

# 3/27 KW

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

**FACING PAGE**  
Information Required of Brokers and Dealers  
Pursuant to Section 17 of the Securities  
Exchange Act of 1934

SEC FILE NO.  
8-1361

and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/12 AND ENDING 12/31/12  
MM/DD/YY MM/DD/YY

**A. REGISTRANT  
IDENTIFICATION**

NAME OF BROKER-DEALER:  
**Scott & Stringfellow, LLC**

ADDRESS OF PRINCIPAL PLACE OF BUSINESS:  
(Do not use P.O. Box No.)  
**901 East Byrd Street**  
**Richmond** (City) **Virginia** (State) **23219** (Zip Code)

Washington DC 402  
(No. and Street)

SEC  
Mail Processing  
Section  
MAR - 1 2013

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FIRM ID. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
**Randall B. Saufley, Chief Financial Officer** **804-649-3965**  
(Area Code -- Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
(Name -- if individual, state last, first, middle name)  
**PricewaterhouseCoopers LLP**

**214 N. Tryon St. Suite 3600** **Charlotte** **North Carolina** **28202**  
(ADDRESS) Number and Street City State Zip Code

**CHECK ONE:**

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



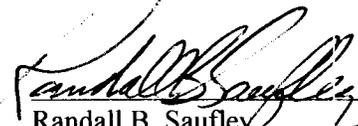
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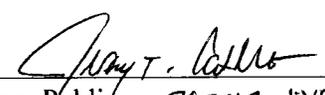
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

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## Oath or Affirmation

I, Randall B. Saufley, swear (or affirm) that, to the best of my knowledge and belief, the accompanying financial statements and supporting schedules pertaining to the firm of Scott & Stringfellow, LLC, as of December 31, 2012, 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.

  
 Randall B. Saufley  
 Chief Financial Officer

  
 Notary Public 283212 EXPIRES: 9/30/2015

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

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



## Independent Auditor's Report

To the Board of Managers and Member of  
Scott & Stringfellow, LLC  
(a wholly-owned subsidiary of BB&T Corporation):

We have audited the accompanying statement of financial condition of Scott & Stringfellow, LLC (the "Company") as of December 31, 2012.

### ***Management's Responsibility for the Statement of Financial Condition***

Management is responsible for the preparation and fair presentation of the statement of financial condition in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a statement of financial condition that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the statement of financial condition 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 statement of financial condition is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of financial condition. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the statement of financial condition, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the statement of financial condition in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement of financial condition. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of the Company at December 31, 2012, in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

February 28, 2013

**Scott & Stringfellow, LLC**  
(a wholly-owned subsidiary of BB&T Corporation)  
**Statement of Financial Condition**  
**December 31, 2012**

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**Assets**

Cash	\$	4,649,386
Cash segregated under federal regulations		1,489,390
Securities purchased under agreements to resell		121,753,200
Securities owned, at fair value		222,637,410
Securities owned, pledged, at fair value		50,075,934
Receivable from affiliated clearing organization		31,725,184
Receivable from Parent		2,226,515
Furniture, equipment and leasehold improvements, at cost (less accumulated depreciation and amortization of \$13,737,072)		6,348,450
Goodwill		99,174,956
Deferred tax asset		19,470,129
Other assets		<u>41,425,292</u>
<b>Total assets</b>	<b>\$</b>	<b><u>600,975,346</u></b>

**Liabilities and Member's equity**

Securities sold under agreements to repurchase	\$	124,023,792
Securities sold, not yet purchased, at fair value		98,087,642
Accrued taxes payable to Parent		8,117,577
Accrued interest payable on securities		183,058
Accrued expenses, compensation and other liabilities		<u>59,114,302</u>
<b>Total liabilities</b>		<u>289,526,371</u>
Liabilities subordinated to claims of general creditors		100,000,000
<b>Member's equity</b>		<u>211,449,475</u>
<b>Total liabilities and member's equity</b>	<b>\$</b>	<b><u>600,975,346</u></b>

The accompanying notes are an integral part of the Statement of Financial Condition.

