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Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/2016 AND ENDING 12/31/2016  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **Hazlett, Burt & Watson, Inc.**  
 ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
**1300 Chapline Street**

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street)

**Wheeling**

**WV**

**26003**

(City)

(State)

(Zip Code)

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

Timothy M. Bidwell

(304) 233-3312

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

**Dixon Hughes Goodman LLP**

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

**One James Center, 901 E Cary St., Ste 1000 Richmond VA 23219**

(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

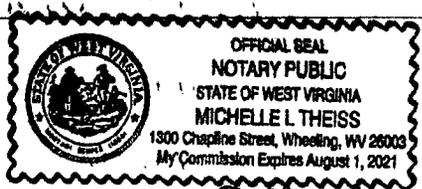
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, Timothy M. Bidwell, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Hazlett, Burt & Watson, Inc. of February 22, 2017, 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: [Handwritten Signature]
Executive Vice President
Title

[Handwritten 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 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).

HAZLETT, BURT & WATSON, INC.  
Wheeling, West Virginia

FINANCIAL STATEMENTS  
December 31, 2016 and 2015

CONTENTS

<b>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.....</b>	<b>1</b>
<b>FINANCIAL STATEMENTS</b>	
<b>STATEMENTS OF FINANCIAL CONDITION.....</b>	<b>2</b>
<b>STATEMENTS OF OPERATIONS.....</b>	<b>3</b>
<b>STATEMENTS OF CHANGES IN SHAREHOLDER EQUITY.....</b>	<b>4</b>
<b>STATEMENTS OF CASH FLOWS.....</b>	<b>5</b>
<b>NOTES TO FINANCIAL STATEMENTS.....</b>	<b>6</b>
<b>SUPPLEMENTARY INFORMATION</b>	
<b>COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1     OF THE SECURITIES EXCHANGE ACT OF 1934.....</b>	<b>13</b>
<b>STATEMENT REGARDING RULE 15c3-3 OF THE SECURITIES     EXCHANGE ACT OF 1934.....</b>	<b>14</b>
<b>HAZLETT, BURT &amp; WATSON, INC. EXEMPTION REPORT     AS OF DECEMBER 31, 2016.....</b>	<b>15</b>
<b>REPORT OF INDEPENDENT REGISTERED PUBLIC     ACCOUNTING FIRM ON EXEMPTION REPORT.....</b>	<b>16</b>
<b>REPORT OF INDEPENDENT REGISTERED PUBLIC     ACCOUNTING FIRM ON APPLYING AGREED-UPON     PROCEDURES.....</b>	<b>17</b>
<b>FORM SIPC-7.....</b>	<b>18</b>



## Report of Independent Registered Public Accounting Firm

Board of Directors  
Hazlett, Burt & Watson, Inc.  
Wheeling, WV

We have audited the accompanying statements of financial condition of Hazlett, Burt & Watson, Inc. (a West Virginia corporation) as of December 31, 2016 and 2015, and the related statements of operations, changes in shareholder equity, and cash flows for the years then ended. These financial statements are the responsibility of Hazlett, Burt & Watson, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial condition of Hazlett, Burt & Watson, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The supplementary information contained in Schedules 1 and 2 has been subjected to audit procedures performed in conjunction with the audit of Hazlett, Burt & Watson, Inc.'s financial statements. The supplemental information is the responsibility of Hazlett, Burt & Watson, Inc.'s management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Rule 17a-5 of the Securities Exchange Act of 1934. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Dixon Hughes Goodman LLP*

Richmond, Virginia  
February 22, 2017

HAZLETT, BURT & WATSON, INC.  
STATEMENTS OF FINANCIAL CONDITION  
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents due from financial institutions	\$ 417,587	\$ 176,394
Cash in money market fund	2,188,258	1,799,588
Total cash and cash equivalents	2,605,845	1,975,982
Deposits with clearing organizations	80,000	85,000
Dues from clearing firm	74,472	60,691
Firm trading account, at fair value	80,489	357,975
Firm investment account:		
Marketable, at fair value	1,954,700	1,624,655
Not readily marketable, at estimated fair value	18	3
Receivable from officers and employees	80,000	120,000
Due from affiliates	10,116	5,493
Furniture, equipment and leasehold improvements at cost, less accumulated depreciation of \$462,602 and \$429,723, respectively	97,414	107,420
Real estate and improvements at cost, less less accumulated depreciation of \$209,023 and \$196,350, respectively	235,436	211,937
Advisory fee receivable	1,483,406	1,368,653
Other assets	101,173	92,332
	<u>\$ 6,803,069</u>	<u>\$ 6,010,141</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 1,782,271	\$ 1,609,655
<b>SHAREHOLDER EQUITY</b>		
Capital stock, \$1.6667 par value, 250,000 shares authorized:		
205,500 shares issued; 203,500 shares outstanding	339,173	339,173
Less – Treasury stock, 2,000 shares at cost	(3,333)	(3,333)
Capital in excess of par value	400,754	400,754
Retained earnings	4,284,204	3,663,892
	<u>5,020,798</u>	<u>4,400,486</u>
	<u>\$ 6,803,069</u>	<u>\$ 6,010,141</u>

