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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 January 1, 2011 AND ENDING December 31, 2011  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: ProEquities

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

2801 Highway 280 South

(No. and Street)

Birmingham, AL

35223

(City)

(State)

(Zip Code)

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

Milton C. Fritts

(205) 268-7582

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Price Waterhouse Coopers

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

1901 Sixth Avenue North

Birmingham, AL

35203

(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)

SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, Michael J. Mungenast, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of ProEquities Inc., as of December 31, 2011, 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:

Subscribed and sworn to before me in my Presence, this 28 day of Feb 2012, a Notary Public in and for the County of Jefferson State of AL

(Signature) Notary Public My commission expires

NOTARY PUBLIC STATE OF ALABAMA AT LARGE MY COMMISSION EXPIRES: May 22, 2014 BONDED THRU NOTARY PUBLIC UNDERWRITERS

Michael J. Mungenast Signature

President & CEO

Title

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).

# **ProEquities, Inc.**

**(a wholly owned subsidiary of  
Protective Life Corporation)**

**Financial Statements and Supplementary  
Information**

**Pursuant to SEC Rule 17a-5**

**December 31, 2011**



# **ProEquities, Inc.**

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**Pursuant to SEC Rule 17a-5**

**December 31, 2011**

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Index to Financial Statements and Supplementary Information**  
**December 31, 2011**

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## Report of Independent Auditors

To the Board of Directors and Stockholder of  
ProEquities, Inc.

In our opinion, the accompanying statement of financial condition and the related statement of operations, of changes in stockholder's equity, and of cash flows present fairly, in all material respects, the financial position of ProEquities, Inc. (the "Company"), a wholly owned subsidiary of Protective Life Corporation, at December 31, 2011, 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. 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 of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 I and II 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.

*PricewaterhouseCoopers LLP*

February 28, 2012

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Statement of Financial Condition**  
**December 31, 2011**

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	<b>2011</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 12,055,275
Investments, at fair value	12,514,617
Receivables from brokers and dealers	6,578,348
State income tax receivable	336,124
Fixed assets, net of accumulated depreciation of \$380,131	187,443
Other assets, net of allowance for uncollectible amounts of \$35,000	2,252,245
Deferred income taxes, net	5,568,418
Total assets	<u>\$ 39,492,469</u>
<b>Liabilities and Stockholder's Equity</b>	
<b>Liabilities</b>	
Commissions payable	\$ 4,974,331
Securities sold but not yet purchased	756,846
Due to parent and affiliates	668,794
Deferred compensation obligation	10,333,608
Other accrued expenses	6,080,034
Total liabilities	<u>22,813,612</u>
<b>Stockholder's equity</b>	
Common stock, \$1 par value; 250,000 shares authorized, 114,408 shares issued and outstanding	\$ 114,408
Additional paid-in capital	13,466,157
Retained earnings	3,098,292
Total stockholder's equity	<u>16,678,857</u>
Total liabilities and stockholder's equity	<u>\$ 39,492,469</u>

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

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Statement of Operations**  
**Year Ended December 31, 2011**

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	<b>2011</b>
<b>Revenues</b>	
Commissions	\$ 101,056,174
Other revenues	6,321,128
Investment gain (loss), net	(200,081)
Investment income	351,869
	<u>107,529,090</u>
Total revenues	<u>107,529,090</u>
<b>Expenses</b>	
Commissions	83,225,934
Salaries and wages	9,651,587
Technology	3,327,790
Legal, accounting and consulting	4,578,695
Clearing expense	2,416,337
Portfolio managers fee	959,593
Sales conference and promotions	829,144
Rent, related party	674,172
Corporate and divisional allocations, related party	615,735
Licenses, fees and assessments	722,529
Travel and entertainment	355,609
Postage, copies and supplies	272,255
Other operating expenses	871,643
	<u>108,501,023</u>
Total expenses	<u>108,501,023</u>
Loss before income taxes	(971,933)
Income tax benefit (Note 5)	(359,884)
	<u>(612,049)</u>
Net loss	<u>\$ (612,049)</u>

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

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Statement of Changes in Stockholder's Equity**  
**Year Ended December 31, 2011**

