



UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20540  
07001587

SEC MAIL RECEIVED  
FEB 27 2007  
186  
SECTION  
WASH. D.C.  
PROCESSED

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: February 28, 2007  
Estimated average burden  
hours per response..... 12.00

SEC FILE NUMBER  
8-19082

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

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/06 AND ENDING 12/31/06  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Carty & Company, Inc.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

6263 Poplar Avenue, Suite 800 -

(No. and Street)

Memphis

TN

38119

(City)

(State)

(Zip Code)

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

John C. Dallosta, Jr.

(901) 767-8940

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Jackson, Howell & Associates, PLLC

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

7240 Goodlett Farms Pkwy, Ste 101

Cordova

TN

38016-4925

(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**

**THOMSON  
FINANCIAL**

**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)

*Handwritten initials and date: 2/16*

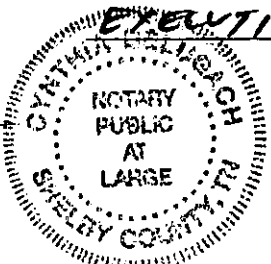
OATH OR AFFIRMATION

I, John C. Dallosta, Jr., swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Carty & Company, 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]  
Signature

EXECUTIVE VICE-PRESIDENT  
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 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).

## CONTENTS

	<u>Page</u>
Independent Auditors' Report	5
Financial Statements	
Statement of financial condition	6
Statement of income	7
Statement of changes in stockholder's equity	8
Statement of changes in liabilities subordinated to claims of creditors	9
Statement of cash flows	10
Notes to financial statements	11
Supplementary Information	
Schedule I - Computation of net capital under Rule 15c3-1	19
Schedule II - Computation for determination of the reserve requirements under Rule 15c3-3	21
Schedule III - Information relating to the possession or control requirements under Rule 15c3-3	22
Independent Auditors' Report on the Internal Control Structure	23

**JACKSON, HOWELL & ASSOCIATES, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS/BUSINESS CONSULTANTS



PARTNERS:

LARRY W. JACKSON, CPA  
GARY J. HOWELL, CPA  
ROBERT L. GOSS, CPA  
DAVID L. JACKSON, CPA  
JIMMY R. ADKINS, CPA  
MICHAEL L. STERLING, CPA

MEMBERS AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
PRIVATE COMPANIES PRACTICE SECTION

TENNESSEE  
7240 GOODLETT FARMS PARKWAY, SUITE 101  
CORDOVA, TENNESSEE 38016-4925  
(901) 683-5100 (O) / (901) 683-0562 (F)

ARKANSAS  
301 EAST BROADWAY STREET  
WEST MEMPHIS, ARKANSAS 72301-3173  
(870) 735-2683 (O) / (870) 735-5871 (F)

E-MAIL: JHH@JHHCPA.COM

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Carty & Company, Inc.  
Memphis, Tennessee

We have audited the accompanying statement of financial condition of Carty & Company, Inc. as of December 31, 2006, and the related statements of income, changes in stockholder's equity, changes in liabilities subordinated to claims of 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 Carty & Company, Inc. as of December 31, 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, II, and III 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 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.

Cordova, Tennessee  
February 2, 2007

*Jackson Howell & Associates, PLLC*

**Carty & Company, Inc.**  
**STATEMENT OF FINANCIAL CONDITION**  
**December 31, 2006**

**ASSETS**

Cash	\$ 353,788
Cash - segregated	100,603
Receivables:	
Customers	892,603
Broker-dealers and clearing organizations	345,753
Officers, directors and employees	206,591
Securities owned, at market value	7,143,900
Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$1,071,621	273,677
Deferred income taxes	771,828
Other assets	<u>712,193</u>
	<b><u>\$10,800,936</u></b>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Due to bank, collateralized by securities owned	\$ 4,045,813
Payable to customers	39,356
Payable to broker-dealers	319,281
Securities sold, not yet purchased	47,491
Accounts payable and accrued liabilities	<u>405,760</u>
	4,857,701