**Scott & Stringfellow, LLC**  
(a wholly-owned subsidiary of BB&T Corporation)  
**Notes to Statement of Financial Condition**  
**December 31, 2012**

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**1. Organization and Description of Business**

Scott & Stringfellow, LLC ("Company" or "LLC"), is a wholly-owned subsidiary of BB&T Corporation ("Parent"), a financial services holding company headquartered in North Carolina and sole member of the LLC. The Company is registered as a broker-dealer with the Securities and Exchange Commission ("SEC") and is subject to regulatory oversight by the Financial Industry Regulatory Authority ("FINRA").

The Company receives all clearing services from an affiliated company, Clearview Correspondent Services, LLC, ("Clearview"), itself a wholly-owned subsidiary of the Parent. Refer to Note 12 for further discussion.

The Company deals in U.S. Government and agency obligations, corporate debt and equity securities, state and municipal securities, mortgage and other asset-backed securities, money market and other financial instruments. Additionally, the Company offers mutual funds, annuities and life insurance products. The Company also offers various investment banking and financial advisory services in connection with mergers and acquisitions, restructuring, private placements, loan syndications, loan trading and project financings. The Company provides these services to corporate clients, institutional investors and individuals.

**2. Summary of Significant Accounting Policies**

**Use of estimates in preparation of financial statements**

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America, which require 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. The actual results could differ from these estimates.

**Cash**

Cash represents amounts on deposit with banks and other financial institutions that are not subject to segregation under federal regulation.

**Securities owned and securities sold, not yet purchased**

Securities transactions entered into for the account and risk of the Company are recorded on a trade date basis. Customers' securities transactions effected through the clearing company, Clearview, are reported on a settlement date basis. Amounts receivable and payable for the Company's securities transactions that have not yet reached their contractual settlement date are recorded on a net basis on the Statement of Financial Condition in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 940-20-45, *Broker Dealer Activities* ("Topic 940"). Securities are recorded at fair value in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures* ("Topic 820").

**Securities purchased under agreements to resell and securities sold under agreements to repurchase**

Transactions involving securities purchased under agreements to resell ("reverse repurchase agreements" or "reverse repos") or securities sold under agreements to repurchase ("repurchase agreements" or "repos") are accounted for as collateralized agreements. It is the Company's policy to obtain the right to use the securities as collateral relating to resale agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate. Reverse repos and repos are recorded at contractual amounts plus accrued interest. Accrued interest on reverse repos and repos is included in the Statement of Financial Condition in Other assets and Accrued interest payable on securities respectively.

**Scott & Stringfellow, LLC**  
(a wholly-owned subsidiary of BB&T Corporation)  
**Notes to Statement of Financial Condition**  
**December 31, 2012**

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**Furniture, equipment and leasehold improvements**

Furniture, equipment and leasehold improvements are recorded at cost. Depreciation on furniture and equipment is recorded on a straight-line basis over the estimated useful lives of the assets (ranging from 3 to 7 years). Leasehold improvements are amortized on a straight-line basis over the lesser of the lease term, including certain renewals that were deemed probable at lease inception, or the estimated useful lives of the improvements.

**Goodwill and intangible assets**

Goodwill represents the cost in excess of the fair value of the net assets acquired in business acquisitions. Goodwill is not amortized over an estimated useful life, but rather is tested at least annually for impairment. The Company measures impairment using the present value of estimated future cash flows. The analysis is based upon available information regarding expected future cash flows and discount rates. Discount rates are based upon the cost of capital specific to the Company's industry. If the carrying value of the reporting unit exceeds its fair value, a second analysis is performed to measure the fair value of all assets and liabilities. If, based on the second analysis, it is determined that the fair value of the assets and liabilities of the reporting unit is less than the carrying value, the Company recognizes impairment for the excess of carrying value over fair value. The recoverability of goodwill is also evaluated if events or circumstances indicate a possible reduction in the fair value of the Company below its carrying amount. Through December 31, 2012, the Company did not record any goodwill impairment based on its testing.

Other intangible assets, primarily purchased books of business and non-compete agreements, are amortized based upon the estimated economic benefit received. These intangible assets are included in the Statement of Financial Condition in Other assets.

