

SECURIT



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**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 01/01/13 AND ENDING 12/31/13  
 MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: FINANCE 500, INC.

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

OFFICIAL USE ONLY  
 FIRM I.D. NO.

19762 MacARTHUR BLVD., SUITE 200

(No. and Street)

IRVINE

CALIFORNIA

92612

(State)

(Zip Code)

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

JON McCLINTOCK

949/253-4000

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

GOODRICH, BARON, GOODYEAR, LLP

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

6700 E. PACIFIC COAST HWY., SUITE 255, LONG BEACH, CA 90803

(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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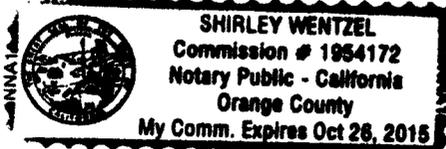
OATH OR AFFIRMATION

I, JON McCLINTOCK, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of FINANCE 500, INC., as of DECEMBER 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:

NONE

[Signature]  
Signature JON McCLINTOCK  
CFO  
Title

[Signature]  
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 ~~Shareholders' Financial Condition~~. **Cash Flows**
- (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).

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**FINANCE 500, INC.**

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FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

(With Independent Auditor's Report Thereon)

**FINANCE 500, INC.**

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FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

(With Independent Auditor's Report Thereon)

## CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statement of Financial Condition	3
Statement of Income (Loss)	4
Statement of Changes in Stockholder's Equity	5
Statement of Cash Flows	6
Notes to Financial Statements	7-12
Additional Information:	
Computation of Net Capital Pursuant to Rule 15c3-1	13
Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3	14
Information Relating to the Possession or Control Requirements Pursuant to Rule 15c3-3	15
Report on Internal Control Required by SEC Rule 17a-5(g)1 for a Broker-Dealer Claiming an Exemption from SEC Rule 15c3-3	16-17

# GOODRICH·BARON·GOODYEAR LLP

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Finance 500, Inc.  
Irvine, CA

We have audited the accompanying financial statements of Finance 500, Inc. (the Company) which comprise the statement of financial condition as of December 31, 2013, and the related statements of income (loss), changes in stockholder's 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 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.

### **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 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 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 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 present fairly, in all material respects, the financial position of Finance 500, Inc. as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information contained on pages 13-15 is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange of 1934. 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 on pages 13-15 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 auditing standards generally accepted in the United States of America. In our opinion, the information on pages 13-15 is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Goodrich Bacon Gooden, CPA".

Long Beach, California  
February 20, 2014

**FINANCE 500, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2013**

ASSETS

Cash and cash equivalents		
Cash in banks		\$ 1,779,046
Money market		<u>245,200</u>
Total cash and cash equivalents		2,024,246
Receivables:		
Commissions	\$ 1,139,881	
Other	<u>168,684</u>	1,308,565
Marketable securities		13,015,037
Deposits		250,000
Property and equipment, at cost, less \$290,464 of accumulated depreciation		<u>13,084</u>
Total assets		\$ <u>16,610,932</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:		
Accounts payable and accrued expenses		\$ 313,295
Commissions payable		729,239
Payable to clearing organization		<u>13,015,037</u>
Total liabilities		14,057,571
Commitments		-
Stockholders' equity:		
Common stock, no par value; 1,000,000 shares authorized; 100,000 shares; issued and outstanding	\$ 15,000	
Additional paid-in capital	2,300,000	
Retained earnings	<u>238,361</u>	
Total stockholders' equity		<u>2,553,361</u>
Total liabilities and stockholders' equity		\$ <u>16,610,932</u>

The accompanying notes are an integral part of these financial statements.

**FINANCE 500, INC.**  
**STATEMENT OF INCOME (LOSS)**  
**YEAR ENDED DECEMBER 31, 2013**

<b>Revenues:</b>		
Concessions income		\$ 10,131,983
Listed income fees		1,142,858
Rebate fees		5,863
Other income		<u>202,640</u>
<b>Total revenues</b>		<b>11,483,344</b>
<b>Expenses:</b>		
Commissions	\$ 7,175,905	
Salaries	1,569,665	
Depreciation	34,691	
Rents	323,972	
Consulting and professional fees	242,659	
Communications	91,426	
Equipment costs and supplies	12,275	
Registration fees	135,632	
Insurance	277,406	
Pension contribution	41,656	
Business development	40,132	
Other operating expenses	<u>1,690,879</u>	
<b>Total expenses</b>		<b><u>11,636,298</u></b>
<b>Income (loss) before income taxes</b>		<b>(152,954)</b>
<b>Income tax expense</b>		<b><u>800</u></b>
<b>Net income (loss)</b>		<b><u>\$ (153,754)</u></b>

The accompanying notes are an integral part of these financial statements.