See accompanying notes to financial statements.

HAZLETT, BURT & WATSON, INC.  
 STATEMENTS OF OPERATIONS  
 Years ended December 31, 2016 and 2015

<b>REVENUES</b>	<u>2016</u>	<u>2015</u>
Commissions on security transactions	\$ 1,107,028	\$ 1,227,707
Investment advisory revenues	5,967,655	5,707,499
Realized gains on firm trading and investments, net	141,105	105,611
Unrealized gains on firm trading & investments, net	365,445	14,566
Insurance and annuities	251,097	375,408
Interest and dividends	52,039	50,106
Miscellaneous fees and other income	<u>735,509</u>	<u>724,311</u>
	8,619,878	8,205,208
<b>EXPENSES</b>		
Employee compensation and benefits	2,461,553	2,599,035
Commissions	3,316,920	3,258,159
Communications and data processing	268,572	274,251
Interest	879	854
Rent and maintenance	254,214	225,416
Depreciation	58,798	59,666
Clearing and execution charges	199,214	186,504
General, administrative and other expenses	<u>489,416</u>	<u>484,945</u>
	7,049,566	7,088,830
Net Income	\$ <u>1,570,312</u>	\$ <u>1,116,378</u>
Earnings per share based upon net income	\$ <u>7.72</u>	\$ <u>5.49</u>

See accompanying notes to financial statements.

HAZLETT, BURT & WATSON, INC.  
 STATEMENTS OF CHANGES IN SHAREHOLDER EQUITY  
 Years ended December 31, 2016 and 2015

	<u>Capital Stock</u>		<u>Treasury Stock</u>		<u>Capital in</u>	<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Dollars</u>	<u>Shares</u>	<u>Dollars</u>	<u>Excess of</u> <u>Par Value</u>	<u>Earnings</u>	
<b>Balance at January 1, 2015</b>	203,500	\$ 339,173	2,000	\$ (3,333)	\$ 400,754	\$ 3,297,514	\$ 4,034,108
Net Income						1,116,378	1,116,378
Distributions to shareholder						(750,000)	(750,000)
<b>Balance at December 31, 2015</b>	203,500	339,173	2,000	(3,333)	400,754	3,663,892	4,400,486
Net Income						1,570,312	1,570,312
Distributions to shareholder						(950,000)	(950,000)
<b>Balance at December 31, 2016</b>	<u>203,500</u>	<u>\$ 339,173</u>	<u>2,000</u>	<u>\$ (3,333)</u>	<u>\$ 400,754</u>	<u>\$ 4,284,204</u>	<u>\$ 5,020,798</u>

See accompanying notes to financial statements.

HAZLETT, BURT & WATSON, INC.  
 STATEMENTS OF CASH FLOWS  
 Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>	\$	\$
Net Income	1,570,312	1,116,378
Depreciation	58,798	59,666
Loss on Disposal of Fixed Assets	-	8,086
Change in assets and liabilities		
Due from clearing organizations	(8,781)	22,351
Due from affiliates	(4,623)	262
Trading securities	277,486	(167,674)
Investment securities, net	(330,060)	(5,641)
Receivable from officers and employees	40,000	40,000
Advisory fees receivable	(114,753)	9,332
Other assets	(8,841)	(3,870)
Accounts payable and accrued liabilities	<u>172,616</u>	<u>77,771</u>
Net cash provided by operating activities	1,652,154	1,156,661
 <b>Cash flows from investing activities</b>		
Capital expenditures	<u>(72,291)</u>	<u>(18,790)</u>
Net cash used by investing activities	(72,291)	(18,790)
 <b>Cash flows from financing activities</b>		
Cash distributions to shareholder	<u>(950,000)</u>	<u>(750,000)</u>
Net cash used by financing activities	<u>(950,000)</u>	<u>(750,000)</u>
 Net increase in cash and cash equivalents	629,863	387,871
 Cash and cash equivalents at beginning of year	<u>1,975,982</u>	<u>1,588,111</u>
 Cash and cash equivalents at end of year	\$ <u>2,605,845</u>	\$ <u>1,975,982</u>

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See accompanying notes to financial statements.

