

SECURITIES AND EXCHANGE COMMISSION  
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**ANNUAL AUDITED REPORT**  
**FORM X-17A-5**  
**PART III**

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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 07/01/08 AND ENDING 06/30/09  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Indiana Merchant  
Banking & Brokerage Co., Inc.  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY  
FIRM I.D. NO.

Circle Tower, 55 Monument Circle, Suite 715  
(No. and Street)

Indianapolis, IN 46204  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Michael C. Grady (317) 637-4844  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Somerset CPAs, P.C.

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

3925 River Crossing Parkway, Indianapolis, IN 46240  
(Address) (City) (State) (Zip Code)

**CHECK ONE:**

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

**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)

*mm*

OATH OR AFFIRMATION

I, Michael C. Grady, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Indiana Merchant Banking & Brokerage Co., Inc., as of June 30, 2009, 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Indiana  
Madison Co.  
Dec. 16, 2009

*Michael C. Grady*  
Signature  
*Chairman*  
Title

*Cynthia C. Chambers Expires 11-18-15*  
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 15c3-1 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).

**INDIANA MERCHANT BANKING  
AND BROKERAGE CO., INC.  
Financial Statements  
June 30, 2009**

**INDIANA MERCHANT BANKING  
AND BROKERAGE CO., INC.**

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## Independent Auditors' Report

**To the Board of Directors  
INDIANA MERCHANT BANKING AND BROKERAGE CO., INC.  
Indianapolis, Indiana**

We have audited the accompanying statement of financial condition of INDIANA MERCHANT BANKING AND BROKERAGE CO., INC., as of June 30, 2009, and the related statements of income, changes in shareholders' equity, and cash flows for the 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. The financial statements of INDIANA MERCHANT BANKING AND BROKERAGE CO., INC. as of June 30, 2008, were audited by other auditors whose report dated July 28, 2009, expressed an unqualified opinion on those statements.

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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial condition of INDIANA MERCHANT BANKING AND BROKERAGE CO., INC., as of June 30, 2009, 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.

*Somerset CPAs, P.C.*

December 14, 2009

Accounting  
Assurance  
Business Consulting  
Construction & A/E  
Dealerships

Dental  
Employee Benefits  
Entrepreneurial  
Health Care  
Information Solutions

Litigation & Valuation  
Manufacturing & Distribution  
Not-for-Profit  
Real Estate  
Tax  
Wealth Management

**INDIANA MERCHANT BANKING AND BROKERAGE CO., INC.**  
**Statement of Financial Condition**  
**June 30, 2009**

**Assets**

**Current Assets**

Cash and cash equivalents	\$ 1,031
Cash deposit with clearing organization	<u>10,001</u>
Total Current Assets	11,032

**Other Assets**

Due from affiliate	58,251
Prepaid federal and state income taxes	<u>2,902</u>
Total Other Assets	61,153

Total Assets	<u><u>\$ 72,185</u></u>
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**Liabilities and Shareholders' Equity**

**Liabilities**

\$ 0
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**Shareholders' Equity**

Common stock	5,000
Paid-in capital	38,128
Retained earnings	<u>29,057</u>

Total Shareholders' Equity	<u>72,185</u>
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Total Liabilities and Shareholders' Equity	<u><u>\$ 72,185</u></u>
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See accompanying notes.

**INDIANA MERCHANT BANKING AND BROKERAGE CO., INC.**

**Statement of Income**

**For the Year Ended June 30, 2009**

Revenues	
Commissions	\$ 467,367
Interest income	4,285
	<hr/>
Total Income	471,652
Expenses	
Management fees	370,631
Consulting fees	22,779
Licenses and fees	33,226
Other operating expenses	41,924
	<hr/>
Total Expenses	468,560
Income before Provision for Income Taxes	3,092
Provision for Income Taxes	687
	<hr/>
<b>Net Income</b>	<b>\$ 2,405</b>
	<hr/> <hr/>

See accompanying notes.

