



DB

SEC  
Mail Processing  
Section

SE

19008174

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	August 31, 2020
Estimated average burden hours per response.....	12.00

MAR 04 2019  
Washington DC  
413

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

SEC FILE NUMBER
8-32590

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 01/01/18 AND ENDING 12/31/18  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: ProEquities, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

2801 Highway 280 South

(No. and Street)

Birmingham

Alabama

35223

(City)

(State)

(Zip Code)

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

Darren Guerrero 205-268-5553

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

PricewaterhouseCoopers LLP

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

569 Brookwood Village, Ste 851 Birmingham

Alabama

35209

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

<b>FOR OFFICIAL USE ONLY</b>

\*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)

RMS

OATH OR AFFIRMATION

I, Darren Guerrero, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of ProEquities, Inc. of December 31, 2018, 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:

My Commission Expires May 22, 2022

Handwritten signature of Darren Guerrero

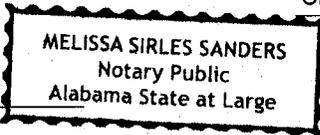
Signature

Chief Financial Officer

Title

Handwritten signature of Melissa Sirles Sanders

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).

**ProEquities, Inc.**  
**(a wholly owned subsidiary of**  
**Protective Life Corporation)**  
**Statement of Financial Condition**  
**December 31, 2018**

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Index to Statement of Financial Condition**  
**December 31, 2018**

---

	<b>Page(s)</b>
<b>Report of Independent Registered Public Accounting Firm .....</b>	<b>1</b>
<b>Financial Statements</b>	
Statement of Financial Condition .....	2
Notes to Statement of Financial Condition .....	3-14



## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of  
ProEquities, Inc.

### ***Opinion on the Financial Statement – Statement of Financial Condition***

We have audited the accompanying statement of financial condition of ProEquities, Inc. (the "Company"), a wholly owned subsidiary of Protective Life Corporation, as of December 31, 2018, including the related notes (collectively referred to as the "financial statement"). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

The financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of the financial statement in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as, evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

Birmingham, Alabama  
February 28, 2019

We have served as the Company's auditor since 1995.

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Statement of Financial Condition**  
**December 31, 2018**

---

**Assets**

Cash and cash equivalents	\$ 3,574,782
Investments, at fair value	23,584,470
Receivables from brokers and dealers	10,850,971
State income tax receivable	581,324
Fixed assets, net of accumulated depreciation of \$498,397	399,203
Other assets, net of allowance for uncollectible amounts of \$23,262	4,798,031
Deferred income taxes, net	296,160
Total assets	<u>\$ 44,084,941</u>

**Liabilities and Stockholder's Equity**

Liabilities

Commissions payable	\$ 3,437,410
Securities sold but not yet purchased	1,120,228
Due to parent and affiliates	2,399,257
Deferred compensation obligation	18,400,679
Other accrued expenses	6,043,810
Deferred revenue	337,585
Total liabilities	<u>\$ 31,738,969</u>

Stockholder's equity

Common stock, \$1 par value; 250,000 shares authorized, 114,408 shares issued and outstanding	\$ 114,408
Additional paid-in capital	18,475,311
Retained earnings	(6,243,747)
Total stockholder's equity	<u>\$ 12,345,972</u>
Total liabilities and stockholder's equity	<u>\$ 44,084,941</u>

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

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

---

**1. General**

ProEquities, Inc. (the "Company") is a full-service broker-dealer incorporated under the laws of the state of Alabama. The Company is also a registered investment advisor. The Company operates across the United States and is headquartered in Birmingham, Alabama. The Company is registered with the Securities and Exchange Commission (the "SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"). The Company is a wholly owned subsidiary of Protective Life Corporation ("PLC"). On February 1, 2015, PLC became a wholly owned subsidiary of Dai-ichi Life Insurance Company, Limited, a *kabushiki kaisha* under the laws of Japan. PLC provides operating capital to the Company, as needed, to provide supplemental funding for the operations and activities of the Company. In addition to the Company's core broker-dealer operations, the Company maintains a fixed income division that offers a wide variety of fixed income products and services to individual and institutional investors. The Company also maintains a wholesaling division supporting variable life insurance sales.

