CARTY & COMPANY, INC.

Statement of Financial Condition

December 31, 2008

ASSETS	
Cash	$1,046,610
Receivables:	
Broker-dealers and clearing organizations	115,622
Officers, directors and employees	435,501
Securities owned, at market value	7,647,819
Furniture, equipment and leasehold improvements,	
net of accumulated depreciation of $847,603	247,047
Deferred income taxes	1,106,815
Other assets	288,374
	$10,887,788
LIABILITIES AND STOCKHOLDER'S EQUITY	
Payable to broker-dealers	4,715,528
Securities sold, not yet purchased	958
Accounts payable and accrued liabilities	548,068
	5,264,554
COMMITMENTS AND CONTINGENT LIABILITIES	–
STOCKHOLDER'S EQUITY	
Common stock, no par value; authorized 25,000	
shares; issued 10,500 shares; outstanding 3,833 1/3 shares	2,208,790
Retained earnings	3,495,462
	5,704,252
Less cost of 6,666 2/3 shares of treasury stock	81,018
	5,623,234
	$10,887,788

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

CARTY & COMPANY, INC.

Independent Auditor's Report

Jackson, Howell & Associates, PLLC

CERTIFIED PUBLIC ACCOUNTANTS/BUSINESS CONSULTANTS
7240 GOODLETT FARMS PARKWAY, SUITE 101
CORDOVA, TENNESSEE 38016-4925
(901) 683-5100

To the Board of Directors
Carty & Company, Inc.
Memphis, Tennessee

We have audited the accompanying statement of financial condition of Carty & Company, Inc. as of December 31, 2008. 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 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 statement referred to above presents fairly, in all material respects, the financial position of Carty & Company, Inc. as of December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

JACKSON, HOWELL & ASSOCIATES, PLLC
Cordova, Tennessee
February 20, 2009

Carty & Company, Inc.

Member Financial Industry Regulatory Authority

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P. O. Box 17527
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CARTY & COMPANY, INC..

Member Financial Industry Regulatory Authority

STATEMENT OF FINANCIAL CONDITION
December 31, 2008

CARTY & COMPANY, INC.

Notes to Financial Statement

December 31, 2008

NOTE A - OPERATIONS AND ORGANIZATION

Carty & Company, Inc. is a securities broker-dealer operating under provisions of the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority. The Company is a wholly-owned subsidiary of Carty Financial Corporation. Customers' funds and securities are protected to the limits provided by the Securities Investor Protection Corporation.

During 2008, the Company switched from self-clearing to introducing through another Broker/Dealer. As part of the process, Carty & Company, Inc. now claims an exemption to the reserve requirements of Rule 15c3-3 of the SEC.

The Company operates primarily as a principal in transactions for the purchase and sale of various types of debt securities which include obligations of the United States Government, federal government agencies, various state and local governments, and corporate debt. The Company also acts as agent for customers in acquiring certificates of deposits, equity securities, mutual funds and private placement of mortgage loans.

The Company's securities transactions are made primarily with individuals, financial institutions, credit unions, private organizations and other broker-dealers.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recording Security Transactions

Purchases and sales of securities and related commission revenues and expenses are recorded on a settlement date basis, generally the third business day following the trade date. If materially different, transactions are adjusted to a trade date basis.

Collateral

The Company continues to report assets it has pledged as collateral in secured borrowing and other arrangements when the secured party cannot sell or pledge the assets.

Securities Owned and Securities Sold, But Not Yet Purchased

Marketable securities, consisting of stocks, corporate bonds, state, municipal and United States and agencies obligations, and securities sold, but not yet purchased, are valued at market value. Securities not readily marketable are stated at their estimated value. Rules and regulations of the Securities and Exchange Commission require valuation of broker-dealer owned securities to be valued at market. Unrealized gains and losses have been included in income.

Accounting for Bad Debts

The Company uses the direct write-off method of accounting for bad debts. Management has reviewed all material accounts receivable and has charged operations with all amounts above anticipated collections. Management views all material amounts remaining as collectible; therefore, a provision for doubtful accounts has not been made.

Property and Equipment

Property and equipment are stated at cost.

Depreciation expense is determined by the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Leasehold improvements are amortized over the lesser of the economic useful life or the term of the lease.

Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs

The Company expenses all advertising costs, including direct response advertising costs, as they are incurred. Total advertising costs for the year ended December 31, 2008 were $11,034.

Income Taxes

The Company is included in the consolidated federal income tax return filed by its Parent. Federal income taxes are calculated as if the Company filed a separate return; and the amount of current tax expense or benefit calculated is either remitted to or received from the Parent. The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in deferred tax liabilities or assets between years.

