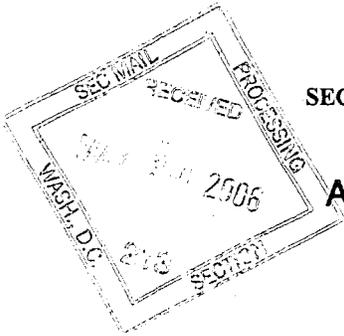


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SECURITY



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

SEC FILE NUMBER
8-17613

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 APRIL 1, 2005 AND ENDING MARCH 31, 2006  
MM/DD/YY MM/DD/YY

### A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

L.S.Y., INC. DBA AMERICAN INVESTORS COMPANY  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

2682 BISHOP DRIVE, SUITE 123

(No. and Street)

SAN RAMON

(City)

CALIFORNIA

(State)

94583

(Zip Code)

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

CLARENCE YEE

(925) 866-2882

(Area Code - Telephone Number)

### B. ACCOUNTANT IDENTIFICATION

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

HANSEN & COMPANY, C.P.A.'S

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

22320 FOOTHILL BLVD., #430

(Address)

HAYWARD

(City)

CALIFORNIA

(State)

94541

(Zip Code)

PROCESSED

JUN 26 2006

THOMSON  
FINANCIAL

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, CLARENCE YEE, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of L.S.Y., INC., DBA AMERICAN INVESTORS COMPANY, as of MARCH 31, 2006, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

NONE

SUBSCRIBED AND SWORN  
TO BEFORE ME THIS

Clarence Yee  
Signature  
  
PRESIDENT  
Title

23rd DAY OF May, 2006  
Laura Wich  
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~~ . . . . CASH FLOWS
  - (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
  - (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors. - SEE NOTE 3 OF NOTES TO FINANCIAL STATEMENTS
  - (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. INFORMATION NOT REQUIRED
  - (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 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. NOT APPLICABLE
  - (l) An Oath or Affirmation.
  - (m) A copy of the SIPC Supplemental Report. NOT REQUIRED
  - (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
  - X (o) Independent Auditor's Report on Internal Accounting Control.
- \*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).
- (\*) NOT REQUIRED - SEE NOTE 2 OF NOTES TO FINANCIAL STATEMENTS

L.S.Y., INC. DBA AMERICAN INVESTORS COMPANY

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2006

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HANSEN & COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS  
22320 FOOTHILL BLVD., SUITE 430  
HAYWARD, CALIFORNIA 94541-2744  
(510) 582-8400

INDEPENDENT AUDITOR'S REPORT

Board of Directors  
L.S.Y., Inc. dba American Investors Company  
San Ramon, California

We have audited the accompanying statement of financial condition of **L.S.Y., INC. DBA AMERICAN INVESTORS COMPANY**, as of March 31, 2006 and the related statements of changes in stockholders' equity, income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 position of **L.S.Y. INC., DBA AMERICAN INVESTORS COMPANY** as of March 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, III and IV is presented for the purposes of additional analysis and is not a required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



May 22, 2006

L.S.Y., INC. DBA AMERICAN INVESTORS COMPANY

STATEMENT OF FINANCIAL CONDITION

MARCH 31, 2006

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable		\$	8,893
Commissions payable			950,678
Accrued wages and benefits			547,872
Payroll taxes payable			29,405
Income taxes payable			<u>4,348</u>
Total liabilities			1,541,196
Stockholders' equity			
Capital stock - authorized 100,000 shares; \$10 stated value; issued and outstanding 7,000 shares	\$	70,000	
Paid in surplus		475	
Retained earnings		<u>355,557</u>	
Total stockholders' equity			<u>426,032</u>
Total liabilities and stockholders' equity		\$	<u>1,967,228</u>

See accompanying notes.

## L.S.Y., INC. DBA AMERICAN INVESTORS COMPANY

## STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEAR ENDED MARCH 31, 2006

	Balance March 31, 2005	Net Income (Loss)	Other Additions (Deductions)	Balance March 31, 2006
Capital stock	\$ 70,000	\$ ---	\$ ---	\$ 70,000
Paid in surplus	475	---	---	475
Retained earnings	<u>334,552</u>	<u>21,005</u>	<u>---</u>	<u>355,557</u>
Total	\$ <u>405,027</u>	\$ <u>21,005</u>	\$ <u>---</u>	\$ <u>426,032</u>

See accompanying notes.

L.S.Y., INC. DBA AMERICAN INVESTORS COMPANY

STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED MARCH 31, 2006

REVENUES

Commissions	\$ 8,008,495
Fees	4,140,352
Other	<u>69,290</u>
Total revenues	12,218,137

OPERATING EXPENSES

Commissions	\$ 10,604,011
Advertising	6,352
Automobile and travel	8,799
Depreciation	6,537
Dues and subscriptions	6,498
Employee benefits	207,317
Insurance	13,647
Interest	1,564
Miscellaneous	3,344
Office salaries	695,188
Officers' salaries	392,400
Office supplies and postage	25,957
Outside services	19,310
Professional services	12,375
Rent	88,687
Repairs and maintenance	10,396
Taxes, licenses and regulatory fees	82,341
Telephone	<u>7,153</u>
Total operating expenses	<u>12,191,876</u>
Income before income taxes	26,261

INCOME TAXES

5,256

NET INCOME

21,005

RETAINED EARNINGS

Balance - beginning of year	<u>334,552</u>
Balance - end of year	\$ <u>355,557</u>

See accompanying notes.

