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OMB APPROVAL

OMB Number: 3235-0123  
Expires: January 31, 2007  
Estimated average burden  
hours per response . . . 12.00

SEC FILE NUMBER

8-66092

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

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 5/1/05 AND ENDING 4/30/06  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER:

European Credit Management Inc.

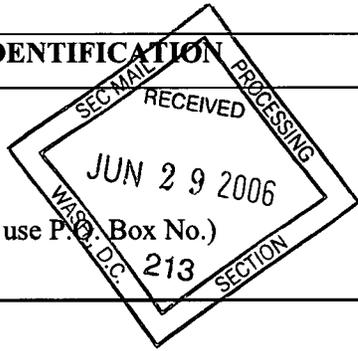
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

980 North Michigan Avenue, Suite 1150  
(No. and Street)

Chicago Illinois 60601  
(City) (State) (Zip Code)

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

Fredric M. Obsbaum (212) 509-7800  
(Area Code - Telephone No.)



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FIRM ID. NO.

B. ACCOUNTANT IDENTIFICATION

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

Deloitte & Touche LLP  
(Name - if individual, state last, first, middle name)

111 South Wacker Drive Chicago Illinois 60606  
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED

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FINANCIAL

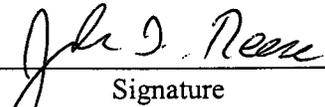
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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

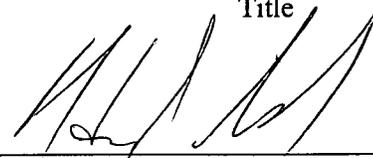
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OATH OR AFFIRMATION

I, John Reese, affirm (or swear) that, to the best of my knowledge and belief, the accompanying financial statements and supplemental schedules pertaining to European Credit Management Inc. for the year ended April 30, 2006, are true and correct. I further affirm (or swear) that neither the Company nor any officer or director has any proprietary interest in any account classified solely as that of a customer.

  
\_\_\_\_\_  
Signature

  
\_\_\_\_\_  
Title

  
\_\_\_\_\_  
Notary Public

**HOWARD SPINDEL**  
Notary Public, State of New York  
No. 31-4787941  
Qualified in New York County  
Commission Expires November 21, 2009

# EUROPEAN CREDIT MANAGEMENT INC.

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This report contains (check all applicable boxes):

- (x) Independent Auditors' Report
- (x) (a) Facing Page
- (x) (b) Statement of Financial Condition
- (x) (c) Statement of Operations
- (x) (d) Statement of Cash Flows
- (x) (e) Statement of Changes in Stockholder's Equity
- (x) (f) Statement of Changes in Liabilities Subordinated to Claims of General Creditors
- (x) Notes to Financial Statements
- (x) (g) Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 Under the Securities Exchange Act of 1934
- (x) (h) Computation for Determination of Reserve Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 Under the Securities Exchange Act of 1934
- ( ) (i) Information Relating to the Possession or Control Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 Under the Securities Exchange Act of 1934 (Not Applicable)
- ( ) (j) A Reconciliation, including Appropriate Explanations, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Rule 15c3-3 (included in g above; h not applicable)
- ( ) (k) A Reconciliation Between the Audited and Unaudited Statements of Financial Condition With Respect to Methods of Consolidation (Not Applicable)
- (x) (l) An Oath or Affirmation
- ( ) (m) Copy of the SIPC Supplemental Report (Not Required)
- (x) (n) A Report Describing Any Material Inadequacies Found to Exist or Found to Have Existed Since the Date of the Previous Audit (Supplemental Report on Internal Control)

## INDEPENDENT AUDITORS' REPORT

To the Stockholder of  
European Credit Management Inc.:

We have audited the following financial statements of European Credit Management Inc. (the "Company"), for the year ended April 30, 2006, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934:

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|---|------|
| Statement of Financial Condition  | 3    |
| Statement of Operations   | 4    |
| Statement of Changes in Stockholder's Equity                                    | 5    |
| Statement of Cash Flows   | 6    |
| Statement of Changes in Liabilities Subordinated to Claims of General Creditors | 7    |

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such financial statements present fairly, in all material respects, the financial position of European Credit Management Inc. as of April 30, 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 following supplemental schedules of European Credit Management Inc. as of April 30, 2006 are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934:

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| Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 Under the Securities Exchange Act of 1934                            | 11          |
| Computation for Determination of Reserve Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 Under the Securities Exchange Act of 1934 | 12          |

