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UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

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

SEC FILE NUMBER 8- 12111

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 09/01/08 AND ENDING 08/31/09 MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Investors Security Company, Inc.

OFFICIAL USE ONLY FIRM I.D. NO.

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

127 E. Washington Street, Suite 101

(No. and Street)

Suffolk

(City)

Virginia

(State)

23434

(Zip Code)

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

Christopher M. Holloway

(757) 539-2396

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

Boyce, Spady & Moore PLC

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

1013 W. Washington Street

(Address)

Suffolk

(City)

Virginia

(State)

23434

(Zip Code)

CHECK ONE:

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

SECURITIES AND EXCHANGE COMMISSION RECEIVED OCT 29 2009 BRANCH OF REGISTRATIONS AND EXAMINATIONS

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EXAMINATIONS

\*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)

Handwritten initials and date: 11/25

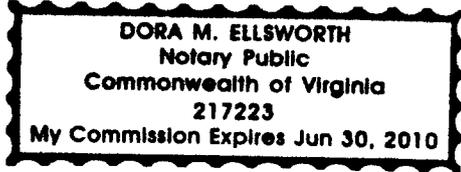
Handwritten initials and date: AD 11/25

OATH OR AFFIRMATION

I, Christopher M. Holloway, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Investors Security Company, Inc., as of August 31, 20 09, 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:

[Signature]
Signature
Vice-President
Title

[Signature]
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 Cash Flows.
(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 15c3-1 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).

|                         |  |
|-------------------------|--|
| <b>FORM<br/>X-17A-5</b> | <h1 style="margin: 0;">FOCUS REPORT</h1> <p style="margin: 0;">(Financial and Operational Combined Uniform Single Report)</p> <p style="margin: 0;"><b>Part IIA Monthly 17a-5(a)</b></p> <p style="margin: 0; font-size: small;">INFORMATION REQUIRED OF BROKERS AND DEALERS PURSUANT TO RULE 17</p> |
|-------------------------|--|

**COVER**

Select a filing method:

Basic  Alternate  [0011]

|   |   |  |
|---|---|--|
| Name of Broker Dealer:                  | <u>INVESTORS SECURITY COMPANY, IN</u><br>[0013] | SEC File Number: 8- <u>12111</u><br>[0014] |
| Address of Principal Place of Business: | <u>127 E. WASHINGTON STREET,</u><br>[0020]      |  |
|   | <u>SUFFOLK VA</u> 23434<br>[0021] [0022] [0023] | Firm ID: <u>2331</u><br>[0015]             |

For Period Beginning 09/01/08 And Ending 08/31/09  
[0024] [0025]

Name and telephone number of person to contact in regard to this report:

Name: CHRISTOPHER HOLLOWAY, VP, FINOP Phone: 757-539-2396  
[0030] [0031]

Name(s) of subsidiaries or affiliates consolidated in this report:

Name: \_\_\_\_\_ Phone: \_\_\_\_\_  
[0032] [0033]

Name: \_\_\_\_\_ Phone: \_\_\_\_\_  
[0034] [0035]

Name: \_\_\_\_\_ Phone: \_\_\_\_\_  
[0036] [0037]

Name: \_\_\_\_\_ Phone: \_\_\_\_\_  
[0038] [0039]

Does respondent carry its own customer accounts? Yes  [0040] No  [0041]Check here if respondent is filing an audited report  [0042]

TO BE COMPLETED WITH THE ANNUAL AUDIT REPORT ONLY:

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report

Name (If individual, state last, first, middle name)

Boyce, Spady & Moore PLC

70

ADDRESS      Number and Street      City      State      Zip Code

1013 W. Washington Street    71    Suffolk    72    VA    73    23434    74

Check One

- (  ) Certified Public Accountant      75
- (    ) Public Accountant      76
- (    ) Accountant not resident in United States or  
any of its possessions      77

