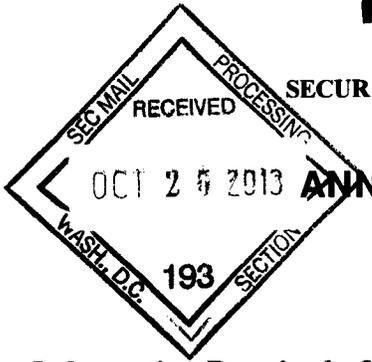


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OMB APPROVAL	
OMB Number:	3235-0123
Expires:	March 31, 2016
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
8-18805

# 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 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 9/1/2012 AND ENDING 8/31/2013  
MM/DD/YY MM/DD/YY

### A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Joe Jolly & Company, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

420 North 20th Street, 2350 Wells Fargo Tower

(No. and Street)

Birmingham

Alabama

35203

(City)

(State)

(Zip Code)

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

Carol A. Pilleteri, FinOP

(205) 252-2105

(Area Code - Telephone Number)

### B. ACCOUNTANT IDENTIFICATION

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

Sellers, Richardson, Holman & West, LLP

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

216 Summit Blvd., Suite 300

Birmingham

Alabama

35243

(Address)

(City)

(State)

(Zip Code)

#### CHECK ONE:

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

**FOR OFFICIAL USE ONLY**

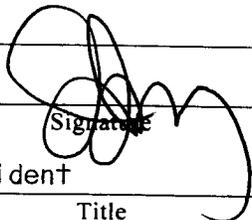
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

DD  
11/15/13

OATH OR AFFIRMATION

I, Joe Jolly, Jr., swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Joe Jolly & Company, Inc. of August 31, 20 13, 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:

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

  
\_\_\_\_\_  
Signature  
President  
\_\_\_\_\_  
Title

  
Notary Public  
NOTARY PUBLIC STATE OF ALABAMA AT LARGE  
MY COMMISSION EXPIRES: Aug 12, 2015  
BONDED THRU NOTARY PUBLIC UNDERWRITERS

- 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).

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC**

**AUDITED STATEMENT OF FINANCIAL CONDITION**

DATE—August 31, 2013



Joe Jolly & Company, Inc.  
(Name of Respondent)

420 North 20<sup>th</sup> Street, 2350 Wells Fargo Tower, Birmingham, Alabama 35203  
(Address of principal executive office)

Joe Jolly, Jr.

President

Joe Jolly & Company, Inc.

420 North 20<sup>th</sup> Street, 2350 Wells Fargo Tower

Birmingham, Alabama 35203

(Name and address of person authorized to receive notices and communications from the  
Securities and Exchange Commission)

# JOE JOLLY & COMPANY, INC.

## Table of Contents

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SELLERS RICHARDSON HOLMAN & WEST<sup>LLP</sup>

216 Summit Boulevard | Suite 300 | Birmingham, AL 35243 | 205-278-0001 Main | 205-278-0003 Fax | [www.srhwcpa.com](http://www.srhwcpa.com)

CERTIFIED PUBLIC ACCOUNTANTS

ADVISORY | AUDIT | TAX

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Joe Jolly & Company, Inc.  
Birmingham, Alabama

### Report on the Financial Statement

We have audited the accompanying statement of financial condition of Joe Jolly & Company, Inc. (Company) as of August 31, 2013 that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the financial statement.

### Management's Responsibility for the Financial Statement

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

### Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 statement.

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 statement referred to above presents fairly, in all material respects, the financial position of Joe Jolly & Company, Inc. as of August 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

*Sellers Richardson Holman & West, LLP*

October 24, 2013

# JOE JOLLY & COMPANY, INC.

## Statement of Financial Condition August 31, 2013

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### Assets

Cash	\$ 1,457,773
Receivables	
Muni syndicate profit	73,547
Employee advances	57,350
Interest	52,433
Corporate income taxes	5,983
Note receivable—stockholder	1,000,000
Securities owned	4,856,649
Property and equipment, net	89,797
Deferred income taxes	95,037
Investments in oil and gas wells, not readily marketable	25,000
Cash surrender value of life insurance	121,768
Other assets	115,650
	<hr/>
Total assets	<u>\$ 7,950,987</u>

### Liabilities and Stockholders' Equity

#### Liabilities

Accounts payable	\$ 4,531
Accrued commission expense	81,000
Accrued expenses and other liabilities	31,989
Deferred income taxes	69,586
	<hr/>
	187,106

#### Commitments (Note 6)

#### Stockholders' Equity

Common stock, \$100 par value; 250 shares authorized, 100 shares issued and outstanding	10,000
Retained earnings	7,753,881
	<hr/>
	7,763,881

Total liabilities and stockholders' equity	<u>\$ 7,950,987</u>
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# JOE JOLLY & COMPANY, INC.