**2. Significant Accounting Policies**

**Basis of Presentation and Use of Estimates**

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP and prevailing industry practices requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

**Accounting for Securities Transactions**

The Company clears all exchange-based brokerage security transactions through Pershing, LLC ("Pershing"). Under the clearing arrangement, Pershing confirms securities trades, processes securities movements and records transactions for customers in its accounts, for which it receives a ticket charge per transaction. The Company also engages in investment security transactions with other settlement agents and with the direct product sponsor as issuer for certain investment security transactions. These trading activities may be conducted by the Company, its registered representatives/agents or through direct customer purchases with the affiliate counterparties. The Company has evaluated the credit worthiness of Pershing and its other counterparties and determined the risk of material financial loss due to credit risk exposure to be minimal.

**Cash and Cash Equivalents**

Cash and cash equivalents include demand deposits and investments in money market funds which are considered highly liquid instruments. The carrying amounts reported in the Statement of Financial Condition for these financial instruments approximate their fair values (as defined by the Accounting Standards Codification ("ASC") Fair Value Measurement and Disclosure Topic) due to their short-term nature. Cash and cash equivalents are classified as Level 1 in accordance with the fair value hierarchy of the ASC Fair Value Measurement and Disclosure Topic.

**Investments**

Investments are reported at fair value, with the resulting unrealized and realized gains and losses recognized currently in earnings.

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

---

**Fixed Assets**

Fixed assets are recorded at cost and are depreciated using the straight-line method over their estimated useful lives which range from 3 to 5 years. Maintenance and repairs are charged to expense when incurred; betterments and improvements that materially prolong the lives of the assets are capitalized. The cost of assets sold or retired and the related accumulated depreciation are removed from the respective accounts, and the gain or loss on such disposition is recognized currently.

**Receivables from Brokers and Dealers**

The receivables from brokers and dealers represents commissions and other fees to be collected from the clearing broker, mutual fund companies, product sponsors, variable annuity and variable life companies. Additionally, this balance includes cash required to be held on deposit at Pershing of \$0.1 million.

**Other Assets**

Other assets are comprised primarily of prepaid expenses, loans to the Company's representatives and reimbursable expenses paid by the Company on its agents' behalf. The Company's finance receivables are primarily in the form of agent debit balances and agent notes receivable. Certain agent notes receivable contain terms which may result in the Company forgiving the principal and interest payments should the agent meet certain sales targets. The Company has recorded an allowance of \$23,262 against these receivables based on the specific terms at December 31, 2018. The Company records an allowance for credit losses, which is developed based upon the Company's historical experience of write-offs of the related agent debit balances. Notes receivable are reserved based upon specific indicators of an inability to pay or intent not to pay. The amount of such receivables which were forgiven or written off during the year ended December 31 2018, was \$491,993.

**Contingent Liabilities**

The Company recognizes liabilities for contingencies when there is an exposure that, when fully analyzed, indicates it is both probable a liability has been incurred and the amount of loss or obligation can be reasonably estimated. The determination of whether a loss is probable and the estimate of an associated range of loss is subject to significant judgments and assumptions based on currently available information as of the reporting date and may materially change based on facts and circumstances presented in future periods. When a loss is considered to be probable and a range of possible loss can be estimated, the Company accrues the most likely amount within that range based upon management's judgment after the consideration of facts currently known and after consultation with its legal counsel, if appropriate.

As a result of the extensive regulation of the financial services industry, the Company's operations are subject to regular reviews and inspections by regulatory authorities and self-regulatory organizations. Such reviews and inspections can result in the imposition of sanctions for regulatory violations, ranging from non-monetary censures to censures with fines or other monetary repercussions.

**Income Taxes**

The results of operations of the Company are included in the consolidated federal and state income tax returns of PLC and its subsidiaries. The Company utilizes the asset and liability method in accordance with the Accounting Standards Codification ("ASC") Income Taxes Topic. The method of allocation of current income taxes between the affiliates is subject to

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

---

a written agreement under which the Company incurs a liability to PLC to the extent that a separate return calculation indicates that the Company has a federal income tax liability. If the Company has an income tax benefit, the benefit is recorded currently to the extent it can be carried back against prior years' separate company income tax expense. Any amount not carried back is carried forward on a separate company basis, and the tax benefit is reflected in future periods when the Company generates taxable income. With respect to state jurisdictions in which PLC and its subsidiaries file on a consolidated or unitary basis, the state tax benefit associated with separate company state net operating losses is paid by PLC in the year in which the loss is generated. Income taxes recoverable (payable) are recorded in the due to/from affiliates account and are settled periodically, per the tax sharing agreement.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "Tax Reform Act"). The legislation significantly changes U.S. tax law by, among other things, lowering the corporate income tax rate. The Tax Reform Act permanently reduces the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018.

