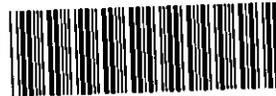


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| OMB APPROVAL                                     |                   |
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ANNUAL AUDITED REPORT FORM X-17A-5 PART III

|                 |
|-----------------|
| SEC FILE NUMBER |
| 8-17025         |

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 01/01/06 AND ENDING 12/31/06 MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: C.L. King & Associates, Inc.

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

9 Elk Street

(No. and Street)

Albany

New York

12207

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT Robert A. Benton 518-431-3500

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

PricewaterhouseCoopers

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

677 Broadway

Albany

New York

12207

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

MAR 07 2007

|                       |  |
|-----------------------|--|
| FOR OFFICIAL USE ONLY |  |
| 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 (06-02)

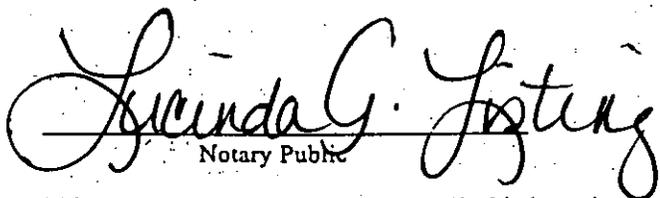
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

Handwritten initials/signature

OATH OR AFFIRMATION

I, Robert A. Benton, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of C.L. King & Associates, 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:

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

  
Notary Public

\_\_\_\_\_  
Signature  
Chief Financial Officer  
Title

LUCINDA G. LISTING  
Notary Public, State of New York  
No. 01L14840528  
Qualified in Rensselaer County  
Commission Expires December 31, 2009

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).

**C.L. King & Associates, Inc.  
and Subsidiary**

**Consolidated Statement of Financial Condition  
(and Report of Independent Auditors)  
December 31, 2006**

**C.L. King & Associates, Inc. and Subsidiary**

**Index**

**December 31, 2006**

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| <b>Statement of Financial Condition</b>                      |                |
| Consolidated Statement of Financial Condition.....           | 2              |
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**Report of Independent Auditors**

To the Board of Directors and Stockholders of  
C.L. King & Associates, Inc. and Subsidiary

In our opinion, the accompanying consolidated statement of financial condition presents fairly, in all material respects, the financial position of C.L. King & Associates, Inc. and its subsidiary (the "Company") at December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 9 to the consolidated statement of financial condition, the Company has had significant transactions with related parties.

February 23, 2007

*PricewaterhouseCoopers LLP*

**C.L. King & Associates, Inc. and Subsidiary**  
**Consolidated Statement of Financial Condition**  
**December 31, 2006**

|                                                                                 |                       |
|---------------------------------------------------------------------------------|-----------------------|
| <b>Assets</b>                                                                   |                       |
| Cash and cash equivalents                                                       | \$ 185,107            |
| Restricted cash                                                                 | 181,199               |
| Cash and securities segregated under federal and other regulations              | 10,550,000            |
| Deposits with clearing organizations                                            | 1,537,234             |
| Receivables from:                                                               |                       |
| Brokers, dealers and clearing organizations                                     | 5,763,156             |
| Securities borrowed                                                             | 111,095,950           |
| Customers                                                                       | 2,503,143             |
| Related parties                                                                 | 69,939,035            |
| Securities owned, at market value                                               | 15,800,293            |
| Property and equipment                                                          | 1,350,856             |
| Other assets                                                                    | 643,944               |
|                                                                                 | <u>\$ 219,549,917</u> |
| <b>Liabilities and Stockholders' Equity</b>                                     |                       |
| Short-term bank loans                                                           | \$ 9,180,000          |
| Payables to:                                                                    |                       |
| Brokers, dealers and clearing organizations                                     | 292,683               |
| Securities loaned                                                               | 50,495,143            |
| Customers                                                                       | 9,004,568             |
| Related parties                                                                 | 124,064,678           |
| Securities sold, but not yet purchased, at market value                         | 2,790,439             |
| Accounts payable and accrued expenses                                           | 2,624,767             |
|                                                                                 | <u>198,452,278</u>    |
| Commitments and contingencies                                                   |                       |
| Subordinated borrowings - related party                                         | <u>9,000,000</u>      |
| Stockholders' equity                                                            |                       |
| Common stock; \$.01 par value; authorized 500,000 shares; issued 305,000 shares | 3,050                 |
| Additional paid-in capital                                                      | 96,950                |
| Retained earnings                                                               | 12,022,252            |
| Less: Treasury stock, at cost, 9,250 shares                                     | (24,613)              |
|                                                                                 | <u>12,097,639</u>     |
| Total stockholders' equity                                                      | <u>12,097,639</u>     |
| Total liabilities and stockholders' equity                                      | <u>\$ 219,549,917</u> |

The accompanying notes are an integral part of the consolidated statement of financial condition.

