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

SEC FILE NUMBER
8- 37061

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 07/01/05 AND ENDING 06/30/06
MM/DD/YY MM/DD/YY**A. REGISTRANT IDENTIFICATION**NAME OF BROKER-DEALER: Fox & Company Investments, Inc.

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

5080 N. 40th Street, Suite 103

(No. and Street)

PhoenixArizona85018

(City)

(State)

(Zip Code)

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

Robert Trask(602) 971-9000

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

Merlin Schumann & Company, P.C.

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

2505 W. Beryl Avenue, Suite 300 PhoenixArizona85021

(Address)

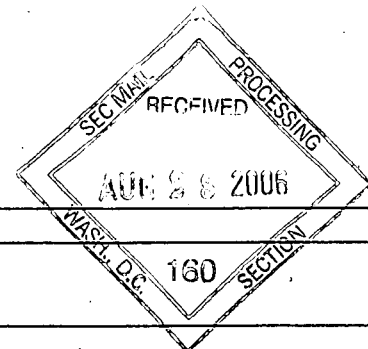
(City)

(State)

(Zip Code)

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, Robert Trask, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Fox & Company Investments, Inc., as of June 30, 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:



KYLE ROBERTSON
Notary Public - Arizona
Maricopa County
Expires 08/31/07

Robert Trask
Signature

CFO

Title

[Signature]
Notary Public

This report ** contains (check all applicable boxes):

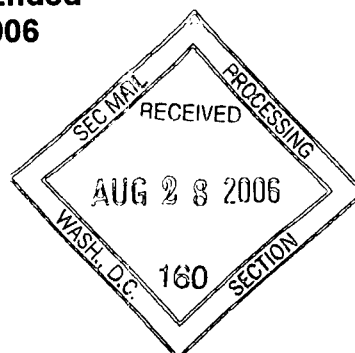
- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Cash Flows
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (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 15c3-3 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.
- ☒ (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).**

FOX & COMPANY INVESTMENTS, INC.

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2006**



MERLIN SCHUMANN & COMPANY, P.C.

Certified Public Accountants

Merlin J. Schumann, CPA
Charles M. Adriano, CPA
Scott R. Gastineau, CPA

INDEPENDENT AUDITORS' REPORT

To The Board of Directors of
Fox & Company Investments, Inc.

We have audited the accompanying statement of financial condition of Fox & Company Investments, Inc., as of June 30, 2006, and the related statements of income and 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 Fox & Company Investments, Inc. as of June 30, 2006, and results of its operations, changes in stockholder's equity, and 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 and II 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.

Merlin Schumann & Company, P.C.
Merlin Schumann and Company, P.C.
Phoenix, Arizona
August 23, 2006

FOX & COMPANY INVESTMENTS, INC.
STATEMENT OF FINANCIAL CONDITION
JUNE 30, 2006

ASSETS

Cash and cash equivalents	\$ 457,572
Cash on deposit with clearing organization	31,157
Commissions receivable:	
- mutual funds	70,933
- clearing organization	136,310
Securities owned	
- marketable	380,647
- not readily marketable	20,100
Related party and employee receivables	72,669
Prepaid expenses	28,444
Deposits	17,796
Furniture, equipment and leasehold improvements, net of accumulated depreciation	57,697
Total Assets	\$ 1,273,325

LIABILITIES AND STOCKHOLDER'S EQUITY

Payable to clearing organization	\$ 122,093
Commissions payable	278,603
Accounts payable	79,858
Accrued Expenses	51,102
Notes Payable	47,077
Unearned revenue	4,317
Total Liabilities	583,050
 Common stock - \$.01 par value - authorized 1,000,000 shares - 500,000 shares issued and outstanding	 5,000
Additional paid-in capital	629,745
Retained Earnings	55,530
Total Stockholder's Equity	690,275
 Total Liabilities and Stockholder's Equity	 \$ 1,273,325