**Concentration of Credit Risk**

The Company maintains depository accounts with certain financial institutions. Although these account balances exceed federally insured depository limits, the Company has evaluated the credit worthiness of these applicable financial institutions and determined the risk of material financial loss due to exposure from credit risk to be minimal.

**Accounting Pronouncements Recently Adopted**

**ASU No. 2016-01 - Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities.** The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most notably, the Update requires that equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) be measured at fair value with changes in fair value recognized in net income. The Update also introduces a single-step impairment model for equity investments without a readily determinable fair value. Additionally, the Update requires changes in instrument-specific credit risk for fair value option liabilities to be recorded in other comprehensive income. The amendments in this Update were effective for annual and interim periods beginning after December 15, 2017. The Company adopted the updated guidance in ASU 2016-01 on January 1, 2018. The adoption of ASU 2016-01 effective January 1, 2018 did not have any impact on the Company's financial statements.

**ASU No. 2014-09 – Revenue from Contracts with Customers (Topic 606).** This Update provides for significant revisions to the recognition of revenue from contracts with customers across various industries. Under the new guidance, entities are required to apply a prescribed 5-step process to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Update also requires new qualitative and quantitative disclosures, including disaggregation of revenues, along with and descriptions of associated performance obligations.

The Update was effective for annual and interim periods beginning after December 15, 2017. The Company adopted the updated guidance in ASU 2014-09 on January 1, 2018 using the

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

---

modified retrospective approach. The adoption did not impact the timing or amounts of the Company's revenue recognition, and the Company made no material changes to its accounting policies and processes as a result of the adoption.

**Accounting Pronouncements Not Yet Adopted**

**ASU No. 2016-02 - Leases.** The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of leases. The most significant change will relate to the accounting model used by lessees. The Update will require all leases with terms greater than 12 months to be recorded on the balance sheet in the form of a lease asset and liability. The lease asset and liability will be measured at the present value of the minimum lease payments less any upfront payments or fees. The amendments in the Update are effective for annual and interim periods beginning after December 15, 2018 on a modified retrospective basis. The Company is reviewing its policies and processes to ensure compliance with the requirements in the Update upon adoption.

**ASU No. 2016-13 - Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments.** The amendments in this Update introduce a new current expected credit loss ("CECL") model for certain financial assets, including trade and other receivables. For assets within the scope of the new model, an entity will recognize as an allowance against earnings its estimate of the contractual cash flows not expected to be collected on day one of the asset's acquisition. The allowance may be reversed through earnings if the asset recovers in value. This differs from the current impairment model, which requires recognition of credit losses when they have been incurred. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2019 on a modified retrospective basis. The Company is reviewing its policies and processes to ensure compliance with the requirements in this Update, upon adoption, and assessing the impact this standard will have on its operations and financial results.

**3. Related Parties**

The Company occupies office space under a monthly rental arrangement in the office building of an affiliate, Protective Life Insurance Company (PLICO). In addition, PLICO provides various human resource services, legal services, and technology support and infrastructure. The Company is billed by PLICO, which is also a wholly owned subsidiary of PLC, for these items and related amounts due are settled monthly in the normal course of the Company's operations.

The Company also contracts with First Protective Insurance Group, Inc., an affiliate, for management and administrative services supporting its wholesaling division.

All employees of the Company participate in the PLC Defined Benefit Pension Plan and/or its Unfunded Excess Benefits Plan (collectively "the Plans"). The Plans are not separable by affiliates participating in the plans. The benefits are based on years of service and the employee's compensation. PLC's funding policy is to contribute amounts to the Plans sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act (ERISA) plus such additional amounts as PLC may determine appropriate from time to time. Contributions are intended to provide not only for benefits attributable for service to date but also for those benefits expected to be earned in the future.

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

---

The employees of the Company also are eligible to participate in PLC's qualified, defined contribution employee benefit plan under Internal Revenue Code Section 401(k). PLC provides a match for employee contributions to the 401(k) plan in cash. PLC also has adopted a supplemental matching contribution program which is a nonqualified plan that provides supplemental matching contributions in excess of limits imposed on qualified deferred contribution plans by federal law. In addition, PLC provides limited health care benefits to eligible retired employees of the Company until age 65 and provides certain medical and other benefits to active employees of the Company.