**COMMITMENTS AND CONTINGENT LIABILITIES**

**STOCKHOLDER'S EQUITY**

Common stock, no par value; authorized 25,000 shares; issued 10,500 shares; outstanding 2,833 1/3 shares	2,208,790
Retained earnings	<u>3,815,463</u>
	6,024,253
Less cost of 6,666 2/3 shares of treasury stock	<u>81,018</u>
	<u>5,943,235</u>
	<b><u>\$10,800,936</u></b>

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

**Carty & Company, Inc.**  
**STATEMENT OF INCOME**  
**For the Year Ended December 31, 2006**

---

**REVENUE:**

Trading securities	\$4,543,079
Commissions	347,444
Underwriting	50,194
Other income related to trading	524,599
Other revenue/(loss)	<u>(3,468)</u>
	5,461,848

**EXPENSES:**

Commissions	2,213,055
Employee compensation	1,392,473
Clearance to non-brokers	376,713
Occupancy	320,419
Communications	132,309
Interest	225,617
Data processing	301,283
Regulatory expenses	179,426
Other general, administrative and operating expenses	<u>679,519</u>
	5,820,814

**LOSS BEFORE INCOME TAXES**

(358,966)

**INCOME TAX BENEFIT:**

Current	
Deferred	<u>(198,398)</u>
	<u>(198,398)</u>

**NET LOSS**

\$ (160,568)

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

**Carty & Company, Inc.**  
**STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY**  
**For the Year Ended December 31, 2006**

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Total</u>
Balance at January 1, 2006	\$2,208,790	\$3,976,031	\$(81,018)	\$6,103,803
Net loss	-	(160,568)	-	(160,568)
Balance at December 31, 2006	<u>\$2,208,790</u>	<u>\$3,815,463</u>	<u>\$(81,018)</u>	<u>\$5,943,235</u>

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

**Carty & Company, Inc.**  
**STATEMENT OF CHANGES IN LIABILITIES**  
**SUBORDINATED TO CLAIMS OF CREDITORS**  
**For the Year Ended December 31, 2006**

---

Subordinated borrowings at January 1, 2006	\$ -
Increases	-
Decreases	<u>-</u>
Subordinated borrowings at December 31, 2006	<u>\$ -</u>

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



**Carty & Company, Inc.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2006**

---

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net loss	\$ (160,568)
Adjustments to reconcile net loss to cash used in operating activities:	
Depreciation	59,336
Deferred tax benefit	(198,398)
Loss on disposal of fixed assets	3,468
(Increase) decrease in operating assets:	
Cash segregated under federal and other regulations	(401)
Net receivable from customers	(227,851)
Net receivable from broker-dealers and clearing organizations	158,476
Securities owned	(76,266)
Commissions and other receivables	(60,660)
Other	90,166
Increase (decrease) in operating liabilities:	
Securities sold, not yet purchased	(137,901)
Accounts payable and accrued liabilities	<u>(262,529)</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(813,128)</b>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Payments for purchase of equipment	<u>(27,865)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(27,865)</b>

**DECREASE IN CASH** (840,993)

**CASH AT BEGINNING OF YEAR** 1,194,781

**CASH AT END OF YEAR** \$ 353,788

**SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:**

Cash paid during the year for:	
Interest	\$ 225,617
Income taxes	\$ -
Noncash financing activity - net borrowings under secured demand note collateral agreements	\$ 920,531

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

**Carty & Company, Inc.**  
**NOTES TO FINANCIAL STATEMENTS**

---

**NOTE A - OPERATIONS AND ORGANIZATION**

Carty & Company, Inc. is a securities broker-dealer operating under provisions of the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. The Company is a wholly-owned subsidiary of Carty Financial Corporation. Customers' funds and securities are protected to the limits provided by the Securities Investor Protection Corporation.