HAZLETT, BURT & WATSON, INC.  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2016 and 2015

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**NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS**

Hazlett, Burt & Watson, Inc. (the “Company”) is a broker-dealer registered with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority (“FINRA”). In May 2006, the Company formed Security Capital Management (“SCM”). This division of the Company is registered with the SEC as an Investment Advisor. SCM provides investment management services under an investment advisor model. The Company is a West Virginia S Corporation that is a wholly owned subsidiary of HB&W, Inc.

The Company is a fully-disclosed introducing broker. The Company has contracted with National Financial Services (“NFS”) to execute and clear all customer trades, as well as for the purpose of carrying the securities positions of the customers, along with any corresponding margin balances. Per the agreement with NFS, the Company does not reflect any receivables or liabilities for customer accounts in its financial statements.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Cash and cash equivalents: Cash and cash equivalents include cash and deposits due from financial institutions with maturities fewer than 90 days and money market mutual funds.

Security transaction accounting: Firm securities transactions affected in the firm investment account are recorded on a trade date basis. Proprietary securities transactions in regular-way trades are recorded on the trade date, as if they had settled. Profit and loss arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade date basis. Customers’ securities transactions and related commission revenue and expense are recorded on a trade date basis as well.

Firm trading and investment accounts: Firm trading and investment accounts are recorded at fair value. Changes in fair value on the firm trading and investment accounts are reflected in the results of operations along with dividend or interest income from such securities.

Investment advisory revenues: Investments advisory revenues are recorded on an accrual basis. These fees are based on the account value as of the end of each quarter.

Insurance and annuity revenues: Insurance and annuity policies are considered final when processed and approved by the issuer. The revenue recognition on these products occurs upon approval by the issuer.

Depreciation: Depreciation on real estate and improvements, furniture, leasehold improvements and equipment is provided using various methods over their estimated useful lives of five to thirty-nine years. Leasehold improvements are depreciated over their estimated useful lives or the lease term, whichever is shorter.

Income Tax: The Company has elected by unanimous consent to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay Federal or State corporate income taxes on its taxable income. Instead, all taxable income flows through to the shareholder, HB&W, Inc.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Company has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2016.

HAZLETT, BURT & WATSON, INC.  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2016 and 2015

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Company is subject to income tax of the state of West Virginia. The Company is no longer subject to examination by taxing authorities for years before 2013. The Company recognizes interest and/or penalties related to income tax matters in General, administrative and other expenses.

**Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**Subsequent Events:** The company evaluated the effect subsequent events would have on the financial statements through February 22, 2017, which is the date the financial statements were available to be issued.

**NOTE 3 – EARNINGS PER SHARE**

Earnings per share are calculated based upon the weighted average number of shares issued and outstanding during 2016 and 2015. The weighted average number of shares for the years ended 2016 and 2015 were 203,500.

**NOTE 4 – LEASE COMMITMENTS**

The Company leases office facilities and equipment under noncancelable leases which expire at different dates from 2017 through 2021. Certain existing leases contain renewal options. Rental expense charged to operations for the year ended December 31, 2016 and 2015 were \$82,166 and \$83,236 respectively. Minimal lease payments under these operating leases are as follows:

2017	\$ 91,903
2018	46,068
2019	46,068
2020	46,068
2021	<u>38,390</u>
	\$ <u>268,497</u>

**NOTE 5 – NET CAPITAL REQUIREMENT**

The Company is subject to regulatory capital requirements set forth by the Securities and Exchange Commission Uniform Net Capital Rule, which requires that "aggregate indebtedness" shall not exceed fifteen times "net capital" as defined by the Rule and "net capital", shall at least be \$250,000. At December 31, 2016, the Company had net capital of \$4,040,804, which was \$3,790,804 in excess of its required minimum net capital of \$250,000. At December 31, 2015, the Company had net capital of \$3,421,842, which was \$3,171,842 in excess of its required minimum net capital of \$250,000. The Company's percentage of aggregate indebtedness to net capital was 44.1% and 47.0% at December 31, 2016 and 2015, respectively.