**C.L. King & Associates, Inc. and Subsidiary**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2006**

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**1. Significant Accounting Policies**

**Business Operations**

The consolidated statement of financial condition includes the accounts of C.L. King & Associates, Inc. (the "Company") and its wholly-owned subsidiary Jetco V, LLC. The Company is a securities broker-dealer and investment advisor registered with the Securities and Exchange Commission (SEC). The Company is engaged principally in the trading and brokerage of equity securities and other investment products for individual and institutional customers throughout the United States. Jetco V, LLC was organized in 2001 pursuant to the laws of the State of New York. Through July 2005 Jetco V, LLC owned an aircraft, its principal asset, which it operated for charter. In August, 2005 Jetco V, LLC sold the aircraft. In December 2006 Jetco V, LLC purchased a fractional share of an aircraft which it uses principally for business purposes.

**Use of Estimates**

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States of America 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 statement. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Company considers cash and amounts in demand deposit accounts at various financial institutions, other than those segregated under federal and other regulations, to be cash equivalents.

**Securities Transactions**

Proprietary securities transactions in regular-way trades are recorded on the trade date, as if they had settled. Customers' securities and commodities transactions are reported on a settlement date basis.

Securities owned and securities sold, but not yet purchased are comprised of United States stocks and are valued at market value based on quoted market prices.

**Resale and Repurchase Agreements**

Transactions involving purchases of securities under agreements to resell or sales of securities under agreements to repurchase are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts plus accrued interest. It is the policy of the Company to obtain possession of collateral with a market value equal to or in excess of the principal amount of cash loaned under resale agreements. Collateral is valued daily and the Company may require counter parties to deposit additional collateral or return collateral pledged when appropriate. These agreements typically mature within one week.

**Securities-Lending Activities**

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash or other collateral in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

**C.L. King & Associates, Inc. and Subsidiary**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2006**

---

**Collateral**

The Company continues to report assets it has pledged as collateral in secured borrowings when the secured party cannot sell or repledge the assets.

**Receivables from Clearing Broker**

Receivables from clearing broker represent cash balances on deposit with and securities receivable from the Company's clearing broker. The Company is subject to credit risk should the clearing broker be unable to repay the balance reflected on the statement of financial condition. However, the Company does not anticipate non-performance by this counter party.

**Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided for using both straight line and accelerated methods with varying lives ranging from 3 to 10 years.

**Financial Instruments**

The financial instruments of the Company are reported on the statement of financial condition at market or fair value, or at carrying amounts that approximate fair value because of the short maturity of the instrument, except subordinated borrowings. The estimated fair value of subordinated borrowings from the Company's principal stockholder at December 31, 2006 approximates their carrying value based on current rates available.

**Income Taxes**

The Company has elected to be taxed as a Subchapter S corporation and, therefore, is not generally taxed at the corporate level other than for state franchise taxes. The Company's earnings and tax credits are passed through to the stockholders.

**2. Cash and Securities Segregated Under Federal and Other Regulations**

Resale agreements collateralized by U.S. Government securities of \$10,550,000 as of December 31, 2006 have been segregated in special reserve bank account for the exclusive benefit of customers under Rule 15c3-3 of the SEC.

**3. Receivables from and Payables to Brokers, Dealers and Clearing Organizations**

Amounts receivable from and payable to brokers, dealers and clearing organizations consist of the following as of December 31, 2006:

|                                                                |    |                  |
|----------------------------------------------------------------|----|------------------|
| Receivables from clearing broker                               | \$ | 1,858,407        |
| Receivables from clearing organizations                        |    | 2,911,514        |
| Receivables from underwriting designations                     |    | 99,643           |
| Receivables from brokers for unsettled securities transactions |    | 438,716          |
|                                                                | \$ | <u>5,763,156</u> |
| Payables to clearing organizations                             | \$ | 278,845          |
| Payables to broker                                             |    | 13,838           |
|                                                                | \$ | <u>292,683</u>   |

**C.L. King & Associates, Inc. and Subsidiary**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2006**

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Proprietary securities transactions are recorded on trade date, as if they had settled. The related amounts receivable and payable for unsettled securities transactions are recorded net in receivables from or payables to brokers, dealers and clearing organization on the statement of financial condition.

**4. Receivables from and Payables to Customers and Related Parties**

Receivables from and payables to customers and related parties include amounts from cash and margin transactions. Securities owned by customers and related parties are held as collateral for the receivable balances. Such collateral is not included in the financial statement. The customer and related party collateral amounted to \$130,851,141 at market value at December 31, 2006.