**FINANCE 500, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEAR ENDED DECEMBER 31, 2013**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, beginning of year	\$ 15,000	\$ 2,300,000	\$ 392,115	\$ 2,707,115
Net income (loss) for the year ended December 31, 2013	<u>-</u>	<u>-</u>	\$ <u>(153,754)</u>	\$ <u>(153,754)</u>
Balance, at end of year	\$ <u>15,000</u>	\$ <u>2,300,000</u>	\$ <u>238,361</u>	\$ <u>2,553,361</u>

The accompanying notes are an integral part of this financial statement.

**FINANCE 500, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2013**

Cash flows from operating activities:		
Net income (loss)		\$ (153,754)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation	\$ 34,691	
(Increase) decrease:		
Commissions receivable	(259,057)	
Marketable securities	8,128,006	
Increase (decrease):		
Accounts payable	142,814	
Commissions payable	216,672	
Payable to clearing organization	<u>(8,128,006)</u>	
Total adjustments		<u>135,120</u>
Net cash flows used for operating activities		(18,634)
Cash flows from investing activities		-
Cash flows from financing activities		<u>-</u>
Net decrease in cash		(18,634)
Cash and cash equivalents, beginning of year		<u>2,042,880</u>
Cash and cash equivalents, end of year		\$ <u>2,024,246</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid during the year for:		
Interest		\$ <u>-</u>
Income taxes		\$ <u>800</u>

The accompanying notes are an integral part of these financial statements.

**FINANCE 500, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2013

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

The Company is a registered broker-dealer incorporated under the laws of the State of California maintaining its principal office in Irvine, California. The Company is subject to a minimum net capital requirement of \$170,000 pursuant to SEC Rule 15c3-1. The Company acts as an introducing broker/dealer and clears transactions with and for customers on a fully disclosed basis through a clearing broker/dealer. The Company's primary business consists of sales of securities, limited partnership interests, and mutual funds. The Company requires no collateral for its receivables and, thus, is subject to the risks inherent in the economy.

Camden Financial Services ("Camden") has executed a sub-clearing agreement with Finance 500, Inc. for purposes of clearing transactions with and for Camden's customers on a fully-disclosed basis through Apex Clearing Corporation.

**Method of Accounting**

The Company maintains its books and records on the accrual basis of accounting.

**Security Transactions**

Security transactions are reported on a settlement date basis which is generally the third business day following the transaction date. While generally accepted accounting principles require reporting on a trade date basis, the difference between trade date and settlement date is not material. Related commissions and expenses are recorded on the accrual basis.

**Cash Equivalents**

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**Property and Equipment**

Property and equipment are stated at cost. Depreciation of property and equipment is computed using the straight-line method over sixty months.

**Income Taxes**

The Company files its income tax returns on the accrual basis of accounting. Deferred income taxes result from timing differences in the reporting of California franchise tax expense for financial and tax purposes.

**FINANCE 500, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

DECEMBER 31, 2013

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Use of Estimates**

The preparation of financial statements in conformity with 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.

**(2) ACCOUNTS RECEIVABLE**

The accounts receivable represent commissions due to the Company from the sale of securities, limited partnership interests, and mutual funds.

**(3) MARKETABLE SECURITIES**

Investment in securities at December 31, 2013, consists of trading securities with a fair value of \$13,015,037.

The securities are purchased on margin with the clearing organization and the liability related to such purchases is included under the caption "Payable to clearing organization" on the Statement of Financial Condition.

**(4) DEPOSITS**

The Company is required to maintain certain deposit levels with a clearing organization. As of December 31, 2013, deposits of \$250,000 consist of monies being held by Apex Clearing Corporation, which is the Company's clearing agent.

