

14. Other Assets

Included in "Other Assets" are deposits with clearing organizations in the amount of \$135,721, consisting of \$117,917 in cash and \$2,083 in preferred stock and \$15,721 in common stock.

15. Receivable From and Payable to Customers

Accounts receivable from and payable to customers include amounts due on cash and margin transactions. Securities owned by customers are held as collateral for receivables.

16. Exchange Membership

The Company's exchange membership, as of December 31, 2005, was carried at cost. In March 2006, as a result of a merger between the New York Stock Exchange, Inc. and Archipelago Holdings, Inc., an all-electronic stock exchange operator, the Company's membership was exchanged for \$300,000 in cash and 80,177 restricted shares of the newly merged company (NYSE Group). While the Company has elected to remain under the regulatory jurisdiction of NYSE Regulation, it has not elected to lease a trading license for direct access to the trading markets of NYSE Group.

In May 2006, the Company participated in a limited secondary offering of its shares in NYSE Group. In that offering, 12,946 shares of the restricted stock were sold for proceeds totaling approximately \$780,000. The remaining 67,231 shares of NYSE Group remain restricted from sale as follows:

13,781 Shares -- restriction expires March 7, 2007
26,725 Shares -- restriction expires March 7, 2008
26,725 Shares -- restriction expires March 7, 2009

17. Investment Advisory Revenues

In May 2006, the Company formed Security Capital Management (SCM). This division of the Company is registered with the Securities and Exchange Commission as an Investment Advisor. SCM provides investment management services under an investment advisor model.

MEMBERS

New York Stock Exchange, Inc.

National Association of
Securities Dealers, Inc.

Securities Investor
Protection Corporation

www.hazlettbert.com

BODKIN WILSON & KOZICKI PLLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholder
of Hazlett, Burt & Watson, Inc.:

We have audited the statement of financial condition of Hazlett, Burt & Watson, Inc., as of December 31, 2006. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement 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 statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Hazlett, Burt & Watson, Inc., as of December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

BODKIN WILSON & KOZICKI PLLC
Wheeling, West Virginia
February 2, 2007

OFFICERS

George S. Weaver, Jr.
Chairman/Chief Executive Officer

Marilynn S. Echols
President/Chief Operating Officer

George S. Weaver, III**
Senior Executive Vice President/Treasurer

Stuart F. Bloch
John R. Forbes, Jr.*
Michael T. Barickman
Executive Vice Presidents

Timothy M. Bidwell
Executive Vice President/Secretary

Harold B. Burech
W. P. Holloway, Jr.
Senior Vice Presidents

Nancy L. Deem*
Robert D. Fennell, Jr.*
Kathleen A. Tyler**
First Vice Presidents

Jason L. Marsh
Vice President/Assistant Secretary

Raymond E. Hindy*
Tarina S. Olson
James A. Pastorius
Bernadette M. Smith
Susan L. Weisenborn
Vice Presidents

*Vienna Office **Lancaster Office

HAZLETT, BURT & WATSON, INC.



Audited Statement of Financial Condition

December 31, 2006

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Phone: (304) 233-3312
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Phone: (304) 295-6700
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Lancaster, PA 17608-1267
Phone: (717) 397-5988
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Fax: (717) 397-6012

HAZLETT, BURT & WATSON, INC.
STATEMENT OF FINANCIAL
CONDITION
DECEMBER 31, 2006

Assets

Cash	\$ 610,743
Receivable from broker-dealers	156,430
Receivable from customers	3,971,591
Receivable from officers and employees	1,229
Receivable from clearing broker	134,254
Firm trading account, at market value	229,046
Firm investment account:	
Marketable, at market value	1,513,033
Not readily marketable, at estimated fair value.	5,102,067
Furniture, equipment and leasehold improvements at cost, less accumulated depreciation of \$370,880	95,071
Real estate and improvements at cost, less accumulated depreciation of \$71,106	227,726
Other assets	928,806
	<u>\$ 12,969,996</u>

Liabilities and Shareholder's Equity

Liabilities:

Payable to broker-dealers and clearing organizations	\$ 219,727
Payable to customers	1,824,809
Payable to banks	690,000
Accounts payable and accrued liabilities	715,565
	<u>\$ 3,450,101</u>

Shareholder's equity:

Capital stock, \$1.6667 par value, 250,000 shares authorized; 203,500 shares outstanding	\$ 339,173
Less - Treasury stock, 2,000 shares	(3,333)
Capital in excess of par value	400,754
Retained earnings	8,783,301
	<u>\$ 9,519,895</u>
	<u>\$ 12,969,996</u>

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

HAZLETT, BURT & WATSON, INC.
NOTES TO THE STATEMENT OF
FINANCIAL CONDITION
DECEMBER 31, 2006

1. Summary of Significant Accounting Policies

Organization and Nature of Business - The Company is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the New York Stock Exchange and the National Association of Securities Dealers (NASD). The Company is a West Virginia S Corporation that is a wholly owned subsidiary of HB&W, Inc.

Basis of Accounting - The statement of financial condition is presented using the accrual method of accounting.

Security Transaction Accounting - Firm securities transactions effected in the firm investment account are recorded on a trade date basis. All other firm proprietary and customer security transactions along with related commission revenues and expenses are recorded on a settlement date basis. Settlement is generally required on the third business day following the trade date.

Firm Trading and Investment Accounts - Marketable securities are carried at market value and securities not readily marketable are valued at fair value as determined by management.