**INDIANA MERCHANT BANKING AND BROKERAGE CO., INC.**  
**Statement of Changes in Shareholders' Equity**  
**For the Year Ended June 30, 2009**

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
Balance at June 30, 2008	\$ 5,000	\$ 38,128	\$ 26,652	\$ 69,780
Net Income	<u>0</u>	<u>0</u>	<u>2,405</u>	<u>2,405</u>
Balance at June 30, 2009	<u>\$ 5,000</u>	<u>\$ 38,128</u>	<u>\$ 29,057</u>	<u>\$ 72,185</u>

See accompanying notes.

**INDIANA MERCHANT BANKING AND BROKERAGE CO., INC.**

**Statement of Cash Flows  
For the Year Ended June 30, 2009**

<b>Cash Flows from Operating Activities</b>	
Net income	\$ 2,405
Adjustments to reconcile net income to net cash provided by operating activities:	
Decrease in deposit with clearing organization	11
Decrease in commissions receivable	84
Decrease in prepaid federal and state income taxes	687
Decrease in accounts payable	<u>(225)</u>
Net cash provided by operating activities	<u>2,962</u>
<b>Cash Flows from Financing Activities</b>	
Advances to affiliate	<u>(15,285)</u>
Net cash used in financing activities	<u>(15,285)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	<u>(12,323)</u>
Cash and Cash Equivalents, Beginning of Year	<u>13,354</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 1,031</u></u>

See accompanying notes.

**INDIANA MERCHANT BANKING AND BROKERAGE CO., INC.**  
**Notes to Financial Statements**  
**June 30, 2009**

**Note A - Nature of Operations and Summary of Significant Accounting Policies:**

**Nature of Operations**

Indiana Merchant Banking and Brokerage Co., Inc. (the Company), is a registered broker-dealer. The Company became registered with the Securities and Exchange Commission and the Financial Industry Regulatory Authority, Inc. (formally known as the National Association of Securities Dealers, Inc.), in May, 1989.

The Company does not carry security accounts for customers or perform custodial functions relating to customer securities. Accordingly, the Company meets the exemptive provisions of Rule 15c3-3. All customer transactions are cleared through another broker-dealer on a fully disclosed basis.

**Revenue Recognition**

The Company recognizes revenue on its variable annuity and mutual funds products when the necessary policy documents have been completed by the customer as well as the premiums associated with the related products have been received by the carrier.

Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

**Method of Accounting**

The Company's financial statements are presented on the accrual basis method of accounting. The Company reports its operations on the accrual basis method of accounting for income tax reporting purposes.

**Commissions Receivable**

The Company carries its commissions receivable at invoiced amounts less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its commissions receivable and establishes an allowance for doubtful accounts, based on history of past write-offs and collections and current credit conditions. The commissions receivable balance is \$0 at June 30, 2009; accordingly, no allowance for doubtful accounts is provided. The Company's policy is not to accrue interest on past due receivables.

**Cash Flows**

For purposes of the Statements of Cash Flows, the Company considers all highly liquid instruments purchased within three months or less of an instrument's original maturity date to be cash equivalents.

**INDIANA MERCHANT BANKING AND BROKERAGE CO., INC.**  
**Notes to Financial Statements**  
**June 30, 2009**

**Note A - Nature of Operations and Summary of Significant Accounting Policies (Continued):**

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income Taxes**

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for the differences between the basis of assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for any operating loss carryforwards, charitable contribution carryforwards, and tax credit carryforwards that are available to offset future income taxes.

**Accounting for Uncertainty in Income Taxes**

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation Number 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 ("SFAS 109"). The interpretation contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS 109. The Company has elected to defer the adoption of FIN 48 as allowed in FASB Staff Position (FSP 48-3) issued December 30, 2008. The adoption of this standard is not currently anticipated to have a material impact on the Company's financial position, results of operations, or cash flows; however, the effect on future financial statements of this pronouncement cannot be determined at this time. Management will continue to evaluate any uncertain tax positions, if any, during the deferral period.