**4. Fixed Assets**

Fixed assets consist of the following as of December 31, 2018:

System software	\$ 897,600
Less: Accumulated depreciation	<u>(498,397)</u>
Net fixed assets	<u>399,203</u>

**5. Income Taxes**

The following table shows the significant components of the net deferred income tax asset as of December 31, 2018.

Deferred income tax asset	
Deferred compensation	\$ 5,276,282
Legal reserve and contingencies	128,421
Accrued vacation	24,895
Other	6,098
Valuation allowance	<u>(5,022,062)</u>
Total gross deferred income tax asset	\$ 413,634
Deferred income tax liability	
Prepaid expense	\$ 109,029
Software	8,445
Total gross deferred income tax liability	<u>\$ 117,474</u>
Net deferred income tax asset	<u>\$ 296,160</u>

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2018. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth.

On the basis of this evaluation, as of December 31, 2018, a valuation allowance of \$5.0 million has been recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

---

losses is no longer present and additional weight is given to subjective evidence such as our projections for growth.

In general, the Company is no longer subject to income tax examinations by taxing authorities for tax years that began before 2014.

As of December 31, 2018, the Company evaluated the need for the recognition of uncertain tax liability in accordance with the guidance of ASC 740, "Income Taxes," and determined none should be recorded or disclosed. The Company's policy is to recognize interest and penalties related to tax contingencies in income tax expense during the period in which they are identified.

Included in the "Due to parent and affiliates" on the accompanying financial statements are current income taxes payable of \$0.1 million at December 31, 2018.

**6. Regulatory Requirements**

The Company is subject to the SEC's Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital (as defined) and requires the ratio of aggregate indebtedness (as defined) to net capital shall not exceed 15 to 1. At December 31, 2018, the Company had computed net capital of \$4.3 million which was \$3.4 million in excess of its required minimum net capital of \$0.8 million. The Company's aggregate indebtedness to net capital ratio at December 31, 2018 was 289.88%.

The Company has claimed an exemption from the provisions of SEC Rule 15c3-3 under paragraph (k)(2)(ii), as it has disclosed that all exchange-based transactions are cleared with customers on a fully disclosed basis through a clearing broker or dealer and customer funds and securities are promptly transmitted to the clearing broker or dealer which carries all of the accounts of such customers.

The Company has claimed an exemption from the provisions of SEC Rule 15c3-3 under paragraph (k)(2)(i), as it promptly transmits all customer funds received in connection with its activities as a broker or dealer, does not otherwise hold funds or securities for, or owe money or securities to, customers and effectuates all financial transactions between the broker or dealer and its customers through one or more bank accounts, each to be designated as "Special Account for the Exclusive Benefit of Customers" of the Company.

**7. Deferred Compensation Plans**

The Company has established deferred compensation plans for the benefit of its registered representatives. Deferred compensation withheld under these plans is used to purchase investments (primarily mutual funds, equities, and life insurance policies), as directed by the participants. In addition, the Company may provide matching contributions for participants who meet certain production targets. Matching contributions of \$22,000 were paid by the Company during 2018.

A trust was established to aid the Company in meeting its obligations under the plans. Investments held by the trust are consolidated and reported as investments of the Company in the accompanying Statement of Financial Condition. Investments are reported at fair value. Life insurance policies held by the trust are reported at their cash surrender value.

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

---

The Company records a deferred compensation obligation equal to the total reported fair value of the trust assets (See Note 9). The registered representatives who are grantors of the trust, participating in the deferred compensation plans, bear the entire investment risk of the underlying investments of the deferred compensation plans.

**8. Investments**

The Company holds certain securities used for operational trading purposes with Pershing. The securities are classified as either marketable securities owned or securities sold but not yet purchased. The following table shows these securities at fair value as of December 31, 2018:

	Owned	Sold Not Yet Purchased
U.S. government & agency obligations	\$ -	\$ 1,117,198
Municipal obligations	5,167,446	-
Equity securities	25,710	3,030
	<u>\$ 5,193,156</u>	<u>\$ 1,120,228</u>

The Company also holds securities related to the deferred compensation plans that are held at fair value. The investments in the deferred compensation plans consist of the following securities as of December 31, 2018:

Mutual fund investments	\$ 17,277,240
Life insurance policies	436,751
Equity securities	447,207
U.S. government and agency obligations	230,116
	<u>\$ 18,391,314</u>

The Company has recorded an offsetting liability for the value of these investments held in the deferred compensation plan.

Generally, all investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible changes in risks in the near term could materially affect investment balances, the amounts reported in the Statement of Financial Condition.