Depreciation - Depreciation on real estate and improvements, furniture, equipment and leasehold improvements is provided using various methods over their estimated useful lives.

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.

2. Receivable from and Payable to Broker-Dealers and Clearing Organizations

Amounts receivable from and payable to other broker-dealers and clearing organizations result from normal trading and borrowing transactions.

3. Lease Commitments

The Company leases office facilities and equipment under noncancelable leases which expire at different dates from 2007 through 2012. The annual rental commitment pursuant to these leases is approximately \$151,154 in 2007. Certain existing leases contain renewal options.

4. Net Capital Requirement

The Company is subject to the net capital rule (Rule 15c3-1) of the Securities and Exchange Commission. This rule requires that the ratio of aggregate indebtedness to net capital not exceed 15 to one. At December 31, 2006, the Company's ratio of aggregate indebtedness to net capital was approximately 1.10 to one and net capital, as computed in accordance with Rule 15c3-1, was \$3,128,211, as compared to a minimum net capital requirement of \$250,000.

5. 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 for 2006 was \$72,983 and is included in the Company's total contribution for 2006 of \$280,157.

6. Payable to Banks

The Company maintains various lines of credit at local banks which total \$1,850,000. As of December 31, 2006, the Company had not drawn on the available credit. These lines of credit are unsecured, are payable on demand and carry interest rates ranging from 7.75% to 9.25%.

The Company also maintains a \$15,000,000 brokerage credit agreement. As of December 31, 2006, the Company had collateralized \$3,779,738 of this credit line and had utilized \$690,000 of this credit line. The available credit was collateralized by \$864,998 in customer's margined securities, \$1,275,950 in firm owned securities and \$1,638,790 in related household (household members and other persons related to principals) securities. This credit agreement is payable on demand, and bears a variable interest rate of 6.45%.

7. Income Taxes

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.

8. Financial Instruments with Off -Balance-Sheet Risk

In the normal course of business, the Company's customer and broker activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations.

The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral, or reduces excess positions, when necessary.

The Company's customer financing and securities settlement activities require the Company to pledge customer securities as collateral in support of various secured financing sources such as bank loans. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company might be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. The Company controls the risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes credit limits for such activities and monitors compliance on a daily basis.

9. Concentrations of Credit Risk

The Company currently maintains operations in Wheeling and Vienna, West Virginia 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 credit worthiness 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.

As of December 31, 2006, Hazlett, Burt & Watson, Inc. maintains several bank accounts at various banks. Accounts at a banking institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Cash at several of these institutions exceeded federally insured limits. The amount in excess of the FDIC limit totaled \$501,815.

10. Firm Trading and Investment Accounts

The statement of financial condition reflects the market value of marketable securities and the estimated fair value of not readily marketable securities in the

firm trading and investment accounts. The related cost and unrealized appreciation (depreciation) are as follows:

	<u>Firm Trading</u>	<u>Investment</u>
Cost	\$ 231,723	\$ 675,452
Market/Fair Value	229,046	6,615,100
Unrealized Appreciation (Depreciation)	<u>\$ (2,677)</u>	<u>\$ 5,939,648</u>

Investment securities at market value/fair value are as follows:

Marketable corporate stocks	\$ 1,513,033
Not readily marketable stock	5,102,067
	<u>\$ 6,615,100</u>

Trading securities at market value are as follows:

Government agencies	\$ 24,284
State and municipal obligations	201,687
Corporate Stocks	3,075
	<u>\$ 229,046</u>

11. 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 Co. Security National Trust Co. is a national nondepository bank that provides trust and custodial services. Both Hazlett, Burt & Watson, Inc. and Security National Trust Co. are 100% owned subsidiaries of HB&W, Inc.

Hazlett, Burt & Watson, Inc. has paid for various costs for HB&W, Inc. and this amount is reflected within the other assets section of the statement of financial condition as a receivable. As of December 31, 2006, Hazlett, Burt & Watson, Inc. is owed \$121,320 from HB&W, Inc.

In addition, Hazlett, Burt & Watson, Inc. periodically provides brokerage, clerical, computer support and miscellaneous services at cost and leases office space to Security National Trust Co. in the Wheeling, West Virginia office. The terms of the lease require Security National Trust Co. to pay \$30,000 per year for the period January 1, 2005 through December 31, 2009.

Security National Trust Co. has also entered into a one year lease, beginning January 1, 2005, to sub-lease office space and furniture from Hazlett, Burt & Watson, Inc. at the Lancaster, Pennsylvania location for \$18,000 per year. In 2006 Security National Trust Co. exercised their option to renew the lease for one 12-month period under the same terms. This option was not renewed for fiscal year 2007.

Security National Trust Co. 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 Co. charges the standard and customary fees for providing these services.

12. Cash Segregated Under Federal Regulations

Included in the cash account on the statement of financial condition is cash of \$1,000 that has been segregated in a special reserve bank account for the benefit of customers under rule 15c3-3 of the Securities and Exchange Commission.

13. Commitments

As of December 31, 2004 the Company had entered into employment agreements with certain employees. The initial agreements expire on December 31, 2008 and automatically renew for an additional one year period at the end of each year. In the event employment is terminated (other than voluntarily by the employee or by the Company for cause in all agreements or upon disability in one of the agreements), the Company is committed to pay various benefits, including monthly severance of not more than \$35,000 per month. The benefits are to be paid from the date of termination over varying lengths of time in accordance with the terms of each agreement.