**Fair Value Measurements**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement." SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. In February 2008, the FASB released FASB Staff Position ("FSP") 157-2, "Effective Date of FASB Statement No. 157," which delayed the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company adopted SFAS No. 157 for financial assets and liabilities during the year ended June 30, 2009.

**INDIANA MERCHANT BANKING AND BROKERAGE CO., INC.**  
**Notes to Financial Statements**  
**June 30, 2009**

**Note A - Nature of Operations and Summary of Significant Accounting Policies (Continued):**

**Fair Value Measurements (Continued):**

SFAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires that the Company maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, similar assets and liabilities in markets that are not active or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

**Note B - Common Stock:**

The Company has one class of common stock that has equal rights, preferences, qualifications, limitations and restrictions. All of the stock is no par value.

The following summarizes the Company's shares of common stock at June 30, 2009:

Authorized	1,000
Issued	1,000
Outstanding	1,000

**Note C - Income Taxes:**

At June 30, 2009, the provision for income taxes consists of the following components:

Federal	\$ 424
State	<u>263</u>
Total	<u>\$ 687</u>

**INDIANA MERCHANT BANKING AND BROKERAGE CO., INC.**  
**Notes to Financial Statements**  
**June 30, 2009**

**Note D - Related Party Transactions:**

The Company has an expense sharing agreement with an affiliated company, which is related by common ownership. Under terms of the agreement, the affiliated company has agreed to make available certain facilities and provide for performance of certain administrative and clerical services as well as pay for certain general and administrative expenses that are incurred by the Company. For the year ended June 30, 2009, the Company paid \$370,631 in management fees to the affiliated company which represents compensation to be paid to its brokers as well as reimbursement of Company's costs which were paid by the affiliated company. The Company also has \$58,251 due from the affiliated company as of June 30, 2009.

**Note E- Concentration of Credit Risk:**

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and commissions receivable. The Company places its cash and cash equivalents with two financial institutions. At times, such amounts may be in excess of the FDIC insured limit. The Company routinely assesses the financial strength of its customers and, as a consequence, believes that its commissions receivable credit risk exposure is limited.

**Note F - Fair Value Measurements:**

As of June 30, 2009, the Company held certain financial assets and liabilities that are required to be measured at fair value on a recurring basis. The following table presents information on these assets and liabilities as well as the fair value hierarchy used to determine their fair value:

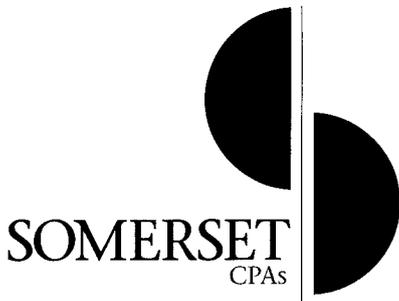
	<b>Level 1: Quoted Prices in Active Markets for Identical Assets</b>	<b>Total Fair Value at June 30, 2009</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,031	\$ 1,031
Cash deposit with clearing organization	<u>10,001</u>	<u>10,001</u>
<b>Total Assets</b>	<b><u>\$ 11,032</u></b>	<b><u>\$ 11,032</u></b>

The carrying value for this asset approximates its fair value at June 30, 2009.

**INDIANA MERCHANT BANKING AND BROKERAGE CO., INC.**  
**Notes to Financial Statements**  
**June 30, 2009**

**Note G - Net Capital Requirements:**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of a minimum net capital balance. The minimum dollar amount for the Company is \$5,000. At June 30, 2009, the Company's net capital was \$11,032 which was \$6,032 in excess of its minimum net capital requirement.



