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

SEC FILE NUMBER  
8- 21937

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: Dougherty & Company LLC

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

90 South Seventh Street Suite 4300

(No. and Street)

Minneapolis

MN

55402

(City)

(State)

(Zip Code)

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

Michelle Sandberg

(612) 376-4027

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

Ernst & Young LLP

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

1400 Pillsbury Center

Minneapolis

MN

55402

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

SEC  
Mail Processing  
Section  
MAR 04 2014

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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)

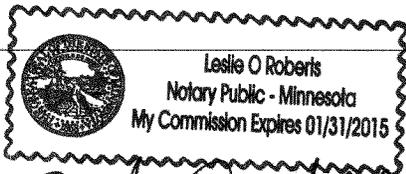
SEC 1410 (06-02)

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AB  
3/28

OATH OR AFFIRMATION

I, Michelle M. Sandberg, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Dougherty & Company LLC, 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:



[Signature]
Notary Public

[Signature]
Signature
Chief Financial Officer
Title

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).

STATEMENT OF FINANCIAL CONDITION

Dougherty & Company LLC

December 31, 2013

With Report of Independent Registered Public Accounting Firm

Ernst & Young LLP



Building a better  
working world

Dougherty & Company LLC  
Statement of Financial Condition

December 31, 2013

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Building a better  
working world

Ernst & Young LLP  
Suite 1400  
220 South Sixth Street  
Minneapolis, MN 55402-4509

Tel: +1 612 343 1000

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Members  
Dougherty & Company LLC

We have audited the accompanying statement of financial condition of Dougherty & Company LLC (the Company) as of December 31, 2013, and the related notes to the statement of financial condition.

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

Management is responsible for the preparation and fair presentation of the statement of financial condition in conformity 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is 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 auditor considers 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 statement of financial condition referred to above presents fairly, in all material respects, the financial position of Dougherty & Company LLC at December 31, 2013, in conformity with U.S. generally accepted accounting principles.

February 27, 2014

*Ernst + Young LLP*

Dougherty & Company LLC  
Statement of Financial Condition

December 31, 2013

Assets

Cash and cash equivalents	\$ 3,251,187
Cash segregated for regulatory purposes (note 3)	70,000
Receivable from clearing firm	7,481,580
Receivables from related parties (note 5)	1,985,916
Other receivables	727,018
Securities owned, pledged to creditors (notes 4 & 9)	10,280,460
Other investments (note 4)	472,340
Furniture and equipment, net of \$1,035,301 in accumulated depreciation (note 10)	142,080
Prepaid expenses and other assets	<u>586,477</u>
Total assets	<u>\$ 24,997,058</u>

Liabilities and Members' Equity

Liabilities:

Securities sold, not yet purchased (notes 4 & 9)	\$ 49,135
Payables to related parties (note 5)	51,730
Accrued compensation and benefits	4,497,794
Accounts payable and other liabilities	<u>522,339</u>
Total liabilities	5,120,998

Members' equity	<u>19,876,060</u>
Total liabilities and members' equity	<u>\$ 24,997,058</u>

See accompanying notes to statement of financial condition.

# Dougherty & Company LLC

## Notes to Statement of Financial Condition

December 31, 2013

### 1. Organization

Dougherty & Company LLC (“the Company”) is a registered broker-dealer in securities under the Securities Exchange Act of 1934, as amended, and a state-registered investment adviser. The Company provides underwriting, financial advisory, and securities brokerage services to individual, institutional, corporate, and governmental clients, predominantly in the Midwest region of the United States.

The Company is owned 90.77% by Dougherty Financial Group LLC (“DFG”) and 9.23% by three key executives of the Company. The Company’s profits are allocated in accordance with the provisions of the Company’s limited liability company agreement. The owners of the Company shall not be liable for any of the debts, liabilities, contracts, or other obligations of the Company, except to the extent of their members’ equity.

The Company clears all customer and proprietary trades through another broker-dealer, J.P. Morgan Clearing Corp. (“the Clearing Firm”), on a fully disclosed basis.

### 2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed by the Company:

#### *Cash and Cash Equivalents*

Cash and cash equivalents include cash and investments in money market mutual funds. Actively traded money market mutual funds are measured at their net asset value, which approximates fair value.

#### *Securities Transactions*

Securities owned and securities sold, not yet purchased, are recorded on a trade-date basis and valued at fair value. Fair value is based on quoted market prices, dealer prices, or amounts that approximate quoted prices for securities of comparable quality, maturity, and interest rate. In addition, the fair value considers recent trading activity and the cost of the security.

The Company accounts for securities transactions on a trade-date basis.

## Dougherty & Company LLC

### Notes to Statement of Financial Condition (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### *Other Investments*

Other investments are recorded on a trade-date basis and valued at fair value. Fair value is based on the value of the capital account of the investment or the Black-Scholes-Merton framework, which utilizes the contract terms, the underlying equity price, and a measure of volatility in arriving at the investment's fair value.