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	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Earnings</u>	<u>Stockholder's</u>
			<u>Capital</u>		<u>Equity</u>
<b>Balance at January 1, 2011</b>	114,408	\$ 114,408	\$ 10,466,157	\$ 3,710,341	\$ 14,290,906
Capital contribution			\$ 3,000,000		\$ 3,000,000
Net loss				(612,049)	(612,049)
<b>Balance at December 31, 2011</b>	<u>114,408</u>	<u>\$ 114,408</u>	<u>\$ 13,466,157</u>	<u>\$ 3,098,292</u>	<u>\$ 16,678,857</u>

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

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Statement of Cash Flows**  
**Year Ended December 31, 2011**

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	<b>2011</b>
<b>Cash flows from operating activities</b>	
Net loss	\$ (612,049)
Adjustments to reconcile net income to net cash provided by operating activities	
Unrealized net investment loss on trading securities	905,589
Deferred income tax benefit	(797,432)
Depreciation expense	143,895
Forgiveness of representative loan receivable	91,441
Change in assets and liabilities	
Investments (trading securities)	3,381,404
Receivables from brokers and dealers	(1,661,026)
Other assets	1,836
Securities sold but not yet purchased	(115,770)
Commissions payable	(96,004)
Deferred compensation obligation	(333,883)
Due to parent and affiliates	(145,661)
Other accrued expenses	1,518,101
Net cash provided by operating activities	<u>2,280,440</u>
<b>Cash flows from investing activities</b>	
Purchases of fixed assets	(19,300)
Payments received on representative loan receivables	99,878
Issuance of representative loans receivables	<u>(267,463)</u>
Net cash used in investing activities	<u>(186,886)</u>
<b>Cash flows from financing activities</b>	
Capital received from Protective Life Corporation	<u>3,000,000</u>
Net cash provided by financing activities	<u>3,000,000</u>
Net increase in cash and cash equivalents	<u>5,093,554</u>
<b>Cash and cash equivalents</b>	
Beginning of year	<u>6,961,721</u>
End of year	<u>\$ 12,055,275</u>
<b>Supplemental disclosure of cash flow information</b>	
Cash paid for income taxes	<u>\$ 1,143,295</u>

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

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Financial Statements**  
**December 31, 2011**

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**1. General**

ProEquities, Inc. (the "Company") is a full-service, marketing oriented broker-dealer incorporated under the laws of the state of Alabama. The Company is also a registered investment advisor. The Company operates across the United States and is headquartered in Birmingham, Alabama. The Company is registered with the Securities and Exchange Commission (the "SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"). The Company is a wholly owned subsidiary of Protective Life Corporation ("PLC"). PLC provides operating capital to the Company, as needed, to provide supplemental funding for the operations and activities of the Company. In addition to the Company's core broker-dealer operations, the Company maintains a fixed income division that offers a wide variety of fixed income products and services.

During 2011 the Company identified certain accounting errors that occurred over a five year period ending December 31, 2010. These errors related to the recording of prepaid advisory fees on terminated accounts, the calculation of commission breakpoints on Class A mutual fund investments, the recognition of fee revenue related to the inappropriate execution of transactions in Class B and Class C mutual fund investments in advisory accounts and inappropriate expensing of certain computer software in the year of purchase. The Company has corrected these errors through adjustments recorded in 2011. Such adjustments resulted in an increase of \$87,000 to the 2011 net loss over the result that would have been reported had the adjustments been made to the appropriate accounting periods. The Company considered the net impact of these adjustments on the results reported in prior periods and for the year ended December 31, 2011 and determined the amounts were not material in the current period or prior periods.

**2. Significant Accounting Policies**

**Basis of Presentation and Use of Estimates**

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP and prevailing industry practices 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 revenue and expenses during the reporting period. Actual results could differ from these estimates.

**Accounting for Securities Transactions**

The Company clears all brokerage security transactions through Pershing, LLC ("Pershing"). Under the clearing arrangement, Pershing confirms securities trades, processes securities movements and records transactions for customers in its accounts, for which it receives a ticket charge per transaction. The Company's commission revenues and related expenses are recorded on a trade date basis. The Company has evaluated the credit worthiness of Pershing and determined the risk of material financial loss due to exposure from Pershing's credit risk to be minimal.

**Cash and Cash Equivalents**

Cash and cash equivalents include investments in money market funds which are considered highly liquid instruments. The carrying amounts reported in the statement of financial condition for these financial instruments approximate their fair values (as defined by the Accounting Standards Codification ("ASC") Fair Value Measurement and Disclosure Topic) due to their short-term nature. Cash and cash equivalents are classified as Level 1 in accordance with the fair value hierarchy of the ASC Fair Value Measurement and Disclosure Topic.