The Company operates primarily as a principal in transactions for the purchase and sale of various types of debt securities which include obligations of the United States Government, federal government agencies, various state and local governments, and corporate debt. The Company also acts as agent for customers in acquiring certificates of deposits, equity securities, mutual funds and private placement of mortgage loans.

The Company's securities transactions are made primarily with individuals, financial institutions, credit unions, private organizations and other broker-dealers.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Recording Security Transactions**

Purchases and sales of securities and related commission revenues and expenses are recorded on a settlement date basis, generally the third business day following the trade date. If materially different, transactions are adjusted to a trade date basis.

**Collateral**

The Company continues to report assets it has pledged as collateral in secured borrowing and other arrangements when the secured party cannot sell or pledge the assets.

**Securities Owned and Securities Sold, But Not Yet Purchased**

Marketable securities, consisting of stocks, corporate bonds, state, municipal and United States and agencies obligations, and securities sold but not yet purchased, are valued at market value. Securities not readily marketable are stated at their estimated value. Rules and regulations of the Securities and Exchange Commission require valuation of broker-dealer owned securities to be valued at market. Unrealized gains and losses have been included in income.

**Accounting for Bad Debts**

The Company uses the direct write-off method of accounting for bad debts. Management has reviewed all material accounts receivable and has charged operations with all amounts above anticipated collections. Management views all material amounts remaining as collectible; therefore, a provision for doubtful accounts has not been made.

**Carty & Company, Inc.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

---

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Property and Equipment**

Property and equipment are stated at cost.

Depreciation expense is determined by the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Leasehold improvements are amortized over the lesser of the economic useful life or the term of the lease.

**Use of Estimates**

The preparation of financial statements 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 statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Advertising Costs**

The Company expenses all advertising costs, including direct response advertising costs, as they are incurred. Total advertising costs for the year ended December 31, 2006 were \$25,664.

**Income Taxes**

The Company is included in the consolidated federal income tax return filed by its Parent Company. Federal income taxes are calculated as if the Company filed a separate return; and the amount of current tax expense or benefit calculated is either remitted to or received from the Parent. The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in deferred tax liabilities or assets between years.

**Allocated Expenses from Parent Company**

The Parent company incurs the costs of salaries, commissions and related expenses and allocates such costs to the operations of the Company. The Parent company charges the subsidiary a management fee to cover salary processing costs.

**NOTE C - CASH AND SECURITIES SEGREGATED UNDER FEDERAL REGULATIONS**

In accordance with provisions of Rule 15c3-3 of the Securities and Exchange Commission, the Company was not required to have special deposits. However, cash of \$100,603 has been segregated in special accounts reserved for the benefit of customers.

**Carty & Company, Inc.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**NOTE D - RECEIVABLE FROM AND PAYABLE TO BROKER-DEALERS AND CLEARING ORGANIZATIONS**

Amounts receivable from and payable to broker-dealers and clearing organizations at December 31, 2006, consist of the following:

	<u>Receivable</u>	<u>Payable</u>
Securities failed-to-deliver/receive	\$ 252,911	\$319,281
Receivable from clearing organizations	56,033	-
Fees and commissions receivable	26,809	-
Other	<u>10,000</u>	<u>-</u>
	<u>\$ 345,753</u>	<u>\$319,281</u>

**NOTE E - SECURITIES OWNED AND SOLD, NOT YET PURCHASED**

Marketable securities owned and sold, not yet purchased, consist of trading and investment securities at market value, as follows:

	<u>Owned</u>	<u>Sold, Not Yet Purchased</u>
Obligations of the United States Government	\$1,854,435	\$ -
Obligations of states, counties, and municipalities	4,100,200	47,491
Corporate obligations	1,177,729	-
Stocks and warrants	7,581	-
Securities owned not readily marketable	<u>3,955</u>	<u>-</u>
	<u>\$7,143,900</u>	<u>\$ 47,491</u>

Securities owned 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 cannot be offered or sold because of other arrangements, restrictions, or conditions applicable to the securities or to the Company. At December 31, 2006, these securities at estimated fair values consist primarily of equity securities.