**(5) PROPERTY AND EQUIPMENT**

Property and equipment is comprised of:

Office machinery and equipment	\$ 52,039
Office furniture and equipment	<u>251,508</u>
	303,547
Less accumulated depreciation	<u>(290,464)</u>
Net property and equipment	\$ <u>13,084</u>

**FINANCE 500, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

DECEMBER 31, 2013

**(6) FAIR VALUE**

FASB ASC 820, Fair Value Measurements and Disclosures, defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure requirements for fair value measurements.

FASB 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 measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets accessible by the Company at the measurement date.

Level 2 – Valuations based on inputs that are observable in the marketplace other than those inputs classified as Level 1.

Level 3 – Valuations based on inputs that are unobservable in the marketplace and significant to the valuation.

*Cash and cash equivalents, receivables, accounts payable, accrued expenses, and commissions payable* – The carrying amounts reported in the Statement of Financial Condition for these items are a reasonable estimate of fair value.

The following table presents the Company's assets and related valuation inputs within the fair value hierarchy utilized to measure fair value as of December 31, 2013, on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable equity securities	\$ <u>13,015,037</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>13,015,037</u>
Payable to clearing organization, liabilities	\$ <u>13,015,037</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>13,015,037</u>

Marketable securities are based on quoted market prices in active markets for identical assets and liabilities.

**(7) INCOME TAXES**

Income tax expense consists of the following:

	<u>Federal</u>	<u>California</u>	<u>Total</u>
Current	\$ -	\$ 800	\$ 800
Deferred	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>-</u>	\$ <u>800</u>	\$ <u>800</u>

**FINANCE 500, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

DECEMBER 31, 2013

(7) INCOME TAXES, Continued

The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, which requires the recognition of deferred income taxes using an asset and liability approach in recognizing timing differences. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of other assets and liabilities. Deferred taxes are not material for the year ended December 31, 2013.

The Company files income tax returns in the U. S. federal jurisdiction and the state of California. The Company's income tax returns for the years ending 2010 and forward remain open for examination by federal and state taxing authorities.

(8) CONCENTRATION OF CREDIT RISK FOR CASH HELD AT BANKS

The Company maintains cash accounts at Citibank, N.A., and First State Bank which had bank balances of \$251,177 and \$245,200, respectively, at December 31, 2013. Accounts at these institutions are insured up to \$250,000 by the Federal Deposit Insurance Corporation.

The Company also maintains a cash account at Apex Clearing Corporation (Apex) which had a balance of \$1,575,000 at December 31, 2013. The Company also maintains a clearing deposit account at Apex which is required by the Securities and Exchange Commission. Accounts held at Apex are insured by the Securities Investor Protection Corporation.

(9) PENSION PLAN

The Company sponsors a 401(k) pension plan which is open to all employees who have been with the Company for at least three months. The Company matches 5% for every dollar the employee contributes to the plan. Employer contributions to the plan for the year amounted to \$41,656.

(10) NET CAPITAL

The Company is subject to a \$170,000 minimum capital requirement under SEC Rule 15c3-1 which requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. Net capital and the related net capital ratio fluctuate on a daily basis; however, as of December 31, 2013, the net capital ratio was 0.55 to 1 and net capital was \$1,894,782 which exceeded the required minimum capital by \$1,724,782.

**FINANCE 500, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

DECEMBER 31, 2013

**(11) COMMITMENTS**

The Company entered into a seventy-one-month lease agreement expiring in 2016 for its offices in Irvine, California.

The remaining minimum future lease payments under this lease are:

<u>Year Ended December 31,</u>	<u>Amount</u>
2014	\$ 308,755
2015	316,792
2016	<u>187,530</u>
	\$ <u>813,077</u>

The Company has also entered into various operating leases on computer equipment. The terms of the leases are sixty-month periods expiring in various years through 2016.

The remaining minimum future lease payments under the lease terms are:

<u>Year Ended December 31,</u>	<u>Amount</u>
2014	17,940
2015	17,940
2016	<u>17,940</u>
	\$ <u>53,820</u>

Rent expense for the year was \$323,972.