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Financial Statements**  
**December 31, 2011**

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**Investments**

The Company has classified its investments as trading securities. Trading securities are reported at fair value, with the resulting unrealized and realized gains and losses recognized currently in earnings. Gains and losses realized on the sale of securities are computed using the specific identification method. Unrealized gains and losses and realized gains and losses are included in "Investment loss, net" in the accompanying Statement of Operations.

**Fixed Assets**

Fixed assets are recorded at cost and are depreciated using the straight-line method over their estimated useful lives which range from 3 to 5 years. Maintenance and repairs are charged to expense when incurred; betterments and improvements that materially prolong the lives of the assets are capitalized. The cost of assets sold or retired and the related accumulated depreciation are removed from the respective accounts, and the gain or loss on such disposition is recognized currently.

**Other Assets**

Other assets are comprised primarily of prepaid expenses, loans to the Company's representatives and reimbursable expenses paid by the Company on its agents' behalf. The Company's finance receivables are primarily in the form of agent debit balances and agent notes receivable. Certain agent notes receivable contain terms which result in the Company forgiving the principal and interest payments should the agent meet certain sales targets. The Company has recorded an allowance of \$35,000 against these finance receivables at December 31, 2011. The allowance for credit losses is developed based upon the Company's historical experience of write-offs of the related agent debit balances. Notes receivable are reserved based upon specific indicators of an inability to pay or intent not to pay.

**Contingent Liabilities**

The Company recognizes liabilities for contingencies when there is an exposure that, when fully analyzed, indicates it is both probable a liability has been incurred and the amount of loss can be reasonably estimated. The determination of whether a loss is probable and the estimate of an associated range of loss is subject to significant judgments and assumptions based on currently available information. When a loss is probable and a range of possible loss can be estimated, the Company accrues the most likely amount within that range based upon management's judgment after the consideration of facts currently known and after consultation with its legal counsel, if appropriate.

As a result of the extensive regulation of the financial services industry, the Company's operations are subject to regular reviews and inspections by regulatory authorities and self-regulatory organizations. Such reviews and inspections can result in the imposition of sanctions for regulatory violations, ranging from non-monetary censures to censures with fines or other monetary repercussions.

See Footnote 11 for further discussion.

**Recognition of Commission Revenue and Expense**

Commission revenues and commission expenses are recorded on a trade date basis for trades executed through the Company. Trail fees, 12b-1 fees, marketing allowances received from product sponsors and advisory service fees are recognized as revenue when earned and are included in "Commissions" revenue in the Statement of Operations. Marketing allowance and

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Financial Statements**  
**December 31, 2011**

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advisory service fees totaling approximately \$5.7 million were recognized as "Commissions" revenue during the year ended December 31, 2011.

**Investment Income**

Investment income primarily comprises interest income on money market funds, fixed maturity securities and income from securities related to the deferred compensation plans.

**Other Revenues**

Other revenues consist primarily of representatives' technology and affiliation fees and miscellaneous clearing revenues. Other revenues are recorded as earned.

**Income Taxes**

The results of operations of the Company are included in the consolidated federal and state income tax returns of PLC. The Company utilizes the asset and liability method in accordance with the Accounting Standards Codification ("ASC") Income Taxes Topic. The Company is included in the consolidated federal income tax return of PLC and its subsidiaries. The method of allocation of current income taxes between the affiliates is subject to a written agreement under which the Company incurs a liability to PLC to the extent that a separate return calculation indicates that the Company has a federal income tax liability. If the Company has an income tax benefit, the benefit is recorded currently to the extent it can be carried back against prior years' separate company income tax expense. Any amount not carried back is carried forward on a separate company basis (generally without a time limit), and the tax benefit is reflected in future periods when the Company generates taxable income. Income taxes recoverable (payable) are recorded in the due to/from affiliates account and is settled periodically, per the tax sharing agreement.

**Concentration of Credit Risk**

The Company maintains depository accounts with certain financial institutions. Although these account balances exceed federally insured depository limits, the Company has evaluated the credit worthiness of these applicable financial institutions and determined the risk of material financial loss due to exposure from credit risk to be minimal.