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| WORK LOCATION | REPORT DATE<br>MM/DD/YY | DOC. SEQ. NO. | CARD |  |  |  |  |
|---------------|-------------------------|---------------|------|--|--|--|--|
|               |                         |               |      |  |  |  |  |
| 50            | 51                      | 52            | 53   |  |  |  |  |

# Boyce, Spady & Moore PLC

Certified Public Accountants & Consultants

## INDEPENDENT AUDITORS' REPORT

The Officers and Directors  
Investors Security Company, Inc.  
Suffolk, Virginia 23434

We have audited the accompanying statement of financial condition of Investors Security Company, Inc. as of August 31, 2009, and the related statements of income, changes in stockholders' equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the fiscal year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. 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 the 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 the 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 Investors Security Company, Inc. as of August 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Also, we have examined the Computation of Net Capital Schedule. Our reconciliation of the above computation revealed no material differences. In our opinion, this schedule presents fairly the information included therein in conformity with the rules of the Securities and Exchange Commission.

*Boyce, Spady & Moore PLC*

October 22, 2009

1013 West Washington Street  
Suffolk Virginia 23434  
(757) 539-2953  
(757) 925-1191  
fax (757) 539-3808

boycespadyandmoore.com

353 Main Street (23430)  
P.O. Box 152  
Smithfield, Virginia 23431  
(757) 357-5200  
fax (757) 357-0500

**ASSETS**

| Consolidated [0198] | Unconsolidated [0199]   | <b>Allowable</b>            | <b>Non-Allowable</b>        | <b>Total</b>                |
|---------------------|---|-----------------------------|-----------------------------|-----------------------------|
| 1.                  | Cash  | <u>308,041</u>              |                             | <u>308,041</u>              |
|                     |   | [0200]                      |                             | [0750]                      |
| 2.                  | Receivables from brokers<br>or dealers:   |                             |                             |                             |
|                     | A. Clearance account  | <u>                    </u> |                             |                             |
|                     |   | [0295]                      |                             |                             |
|                     | B. Other  | <u>440,900</u>              |                             | <u>440,900</u>              |
|                     |   | [0300]                      | [0550]                      | [0810]                      |
| 3.                  | Receivables from non-<br>customers  | <u>                    </u> | <u>41,657</u>               | <u>41,657</u>               |
|                     |   | [0355]                      | [0600]                      | [0830]                      |
| 4.                  | Securities and spot<br>commodities owned, at<br>market value:   |                             |                             |                             |
|                     | A. Exempted<br>securities   | <u>                    </u> |                             |                             |
|                     |   | [0418]                      |                             |                             |
|                     | B. Debt securities  | <u>                    </u> |                             |                             |
|                     |   | [0419]                      |                             |                             |
|                     | C. Options  | <u>                    </u> |                             |                             |
|                     |   | [0420]                      |                             |                             |
|                     | D. Other securities   | <u>115,474</u>              |                             |                             |
|                     |   | [0424]                      |                             |                             |
|                     | E. Spot commodities   | <u>                    </u> |                             | <u>115,474</u>              |
|                     |   | [0430]                      |                             | [0850]                      |
| 5.                  | Securities and/or other<br>investments not readily<br>marketable:   |                             |                             |                             |
|                     | A. At cost  | <u>                    </u> |                             |                             |
|                     |   | [0130]                      |                             |                             |
|                     | B. At estimated fair<br>value   | <u>                    </u> | <u>                    </u> | <u>                    </u> |
|                     |   | [0440]                      | [0610]                      | [0860]                      |
| 6.                  | Securities borrowed under<br>subordination agreements<br>and partners' individual<br>and capital securities<br>accounts, at market value: | <u>                    </u> | <u>                    </u> | <u>                    </u> |
|                     |   | [0460]                      | [0630]                      | [0880]                      |



