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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

SEC FILE NUMBER  
8-50551-WED

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Exchange Act of 2007  
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: Nighthawk Partners, Inc.  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
120 Sylvan Avenue

OFFICIAL USE ONLY  
FIRM I.D. NO.

(No. and Street) Englewood Cliffs NJ 07632  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Steven A. Lonsdorf 201-944-2211  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
Flynn, Horlacher, & Parker

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

301 Oxford Valley Road, Suite 602 Yardley PA 19067  
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED

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THOMSON  
FINANCIAL

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (05-02)

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OATH OR AFFIRMATION

I, Steven A. Lonsdorf, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Nighthawk Partners, Inc., as of December 31, 20 06, 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:

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

DANIELLE TORAZIO  
NOTARY PUBLIC  
NEW JERSEY  
Commission Expires 2/27/2009

Steven A. Lonsdorf  
Signature

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).

**NIGHTHAWK PARTNERS, INC.  
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Nighthawk Partners, Inc. and Subsidiary

We have audited the accompanying consolidated statement of financial condition of Nighthawk Partners, Inc. (an "S" Corporation) and Subsidiary as of December 31, 2006, and the related consolidated statement of income, changes in stockholder's equity and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934 and the Commodity Futures Trading Commission (CFTC) Regulation 1.16 under the Commodity Exchange Act (CEA). 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nighthawk Partners, Inc. and Subsidiary as of December 31, 2006, and the results of their operations and their 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 computation of net capital 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 and the Commodity Futures Trading Commission (CFTC) Regulation 1.16 under the Commodity Exchange Act (CEA). 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.

*Flynn, Horlacher & Parker, P.C.*

February 17, 2007

**NIGHTHAWK PARTNERS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**  
**December 31, 2006**

**ASSETS**

Cash (Note 3)	\$4,121,893
Accounts Receivable, Less Allowance for Doubtful Accounts of \$0	4,500,000
Prepaid Expenses	73,876
Property and Equipment, at cost Less Accumulated Depreciation of \$101,329 (Note 4)	129,999
Other Assets	<u>28,832</u>
	<u>\$8,854,600</u>

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

**NIGHTHAWK PARTNERS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**  
December 31, 2006

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Liabilities:

Accounts Payable and Accrued Expenses	\$ 667,512
Due to Stockholder	<u>0</u>
	<u>667,512</u>

Commitments and Contingent Liabilities  
(Notes 5, 8 & 9)

Stockholder's Equity:

Common Stock (No Par Value, 2,500 Shares Authorized, and 350 Shares Outstanding)	47,797
Retained Earnings	<u>8,139,291</u>

Total Stockholder's Equity 8,187,088

\$8,854,600

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

**NIGHTHAWK PARTNERS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF INCOME**  
**For the Year Ended December 31, 2006**

<u>REVENUES</u>	<u>\$7,895,897</u>
<u>OPERATING EXPENSES</u>	
Employee Compensation and Benefits	2,892,611
Other Operating Expenses	<u>839,604</u>
TOTAL OPERATING EXPENSES	<u>3,732,215</u>
<u>INCOME FROM OPERATIONS</u>	<u>4,163,682</u>
<u>OTHER INCOME</u>	
Dividend & Interest Income	161,689
Other Income (Expense)	<u>(18,204)</u>
TOTAL OTHER INCOME	<u>143,485</u>
<u>INCOME BEFORE INCOME TAXES</u>	4,307,167
<u>INCOME TAX PROVISION</u> (Note 2)	<u>0</u>
<u>NET INCOME</u>	<u>\$4,307,167</u>

The accompanying notes are an integral part of these financial statements

**NIGHTHAWK PARTNERS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY**  
**For the Year Ended December 31, 2006**

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, January 1, 2006	\$47,797	\$ 8,832,124	\$8,879,921
Net Income	-	4,307,167	4,307,167
Distributions to Stockholder	-	<u>(5,000,000)</u>	<u>(5,000,000)</u>
Balance, December 31, 2006	<u>\$47,797</u>	<u>\$8,139,291</u>	<u>\$8,187,088</u>