L.S.Y., INC. DBA AMERICAN INVESTORS COMPANY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Net Income	\$ 21,005
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	6,537
(Increase) decrease in:	
Commissions receivable	(205,478)
Marketable securities	( 1,245)
Prepaid expenses	18,262
Boston stock exchange membership	8,500
Other assets	( 20,981)
Increase (decrease) in:	
Accounts payable	659
Commissions payable	154,327
Accrued wages and benefits	81,151
Payroll taxes payable	4,795
Income taxes payable	<u>4,348</u>
Net cash provided by operating activities	71,880
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of furniture and equipment	( 8,955)
 CASH FLOWS FROM FINANCING ACTIVITIES	<u>---</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	62,925
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>785,277</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u><u>848,202</u></u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

Interest	\$ <u>1,564</u>
Income taxes	\$ <u>---</u>

See accompanying notes.

L.S.Y., INC. DBA AMERICAN INVESTORS COMPANY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

**Nature of Business** - The Company, a California corporation, is a securities broker-dealer which, through registered representatives and the Company principals, sells investments to the general public and generates fees through investment management and advisory services. Over 43% of the Company's commission revenues were earned through customer investments in various mutual funds.

**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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates

**Fair Value of Financial Instruments** - Unless otherwise indicated, the fair values of all reported assets and liabilities which represent financial instruments (none of which are held for trading purposes) approximate the carrying values of such amounts.

**Accounting Method** - The Company utilizes the accrual method of accounting for financial statement reporting. Under this method, revenue is recognized when earned and expenses are recognized when incurred.

**Cash Equivalents** - For purposes of the statement of cash flows, the Company considers all short-term instruments purchased with a maturity of three months or less to be cash equivalents.

**Allowance for Doubtful Accounts** - The Company considers commissions receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. There were no commissions written off during the year.

**Marketable Securities** - Marketable securities are valued at market value. The resulting difference between cost and market is included in income.

**Depreciation** - Depreciation is computed on the straight-line method over periods of five to seven years, the useful lives of the furniture and equipment.

**Advertising** - The Company expenses advertising costs as incurred.

**Income Tax** - The Company uses an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for material differences between the financial statement and tax basis of amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax benefits are provided for net operating loss and credit carryforwards. Valuation allowances are established when necessary to reduce deferred tax assets to the amount refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

L.S.Y., INC. DBA AMERICAN INVESTORS COMPANY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

- NOTE 2 - The Company is exempt from the computation for determination of reserve requirements for brokers-dealers under rule 15c3-3 because customer accounts are not maintained.
- NOTE 3 - The Company has no liabilities subordinate to the claims of general creditors at March 31, 2006.
- NOTE 4 - Cash and cash equivalents are represented by checking and money market accounts. As of March 31, 2006 the amount of cash balances reflected on various financial institutions' records exceeded the federally insured limits by \$1,316,987.
- NOTE 5 - The Company has contracted for errors and omissions insurance for the period March 4, 2006 through March 4, 2007 for itself and its registered representatives. The total premium for the policy period will be \$163,767. As of March 31, 2006 the portion of the premium earned by the insurance provider is less than the \$33,353 the Company has paid. The balance of the premium has not been included in accounts payable as the Company has the right to cancel the policy at any time and only be obligated to the insurance provider for the earned portion. The Company anticipates recovering substantially all of the premium from its registered representatives. Any excess received from the registered representatives is reflected in the financial statements as a reduction of legal and litigation expenses or as other income.
- NOTE 6 - Marketable securities valued at market have a cost of \$5,016 resulting in unrealized gains of \$17,645, including \$1,245 for the year ended March 31, 2006.
- NOTE 7 - No changes occurred during the year in the ownership or composition of the capital stock of the corporation.
- NOTE 8 - The Company has a salary reduction simplified employee pension plan (SARSEP). At the discretion of the Company up to twenty-five percent of all employees' annual net compensation, to a maximum of \$42,000, may be contributed to the plan each year. A minimum of three percent is required. Employees may contribute a portion of the maximum allowable contribution through voluntary salary reductions. The plan year ends March 31. Pension plan expense for the year was \$162,872.
- NOTE 9 - On March 3, 2004 the Company entered into a lease for its current premises covering the period June 1, 2004 through May 31, 2009. Monthly lease payments of \$7,361, including tax and common area maintenance charges, are required. A monthly rent adjustment is required after three years. Total rent expense for the year was \$88,687.