These schedules are the responsibility of the Company's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

*Deloitte & Touche LLP*

June 23, 2006

# EUROPEAN CREDIT MANAGEMENT INC.

## STATEMENT OF FINANCIAL CONDITION AS OF APRIL 30, 2006

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### ASSETS

|   |    |                |
|---|----|----------------|
| CASH  | \$ | 414,493        |
| RECEIVABLE FROM PARENT                                    |    | 383,492        |
| FIXED ASSETS—Net of accumulated depreciation of \$109,479 |    | 12,584         |
| OTHER ASSETS  |    | <u>52,743</u>  |
| TOTAL   | \$ | <u>863,312</u> |

### LIABILITIES AND STOCKHOLDER'S EQUITY

|   |    |                |
|---|----|----------------|
| ACCRUED BONUSES   | \$ | 283,162        |
| OTHER ACCRUED EXPENSES AND LIABILITIES  |    | <u>44,726</u>  |
| Total liabilities   |    | 327,888        |
| SUBORDINATED BORROWINGS   |    | <u>450,000</u> |
| STOCKHOLDER'S EQUITY:   |    |                |
| Common stock—\$1 par value; 100 shares authorized;<br>100 shares issued and outstanding |    | 100            |
| Additional paid-in capital  |    | 9,900          |
| Retained earnings   |    | <u>75,424</u>  |
| Total stockholder's equity  |    | <u>85,424</u>  |
| TOTAL   | \$ | <u>863,312</u> |

See notes to financial statements.

# EUROPEAN CREDIT MANAGEMENT INC.

## STATEMENT OF OPERATIONS FOR THE YEAR ENDED APRIL 30, 2006

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### REVENUES:

|                           |              |
|---------------------------|--------------|
| Fees from Parent          | \$ 3,234,333 |
| Interest and other income | <u>5,922</u> |

Total revenues 3,240,255

### EXPENSES:

|                                   |               |
|-----------------------------------|---------------|
| Compensation and benefits         | 2,789,130     |
| Occupancy                         | 99,749        |
| Travel                            | 92,105        |
| Professional services             | 69,737        |
| Communication and data processing | 38,804        |
| Regulatory fees                   | 26,667        |
| Depreciation                      | 18,143        |
| Other                             | <u>56,423</u> |

Total expenses 3,190,758

NET INCOME BEFORE INCOME TAXES 49,497

PROVISION FOR INCOME TAXES 19,176

NET INCOME \$ 30,321

See notes to financial statements.

## EUROPEAN CREDIT MANAGEMENT INC.

### STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY FOR THE YEAR ENDED APRIL 30, 2006

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|                        | <u>Common Stock</u> |                   | <u>Additional</u> | <u>Retained</u>  |                  |
|------------------------|---------------------|-------------------|-------------------|------------------|------------------|
|                        | <u>Shares</u>       | <u>Amount</u>     | <u>Paid-In</u>    | <u>Earnings</u>  | <u>Total</u>     |
|                        |                     |                   | <u>Capital</u>    |                  |                  |
| BALANCE—May 1, 2005    | 100                 | \$ 100            | \$ 9,900          | \$ 45,103        | \$ 55,103        |
| Net income             | <u>          </u>   | <u>          </u> | <u>          </u> | <u>30,321</u>    | <u>30,321</u>    |
| BALANCE—April 30, 2006 | <u>100</u>          | <u>\$ 100</u>     | <u>\$ 9,900</u>   | <u>\$ 75,424</u> | <u>\$ 85,424</u> |

See notes to financial statements.

# EUROPEAN CREDIT MANAGEMENT INC.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED APRIL 30, 2006

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### CASH FLOWS FROM OPERATING ACTIVITIES:

|   |                 |
|---|-----------------|
| Net income  | \$ 30,321       |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                 |
| Depreciation  | 18,143          |
| Changes in operating assets and liabilities:  |                 |
| Receivable from Parent  | 514,228         |
| Other assets  | (16,243)        |
| Accrued bonuses   | (370,870)       |
| Accrued expenses and other liabilities  | <u>(46,308)</u> |
| Net cash provided by operating activities   | <u>129,271</u>  |

CASH FLOWS FROM INVESTING ACTIVITIES—Purchases of fixed assets (6,931)

NET INCREASE IN CASH 122,340

CASH—Beginning of year 292,153

CASH—End of year \$ 414,493

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—

Cash paid during the year for taxes \$ 35,983

See notes to financial statements.

