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

SEC FILE NUMBER  
8- 50429

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 01/01/2006 AND ENDING 12/31/2006  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: USI Securities, Inc.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

95 Glastonbury Blvd.

(No. and Street)

Glastonbury

CT

06033

(City)

(State)

(Zip Code)

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

Joseph Gritzer

860-368-2913

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Haggett Longobardi & Company, LLC

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

180 Glastonbury Blvd.

Glastonbury

CT

06033

(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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\*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)

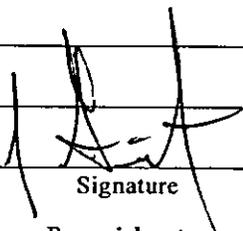
SEC 1410 (06-02)

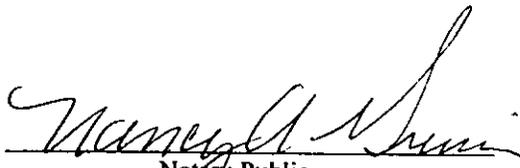
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OATH OR AFFIRMATION

I, Joseph Gritzer, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of USI Securities, Inc., as of December 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:

  
\_\_\_\_\_  
Signature  
\_\_\_\_\_  
President  
\_\_\_\_\_  
Title

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

**NANCY A. GRENIER**  
**NOTARY PUBLIC**  
MY COMMISSION EXPIRES 12/31/2011

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).

# USI SECURITIES, INC.

## FINANCIAL STATEMENTS

December 31, 2006

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
USI Securities, Inc.

We have audited the accompanying statements of financial condition of USI Securities, Inc. as of December 31, 2006 and 2005, and the related statements of income (loss), changes in retained deficit and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 USI Securities, Inc. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule 1 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 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audits 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.

February 10, 2007



# USI SECURITIES, INC.

## STATEMENTS OF FINANCIAL CONDITION

December 31, 2006 and 2005

### ASSETS

	2006	2005
<b>Current assets</b>		
Cash	\$ 948,098	\$ 669,647
Commissions receivable	4,184	70,806
Due from parent	6,317	-
Other current assets	6,111	4,068
Due from related party	1,067	1,818
	965,777	746,339
 <b>Property and equipment, at cost</b>		
Computer equipment and software	19,025	97,924
Furniture and fixtures	13,624	13,624
	32,649	111,548
Less accumulated depreciation	(21,222)	(91,606)
	11,427	19,942
 <b>Other assets</b>		
Deposits	35,000	35,000
	35,000	35,000
	<b>\$ 1,012,204</b>	<b>\$ 801,281</b>

### LIABILITIES AND EQUITY

<b>Current liabilities</b>		
Accrued expenses	\$ 372,155	\$ 343,875
Income tax payable - parent	66,000	-
Due to parent	-	6,106
	438,155	349,981
 <b>Equity</b>		
Common stock, \$1 par value; 100 shares authorized, 10 shares issued and outstanding	10	10
Paid in capital	2,067,527	2,067,527
Retained deficit	(1,493,488)	(1,616,237)
	574,049	451,300
	<b>\$ 1,012,204</b>	<b>\$ 801,281</b>

The accompanying accounting policies and notes are  
an integral part of the financial statements.

# USI SECURITIES, INC.

## STATEMENTS OF INCOME (LOSS)

For the Years Ended December 31, 2006 and 2005

	2006	2005
<b>Revenue</b>		
Commission income	\$ 15,303,214	\$ 14,893,555
Other income	-	31,775
Interest income	1,663	1,458
	15,304,877	14,926,788
<b>Expenses</b>		
Management fees	13,317,175	12,852,476
Salaries	1,096,850	1,253,074
Insurance	190,152	210,474
Rent	111,600	115,200
Payroll tax	73,072	70,690
Licenses and fees	64,027	47,493
Software lease	58,988	74,574
Professional fees	50,932	71,718
Retirement plan - 401(k) match	23,907	22,591
Telephone	23,797	30,595
Commissions	18,609	46,689
Travel	18,303	60,879
Trading fees	13,163	40,066
Office supplies	11,619	18,348
Training/professional development	11,176	10,291
Depreciation	8,516	32,828
Office expense	7,231	6,431
Commissions - independent representatives	6,057	18,576
Dues and subscriptions	5,187	25,407
Meals and entertainment	3,801	12,333
Payroll processing	942	3,559
Claims and losses	37	13,683
Charitable contributions	-	395
Bank charges	-	13
Miscellaneous	987	3,178
	15,116,128	15,041,561
 Income (loss) before income taxes	 188,749	 (114,773)
 Income taxes	 66,000	 -
 Net income (loss)	 \$ 122,749	 \$ (114,773)

The accompanying accounting policies and notes are  
an integral part of the financial statements.