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

**NIGHTHAWK PARTNERS, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2006**

**Cash Flows from Operating Activities:**

Cash Received from Customers	\$9,662,229
Cash Paid to Suppliers and Employees	(3,080,447)
Dividend & Interest Income Received	161,689
Interest Expense Paid	-
Income Taxes (Paid) Refund	-
Net Cash Provided by (Used in) Operating Activities	6,743,471

**Cash Flows from Investing Activities:**

Equipment Purchases	(31,548)
Net Cash Provided by (Used in) Investing Activities	(31,548)

**Cash Flows from Financing Activities:**

Reduction – Stockholder Loan	-
Distributions to Stockholder	(5,000,000)
Net Cash Provided by (Used in) Financing Activities	(5,000,000)

Net Increase (Decrease) in Cash	1,711,923
Cash – Beginning	2,409,970
Cash – Ending	\$4,121,893

**Reconciliation of Net Income to Net Cash**

**Provided by Operating Activities:**

Net Income	\$4,307,167
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:	
Depreciation	43,638
Decrease (Increase) in Accounts Receivable	1,766,332
Decrease (Increase) in Prepaid Expenses	(73,663)
Decrease (Increase) in Other Assets	217,061
Increase (Decrease) in Accounts Payable and Accrued Expenses	482,936
Net Cash Provided by (Used in) Operating Activities	\$6,743,471

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

**NIGHTHAWK PARTNERS, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**Note 1 – Organization and Nature of Business**

Nighthawk Partners, Inc. (the "Company") was incorporated under the laws of the State of New Jersey on January 23, 1997. The Company provides finder or introducer services to private investment funds (i.e., hedge funds) and their managers. The Company is a broker-dealer registered with Securities and Exchange Commission (SEC) and is a member of NASD Inc. (NASD). The Company also is an introducing broker registered with the Commodity Futures Trading Commission (CFTC) and is a member of the National Futures Association (NFA). The Company's subsidiary, Nighthawk Strategic Advisors LLC (NHTSA), was incorporated under the laws of the State of Delaware on July 23, 2004. NHTSA is a disregarded entity for income tax purposes and serves as an investment manager of a private investment fund.

The Companies do not carry securities accounts for customers, perform custodial functions related to customers securities or maintain customer funds.

**Note 2 – Significant Accounting Policies**

**Basis of Presentation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All material inter-company balances and transactions have been eliminated in consolidation.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

**Property, Equipment and Depreciation**

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to operating expenses. Additions to property and equipment or expenditures, which increase the useful lives of the assets are capitalized. Depreciation is being provided primarily by the straight-line method over the estimated useful lives of the assets.

**NIGHTHAWK PARTNERS, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**Cash Equivalents**

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

**Income Taxes**

The Company's stockholder elected under the Internal Revenue Code and New Jersey state law to be taxed as an S Corporation. In lieu of corporate income taxes, the stockholder is taxed on his proportionate share of the Company's net income. Accordingly, no provision or liability for income taxes has been made in the accompanying financial statements.

**Revenue Recognition**

Consulting revenue is recorded when earned. Incentive revenue is recorded at such time that it can be determined by the Company to be a bona fide receivable.

**Note 3 - Cash**

Cash consists of the following:

Bank Checking and Savings Accounts	\$1,263,942
Prime Obligation Money Market Account	<u>2,857,951</u>
	<u>\$4,121,893</u>

**NIGHTHAWK PARTNERS, INC. AND SUBSIDIARY  
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
December 31, 2006**

**Note 4 – Property and Equipment**

The following is a summary of property and equipment.

	<u>Estimated Useful Lives in Years</u>	
Website	5	\$ 22,000
Furniture and Fixtures	5	50,888
Machinery and Equipment	5	128,795
Leasehold Improvements	3	<u>29,645</u>
		231,328
Less: Accumulated Depreciation		<u>101,329</u>
<b>TOTAL</b>		<b><u>\$129,999</u></b>

Depreciation expense was \$43,638 for the year ended December 31, 2006.

