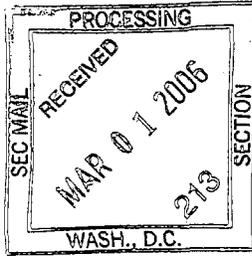




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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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



OMB APPROVAL  
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8- 43789

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 01/01/05 AND ENDING 12/31/05  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **D.H. Blair Investment Banking Corp.**

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

**44 Wall Street**

(No. and Street)

**New York**

**NY**

**10005**

(City)

(State)

(Zip Code)

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

**David Nachamie**

**(212) 495-4105**

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

**Raich Ende Malter & Co. LLP**

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

**1375 Broadway, 15th Floor**

**New York**

**NY**

**10018**

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED  
JUN 06 2006  
THOMSON  
FINANCIAL

**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)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

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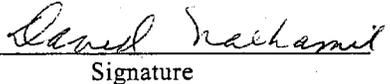
OATH OR AFFIRMATION

I, David Nachamie, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of D.H. Blair Investment Banking Corp., as of December 31, 20 05, 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:

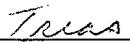
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JONATHAN D. TURKEL  
Notary Public, State of New York  
No. 02TU5055127  
Qualified in New York County  
~~Commission Expires February 5, 2010~~  
Notary Public



Signature



Title

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).

**D.H. BLAIR INVESTMENT  
BANKING CORP.**

*Financial Statements  
December 31, 2005*

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# D.H. BLAIR INVESTMENT BANKING CORP.

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December 31, 2005

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
D.H. Blair Investment Banking Corp.  
New York, New York

We have audited the accompanying statement of financial condition of D.H. Blair Investment Banking Corp. as of December 31, 2005, and the related statements of income, changes in stockholder's equity and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. 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 D.H. Blair Investment Banking Corp. at December 31, 2005, 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 accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of 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.



**RAICH ENDE MALTER & CO. LLP**  
New York, New York  
February 14, 2006

# D.H. BLAIR INVESTMENT BANKING CORP.

Statement of Financial Condition  
December 31, 2005

## ASSETS

Cash and cash equivalents	\$ 2,539,250
Receivables from affiliates and other related parties	44,581,849
Receivables from officers, directors and employees	7,763,705
Receivables from others	2,847,936
Securities owned:	
Marketable - at market value	29,148,995
Not readily marketable - at estimated fair value	3,710,525
Equipment, fixtures and improvements - net of accumulated depreciation and amortization of \$1,872,760	14,368
Other	4,498,979
	<u>\$ 95,105,607</u>

## LIABILITIES AND STOCKHOLDER'S EQUITY

Accounts payable and accrued expenses	\$ 262,205
Payable to brokers	3,891,693
	<u>4,153,898</u>

### Stockholder's Equity

Common stock - \$.01 par value - 200 shares authorized, 100 shares issued and outstanding	1
Additional paid-in capital	70,639,337
Retained earnings	20,312,371
	<u>90,951,709</u>
	<u>\$ 95,105,607</u>

# **D.H. BLAIR INVESTMENT BANKING CORP.**

## **Statement of Income**

**For the Year Ended December 31, 2005**

### **Revenues**

Realized gain on firm trading investments	\$ 72,048
Unrealized (losses) on firm investments	(13,154,314)
Miscellaneous income	924,840
Interest and dividend income, including \$19,582,868 from affiliates	19,407,068
	<u>7,249,642</u>

### **Expenses**

Employee compensation and benefits	1,630,872
Payroll taxes	85,138
Floor brokerage	571,033
Regulatory fees and expenses	37,497
Occupancy costs - rent and other charges	497,152
Consulting and professional fees	274,671
Bad debt	600,000
Other	863,112
	<u>4,559,475</u>

### **Income Before Depreciation, Amortization, Taxes, and Interest Expense**

2,690,167

### **Depreciation and Amortization**

1,596

### **Current Income Taxes**

367,107

### **Interest Expense**

220,646

### **Net Income**

\$ 2,100,818

# **D.H. BLAIR INVESTMENT BANKING CORP.**

*Statement of Changes in Stockholder's Equity  
For the Year Ended December 31, 2005*

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	<u>Capital Stock</u>	<u>Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Balance</b> - beginning of year	\$ 1	\$ 70,639,337	\$ 18,211,553	\$ 88,850,891
<b>Net Income</b>	-	-	2,100,818	2,100,818
<b>Balance</b> - end of year	<u>\$ 1</u>	<u>\$ 70,639,337</u>	<u>\$ 20,312,371</u>	<u>\$ 90,951,709</u>

See notes to financial statements.