**Fair Value Measurements**

Topic 820 provides a framework for measuring fair value which requires that an entity determine fair value based on the exit price from the principal market for the asset or liability being measured, which is discussed further in Note 3.

**Derivative financial instruments**

The Company utilizes derivative financial instruments to manage various financial risks. These derivatives primarily consist of equity options and treasury futures. A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index or referenced interest rate. The Company does not designate its derivatives as hedges under FASB ASC Topic 815.

**Scott & Stringfellow, LLC**  
(a wholly-owned subsidiary of BB&T Corporation)  
**Notes to Statement of Financial Condition**  
**December 31, 2012**

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**Income taxes**

The Company's operating results are included in the consolidated federal income tax return of the Parent. The method of allocating federal income tax expense is determined under a tax allocation agreement between the Company and the Parent. The amount of current tax or benefit calculated is either remitted to or received from the Parent. The allocation agreement specifies that income tax expense will be computed for all subsidiaries on a separate company method. The Company does not have any unrecognized tax benefits and did not have any interest or penalties accrued as of December 31, 2012.

Deferred income taxes have been provided when different accounting methods have been used in determining income for income tax purposes and for financial reporting purposes. Deferred tax assets and liabilities are recognized based on future tax consequences attributable to differences arising from financial statement carrying values of assets and liabilities and their tax bases. In the event of changes in the tax laws or rates, deferred tax assets and liabilities are adjusted in the period of the enactment of those changes, with the cumulative effects included in the current year's income tax provision.

**3. Fair Value Measurements**

Topic 820 defines fair value as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. Topic 820 also establishes a three level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

**Level 1**

Level 1 asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.

**Level 2**

Level 2 asset and liability fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3**

Level 3 assets and liabilities are financial instruments whose value is calculated by the use of pricing models and or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

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**Notes to Statement of Financial Condition**  
**December 31, 2012**

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	12/31/2012	Fair Value Measurements for Assets and Liabilities Measured on a Recurring Basis		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Securities owned:				
US government	\$ 3,128,711	\$ -	\$ 3,128,711	\$ -
US government-sponsored entities (GSE)	49,151,301	-	49,151,301	-
Mortgage-backed securities issued by GSE	14,662,421	-	14,662,421	-
State and political subdivisions	63,678,094	-	63,171,934	506,160
Equity and other securities	91,124,768	82,633,736	8,487,763	3,269
Private equity and similar investments	892,115	-	-	892,115
Securities owned, pledged:				
US government	1,938,219	-	1,938,219	-
US government-sponsored entities (GSE)	33,093,180	-	33,093,180	-
Mortgage-backed securities issued by GSE	15,044,535	-	15,044,535	-
<b>Total assets</b>	<b>\$272,713,344</b>	<b>\$ 82,633,736</b>	<b>\$188,678,064</b>	<b>\$ 1,401,544</b>
<b>Liabilities:</b>				
Securities sold, not yet purchased:				
US government	\$ 52,113,409	\$ -	\$ 52,113,409	\$ -
US government-sponsored entities (GSE)	31,096,100	-	31,096,100	-
Mortgage-backed securities issued by GSE	11,671,368	-	11,671,368	-
State and political subdivisions	91,012	-	91,012	-
Equity and other securities	3,115,753	17,418	3,098,335	-
<b>Total liabilities</b>	<b>\$ 98,087,642</b>	<b>\$ 17,418</b>	<b>\$ 98,070,224</b>	<b>\$ -</b>

Securities owned, pledged represent assets pledged under repurchase and securities lending transactions in which the agreement gives the counterparty the right to sell or re-pledge the underlying assets, which is discussed further in Note 13, as well as securities pledged as margin collateral to facilitate mortgage "To Be Announced" (TBA) transactions.

The following discussion focuses on the valuation techniques and significant inputs used by the Company in determining the Level 2 and Level 3 fair values of each significant class of assets and liabilities.