The Accompanying Notes are an Integral Part
of the Financial Statements

FOX & COMPANY INVESTMENTS, INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED JUNE 30, 2006

Revenues:

Commissions	\$ 4,384,601
Trading profits	362,894
Interest income	3,290
Miscellaneous Income	100,075
	4,850,860

Expenses:

Commissions and brokerage charges	3,168,396
Employee compensation and benefits	589,675
Occupancy and equipment costs	109,944
Insurance	90,347
Legal and professional	241,321
Clearing and regulatory fees	446,117
Dues and subscriptions	5,679
Communications	26,679
Depreciation	22,227
Interest expense	17,533
Advertising	1,161
Arbitration expenses	33,601
Other operating expenses	331,901
	5,084,581

Net income (loss)	\$ (233,721)
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The Accompanying Notes are an Integral Part
of the Financial Statements

FOX & COMPANY INVESTMENTS, INC.
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
FOR THE YEAR ENDED JUNE 30, 2006

	<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>
Balance at June 30, 2005	500,000	\$ 5,000	629,745	289,251	\$923,996
Net income (loss) for the year ended June 30, 2006				(233,721)	(233,721)
Balance at June 30, 2006	<u>500,000</u>	<u>\$ 5,000</u>	<u>629,745</u>	<u>55,530</u>	<u>\$690,275</u>

The Accompanying Notes are an Integral Part
of the Financial Statements

FOX & COMPANY INVESTMENTS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

Cash flows from operating activities:

Net income (loss)	\$ (233,721)
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation	22,227
Increase (decrease) in cash resulting from changes in:	
Deposits with clearing organization	(965)
Securities owned, marketable	31,963
Receivable from clearing organization	33,665
Receivable from mutual funds	(12,592)
Other receivables	86,644
Prepaid expenses	(4,841)
Deposits	(17,796)
Payable to clearing organization	(58,657)
Accounts payable	(6,021)
Commissions payable	(37,870)
Accrued expenses	30,852
Unearned revenue	4,317
Net cash used in operating activities	(162,795)

Cash flows from investing activities:

Purchase of furniture, equipment and leasehold improvements	(17,533)
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Cash flows from financing activities:

New borrowings	43,500
Debt reduction	(11,109)
Net cash provided from financing activities	32,391
 Net decrease in cash and cash equivalents	 (147,937)
Cash and cash equivalents, beginning of year	605,509
Cash and cash equivalents, end of year	\$ <u><u>457,572</u></u>

Supplemental cash flow information:

Cash paid for interest	\$ <u><u>17,533</u></u>
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The Accompanying Notes are an Integral Part
of the Financial Statements

FOX & COMPANY INVESTMENTS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

Fox & Company Investments, Inc. (the Company) conducts business as a securities broker-dealer in Phoenix, Arizona, with four branch offices in various states. The Company has an agreement with two clearing brokers to clear securities transactions, carry customer accounts on a fully disclosed basis, and perform certain record-keeping functions. These statements have been prepared in accordance with established standards for securities broker-dealers. The following is a summary of significant accounting policies followed by the Company. The policies conform with accounting principles generally accepted in the United States of America and require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as disclosures of contingent assets and liabilities in the financial statements. Actual results could differ from those estimates. For the year ended June 30, 2006, there is no difference between the Company's net income and comprehensive income.

Securities Transactions

Securities transactions of the Company and commission income and expenses related to customer transactions are recorded on a trade date basis.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be all highly liquid investments purchased with an initial maturity of three (3) months or less.

Receivables

The Company provides for potentially uncollectible receivables by use of the allowance method. The allowance is determined based upon a review of the individual accounts outstanding, as well as prior experience. None of the receivables accrue interest on delinquencies. Management estimates that \$128,530 is uncollectible at June 30, 2006.