**Note 5 – Leases**

The Company leases office space and one vehicle under separate noncancelable operating leases. The leases expire in various periods through October 2008. The following is a schedule of future minimum lease payments required under the above noncancelable operating leases:

Year Ending December 31:	
2007	\$64,575
2008	47,363
2009	-
2010	-
2011	-
Thereafter	<u>-</u>
	<b><u>\$111,938</u></b>

Net lease expense charged to operations for the year was \$64,575.

**NIGHTHAWK PARTNERS, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**Note 6 – Defined Benefit Pension Plan**

Effective February 1, 2002, the Company adopted a qualified noncontributory defined benefit pension plan covering substantially all employees. The benefits were based on minimum age and service requirements. The Company's funding policy was to contribute annually the maximum amount that can be deducted for federal income tax purposes. Contributions were intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

This plan was terminated during 2006. At that time the plan's prepaid costs amount of \$169,154 was expensed during the year 2006.

Effective December, 2006, the Company adopted a qualified defined benefit Cash Balance Plan covering substantially all employees. The benefits are based on a stated account balance. The Company's funding policy is to make contributions within the range allowable for federal income tax purposes.

The following table sets forth the plan's funded status and amounts recognized in the Company's financial statements:

Benefit obligation at December 31, 2006	\$ 427,300
Fair value of plan assets at December 31, 2006	\$ <u>0</u>
Funded status at December 31, 2006	<u>\$(427,300)</u>
Prepaid (accrued) pension cost recognized in the balance sheet at December 31, 2006 – accrued expense	<u>\$( 427,300)</u>

**NIGHTHAWK PARTNERS, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**Note 6 – Defined Benefit Pension Plan (Continued)**

	<u>Year Ended</u> <u>December 31, 2006</u>
Other Comprehensive Income	\$ 0
Net periodic pension cost	\$ 427,300
Employer contributions	\$ 0
Plan participants' contributions	\$ 0
Benefits paid	\$ 0

The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 4.69% and 0%, respectively. The expected long-term rate of return on assets was 7.50%.

The accumulated benefit obligation for the defined benefit pension plan was \$427,300 at December 31, 2006.

The Company's pension plan weighted-average asset allocations at December 31, 2006 by asset category are as follows:

Plan Assets at December 31, 2006

<u>Asset Category</u>	
Equity Securities	96.0%
Debt Securities	0%
Real Estate	0%
Other	<u>4.0%</u>
Total	<u>100%</u>

**NIGHTHAWK PARTNERS, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**Note 6 – Defined Benefit Pension Plan (Continued)**

The Company's target asset allocation as of December 31, 2006 by asset category, is as follows:

Asset Category

Equity Securities	70-100%
Debt Securities	0-20%
Real Estate	0-20%
Other	0-20%

The Company's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges (shown above) by major asset categories.

The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans' actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies.

The Investment policy is periodically reviewed by the Company and a designated third-party fiduciary for investment matters. The policy is established and administered in a manner so as to comply at all times with applicable government regulations.

The Company expects to contribute approximately \$400,000 to its pension plan in 2007.

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2007 - 2011	\$ 0
2012 - 2016	\$3,113,000

**NIGHTHAWK PARTNERS, INC. AND SUBSIDIARY**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**Note 6 – Defined Benefit Pension Plan (Continued)**

For the year 2006 total pension costs were:

Prior Defined Benefit Plan	\$169,154
Current Defined Benefit Plan	427,300
Current Defined Contribution Plan	<u>95,400</u>
Total	<u>\$ 691,854</u>

**Note 7 – Defined Contribution Pension Plan**

Effective January 1, 2004, the Company adopted a qualified non-contributory defined contribution pension plan covering all eligible non highly compensated employees. The contributions are based on discretion of management. Employees are vested immediately. The Company's 2006 contribution to the plan, charged to operations, was \$95,400.