**NOTE 6 – EMPLOYEE BENEFITS**

The Company has a discretionary, trustee profit sharing 401(k) plan covering substantially all employees who have attained age 21 and one year of service. The plan is funded through contributions of both employee and employer. The 401(k) provision of the plan was implemented during 2004 and called for a mandatory 3% safe harbor employer contribution of all eligible employee earnings. The safe harbor contribution expensed for 2016 was \$119,573 and \$120,456 for 2015, and is included in the Company's total contribution. The Company's total related expense was \$271,642 for 2016 and \$274,901 for 2015.

**HAZLETT, BURT & WATSON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 7 – SHORT-TERM BORROWINGS**

The Company maintains a credit facility with WesBanco Bank. The facility permits the Company to borrow amounts up to \$200,000. The interest rate on borrowings under this credit facility is a fluctuating rate equal to a minimum of 4% at December 31, 2016. This credit facility expires on April 30, 2019. There were no borrowings outstanding on this credit facility at December 31, 2016 and 2015.

The Company maintains its proprietary trading accounts with its clearing broker. These accounts hold the Company's securities inventory and are collateralized by deposits totaling \$75,000 at December 31, 2016 and 2015, as well as all the Company's securities inventory. The Company may borrow up to an agreed-upon percentage of the value of the collateral as specified in the clearing agreements. The accounts bear interest at a rate of 5.00% percent at December 31, 2016. Interest expense related to these accounts was \$0 and \$0 for the years ended December 31, 2016 and 2015. The Company had no short term borrowings outstanding under these agreements at December 31, 2016 and 2015.

**NOTE 8 – FIRM TRADING AND INVESTMENT ACCOUNTS**

The statements of financial condition reflect the fair value of marketable securities and not readily marketable securities in the firm trading and investment accounts. The related amortized cost and fair value are as follows as of December 31:

	<u>2016</u>		<u>2015</u>	
	<u>Firm Trading</u>	<u>Investment</u>	<u>Firm Trading</u>	<u>Investment</u>
<b>Amortized cost:</b>				
Certificate of deposits	\$ 54,000	\$ -	\$ 10,800	\$ -
Corporate bonds	-	-	-	35,665
State and municipal debt	23,912	-	23,834	-
Equities	-	441,146	324,860	441,146
Mutual funds	3,042	-	-	-
<b>Total amortized cost:</b>	<u>80,954</u>	<u>441,146</u>	<u>359,494</u>	<u>476,811</u>
<b>Fair value:</b>				
Certificate of deposits	54,019	-	11,741	-
Corporate bonds	-	-	-	35,675
State and municipal debt	23,457	-	23,647	-
Equities	-	1,954,700	322,587	1,588,980
Mutual funds	3,013	-	-	-
<b>Total fair value</b>	<u>80,489</u>	<u>1,954,700</u>	<u>357,975</u>	<u>1,624,655</u>
<b>Unrealized gains (losses)</b>	<u>\$ (465)</u>	<u>\$ 1,513,554</u>	<u>\$ (1,519)</u>	<u>\$ 1,147,844</u>

**HAZLETT, BURT & WATSON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 9 - FAIR VALUE**

Fair Value Measurements (ASC 820-10) defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. 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. 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 820-10, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

**Level 1:** Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.

**Level 2:** Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

**Level 3:** Are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.)

**Investment Securities:** The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

There have been no changes in the methodologies used at December 31, 2016 and 2015.

**HAZLETT, BURT & WATSON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 9 - FAIR VALUE** (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.

**Fair Value Measurements on a Recurring Basis**  
**As of December 31, 2016**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
<b>Firm trading account</b>				
Certificate of Deposits	\$ 54,019	\$ -	\$ -	\$ 54,019
State and municipal bonds	-	23,457	-	23,457
Mutual funds	3,013	-	-	3,013
	<u>\$ 57,032</u>	<u>\$ 23,457</u>	<u>\$ -</u>	<u>\$ 80,489</u>
<b>Firm investment account:</b>				
Equities:				
Equities and derivatives				
Exchange companies	846,300	-	-	846,300
Financial services sector	1,108,400	-	-	1,108,400
Other	-	-	18	18
	<u>\$ 1,954,700</u>	<u>\$ -</u>	<u>\$ 18</u>	<u>\$ 1,954,718</u>