# D.H. BLAIR INVESTMENT BANKING CORP.

## Statement of Cash Flows For the Year Ended December 31, 2005

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### Cash Flows From Operating Activities

Net income	\$ 2,100,818
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	1,596
Decrease in not readily marketable investments deemed worthless	74,997
Increase in bad debts related to uncollectible loan receivable	600,000
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Securities owned - at market value	13,855,366
Securities not readily marketable - at fair value	(1,770,694)
Other	(305,194)
Increase (decrease) in:	
Accounts payable and accrued expenses	(5,481,750)
Payable to brokers	149,053
	<u>9,224,192</u>

### Cash Flows From Investing Activities

Acquisition of equipment, fixtures and improvements	(15,964)
Loans advanced to affiliates and other related parties	(2,183,289)
Loans advanced to officers, directors and employees	(2,724,662)
Loans advanced to others	(1,837,998)
	<u>(6,761,913)</u>

**Increase in Cash and Cash Equivalents** 2,462,279

**Cash and Cash Equivalents - beginning of year** 76,971

**Cash and Cash Equivalents - end of year** \$ 2,539,250

### Supplemental Cash Flow Information

Cash paid during the year for:

Interest	<u>\$ 220,646</u>
Taxes	<u>\$ 192,209</u>

# **D.H. BLAIR INVESTMENT BANKING CORP.**

*Notes to Financial Statements  
December 31, 2005*

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## **1 - ORGANIZATION AND BUSINESS**

D.H. Blair Investment Banking Corp. (the "Company") is a registered broker-dealer in securities under the Securities Exchange Act of 1934. The Company's principal operations are proprietary trading, floor brokerage merchant banking and private investment activities. The Company does not carry securities accounts for customers or perform custodial functions relating to customer securities and, accordingly, is exempt from the Securities and Exchange Commission ("SEC") Rule 15c3-3 pursuant to paragraph (k)(2)(b) thereof. All securities transactions are cleared through clearing brokers pursuant to a clearance agreement or a customer agreement.

## **2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- a. **Cash Equivalents** - For purposes of the Statement of Cash Flows, the Company considers all short term debt securities purchased with a maturity of three months or less as well as money market funds to be cash equivalents.
- b. **Financial Instruments** - Purchases and sales of securities and the related revenues and expenses are recorded on a trade-date basis.

Securities owned and securities sold, but not yet purchased, are valued at quoted market price or at management's estimate of fair value for certain positions for which there is a limited market, with related unrealized gains and losses included in principal transactions.

Investments in private companies for which the Company has influence but does not benefit from the processes, products or services and does not participate in the management are not consolidated nor accounted for under the equity method. Private investments are valued using methods determined in good faith by management after consideration of all relevant information, including original cost, private market values, operating results and financial position. The related gains and losses on investments are included in principal transactions. Management estimates of fair value may differ from the eventual realizable value of the underlying securities, which may fluctuate over time in light of business and economic conditions and the financial leverage of the issuer. These differences may be material.

Dividends earned and dividends paid on securities sold, but not yet purchased, are recognized on the ex-dividend date, and interest is recognized on the accrual basis.

- c. **Revenue Recognition** - Commissions on trades executed on behalf of customers related to securities traded on exchanges registered with the SEC or whose prices are reported by the NASDAQ are recorded on a trade date basis as required by generally accepted accounting principles. Commissions earned from other trading activities are recorded as transactions when closed between buyers and sellers.
- d. **Depreciation and Amortization** - Equipment, fixtures and improvements are stated at cost. Replacements, maintenance and repairs which do not improve or extend the life of an asset are expensed. Equipment, fixtures and improvements are depreciated using the straight-line and accelerated methods over estimated useful lives of five to seven years.
- e. **Income Taxes** - Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for operating loss and tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled or recovered. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.
- f. **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 in determining 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.