## Notes to Statement of Financial Condition

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### **Note 1. Nature of Business and Summary of Significant Accounting Policies**

#### **Nature of Business**

Joe Jolly & Company, Inc. (Company) is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority. The Company provides underwriting and various other investment banking services. The Company's broker-dealer operations do not carry security accounts for customers or perform custodial functions relating to customer securities. The Company clears all transactions through another broker-dealer. The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (GAAP) and to general practice within the brokerage industry.

#### **Basis of Accounting**

The Company reports the results of its operations and its financial condition using the accrual basis of accounting.

#### **Use of Estimates**

The preparation of financial statements in conformity with GAAP 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. Accordingly, actual results could differ from these estimates.

#### **Revenue Recognition and Securities Owned**

Securities transactions and related gains, losses, and expenses are recorded on a settlement date basis by the Company. To conform to GAAP, the audited financial statements are adjusted to trade date accounting where appropriate. Amounts receivable and payable for securities transactions that have not reached their settlement date are recorded on the statement of financial condition. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

The Company reviews securities owned for impairment and determines whether any impairment is other-than-temporary. The Company considers an impairment to be other-than-temporary when it is more likely than not that the securities owned will be liquidated at an amount less than its cost basis. Any other-than-temporary impairments are recognized as realized losses from securities owned. Any subsequent increase in fair value would be recognized as unrealized gains from securities owned.

#### **Cash and Cash Equivalents**

For purposes of reporting cash flows, the Company considers all liquid investments purchased with an original maturity of three months or less to be cash equivalents. As of August 31, 2013, there were no cash equivalents.

## JOE JOLLY & COMPANY, INC.

### Notes to Statement of Financial Condition

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#### Property and Equipment, Net

Property and equipment are stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred, and renewals and betterments are capitalized and depreciated over the estimated useful lives of the related assets. Gains and losses on disposals are credited or charged to operations.

Depreciation is computed principally using the straight-line method designed to amortize costs over the following estimated useful lives:

<u>Description</u>	<u>Useful Lives (in years)</u>
Building	30
Furniture and fixtures	3 to 8
Automotive	5
Leasehold improvements	40

Property and equipment, net of accumulated depreciation, consist of the following as of August 31, 2013:

Building	\$ 52,048
Furniture and fixtures	217,653
Automotive	131,167
Leasehold improvements	6,082
Accumulated depreciation	<u>(317,153)</u>
	<u>\$ 89,797</u>

Depreciation expense amounted to \$27,150 for the year ended August 31, 2013.

#### Risks and Uncertainties

Marketable securities and other investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the Company's financial position.

#### Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, net operating losses, and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all

## **JOE JOLLY & COMPANY, INC.**

### **Notes to Statement of Financial Condition**

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of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The guidance on uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance as of August 31, 2013. With few exceptions, the Company is not subject to examination by federal and state tax authorities for years prior to fiscal year 2010.

#### **Advertising Costs**

The Company expenses all advertising costs during the period in which they are incurred. During 2013, the Company charged \$2,367 to advertising expense.

#### **Subsequent Events**

Subsequent events have been evaluated for potential recognition and disclosure through October 24, 2013, which represents the date the financial statements were available for issuance.

#### **Recently Issued Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which converged the definition of fair value with that of the International Financial Reporting Standards (IFRSs) and substantially converged the requirements for measurement and disclosure. Nonpublic entities must disclose the facts and reasoning for the use of an asset that differs from the highest and best use. For nonpublic entities, the requirements of ASU 2011-04 are effective for annual periods beginning after December 15, 2011, with early adoption permitted for interim periods beginning after that date. The adoption of ASU 2011-04 had no impact on the Company's financial position.