##### *Furniture and Equipment*

Furniture and equipment are carried at cost less accumulated depreciation and are depreciated using straight-line or accelerated methods over the estimated useful lives of three to seven years.

##### *Fair Value of Financial Instruments*

Substantially all of the Company's financial assets and liabilities are carried at fair value or at amounts that, because of their short-term nature and based on market interest rates available to the Company at December 31, 2013, approximate current fair value.

##### *Income Taxes*

The Company is organized as a partnership for tax purposes and is not subject to income taxes as a separate entity. The income or loss of the Company is reportable for tax purposes by each member based on the member's allocable share.

The Company applies accounting guidance as codified in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes*, regarding how uncertain income tax positions should be recognized, measured, presented, and disclosed in the financial statements. Tax positions that are not more likely than not to be sustained upon examination by a taxing authority based on the technical merit of the position would result in a current year expense or the absence of a benefit, as appropriate for the tax position. The Company has determined there are no material uncertain tax positions. Generally, the tax authorities can examine any tax returns filed for the last three years.

## Dougherty & Company LLC

### Notes to Statement of Financial Condition (continued)

#### 2. Summary of Significant Accounting Policies (continued)

##### *Use of Estimates*

Preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates.

##### *Principles of Consolidation*

The Company is the managing member of Dougherty Absolute Equity Fund LLC (“DAEF”), an equity long/short hedge fund. Management has determined DAEF to be a variable interest entity in accordance with ASC 810, *Consolidation*; however, the Company is not the primary beneficiary based on its economic interest in DAEF and its contractual terms. Therefore, the Company is not required to consolidate DAEF.

#### 3. Cash Segregated for Regulatory Purposes

At December 31, 2013, \$70,000 was segregated in a special bank account for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission (“SEC”).

#### 4. Fair Value Measurements

The Company applies fair value measurements in accordance with ASC 820, *Fair Value Measurement*. Under this standard, fair value is defined as 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income, or cost approach, as specified by ASC 820, are used to measure fair value. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

## Dougherty & Company LLC

### Notes to Statement of Financial Condition (continued)

#### 4. Fair Value Measurements (continued)

The three levels of the fair value hierarchy under ASC 820 are described below:

##### Basis of Fair Value Measurements

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2 - Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 - Prices or valuations that require inputs, including the Company's own assumptions, that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Level 2 financial instruments typically include municipal bonds, corporate bonds, U.S. government agency bonds, inverse floaters, or hedge fund investments. Valuation of Level 2 instruments uses observable inputs in pricing the assets. Inputs and methods that are used in determining the fair value of the Company's Level 2 instruments may include the original transaction price, yield analyses, benchmarking to similar instruments, and/or the value of a capital account of a hedge fund investment.

Level 3 financial instruments typically include certain municipal bonds, warrants, collateralized debt, or other instruments for which there is little, if any, market activity for the asset at the measurement date. Valuation of Level 3 instruments requires significant judgment and reflects management's own assumptions about the assumptions that market participants would use in pricing the asset. Inputs and methods that are used in determining the fair value of the Company's Level 3 instruments may include the original transaction price, yield analyses, Black-Scholes-Merton framework, benchmarking to similar instruments, discounts due to market illiquidity, and/or the present value of expected future cash flows.

Other investments at December 31, 2013, represented \$151,828 for warrants obtained in underwritings and \$320,512 invested in DAEF. DAEF is an affiliated private investment fund that makes long and short investments in publicly traded U.S. and non-U.S. companies. The fair value of the investment is estimated using the value of the capital account as reported to the Company by DAEF. The Company may redeem all or part of its investment in DAEF as of the last day of each calendar quarter.

## Dougherty & Company LLC

### Notes to Statement of Financial Condition (continued)

#### 4. Fair Value Measurements (continued)

The following tables present the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2013:

	Level 1	Level 2	Level 3	Total
Securities owned:				
Municipal securities	\$ -	\$ 9,626,646	\$ 107,489	\$ 9,734,135
Equity securities	18,644	-	-	18,644
Corporate debt securities	-	507,289	-	507,289
Inverse floater securities	-	18,550	-	18,550
U.S. government and government agency securities	-	1,842	-	1,842
Total	<u>\$ 18,644</u>	<u>\$ 10,154,327</u>	<u>\$ 107,489</u>	<u>\$ 10,280,460</u>
Other investments:				
Equity long/short hedge fund	\$ -	\$ 320,512	\$ -	\$ 320,512
Warrants	-	-	151,828	151,828
Total	<u>\$ -</u>	<u>\$ 320,512</u>	<u>\$ 151,828</u>	<u>\$ 472,340</u>
Securities sold, not yet purchased:				
Equity securities	\$ 44,273	\$ -	\$ -	\$ 44,273
Corporate debt securities	-	4,862	-	4,862
Total	<u>\$ 44,273</u>	<u>\$ 4,862</u>	<u>\$ -</u>	<u>\$ 49,135</u>

Level 3 securities comprise (1) a security valued at cost less a liquidity discount of approximately 7%, (2) a security valued using an assessment of the credit risk of the issuer as well as a liquidity discount comprising approximately 50% of the par amount of the security, and (3) warrant investments valued using a liquidity discount of 25%.