**Accounting Pronouncements Recently Adopted and to be Adopted**

**Accounting Standard Update ("ASU" or "Update") No. 2010-06 — Fair Value Measurements and Disclosures — Improving Disclosures about Fair Value Measurements.** In January of 2010, Financial Accounting Standards Board ("FASB") issued ASU No. 2010-06 — Fair Value Measurements and Disclosures — Improving Disclosures about Fair Value Measurements. This Update provides amendments to Subtopic 820-10 that requires the following new disclosures. 1) A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

This Update provides amendments to Subtopic 820-10 that clarifies existing disclosures. 1) A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. 2) A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements classified in either Level 2 or Level 3. This Update became effective for the Company in 2010, except for the disclosures about

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Financial Statements**  
**December 31, 2011**

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purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures were adopted by the Company in 2011. This Update did not have an impact on the Company's results of operations or financial position.

**ASU No. 2011-04 — Fair Value Measurement — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.** The amendments in this Update result in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards ("IFRSs"). The amendments change the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. The intent of this Update was not to change the application of the requirements in Topic 820. Some of the amendments clarify the intent regarding the application of existing fair value measurement requirements. The Update did modify several principles or requirements for measuring fair value or for disclosing information about fair value measurements. These changes are effective for annual periods beginning after December 15, 2011. The Company is currently evaluating the impact this Update will have on its results of operations and financial position.

### **3. Related Parties**

The Company occupies office space under a monthly rental arrangement in the office building of an affiliate, Protective Life Insurance Company (PLICO), for which rent of \$674,000 was expensed in 2011. In addition the Company expensed approximately \$663,000 in payment to PLC for providing various human resource services, approximately \$199,000 for providing legal services and approximately \$984,000 for providing technology support and infrastructure. The Company is billed by PLICO and PLC for these items and related amounts due are settled monthly in the normal course of the Company's operations.

The Company recorded commission revenue in 2011 from Investment Distributors, Inc., a subsidiary of PLC, of \$4,948,784.

All employees of the Company participate in the PLC defined benefit pension plan. The plan is not separable by affiliates participating in the plan. The benefits are based on years of service and the employee's compensation. PLC's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act (ERISA) plus such additional amounts as PLC may determine appropriate from time to time. Contributions are intended to provide not only for benefits attributable to service to date but also for those benefits expected to be earned in the future.

The employees of the Company also participate in PLC's qualified, defined contribution employee benefit plan under Internal Revenue Code Section 401(k). PLC has formed an Employee Stock Ownership Plan to match employee contributions to the 401(k) plan. In addition, PLC provides limited health care benefits to eligible retired employees of the Company until age 65. PLC also provides certain medical and other benefits to active employees of the Company.

Charges related to these employee benefit plans provided by PLC were \$1,359,603 and have been included in "Salaries and wages" in the Statement of Income for the year ended December 31, 2011.

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Financial Statements**  
**December 31, 2011**

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**4. Fixed Assets**

Fixed assets consist of the following as of December 31, 2011:

	<b>2011</b>
System software	\$ 567,573
Less: Accumulated depreciation	<u>380,131</u>
Net fixed assets	<u>\$ 187,443</u>

**5. Income Taxes**

The Company's effective income tax rate varied from the maximum federal income tax rate as follows for the year ended December 31, 2011.

	<b>2011</b>
Statutory federal income tax rate applied to pre-tax income	35.00 %
State income taxes, including prior year adjustments	4.23 %
Non deductible expenses	<u>(2.20)%</u>
Effective income tax rate	<u>37.03 %</u>

The provision for income tax expense (benefit) is as follows:

	<b>2011</b>
Provision for income tax expense (benefit)	
Current	\$ 437,547
Deferred	<u>(797,431)</u>
	<u>\$ (359,884)</u>

**ProEquities, Inc.**  
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**Notes to Financial Statements**  
**December 31, 2011**

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The following table shows the significant components of the net deferred income tax asset as of December 31, 2011.