# USI SECURITIES, INC.

## STATEMENTS OF CHANGES IN RETAINED DEFICIT

For the Years Ended December 31, 2006 and 2005

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Deficit</u>	<u>Total Equity</u>
Balance, December 31, 2004	\$ 10	\$ 1,757,990	\$ (1,501,464)	\$ 256,536
Capital contributions	-	309,537	-	309,537
Net loss	-	-	(114,773)	(114,773)
Balance, December 31, 2005	10	2,067,527	(1,616,237)	451,300
Capital contributions	-	-	-	-
Net income	-	-	122,749	122,749
Balance, December 31, 2006	<u>\$ 10</u>	<u>\$ 2,067,527</u>	<u>\$ (1,493,488)</u>	<u>\$ 574,049</u>

The accompanying accounting policies and notes are an integral part of the financial statements.

# USI SECURITIES, INC.

## STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2006 and 2005

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 122,749	\$ (114,773)
Adjustment to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	8,516	32,828
(Increase)/decrease in:		
Commissions receivable	66,622	(70,806)
Other current assets	(7,043)	1,865
Due from parent	(6,317)	-
Due from related party	751	(523)
Other assets	5,000	5,000
(Decrease) increase in:		
Accrued expenses	28,279	51,466
Due to parent	(6,106)	30,551
Income tax payable - parent	66,000	-
Net cash provided by (used in) operating activities	278,451	(64,392)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	-	(2,022)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Additional paid in capital	-	50,000
Net increase (decrease) in cash	278,451	(16,414)
Cash, beginning of year	669,647	686,061
Cash, end of year	\$ 948,098	\$ 669,647
<b>SUPPLEMENTAL DISCLOSURES</b>		
<u>Financing Activities</u>		
Capital contributions	\$ -	\$ 309,537
Due to parent	-	(259,537)
Net cash contributed by parent	\$ -	\$ 50,000

The accompanying accounting policies and notes are an integral part of the financial statements.

# USI SECURITIES, INC.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Operations

USI Securities, Inc. (the Company) is a Delaware corporation that is a wholly-owned subsidiary of USI Services Corporation (Parent). USI Services Corporation is a wholly-owned subsidiary of USI Holdings Corporation. The Company is a NASD member broker-dealer, SEC registered investment advisor and licensed insurance agency. The Company, through its registered representatives, offers and sells mutual funds, variable annuities and variable life insurance contracts, primarily in the qualified plans market throughout the United States. The Company also has a limited amount of "constructive receipt" arrangements with other broker/dealers whereby the Company receives override commissions derived from the sale of securities products to customers of other subsidiaries of the Parent.

### Basis of Accounting

The Company utilizes the accrual basis of accounting. Commission revenue for investment services are recognized in accordance with terms defined within each contract. Under certain contracts, commissions are earned when the contract is written and, in other cases, revenue is recognized when commissions are collected. The related management fees are recorded when paid which are done bi-monthly.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all investment instruments purchased with a maturity of three months or less to be cash equivalents. At December 31, 2006 and 2005, there were no cash equivalents.

### Commission Receivable

Receivables arising from regular operations are not stated net of an allowance for doubtful accounts. The Organization uses the direct write-off method to account for bad debts. Under this method, amounts are charged against income when the debt is deemed uncollectible. No bad debts have been written off during the year ended December 31, 2006.

### Concentration of Credit Risk

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company's management believes it is not exposed to any significant credit risk on cash or cash equivalents.

# USI SECURITIES, INC.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Net Capital Requirements

The Company is subject to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, which requires the maintenance of minimum net capital as defined under such provisions, and requires that the ratio of aggregate indebtedness to net capital be less than 15 to 1.

### Reserve Requirements

The Company is exempt from the requirements relating to cash reserves and possession or control of customers securities under Rule 15c3-3 of the Securities Exchange Act of 1934.

### Property and Equipment - Depreciation

The Company capitalizes all expenditures for property and equipment in excess of \$500. Depreciation of property and equipment is recorded on the straight-line basis for financial reporting purposes over the estimated useful lives of the assets. Estimated lives for financial reporting purposes are as follows:

<u>Asset</u>	<u>Estimated Lives</u>
Computer equipment and software	3 - 5 years
Furniture and fixtures	7 years

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period.

# USI SECURITIES, INC.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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### Use of Estimates

The preparation of the Company's financial statement in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of net revenue and expenses during the reporting period. The Company bases estimates on historical experience and on various assumptions about the future that are believed to be reasonable based on available information. The Company's reported financial position or results of operations may be materially different under different conditions or when using different estimates and assumptions, particularly with respect to significant accounting policies. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information.

Estimates are primarily used in accounting for depreciation and certain accrued liabilities.

**USI SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**(1) Net Capital Requirements**

As a broker-dealer, the Company is subject to the net capital provisions of Rule 15c 3-1 adopted and administered by the Securities and Exchange Commission. The rule prohibits a broker-dealer from engaging in securities transactions at any time when its ratio of aggregate indebtedness to net capital exceeds fifteen (15) to one (1), as those terms are defined by the Securities and Exchange Commission. A broker-dealer may also be required to reduce its business if its net capital ratio should exceed twelve (12) to one (1) and may be prohibited from expanding its business if the ratio exceeds ten (10) to one (1). As of December 31, 2006, aggregate indebtedness was \$438,155 and the net capital was \$549,127 an excess of \$519,917 over required minimum net capital of \$29,210. As of December 31, 2005, aggregate indebtedness was \$349,981 and the net capital was \$425,472 an excess of \$402,140 over required minimum net capital of \$23,332.