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

---

**9. Fair Value of Financial Instruments**

The Company determined the fair value of its financial instruments based on the fair value hierarchy established in FASB guidance referenced in the ASC Fair Value Measurements and Disclosures Topic, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the Statement of Financial Condition are categorized as follows:

- **Level 1:** Unadjusted quoted prices for identical assets or liabilities in an active market
- **Level 2:** Quoted prices in markets that are not active or significant inputs that are observable either directly or indirectly. Level 2 inputs include the following:
  - a. Quoted prices for similar assets or liabilities in active markets
  - b. Quoted prices for identical or similar assets or liabilities in non-active markets
  - c. Inputs other than quoted market prices that are observable
  - d. Inputs that are derived principally from or corroborated by observable market data through correlation or other means
- **Level 3:** Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. They reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

---

The following table presents the Company's hierarchy for its assets measured at fair value on a recurring basis as of December 31, 2018.

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Inventory investments				
State, municipalities, and political subdivisions	\$ -	\$ 5,167,446	\$ -	\$ 5,167,446
Equity securities	25,710	-	-	25,710
Total inventory investments	<u>\$ 25,710</u>	<u>\$ 5,167,446</u>	<u>\$ -</u>	<u>\$ 5,193,156</u>
Deferred compensation plan				
Equity securities	\$ 447,207	\$ -	\$ -	\$ 447,207
US Government and authorities	-	230,116	-	230,116
Mutual funds	17,277,240	-	-	17,277,240
Life insurance policies	-	-	436,751	436,751
Total deferred compensation plan	<u>\$ 17,724,447</u>	<u>\$ 230,116</u>	<u>\$ 436,751</u>	<u>\$ 18,391,314</u>
Cash and cash equivalents	<u>\$ 3,574,782</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,574,782</u>
Total assets measured at fair value on a recurring basis	<u>\$ 21,324,939</u>	<u>\$ 5,397,562</u>	<u>\$ 436,751</u>	<u>\$ 27,159,252</u>
<b>Liabilities</b>				
US Government and authorities	\$ -	\$ 1,117,198	\$ -	\$ 1,117,198
Equity Securities	3,030	-	-	3,030
Total liabilities measured at fair value on a recurring basis	<u>\$ 3,030</u>	<u>\$ 1,117,198</u>	<u>\$ -</u>	<u>\$ 1,120,228</u>

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

---

**Determination of Fair Values**

The valuation methodologies used to determine the fair values of assets and liabilities reflect market-participant assumptions and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the fair values of certain financial assets and financial liabilities based on quoted market prices, where available. Fair values reflect adjustments for counterparty credit quality, the Company's credit standing, liquidity and, where appropriate, risk margins on unobservable parameters. The following is a discussion of the methodologies used to determine fair values for the financial instruments, as listed in the above table.

**Fixed Maturity Securities and Securities Sold but Not Yet Purchased**

The fair value of fixed maturity securities and securities sold but not yet purchased is determined by management after considering third party pricing services as their primary source of information. Typical inputs used by this pricing method include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, third party pricing services normally derive the security prices through recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information outlined above.

The Company has analyzed the third party pricing services' valuation methodologies and related inputs, and has also evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs that is in accordance with the ASC Fair Value Measurements and Disclosures Topic. Based on this evaluation and investment class analysis, each price was classified into Level 1, 2 or 3. Most prices provided by third party pricing services are classified into Level 1 and 2 because they have quoted market prices, or significant inputs used in pricing the securities are market observable.

In addition, the Company has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded these obligations in the financial statements at December 31, 2018, at fair values of the related securities and will incur a loss if the fair value of the securities increases subsequent to December 31, 2018 prior to purchase or settlement.

**Deferred Compensation Plan Investments**

The Company holds investments in open-ended mutual funds, life insurance policies, equity securities, U.S. government and agency obligations, and other investments related to the deferred compensation plan. Open-ended mutual funds are classified as Level 1 as published net asset values are utilized for the individual securities. Equity securities are classified as Level 1 as the closing prices on exchanges are utilized for individual securities. U.S. government and authorities investments are classified as either Level 1 or Level 2 based on the principal market for the security. Life insurance policies held by a related party (PLICO) are carried at their cash surrender value and reported as Level 3 under the market approach. Cash surrender value represents the amount of cash that may be realized by the owner of a life insurance contract upon discontinuance and surrender of the contract prior to maturity.