Allocated Expenses from Parent Company

The Parent incurs the costs of salaries, commissions and related expenses and allocates such costs to the operations of the Company. The Parent charges the company a management fee to cover salary processing costs.

NOTE C - RECEIVABLE FROM AND PAYABLE TO BROKER-DEALERS AND CLEARING ORGANIZATIONS

Amounts receivable from and payable to broker-dealers and clearing organizations at December 31, 2008, consist of the following:

	Receivable	Payable
Deposits	$110,000	$ –
Receivable from clearing organizations	5,622	–
Payable to clearing organizations	–	4,715,528
	$115,622	$4,715,528

NOTE D - SECURITIES OWNED AND SOLD, NOT YET PURCHASED

Marketable securities owned and sold, not yet purchased, consist of trading and investment securities at market value, as follows:

	Owned	Sold, Not Yet Purchased
Obligations of the United States Government	$4,096,535	$ 958
Obligations of states, counties, & municipalities	3,331,956	–
Corporate obligations	207,100	–
Stocks and warrants	7,737	–
Securities owned not readily marketable	4,491	–
	$7,647,819	$ 958

Securites owned not readily marketable include investment securities (a) for which there is no market on a securities exchange or no independent publicly quoted market, (b) that cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1933, or (c) that cannot be offered or sold because of other arrangements, restrictions, or conditions applicable to the securities or to the Company. At December 31, 2008, these securities at estimated fair values consist primarily of equity securities.

NOTE E - INCOME TAX MATTERS

Net deferred tax assets consist of the following components as of December 31, 2008:

Deferred tax assets (liabilities):	
Net operating loss carryforward	$1,108,068
Property and equipment	(1,253)
Less valuation allowance	-
	$1,106,815

Current and deferred taxes by jurisdiction are as follows:

	Current	Deferred	Total
Federal	$ -	$106,902	$ 106,902
State and Local	$ -	30,512	30,512
	$ -	$137,414	$ 137,414

The alternative minimum tax (AMT) credit carryforward may be carried forward indefinitely to reduce future regular income taxes payable. The AMT credit carryforward as of December 31, 2008 was $20,666. The net operating loss (NOL) carryforward may be carried forward for 20 years, and any unused NOL will expire as follows:

	Federal	State
December, 2021	$119,197	$ -
December, 2026	1,038,086	356,964
December, 2027	526,517	360,486
December, 2028	1,226,927	1,102,270
	$2,910,727	$1,819,720

NOTE F - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined under the applicable rules, shall not exceed 15 to 1. At December 31, 2008, the Company had net capital of $3,003,000, which was $2,753,000 in excess of its required net capital of $250,000. The Company's ratio of aggregate indebtedness to net capital was .18 to 1.

NOTE G - 401(k) PROFIT SHARING PLAN

The Company's employees are included in Carty & Company's qualified 401(k) profit sharing plan. The Company's contribution to the plan is determined by the Board of Directors and is discretionary. The Company contributed $2,120 to the profit sharing plan for the year ended December 31, 2008.

NOTE H - COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company enters into underwriting commitments. Transactions relating to such underwriting commitments that were open December 31, 2008 and were subsequently settled had no material effect on the financial statements as of that date.

NOTE I - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS AND CONCENTRATION OF CREDIT RISK

In the normal course of business, the Company may be exposed to risks in the execution of securities transactions. These transactions involve elements of risk as to credit extended, market fluctuations, and interest rate changes.

The Company's securities transactions clear primarily on a delivery versus payment basis. In transactions with repurchase agreements, margin may be required if market conditions are such as to indicate excessive elements of risk in these transactions. The execution of substantially all purchases and sales of securities require the performance of another party to fulfill the transactions. In the event that a counter-party to the transaction fails to satisfy its obligation, the Company may be required to purchase or sell the security at the prevailing market price, which may have an adverse effect.

The nature of the securities industry is such that large cash balances are maintained in various financial institutions. These balances may exceed the limits of coverage guaranteed by the Federal Deposit Insurance Corporation.

The Company, as a securities broker-dealer, is engaged in various securities trading activities with a variety of customers including individuals, financial institutions, credit unions, insurance companies, pension plans, and other broker-dealers. The Company's exposure to credit risk associated with the non-performance of these counter-parties could be impacted by changing market conditions which would impair the counter-parties ability to satisfy their obligations to the Company.

NOTE J - ANNUAL REPORT OF FORM X-17A-5

The annual report to the Securities and Exchange Commission on Form X-17A-5 is available for examination and copying at the Company's office and at the regional office of the Securities and Exchange Commission.

NOTE K - COLLATERAL

Amounts that the Company has pledged as collateral, which are not reclassified and reported separately, at December 31, 2008, consist of the following:

Financial Statement Classification	Carrying Amount
Securities owned- at market value	$7,643.328