**Fair Value Measurements on a Recurring Basis**  
**As of December 31, 2015**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
<b>Firm trading account</b>				
Certificate of Deposits	\$ 11,741	\$ -	\$ -	\$ 11,741
State and municipal bonds	-	23,647	-	23,647
Equities:				
Financial services sector	225,150	-	-	225,150
Energy sector	97,437	-	-	97,437
	<u>\$ 334,328</u>	<u>\$ 23,647</u>	<u>\$ -</u>	<u>\$ 357,975</u>
<b>Firm investment account:</b>				
Corporate bonds	35,675	-	-	35,675
Equities:				
Equities and derivatives				
Exchange companies	768,780	-	-	768,780
Financial services sector	820,200	-	-	820,200
Other	-	-	3	3
	<u>\$ 1,624,655</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 1,624,658</u>

(Continued)

10.

**HAZLETT, BURT & WATSON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**NOTE 9 - FAIR VALUE (Continued)**

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period ended December 31:

	Nonmarketable equity securities	
	<u>2016</u>	<u>2015</u>
Balance of recurring Level 3 assets at January 1	\$ 3	\$ 37
Total gains or losses (realized/unrealized):		
Included in earnings – realized	(1)	5
Included in earnings – unrealized	15	(44)
Purchase and Sale of Level 3 assets (net)	<u>1</u>	<u>5</u>
Balance of recurring Level 3 assets at December 31	<u>\$ 18</u>	<u>\$ 3</u>

The table below summarizes changes in unrealized gains and losses recorded in earnings for the year ended December 31 for Level 3 assets and liabilities that are still held at December 31.

	Changes in Unrealized Gains/Losses Relating to Assets Still Held at Reporting Date for the Year Ended December 31	
	<u>2016</u>	<u>2015</u>
Other changes in fair value	\$ 15	\$ (44)
Total	<u>\$ 15</u>	<u>\$ (44)</u>

**NOTE 10 – RELATED PARTY TRANSACTIONS**

During 1999, a West Virginia Corporation, HB&W, Inc. was formed to serve as a holding company for Hazlett, Burt & Watson, Inc. and Security National Trust Company. Security National Trust Company is a national non-depository bank that provides trust and custodial services. Both Hazlett, Burt & Watson, Inc. and Security National Trust Company are 100% owned subsidiaries of HB&W, Inc.

Hazlett, Burt & Watson, Inc. advances funds to HB&W, Inc. as needed on an interest free basis. This amount is payable on demand. As of December 31, 2016 and 2015, Hazlett, Burt & Watson, Inc. is owed \$0 and \$0 from HB&W, Inc.

In addition, Hazlett, Burt & Watson, Inc. periodically provides brokerage, clerical, computer support and miscellaneous services, under a support services agreement, at cost, and leases office space to Security National Trust Company in the Wheeling, West Virginia office. The terms of the lease require Security National Trust Company to pay \$33,900 per year for the period January 1, 2016 through December 31, 2016. As of December 31, 2016 and 2015, Hazlett, Burt & Watson, Inc. is owed \$10,116 and \$5,493 from Security National Trust Company. During the years ended December 31, 2016 and 2015 the company paid, and was reimbursed, \$844,290 and \$650,858, respectively, of expenses under this agreement.

Security National Trust Company acts as Trustee and Custodian of the Hazlett, Burt & Watson, Inc. Profit Sharing 401(k) Plan, which Plan has been adopted by both companies for substantially all of its employees. Security National Trust Company charges the standard and customary fees for providing these services. During 2016, the Company paid Security \$26,472 for these services, and \$28,474 in 2015.

(Continued)

**HAZLETT, BURT & WATSON, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

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**NOTE 10 – RELATED PARTY TRANSACTIONS (Continued)**

Security National Trust Company maintains a line of credit at Hazlett, Burt & Watson, Inc. in the amount of \$500,000. As of December 31, 2016 and 2015, Security National Trust Company had not drawn on the available credit. This line of credit is unsecured, is payable on demand and carries an interest rate of prime less 1%.

**NOTE 11 – CONCENTRATIONS OF CREDIT RISK**

The clearing and depository operations for the Company's securities transactions are performed by its clearing firm pursuant to a clearance agreement. At December 31, 2016 and 2015, all of the securities owned, which are presented on the accompanying Statement of Financial Condition, are held by the clearing firm, who is the custodian. The clearing firm is a member of a nationally recognized exchange. Included on the balance sheet at December 31, 2016 and 2015, the Company has \$2,188,258 and \$1,799,588 included in cash and cash equivalents; \$75,000 and \$75,000 included in deposits with clearing organizations; and \$74,472 and \$60,691 as a receivable from clearing firm. The Company consistently monitors the credit worthiness of the clearing firm to mitigate the Company's exposure to credit risk.