**3 - RECEIVABLES AND PAYABLES TO BROKERS**

The clearing and depository operations for the Company's and customers' securities transactions are provided by the Clearing Brokers pursuant to a clearance agreement.

The payable to Clearing Brokers at December 31, 2005 includes amounts owed on margin accounts.

**4 - RECEIVABLE FROM AFFILIATES AND OTHER RELATED PARTIES**

Receivables from affiliates and other related parties as of December 31, 2005 consist of:

Lawrence Ventures III LLC	\$ 35,395,813
Parties related to officers and directors	6,963,110
Accrued interest	2,222,926
	<u>\$ 44,581,849</u>

Loan receivables from affiliates include a \$35,372,975 million demand loan at 6% and a \$22,838 demand loan at 6.5%, both receivable from Lawrence Ventures, LLC ("Lawrence"), an affiliated entity substantially owned by the stockholder of the Company. Lawrence's sole business is an investment in Diablo Grande Limited Partnership ("Diablo"), whose sole asset is a real estate project in central California. The \$35,372,975 million loan is convertible, at any time and at the option of the Company, into approximately 68% fully diluted equity interest in Lawrence.

During 2005, the Company collected interest in the amount of \$17,117,532 which represents a portion of accumulated interest.

**5 - RECEIVABLES FROM OFFICERS, DIRECTORS, AND EMPLOYEES**

The Company has advanced funds to certain officers, directors and employees. The advances are made on a short-term basis and do not bear interest. At December 31, 2005, the receivable from officers, directors and employees is \$7,763,705.

**6 - SECURITIES OWNED**

Marketable securities owned consist of Corporate equity securities at market values.

Securities 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, 2005, these securities at estimated fair values consist of the following:

<i>Equities</i> - corporate Stocks and warrants	\$ 1,374,249
<i>Partnership Interests</i>	<u>2,336,276</u>
	<u>\$ 3,710,525</u>

**7 - FINANCIAL INSTRUMENTS AND RELATED RISKS**

Securities owned at December 31, 2005 consist of both marketable equity securities and not readily marketable securities.

In the normal course of its business, the Company trades various financial instruments and enters into various financial transactions where the risk of potential loss due to changes in the market (market risk) exceeds the related amounts recorded.

The Company executes financial futures contracts to limit its risk. Derivative financial instruments derive their value based upon an underlying asset, index

or reference rate. These instruments are subject to various risks similar to non-derivative financial instruments including market, credit liquidity and operational risks. The Company's open futures positions are based on quoted market prices. The net trading loss is treated as a component of principal transactions.

The Company's securities transactions are cleared with clearing brokers pursuant to clearance agreements and customer agreements. The Company is subject to credit risk at December 31, 2005, as securities owned, primarily all investments at fair value and balances due from the clearing broker and the customer account broker, reflected on the statement of financial condition, are securities, investments and cash balances held by such brokers, which act as custodians.

#### **8 - CONTINGENCIES**

The Company was named as defendant in numerous lawsuits and arbitration proceedings along with D.H. Blair & Co. Inc. ("DHBC"), a broker-dealer that ceased operations in 1997, whose majority shareholders are relatives (related by blood or marriage) of the stockholder of the Company. During 2005, the Company settled the single remaining action.

As of December 31, 2005, there are no pending actions, lawsuits or arbitrations against the Company.

#### **9 - COMMITMENTS**

The Company leases its premises pursuant to a lease expiring on June 30, 2009. Under the terms of the lease, the Company is obligated to pay escalation charges for certain of the landlord's operating expenses and real estate taxes. Future non-cancelable minimum lease payments are approximately \$400,000 per year. The rent expense for the year ended December 31, 2005 was approximately \$400,000.

#### **10 - NET CAPITAL REQUIREMENT**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital as defined. At December 31, 2005, the Company had net capital of \$14,447,281, which was \$14,197,281 above its required net capital of \$250,000.

#### **11 - INCOME TAXES**

The difference between the income tax expense and the tax computed by applying the statutory federal income tax rate (34%) to income before income tax is primarily attributable to state and local taxes and reversal of the prior year valuation allowance for deferred tax assets. The current state and local tax expense consists of taxes on capital.

