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

| SEC FILE NUMBER |
|-----------------|
| 8- 38999        |

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 01/01/2013 AND ENDING 12/31/2013  
MM/DD/YY MM/DD/YY

### A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: First Winston Securities, Inc.

| OFFICIAL USE ONLY |
|-------------------|
| FIRM I.D. NO.     |

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

121-E Reynolda Village

(No. and Street)

Winston-Salem

North Carolina

27106

(City)

(State)

(Zip Code)

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

William F. Marshall

336-761-1900

(Area Code - Telephone Number)

### B. ACCOUNTANT IDENTIFICATION

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

Butler and Burke, LLP, CPA's

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

100 Club Oaks Court, Suite A Winston-Salem, North Carolina

27104

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

FOR OFFICIAL USE ONLY

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

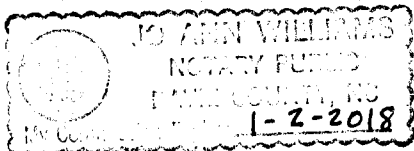
SEC 1410 (06-02)

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3/8/14

OATH OR AFFIRMATION

I, William F. Marshall, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of First Winston Securities, Inc., as of December 31, 2013, 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:



William F. Marshall  
Signature  
PRESIDENT  
Title

Jo Ann Williams  
Notary Public  
Jo Ann Williams

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.
- (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).

**FIRST WINSTON SECURITIES, INC.**

**Financial Statements**

**December 31, 2013**

**BUTLER # BURKE**

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Stockholders and Directors  
First Winston Securities, Inc.  
Winston-Salem, North Carolina

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of First Winston Securities, Inc. (the Company), which comprise the statement of financial condition as of December 31, 2013, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, 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 U.S. generally accepted accounting principles; 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.

*Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditors consider 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 present fairly, in all material respects, the financial position of First Winston Securities, Inc. as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

*Butler # Burke LLP*

Winston-Salem, North Carolina  
January 30, 2014

100 CLUB OAKS CT, SUITE A  
WINSTON SALEM, NC 27104

ph 336 768 2300 fx 336 768 8573

WWW.BUTLERANDBURKECPA.COM

**FIRST WINSTON SECURITIES, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
**December 31, 2013**

---

**ASSETS**

|  |           |                         |
|--|-----------|-------------------------|
| Cash and cash equivalents                  | \$        | 519,096                 |
| Interest receivable on bonds               |           | 6,643                   |
| Securities owned:                          |           |                         |
| State and municipal government obligations |           | 579,031                 |
| Stocks and warrants                        |           | 59,700                  |
| Property and equipment, net                |           | 14,318                  |
| Other assets                               |           | <u>11,302</u>           |
| <b><u>TOTAL ASSETS</u></b>                 | <b>\$</b> | <b><u>1,190,090</u></b> |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|   |           |                         |
|---|-----------|-------------------------|
| Liabilities   | \$        | <u>-</u>                |
| Stockholders' Equity  |           |                         |
| Common stock, no par value, 100,000 shares<br>authorized; 2,002 shares issued and outstanding |           | 270,887                 |
| Retained earnings   |           | <u>919,203</u>          |
| <b><u>Total Stockholders' Equity</u></b>  |           | <b><u>1,190,090</u></b> |
| <b><u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>                                      | <b>\$</b> | <b><u>1,190,090</u></b> |

**FIRST WINSTON SECURITIES, INC.**  
**STATEMENT OF INCOME**  
**For the Year Ended December 31, 2013**

---

**REVENUE**

|   |                  |
|---|------------------|
| Gains on firm securities trading accounts (debt securities) | \$ 1,335,489     |
| Other revenue   | <u>29,531</u>    |
| <u>Total Revenue</u>  | <u>1,365,020</u> |