## LIABILITIES AND OWNERSHIP EQUITY

| Liabilities   | A.I. Liabilities | Non-A.I. Liabilities | Total          |
|---|------------------|----------------------|----------------|
| 13. Bank loans payable  | [1045]           | [1255]               | [1470]         |
| 14. Payable to brokers or dealers:                            |                  |                      |                |
| A. Clearance account  | [1114]           | [1315]               | [1560]         |
| B. Other  | <b>400,041</b>   | [1305]               | <b>400,041</b> |
| 15. Payable to non-customers                                  | <b>20,509</b>    | [1355]               | <b>20,509</b>  |
| 16. Securities sold not yet purchased, at market value        |                  | [1360]               | [1620]         |
| 17. Accounts payable, accrued liabilities, expenses and other | <b>15,428</b>    | [1385]               | <b>15,428</b>  |
| 18. Notes and mortgages payable:                              | [1205]           |                      | [1685]         |
| A. Unsecured  | [1210]           |                      | [1690]         |
| B. Secured  | [1211]           | [1390]               | [1700]         |
| 19. Liabilities subordinated to claims of general creditors:  |                  |                      |                |
| A. Cash borrowings:   |                  |                      |                |
| 1. from outsiders   |                  | [1400]               | [1710]         |
| 2. Includes equity subordination (15c3-1(d)) of               | [0970]           |                      |                |
| B. Securities borrowings, at market value:                    | [0980]           | [1410]               | [1720]         |

from outsiders

|     |  |                |                |        |
|-----|--|----------------|----------------|--------|
|     |  | [0990]         |                |        |
| C.  | Pursuant to secured demand note collateral agreements:               |                |                |        |
|     |  |                | [1420]         | [1730] |
| 1.  | from outsiders   |                |                |        |
|     |  | [1000]         |                |        |
| 2.  | Includes equity subordination (15c3-1(d)) of                         |                |                |        |
|     |  | [1010]         |                |        |
| D.  | Exchange memberships contributed for use of company, at market value |                | [1430]         | [1740] |
| E.  | Accounts and other borrowings not qualified for net capital purposes |                |                |        |
|     |  | [1220]         | [1440]         | [1750] |
| 20. | <b>TOTAL LIABILITIES</b>   | <b>435,978</b> | <b>435,978</b> |        |
|     |  | [1230]         | [1450]         | [1760] |

### Ownership Equity

|     |  |  |               |
|-----|--|--|---------------|
|     |  |  | <b>Total</b>  |
| 21. | Sole proprietorship                    |  | [1770]        |
| 22. | Partnership (limited partners [1020] ) |  | [1780]        |
| 23. | Corporations:                          |  |               |
| A.  | Preferred stock                        |  | [1791]        |
| B.  | Common stock                           |  | <b>5,450</b>  |
|     |  |  | [1792]        |
| C.  | Additional paid-in capital             |  | <b>88,158</b> |
|     |  |  | [1793]        |







**EXEMPTIVE PROVISIONS**

25. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based

- A. (k) (1)--Limited business (mutual funds and/or variable annuities only)  [4550]
- B. (k) (2)(i)--"Special Account for the Exclusive Benefit of customers" maintained  [4560]
- C. (k) (2)(ii)--All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm(s)  [4570]

| Clearing Firm SEC#s        | Name                         | Product Code                |
|----------------------------|------------------------------|-----------------------------|
| 8- <b>17574</b><br>[4335A] | <b>Pershing LLC</b><br>_____ | <b>ALL</b> [4335B]<br>_____ |
| 8- _____<br>[4335C]        | _____                        | _____ [4335D]               |
| 8- _____<br>[4335E]        | _____                        | _____ [4335F]               |
| 8- _____<br>[4335G]        | _____                        | _____ [4335H]               |
| 8- _____<br>[4335I]        | _____                        | _____ [4335J]               |

- D. (k) (3)--Exempted by order of the Commission  [4580]