**(12) LITIGATION MATTERS**

The Company is a defendant in a lawsuit filed by a Trustee for a certain Bankruptcy estate in the United States Bankruptcy Court for the District of Delaware. The plaintiff seeks to avoid and recover certain transfers in the amount of \$127,345 made by debtor entities to the Company concerning the Company's purported involvement in the marketing, solicitation and sale of certain investment offerings. The plaintiff alleges that such transfers can be avoided and recorded. In addition to the amount sought in the complaint, the plaintiff requests an award of pre-judgment interest, post-judgment interest, attorneys' fees and the costs of litigation.

The Company is also a defendant in a related lawsuit filed by the above Trustee in the United States District Court for the District of Delaware. The plaintiff alleges that the Company committed tortious and unlawful activities related to the marketing, solicitation and sale of certain investment offerings. The plaintiff seeks an award of damages from the Company based on alleged violations of the Securities Exchange Act of 1934, breach of contract, common law

**FINANCE 500, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

DECEMBER 31, 2013

(12) LITIGATION MATTERS, continued

fraud, negligence, and breach of fiduciary duty. The plaintiff requests an award of compensatory damages, pre-judgment interest, post-judgment interest, attorneys' fees and the costs of litigation. Further, the plaintiff seeks the entry of a judgment which permits members of the private action trust to tender their securities to the defendants.

(13) SUBSEQUENT EVENTS

Management has evaluated subsequent events and transactions occurring after year-end through the date that the financial statements were available for issuance which was February 20, 2014. No transactions or events were found that were material enough to require recognition in the financial statements.

**FINANCE 500, INC.**  
**COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1**

DECEMBER 31, 2013

Total equity from statement of financial condition		\$ 2,553,361
Less non-allowable assets:		
Other receivable	\$ (168,684)	
Property and equipment	<u>(13,084)</u>	<u>(181,768)</u>
Net capital before haircut		2,371,593
Haircut - Other marketable securities		<u>(476,811)</u>
Net capital		\$ <u><u>1,894,782</u></u>

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Minimum net capital required (6-2/3% of aggregate indebtedness)		\$ <u><u>69,502</u></u>
Minimum dollar net capital required		\$ <u><u>170,000</u></u>
Net capital requirement (greater of above two figures)		\$ <u><u>170,000</u></u>
Excess net capital		\$ <u><u>1,724,782</u></u>

COMPUTATION OF RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL

Total liabilities		\$ 14,057,571
Deduct payable to clearing organization		<u>(13,015,037)</u>
Total aggregate indebtedness		\$ <u><u>1,042,534</u></u>
Ratio of aggregate indebtedness to net capital		<u><u>0.55 to 1</u></u>
Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)		<u><u>N/A</u></u>

The computation of net capital as reported in the unaudited Part IIA filing agrees with the audited net capital above.

**FINANCE 500, INC.**  
**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS**  
**PURSUANT TO RULE 15c3-3**

**DECEMBER 31, 2013**

Not Applicable – The Company is exempt pursuant to the (k)(2)(ii) exemptive provision of SEC Rule 15c3-3 and does not hold customer funds or securities.

**FINANCE 500, INC.**  
**INFORMATION RELATING TO THE POSSESSION**  
**OR CONTROL REQUIREMENTS PURSUANT TO RULE 15c3-3**

**DECEMBER 31, 2013**

Not Applicable – The Company is exempt pursuant to the (k)(2)(ii) exemptive provision of SEC Rule 15c3-3 and does not hold customer funds or securities.

# GOODRICH·BARON·GOODYEAR LLP

*Certified Public Accountants*

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

The Board of Directors  
Finance 500, Inc.  
Irvine, CA

In planning and performing our audit of the financial statements of Finance 500, Inc. (the Company) as of and for the year ended December 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 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 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.

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.

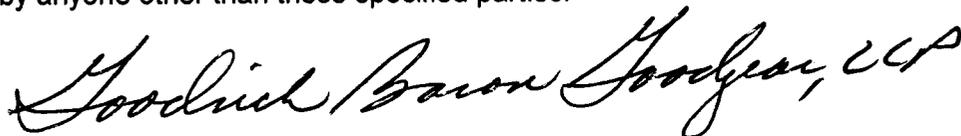
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *significant deficiency* is a deficiency, or a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

A handwritten signature in cursive script that reads "Goodrich Baron Gooden, CPA". The signature is written in black ink and is positioned centrally on the page.

Long Beach, California  
February 20, 2014