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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

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**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: C. A. Botzum & Co

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

Orange (City) California (State) 92868 (Zip Code)  
(No. and Street)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Charles A Botzum III (714) 973-2300  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Breard & Associates, Inc. Certified Public Accountants

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

9221 Corbin Avenue, Suite 170 (Address) Northridge (City) California (State) 91324 (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)

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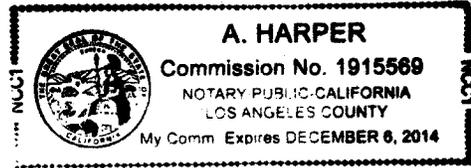
OATH OR AFFIRMATION

I, Charles A Botzum, III, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of C. A. Botzum & Co 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:

State of CALIFORNIA County of ORANGE Subscribed and sworn to (or affirmed) before me on this 28th day of February, 2012 by CHARLES BOTZUM III proved to me on the basis of satisfactory evidences to be the person who appeared before me.

Signature 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).



**BREARD & ASSOCIATES, INC.**  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report**

Board of Directors  
C.A. Botzum & Co.:

We have audited the accompanying statement of financial condition of C.A. Botzum & Co. (the Company) as of December 31, 2011, and the related statements of income, changes in stockholders' equity, changes in liabilities subordinated to claims of general creditors, 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of C.A. Botzum & Co. as of December 31, 2011, and the results of its income and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, III and IV 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.

*Breard & Associates, Inc.*

Breard & Associates, Inc.  
Certified Public Accountants

Northridge, California  
February 27, 2012

**C.A. Botzum & Co.**  
**Statement of Financial Condition**  
**December 31, 2011**

**Assets**

Cash	\$	268
Cash segregated under federal and other regulations		100
Receivable from clearing organization		701
Deposit with clearing organization		15,000
Cash surrender value of life insurance		93,185
Advances to stockholders		66,713
Secured demand notes, collateralized by marketable securities		205,000
Prepaid expenses		5,000
<b>Total assets</b>	<b>\$</b>	<b><u>385,967</u></b>

**Liabilities and Stockholders' Equity**

**Liabilities**

Accounts payable and accrued expenses	\$	2,000
Payable to customers		518
Payable to clearing organization		1,000
Payable to officer		10,000
Liabilities subordinated to claims of general creditors		205,000
<b>Total liabilities</b>		<b><u>218,518</u></b>

**Stockholders' equity**

Common stock, \$1 par value, 500,000 shares authorized, 325,000 shares issued and outstanding	325,000
Additional paid-in capital	202,312
Accumulated deficit	(187,089)
Less excess of par value over consideration	(172,774)
<b>Total stockholders' equity</b>	<b><u>167,449</u></b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ <u>385,967</u></b>

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

**C.A. Botzum & Co.**  
**Statement of Income**  
**For the Year Ended December 31, 2011**

**Revenues**

Commissions	\$ 128,835
Other income	<u>3,176</u>
<b>Total revenues</b>	<b>132,011</b>

**Expenses**

Commissions and floor brokerage, exchange and clearance fees	32,868
Occupancy and equipment rental	45,689
Interest expense	2,050
Other operating expenses	<u>46,994</u>
<b>Total expenses</b>	<b><u>127,601</u></b>
<b>Net income (loss) before income tax provision</b>	<b>4,410</b>

<b>Income tax provision</b>	<u>800</u>
<b>Net income (loss)</b>	<b><u>\$ 3,610</u></b>

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

**C.A. Botzum & Co.**  
**Statement of Changes in Stockholders' Equity**  
**For the Year Ended December 31, 2011**

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Less excess of par value over consideration</u>	<u>Total</u>
<b>Balance at December 31, 2010</b>	\$ 325,000	\$ 202,312	\$ (190,699)	\$ (172,774)	\$ 163,839
Net income (loss)	-	-	3,610	-	3,610
<b>Balance at December 31, 2011</b>	<u>\$ 325,000</u>	<u>\$ 202,312</u>	<u>\$ (187,089)</u>	<u>\$ (172,774)</u>	<u>\$ 167,449</u>

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

**C.A. Botzum & Co.**  
**Statement of Changes in Liabilities Subordinated**  
**to the Claims of General Creditors**  
**For the Year Ended December 31, 2011**

	<u>Amount</u>
<b>Balance at December 31, 2010</b>	\$ 205,000
<b>Increase:</b>	-
<b>Decrease:</b>	<u>-</u>
<b>Balance at December 31, 2011</b>	<u>\$ 205,000</u>