The Company currently maintains operations in Wheeling and Vienna, West Virginia, Barnesville, Ohio and in Lancaster, Pennsylvania. At these locations the Company engages in various trading and brokerage activities whose counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

In the normal course of its business, the Company is contingently liable to its clearing brokers/dealers for margin requirements of customer margin securities transactions, the failure to deliver securities sold or nonpayment of securities purchased by a customer.

**NOTE 12 – DEPOSITS WITH CLEARING ORGANIZATIONS**

Included in the statements of financial condition in the line titled, "Deposits with Clearing Organizations" are deposits with clearing organizations in the amount of \$80,000, consisting of \$80,000 in cash as of December 31, 2016 and \$85,000, consisting of \$85,000 in cash as of December 31, 2015.

**NOTE 13 – RISKS AND UNCERTAINTIES**

The Company has significant investments in various securities. Investments in these securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with these investment securities, it is at least reasonably possible that changes in the values of these securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

**HAZLETT, BURT & WATSON, INC.**  
**COMPUTATION OF NET CAPITAL PURSUANT TO**  
**RULE 15c3-1 OF THE SECURITIES EXCHANGE ACT OF 1934**  
**As of December 31, 2016**

<b>NET CAPITAL</b>	
TOTAL SHAREHOLDER'S EQUITY	\$ 5,020,798
<b>DEDUCTIONS AND/OR CHARGES</b>	
Non-allowable assets:	
Receivables from non-customers	5,000
Securities owned not readily marketable	18
Investment in and receivable from affiliate	10,116
Furniture, equipment, leasehold improvements, and real estate	332,851
Prepaid expenses and other assets	181,172
Other deductions and/or charges	20,245
Total non-allowable assets	549,402
Net capital before haircuts on security positions	4,471,396
<b>HAIRCUTS ON SECURITIES</b>	
Trading and investment securities:	
State and municipal obligations	1,462
Money market and cash equivalents	43,722
Stocks, warrants and other	293,416
Undue concentrations	91,992
Total haircuts	430,592
<b>NET CAPITAL</b>	<b>\$ 4,040,804</b>
<b>AGGREGATE INDEBTEDNESS</b>	
<b>COMPUTATION OF AGGREGATE INDEBTEDNESS</b>	
Accounts payable and accrued expenses	\$ 1,782,271
Total aggregate indebtedness	\$ 1,782,271
<b>COMPUTATION OF BASIC NET CAPITAL REQUIREMENT</b>	
MINIMUM NET CAPITAL REQUIRED (6-2/3% OF AGGREGATE Indebtedness or \$250,000 minimum)	\$ 250,000
<b>EXCESS NET CAPITAL</b>	\$ 3,790,804
<b>EXCESS NET CAPITAL OF 1000%</b> (net capital in excess of 120% of minimum net capital required)	\$ 3,740,804
<b>PERCENTAGE OF AGGREGATE INDEBTEDNESS TO NET CAPITAL</b>	<b>44.1%</b>

The above computations do not differ materially from the Company's computations, as shown in its FOCUS Reports Form X-17A5, Part II-A, dated December 31, 2016.

**HAZLETT, BURT & WATSON, INC.**  
**STATEMENT REGARDING RULE 15c3-3 OF THE SECURITIES**  
**EXCHANGE ACT OF 1934**  
**As of December 31, 2016**

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Hazlett, Burt & Watson, Inc. is exempt under Rule 15c3-3-k(2)(ii) from the requirement to make computations for the determination of reserve requirements for the exclusive benefit of customers.

SECURITIES EXCHANGE ACT OF 1934  
EXEMPTION REPORT  
December 31, 2016

Hazlett, Burt & Watson, Inc. ("Company") is a registered broker-dealer and member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC"). The Company is a subsidiary of Hazlett, Burt & Watson Group, Inc. ("Group"). The Company is a member of the National Securities Clearing Corporation ("NSCC") and the Depository Trust Company ("DTC"). The Company is also a member of the Securities Investor Protection Corporation ("SIPC"). The Company is a member of the Securities Investor Protection Corporation ("SIPC").

The Company is exempt from the requirements of Rule 15c3-3 of the Securities Exchange Act of 1934, as amended, and the corresponding provisions of the Commission's rules and regulations thereunder.