## EUROPEAN CREDIT MANAGEMENT INC.

### STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS FOR THE YEAR ENDED APRIL 30, 2006

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|  |                   |
|--|-------------------|
| BALANCE — May 1, 2005                            | \$ 450,000        |
| INCREASES — Issuance of subordinated borrowings  | 450,000           |
| DECREASES — Repayment of subordinated borrowings | <u>(450,000)</u>  |
| BALANCE — April 30, 2006                         | <u>\$ 450,000</u> |

See notes to financial statements.

# EUROPEAN CREDIT MANAGEMENT INC.

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED APRIL 30, 2006

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### 1. ORGANIZATION AND NATURE OF BUSINESS

European Credit Management Inc. (the "Company"), is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and is a member of the National Association of Securities Dealers, Inc. The Company is a wholly owned subsidiary of European Credit Management Limited (the "Parent"), which is headquartered in London, England. The Parent is an independent specialized investment management company, managing highly diversified portfolios of European fixed income credit securities on behalf of institutional clients worldwide. The Parent is regulated by the Financial Services Authority.

The Company markets interests in investment funds to institutional investors in the United States of America (the "U.S.") on behalf of the Parent and the Company also provides services to U.S. investors in relation to the investment funds.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Revenue Recognition**—The Company receives fees from the Parent for performing sales and marketing functions on behalf of the Parent to attract institutional investors in the Parent's funds. The fees are based on expenses incurred by the Company in relation to the marketing activities such as compensation and benefits, professional services, travel, occupancy, and other operating costs, plus a transfer pricing agreement profit factor of 5%. The fees are also based on bonus payments earned by the Company's sales employees for their sales and marketing efforts. The Company recognizes the fees as they are earned based on its agreement with the Parent.

**Use of Estimates**—The preparation of financial statements 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.

**Fixed Assets**—Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which are as follows:

| Classification                 | Years |
|--------------------------------|-------|
| Telecommunications             | 3     |
| Computer hardware and software | 3     |
| Furniture and fixtures         | 1.5–3 |
| Office equipment               | 3     |

**Income Taxes**—Deferred income tax assets and liabilities are computed for differences between the financial statement and income tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. A valuation allowance is established, when necessary, to reduce deferred income tax assets to the amounts expected to be realized. Income tax expense is the income tax payable or refundable for the period plus or minus the change during the period in deferred income tax assets and liabilities.

### 3. SUBORDINATED LIABILITIES

The Company has entered into subordinated credit agreements with its Parent. The borrowings are subordinate to the claims of all other creditors of the Company. They are covered by a subordination agreement approved by the designated regulatory organization and are available in computing net capital pursuant to the SEC's Uniform Net Capital Rule. These non-interest-bearing borrowings of \$250,000 and \$200,000 mature February 28, 2007 and February 28, 2009, respectively. These borrowings of \$250,000 and \$200,000 were renewed under the same terms during the current year.

### 4. LEASE AGREEMENT

The Company has entered into a noncancelable lease for its office premises, which expires August 31, 2009. The future minimum annual base rent payments required under this operating lease are as follows:

| Years Ending<br>April 30 | Amount            |
|--------------------------|-------------------|
| 2007                     | \$ 34,778         |
| 2008                     | 37,358            |
| 2009                     | 39,938            |
| 2010                     | <u>13,599</u>     |
| Total                    | <u>\$ 125,673</u> |

Total rental expense for the year ended April 30, 2006, was \$39,628 and is included in occupancy expense on the statement of operations.

### 5. INCOME TAXES

The provision (benefit) for income taxes at April 30, 2006, is summarized as follows:

|          |                  |
|----------|------------------|
| Current: |                  |
| Federal  | \$ 11,800        |
| State    | 5,200            |
| Deferred | <u>2,176</u>     |
| Total    | <u>\$ 19,176</u> |

The effective income tax rate of 38.7% differs from the federal statutory tax rate of 34% due to nondeductible expenses, state taxes, and the effect of graduated federal tax rates.

