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

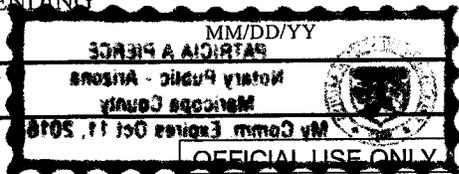
SEC FILE NUMBER
8-52558

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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 01/01/12 AND ENDING 12/31/12  
MM/DD/YY

**A. REGISTRANT IDENTIFICATION**



NAME OF BROKER-DEALER: M.S. Howells & Co.

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

FIRM I.D. NO.

20555 North Pima Road, Suite 100

(No. and Street)

Scottsdale

AZ

85255

(City)

(State)

(Zip Code)

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

Mark Howells

(480) 563-2000

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Spicer Jeffries LLP

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

5251 S. Quebec Street, Suite 200

Greenwood Village

CO

80111

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

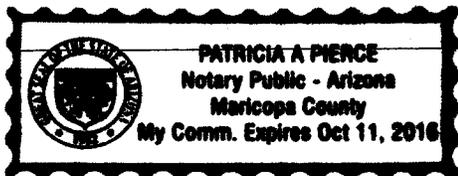
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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

EM  
3/8/13

OATH OR AFFIRMATION

I, Mark Howells, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of M.S. Howells & Co., 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, except as follows:



M. Howells  
Signature  
President  
Title

Patricia A. Pierce  
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 of Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital (including reconciliation of X-17A-5 Part II filing with this Rule 17a-5(d) report, if applicable).
- (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 15c3-3 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.
- (o) Independent Auditors' Report on Internal Accounting Control.

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



M.S. Howells & Co.

**STATEMENTS OF FINANCIAL CONDITION**

**DECEMBER 31, 2012 AND 2011**

The report is filed in accordance with Rule 17a-5(e)(3) under the Securities Exchange Act of 1934 as a **PUBLIC DOCUMENT**.

**M.S. HOWELLS & CO.**

**TABLE OF CONTENTS**

	<u>Page(s)</u>
Independent Auditors' Report	3
Statements of Financial Condition	4
Notes to Statement of Financial Condition	5 - 10



SPICER JEFFRIES LLP

CERTIFIED PUBLIC ACCOUNTANTS

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GREENWOOD VILLAGE, COLORADO 80111

TELEPHONE: (303) 753-1959

FAX: (303) 753-0338

[www.spicerjeffries.com](http://www.spicerjeffries.com)

## INDEPENDENT AUDITORS' REPORT

The Board of Directors of  
M.S. Howells & Co.

### *Report on the Financial Statements*

We have audited the accompanying statements of financial condition of M.S. Howells & Co. (the "Company") as of December 31, 2012 and 2011 that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 under the Commodity Exchange Act ("CEAct") and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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 financial statements.

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 financial statements referred to above presents fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011 in accordance with accounting principles generally accepted in the United States of America.

Greenwood Village, Colorado  
February 8, 2012



**M.S. HOWELLS & CO.**

**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2012 AND 2011**

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 168,868	\$ 378,953
Commissions receivable	134,874	150,468
Deposit with clearing broker	207,065	214,069
Due from clearing brokers	6,767	2,723
Securities owned, at fair value (Notes 1 and 6)	673	137,574
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$441,145 and \$432,236	17,967	25,569
Other assets	120,894	44,188
 <i>Total assets</i>	 <u>\$ 657,108</u>	 <u>\$ 953,544</u>
 <b><u>LIABILITIES AND MEMBER'S EQUITY</u></b>		
<b>LIABILITIES:</b>		
Due to clearing brokers	\$ 34,079	\$ 149,171
Accounts payable and accrued expenses	87,056	111,439
Accrued soft dollar credits (Note 4)	84,813	101,591
Commissions payable	39,023	26,908
 <i>Total liabilities</i>	 <u>244,971</u>	 <u>389,109</u>
 <b>COMMITMENTS AND CONTINGENCIES (Notes 2 and 5)</b>		
<b>SHAREHOLDER'S EQUITY (Note 3):</b>		
Common stock, \$0.01 par value, authorized 3,000 shares, 1,354 shares issued and outstanding	14	14
Additional paid-in capital	1,167,261	1,287,261
Deficit	(755,138)	(722,840)
 <i>Total shareholder's equity</i>	 <u>412,137</u>	 <u>564,435</u>
 <i>Total liabilities and shareholder's equity</i>	 <u>\$ 657,108</u>	 <u>\$ 953,544</u>

The accompanying notes are an integral part of this statement.