**5. Property and Equipment**

Property and equipment consists of the following at December 31, 2006:

|                                |                     |
|--------------------------------|---------------------|
| Furniture/fixtures             | \$ 218,547          |
| Office equipment               | 1,044,934           |
| Leasehold improvements         | 907,231             |
| Aircraft                       | 494,000             |
|                                | <u>2,664,712</u>    |
| Less: Accumulated depreciation | <u>(1,313,856)</u>  |
| Property and equipment, net    | <u>\$ 1,350,856</u> |

**6. Short-Term Bank Loans**

The short-term bank loans are obtained under four lines of credit, one \$35,000,000 line of credit, one \$17,500,000 line of credit and two \$15,000,000 lines of credit, all with variable interest rates. The interest rates on the lines are as follows: on two of the lines, it is based upon the prevailing federal funds rate plus 1.00% (6.25% at December 31, 2006), another is based upon the effective federal funds rate plus 1.00% (6.30% at December 31, 2006), and the fourth is based upon the targeted federal funds rate plus 1.00% (6.31% at December 31, 2006). As of December 31, 2006, the loans are collateralized by \$27,226,904 of the Company's and certain related parties' securities purchased on margin subject to certain regulatory formula. The Company has not separately presented these securities on the statement of financial condition as the creditors cannot sell or repledge the collateral. The average interest rate on these loans was 6.02% for the year ended December 31, 2006. Total unused lines of credit amounted to \$73,320,000.

Restricted cash of \$181,199 at December 31, 2006 represents a compensating balance maintained to assure future credit availability on one of the \$15,000,000 lines of credit. According to the terms of the agreement, the Company must maintain a low six figure deposit with the lending institution at all times.

**C.L. King & Associates, Inc. and Subsidiary**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2006**

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**7. Commitments and Contingencies**

The Company leases additional office space and certain office and communication equipment under noncancelable operating leases which expire at various times through 2013. Certain leases contain renewal options and escalating rent. Future minimum annual rentals payable are as follows:

|            |                     |
|------------|---------------------|
| 2007       | \$ 490,980          |
| 2008       | 482,560             |
| 2009       | 307,932             |
| 2010       | 278,594             |
| 2011       | 235,642             |
| Thereafter | 353,463             |
|            | <u>\$ 2,149,171</u> |

At December 31, 2006, the approximate market value of collateral received that can be sold or pledged by the Company was:

|                                                 |                |
|-------------------------------------------------|----------------|
| <b>Sources of collateral</b>                    |                |
| Securities purchased under agreements to resell | \$ 10,550,130  |
| Securities borrowed, collateralized by cash     | \$ 105,800,236 |
| <b>Uses of collateral</b>                       |                |
| Securities loaned, collateralized by cash       | \$ 48,503,592  |

**Litigation**

In the normal course of business, the Company has been named a defendant, or otherwise has possible exposure, under certain claims. Certain of these are class actions, which seek unspecified damages, which could be substantial. The Company has not provided for any of these claims. Although there can be no assurance as to the eventual outcome of these claims, in the opinion of management, based upon the advice of its attorneys, such claims will not, in the aggregate, have a material adverse effect on the Company's liquidity or financial position, although they could have a material effect on annual operating results in the period in which they are resolved.

**8. Subordinated Borrowings**

On March 30, 2005, April 30, 2005 and February 28, 2006 the Company entered into three separate secured demand note agreements with the Company's principal stockholder for \$5,000,000, \$2,000,000 and \$2,000,000, respectively. Two of the agreements bear interest at 2% and the third at 4%. These are recorded as receivables from related parties and subordinated borrowings on the statement of financial condition. The debts are collateralized by securities with a market value of \$16,115,506 at December 31, 2006. Interest is paid monthly with the principal amount due at maturity on March 31, 2008, May 31, 2008 and March 31, 2009, respectively.

During the year ended December 31, 2006, a secured demand note agreement matured for \$2,000,000.

The National Association of Securities Dealers has approved all of the Company's subordinated borrowings. Pursuant to these approvals, these amounts are allowable in computing the Company's net capital under the SEC's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

**C.L. King & Associates, Inc. and Subsidiary**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2006**

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**9. Related Party Transactions**

PCM Ventures, LLC and PCM Ventures II, LLC administer and operate two investment partnerships and are affiliated with the Company through common ownership and management. PCM Ventures International, LLC administers and operates a British Virgin Islands International Business Company and is affiliated with the Company through common ownership and management. The Company provides execution, clearance, settlement and general accounting services to the investment partnerships operated by PCM Ventures, LLC and PCM Ventures II, LLC, and the British Virgin Islands International Business Company operated by PCM Ventures International, LLC.

During the year ended December 31, 2006, the Company recognized approximately \$829,000 in commission revenue and \$103,000 for stock borrow rebate interest income related to doing business with the partnership operated by PCM Ventures II, LLC.