The Company generally utilizes multiple third-party pricing services in determination of the fair value of its securities portfolio. Fair value measurements are derived from market-based pricing matrices that were developed using observable inputs that include benchmark yields, benchmark securities, reported trades, offers, bids, issuer spreads and broker quotes. As described by security type below, additional inputs may be used or some inputs may not be applicable. In the event that market observable data was not available,

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**December 31, 2012**

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which would generally occur due to the lack of an active market for a given security, the valuation of the security would be subjective and may involve substantial judgment by management.

Specific valuation techniques and inputs used in determining the fair value of each significant class of assets and liabilities follow:

*U.S. government:* These are debt securities guaranteed by the U.S. government. U.S. government securities are generally valued using market-based pricing matrices that are based on observable inputs (i.e., including new issue and secondary market data and dealer quotes), and, for U.S. Treasury securities and Treasury inflation protected securities ("TIPS"), live data from active market makers and inter-dealer brokers.

*U.S. government-sponsored entities (GSE) and Mortgage-backed securities issued by GSE:* These are debt securities issued by U.S. government-sponsored entities. GSE pass-through securities are valued using market-based pricing matrices that are based on observable inputs including benchmark TBA security pricing and yield curves that were estimated based on U.S. Treasury yields and certain floating rate indices. The pricing matrices for these securities may also give consideration to pool-specific data supplied directly by the GSE. GSE collateralized mortgage obligations ("CMOs") are valued using market-based pricing matrices that are based on observable inputs including offers, bids, reported trades, dealer quotes and market research reports, the characteristics of a specific tranche, market convention prepayment speeds and benchmark yield curves as described above.

*States and political subdivisions:* These securities are valued using market-based pricing matrices that are based on observable inputs including MSRB reported trades, issuer spreads, material event notices and benchmark yield. In some cases, there are no observable market values for these investments and therefore management must estimate the fair value based on unobservable inputs and or modeling assumptions.

*Equity and other securities:* These securities consist primarily of equities, mutual funds and corporate bonds and brokered CD's. These securities are valued based on a review of quoted market prices for identical and similar assets. In some cases there are no observable market values for these investments and therefore management must estimate the fair value based on a comparison of the operating performance of the entity to multiples in the marketplace for similar entities.

*Derivative assets and liabilities:* The fair values of derivative financial instruments are determined based on quoted market prices. Additional derivatives disclosures may be found in Note 13.

*Private equity and similar investments:* The Company has private equity and similar investments that are carried at fair value. In many cases, there are no observable market values for these investments. Investments in private equity funds are measured at fair value based on the investment funds' reported net asset value. For direct private equity investments, management must estimate the fair value based on a comparison of the operating performance of the entity to multiples in the marketplace for similar entities. This analysis requires significant judgment. Actual values in a sale could differ materially from those estimated.

*Securities owned, not yet purchased:* Securities owned, not yet purchased, represent securities sold short. These trades are primarily a hedging strategy for the purposes of supporting institutional and retail client trading activities.

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**Notes to Statement of Financial Condition**  
**December 31, 2012**

The table below presents a reconciliation for the year ended December 31, 2012 for Level 3 assets and liabilities that are measured at fair value on a recurring basis.

For the Year Ended December 31, 2012	12/31/2012	Fair Value Measurements Using Significant Unobservable Inputs				
		US government- sponsored entities	Mortgage- backed securities issued by GSE	States & political subdivisions	Equity & other securities	Private equity & similar investments
Balance on January 1, 2012	\$ 1,478,924	\$ -	\$ -	\$ 562,400	\$ 3,269	\$ 913,255
Total realized and unrealized gains (losses) included in earnings:						
Principal transactions, net	(101,644)	-	6,736	(56,240)	-	(52,140)
Other revenue	-	-	-	-	-	-
Purchases	3,764,152	-	3,664,152	-	-	100,000
Issuances	-	-	-	-	-	-
Sales	(3,670,888)	-	(3,670,888)	-	-	-
Settlements	(69,000)	-	-	-	-	(69,000)
Balance at December 31, 2012	\$ 1,401,544	\$ -	\$ -	\$ 506,160	\$ 3,269	\$ 892,115

The Company's policy is to recognize transfers in and out of Levels 1, 2 and 3 as of the end of the quarterly reporting periods. There were no material transfers between the levels in the hierarchy during the year ended December 31, 2012.