L.S.Y., INC. DBA AMERICAN INVESTORS COMPANY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

NOTE 9 - Future annual minimum payments under the lease for years ending March 31 are as follows:

YEAR	AMOUNT
2007	\$ 88,330
2008	91,350
2009	91,951
2010	<u>16,514</u>
TOTAL	\$ <u>288,145</u>

NOTE 10 - In the normal course of operations, the Company is subject to claims and litigation. During the year ended March 31, 2006 the Company was involved in no legal actions.

NOTE 11 - Income tax expense represents the Company's actual tax liability for the fiscal year ended March 31, 2006. Deferred income taxes in the approximate amount of \$6,500, resulting from timing differences related to depreciation and unrealized gain from marketable securities have not been recognized as a liability.

Income taxes is comprised of the following:

Federal	\$ 3,048
State	<u>2,208</u>
	\$ <u>5,256</u>

SUPPLEMENTARY INFORMATION

L.S.Y., INC. DBA AMERICAN INVESTORS COMPANY

SCHEDULE I

COMPUTATION OF NET CAPITAL

MARCH 31, 2006

TOTAL OWNERSHIP EQUITY		\$ 426,032
DEDUCT OWNERSHIP EQUITY NOT ALLOWABLE FOR NET CAPITAL		
Petty cash	\$	100
Error, fee dispersal, and bond accounts		1,234
Commissions receivable from limited partnerships, from management and advisory fees and from aged mutual funds and insurance net of offsetting commission liability		70,958
Other receivables		2,323
Prepaid expenses		28,300
Net equipment		18,254
Security deposit		<u>7,242</u>
		<u>128,411</u>
TOTAL OWNERSHIP EQUITY QUALIFIED FOR NET CAPITAL		297,621
DEDUCTIONS		<u>---</u>
NET CAPITAL BEFORE HAIRCUTS ON SECURITIES POSITION		297,621
HAIRCUTS ON SECURITIES		
Non-marketable investments (100%)		42,600
Marketable securities (15%)		3,399
NFSC trading account (2%)		<u>4,039</u>
		<u>50,038</u>
NET CAPITAL		\$ <u>247,583</u>

See accompanying notes.

L.S.Y., INC. DBA AMERICAN INVESTORS COMPANY

SCHEDULE II

RECONCILIATION OF NET CAPITAL BETWEEN UNAUDITED

AND AUDITED FINANCIAL STATEMENTS

MARCH 31, 2006

NET CAPITAL PER UNAUDITED FINANCIAL STATEMENTS		\$	869,674
ADJUSTMENTS			
Increase in aged commissions			( 70,958)
Additional income accruals:			
Commissions receivable			459,063
Additional expense accruals:			
Commissions payable	\$	(421,779)	
Accrued wages and benefits		(547,872)	
Payroll taxes		( 27,304)	
Accounts payable		( 8,893)	
Income tax payable		( <u>4,348</u> )	( <u>1,010,196</u> )
NET CAPITAL PER AUDITED FINANCIAL STATEMENTS		\$	<u>247,583</u>

See accompanying notes.

L.S.Y., INC. DBA AMERICAN INVESTORS COMPANY

SCHEDULE III

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

MARCH 31, 2006

MINIMUM NET CAPITAL REQUIRED		\$ <u>102,746</u>
MINIMUM DOLLAR NET CAPITAL REQUIREMENT OF BROKER OR DEALER		\$ <u>5,000</u>
NET CAPITAL REQUIREMENT		\$ <u>102,746</u>
EXCESS NET CAPITAL		
Net capital	\$ 247,583	
Less net capital requirement	<u>102,746</u>	
Excess net capital		\$ <u>144,837</u>
EXCESS NET CAPITAL AT 1,000%		
Net capital	\$ 247,583	
Less: 10% of total aggregate indebtedness	<u>154,120</u>	
Excess net capital at 1,000%		\$ <u>93,463</u>

See accompanying notes.

L.S.Y., INC. DBA AMERICAN INVESTORS COMPANY

SCHEDULE IV

COMPUTATION OF AGGREGATE INDEBTEDNESS

MARCH 31, 2006

TOTAL A-1 LIABILITIES	\$ 1,541,196
ADJUSTMENTS	<u>        </u>
TOTAL AGGREGATE INDEBTEDNESS	\$ <u>1,541,196</u>
PERCENTAGE OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	<u>        </u> 622%
PERCENTAGE OF DEBT TO DEBT-EQUITY TOTAL	<u>        </u> 78.3%

See accompanying notes.

HANSEN & COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS  
22320 FOOTHILL BLVD., SUITE 430  
HAYWARD, CALIFORNIA 94541-2744  
(510) 582-8400

Board of Directors  
L.S.Y., Inc. dba American Investors  
San Ramon, California

In planning and performing our audit of the financial statements and supplemental schedules of L.S.Y., Inc. dba American Investors for the year ended March 31, 2006, we considered its internal control structure, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons.
2. Recordation of differences required by rule 17a-13.
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of a specific internal control structure element does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at March 31, 2006, to meet the SEC's objectives.

This report is intended solely for the use of the Board of Directors, management, the SEC, National Association of Securities Dealers, Inc. (NASD), and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and should not be used for any other purpose.



May 22, 2006