**(2) Liabilities Subordinated to Claims of General Creditors**

There were no borrowings under subordination agreements at December 31, 2006 and 2005.

**(3) Related Parties**

The Company rents space in the offices of USI Consulting Group, Inc., which is also a wholly-owned subsidiary of the Parent. The rent also includes utilities, the use of computer and other office equipment. In 2006 and 2005, the Company paid rent of \$111,600 and \$115,200 to USI Consulting Group, Inc., respectively. Rent is paid monthly and is based on the number of the Company's employees. USI Consulting Group, Inc. also provides accounting services to the Company for \$1,700 per month. Total rent and accounting services fees were \$132,000 and \$135,600 in 2006 and 2005, respectively.

The Company's revenues (other than interest income) are mainly derived from sales to customers of other subsidiaries of the Parent.

The Company receives commissions from mutual fund and insurance companies and pays approximately 76½ - 95% of these commissions to the Parent in the form of management fees. In July 2006, the management fees to be paid to the Parent were at 90% of the commissions.

Management fees totaled \$13,317,175 and \$12,852,476 for the years ended December 31, 2006 and 2005, respectively.

# USI SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### **(4) Operating Leases**

The Company has a service bureau agreement classified for financial statement purposes as a software lease. The lease terms require a monthly fee of \$4,350 and expires in January 2008.

Total software lease expense for 2006 and 2005 was \$58,988 and \$74,574, respectively. At December 31, 2006 aggregate future minimum lease payments due consisted of the following:

<u>Year Ended December 31,</u>	
2007	\$ 52,200
2008	4,350
	<u>\$ 56,550</u>

### **(5) Retirement Plan**

The Company has a 401(k) retirement plan (the Plan), matching 75% of employee contributions up to 4% of an employee's salary, subject to the provisions of the Employees Retirement Income Securities Act. Eligibility for the Plan is based on attaining the age of 21 and completing thirty days of service with the Company. The Company's contributions to the Plan for 2006 and 2005 were \$23,907 and \$22,591, respectively. In July 2006, the Company adopted automatic enrollment provisions as allowed for by the Internal Revenue Service.

### **(7) Compensated Absences**

Employees of the Company are entitled to paid vacation, sick and personal days depending on job classification, length of service and other factors. It is impractical to estimate the amount of compensation of future paid sick days and personal time off and accordingly no such liability for these amounts has been recorded in the accompanying financial statements. The Company's policy is to recognize the costs of these compensated absences when actually paid to employees.

### **(8) Income Taxes**

The Company files a consolidated tax return with its Parent and records its share of the consolidated tax expense on a separate return basis. As of December 31, 2006, the Company's current tax expense has been estimated at \$66,000 and is recorded as income tax payable-parent on the Company's balance sheet. As of December 31, 2005, no separate tax provision of the Company was included in the financial statements due to a net loss.

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY  
INFORMATION REQUIRED BY RULE 17a-5 OF THE  
SECURITIES AND EXCHANGE COMMISSION**

To the Board of Directors of  
USI Securities, Inc.

We have audited the accompanying financial statements of USI Securities, Inc. as of December 31, 2006 and 2005 and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated February 10, 2007. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule 1 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 audits 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.

February 10, 2007

*Haggett Longobardi, LLC*

**USI SECURITIES, INC.****COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF  
THE SECURITIES AND EXCHANGE COMMISSION**

December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>NET CAPITAL</b>		
Total equity	\$574,049	\$451,300
Deduct equity not allowable for net capital	<u>(24,922)</u>	<u>(25,828)</u>
Total equity qualified for net capital	<u>\$549,127</u>	<u>\$425,472</u>
 <b>COMPUTATION OF BASIC NET CAPITAL REQUIREMENT</b>		
Minimum net capital required for broker	<u>\$ 29,210</u>	<u>\$ 23,332</u>
Excess net capital	<u>\$ 519,917</u>	<u>\$ 402,140</u>
Net capital requirement	<u>\$ 29,210</u>	<u>\$ 23,332</u>
Net capital deficiency	<u>None</u>	<u>None</u>
 <b>RECONCILIATION WITH COMPANY'S Net cash provided by operating activities</b>		
X-17A-5 as of December 31, 2006 and 2005		
Net capital, as reported in Company's Part IIA (unaudited) focus reports	\$615,461	\$ 425,472
Audit adjustments	<u>(66,334)</u>	<u>-</u>
Net capital per above	<u>\$ 549,127</u>	<u>\$ 425,472</u>

The accompanying accounting policies and notes are  
an integral part of the financial statements.

To the Board of Directors of  
USI Securities, Inc.

In planning and performing our audit of the financial statements and supplemental schedule of USI Securities, Inc. (the Company), for the year ended December 31, 2006, we considered its internal controls, 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 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 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 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 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 December 31, 2006 to meet the SEC's objectives.

This report is intended solely for the use of the Board of Directors, management, the SEC, 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.

February 10, 2007

*Hajjatt Jajjandi, LLC*

*END*