The Company's private equity and similar investments are primarily in funds whose significant investment strategies include equity and other investments in privately-held middle market companies. The majority of these investments are not redeemable and have varying dates for which the underlying assets are expected to be liquidated by distribution through 2020. As of December 31, 2012, restrictions on the ability to sell the investments include, but are not limited to, consent of a majority member or general partner approval for transfer of ownership. There were no investments probable of sale for less than net asset value at December 31, 2012.

**4. Cash Segregated under Federal Regulations**

At December 31, 2012 cash of \$1,489,390 was segregated in special reserve bank accounts for the exclusive benefit of customers under the SEC's "Customer Protection: Reserves and Custody of Securities" Rule 15c3-3 (SEC Rule 15c3-3). This rule provides a detailed reserve formula for determining the reserve bank account requirement. The reserve is calculated as the excess of customer related credits over the customer related debits. As of December 31, 2012, the excess of these total credits over total debits was \$687,040. On January 3, 2013, a withdrawal of \$733,646 was made.

**Scott & Stringfellow, LLC**  
(a wholly-owned subsidiary of BB&T Corporation)  
**Notes to Statement of Financial Condition**  
**December 31, 2012**

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**5. Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements consist of the following at December 31, 2012:

Furniture and equipment	\$ 10,103,039
Alterations and improvements	8,605,997
Computer equipment	1,326,087
Computer software	50,399
Less: Accumulated depreciation and amortization	<u>(13,737,072)</u>
Total	<u>\$ 6,348,450</u>

**6. Intangible Assets**

The Company has intangible assets resulting from prior year acquisitions consisting of certain developed technology and customer relationships. The estimated useful lives for these intangible asset types are 8 years and 1 year, respectively. The net carrying amount of these intangible assets at December 31, 2012, included in Other assets on the Statement of Financial Condition, is \$618,906.

**7. Short-Term Borrowings**

The Company maintains an unsecured line of credit from the Parent totaling \$150,000,000. As of December 31, 2012, there was no outstanding balance; the average balance outstanding during the year was \$5,020,211. Interest accrues on outstanding borrowings at the one-month LIBOR rate plus 0.25% per annum and is adjusted monthly with an effective interest rate that ranged from 0.46% to 0.55% per annum throughout 2012. Interest is payable to the Parent monthly. There is no established maturity date under the agreement with the Parent.

**8. Liabilities Subordinated to Claims of General Creditors**

Liabilities subordinated to the claims of general creditors represent subordinated borrowings with the Parent. Such borrowings are available in computing the net capital under the SEC'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.

Liabilities subordinated to the claims of general creditors are composed of the following at December 31, 2012:

Subordinated note dated 1999, renewing December 2013	\$ 15,000 000
Subordinated note dated 2000, renewing November 2013	15,000 000
Subordinated note dated 2003, renewing June 2013	30,000 000
Subordinated note dated 2007, renewing August 2013	<u>40,000 000</u>
Total	<u>\$ 100,000 000</u>

Interest accrues on the above subordinated notes at the three-month LIBOR rate plus 0.80% per annum and is adjusted quarterly with an effective interest rate that ranged from 1.16% to 1.38% per annum throughout 2012. Interest is payable to the Parent monthly.

The Company maintains a \$200,000,000 revolving subordinated loan agreement with the Parent. When used, interest accrues on this revolving subordinated loan agreement at the three-month LIBOR rate plus

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**Notes to Statement of Financial Condition**  
**December 31, 2012**

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0.80% per annum and is adjusted quarterly with an effective interest rate that ranged from 1.16% to 1.38% per annum, throughout 2012. There was no outstanding balance as of December 31, 2012.

**9. Income Taxes**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities included in the Statement of Financial Condition at December 31, 2012 are presented below:

Deferred tax assets:	
Reserves	\$ 179 325
Equity based compensation	4,604 421
Deferred compensation	36 826
Depreciation	363 855
Intangibles	1,164 815
Investments in partnership	500 350
Other	<u>20,898 728</u>
Total deferred tax assets	<u>\$ 27,748 320</u>
Deferred tax liabilities:	
Goodwill	\$ 5,304 110
Accrued incentive compensation	<u>2,974 081</u>
Total deferred tax liabilities	<u>\$ 8,278 191</u>
Net deferred tax asset	<u>\$ 19,470 129</u>

The Company has no valuation allowance for deferred tax assets based on management's belief that it is more likely than not that the deferred tax assets will be realized.