**COMPUTATION OF NET CAPITAL**

|    |  |                |                |               |
|----|--|----------------|----------------|---------------|
| 1. | Total ownership equity from Statement of Financial Condition                                       |                | <b>602,167</b> |               |
|    |  |                |                | [3480]        |
| 2. | Deduct ownership equity not allowable for Net Capital  |                |                | [3490]        |
| 3. | Total ownership equity qualified for Net Capital   |                | <b>602,167</b> | [3500]        |
| 4. | Add:   |                |                |               |
|    | A. Liabilities subordinated to claims of general creditors allowable in computation of net capital |                |                | [3520]        |
|    | B. Other (deductions) or allowable credits (List)  |                |                |               |
|    |  | [3525A]        | [3525B]        |               |
|    |  | [3525C]        | [3525D]        |               |
|    |  | [3525E]        | [3525F]        | [3525]        |
| 5. | Total capital and allowable subordinated liabilities   |                |                | [3530]        |
| 6. | Deductions and/or charges:   |                |                |               |
|    | A. Total nonallowable assets from Statement of Financial Condition (Notes B and C)                 | <b>173,730</b> |                | [3540]        |
|    | B. Secured demand note deficiency  |                |                | [3590]        |
|    | C. Commodity futures contracts and spot commodities - proprietary capital charges                  |                |                | [3600]        |
|    | D. Other deductions and/or charges   |                | <b>173,730</b> | [3610] [3620] |
| 7. | Other additions and/or credits (List)  |                |                |               |
|    |  | [3630A]        | [3630B]        |               |
|    |  | [3630C]        | [3630D]        |               |
|    |  | [3630E]        | [3630F]        | [3630]        |
| 8. | Net capital before haircuts on securities positions  |                | <b>428,437</b> | [3640]        |

## 9. Haircuts on securities (computed, where applicable, pursuant to 15c3-1(f)):

|     |                                    |              |         |                |
|-----|------------------------------------|--------------|---------|----------------|
| A.  | Contractual securities commitments | _____        |         | [3660]         |
| B.  | Subordinated securities borrowings | _____        |         | [3670]         |
| C.  | Trading and investment securities: |              |         |                |
| 1.  | Exempted securities                | _____        |         | [3735]         |
| 2.  | Debt securities                    | _____        |         | [3733]         |
| 3.  | Options                            | _____        |         | [3730]         |
| 4.  | Other securities                   | <b>6,388</b> |         | [3734]         |
| D.  | Undue Concentration                | _____        |         | [3650]         |
| E.  | Other (List)                       |              |         |                |
|     |                                    | _____        | [3736A] | [3736B]        |
|     |                                    | _____        | [3736C] | [3736D]        |
|     |                                    | _____        | [3736E] | [3736F]        |
|     |                                    | _____        |         | <b>6,388</b>   |
|     |                                    | _____        | [3736]  | [3740]         |
| 10. | Net Capital                        |              |         | <b>422,049</b> |
|     |                                    |              |         | [3750]         |

### COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

## Part A

|     |   |       |  |         |
|-----|---|-------|--|---------|
| 11. | Minimum net capital required (6-2/3% of line 19)  | _____ |  | 29,065  |
|     |   |       |  | [3756]  |
| 12. | Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with <u>Note(A)</u> | _____ |  | 100,000 |
|     |   |       |  | [3758]  |
| 13. | Net capital requirement (greater of line 11 or 12)  | _____ |  | 100,000 |
|     |   |       |  | [3760]  |
| 14. | Excess net capital (line 10 less 13)  | _____ |  | 322,049 |
|     |   |       |  | [3770]  |
| 15. | Excess net capital at 1000% (line 10 less 10% of line 19)   | _____ |  | 378,451 |
|     |   |       |  | [3780]  |



**SCHEDULED WITHDRAWALS**

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.