	<b>2011</b>
Deferred income tax asset	
Deferred compensation	\$ 4,671,463
Legal reserve and contingencies	955,861
Capital loss carryover	19,734
Accrued vacation	71,744
Other	13,706
Total gross deferred income tax asset	<u>5,732,508</u>
Deferred income tax liability	
Prepaid expense	117,740
Software	46,350
Total gross deferred income tax liability	<u>164,090</u>
Net deferred income tax asset	<u>\$ 5,568,418</u>

The Company concluded a valuation allowance on the gross deferred tax asset at December 31, 2011 was not required. The methodology for determining the realizability of deferred tax assets involves estimates of future taxable income from our core business operations, as well as estimated operating expenses to support that anticipated level of operations. These estimates are projected through the life of the related deferred tax assets based on assumptions that we believe to be consistent with current operating results. Estimates of future taxable income generated from future operating results could change in the near term, perhaps materially, which may require the Company to adjust its valuation allowance. Such adjustment, either positive or negative, could be material to the Company's financial statements.

In general, the Company is no longer subject to U.S. federal, state and local income tax examinations by taxing authorities for tax years that began before 2003.

As of December 31, 2011, the Company evaluated the need for the recognition of uncertain tax liability in accordance with the guidance of ASC 740, "Income Taxes," and determined none should be recorded or disclosed. The Company's policy is to recognize interest and penalties related to tax contingencies in income tax expense.

Included in the "Due to parent and affiliates" on the accompanying financial statements are current income taxes receivable of \$131,665 at December 31, 2011.

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Financial Statements**  
**December 31, 2011**

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**6. Receivables from Brokers and Dealers**

The receivables from brokers and dealers represents commissions and other fees to be collected from the clearing broker, mutual fund companies, product sponsors, variable annuity and variable life companies. Additionally, this balance includes cash required to be held on deposit at Pershing of \$100,000.

**7. Regulatory Requirements**

The Company is subject to the SEC's Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital (as defined) and requires the ratio of aggregate indebtedness (as defined) to net capital shall not exceed 15 to 1. At December 31, 2011, the Company had computed net capital of \$7,364,082 which was \$6,582,538 in excess of its required minimum net capital of \$781,544. The Company's aggregate indebtedness to net capital ratio at December 31, 2011 was 1.59 to 1.

The Company is exempt from the provisions of SEC Rule 15c3-3 under paragraph (k)(2)(ii), as all transactions are cleared with customers on a fully disclosed basis with a clearing broker or dealer and customer funds and securities are promptly transmitted to the clearing broker or dealer which carries all of the accounts of such customers.

All customer transactions are cleared on a fully disclosed basis through a clearing broker which files financial statements with the SEC pursuant to Rule 17a-5.

**8. Deferred Compensation Plans**

The Company has established deferred compensation plans for the benefit of its registered representatives. Deferred compensation is used to purchase mutual funds and life insurance policies, as directed by the participants. In addition, the Company may provide matching contributions for participants who meet certain production targets. Matching contributions of \$20,425 were paid by the Company during 2011.

A trust was established to aid the Company in meeting its obligations under the plans. Mutual funds and life insurance policies held by the trust are reported as investments of the Company in the accompanying Statement of Financial Condition. Mutual funds are reported at fair value with changes reported as "Investment loss, net" in the accompanying financial statements. Life insurance policies held by the trust are reported at their cash surrender value. The Company records a deferred compensation obligation equal to the total reported fair value of the trust assets. Changes in the deferred compensation obligation are recorded as commission expense in the accompanying financial statements.

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Financial Statements**  
**December 31, 2011**

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**9. Investments**

The Company holds securities used for operational trading purposes with Pershing. The securities are classified as either marketable securities owned or securities sold but not yet purchased. The following table shows these securities at fair value as of December 31, 2011.

	<u>2011</u>	
	<b>Owned</b>	<b>Sold Not Yet Purchased</b>
U.S. Government, state and municipal obligations	\$ 2,182,441	\$ 756,846
Equity securities	-	-
	<u>\$ 2,182,441</u>	<u>\$ 756,846</u>

The Company also holds securities related to the deferred compensation plans that are classified as trading. The investments consist of mutual funds and life insurance policies with a total fair value of \$9,964,776 and \$367,400, respectively, at December 31, 2011. The Company has recorded an offsetting liability for the value of these investments held in the deferred compensation plan.

Net unrealized losses and net realized gains of \$905,589 and \$705,508, respectively, are included in "Investment loss, net."

Generally, all investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible changes in risks in the near term could materially affect investment balances, the amounts reported in the Statement of Financial Condition and the amounts reported in the Statement of Operations.