## Dougherty & Company LLC

### Notes to Statement of Financial Condition (continued)

#### 5. Related Parties

Included in receivables from related parties at December 31, 2013, was \$1,912,271 in interest-bearing and non-interest-bearing receivables from officers and employees of the Company, the majority of which are notes made to senior investment executives.

The Company has contracted with affiliates and DAEF to receive and provide certain administrative and professional services.

At December 31, 2013, the Company had non-interest-bearing payables to DFG and other affiliates of \$51,730 and non-interest-bearing receivable from other affiliates totaling \$73,645.

#### 6. Commitments and Contingencies

The Company leases office space, both through an expense-sharing agreement with DFG and under noncancelable operating leases with expiration dates into 2016. Some leases have escalation clauses and renewal options. Future minimum rental commitments under noncancelable operating leases and expected future payments under the expense-sharing agreement with DFG are as follows:

Years	Operating Leases
2014	\$ 1,052,272
2015	1,027,918
2016	416,052
	<u>\$ 2,496,242</u>

## Dougherty & Company LLC

### Notes to Statement of Financial Condition (continued)

#### 6. Commitments and Contingencies (continued)

Included in these amounts are approximate minimum lease payments by the Company to DFG as follows: \$947,000 in 2014, \$977,000 in 2015, and \$416,000 in 2016.

The Company promptly transmits all customer funds and securities to the Clearing Firm and is contingently liable for its customers' transactions and has agreed in certain circumstances to indemnify the Clearing Firm for losses that it may sustain from the customer accounts introduced by the Company. At December 31, 2013, there were no customer balances maintained by the Clearing Firm subject to such indemnification requiring a liability to be accrued. In accordance with applicable margin lending practices, customer balances are typically collateralized by customer securities or supported by other types of recourse provisions.

In the ordinary course of business, the Company enters into underwriting commitments. Transactions relating to any such underwriting commitments that were open at December 31, 2013, and have subsequently settled, had no material effect on the statement of financial condition.

The Company is a defendant in various actions, suits, or proceedings before a court or arbitrator or by a governmental entity that are incidental to its business. Although the outcome of these matters is uncertain, based upon the facts that have developed to date, the Company's management believes that the outcome will not have a material adverse effect on the financial condition of the Company.

#### 7. Net Capital Requirements

The Company is subject to the SEC Uniform Net Capital Rule ("Rule 15c3-1"), which requires the Company to maintain minimum net capital. The Company has elected to use the alternative method permitted by Rule 15c3-1. At December 31, 2013, the Company had net capital of \$14,808,009, which was \$14,475,009 in excess of its minimum net capital required.

Advances to affiliates and other equity withdrawals are subject to certain notification and other provisions of Rule 15c3-1.

# Dougherty & Company LLC

## Notes to Statement of Financial Condition (continued)

### 8. Retirement Plan

DFG has a 401(k) and profit-sharing plan in which all eligible employees of the Company may participate.

### 9. Financial Instruments With Off-Balance Sheet Risk

In the ordinary course of business, the Company's activities involve the execution, settlement, and financing of various securities transactions. These activities may expose the Company to credit and market risks in the event the customer, counterparty, or Clearing Firm is unable to fulfill its contractual obligations. Such risks may be increased by volatile trading markets.

All securities owned are pledged to the Clearing Firm on terms that permit it to sell or repledge the securities to others, subject to certain limitations. Securities sold, not yet purchased, represent obligations of the Company to deliver the specified security at the contracted price and thereby create a liability to repurchase the security in the market at prevailing prices, if not owned by the Company. These transactions result in off-balance sheet market risk, as the Company's ultimate obligation to satisfy the sale of securities sold, not yet purchased, may exceed the amount recognized in the statement of financial condition.

### 10. Fixed Assets

The following is a schedule of fixed assets as of December 31, 2013:

	Cost	Accumulated Depreciation	Net Fixed Assets
Furniture	\$ 260,580	\$ 181,788	\$ 78,792
Equipment	551,540	522,470	29,070
Other	365,261	331,043	34,218
	<u>\$ 1,177,381</u>	<u>\$ 1,035,301</u>	<u>\$ 142,080</u>

### 11. Subsequent Events

The Company has evaluated subsequent events through February 27, 2014, the date that the Company's statement of financial condition was available to be issued, and has determined that no items require disclosure.

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