M.S. HOWELLS & CO.

NOTES TO FINANCIAL STATEMENTS

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Business**

M.S. Howells & Co. (the "Company") was incorporated in Delaware on April 11, 2000 and is a securities broker-dealer serving primarily institutional investors.

The Company records securities transactions and related revenue and expenses on a trade-date basis.

The Company, under Rule 15c3-3(k)(2)(ii), is exempt from the reserve and possession or control requirements of Rule 15c3-3 of the Securities and Exchange Commission. The Company does not carry or clear customer accounts. Accordingly, all customer transactions are executed and cleared on behalf of the Company by Pershing LLC and Interactive Brokers LLC (collectively the "clearing brokers"), on a fully disclosed basis. The Company's agreement with its clearing brokers provide that as clearing brokers, that firm will make and keep such records of the transactions effected and cleared in the customer accounts as are customarily made and kept by the clearing brokers pursuant to the requirements of Rules 17a-3 and 17a-4 of the Securities and Exchange Act of 1934, as amended (the "Act"). The clearing brokers also perform all services customarily incident thereon, including the preparation and distribution of customer's confirmations and statements and maintenance margin requirements under the Act and the rules of the Self-Regulatory Organizations of which the Company is a member.

**Depreciation**

The Company provides for depreciation of furniture and equipment on the straight-line method based on estimated lives of the assets ranging from four to seven years. Leasehold improvements are amortized over the life of the lease.

**Cash Equivalents**

For purposes of the statements of cash flows, the Company considers all demand deposits and money market funds with an original maturity of three months or less to be cash equivalents.

**Income Taxes**

The Company is recognized as an S-Corporation by the Internal Revenue Service, therefore the Company's shareholder is liable for federal and state income taxes on the Company's taxable income.

M.S. HOWELLS & CO.

**NOTES TO FINANCIAL STATEMENTS**

*(continued)*

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Income Taxes** *(concluded)*

The Company is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any tax related appeals or litigation processes, based on the technical merits of the position. The Company files an income tax return in the U.S. federal jurisdiction, and may file income tax returns in various U.S. states. The Company is not subject to income tax return examinations by major taxing authorities for year before 2009. The tax benefit recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized results in the Company recording a tax liability that reduces net assets. However, the Company's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations. The Company recognizes interest accrued related to unrecognized tax benefits and penalties related to unrecognized tax benefits in income taxes payable, if assessed. No interest expense or penalties have been recognized as of and for the year ended December 31, 2012.

**Fair Value of Financial Instruments**

The Company's financial instruments, including cash, commissions receivable, accrued soft dollars credits, deposits with and due from clearing brokers, receivables, other assets, accounts payable, commissions payable and accrued expenses are carried at amounts that approximate fair value due to the short-term nature of the instruments. Securities owned are valued at market value using quoted market prices.

**Securities Inventory**

The Company adopted the provisions of Accounting Standards Codification 820 – *Fair Value* (“ASC 820”). Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

M.S. HOWELLS & CO.

NOTES TO FINANCIAL STATEMENTS

(continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Securities Inventory (continued)**

Level 1 – Valuations based on adjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and blockage discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the prospective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

The Company values its securities that are freely tradable and are listed on a national securities exchange or reported on the NASDAQ national market at their last sales price as of the last business day of the year. Changes in fair value is reflected in the Company's statement of operations.

M.S. HOWELLS & CO.

