

SECURI



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

SEC MAIL RECEIVED  
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SEC FILE NUMBER  
**8- 41590**

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 10/01/2005 AND ENDING 9/30/2006  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER - DEALER:  
 InCap Securities, Inc.

OFFICIAL USE ONLY  
 FIRM ID. NO.

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

320 North Charles Street

(No. and Street)

Baltimore

(City)

MD

(State)

21201

(Zip Code)

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

James Tennes

(410)727-2100 ext 109

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Sanville & Company

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

1514 Old York Road

(Address)

Abington

(City)

PA

(State)

19001

(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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 THOMSON FINANCIAL

\*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 (3-91)

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BB 3/7

OATH OR AFFIRMATION

I, Daniel V. Hughes III, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of InCap Securities, Inc., as of September 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

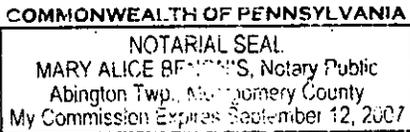
*Daniel V. Hughes III*

Signature

Financial Operations Principal

Title

*Mary Alice Benniss*  
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 Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's 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.
- N/A  (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- N/A\*  (m) A copy of the SIPC Supplemental Report.
- N/A  (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (o) Independent Auditor's Report on Internal Accounting Control.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

\*Minimum assessment in effect.

# Sanville & Company

CERTIFIED PUBLIC ACCOUNTANTS

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140 EAST 45<sup>TH</sup> STREET NEW YORK, NY 10017  
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ROBERT F. SANVILLE, CPA  
MICHAEL T. BARANOWSKY, CPA  
JOHN P. TOWNSEND, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
InCap Securities, Inc.

We have audited the accompanying statement of financial condition of InCap Securities, Inc. as of September 30, 2006 and the related statements of income, changes in stockholder's equity, changes in liabilities subordinated to claims of general creditors, 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 InCap Securities, Inc. as of September 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 information contained in Schedules I and II (including information relating to the possession or control requirements) is presented for purposes of additional analysis and is not a 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 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.

Abington, Pennsylvania  
February 5, 2007

  
Certified Public Accountants

INCAP SECURITIES, INC.  
Statement of Financial Condition  
September 30, 2006

ASSETS

Cash and cash equivalents	\$	4
Accounts receivable		12,000
Due from affiliates (Note 3)		77,365
Prepaid expenses		<u>275</u>
Total assets	\$	<u><u>89,644</u></u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Accounts payable and accrued expenses	\$	<u>5,369</u>
Total liabilities		<u>5,369</u>

Commitments and contingent liabilities

Stockholder's Equity:

Common stock issued and outstanding - 100 shares, authorized - 100 shares		10,000
Additional paid-in capital		66,430
Retained earnings		<u>7,845</u>
Total stockholder's equity		<u>84,275</u>
Total liabilities and stockholder's equity	\$	<u><u>89,644</u></u>

The accompanying notes are an integral part of these financial statements.

INCAP SECURITIES, INC.  
Statement of Income  
For the Year Ended September 30, 2006

REVENUE

Management and consulting fees	\$ 54,268
Interest	<u>8</u>
Total revenue	<u>54,276</u>

EXPENSES

Commissions	22,400
Administrative fees	5,650
Regulatory fees and expenses	4,167
Professional fees	3,600
Bad debts and errors	6,160
Other	<u>249</u>
Total expenses	<u>42,226</u>
Income before income taxes	12,050
Provision for income taxes	<u>-</u>
Net income	\$ <u><u>12,050</u></u>

The accompanying notes are an integral part of these financial statements.

INCAP SECURITIES, INC.  
Statement of Changes in Stockholder's Equity  
For the Year Ended September 30, 2006

	<u>Common Stock Shares</u>		<u>Common Stock Amount</u>		<u>Additional Paid-In Capital</u>		<u>Retained Earnings</u>		<u>Total Stockholder's Equity</u>
Balance at October 1, 2005	100	\$	10,000	\$	66,430	\$	( 4,205)	\$	72,225
Net income	<u>-</u>		<u>-</u>		<u>-</u>		<u>12,050</u>		<u>12,050</u>
Balance at September 30, 2006	<u>100</u>	<u>\$</u>	<u>10,000</u>	<u>\$</u>	<u>66,430</u>	<u>\$</u>	<u>7,845</u>	<u>\$</u>	<u>84,275</u>

The accompanying notes are an integral part of these financial statements.

INCAP SECURITIES, INC.  
Statement of Changes in Subordinated Borrowings  
For the Year Ended September 30, 2006

Subordinated borrowings at October 1, 2005	\$ -
Increases:	-
Decreases:	<u>-</u>
Subordinated borrowings at September 30, 2006	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

INCAP SECURITIES, INC.  
Statement of Cash Flows  
For the Year Ended September 30, 2006

Cash flows from operating activities:

Net income	\$ 12,050
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	( 5,703)
Due from affiliates (Note 3)	( 19,412)
Prepaid expenses	453
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	4,968
Accrued income taxes	<u>( 119)</u>
Net cash expended in operating activities	<u>( 7,763)</u>
Net decrease in cash	( 7,763)
Cash and cash equivalents at beginning of year	<u>7,767</u>
Cash and cash equivalents at end of year	<u><u>\$ 4</u></u>
Supplemental disclosures of cash flow information	
Cash paid during the year for:	
Interest paid	\$ -
Income taxes	\$ -

The accompanying notes are an integral part of these financial statements.