FOX & COMPANY INVESTMENTS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Note 1: Summary of Significant Accounting Policies, continued

Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are recorded at cost and depreciated over their estimated useful lives of 5 to 7 years, using accelerated and straight line methods. Maintenance and repairs that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred.

Advertising Costs

Advertising costs are charged to operations when incurred.

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 amount of existing assets and liabilities and their respective tax bases, including, operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The effect in 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.

Note 2: Securities Owned

Securities owned-marketable are carried at quoted market values. At June 30, 2006, securities owned-marketable were comprised of the following:

	<u>Cost</u>	<u>Market Value</u>
Common Stock	\$738,072	\$379,768
Nonconvertible debt securities	<u>1,471</u>	<u>879</u>
	<u>\$739,543</u>	<u>\$380,647</u>

Securities owned-not readily marketable are carried at cost. 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

FOX & COMPANY INVESTMENTS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Note 2: Securities Owned, continued

cannot be offered or sold because of other arrangements, restrictions, or conditions applicable to the securities or to the Company. The securities owned, not readily marketable consisted of NASDAQ warrants with a cost basis of \$20,100, which management believes approximates fair value.

Note 3: Deposits with Clearing Organization

The Company is required to hold a cash deposit with the clearing broker. The deposit requirements are a contractual obligation between the Company and its clearing broker and can be adjusted based on the type and value of securities held in inventory. The deposit in the amount of \$31,157 is considered an allowable asset under the Security and Exchange Commission Uniform Net Capital Rule (rule 15c3-1). The company has switched clearing brokers and will receive the deposit once all accounts have completely moved.

Note 4: Related Party and Employee Receivables

At June 30, 2006, other receivables consisted of the following:

Loans to employees and brokers	\$ 24,252
Receivable from Shareholder	29,444
Receivable from former affiliates	128,530
Miscellaneous receivable	<u>18,973</u>
	201,199
Allowance for doubtful accounts	<u>(128,530)</u>
	<u>\$ 72,669</u>

Note 5: Provision for Income Taxes

At June 30, 2006, deferred tax assets consist of the following:

Current portion:	
Charitable contributions	\$ 2,000
Federal loss carryforwards	245,000
State loss carryforwards	<u>48,000</u>
	295,000

FOX & COMPANY INVESTMENTS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Note 5: Provision for Income Taxes, continued

Long-term portion:	
Depreciation and amortization	<u>3,000</u>
	298,000
Less: valuation allowance	<u>(298,000)</u>
Net deferred tax asset	<u>\$ -</u>

The Company has established a valuation allowance equal to the net deferred tax asset primarily due to the uncertainty in the utilization of net operating loss carryforwards.

The Company's approximate federal and state net operating loss carryforwards at June 30, 2006, are \$720,000 and \$690,000, respectively. The net operating loss carryforwards may be applied against future taxable income. They expire in various years as follows:

<u>Amount of Unused Federal and State Operating Loss Carryforwards</u>	<u>Federal Expiration During Year Ended June 30,</u>	<u>State Expiration During Year Ended June 30,</u>
\$ 30,000	2020	Expired
57,000	2021	2006
282,000	2022	2007
112,000	2023	2008
129,000	2024	2009
<u>110,000</u>	2025	2010
 <u>\$720,000</u>		

FOX & COMPANY INVESTMENTS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Note 6: Furniture, Equipment and Leasehold Improvements

At June 30, 2006, furniture, equipment and leasehold improvements consist of the following:

Computer equipment	\$ 116,213
Furniture and fixtures	55,659
Automobile	37,944
Office equipment	10,866
Leasehold improvements	<u>19,188</u>
	239,870
Less: accumulated depreciation	<u>(182,173)</u>
	<u>\$ 57,697</u>

Note 7: Profit Sharing Plan

The Company has a defined contribution plan covering substantially all of its employees. Contributions to the plan are at the discretion of the board of directors of the Company. For the year ended June 30, 2006, the board of directors elected not to make a contribution to the Plan.