**Carty & Company, Inc.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**NOTE F - PAYABLE TO CLEARING ORGANIZATION**

The payable to clearing organization of \$4,045,813 is the result of advances for the purchase of securities. The liability is collateralized by securities sold to brokers and dealers and customers, and by securities owned, which are held by the clearing organization. Interest is at a fluctuating rate, 6.0625% at December 31, 2006, that generally corresponds to the broker call money rate.

**NOTE G - INCOME TAX MATTERS**

Net deferred tax assets consist of the following components as of December 31, 2006:

Deferred tax assets:	
Net operating loss carryforward	\$768,754
Property and equipment	3,074
Less valuation allowance	<u>          -</u>
	<u>\$771,828</u>

Current and deferred taxes by jurisdiction are as follows:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ -	\$(175,966)	\$(175,966)
State and local	<u>          -</u>	<u>(22,432)</u>	<u>(22,432)</u>
	<u>\$ -</u>	<u>\$(198,398)</u>	<u>\$(198,398)</u>

The alternative minimum tax (AMT) credit carryforward may be carried forward indefinitely to reduce future regular income taxes payable. The AMT credit carryforward as of December 31, 2006 was \$20,666. The net operating loss (NOL) carryforward may be carried forward for 20 years, and any unused NOL will expire as follow:

	<u>Federal</u>	<u>State</u>
December, 2020	\$ 182,120	\$ -
December, 2021	274,803	-
December, 2026	1,038,086	892,564
December, 2027	<u>526,517</u>	<u>360,486</u>
	<u>\$2,021,526</u>	<u>\$1,253,050</u>

**Carty & Company, Inc.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

---

**NOTE G - INCOME TAX MATTERS - CONTINUED**

The income tax provision differs from the amount of income tax benefit determined by applying the U.S. federal income tax rate to pretax loss from continuing operations for the year ended December 31, 2006 due to the following:

Computed "expected" tax benefit	\$(122,048)
Increase (decrease) in income tax benefit resulting from:	
Nondeductible expenses	10,411
Nontaxable income	(66,357)
State income tax benefit, net of federal expense	(15,465)
Other adjustments, net	<u>(4,939)</u>
	<u>\$(198,398)</u>

**NOTE H - NET CAPITAL 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 shall not exceed 15 to 1, both as defined under the applicable rules. At December 31, 2006, the Company had net capital of \$2,518,133, which was \$2,268,133 in excess of its required net capital of \$250,000. The Company's ratio of aggregate indebtedness to net capital was .20 to 1.

**NOTE I - 401(k) PROFIT SHARING PLAN**

The Company's employees are included in Carty & Company's qualified 401(k) profit sharing plan. The Company's contribution to the plan is determined by the Board of Directors and is discretionary. The Company contributed \$18,437 to the profit sharing plan for the year ended December 31, 2006.

**Carty & Company, Inc.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

---

**NOTE J - COMMITMENTS AND CONTINGENCIES**

The Company is obligated for monthly lease payments on its general office until September 30, 2017. The lease requires annual rental payments as follows:

During the year, the Company incurred building lease expense of \$259,592.

	<u>Amount</u>
December 31, 2007	\$234,608
December 31, 2008	\$238,149
December 31, 2009	\$241,690
December 31, 2010	\$245,232
December 31, 2011	\$248,773
December 31, 2012	\$252,314
December 31, 2013	\$255,855
December 31, 2014	\$259,397
December 31, 2015	\$262,938
December 31, 2016	\$266,479
December 31, 2017	\$201,851

In the normal course of business, the Company enters into underwriting commitments. Transactions relating to such underwriting commitments that were open at December 31, 2006 and were subsequently settled had no material effect on the financial statements as of that date.