The Company's exemption is based on the fact that the Company is a member of the NSCC and the DTC, which are both members of the SIPC. The Company's exemption is based on the fact that the Company is a member of the NSCC and the DTC, which are both members of the SIPC. The Company's exemption is based on the fact that the Company is a member of the NSCC and the DTC, which are both members of the SIPC.

Both the NSCC and the DTC are members of the SIPC, which provides the protection for the exclusive benefit of customers. The Company's exemption is based on the fact that the Company is a member of the NSCC and the DTC, which are both members of the SIPC.

**Hazlett, Burt & Watson, Inc.**

Both the NSCC and the DTC are members of the SIPC, which provides the protection for the exclusive benefit of customers. The Company's exemption is based on the fact that the Company is a member of the NSCC and the DTC, which are both members of the SIPC.

# Hazlett, Burt & Watson, Inc.



*Serving the  
Individual and  
Institutional Investor  
for Over 130 Years*

1300 Chapline Street  
Wheeling, WV 26003  
(304) 233-3312 ♦ (800) 537-8985  
Fax: (304) 233-3870  
[www.hazlettburt.com](http://www.hazlettburt.com)

*Wealth Management  
for  
Today's Investors*



## **Hazlett, Burt & Watson, Inc. Exemption Report As of December 31, 2016**

Hazlett, Burt & Watson, Inc. (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealer"). This Exemption Report was prepared as required by 17 C.F.R. §240.17a-5(d)(1) and (4). To the best of its knowledge and belief, the Company states the following:

The Company claimed an exemption from 17 C.F.R. §240.15c3-3 under the following provisions of 17 C.F.R. §240.15c3-3(k)(ii):

The Company, as an introducing broker or dealer, clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and promptly transmits all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of §§240.17a-3 and 240.17a-4

Further, the Company met the identified exemption provisions throughout the most recent year from January 1, 2016 through December 31, 2016 without exception.

**Hazlett, Burt & Watson, Inc.**

I, Timothy M. Bidwell, swear (or affirm) that, to the best knowledge and belief, this Exemption Report is true and correct.

By:

A handwritten signature in black ink, appearing to read "Timothy M. Bidwell", written over a horizontal line.

Title: Executive Vice President

February 8, 2017



## **Report Of Independent Registered Public Accounting Firm**

**Board of Directors and Shareholders  
Hazlett, Burt & Watson, Inc.  
Wheeling, WV**

We have reviewed management's statements, included in the accompanying Hazlett, Burt & Watson, Inc. Exemption Report as of December 31, 2016, in which (1) Hazlett, Burt & Watson, Inc. identified the following provisions of 17 C.F.R. §15c3-3(k) under which Hazlett, Burt & Watson, Inc. claimed an exemption from 17 C.F.R. §240.15c3-3: (k)(2)(ii) (the "exemption provisions") and (2) Hazlett, Burt & Watson, Inc. stated that Hazlett, Burt & Watson, Inc. met the identified exemption provisions throughout the most recent fiscal year without exception. Hazlett, Burt & Watson, Inc.'s management is responsible for compliance with the exemption provisions and its statements.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about Hazlett, Burt & Watson, Inc.'s compliance with the exemption provisions. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph (k)(2)(ii) of Rule 15c3-3 under the Securities Exchange Act of 1934.

*Dixon Hughes Goodman LLP*

**Richmond, Virginia  
February 22, 2017**



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
ON APPLYING AGREED-UPON PROCEDURES**

To the Board of Directors of  
Hazlett, Burt & Watson, Inc.  
Wheeling, WV

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934 and with the SIPC Series 600 Rules, we have performed the procedures enumerated below, which were agreed to by Hazlett, Burt & Watson, Inc. (the "Company") and the Securities Investor Protection Corporation ("SIPC") with respect to the accompanying General Assessment Reconciliation (Form SIPC-7) of the Company for the year ended December 31, 2016, solely to assist you and SIPC in evaluating the Company's compliance with the applicable instructions of Form SIPC-7. Management is responsible for the Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the Public Company Accounting Oversight Board (United States). The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payment in Form SIPC-7 with respective cash disbursement records entries of the Company noting no differences;
2. Compared the total revenue amounts reported on the annual audited Form X-17A-5 Part III for the year ended December 31, 2016 with the total revenue amounts reported in Form SIPC-7 for the year ended December 31, 2016, noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers, noting no differences;
4. Recalculated the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers supporting the adjustments, noting no differences; and
5. Compared the amount of any overpayment applied to the current assessment with the Form SIPC-7 on which it was originally computed, noting no differences.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the applicable instructions of the Form SIPC-7. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