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

**C.A. Botzum & Co.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2011**

**Cash flow from operating activities:**

Net income (loss)		\$ 3,610
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
(Increase) decrease in assets:		
Cash segregated under federal and other regulations	\$ 1,900	
Receivable from clearing organization	(701)	
Commissions receivable	5,847	
Cash surrender value of life insurance	(3,176)	
Receivables from customers	169	
Advances to stockholders	(15,353)	
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(2,500)	
Payable to customers	(1,156)	
Payable to clearing organization	1,000	
Payable to officer	10,000	
Total adjustments	(3,970)	
<b>Net cash provided by (used in) operating activities</b>		<b>(360)</b>
<b>Net cash provided by (used in) investing activities</b>		<b>-</b>
<b>Net cash provided by (used in) financing activities</b>		<b>-</b>
<b>Net increase (decrease) in cash</b>		<b>(360)</b>
<b>Cash at beginning of year</b>		<b>628</b>
<b>Cash at end of year</b>		<b>\$ 268</b>

**Supplemental disclosure of cash flow information:**

Cash paid during the year for:

Interest		\$ -
Income taxes		\$ 800

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

**C.A. Botzum & Co.**  
**Notes to Financial Statements**  
**December 31, 2011**

**Note 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General*

C.A. Botzum & Co. (the "Company") was incorporated in California on April 20, 1961, and operates as a registered broker/dealer in securities under the Securities Exchange Act of 1934. The Company is a member of the Financial Industry Regulatory Authority ("FINRA"), the Securities Investor Protection Corporation ("SIPC"), and the Municipal Securities Rulemaking Board ("MSRB").

The Company holds securities for approximately thirty-five clients. The majority of the clients are in Southern California. No one client represents an undue concentration of risk to the Company.

The Company is engaged in business as a securities broker-dealer, that provides several classes of services, including the buying and selling of securities for public customer accounts and also performs limited proprietary trading.

*Summary of Significant Accounting Policies*

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 those estimates.

The Company has fully depreciated furniture and equipment of \$21,879. Furniture and equipment has been depreciated over the estimated useful lives of the related assets. Depreciation was computed using the straight-line method for both financial statement and income tax purposes.

Receivable from clearing organization represent commissions earned on securities transactions. These receivables are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial.

Securities transactions are recorded on a trade date basis with related commission income and expenses also recorded on a trade date basis.

**C.A. Botzum & Co.**  
**Notes to Financial Statements**  
**December 31, 2011**

**Note 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

The Company accounts for its income taxes in accordance with FASB ASC 740, Income Taxes. This standard requires the establishment of a deferred tax asset or liability to recognize the future tax effects of transactions that have not been recognized for tax purposes, including taxable and deductible temporary differences as well as net operating loss and tax credit carryforwards. Deferred tax expenses or benefits are recognized as a result of changes in the tax basis of an asset or liability when measured against its reported amount in the financial statements.

Current income taxes are provided for estimated taxes payable or refundable based on tax returns. Deferred income taxes are recognized for the estimated future tax effects attributable to temporary differences in the basis of assets and liabilities for financial and tax reporting purposes. Measurement of current and deferred tax assets and liabilities is based on provisions of enacted federal and state tax laws.

The Company has evaluated events subsequent to the balance sheet date for items requiring recording or disclosure in the financial statements. The evaluation was performed through February 27, 2012, which is the date the financial statements were available to be issued. Based upon this review, the Company has determined that there were no events which took place that would have a material impact on its financial statements.

**Note 2: CASH SEGREGATED UNDER FEDERAL AND OTHER REGULATIONS**

Cash of \$100 has been segregated in a special reserve bank account for the benefit of customers under rule 15c3-3 of the Securities and Exchange Commission (See Schedule II).

**Note 3: RECEIVABLE FROM CLEARING ORGANIZATION**

Pursuant to the clearing agreement, the Company introduces all of its securities transactions to clearing brokers on a fully disclosed basis. Customers' money balances and security positions are carried on the books of the clearing brokers. In accordance with the clearance agreement, the Company has agreed to indemnify the clearing brokers for losses, if any, which the clearing brokers may sustain from carrying securities transactions introduced by the Company. In accordance with industry practice and regulatory requirements, the Company and the clearing brokers monitor collateral on the customers' accounts. As of December 31, 2011, the receivable from clearing organization \$701 are pursuant to these clearance agreements.

**C.A. Botzum & Co.**  
**Notes to Financial Statements**  
**December 31, 2011**

**Note 4: DEPOSIT WITH CLEARING ORGANIZATION**

The Company has a brokerage agreement with Legent Clearing, Inc. ("Clearing Broker") to carry its account and the accounts of its clients as customers of the Clearing Broker. The Clearing Broker has custody of the Company's cash balances which serve as collateral for any amounts due to the Clearing Broker as well as collateral for securities sold short or securities purchased on margin. Interest is paid monthly on these cash deposits at the average overnight repurchase rate. The balance at December 31, 2011 was \$15,000.