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**Independent Auditors' Report  
on the Supplementary Information Required by Rule 17a-5  
of the Securities and Exchange Commission**

**To the Board of Directors  
INDIANA MERCHANT BANKING AND BROKERAGE CO., INC.  
Indianapolis, Indiana**

Our report on our audit of the 2009 basic financial statements of INDIANA MERCHANT BANKING AND BROKERAGE CO., INC., appears on page 1. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. 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.

*Somerset CPAs, P.C.*

December 14, 2009

Accounting  
Assurance  
Business Consulting  
Construction & A/E  
Dealerships

Dental  
Employee Benefits  
Entrepreneurial  
Health Care  
Information Solutions

Litigation & Valuation  
Manufacturing & Distribution  
Not-for-Profit  
Real Estate  
Tax  
Wealth Management

**INDIANA MERCHANT BANKING AND BROKERAGE CO., INC.**  
**Computation of Net Capital Under Rule 15c3-1 of**  
**the Securities and Exchange Commission**  
**For the Year Ended June 30, 2009**

**Net Capital**

Total Shareholders' Equity	\$ 72,185
Deduct Shareholders' Equity Not Allowable for Net Capital	<u>0</u>
Total Shareholders' Equity Qualified for Net Capital	72,185
Other Additions	0
Other Deductions	<u>(61,153)</u>
Net Capital	<u><u>\$ 11,032</u></u>

**Aggregate Indebtedness**

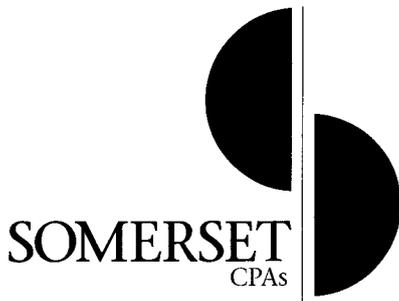
Items Included in Statement of Financial Condition	
Accounts payable	<u>\$ 0</u>
Total Aggregate Indebtedness	<u><u>\$ 0</u></u>

**Computation of Basic Net Capital Requirement**

Minimum Net Capital Required	<u>\$ 5,000</u>
Excess Net Capital	<u>\$ 6,032</u>
Excess Net Capital at 1000%	<u>\$ 11,032</u>
Ratio: Aggregate Indebtedness to Net Capital	<u><u>0 to 1</u></u>

**Reconciliation with Company's Computation (Included in Part II of Form X-17A-5 as of June 30, 2009)**

There are no material differences between the preceding net capital computation and the Company's corresponding unaudited Part II of Form X-17A-5 as of June 30, 2009.



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## Independent Auditors' Report

**To the Board of Directors  
INDIANA MERCHANT BANKING AND BROKERAGE CO., INC.  
Indianapolis, Indiana**

In planning and performing our audit of the financial statements of INDIANA MERCHANT BANKING AND BROKERAGE CO., INC., for the year ended June 30, 2009, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on 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 INDIANA MERCHANT BANKING AND BROKERAGE CO., INC., 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 for determining compliance with the exemptive provisions of rule 15c3-3. Because INDIANA MERCHANT BANKING AND BROKERAGE CO., INC., 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 INDIANA MERCHANT BANKING AND BROKERAGE CO., INC., in any of the following:

1. Making 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

The management of the Company is responsible for establishing and maintaining an internal control structure 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 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 the preparation of financial statements in conformity with U.S. generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Accounting  
Assurance  
Business Consulting  
Construction & A/E  
Dealerships

Dental  
Employee Benefits  
Entrepreneurial  
Health Care  
Information Solutions

Litigation & Valuation  
Manufacturing & Distribution  
Not-for-Profit  
Real Estate  
Tax  
Wealth Management

**To the Board of Directors  
INDIANA MERCHANT BANKING AND BROKERAGE CO., INC.  
Page 2**

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.

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.

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 material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purpose in accordance with the Securities Exchange Act of 1934 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 June 30, 2009, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*Somerset CPAs, P.C.*

December 14, 2009

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