*Dixon Hughes Goodman LLP*

Charlotte, North Carolina  
February 22, 2017

**SIPC-7**

(33-REV 7/10)

SECURITIES INVESTOR PROTECTION CORPORATION  
P.O. Box 92185 Washington, D.C. 20090-2185  
202-371-8300

**General Assessment Reconciliation**

**SIPC-7**

(33-REV 7/10)

For the fiscal year ended 12/31/2016

(Read carefully the instructions in your Working Copy before completing this Form)

**TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS**

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

1414*****1644*****MIXED AADC 220 17737 FINRA DEC HAZLETT BURT & WATSON INC 1300 CHAPLINE ST WHEELING WV 26003-3348	Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.  Name and telephone number of person to contact respecting this form.
--	---

2. A. General Assessment (item 2e from page 2)	\$ <u>17,784</u>
B. Less payment made with SIPC-6 filed (exclude Interest)	( <u>8,609</u> )
<u>07-25-2016</u> Date Paid	
C. Less prior overpayment applied	( <u>—</u> )
D. Assessment balance due or (overpayment)	<u>9,175</u>
E. Interest computed on late payment (see instruction E) for _____ days at 20% per annum	<u>—</u>
F. Total assessment balance and interest due (or overpayment carried forward)	\$ <u>9,175</u>
G. PAYMENT: <input checked="" type="checkbox"/> the box Check mailed to P.O. Box <input type="checkbox"/> Funds Wired <input type="checkbox"/> Total (must be same as F above)	\$ <u>9,175</u>
H. Overpayment carried forward	\$( <u>—</u> )

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):  
\_\_\_\_\_  
\_\_\_\_\_

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

Hazlett Burt & Watson, Inc.  
(Name of Corporation, Partnership or other organization)  
[Signature]  
(Authorized Signature)  
Exec. VP & CEO  
(Title)

Dated the 2nd day of February, 20 17.

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

**SIPC REVIEWER**

Dates:	<u>          </u> Postmarked	<u>          </u> Received	<u>          </u> Reviewed
Calculations	<u>          </u>	Documentation	<u>          </u>
Exceptions:			
Disposition of exceptions:			

9019  
 1,606,474  
 Forward Copy  
 3,850  
 7,784

**DETERMINATION OF "SIPC NET OPERATING REVENUES"  
AND GENERAL ASSESSMENT**

Amounts for the fiscal period  
beginning 1/1/2016  
and ending 12/31/2016

Item No.	Eliminate cents
a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)	\$ <u>8,719,877</u>
2b. Additions:	
(1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above.	<u>-</u>
(2) Net loss from principal transactions in securities in trading accounts.	<u>247</u>
(3) Net loss from principal transactions in commodities in trading accounts.	<u>-</u>
(4) Interest and dividend expense deducted in determining item 2a.	<u>-</u>
(5) Net loss from management of or participation in the underwriting or distribution of securities.	<u>-</u>
(6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities.	<u>-</u>
(7) Net loss from securities in investment accounts.	<u>-</u>
<b>Total additions</b>	<u>247</u>
c. Deductions:	
(1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products.	<u>866,117</u>
(2) Revenues from commodity transactions.	<u>-</u>
(3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions.	<u>292,588</u>
(4) Reimbursements for postage in connection with proxy solicitation.	<u>-</u>
(5) Net gain from securities in investment accounts.	<u>365,692</u>
(6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date.	<u>8,036</u>
(7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act).	<u>-</u>
(8) Other revenue not related either directly or indirectly to the securities business. (See Instruction C):	
<u>Real Estate Rental Income</u>	<u>33,900</u>
(Deductions in excess of \$100,000 require documentation)	
(9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income.	\$ <u>879</u>
(ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960).	\$ <u>40,141</u>
Enter the greater of line (i) or (ii)	<u>40,141</u>
<b>Total deductions</b>	<u>1,106,474</u>
<b>SIPC Net Operating Revenues</b>	\$ <u>7,113,650</u>
<b>General Assessment @ .0025</b>	\$ <u>17,784</u>

(to page 1, line 2.A.)

**HAZLETT, BURT & WATSON, INC.**  
Wheeling, West Virginia

(S.E.C. I.D. No. 8-17737)

**FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES**

December 31, 2016 and 2015

And

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**