**NOTES TO FINANCIAL STATEMENTS**  
(continued)

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)**

**Securities Inventory (concluded)**

Many cash and over-the-counter (OTC) contracts have bid-and-ask prices that can be observed in the marketplace. Bid prices reflect the highest price that the marketplace participants are willing to pay for an asset. Ask prices represent the lowest price that the marketplace participants are willing to accept for an asset. For securities whose inputs are based on bid-ask prices, the Company's policy for securities traded in the OTC markets and listed securities for which no sale was reported on that date are valued at their last reported "bid" price if held long, and last reported "asked" price if sold short. The Company considers these investments level 1 securities for active markets and level 2 securities for thinly traded markets.

**Estimates**

The preparation 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - COMMITMENTS AND RELATED PARTY TRANSACTIONS**

The Company leases office space and equipment under various operating leases expiring through 2015. Future minimum lease payments under the noncancellable leases as of December 31, 2012 are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 308,860
2014	104,498
2015	<u>10,262</u>
	<u>\$ 423,620</u>

For the years ended December 31, 2012 and 2011, total rental expense for operating leases was \$115,942 and \$102,148, respectively.

During the years ended December 31, 2012 and 2011, the Company generated approximately \$66,000 and \$1,200, respectively, net of its commission revenue from transactions with related parties.

**M.S. HOWELLS & CO.**

**NOTES TO FINANCIAL STATEMENTS**

*(continued)*

**NOTE 3 - NET CAPITAL REQUIREMENTS**

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. In addition, as an independent introducing broker, the Company is subject to minimum capital requirements of \$45,000 or \$3,000 per associated person adopted and administered by the CFTC. At December 31, 2012, the Company had net capital and net capital requirements of \$265,836 and \$100,000, respectively. The Company's net capital ratio (aggregate indebtedness to net capital) was 0.92 to 1. According to Rule 15c3-1, the Company's net capital ratio shall not exceed 15 to 1.

**NOTE 4 - SOFT DOLLAR CREDITS**

The Company has negotiated soft dollar arrangements with various investment managers whereby a portion of the brokerage commissions earned by the Company are used to cover certain costs of research and various services. The Company has the ability to reject any costs or expenses submitted by the investment managers.

**NOTE 5 - FINANCIAL INSTRUMENTS, OFF-BALANCE SHEET RISK AND CONTINGENCIES**

In the normal course of business, the Company's client activities ("clients") through its clearing broker involve the execution, settlement and financing of various client securities transactions. These activities may expose the Company to off-balance sheet risk. In the event the client fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the client's obligations.

The Company is involved in other disputes arising in the normal course of business, some of which are in the preliminary or early stages. In certain of these matters, large amounts are sought. Management, after review and discussion with legal counsel, believes the Company has meritorious defenses and intends to vigorously defend itself in these various matters, but it is not feasible to predict the final outcomes at the present time.

The Company bears the risk of financial failure by its clearing brokers. If the clearing brokers should cease doing business, the Company's deposit and receivable from these clearing brokers could be subject to forfeiture.

In the Company's trading activities, the Company has purchased securities for its own account and may incur losses if the market value of the securities decreases subsequent to December 31, 2012.

M.S. HOWELLS & CO.

**NOTES TO FINANCIAL STATEMENTS**

*(concluded)*

**NOTE 6 - FAIR VALUE MEASUREMENTS**

The Company's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 1 for a discussion of the Company's policies.

The following table presents information about the Company's assets measured at fair value as of December 31, 2012 and 2011:

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Balance as of December 31, 2012</b>
Common stock	\$ -	\$ 673	\$ -	\$ 673
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Balance as of December 31, 2011</b>
Common stock	\$ 137,574	\$ -	\$ -	\$ 137,574

The Company did not have any significant transfers between Level 1 and Level 2 during the year ended December 31, 2012.

**NOTE 7 - SUBSEQUENT EVENTS**

The Company has performed an evaluation of subsequent events through the date of the financial statements were available to be issued. The evaluation did not result in any additional subsequent events that required disclosures and/or adjustments.