**Note 5: INCOME TAXES**

The income tax provision for the year ended December 31, 2011 is the California minimum franchise tax of \$800.

The Company has available at December 31, 2011, unused operating loss carry-forwards, which may be applied against future taxable income, resulting in a deferred tax asset of approximately \$6,205 that expires as follows:

NOL carry- forwards	Year ended December 31,
18,995	2020
7,086	2023
5,324	2025
9,962	2029
<u>\$ 41,367</u>	

A 100% valuation allowance was established against this asset since management cannot determine if it is more likely than not that the asset will be realized.

**Note 6: CASH SURRENDER VALUE OF LIFE INSURANCE**

For the year ended December 31, 2011, the Company included \$3,176 as other income for the increase in the cash surrender value of the life insurance policy. The face value of the underlying life insurance policy, was \$200,000 and the cash surrender value of the policy was \$93,185 at December 31, 2011.

**C.A. Botzum & Co.**  
**Notes to Financial Statements**  
**December 31, 2011**

**Note 7: OCCUPANCY AND EQUIPMENT RENTAL**

Current year occupancy expense is attributable to office and storage rent in the amount of \$45,689. This amount is paid to the officers for the rental of the office space.

**Note 8: RELATED PARTY TRANSACTIONS**

During the year, the Company has certain transactions with its shareholders. Advance to shareholders is a loan that is non-interest bearing, uncollateralized and due on demand. For the year ended December 31, 2011, this balance is \$66,713. Additionally, at December 31, 2011, the Company owes another officer \$10,000. It is possible that the terms of certain of the related-party transaction are not the same as those that would result from transactions among wholly unrelated parties.

**Note 9: SUBORDINATED LIABILITIES**

The borrowings under subordination agreements at December 31, 2011, are listed below. Liabilities subordinated to secured demand note collateral agreements are:

Interest at 1% due December 31, 2014	\$ 185,000
Interest at 1% due December 4, 2012	<u>20,000</u>
Total secured demand note	\$ 205,000

Pursuant to the subordinated loan agreement approved by FINRA, the secured demand note would be suspended and shall not mature if the net capital requirement would be less than 120% of the required net capital. There are also other requirements pursuant to SEC Rule 15c3-1(b). The subordinated borrowings are covered by agreements approved by the Financial Industry Regulatory Authority and are thus available in computing net capital under the Securities and Exchange Commission's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

The secured demand notes of \$205,000 are collateralized by marketable securities and municipal bonds valued, net of haircuts, at \$233,029 on December 31, 2011. The municipal bonds are valued at fair market value, unless market conditions dictate otherwise, which may create some liquidity issues. The collateral securing the demand note is as follows:

**C.A. Botzum & Co.**  
**Notes to Financial Statements**  
**December 31, 2011**

**Note 9: SUBORDINATED LIABILITIES**  
**(Continued)**

<u>Description</u>	<u>Market Value</u>	<u>Net of Haircut</u>
Municipal obligations	\$ 259,153	\$ 233,029

**Note 10: CONCENTRATIONS OF CREDIT RISK**

The Company is engaged in various trading and brokerage activities in which counter-parties primarily include broker-dealers, banks, and other financial institutions. In the event counter-parties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counter-party or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counter-party.

**Note 11: RECENTLY ISSUED ACCOUNTING STANDARDS**

In June of 2009, the Financial Accounting Standards Board (the "FASB") implemented a major restructuring of U.S. accounting and reporting standards. This restructuring established the Accounting Standards Codification ("Codification" or "ASC") as the source of authoritative accounting principles ("GAAP") recognized by the FASB. The principles embodied in the Codification are to be applied by nongovernmental entities in the preparation of financial statements in accordance with generally accepted accounting principles in the United States. New accounting pronouncements are incorporated into the ASC through the issuance of Accounting Standards Updates ("ASUs")

For the year ending December 31, 2011, various ASUs issued by the FASB were either newly issued or had effective implementation dates that would require their provisions to be reflected in the financial statements for the year then ended. The Company has reviewed the following ASU releases to determine relevance to the Company's operations:

**C.A. Botzum & Co.**  
**Notes to Financial Statements**  
**December 31, 2011**

**Note 11: RECENTLY ISSUED ACCOUNTING STANDARDS**  
**(Continued)**

<u>ASU No.</u>	<u>Title</u>	<u>Effective Date</u>
2010-29	Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (December 2010).	After December 15, 2010
2011-04	Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IRFSs (May 2011).	After December 15, 2011
2011-05	Comprehensive Income (Topic 220): Presentation of Comprehensive Income (June 2011).	After December 15, 2011
2011-08	Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment (September 2011).	After December 15, 2011

The Company has either evaluated or is currently evaluating the implications, if any, of each of these pronouncements and the possible impact they may have on the Company's financial statements. In most cases, management has determined that the pronouncement has either limited or no application to the company and, in all cases, implementation would not have a material impact on the financial statements taken as a whole.