In October 2012, the FASB issued ASU 2012-04, *Technical Corrections and Improvements*, which clarifies the FASB Codification or corrects unintended application of guidance and includes amendments identifying when the use of fair value should be linked to the definition of fair value in Topic 820, *Fair Value Measurement*. Amendments to the FASB Codification without transition guidance are effective upon issuance for both public and nonpublic entities. For nonpublic entities, amendments subject to transition guidance will be effective for fiscal periods beginning after December 15, 2013. The adoption of ASU 2012-04 is not expected to have an impact on the Company's financial position.

# JOE JOLLY & COMPANY, INC.

## Notes to Statement of Financial Condition

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### Note 2. Uninsured Cash Balances

The Company maintains its cash balances at high credit quality financial institutions. At various times throughout the year ended August 31, 2013, the Company had cash on deposit with financial institutions in excess of federal depository insurance limits. The Company has not experienced and does not anticipate any credit losses on these deposits.

### Note 3. Muni Syndicate Profit Receivables

Muni syndicate profit receivables represent amounts due for security transactions with a trade date before August 31, 2013. These receivables amounted to \$73,547 for the year ended August 31, 2013.

### Note 4. Securities Owned and Investments in Oil and Gas Wells, Not Readily Marketable

Dealer inventory and investment securities are carried at market value and consist of the following as of August 31, 2013:

	<u>Market Value</u>	<u>Cost</u>
Certificate of deposit	\$ 122,804	\$ 122,025
State and municipal obligations	<u>4,733,845</u>	<u>4,762,164</u>
	<u>\$ 4,856,649</u>	<u>\$ 4,884,189</u>

Investments in oil and gas wells are not readily marketable and are carried at their estimated recoverable cost.

### Note 5. Fair Value Measurements

Under the FASB's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 — Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2 — Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined

## JOE JOLLY & COMPANY, INC.

### Notes to Statement of Financial Condition

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using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

- Level 3 — Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

The Company has various processes and controls in place to ensure that fair value is reasonably estimated. A model validation policy governs the use and control of valuation models used to estimate fair value. This policy requires review and approval of models, and periodic re-assessments of models to ensure that they are continuing to perform as designed. Where market information is not available to support internal valuations, independent reviews of the valuations are performed and any material exposures are escalated through a management review process.

While the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the year ended August 31, 2013, there were no changes to the Company's valuation techniques that had, or are expected to have, a material impact on its financial position or results of operations.

The following is a description of the valuation methodologies used for instruments measured at fair value:

*Certificate of deposit:* Valued at the exact runoff of principal, given its contractual maturity, discounted at the appropriate term rate.

*State and municipal obligations:* Valued at the closing price of identical or similar municipal bonds reported on the active market in which the individual securities are traded.

*Cash surrender value of life insurance:* Valued at cash surrender value, which approximates fair value.

The following table sets forth by level, within the fair value hierarchy, the Company's financial assets at fair value as of August 31, 2013:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificate of deposit	\$ 122,804	\$ -	\$ 122,804	\$ -
State and municipal obligations	4,733,845	-	4,733,845	-
Cash surrender value of life insurance	<u>121,768</u>	<u>-</u>	<u>121,768</u>	<u>-</u>
Total assets at fair value	<u>\$ 4,978,417</u>	<u>\$ -</u>	<u>\$ 4,978,417</u>	<u>\$ -</u>

The Company recognizes transfers into and out of levels at the end of the reporting period. There were no transfers between levels during the year ended August 31, 2013.

# JOE JOLLY & COMPANY, INC.

## Notes to Statement of Financial Condition

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### Note 6. Commitments

The Company leases various office facilities under operating leases expiring through November 2014. One lease agreement contains an escalation clause, which increases the base rental by the percentage change in the consumer price index annually.

Aggregate minimum future lease commitments are as follows:

Year ending August 31,	
2014	\$ 85,029
2015	21,257
	<hr/>
	\$ 106,286
	<hr/>

Rental expense for the year ended August 31, 2013 is \$91,392.

### Note 7. Profit Sharing Plan

The Company sponsors a noncontributory profit sharing plan that covers substantially all employees. Contributions to the plan are made at the sole discretion of the Company's Board of Directors and are influenced by tax regulations. No contributions were made to the plan during the year ended August 31, 2013.