| <u>Type of Proposed Withdrawal or Accrual</u> | <u>Name of Lender or Contributor</u> | <u>Insider or Outsider</u> | <u>Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities)</u> | <u>Withdrawal or Maturity Date (MMDDYYYY)</u> | <u>Expect to Renew</u> |
|---|--------------------------------------|----------------------------|--|---|------------------------|
| [4600]  | [4601]                               | [4602]                     | [4603]   | [4604]  | [4605]                 |
| [4610]  | [4611]                               | [4612]                     | [4613]   | [4614]  | [4615]                 |
| [4620]  | [4621]                               | [4622]                     | [4623]   | [4624]  | [4625]                 |
| [4630]  | [4631]                               | [4632]                     | [4633]   | [4634]  | [4635]                 |
| [4640]  | [4641]                               | [4642]                     | [4643]   | [4644]  | [4645]                 |
| [4650]  | [4651]                               | [4652]                     | [4653]   | [4654]  | [4655]                 |
| [4660]  | [4661]                               | [4662]                     | [4663]   | [4664]  | [4665]                 |
| [4670]  | [4671]                               | [4672]                     | [4673]   | [4674]  | [4675]                 |
| [4680]  | [4681]                               | [4682]                     | [4683]   | [4684]  | [4685]                 |
| [4690]  | [4691]                               | [4692]                     | [4693]   | [4694]  | [4695]                 |
| TOTAL   |                                      |                            | \$ <b>NONE</b>   | [4699]  |                        |
|   |                                      |                            | Omit Pennies   |   |                        |

**Instructions** Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c)(2)(iv)), which could be required by the lender on demand or in less than six months.

| <b>Withdrawal Code</b> | <b>Description</b>           |
|------------------------|------------------------------|
| 1                      | Equity Capital               |
| 2                      | Subordinated Liabilities     |
| 3                      | Accruals                     |
| 4                      | 15c3-1(c)(2)(iv) Liabilities |

**STATEMENT OF CHANGES**


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**STATEMENT OF CHANGES IN OWNERSHIP EQUITY  
(SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)**

|    |   |          |                 |        |
|----|---|----------|-----------------|--------|
| 1. | Balance, beginning of period                      |          | <b>699,431</b>  |        |
|    |   |          |                 | [4240] |
|    | A. Net income (loss)                              |          | <b>(97,264)</b> |        |
|    |   |          |                 | [4250] |
|    | B. Additions (includes non-conforming capital of  |          |                 |        |
|    |   | [4262] ) |                 | [4260] |
|    | C. Deductions (includes non-conforming capital of |          |                 |        |
|    |   | [4272] ) |                 | [4270] |
| 2. | Balance, end of period (From item 1800)           |          | <b>602,167</b>  |        |
|    |   |          |                 | [4290] |

**STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED  
TO CLAIMS OF GENERAL CREDITORS**

|    |   |  |  |        |
|----|---|--|--|--------|
| 3. | Balance, beginning of period            |  |  | [4300] |
|    | A. Increases                            |  |  | [4310] |
|    | B. Decreases                            |  |  | [4320] |
| 4. | Balance, end of period (From item 3520) |  |  | [4330] |

**INVESTORS SECURITY COMPANY, INC.**  
**STATEMENT OF CASH FLOWS**  
**Year Ended August 31, 2009**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

|   |                  |
|---|------------------|
| Net loss  | \$ (97,264)      |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                  |
| Depreciation  | 15,314           |
| Unrealized gain on securities owned   | (10,550)         |
| Loss on sale of investment securities   | 44,776           |
| Dividends reinvested  | 1,345            |
| Changes in assets and liabilities   |                  |
| Accounts receivable   | 93,600           |
| Other assets  | (29,889)         |
| Other payables  | <u>(110,636)</u> |
| Net cash used in operating activities   | <u>(93,304)</u>  |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|                                       |                 |
|---------------------------------------|-----------------|
| Purchase of investment securities     | (121,307)       |
| Proceeds from sale of investments     | 34,045          |
| Purchase of fixed assets              | (3,191)         |
| Net loan payments from officers       | <u>(5,970)</u>  |
| Net cash used in investing activities | <u>(96,423)</u> |

|                        |                   |
|------------------------|-------------------|
| Net decrease in cash   | (189,727)         |
| Cash beginning of year | <u>497,768</u>    |
| Cash end of year       | <u>\$ 308,041</u> |

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

|                        |               |
|------------------------|---------------|
| Cash paid for interest | <u>\$ 138</u> |
|------------------------|---------------|

See accompanying notes to financial statements.