**Note 12: NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Rule 15c3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. Net capital and aggregate indebtedness change day to day, but on December 31, 2011, the Company had net capital of \$300,736 which was \$50,736 in excess of its required net capital of \$250,000; and the Company's ratio of aggregate indebtedness (\$13,418) to net capital was 0.04 to 1, which is less than the 15 to 1 maximum allowed.

**C.A. Botzum & Co.**  
**Schedule I - Computation of Net Capital Requirements**  
**Pursuant to Rule 15c3-1**  
**As of December 31, 2011**

**Computation of net capital**

Common stock	\$ 325,000	
Additional paid-in capital	202,312	
Accumulated deficit	(187,089)	
Less excess of par value over consideration	<u>(172,774)</u>	
<b>Total stockholders' equity</b>		<b>\$ 167,449</b>
<b>Add: Additions to capital</b>		
Subordinated liabilities	<u>205,000</u>	
Total allowable subordinated liabilities		<u>205,000</u>
Total equity & allowable subordinated liability		372,449
<b>Less: Non-allowable assets</b>		
Advances to stockholders	(66,713)	
Prepaid expenses	<u>(5,000)</u>	
<b>Total non-allowable assets</b>		<u>(71,713)</u>
<b>Net capital</b>		<b>300,736</b>
<b>Computation of net capital requirements</b>		
Minimum net capital requirements		
6 2/3 percent of net aggregate indebtedness	\$ 895	
Minimum dollar net capital required	<u>\$ 250,000</u>	
Net capital required (greater of above)		<u>(250,000)</u>
<b>Excess net capital</b>		<b><u>\$ 50,736</u></b>
Ratio of aggregate indebtedness to net capital	0.04 : 1	

There was no material difference between net capital computation shown here and the net capital computation shown on the Company's unaudited Form X-17A-5 report dated December 31, 2011.

*See independent auditor's report*

**C.A. Botzum & Co.**  
**Schedule II - Computation for Determining of Reserve**  
**Requirements Pursuant to Rule 15c3-3**  
**As of December 31, 2011**

**Credit Balances**

Customer payable	\$ <u>518</u>	
Total credits		\$ 518

**Debit Balances**

Receivable from clearing organization- omnibus account	<u>701</u>	
Total debits		<u>701</u>

**Reserve Computation**

Excess of total debits over total credits	<u>\$ (183)</u>
Amount held on deposit in reserve account at December 31, 2011	\$ 100
Deposit (withdrawal) after year end	<u>\$ -</u>
Amount in reserve account	<u>\$ 100</u>

*See independent auditor's report*

**C.A. Botzum & Co.**  
**Schedule III - Reconciliation of Net Capital and**  
**Requirements Pursuant to Rule 15c3-3**  
**As of December 31, 2011**

Net Capital as calculated per audit report	\$ 300,736
Net capital as calculated per broker-dealer's most recent filing of Form X-17a-5, Part II, December 31, 2011	<u>300,736</u>
Net difference in computation of net capital	<u><u>\$ -</u></u>
Reserve requirement as calculated per audit report	\$ (183)
Reserve requirement as calculated per broker-dealer's most recent filing of Form X-17a-5, Part II, December 31, 2011	<u>-</u>
Net difference in computation of reserve requirements	<u><u>\$ (183)</u></u>

*See independent auditor's report*

**C.A. Botzum & Co.**  
**Schedule IV - Information relating to Possession or Control**  
**Requirements Pursuant to Rule 15c3-3**  
**As of December 31, 2011**

The Company is a self-clearing firm and is subject to the possession or control requirements under rule 15c3-3 of the Securities and Exchange Commission. The Company is in compliance with these requirements and there were no instances noted during our audit of securities that were required to be in possession or control that had not been reduced to possession or control in the proper time frame.

*See independent auditor's report*

**C.A. Botzum & Co.**  
**Supplementary Accountant's Report**  
**on Internal Accounting Control**  
**Report Pursuant to 17a-5**  
**For the Year Ended December 31, 2011**

 **BREARD & ASSOCIATES, INC.**  
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
C.A. Botzum & Co.:

In planning and performing our audit of the financial statements and of C.A. Botzum & Co. ("the Company") 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 audit 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 consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to objectives stated in rule 17a-5(g), in the following:

1. 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 15c3-3(e)
2. Making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13
3. 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
4. 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 judgements 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 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 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 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, 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.



Breard & Associates, Inc.  
Certified Public Accountants

Northridge, California  
February 27, 2012