**10. Fair Value of Financial Instruments**

The Company determined the fair value of its financial instruments based on the fair value hierarchy established in FASB guidance referenced in the ASC Fair Value Measurements and Disclosures Topic, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

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Financial assets and liabilities recorded at fair value on the Statement of Financial Condition are categorized as follows:

- **Level 1:** Unadjusted quoted prices for identical assets or liabilities in an active market
- **Level 2:** Quoted prices in markets that are not active or significant inputs that are observable either directly or indirectly. Level 2 inputs include the following:
  - a. Quoted prices for similar assets or liabilities in active markets
  - b. Quoted prices for identical or similar assets or liabilities in nonactive markets
  - c. Inputs other than quoted market prices that are observable
  - d. Inputs that are derived principally from or corroborated by observable market data through correlation or other means
- **Level 3:** Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. They reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The following table presents the Company's hierarchy for its assets measured at fair value on a recurring basis as of December 31, 2011.

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Fixed maturity securities				
US Government and authorities				
State, municipalities, and political subdivisions		2,142,441	40,000	2,182,441
Corporate bonds				
Equity securities				
Deferred compensation plan				
Mutual funds	9,964,776			9,964,776
Life insurance policies			367,400	367,400
Cash and cash equivalents				
Total assets measured at fair value on a recurring basis	<u>\$ 9,964,776</u>	<u>\$ 2,142,441</u>	<u>\$ 407,400</u>	<u>\$ 12,514,617</u>
<b>Liabilities</b>				
Securities sold but not yet purchased				
	<u>\$ 756,846</u>			<u>\$ 756,846</u>
Total liabilities measured at fair value on a recurring basis	<u>\$ 756,846</u>			<u>\$ 756,846</u>

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**Determination of Fair Values**

The valuation methodologies used to determine the fair values of assets and liabilities reflect market-participant assumptions and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the fair values of certain financial assets and financial liabilities based on quoted market prices, where available. Fair values reflect adjustments for counterparty credit quality, the Company's credit standing, liquidity and, where appropriate, risk margins on unobservable parameters. The following is a discussion of the methodologies used to determine fair values for the financial instruments, as listed in the above table.

***Fixed Maturity Securities and Securities Sold but not yet Purchased***

The fair value of fixed maturity securities and securities sold but not yet purchased is determined by management after considering third party pricing services as their primary source of information. Typical inputs used by this pricing method include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, third party pricing services normally derive the security prices through recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information outlined above.

The Company has analyzed the third party pricing services' valuation methodologies and related inputs, and has also evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs that is in accordance with the ASC Fair Value Measurements and Disclosures Topic. Based on this evaluation and investment class analysis, each price was classified into Level 1, 2 or 3. Most prices provided by third party pricing services are classified into Level 1 and 2 because they have quoted market prices, or significant inputs used in pricing the securities are market observable.

The Company prices its auction rate securities using an internal model that takes into account the lack of liquidity, the credit worthiness and the floating rate coupon methodology relating to these securities. The Company believes this income valuation approach provides a reasonable calculation of the fair value of these securities under the fair value hierarchy guidance and given current inactive market conditions.

In addition, the Company has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded these obligations in the financial statements at December 31, 2011, at fair values of the related securities and will incur a loss if the fair value of the securities increases subsequent to December 31, 2011.

***Deferred Compensation Plan Investments***

The Company holds investments in open-ended mutual funds and life insurance policies related to the deferred compensation plan. Open-ended mutual funds are classified as Level 1 as published net asset values are utilized for the individual securities. Life insurance policies held by related party Protective Life Insurance Company are carried at their cash surrender value and reported as Level 3 under the market approach. Cash surrender value represents the amount of cash that may be realized by the owner of a life insurance contract upon discontinuance and surrender of the contract prior to maturity.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the year ended December 31, 2011, for which the Company has used significant unobservable inputs (Level 3):

	Beginning Balance	Realized and Unrealized Gains (Losses)	Purchases and Settlements	Ending Balance
<b>Assets</b>				
State, municipalities, and political subdivisions	\$ 40,000	\$ -	\$ -	\$ 40,000
Life insurance policies	385,065	(17,665)	-	367,400
Total assets measured at fair value on a recurring basis	<u>\$ 425,065</u>	<u>\$ (17,665)</u>	<u>\$ -</u>	<u>\$ 407,400</u>

Total realized and unrealized gains (losses) on Level 3 assets are reported in "Investment gain (loss), net" within the Statement of Operations.