During the year ended December 31, 2006, the Company recognized approximately \$66,000 in commission revenue and \$9,000 for stock borrow rebate interest income, related to doing business with the British Virgin Islands International Business Company operated by PCM Ventures International, LLC.

Paradigm Capital Management, Inc. (PCM), an affiliated Company through common ownership and management, uses the Company for custody and clearance services for some advisory clients. The Company recognized approximately \$463,000 in commission revenue from PCM for the year ended December 31, 2006. In addition, the Company allocates overhead expenses for services provided to PCM. For the year ended December 31, 2006, the expenses allocated to PCM were approximately \$3,301,000.

Paradigm Funds Advisor LLC, an affiliated Company through common ownership and management, uses the Company for administrative services. The Company allocates overhead expenses for services provided to Paradigm Funds Advisor LLC. For the year ended December 31, 2006 the expenses allocated to Paradigm Funds Advisor LLC were approximately \$385,000.

The Company maintains brokerage accounts for the benefit of the principal stockholder. During the year ended December 31, 2006, the Company recognized approximately \$61,000 for stock borrow rebate interest income on these accounts. For these accounts, the sharing of stock borrow interest income between the Company and the principal stockholder uses the same terms and conditions as the Company offers to other clients.

Net realized and unrealized gains and losses on securities owned by the Company are accrued to the benefit of the principal stockholder. Generally, compensation is paid to the principal stockholder when net gains are realized. A net realized and unrealized gain of \$1,662,335 on securities owned by the Company was accrued to the benefit of the principal stockholder for the year ended December 31, 2006. At December 31, 2006, \$5,692,673 was unpaid and is included as a payable to related parties on the statement of financial condition.

**10. Employee Benefit Plan**

The Company maintains a deferred profit sharing plan (Internal Revenue Code Section 401(k) Plan) which permits eligible employees to defer a percentage of their compensation. Company contributions may be made at the discretion of the Board of Directors to eligible participants. The Company did not make contributions to the Plan in 2006.

**C.L. King & Associates, Inc. and Subsidiary**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2006**

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The Company has a deferred compensation plan for certain employees. Benefits in this plan vest over a five year period. The Company has accrued \$220,685 related to this plan as of December 31, 2006. These amounts are included in accounts payable and accrued expenses on the statement of financial condition.

**11. Net Capital Requirements**

The Company is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of a minimum net capital. The Company has elected to use the alternative method, permitted by the Rule, which requires that the Company maintain a minimum net capital, equal to 2% of aggregate debit balances arising from customer transactions, as defined, or \$250,000, whichever is greater. At December 31, 2006, the Company had net capital of \$16,760,799, which was 23% of aggregate debit balances and \$15,332,568 in excess of required minimum net capital of \$1,428,231.

**12. Financial Instruments with Off-Balance-Sheet Credit Risk**

In the normal course of business, the Company's customer clearing activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill contractual obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, some of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to off-balance-sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations.

The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral, or to reduce positions, when necessary.

The Company's customer financing and securities settlement activities require the Company to pledge customer securities as collateral in support of various secured financing sources such as bank loans and securities loaned. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes credit limits for such activities and monitors compliance on a daily basis.

In addition, the Company has sold securities that it does not currently own and is therefore obligated to purchase such securities at a future date. The Company has recorded these obligations in the financial statement at the December 31, 2006 market values of the related securities and will incur a loss if the market value of the securities increases subsequent to

**C.L. King & Associates, Inc. and Subsidiary**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2006**

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December 31, 2006. The establishment of short positions exposes the Company to off-balance-sheet risk in the event prices increase, as the Company may be obligated to acquire the securities at prevailing market prices.

**13. Concentrations of Credit Risk**

The Company is engaged in various trading and brokerage activities in which the counterparties primarily include broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. The Company seeks to control credit risk by following an established credit approval process, monitoring credit limits, and by requiring collateral where appropriate.

The Company purchases securities and may have significant positions in its inventory subject to market and credit risk. In order to control these risks, securities positions are monitored on at least a daily basis. Should the Company find it necessary to sell such a security, it may not be able to realize the full carrying value of the security due to the significance of the position sold.

During the year, there were times when cash was not entirely insured or collateralized, primarily as a result of cash balances pending investment or distribution to customers.

**Report of Independent Auditors on Internal Control Required  
By SEC Rule 17a-5**

To the Board of Directors and Stockholders of  
C.L. King & Associates, Inc and Subsidiary:

In planning and performing our audit of the consolidated financial statements of CL King & Associates, Inc. & Subsidiary (the "Company") as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate debits and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e);
2. Making the quarterly securities examinations, counts, verifications, and comparisons, and the 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; and
4. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and 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.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and 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 information and use of the Board of Directors, management, the SEC, 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.

*PricewaterhouseCoopers LLP*

February 23, 2007

*END*