**NOTE K - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS AND CONCENTRATION OF CREDIT RISK**

In the normal course of business, the Company may be exposed to risks in the execution of securities transactions. These transactions involve elements of risk as to credit extended, market fluctuations, and interest rate changes.

The Company's securities transactions clear primarily on a delivery versus payment basis. In transactions with repurchase agreements, margin may be required if market conditions are such as to indicate excessive elements of risk in these transactions. The execution of substantially all purchases and sales of securities require the performance of another party to fulfill the transactions. In the event that a counter-party to the transaction fails to satisfy its obligation, the Company may be required to purchase or sell the security at the prevailing market price, which may have an adverse effect.

The nature of the securities industry is such that large cash balances are maintained in various financial institutions. These balances may exceed the limits of coverage guaranteed by the Federal Deposit Insurance Corporation.

**Carty & Company, Inc.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

---

**NOTE K - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS AND CONCENTRATION OF CREDIT RISK - CONTINUED**

The Company, as a securities broker-dealer, is engaged in various securities trading activities with a variety of customers including individuals, financial institutions, credit unions, insurance companies, pension plans, and other broker-dealers. The Company's exposure to credit risk associated with the non-performance of these counter-parties could be impacted by changing market conditions which would impair the counter-parties ability to satisfy their obligations to the Company.

**NOTE L - RELATED PARTY TRANSACTIONS**

Carty & Company, Inc. is a wholly-owned subsidiary of Carty Financial Corporation. During the year, Carty Financial Corporation allocated \$3,605,527 in direct wage costs and payroll taxes to the Company.

**NOTE M - ANNUAL REPORT OF FORM X-17A-5**

The annual report to the Securities and Exchange Commission on Form X-17A-5 is available for examination and copying at the Company's office and at the regional office of the Securities and Exchange Commission.

**NOTE N - COLLATERAL**

Amounts that the Company has pledged as collateral, which are not reclassified and reported separately, at December 31, 2006, consist of the following:

<u>Financial Statement Classification</u>	<u>Carrying Amount</u>
Securities owned- at market value	\$7,132,364



SUPPLEMENTARY INFORMATION

Carty & Company, Inc.  
**COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1**  
**December 31, 2006**

---

**SCHEDULE I**

Net capital:			
Total stockholder's equity			\$5,943,235
Deductions and/or charges:			
Nonallowable assets:			
Unsecured customer receivables	\$ 14,061		
Unsecured receivables - other	206,591		
Securities not readily marketable	3,954		
Furniture, equipment and leasehold improvements, net	273,677		
Deferred income taxes	771,828		
Other assets	<u>683,470</u>		
	1,953,581		
Aged fail-to-deliver	32,128		
Excess deductible on broker's bond	20,000		
Other deductions and/or changes	<u>11,481</u>	<u>2,017,190</u>	
Net capital before haircuts on securities positions			3,926,045
Haircuts on securities:			
U. S. and Canadian government obligations	98,461		
State and municipal government obligations	1,131,655		
Corporate obligations	176,659		
Stocks and warrants	<u>1,137</u>	<u>1,407,912</u>	
<b>NET CAPITAL</b>			<b><u>\$2,518,133</u></b>
Aggregate indebtedness:			
Items included in statement of financial condition:			
Payable to brokers or dealers and clearing organizations		\$ 48,003	
Payable to customers		39,356	
Accounts payable and accrued expenses		<u>405,760</u>	
<b>AGGREGATE INDEBTEDNESS</b>			<b><u>\$ 493,119</u></b>

**Carty & Company, Inc.**  
**COMPUTATION OF NET CAPITAL UNDER**  
**RULE 15c3-1 - CONTINUED**  
**December 31, 2006**

---

**SCHEDULE I - CONTINUED**

Computation of basic net capital requirement:	
Minimum net capital required	<u>\$ 250,000</u>
Excess net capital	<u>\$2,268,133</u>
Excess net capital at 1000%	<u>\$2,468,821</u>
Ratio of aggregate indebtedness to net capital	<u>.20 to 1</u>

There are no material differences between the Company's computation of net capital under Rule 15c3-1 included in Part II of Form X-17A-5 as of December 31, 2006 and the computation above; therefore, no reconciliation of the computation of net capital under Rule 15c3-1 is included.