**EXPENSES**

|  |                  |
|--|------------------|
| Registered representative's compensation                 | 890,413          |
| Clerical and administrative employees' expenses          | 86,667           |
| Salaries and other employment costs for general partners | 156,000          |
| Clearance fees   | 39,627           |
| Communications   | 94,354           |
| Occupancy and equipment costs                            | 49,251           |
| Interest expense   | 541              |
| Data processing costs                                    | 11,111           |
| Regulatory fees and expenses                             | 11,080           |
| Other expenses   | <u>121,597</u>   |
| <u>Total Expenses</u>                                    | <u>1,460,641</u> |

**NET LOSS** \$ (95,621)

**FIRST WINSTON SECURITIES, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For the Year Ended December 31, 2013**

---

|                               | <u>Common Stock</u> | <u>Retained<br/>Earnings</u> | <u>Total</u>        |
|-------------------------------|---------------------|------------------------------|---------------------|
| Balances at January 1, 2013   | \$ 270,887          | \$ 1,040,824                 | \$ 1,311,711        |
| Net Loss                      | -                   | (95,621)                     | (95,621)            |
| Dividends Paid                | -                   | (26,000)                     | (26,000)            |
| Balances at December 31, 2013 | <u>\$ 270,887</u>   | <u>\$ 919,203</u>            | <u>\$ 1,190,090</u> |



**FIRST WINSTON SECURITIES, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2013**

---

**OPERATING ACTIVITIES**

|   |                |
|---|----------------|
| Net loss  | \$ (95,621)    |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                |
| Depreciation  | 2,776          |
| (Increase) decrease in operating assets:  |                |
| Securities owned, net   | 1,000,921      |
| Interest receivable   | 9,903          |
| Other assets  | <u>(8,212)</u> |
| <u>Net Cash Provided by Operating Activities</u>                                | <u>909,767</u> |

**INVESTING ACTIVITIES**

|  |                |
|--|----------------|
| Capital expenditures                         | <u>(8,787)</u> |
| <u>Net Cash Used in Investing Activities</u> | <u>(8,787)</u> |

**FINANCING ACTIVITIES**

|  |                  |
|--|------------------|
| Change in bank overdraft                                     | (3,381)          |
| Payments on secured short term bank loans, net of borrowings | (352,503)        |
| Dividends paid   | <u>(26,000)</u>  |
| <u>Net Cash Used in Financing Activities</u>                 | <u>(381,884)</u> |

**INCREASE IN CASH AND CASH EQUIVALENTS** 519,096

Cash and Cash Equivalents, Beginning -

Cash and Cash Equivalents, Ending \$ 519,096

**SUPPLEMENTAL INFORMATION**

Interest paid \$ 541

# FIRST WINSTON SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENTS

---

### NOTE A: ORGANIZATION AND NATURE OF BUSINESS

First Winston Securities, Inc. is registered as a dealer pursuant to Section 15(b) of the Securities Exchange Act of 1934. The Company deals primarily in municipal bonds and performs underwriting services only as a participating underwriter. The Company's customers are generally located in North Carolina.

### NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Accounting

The financial statements of the Company have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

#### Securities Transactions

Securities transactions (and related revenues and expenses) are recorded on a settlement date basis, generally the third business day following the trade date.

#### Securities

Marketable securities owned by the Company are valued at fair market value. Net unrealized gains and losses are reflected in operations. Securities not readily marketable are valued at fair value as determined by management.

#### Underwriting Service

Underwriting fees or expenses are recognized when the underwriting is completed and the income or expense is reasonably determinable.

#### Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with original maturity dates of less than three months. These accounts at times may exceed federally insured limits. The Company has not experienced any losses on these accounts and management does not believe it is exposed to any significant credit risk.

#### Receivables From and Payables to Customers and Dealers

Amounts receivable from and payable to customers and dealers represent the contract amount of securities which have not been received or delivered by the settlement date.

#### Property and Depreciation

Property is recorded at cost. Depreciation is generally computed using accelerated methods over estimated useful lives of five to seven years.

**FIRST WINSTON SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements**

Financial assets and liabilities required to be measured on a recurring basis (at least annually) are classified under a three-tier hierarchy. Fair value is the amount that would be received to sell an asset, or paid to settle a liability, in an orderly transaction between market participants at the measurement date.