The Company has evaluated the requirements of ASC 740, *Income Taxes*. The Company did not have any unrecognized tax benefits and did not have any interest or penalties accrued as of December 31, 2012. The Company is subject to U.S. income taxes as well as various state and local jurisdictions. Tax years subsequent to 2008 are open for examination.

**10. Net Capital Requirements**

The Company is subject to SEC Rule 15c3-1, which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by SEC Rule 15c3-1, which requires that the Company maintain net capital equal to the greater of 2% of aggregate debit items or \$1,000,000.

At December 31, 2012, the Company had net capital of \$131,485,484 which was \$130,485,484 in excess of its minimum net capital requirement of \$1,000,000.

In addition, the Company may not repay subordinated borrowings, pay cash dividends or make any unsecured advances or loans to the Parent or employees if net capital falls below 150% of the firm's net capital minimum dollar requirement.

**11. Benefit Plans**

The Parent offers a 401(k) Savings Plan that permits employees with more than 90 days of service to contribute from 1% to 50% of their cash compensation. For full-time employees who are 21 years of age

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**December 31, 2012**

or older with one year or more of service, the Company makes matching contributions of up to 6% of the employee's compensation.

The Parent has a nonqualified and unfunded deferred compensation arrangement for selected highly compensated employees. The nonqualified plan allows participants to defer compensation and to receive a matching contribution for deferrals into this plan on compensation above the Internal Revenue Code limitations.

Certain employees of the Company participate in the Parent's equity based compensation plans, which provide for the issuance of the Parent's share-related awards, such as stock options and restricted share units. The Parent measures the fair value of each option award on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants awarded in 2012:

**Assumptions:**

Risk-free interest rate	1.5%
Dividend yield	4.4%
Volatility factor	33.00%
Expected life in years	7.00

Fair value of options per share \$ 6.07

The Parent determines the assumptions used in the Black-Scholes option pricing model as follows: the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant; the dividend yield is based on the historical dividend yield of the Parent's stock, adjusted to reflect the expected dividend yield over the expected life of the option; the volatility factor is based on the historical volatility of the Parent's stock, adjusted to reflect the ways in which current information indicates that the future is reasonably expected to differ from the past; and the weighted-average expected life is based on the historical behavior of employees related to exercises, forfeitures and cancellations.

The Parent measures the fair value of restricted share units based on the price of the Parent's common stock on the grant date less the present value of expected dividends that are foregone during the vesting period. Substantially all of the Parent's option awards are granted in February of each year.

The total intrinsic value of the options exercised or restricted share units vested during 2012 was \$2,014,669. The total grant date fair value of equity based awards that vested during 2012 was \$2,565,736.

The following table details the activity during 2012 related to the Parent's stock options awarded to employees of the Company:

	<b>Options</b>	<b>Wtd. Avg. Exercise Price</b>	<b>Aggregate Intrinsic Value</b>	<b>Wtd. Avg. Remaining Life (Years)</b>
Outstanding at beginning of period	1,583,455	\$ 33.51		
Granted	33,726	30.09		
Exercised	(89,183)	22.90		
Forfeited or Expired	(61,700)	36.30		
Outstanding at end of period	1,466,298	33.65	2,204,243	4.8
Exercisable at the end of period	1,147,790	35.53	1,307,804	4.1
Exercisable and expected to vest at the end of period	1,442,285	\$ 33.77	\$ 2,125,191	4.8

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The following table details activity during 2012 related to restricted share units awarded by the Parent to employees of the Company:

	<b>Shares/ Units</b>	<b>Wtd. Avg. Grant-Date</b>
Nonvested at beginning of year	439,040	\$ 18.09
Granted	82,071	29.04
Vested	(74,564)	28.08
Forfeited	(15,207)	19.12
Nonvested at end of year	<u>431,340</u>	<u>\$ 18.77</u>

At December 31, 2012, the Parent's restricted share units had a weighted-average life of 1.32 years. At December 31, 2012, the Company estimates that 386,202 restricted share units will vest over a weighted-average life of 1.33 years.