The tax effect of the temporary differences comprising the Company's net deferred tax asset at April 30, 2006, is as follows:

|                        |    |                |
|------------------------|----|----------------|
| Depreciation           | \$ | 11,400         |
| Prepaid expenses       |    | <u>(6,600)</u> |
| Net deferred tax asset | \$ | <u>4,800</u>   |

Realization of the deferred tax assets is dependent on generating sufficient taxable income in subsequent years. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized. The amounts of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

#### **6. NET CAPITAL REQUIREMENTS**

The Company, as a registered broker-dealer, is subject to the Uniform Net Capital Rule ("Rule 15c3-1") under the Securities Exchange Act of 1934 and is required to maintain "minimum net capital" equivalent to the greater of \$5,000 or 6-2/3% of "aggregate indebtedness," as these terms are defined.

At April 30, 2006, the Company had net capital, as defined, of \$364,767 of which \$342,908 was in excess of its required net capital of \$21,859. The Company's ratio of aggregate indebtedness to net capital was .90 to 1.

#### **7. CONCENTRATION RISK**

The Company maintains cash balances in excess of FDIC-insured limits at a regulated financial institution and has a receivable from its parent that represents a substantial portion of its net worth. The Company does not believe that these amounts are exposed to significant risk.

\* \* \* \* \*

**SCHEDULE G**

**EUROPEAN CREDIT MANAGEMENT INC.**

**COMPUTATION OF NET CAPITAL FOR BROKERS AND DEALERS PURSUANT  
TO RULE 15c3-1 UNDER THE SECURITIES EXCHANGE ACT OF 1934  
AS OF APRIL 30, 2006**

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|   |    |                 |
|---|----|-----------------|
| STOCKHOLDER'S EQUITY  | \$ | 85,424          |
| SUBORDINATED LIABILITIES  |    | <u>450,000</u>  |
| Total   |    | <u>535,424</u>  |
| <br>DEDUCTIONS AND CHARGES:   |    |                 |
| Nonallowable assets:  |    |                 |
| Receivable from parent net of amounts payable upon collection of receivable |    | 100,330         |
| Fixed assets  |    | 12,584          |
| Other assets  |    | <u>52,743</u>   |
| Other   |    | 165,657         |
|   |    | <u>5,000</u>    |
| NET CAPITAL   |    | 364,767         |
| <br>MINIMUM NET CAPITAL REQUIREMENT—  |    |                 |
| (Greater of \$5,000 or 6-2/3% of aggregate indebtedness)                    |    | <u>21,859</u>   |
| NET CAPITAL IN EXCESS OF REQUIREMENT  | \$ | <u>342,908</u>  |
| AGGREGATE INDEBTEDNESS  | \$ | <u>327,888</u>  |
| RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL                              |    | <u>.90 to 1</u> |

Note: There are no material differences between the computations using the amounts reported in the accompanying audited financial statements and the computations as reported in the the Company's unaudited FOCUS report, Part IIA, Form X-17a-5, as of April 30, 2006 filed on May 22, 2006.

**EUROPEAN CREDIT MANAGEMENT INC.**

**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS  
FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-3 UNDER THE  
SECURITIES EXCHANGE ACT OF 1934  
AS OF APRIL 30, 2006**

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The Company does not take possession or control of securities for customers and, therefore, is exempt from the possession or control and reserve requirements based on Rule 15c3-3(k)(2)(i) under the Securities Exchange Act of 1934.

June 23, 2006

European Credit Management Inc.  
980 North Michigan Avenue  
Suite 1150  
Chicago, IL 60611

To the Stockholder of European Credit Management Inc.:

In planning and performing our audit of the financial statements of European Credit Management Inc. (the "Company") for the year ended April 30, 2006 (on which we issued our report dated June 23, 2006), we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the Company's internal control.

Also, as required by Rule 17a-5(g)(1) under the Securities Exchange Act of 1934, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by the Company that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13 or in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities.

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 internal control and of the practices and procedures, and to assess whether those practices and procedures can be expected to achieve the Securities and Exchange Commission's (the "Commission") 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 acquisition, 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 accounting principles generally accepted in the United States of America. 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 or the practices and procedures referred to above, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control or of such practices and procedures to future periods are subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with the practices or procedures may deteriorate.

Our consideration of the Company's internal control would not necessarily disclose all matters in the Company's 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 the Company's internal control and its operation (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 Commission 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 April 30, 2006, to meet the Commission's objectives.

This report is intended solely for the information and use of the Stockholder, management, the Securities and Exchange Commission, the National Association of Securities Dealers 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.

Yours truly,

A handwritten signature in cursive script that reads "Deloitte & Touche LLP". The signature is written in dark ink and is positioned below the typed text "Yours truly,".