The Company has a net operating loss ("NOL") carryforward of approximately \$11.9 million for federal and \$26.6 million for state and local tax purposes and a capital loss carryforward of approximately \$38.5 million. The NOL and capital loss carryforwards expire in various amounts from 2006 to 2024.

The temporary differences that give rise to the Company's deferred tax asset relate to net operating loss and capital loss carryforwards. The deferred tax liability arises from unrealized gains on securities owned.

Due to the uncertainty of future realization of the net tax benefits related to the deferred tax asset in excess of the deferred tax liability, a valuation allowance of \$3.6 million has been established. Therefore, the net deferred tax asset at December 31, 2005 is valued at \$0. During the year ended December 31, 2005, the valuation allowance decreased by \$1.3 million.

# **D.H. BLAIR INVESTMENT BANKING CORP.**

*Supplementary Information - Computation of Net Capital Pursuant to  
Uniform Net Capital Rule 15c3-1 of the Securities and Exchange Commission  
December 31, 2005*

*Schedule I*

## **COMPUTATION OF NET CAPITAL**

**Total Stockholders' Equity Qualified for Net Capital** \$ 90,951,709

### **Deductions:**

Non-allowable assets - assets not readily convertible to cash:

Equipment, fixtures and improvements - net book value 14,368

Receivables from non-customers 55,193,490

Securities not readily marketable 3,710,525

Other 4,498,979

Other charges:

Market blockage 7,389,066

Capital charge broker bond 35,000

70,841,428

**Net Capital Before Haircuts** 20,110,281

### **Haircut on Securities**

All other securities 3,263,989

Undue concentration 2,352,087

Other 46,924

5,663,000

**Net Capital** 14,447,281

**Net Capital Requirement** \$ 250,000

**Net Capital in Excess of Requirement** \$ 14,197,281

**D.H. BLAIR INVESTMENT BANKING CORP.**

*Supplementary Information - Computation For Determination of Reserve Requirements  
Under Rule 15c3-3 of the Securities and Exchange Commission  
December 31, 2005*

*Schedule II*

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The provisions of Rule 15c3-3 are not applicable to the Company as of December 31, 2005 in accordance with Rule 15c3-3(k)(2)(ii).

**D.H. BLAIR INVESTMENT BANKING CORP.**

*Supplementary Information – Reconciliation of the Computation of  
Net Capital as of December 31, 2005 Required Pursuant to  
SEC Rule 17a-5(d)(4)*

*Schedule III*

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**Reconciliation of the Audited Computation of Net Capital as of December 31,  
2005 and the corresponding Computation of Net Capital included in the  
Unaudited Form X-17A-5 Part IIA filed by D.H. Blair Investment Banking Corp.  
on January 26, 2006**

Computation of Net Capital, per Form X-17A-5 Part IIA filed January 26, 2006	\$ 13,814,192
Adjustments proposed by independent auditors which increased net capital and approved by management subsequent to filing Form X-17A-5 Part IIA	
(i) Accrual and reclassing of payments to interest income	19,568,500
(ii) Increases in non-allowable assets	(19,582,868)
(iii) Adjustments to reduce accrued expenses	<u>647,457</u>
<b>Audited Computation of Net Capital</b>	<b><u>\$ 14,447,281</u></b>

**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL REQUIRED BY SEC RULE 17A-5**

To the Board of Directors  
D.H. Blair Investment Banking Corp.

In planning and performing our audit of the financial statements of D.H. Blair Investment Banking Corp. for the year ended December 31, 2005, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and 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 and recordation of differences required by Rule 17a-13.
2. 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.
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls 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 internal control 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 conformity 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 internal control or the practices and procedure referred to above, error or fraud 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.

To the Board of Directors  
D.H. Blair Investment Banking Corp.  
Page Two

Our consideration of internal control would not necessarily disclose all matters in internal control 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 one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to 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 internal control, including control activities for safeguarding securities, 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 December 31, 2005 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the NASD, the New York Stock Exchange, 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 is not intended to be and should not be used by anyone other than these specified parties.



**RAICH ENDE MALTER & CO. LLP**  
New York, New York  
February 14, 2006