The Company has an incentive compensation plan under which certain employees receiving large incentive awards receive a portion of their award in cash and have a discretionary portion of their incentive paid through the issuance of restricted common shares of the Parent under terms of the Parent's equity compensation plans. The restricted shares vest evenly over three years from the grant date if the employee meets certain criteria.

## **12. Related Party Transactions**

The Company is a member of a group of affiliated companies and, as described below and in Notes 7, 8 and 14, has extensive transactions and relationships with members of the group. Because of these relationships it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

The Parent and affiliates provide management, consulting and financial services to the Company for an annual fee. Such services include, but are not necessarily limited to, advice and assistance concerning any and all aspects of the operation, planning and financing of the Company, as well as payroll, technology and other administrative services.

At December 31, 2012, the Company had a payable of \$8,117,577 to the Parent for unpaid income tax and such amount is included in Accrued taxes payable on the Statement of Financial Condition.

At December 31, 2012, the Company had several bank accounts with an affiliate with an unrestricted cash balance of \$4,649,386 and cash segregated under federal regulation balance of \$1,489,390. Other miscellaneous receivables from the Parent totaled \$2,226,515 at December 31, 2012 and are included in Receivable from Parent in the Statement of Financial Condition.

During 2012, the Company provided certain underwriting and investment banking services to the Parent.

The Company receives all clearing services from Clearview. Pricing for clearing services are established through mutual agreement between the two companies, and therefore, it is possible that the terms of this pricing arrangement are not the same as those that would result from transactions among wholly unrelated parties.

At December 31, 2012 the Company had a net receivable from Clearview in the amount of \$31,725,184. Included in this amount was \$20,353,662 which was a result of securities purchased and sold through

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Clearview's clearing activities for the Company. The remaining receivable of \$11,371,522 resulted from unsettled operational amounts, such as commissions due to the Company.

The Company provides management, consulting and financial services to Clearview for an annual fee. Such services include, but are not necessarily limited to, advice and assistance concerning any and all aspects of the operation, planning, and financing as well as other administrative services.

The Company has a sublease agreement with Clearview. The sublease agreement contains a cancelable term with no renewal options expiring in 2025.

The Board of Managers approved and the Company subsequently disbursed a dividend of \$40,000,000 to its Parent on April 15, 2012.

**13. Financial Instruments with Off-Statement of Financial Condition Risk**

As a securities broker-dealer, the Company is engaged in various securities trading and brokerage activities that expose the Company to off-Statement of Financial Condition credit and market risk. The Company's principal activities and exposure to credit risk associated with customers not fulfilling their contractual obligations can be directly impacted by volatile trading markets.

Derivatives used for trading purposes are carried at fair value. Fair value for exchange-traded derivatives, principally options, are based on quoted market prices. The Company utilizes derivative financial instruments to manage various financial risks. These derivatives primarily consist of futures contracts. The Company does not designate its derivative financial instruments as hedges under Topic 815 as all financial instruments are recorded at fair value with changes in fair values reflected in earnings. Therefore, certain of the disclosures required under Topic 815 are generally not applicable with respect to these financial instruments. Premiums and unrealized gains and losses for written and purchased options are recognized gross in the Statement of Financial Condition.

Derivative contracts are written in amounts referred to as notional amounts. Notional amounts only provide the basis for calculating payments between counterparties. Notional amounts do not represent amounts to be exchanged between parties, and are not a measure of financial risk. To the extent these transactions are used to hedge other financial instruments, the market risk may be partially or fully mitigated. Credit risk on these contracts arises if counterparties are unable to fulfill their obligations.

As of December 31, 2012, the Company did not hold any derivative financial instruments.

The Company has established credit policies for commitments involving financial instruments with off-Statement-of-Financial-Condition credit risk. Such policies include credit review, approvals, limits and monitoring procedures. Where possible, the Company limits credit risk by generally executing these derivative transactions through regulated exchanges, which are subject to more stringent policies and procedures than over-the-counter transactions.