The classification of assets and liabilities within the hierarchy is based on whether inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data. See Note G for assets measured at fair value on a recurring basis.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Subsequent Events**

The Company has evaluated its subsequent events (events occurring after December 31, 2013) through the date of this report, which represents the date the financial statements were available to be issued and determined that all significant events and disclosures are included in the financial statements.

**Income Taxes**

The Company has elected to be taxed under the provision of Subchapter S of the Internal Revenue Code. Accordingly, the financial statements do not include a provision for income taxes because the Company does not incur federal or state income taxes. Instead, its earnings and losses are included in the stockholders' personal income tax returns and are taxed based on their personal tax strategies. For the tax years 2009 through 2012, which remain subject to examination by taxing authorities, the Company has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2013.

**NOTE C: PROPERTY AND EQUIPMENT**

Property and equipment is summarized as follows at December 31, 2013:

|                                |    |                 |
|--------------------------------|----|-----------------|
| Office furniture and equipment | \$ | 50,283          |
| Less: accumulated depreciation |    | <u>(35,965)</u> |
|                                | \$ | <u>14,318</u>   |

Depreciation expense for the year ended December 31, 2013 was \$2,776.

**FIRST WINSTON SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE D: SHORT TERM BANK LOANS**

At December 31, 2013, the Company had an agreement with a bank to borrow funds of up to \$10,000,000 as needed on a secured basis to carry inventory and to cover failed transactions. The loan is fully collateralized by the Company's trading inventory. Interest on these loans is charged at the bank's adjusted LIBOR plus 2.5%, but not less than 4.0%. At December 31, 2013, there was no outstanding loan balance. The agreement with the bank expired in April 2013, but was subsequently renewed under similar terms through April 2015.

**NOTE E: COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Company enters into underwriting commitments and when-issued contracts. At December 31, 2013, the Company expected no losses from such open commitments.

**NOTE F: LEASES**

The Company leases its office space and certain office equipment under noncancellable operating leases expiring through October, 2015. Future minimum lease payments under the terms of these agreements are as follows at December 31, 2013:

|      |    |               |
|------|----|---------------|
| 2014 | \$ | 26,631        |
| 2015 |    | <u>19,516</u> |
|      | \$ | <u>46,147</u> |

Rent expense under all leases was \$124,416 during the year ended December 31, 2013.

**NOTE G: FAIR VALUE MEASUREMENTS**

Valuation techniques used to measure fair values are prioritized into the following hierarchy:

**Level 1** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

**Level 2** Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**FIRST WINSTON SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE G: FAIR VALUE MEASUREMENTS (CONTINUED)**

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used by the Company for assets measured at fair value:

- **Securities Owned - Stocks and Warrants:** Valued at the closing price reported on the active market on which the individual securities are traded. These stocks and warrants are generally classified as level 1 in the fair value hierarchy.
- **Securities Owned - Municipal Bonds:** The fair value of municipal bonds is derived using recent trade activity, market price quotations and new issuance levels. In the absence of this information, fair value is calculated using comparable bond credit spreads. Current interest rates, credit events, and individual bond characteristics such as coupon, call features, maturity, and revenue purpose are considered in the valuation process. These bonds are generally classified as Level 2 in the fair value hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, 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 fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Company's assets measured at fair value on a recurring basis as of December 31, 2013:

| Assets:                    | Level 1   | Level 2    | Level 3 | Total      |
|----------------------------|-----------|------------|---------|------------|
| <b>Securities owned</b>    |           |            |         |            |
| Stocks and warrants        | \$ 59,700 | \$ -       | \$ -    | \$ 59,700  |
| Municipal bonds            |           |            |         |            |
| North Carolina             | -         | 386,475    | -       | 386,475    |
| Other                      | -         | 192,556    | -       | 192,556    |
|                            | -         | 579,031    | -       | 579,031    |
| <br>                       |           |            |         |            |
| Total assets at fair value | \$ 59,700 | \$ 579,031 | \$ -    | \$ 638,731 |

**NOTE H: MINIMUM NET CAPITAL REQUIREMENTS**

The Company, as a registered securities broker-dealer, is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1). This rule prohibits a broker-dealer from engaging in any securities transaction when its aggregate indebtedness exceeds 15 times its net capital, as those terms are defined by the rule. At December 31, 2013, the Company had net capital of \$1,135,235 which exceeded its required net capital of \$100,000 and its net capital ratio was 0.0 to 1.