### Note 8. Line of Credit

On March 5, 2013, the Company entered into a revolving line of credit agreement with a financial institution for a maximum borrowing capacity of \$10,000,000, with the balance subject to interest at the greater of prime rate or 3.5 percent. The line of credit matures on March 5, 2014. During the year ended August 31 2013, the Company utilized the line of credit to purchase securities. At August 31, 2013, the Company had no outstanding unpaid principal or interest related to the line of credit. Interest expense relating to the line of credit was \$9,971 for the year ended August 31, 2013.

### Note 9. Related Party Transactions

During 2013, a stockholder purchased seven security issues from the Company for a total purchase price of \$1,179,566. Such transactions were made in the ordinary course of business on substantially the same terms and conditions as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve any credit risk or present other unfavorable features.

The Company has a note receivable from a stockholder, secured by certain property owned by a stockholder, which states that the stockholder agrees to pay the Company a principal sum of \$1,000,000 with interest on the unpaid balance. Accrued interest will be due and payable on August 31 of each year at a rate of 4.0 percent, with the entire principal and interest balance due and payable in full on August 31, 2017. The balance of the note receivable as of August 31, 2013 is \$1,000,000.

In addition, the Company maintains a split-dollar life insurance agreement with a stockholder. Under the terms of this agreement, the Company maintains a \$200,000 insurance policy on the stockholder's life.

## JOE JOLLY & COMPANY, INC.

### Notes to Statement of Financial Condition

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Upon death of the stockholder, the Company is entitled to recover the greater of cash value or premiums paid. The cash surrender value of life insurance as of August 31, 2013 is \$121,768.

#### Note 10. Income Taxes

Net deferred tax assets and liabilities consist of the following components as of August 31, 2013:

Deferred tax assets:	
Impairment of investments in oil and gas wells	\$ 41,704
Property and equipment	8,218
Charitable contribution carryforward	147
Net operating loss carryforward	<u>44,968</u>
	<u>\$ 95,037</u>
Deferred tax liabilities:	
Market value adjustment for securities owned— held for investment	\$ 24,315
Depreciation related to investments in oil and gas wells	<u>45,271</u>
	<u>\$ 69,586</u>

The provision for income taxes is as follows for the year ended August 31, 2013:

	<u>2013</u>
Deferred:	
Federal	\$ 83,157
State	<u>17,005</u>
Total provision for income taxes	<u>\$ 100,162</u>

The difference between the provision for income taxes and the amount computed by applying the maximum statutory rates to income, before the provision for income taxes, is principally the effect of tax brackets, tax-exempt income, and non-deductible expenses. The Company recognized no amounts of interest and penalties for the year ended August 31, 2013. At August 31, 2013, the Company had a tax net operating loss carryforward expiring in 2033 of \$117,114 for federal and state income tax purposes.

## **JOE JOLLY & COMPANY, INC.**

### **Notes to Statement of Financial Condition**

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#### **Note 11. Regulatory Requirements**

As a registered broker-dealer, the Company is subject to the SEC's uniform net capital rule. The Company is prohibited from engaging in any securities transactions when its "net capital" is less than the greater of \$100,000 or 6-2/3 percent of its "aggregate indebtedness." At August 31, 2013, the Company had net capital of \$6,300,426, which was \$6,180,426 in excess of the minimum of net capital required.

#### **Note 12. Annual Audit Report**

The audited financial statements of the Company for the most recent audit period are available at the principal office of the Company, and will be mailed upon written request pursuant to SEC Rule 17a-5.



SELLERS RICHARDSON HOLMAN & WEST<sup>LLP</sup>

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CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
REQUIRED BY SEC RULE 17A-5(G)(1) FOR A BROKER-DEALER  
CLAIMING AN EXEMPTION FROM SEC RULE 15C3-3**

Board of Directors  
Joe Jolly & Company, Inc.  
Birmingham, Alabama

In planning and performing our audit of the financial statements of Joe Jolly & Company, Inc. (Company), as of and for the year ended August 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (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 the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

An independently Owned Member  
**MCGLADREY ALLIANCE**

 **McGladrey**

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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

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

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

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined 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 August 31, 2013, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, 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.

*Sellers Richardson Holman & West, LLP*

October 24, 2013



SELLERS RICHARDSON HOLMAN & WEST<sup>LLP</sup>

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Birmingham, AL 35243  
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