**Note 8 – Concentration of Credit Risk**

**Cash Balance**

The Company maintains its cash accounts at various financial institutions. The balances, at times, may exceed federally insured limits. At December 31, 2006, the Company had cash on deposit not covered by FDIC insurance of approximately \$4,021,893.

**Note 9 – Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1) and the Commodity Futures Trading Commission's (CFTC's) minimum financial requirements (Regulation 1.17), 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. This amount is the greater of 6 2/3% of aggregate indebtedness or \$45,000. At December 31, 2006, the Company had net capital of \$3,397,222, which was \$3,352,222 in excess of its required net capital. The Company's net capital ratio was .2 to 1.

**SUPPLEMENTARY INFORMATION**

**NIGHTHAWK PARTNERS, INC.**

**Computation of Net Capital Under Rule 15c3-1 of the  
Securities and Exchange Commission  
(and CFTC's Regulation 1.17)**

**As of December 31, 2006**

**Net Capital**

Total Consolidated Stockholder's Equity	\$8,187,088
Deduct Stockholder's Equity Not Allowable for Net Capital	<u>                    -</u>

Total Stockholder's Equity Qualified for Net Capital

Add:

Subordinated Borrowings Allowable in Computation of Net Capital	-
Other (Deductions) or Allowable Credits-Deferred Income Taxes Payable	<u>                    -</u>

Total Capital and Allowable Subordinated Borrowings	8,187,088
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Deductions and/or Charges:

Nonallowable Assets:

Accounts Receivable	\$4,500,000
Prepaid Expenses	73,876
Fixed Assets (Net)	129,999
Other Assets	<u>28,832</u>

(4,732,707)

Net Capital Before Haircuts on Securities Positions (Tentative Net Capital)	3,454,381
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Haircuts on Securities:

Money Market	<u>(57,159)</u>
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Net Capital	<u>\$3,397,222</u>
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**Aggregate Indebtedness**

Items Included in Statement of Financial Condition:

Due to Officers	\$ 0
Accrued Expenses	<u>667,512</u>

Total Aggregate Indebtedness	<u>\$ 667,512</u>
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**NIGHTHAWK PARTNERS, INC.**

**Computation of Net Capital Under Rule 15c3-1 of the  
Securities and Exchange Commission  
(and CFTC's Regulation 1.17)**

**As of December 31, 2006**

**Computations of Basic Net Capital Requirement:**

Minimum Net Capital Required	<u>\$ 44,500</u>
Excess Net Capital at 1,500 Percent	<u>\$3,297,095</u>
Excess Net Capital at 1,000 Percent	<u>\$3,330,470</u>
Ratio Aggregate Indebtedness to Net Capital	<u>.2 to 1</u>

**Reconciliation with Company's Computation:**

Net Capital, as Reported in Company's Part II A (Unaudited) FOCUS Report	\$3,397,222
Audit Adjustments, Net	<u>0</u>
Net Capital, Per Above	<u>\$3,397,222</u>



NIGHTHAWK PARTNERS, INC.  
REPORT ON INTERNAL CONTROL  
FOR  
NATIONAL ASSOCIATION OF SECURITIES DEALERS  
FOR THE YEAR ENDED DECEMBER 31, 2006

# FLYNN, HORLACHER & PARKER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

301 OXFORD VALLEY ROAD  
SUITE 602  
YARDLEY, PENNSYLVANIA 19067

PHILIP P. FLYNN, CPA  
New Jersey, Pennsylvania  
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New Jersey, Pennsylvania  
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New Jersey, Pennsylvania

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Board of Directors  
Nighthawk Partners, Inc.

In planning and performing our audit of the consolidated financial statements of Nighthawk Partners, Inc. and 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 Exchange Commission (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 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.

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 the 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, as described in the second paragraph of this report, 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 (NASD), 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.

*Flynn, Horlacher & Parker, P.C.*

Flynn, Horlacher & Parker, P.C.  
Yardley, Pennsylvania  
February 17, 2007

**END**