**INVESTORS SECURITY COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2009**

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**NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business.** The Company, incorporated under the laws of the Commonwealth of Virginia in August, 1964, is a broker-dealer of investment securities. All transactions are fully disclosed. The corporate office is located in Suffolk, Virginia.

**Accounting Method.** The Company uses the accrual basis of accounting for financial statement and income tax purposes. It is subject to regulation by the Securities and Exchange Commission and by the Financial Industry Regulatory Authority, and it follows accounting and record keeping policies established by those agencies. Transactions with brokers and customers are recorded as of the trade date rather than the settlement date. Inventories of securities and investments are stated at market value. The Corporation depreciates office furniture and equipment over a ten (10) year life, Straight-Line method for assets acquired before January 1, 1981. Assets acquired since December 31, 1980, are depreciated under the two hundred percent (200%) Declining Balance method with a shift to Straight-Line to provide total write-off over the applicable useful life, with the assumption that all acquisitions occur midway through the year. (For federal income tax purposes, this is known as the Modified Accelerated Cost Recovery System, MACRS.) Depreciation lives are seven (7) years for equipment and furniture and thirty-nine (39) years for leasehold improvements.

**Use of Estimates.** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**Concentrations of Credit Risk Arising from Cash Deposits.** The Company maintains cash balances at financial institutions located in Suffolk. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. At August 31, 2009 the Company's uninsured cash balances total \$58,041.

**Advertising.** The Company expenses advertising costs as they are incurred.

**Cash Equivalents.** For purposes of the statement of cash flows, the Company considers all short-term debt securities purchased with a maturity of three (3) months or less to be cash equivalents.

**Accounts Receivable.** Management has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

In management's opinion, accounts receivable as of August 31, 2009 are collectible and no material uncollectible accounts exist.

**INVESTORS SECURITY COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2009**

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**NOTE 2. PROPERTY AND EQUIPMENT**

A summary of property and equipment follows:

|                                       |                      |
|---------------------------------------|----------------------|
| Furniture and fixtures                | \$ 212,932           |
| Leasehold Improvements                | <u>31,907</u>        |
| Total Cost                            | 244,839              |
| Less accumulated depreciation         | <u>180,333</u>       |
| <br>Total property and equipment, net | <br><u>\$ 64,506</u> |

**NOTE 3. CONTINGENT LIABILITIES**

During 2008 the Company was named as a party in an arbitration case through FINRA Dispute Resolution. A former client of the Company alleged misrepresentation, suitability and other issues regarding the management of a retirement account. The alleged damages were in the amount of \$400,000. The Company settled the case in 2009 for \$82,500.

**NOTE 4. INCOME TAX EXPENSE**

Deferred income taxes are provided for timing differences between financial statement and income tax reporting. The tax effects of temporary differences that give rise to significant portions of deferred tax liabilities consist of the following:

|                               |                 |
|-------------------------------|-----------------|
| Deferred tax liabilities:     |                 |
| Property, Plant and Equipment | <u>\$ 5,261</u> |

The Company's provision for income taxes differs from applying the statutory U. S. Federal income tax rate to income before income taxes. The primary differences result from deducting certain expenses for financial statement purposes but not for federal income tax purposes.

**INVESTORS SECURITY COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2009**

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**NOTE 5. LEASES**

Effective August 15, 2005 the Company leased office space from an unrelated company. The term of the lease is for seven (7) years. Minimum lease payments under this lease were \$50,205 for the current year.

The Corporation leased two (2) vehicles in 2009. One lease expired and the other was terminated during the year. The Corporation also leases several pieces of office equipment with terms of three (3) to five (5) years. Minimum lease payments under these leases were \$21,267 for the current year.