At December 31, 2012, the Company had receivables under resale agreements and payables under repurchase agreements reflected in the Statement of Financial Condition. The Company had no commitments to enter into future resale and repurchase agreements as of December 31, 2012.

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At December 31, 2012, the carrying value of receivables under resale agreements and approximate fair market values of collateral received that can be sold or re-pledged by the Company were:

	<u>Carrying Value</u>	<u>Market Value of Collateral</u>
Securities purchased under agreements to resell	\$ 121,753,200	\$ 123,215,407
Total sources of collateral	<u>\$ 121,753,200</u>	<u>\$ 123,215,407</u>

At December 31, 2012, the carrying value of payables under repurchase agreements and approximate fair market values of collateral received that were sold or re-pledged by the Company were:

	<u>Carrying Value</u>	<u>Market Value of Collateral</u>
Securities sold under agreements to repurchase	\$ 124,023,792	\$ 127,844,828
Total uses of collateral	<u>\$ 124,023,792</u>	<u>\$ 127,844,828</u>

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, 2012, at the fair value of the related securities and may incur a loss if the market value of the securities increases subsequent to December 31, 2012 and prior to settlement of the transaction.

**14. Commitments and Contingencies**

FASB ASC 460, *Guarantees*, ("Topic 460") requires the Company to disclose information about its obligations under certain guarantee arrangements. Topic 460 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying related to an asset, liability, or equity security of the guaranteed party. Topic 460 also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of indebtedness of others.

In the normal course of business, the Company indemnifies and guarantees its clearing agent, Clearview, against specified potential losses in connection with it acting as an agent of, or providing services to, the Company. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the Statement of Financial Condition for these indemnifications.

In connection with its underwriting activities, the Company enters into firm commitments for the purchase of securities in return for a fee. These commitments require the Company to purchase securities at a specified price. The underwriting of securities exposes the Company to market and credit risk, primarily in the event that, for any reason, securities purchased by the Company cannot be distributed at anticipated price levels. At December 31, 2012, the Company had \$17,000,000 of open underwriting commitments.

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The Company is obligated under non-cancelable operating leases, which contain escalation clauses, for office facilities and equipment expiring on various dates through 2026.

At December 31, 2012, the Company had minimum lease obligations related to these and other non-cancelable operating leases as follows:

For the years ending December 31:	
2013	\$ 7,473,135
2014	7,046,997
2015	6,087,884
2016	5,428,281
2017	4,063,700
Thereafter	25,140,363
Total minimum future payments	<u>\$ 55,240,360</u>

**15. Litigation**

In the ordinary course of business, the Company is subject to a certain amount of claims, litigation, investigations and legal and administrative case proceedings, all of which are considered incidental to the normal course of business. While the outcome of legal proceedings is inherently uncertain, the Company's management believes that such proceedings will not have a material adverse effect on the financial position, results of operations or cash flows of the Company. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Company's financial position, results of operations or cash flows.

**16. Subsequent Events**

On January 1, 2013, the Company entered into a merger agreement with its affiliated clearing broker-dealer, Clearview, which resulted in the Parent contributing the net assets of the Company, including its CHOICE advisory business, to Clearview. The merger of these affiliated companies will provide operating efficiencies. Concurrent with the consummation of this transaction, the name of the combined entity was changed to BB&T Securities, LLC ("BB&T Securities"). The net assets contributed by the Parent were measured by BB&T Securities at the Company's carrying amounts as of the date of the transfer.

On January 1, 2013, BB&T Securities declared a dividend of the net assets related to the CHOICE advisory business, which totaled \$12,487,837, to its parent, BB&T Corporation. The dividend of the net assets of the CHOICE advisory business included \$12,186,670 of goodwill.

The net assets of the CHOICE advisory business were immediately contributed by BB&T Corporation to Sterling Capital Management, LLC ("Sterling Capital"), an affiliated registered investment advisor. In connection with these transactions, BB&T Securities, LLC assigned certain agreements related to the CHOICE advisory business and entered into certain sub-advisory agreements with Sterling Capital.