The Company did not transfer any Level 1, 2, or 3 investments for the year ended December 31, 2011.

Purchases and settlements, net, represent activity that occurred during the period that results in a change of the asset but does not represent changes in fair value for the instruments held at the beginning of the period.

**11. Commitments and Contingencies**

A number of civil jury or arbitration verdicts have been returned against companies in the jurisdictions in which the Company does business involving sales practices of representatives, alleged misconduct, and other matters. These matters have often resulted in the awarding of judgments against these companies that are disproportionate to the actual damages, including material amounts of punitive damages. In some states, juries or arbitrators have substantial discretion in awarding punitive damages which creates the potential for unpredictable material adverse judgments in any given punitive damage suit. In the normal course of business, the Company has been named, from time to time, as a defendant in various legal actions. In addition, the Company may also be the subject of reviews of its operations by regulatory authorities and self-regulatory organizations. The Securities and Exchange Commission (SEC) conducted reviews of the Company's broker-dealer and investment advisor operations during 2011. These reviews generally covered the periods of operations from 2006-2010 with the focus of the reviews on evaluating the Company's compliance with certain provisions of the federal securities laws. Matters raised as a result of these reviews remain unresolved at December 31, 2011 as the Company continues to provide responses to its regulator.

The Company contests liability and/or the amount of damages as appropriate in each pending matter. If the Company has information available to it which indicates that it is probable that a liability has been incurred as of the date of the financial statements and the Company can reasonably estimate the amount of that loss, the Company accrues the estimated liability by a charge to income. In many instances it may be inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any potential loss. In addition, even where loss is possible or an exposure to loss exists in excess of the liability accrued with respect to a previously recognized loss contingency, it is not always possible to reasonably estimate the

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**December 31, 2011**

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amount of the possible loss or range of loss. Subject to the foregoing, management of the Company believes, based on currently available information, after consultation with outside legal counsel and taking into account its established reserves, that pending legal actions, investigations and regulatory inquiries will be resolved with no material adverse effect on the consolidated financial position of the Company. However, if during any period a potential adverse contingency should become probable or be resolved in an amount in excess of the established reserves, the results of operations in that period could be materially adversely affected. In addition, there can be no assurance that material losses will not be incurred from claims that have not yet been brought to the Company's attention or are not yet determined to be probable or reasonably possible to result in loss. The Company has established a total liability for all such matters of approximately \$3.5 million as of December 31, 2011, which is included in "Other accrued expenses" on the Statement of Financial Condition. Management currently estimates the aggregate range of possible loss is from \$0 to \$700,000 in excess of the accrued liability (if any) related to contingent matters as of December 31, 2011 where the likelihood of loss is at least reasonably possible. The Company policy for accounting for legal fees is to record such fees as the services are provided.

In the normal course of business, the Company's customer activities involve the execution and settlement of various customer securities. The Company uses a clearing broker-dealer to execute all customer transactions in brokerage accounts. Such transactions may expose the Company and the clearing broker-dealer to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses which customers may incur. In the event customers fail to satisfy their obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customers' obligations.

**12. Subsequent Events**

The Company has evaluated events subsequent to December 31, 2011, and through the financial statement issuance date of February 28, 2012. The Company has not evaluated subsequent events after that date for presentation in these financial statements.

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Computation of Net Capital Pursuant to Rule 15c3-1 of the Securities and**  
**Exchange Commission**  
**December 31, 2011**

**Schedule I**

	<b>2011</b>
<b>Net Capital</b>	
Total stockholder's equity	\$ 16,678,857
Deductions and/or charges	
Nonallowable assets	
Receivables and other	(3,254,517)
Gross deferred income tax asset	(5,732,508)
Haircut on securities positions	<u>(327,750)</u>
Net capital	<u>7,364,082</u>
<b>Aggregate Indebtedness</b>	
Items included in statement of financial condition	
Commissions payable	4,974,331
Due to parent and affiliates	668,794
Other accrued expenses	<u>6,080,034</u>
Total aggregate indebtedness	<u>11,723,159</u>
<b>Computation of Basic Net Capital Requirement</b>	
Greater of 6-2/3% of aggregate indebtedness or \$250,000	<u>\$ 781,544</u>
Excess net capital (net capital, less net capital requirement)	<u>\$ 6,582,538</u>
Ratio: Aggregate indebtedness to net capital	<u>1.59 to 1</u>

There were no material differences between the above computation of net capital pursuant to Rule 15c3-1 and that filed with the Company's unaudited December 31, 2011 FOCUS Report.

