowable for net capital computation	<u>-</u>
Total stockholders' equity allowable for net capital computation	206,389
 Deductions	
Petty cash	\$ 50
Non-trade and adjustment income	5,182
Non-security related debit balances due	
12b-1 fees (net of related accounts payable)	2,597
Prepaid expenses	1,328
Fixed assets (net of accumulated depreciation and amortization)	36,642
Deferred tax benefit	<u>20,911</u>
Total deductions	<u>66,710</u>
 Adjusted Net Capital	 <u><u>\$ 139,679</u></u>
 <u>Aggregate Indebtedness</u>	
Accounts payable	\$ 7,754
Accrued sales bonus	1,331
Accrued payroll taxes	<u>18,919</u>
 Total Aggregate Indebtedness	 <u><u>\$ 28,004</u></u>
 Computation of Basic Net Capital	
Minimum net capital required (6 2/3% of total aggregate indebtedness)	<u><u>\$ 1,867</u></u>
 Minimum dollar net capital required	 <u><u>\$ 50,000</u></u>
 Adjusted Net Capital	 \$ 139,679
Minimum Net Capital Required (Greater of Above)	<u>50,000</u>
 Excess Net Capital	 <u><u>\$ 89,679</u></u>

The accompanying notes are an integral part of the financial statements.

NESTLERODE AND LOY, INC.  
COMPUTATION OF NET CAPITAL UNDER RULE 15C3-1  
SEPTEMBER 30, 2006

Reconciliation With Company's Computation

Net Capital as Reported in Company's Part II (Unaudited) Focus Report	<u>\$ 139,679</u>
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Adjusted Net Capital Per This Audit Report	<u>\$ 139,679</u>
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL  
ACCOUNTING CONTROL REQUIRED BY SEC RULE 17A-5**

November 14, 2006

Nestlerode & Loy, Inc.  
430 W. Irvin Avenue  
State College, PA 16804

We have examined the financial statements of Nestlerode & Loy, Inc. for the year ended September 30, 2006 and have issued our report thereon dated November 14, 2006. As part of our examination, we made a study and evaluation of the Company's system of internal accounting control, which includes the procedures for safeguarding securities to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation, which included obtaining an understanding of the accounting system, was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the financial statements.

The management of the Company is responsible for establishing and maintaining a system of internal accounting control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the Securities and Exchange Commission's objectives under SEC rule 17A-5. The objectives of a system and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal accounting control procedures or the practices and procedures referred to above, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with them may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Nestlerode & Loy, Inc., taken as a whole. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

This report is intended solely for the use of management and the Securities and Exchange Commission and should not be used for any other purpose.

Respectfully submitted,

*Klein and Rizzo, Inc.*

Klein and Rizzo, Inc.  
Certified Public Accountants