Future minimum lease commitments under all non-cancelable leases are as follows:

|                 |                   |
|-----------------|-------------------|
| August 31, 2010 | \$ 66,364         |
| August 31, 2011 | 58,037            |
| August 31, 2012 | 59,635            |
| August 31, 2013 | <u>398</u>        |
| Total           | <u>\$ 184,434</u> |

**NOTE 6. CAPITAL**

Stock ownership and management at August 31, 2009:

|                         |   |                |             |
|-------------------------|---|----------------|-------------|
| Cabell B. Birdsong      | President, Treasurer<br>and Director      | 100 sh.        | 92%         |
| Christopher M. Holloway | Vice-President, Secretary<br>and Director | <u>9 sh.</u>   | <u>8%</u>   |
|                         |   | <u>109 sh.</u> | <u>100%</u> |

Investors Security Company, Inc. was incorporated August 24, 1964, under Virginia law.

**NOTE 7. RETIREMENT PLAN**

The employees of Investors Security Company, Inc. are covered under a Simple IRA Retirement Plan. All employees of the Company with service of over one year and total annual compensation of at least \$5,000 are eligible to participate in the plan. The Company matches an amount equal to the employee's contribution to the plan, up to 3% of the employee's salary. The expense of the Company was \$12,491 for the year ended August 31, 2009.

**INVESTORS SECURITY COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**August 31, 2009**

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**NOTE 8. FAIR VALUE MEASUREMENTS**

FASB Statement No. 157, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

**Investments:** Valued at fair value based on the value of the underlying investments, which are derived from the closing prices reported in active markets.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The estimated fair value of investments at August 31, 2009 was \$115,474 and was valued using level 1 on the fair value hierarchy.

# Boyce, Spady & Moore PLC

Certified Public Accountants & Consultants

October 22, 2009

The Officers and Directors  
Investors Security Company, Inc.  
Suffolk, Virginia 23434

In planning and performing our audit of the financial statements of Investors Security Company, Inc. (the Company) as of and for the year ended August 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3(e). Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications, and comparisons and the recordation of differences required by rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by rule 15c3-3.

The management of the Company is responsible for establishing and maintaining internal 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 controls 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 SEC's and the CFTC's above-mentioned objectives. Two of the objectives of internal control 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 preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) and Regulation 1.16(d)(2) list additional objectives of the practices and procedures listed in the preceding paragraph.

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Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may 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 effectiveness of their design and operation may deteriorate.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be significant deficiencies.

However, we noted that a minimum of internal control procedures are in effect. Such a situation would normally be expected under the circumstances, because Investors Security Company, Inc.'s normal staff consists of the principal, who is the primary stockholder, the controller, and several clerks. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of Investors Security Company, Inc. for the fiscal year ended August 31, 2009, and this report does not affect our report thereon dated October 22, 2009.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC and CFTC to be adequate for their purposes in accordance with the Securities Exchange Act of 1934, the Commodity Exchange Act, and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at August 31, 2009, to meet the Commission's objectives.

This report is intended solely for the information and use of management, the SEC, the CFTC, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and/or Regulation 1.16 of the CFTC in their regulation of registered broker-dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Boyer, Spady & Moore, PLLC

# Boyce, Spady & Moore PLC

Certified Public Accountants & Consultants

October 22, 2009

Stockholders and Directors  
Investors Security Company, Inc.  
Suffolk, Virginia 23434

The Company's unaudited Focus Report for August 31, 2009, shows a net capital of \$424,746. The audited Focus Report of August 31, 2009, shows a net capital of \$422,049. Listed below is the reconciliation of the difference of \$2,697 between the net capital as shown on the unaudited Focus Report and as shown on the audited Focus Report:

|  |                   |
|--|-------------------|
| Net capital as reported in Company's part II A<br>(Unaudited) Focus Report | \$ 424,746        |
| Miscellaneous audit adjustments  | <u>2,697</u>      |
| Net capital per audited report   | <u>\$ 422,049</u> |

*Boyce, Spady & Moore PLC*

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**INVESTORS SECURITY COMPANY, INC.**

**FINANCIAL STATEMENTS**

**AUGUST 31, 2009**