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Computation for Determination of Reserve Requirements and Information**  
**Relating to Possession or Control Requirements Under Rule 15c3-3 of the**  
**Securities and Exchange Commission**  
**December 31, 2011**

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**Schedule II**

**Exemption Under Section (k)(2)(ii) Has Been Claimed**

The Company is not required to file the above schedule as it is exempt from Securities and Exchange Commission Rule 15c3-3 (SEC Rule 15c3-3) under Paragraph (k)(2)(ii) of the rule, as all transactions are cleared with customers on a fully disclosed basis with a clearing broker or dealer and customer funds and securities are promptly transmitted to the clearing broker or dealer which carries all of the accounts of such customers.

The Company has complied with the above exemptive provisions of SEC Rule 15c3-3.



**Report of Independent Auditors  
on Internal Control Required By SEC Rule 17a-5(g)(1)**

To the Board of Directors and Management of  
ProEquities, Inc.

In planning and performing our audit of the financial statements of ProEquities, Inc. (the "Company"), a wholly owned subsidiary of Protective Life Corporation, as of and for the year ended December 31, 2011, 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 (the "SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of 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 and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. 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; and
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 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 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 generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and 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 deficiency, or combination of deficiencies in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented or detected and corrected on a timely basis.

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 previously.

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 purposes 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, as described in the second paragraph of this report, were adequate at December 31, 2011 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the Financial Industry Regulatory Authority and other regulatory agencies that 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.

*PricewaterhouseCoopers LLP*

February 28, 2012



## Report of Independent Accountants

To the Board of Directors and Management of ProEquities, Inc.

In accordance with Rule 17a-5(e)(4) of the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying General Assessment Reconciliation (Form SIPC-7) of the Securities Investor Protection Corporation (SIPC) of ProEquities, Inc. for the year ended December 31, 2011, which were agreed to by the Company, the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and the Securities Investor Protection Corporation (collectively, the "specified parties") solely to assist the specified parties in evaluating the Company's compliance with the applicable instructions of Form SIPC-7 during the year ended December 31, 2011. Management is responsible for the Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments on page 1, items 2B and 2F of Form SIPC-7 with the respective cash disbursement records entries, as follows:
  - a. Payment in the amount of \$51,738 dated July 27, 2011, per check number 1023482 compared to the SIPC-6 obtained from Milton Fritts, Chief Financial Officer, noting no differences.
  - b. Payment in the amount of \$56,866 dated February 28, 2012, per check number 06004452 compared to the SIPC-7 obtained from Milton Fritts, Chief Financial Officer, noting no differences.
2. Compared the Total Revenue amount reported on page 3 of the audited Form X-17A-5 for the year ended December 31, 2011 to the Total revenue amount of \$107,529,090 reported on page 2, item 2a of Form SIPC-7 for the year ended December 31, 2011 noting no differences.
3. Compared any adjustments reported on page 2, items 2b and 2c of Form SIPC-7 with the supporting schedules and working papers, as follows:
  - a. Compared deductions on line 2c(1) of \$65,306,593 to supporting documentation including general ledger balances for the year ended December 31, 2011, provided by Milton Fritts, Chief Financial Officer, noting no differences.
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers obtained in procedure 3, as follows:
  - a. Recalculated the mathematical accuracy of the SIPC Net Operating Revenues on page 2, line 2d and the General Assessment @ .0025 on page 2, line 2e of \$106,604 of the Form SIPC-7, noting no differences.
  - b. Recalculated the applicable supporting schedules for the deduction in line 2c(1) including the general ledger balances for the year ended December 31, 2011, obtained from Milton Fritts, Chief Financial Officer.
5. Compared the amount of any overpayment applied to the current assessment on page 1, item 2C of Form SIPC-7 with page 1, item 2H of the Form SIPC-7T filed for the prior period ended December 31, 2011 on which it was originally computed noting no differences.



We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Company's preparation of Form SIPC-7 in accordance with the applicable instructions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management and the board of directors of ProEquities, Inc., the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and the Securities Investor Protection Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*PricewaterhouseCoopers LLP*

February 28, 2012



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