INCAP SECURITIES, INC.  
Notes to Financial Statements  
September 30, 2006

1. BUSINESS ACTIVITY

InCap Securities, Inc. (the "Company") is a wholly-owned subsidiary of InCap Group, Inc. ("Group"). The Company's business consists of investment banking and management and consulting services to open-ended, diversified management investment companies.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company uses the accrual basis of accounting for financial statement reporting. Generally accepted accounting principles require management under certain circumstances to use accounting estimates. Actual results could differ from these estimates.

The Company includes as cash and cash equivalents amounts invested in money market accounts.

Substantially all of the Company's financial assets and liabilities are carried at market value or at amounts that, because of short-term nature of the financial instruments, approximate current fair value.

The Company recognizes a bad debt when it is known the amount is uncollectible. This is not materially different than a provision for bad debts.

The Company has previously been included in a consolidated Federal tax return with its parent company, Group. The Company recognizes its pro-rata share of the consolidated group's federal income taxes. State income taxes are filed on an individual company basis.

The preparation of financial statements in conformity with generally accepted accounting principals 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 may differ from those estimates and assumptions.

3. TRANSACTIONS WITH AFFILIATES

The Company has both advanced affiliates funds and borrowed funds from affiliates during the year ended September 30, 2006. At September 30, 2006 the following amounts are due from (due to) affiliates:

InCap Service Company ("Service Co.")	\$ 76,807
Equity Income Advisors	<u>558</u>
	<u>\$ 77,365</u>

INCAP SECURITIES, INC.  
Notes to Financial Statements (Continued)  
September 30, 2006

3. TRANSACTIONS WITH AFFILIATES (Continued)

Service Co. provides personnel and office facilities to the Company. For such services Service Co. charged the Company an administrative fee of \$5,650 for the year ended September 30, 2006. Certain of the directors and officers of the Company are affiliated with Service Co.

4. NET CAPITAL AND RESERVE REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At September 30, 2006, the Company had net capital of \$6,635 which was \$1,635 in excess of its required net capital of \$5,000. The Company's net capital ratio was .98 to 1.

The Company is exempt from SEC Rule 15c3-3 (Reserve Requirements) under Section (k)(2)(A) of that Rule. The Company's business consists exclusively of distribution of shares of registered investment companies.

5. SUBSEQUENT EVENT

The Company is delinquent in filing its annual audit report which was due sixty days from its year end. On January 5, 2007 the NASD suspended the Company from membership. The result of the suspension was the Company could not conduct a securities business. The Company shall be reinstated into NASD membership upon filing its annual report.

The NASD may take disciplinary action against the Company which could result in fines that could have a financial impact on the Company.

INCAP SECURITIES, INC.  
Computation of Net Capital Under Rule 15c3-1  
of the Securities and Exchange Commission  
September 30, 2006

## COMPUTATION OF NET CAPITAL

Total stockholder's equity	\$ 84,275
Deduct stockholder's equity not allowable for Net Capital:	<u>-</u>
Total stockholder's equity qualified for Net Capital	<u>84,275</u>
Deductions and/or charges:	
Non-allowable assets:	
Accounts receivable	-
Due from affiliates	77,365
Prepaid expenses	<u>275</u>
Total non-allowable assets	<u>77,640</u>
Net Capital	<u>\$ 6,635</u>

## COMPUTATION OF AGGREGATE INDEBTEDNESS

Total aggregate indebtedness liabilities from Statement of Financial Condition	
Accounts payable and accrued expenses	\$ <u>5,369</u>
Total aggregate indebtedness	\$ <u><u>5,369</u></u>
Percentage of aggregate indebtedness to Net Capital	81%
Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)	-

INCAP SECURITIES, INC.  
Computation of Net Capital Under Rule 15c3-1  
of the Securities and Exchange Commission  
September 30, 2006

## COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Minimum Net Capital (6 2/3% of \$5,369)	\$	358
Minimum dollar Net Capital requirement of reporting broker or dealer and minimum Net Capital requirement	\$	5,000
Net Capital requirement	\$	5,000
Excess Net Capital	\$	1,635
Excess Net Capital at 1000%	\$	6,098

RECONCILIATION BETWEEN COMPUTATION OF ANNUAL AUDIT REPORT  
AND COMPUTATION IN COMPANY'S UNAUDITED FOCUS REPORTComputation of Net Capital Under Rule 15c3-1

No material difference exists between the broker's most recent, unaudited, Part IIA filing and the Annual Audit Report.

INCAP SECURITIES, INC.  
Computation For Determination of the  
Reserve Requirements Under Rule 15c3-3  
of the Securities and Exchange Commission  
September 30, 2006

The Company is exempt from the provisions of Rule 15c3-3 in accordance with Section (k)(2)(A).

RECONCILIATION BETWEEN COMPUTATION OF ANNUAL AUDIT REPORT  
AND COMPUTATION IN COMPANY'S UNAUDITED FOCUS REPORT

Computation for Determination of Reserve Requirements Under  
Exhibit A of Rule 15c3-3

No material difference exists between the broker's most recent, unaudited, Part IIA filing and the Annual Audit Report.

# Sanville & Company

CERTIFIED PUBLIC ACCOUNTANTS

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## Board of Directors InCap Securities, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of InCap Securities, Inc. (the Company) for the year ended September 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 the 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.

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 the 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 September 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, NASD and other regulatory agencies which 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.

Abington, Pennsylvania  
February 5, 2007

*Sanwell's Company*  
Certified Public Accountants

*END*