Note 8: Net Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), requiring (1) the maintenance of a minimum amount of net capital and (2) the ratio of aggregate indebtedness to net capital, as defined, shall not exceed 15 to 1. Net capital and related net capital ratio may fluctuate on a daily basis.

At June 30, 2006, the Company had net capital of \$403,263, which was \$303,263 in excess of the required net capital of \$100,000. The ratio of aggregate indebtedness to net capital was 1.45 to 1 as of June 30, 2006.

FOX & COMPANY INVESTMENTS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Note 9: Commitments and Contingencies

Operating Leases

The Company has obligations under operating leases with initial non-cancelable terms in excess of one year.

The Company is leasing corporate office facilities under a lease contract beginning June 1, 2005 and ending July 31, 2008. The lease payments are currently \$7,300 per month and will increase annually at approximately 3.4%. The Company will have the option to renew for two additional three year terms.

The Company is under agreement to lease certain equipment through December of 2006. The current lease payments are approximately \$263 per month.

The Company is currently leasing storage facilities and other equipment on month-to-month leases for approximately \$430 per month.

Aggregate annual rentals at June 30, 2006, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2007	89,176
2008	<u>90,551</u>
	<u>\$179,727</u>

Total expense for operating leases for the year ended June 30, 2006, totaled \$101,104.

Litigation Matters

The Company is a defendant in an arbitration filed by one of its customers for various claims which include violation of industry standards, breach of fiduciary duty and churning. The claimants request damages and costs of approximately \$500,000. The Company believes the suit is without merit and intends to vigorously defend its position. No accrual has been made in the accompanying financial statements for any potential loss arising from this action. Management has advised that this case, aside from a \$50,000 deductible, is covered by the errors and omissions insurance policy.

FOX & COMPANY INVESTMENTS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Note 9: Commitments and Contingencies, continued

The Company is a co-defendant in litigation for various claims which include violations of industry standards, intentional misrepresentation, concealment, negligent misrepresentation, unfair business practices, and conspiracy. The suit asks for compensatory damages of approximately \$675,000. The Company is one of many defendants and believes their part in the suit is without merit and intends to vigorously defend its position. No accrual has been made in the accompanying financial statements for any potential loss arising from this action. Management has advised that this case, aside from a \$50,000 deductible, is covered by the errors and omissions insurance policy.

The Company is a defendant in litigation for various claims which include non-payment of compensation and not providing a safe workplace. The claimant was under employment of another company that subleased office space and had business relationships with the Company. The claimant is seeking an award of unspecified amounts, but greater than \$25,000. The Company believes the suit is without merit and intends to vigorously defend its position. Legal counsel is unable to provide a credible evaluation of the outcome at this time. No accrual has been made in the accompanying financial statements for any potential loss arising from this action.

Note 10: Concentrations and Credit Risks

The Company is engaged in various trading and brokerage activities in which counter-parties primarily include broker-dealers, banks, and other financial institutions. In the event the counter-parties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counter-party or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counter-party.

In normal industry practices brokerage firms sell securities not yet purchased for their own account. The establishment of short positions exposes firms to off-balance sheet market risk in the event prices increase, as the firms may be obligated to acquire the securities at prevailing market prices.

The Company maintains bank accounts with balances in excess of federally insured limits, which exposes the Company to risk in the event of a bank failure. The Company had deposits in excess of the federally insured limits in the approximate amount of \$384,262 at June 30, 2006.

FOX & COMPANY INVESTMENTS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006

Note 11: Notes Payable

The Company obtained an auto loan on September 25, 2003, in the amount of \$37,944. The loan calls for 36 monthly payments of \$1,135, which includes interest at 4.75%.

\$ 2,273

The Company signed a note in May 2006, in the amount of \$28,454 to pay for a prior NASD sanction. The note calls for 24 monthly payments of \$1,320, which includes interest at 10.75%.