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

---

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the year ended December 31, 2018, for which the Company has used significant unobservable inputs (Level 3):

	Beginning Balance	Realized and Unrealized	Purchases	Sales	Ending Balance
<b>Assets</b>					
Life insurance policies	\$ 475,991	\$ (39,240)	\$ -	\$ -	\$436,751
Total assets measured at fair value on a recurring basis	<u>\$ 475,991</u>	<u>\$ (39,240)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$436,751</u>

The Company did not transfer any Level 1, 2, or 3 investments for the year ended December 31, 2018.

Purchases and settlements represent activity that occurred during the period that results in a change of the asset but does not represent changes in fair value for the instruments held at the beginning of the period.

The following table presents the valuation method for material financial instruments included in Level 3, as well as unobservable inputs used in the valuation of those financial instruments:

	Fair Value Dec 31, 2018	Valuation Technique	Unobservable Input
<b>Assets</b>			
Life insurance policies held in deferred compensation plan	436,751	Cash Surrender Value	Financial Stability of Insurer

**10. Commitments and Contingencies**

A number of civil jury or arbitration verdicts have been returned against companies in the jurisdictions in which the Company does business involving sales practices of representatives, alleged misconduct, and other matters. These matters have often resulted in the awarding of judgments against these companies that are disproportionate to the actual damages, including material amounts of punitive damages. In some states, juries or arbitrators have substantial discretion in awarding punitive damages which creates the potential for unpredictable material adverse judgments in any given punitive damage suit. In the normal course of business, the Company has been named, from time to time, as a defendant in various legal actions. In addition, the Company may also be the subject of reviews of its operations by regulatory authorities and self-regulatory organizations.

The Company contests liability and/or the amount of damages as appropriate in each pending matter brought against it. Related to any such matters, if the Company has information available to it which indicates that it is probable that a liability has been incurred as of the date of the financial statements and the Company can reasonably estimate the amount of that loss, the Company accrues the estimated liability by a charge to income. In many instances it may be inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any potential loss. In addition, even where loss is

**ProEquities, Inc.**  
**(a wholly owned subsidiary of Protective Life Corporation)**  
**Notes to Statement of Financial Condition**  
**December 31, 2018**

---

possible or an exposure to loss exists in excess of the liability accrued with respect to a previously recognized loss contingency, it is not always possible to reasonably estimate the amount of the possible loss or range of loss. Subject to the foregoing, management of the Company believes, based on currently available information, after consultation with outside legal counsel and taking into account its established reserves that pending legal actions, investigations and regulatory inquiries will be resolved with no material adverse effect on the consolidated financial position of the Company. However, if during any period a potential adverse contingency should become probable or be resolved in an amount in excess of the established reserves, the results of operations in that period could be materially adversely affected. In addition, there can be no assurance that material losses will not be incurred from claims that have not yet been brought to the Company's attention or are not yet determined to be probable or reasonably possible to result in loss. The Company has established a total liability for all such matters of approximately \$2.4 million, including amounts owed to regulatory agencies, as of December 31, 2018. This liability is included in "Other accrued expenses" on the Statement of Financial Condition.

Management currently estimates the aggregate range of possible loss is from \$0 to \$1 million in excess of the accrued liability (if any) related to contingent matters as of December 31, 2018 where the likelihood of loss is at least reasonably possible. The Company policy for accounting for legal fees is to record such fees as the services are provided.

In February 2018, the SEC announced a Share Class Selection Disclosure Initiative ("Initiative") to encourage registered investment advisory firms to self-report failures to disclose conflicts of interest to clients concerning the selection of mutual fund share classes that paid fees pursuant to Rule 12b-1 of the Investment Company Act of 1940 for the period 2014 through the date that the receipt of such fees stopped. Under the Initiative, the SEC will require self-reporting firms, among other things, to disgorge to clients the 12b-1 fees received during the relevant period when lower-cost share classes were available. The Company has chosen to self-report under the Initiative and has taken reserves totaling \$1.9 million.

In the normal course of business, the Company's customer activities involve the execution and settlement of various customer securities. The Company uses a clearing broker-dealer to execute exchanged-based and customer transactions which are held in brokerage accounts maintained by the clearing broker-dealer. Such transactions may expose the Company and the clearing broker-dealer to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses which customers may incur. In the event customers fail to satisfy their obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customers' obligations.

**11. Subsequent Events**

The Company has evaluated events subsequent to December 31, 2018, and through the financial statement issuance date of February 28 2019. The Company has not evaluated subsequent events after that date for presentation in these financial statements.