Stockholders and Directors  
First Winston Securities, Inc.  
Winston-Salem, North Carolina

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION  
REQUIRED BY RULE 17a-5 OF THE SECURITIES EXCHANGE ACT OF 1934**

We have audited the financial statements of First Winston Securities, Inc. as of and for the year ended December 31, 2013, and have issued our report thereon dated January 30, 2014, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information contained in Schedules I and II, required by Rule 17a-5 under the Securities Exchange Act of 1934, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information in Schedules I and II has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information in Schedules I and II is fairly stated in all material respects in relation to the financial statements as a whole.

*Butler & Burke, LLP*

Winston-Salem, North Carolina  
January 30, 2014

**FIRST WINSTON SECURITIES, INC.****SCHEDULE I - COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE****COMMISSION****December 31, 2013****NET CAPITAL**

|   |                  |
|---|------------------|
| Total Stockholders' Equity                                  | \$ 1,190,090     |
| Deduct Stockholders' Equity not Allowable for Net Capital   | <u>-</u>         |
| <b>Total Stockholders' Equity Qualified for Net Capital</b> | <b>1,190,090</b> |

**Add:**

|   |                  |
|---|------------------|
| Subordinated borrowings allowable in computation of net capital | -                |
| Other (deductions) or allowable credits                         | <u>-</u>         |
| <b>Total Capital and Allowable Subordinated Liabilities</b>     | <b>1,190,090</b> |

**Deductions and/or Charges:**

|  |                  |
|--|------------------|
| Nonallowable assets  |                  |
| Property and equipment, net                                | <u>(14,318)</u>  |
| <b>Net Capital Before Haircuts on Securities Positions</b> | <b>1,175,772</b> |

**Haircuts on Securities**

|  |                |
|--|----------------|
| State and municipal government obligations | (31,582)       |
| Stocks and warrants                        | <u>(8,955)</u> |

**NET CAPITAL** **\$ 1,135,235**

**AGGREGATE INDEBTEDNESS**

**\$ -**

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

Net Capital Required **\$ 100,000**

Excess Net Capital **\$ 1,035,235**

Ratio of Aggregate Indebtedness to Net Capital **0.00 to 1**

**NOTE:** There is no material difference in net capital computed in this report and that reported by the Company in Part II of Form X-17A-5 as of December 31, 2013.

**FIRST WINSTON SECURITIES, INC.**

**SCHEDULE II - COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS UNDER RULE 15c3-3  
OF THE SECURITIES AND EXCHANGE COMMISSION**

**December 31, 2013**

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The Company is exempt from this requirement under SEC Rule 15c3-3(k)(2)(A) – “Special Account for the Exclusive Benefit of Customers” maintained.



Stockholders and Directors  
First Winston Securities, Inc.  
Winston-Salem, North Carolina

**REPORT ON INTERNAL CONTROL REQUIRED BY  
SEC RULE 17a-5(g)(1) FOR A BROKER-DEALER  
CLAIMING AN EXEMPTION FROM SEC RULE 15c3-3**

In planning and performing our audit of the financial statements of First Winston Securities, Inc. (the Company), as of and for the year ended December 31, 2013 in accordance with U.S. generally accepted auditing standards, 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 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 previously 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 the transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

*A 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 and correct misstatements on a timely basis. *A significant deficiency* is a deficiency, or a 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 paragraph and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined previously.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 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.

*Butler & Burke LLP*

Winston-Salem, North Carolina  
January 30, 2014