\$26,314

The Company signed a note in May 2006, in the amount of \$15,000 to pay for a prior NASD sanction. The note calls for 24 monthly payments of \$697, which includes interest at 10.75%

\$13,869

The Company purchases equipment from Dell on credit. The interest rate at June 30, 2006 was 16.99%

\$ 4,621

\$47,077

Total interest paid on loans for the year ended June 30, 2006 was \$2,759.

Scheduled Maturities of the loans are as follows:

Year ending June 30,	2007	\$ 27,789
	2008	<u>\$ 19,288</u>
		<u>\$ 47,077</u>

SUPPLEMENTAL INFORMATION

Schedule I

FOX & COMPANY INVESTMENTS, INC.
Computation of Net Capital Under Rule 15c3-1 of the
Securities and Exchange Commission
As of June 30, 2006

Net Capital

Total stockholder's equity	\$ 690,275
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Nonallowable assets

Securities owned - not readily marketable	20,100	
Related party and employee receivables	72,669	
Furniture, equipment and leasehold improvements	57,697	
Prepaid Expenses	28,444	
Deposits	17,796	
Total deductions		196,706
Net capital before haircuts on securities positions		493,569

Haircuts on securities positions

Stocks	56,966	
Other Securities	382	
Non-convertible debt securities	75	
Undue concentration	32,883	
Total haircuts on securities positions		90,306
Net capital		\$ 403,263

Aggregate indebtedness

Accounts payable, accrued expenses, and other liabilities, as adjusted	\$ 583,050

Computation of basic net capital requirement

Minimum net capital required (6 2/3% of aggregate indebtedness)	\$ 38,870
Minimum dollar net capital requirement	\$ 100,000
Net capital requirement (greater of above)	\$ 100,000
Excess net capital	\$ 303,263
Excess net capital at 1000%	\$ 344,958
Ratio: Aggregate indebtedness to net capital	1.45 to 1

Schedule I, (continued)

FOX & COMPANY INVESTMENTS, INC.
Computation of Net Capital Under Rule 15c3-1 of the
Securities and Exchange Commission
As of June 30, 2006

**Reconciliation of the computation of net capital with the computations included
in Part IIA of Form X17A-5 as of the same date.**

Net capital per FOCUS report	\$ 401,403
Changes resulting from audit adjustments	
Increase in mutual funds receivable	8,920
Increase in commissions payable	(7,139)
Decrease in haircut on securities positions	<u>79</u>
Net capital per audit report	<u>\$ 403,263</u>

SCHEDULE II

FOX & COMPANY INVESTMENTS, INC. COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS UNDER RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION AS OF JUNE 30, 2006

The Company's transactions with clients consist exclusively of acting as an introducing broker-dealer to a clearing broker-dealer on a fully disclosed basis. The Company transmits all customer funds and securities to the clearing broker-dealer who, in turn, carries all the accounts of such customers. The Company therefore meets the requirements of paragraph (k)(2)(ii) of Rule 15c3-3 and is exempt from the computation of cash reserve requirements for brokers and dealers.

MERLIN SCHUMANN & COMPANY, P.C.

Certified Public Accountants

Merlin J. Schumann, CPA
Charles M. Adriano, CPA
Scott R. Gastineau, CPA

Independent Auditor's Report on Internal Control Structure Required by SEC Rule 17a-5

Board of Directors

Fox & Company Investments, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Fox & Company Investments, Inc. (the Company), for the year ended June 30, 2006, 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 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
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 customer 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 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

Independent Auditors' Report on Internal Control Structure Required by
SEC Rule 17a-5, continued

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 paragraphs.

Because of inherent limitations in internal control or the practices and procedures 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.

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 the specific internal control components does not reduce to a relatively low level the risk that 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 June 30, 2006, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, National Association of Securities Dealers, Inc. 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.

Merlin Schumann & Company P.C.
MERLIN SCHUMANN & CO., P.C.
Phoenix, Arizona
August 23, 2006