Carty & Company, Inc.  
**COMPUTATION FOR DETERMINATION OF THE  
RESERVE REQUIREMENTS UNDER RULE 15c3-3**  
December 31, 2006

---

SCHEDULE II

Credit balances:	
Free credit balances and other credit balances in customers' security accounts	\$ 39,756
Customers' securities failed-to-receive	<u>48,003</u>
Total credit items	87,759
Debit balances:	
Debit balances in customers' cash accounts excluding unsecured accounts and accounts doubtful of collection net of deductions pursuant to Rule 15c3-3	869,757
Failed to deliver of customers' securities not older than 30 days	<u>17,471</u>
Total debit items	<u>887,228</u>
Excess of total debit items over total credit items	<u>\$799,469</u>
Required deposit	<u>None</u>

There are no material differences between the Company's computation for determination of the reserve requirements under Rule 15c3-3 included in Part II of Form X-17A-5 as of December 31, 2006 and the computation above; therefore, no reconciliation of the computation for determination of the reserve requirements under Rule 15c3-3 is included.

**Carty & Company, Inc.**  
**INFORMATION RELATING TO THE POSSESSION OR**  
**CONTROL REQUIREMENTS UNDER RULE 15c3-3**  
**December 31, 2006**

---

---

**SCHEDULE III**

1. Customers' fully paid securities and excess margin securities not in the Registrant's possession or control as of the report date (for which instructions to reduce to possession or control had been issued as of report date) but for which the required action was not taken by Registrant within the time frames specified under Rule 15c3-3

\$            -

A. Number of items

           -

2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of the report date, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3

\$            -

A. Number of items

           -

**INDEPENDENT AUDITORS' REPORT ON THE  
INTERNAL CONTROL STRUCTURE**

**JACKSON, HOWELL & ASSOCIATES, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS/BUSINESS CONSULTANTS



**PARTNERS:**

LARRY W. JACKSON, CPA  
GARY J. HOWELL, CPA  
ROBERT L. GOSS, CPA  
DAVID L. JACKSON, CPA  
JIMMY R. ADKINS, CPA  
MICHAEL L. STERLING, CPA

MEMBERS AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
PRIVATE COMPANIES PRACTICE SECTION

**INDEPENDENT AUDITORS' REPORT ON THE  
INTERNAL CONTROL STRUCTURE**

**TENNESSEE**  
7240 GOODLETT FARMS PARKWAY, SUITE 101  
CORDOVA, TENNESSEE 38016-4925  
(901) 683-5100 (O) / (901) 683-0562 (F)

**ARKANSAS**  
301 EAST BROADWAY STREET  
WEST MEMPHIS, ARKANSAS 72301-3173  
(870) 735-2683 (O) / (870) 735-5871 (F)

E-MAIL: JHH@JHHCPA.COM

The Board of Directors  
Carty & Company, Inc.  
Memphis, Tennessee

In planning and performing our audit of the financial statements of Carty & Company, Inc. for the year ended December 31, 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 Carty & Company, Inc., including 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 indebtedness (or 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
- (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 an 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 accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in 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. 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 information and use of the Board of Directors, management, the Securities and Exchange Commission, the New York Stock Exchange, Inc., the National Association of Securities Dealers, Inc., 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.

Cordova, Tennessee  
February 2, 2007

*Jackson, Howell & Associates, PLLC*

*END*