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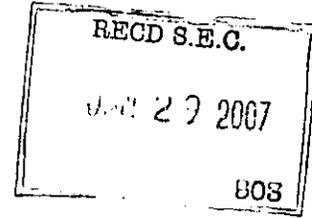
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

OMB APPROVAL

OMB Number: 3235-0123  
SEC FILE NUMBER  
8-66352

Rec'd  
1/29/07

**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 JANUARY 1, 2006 AND ENDING DECEMBER 31, 2006  
MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: THE REID GROUP LLC

OFFICIAL USE ONLY

FIRM ID. NO.130448

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

1285 AVENUE OF THE AMERICAS, 35<sup>TH</sup> FLOOR  
(No. and Street)

NEW YORK NY 10019  
(City) (state) (Zip Code)

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

MR. DONOVAN L. REID (212) 554-4030  
(Address) (City) (state) (Zip Code) (Area Code - Telephone No.)

PROCESSED

**B. ACCOUNTANT IDENTIFICATION**

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

MAR 12 2007

THOMSON  
FINANCIAL

SANCHEZ, PABLO F.  
(Name - if individual, state last, first, middle name)

32-36 BELL BOULEVARD BAYSIDE NY 11361  
(Address) (City) (state) (Zip Code)

CHECK ONE:

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

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).

SEC 1410 (3-91)

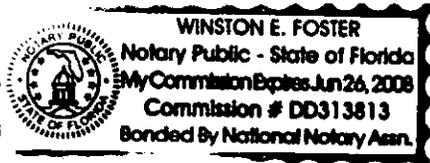
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OATH OR AFFIRMATION

I DONOVAN L. REID swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of THE REID GROUP LLC 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:

NONE



[Signature]  
Notary Public

[Signature]  
Signature

CHIEF EXECUTIVE OFFICER  
Title

This report\*\* contains (check all applicable boxes):

- (a) Facing page
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (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).

**THE REID GROUP LLC**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006 and 2005**

# THE REID GROUP LLC

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#### Financial Statements

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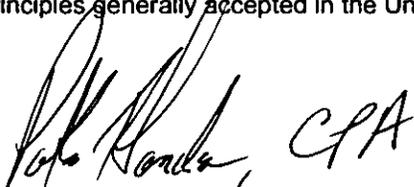
## INDEPENDENT AUDITORS' REPORT

The Management Committee  
The Reid Group LLC

We have audited the accompanying statements of financial condition of The Reid Group LLC (the "Company") as of December 31, 2006 and 2005, and the related statements of operations, changes in members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Reid Group LLC (the "Company") as of December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



January 12, 2007

# THE REID GROUP LLC

## Statements of Financial Condition

|  | <u>December 31,</u> |                   |
|--|---------------------|-------------------|
|  | <u>2006</u>         | <u>2005</u>       |
| <b>ASSETS</b>  |                     |                   |
| Cash and cash equivalents  | \$ 28,309           | \$ 1,836          |
| Accounts receivable  | -                   | 15,000            |
| Other current assets   | -                   | 2,337             |
|  | <u>          </u>   | <u>          </u> |
| Total assets   | <u>\$ 28,309</u>    | <u>\$ 19,173</u>  |
| <b>LIABILITIES AND MEMBERS' EQUITY</b>   |                     |                   |
| <b>LIABILITIES</b>   |                     |                   |
| Accounts payable and accrued expenses  | <u>\$ 2,500</u>     | <u>\$ 2,500</u>   |
|  | <u>          </u>   | <u>          </u> |
| Total liabilities  | <u>2,500</u>        | <u>2,500</u>      |
| <b>MEMBERS' EQUITY</b>   |                     |                   |
| Contributed capital – authorized 1,000,000 units, issued and outstanding<br>10,000 units | 47,339              | 47,339            |
| Accumulated deficit  | <u>(21,530)</u>     | <u>(30,666)</u>   |
|  | <u>          </u>   | <u>          </u> |
| Total members' equity  | <u>25,809</u>       | <u>16,673</u>     |
|  | <u>          </u>   | <u>          </u> |
| Total liabilities and members' equity  | <u>\$ 28,309</u>    | <u>\$ 19,173</u>  |

See notes to financial statements.

**THE REID GROUP LLC**

**Statements of Operations**

|                            | <b>Year Ended<br/>December 31,</b> |                   |
|----------------------------|------------------------------------|-------------------|
|                            | <b>2006</b>                        | <b>2005</b>       |
| <b>Revenues:</b>           |                                    |                   |
| Investment banking fees    | \$ 210,000                         | \$ 22,500         |
| <b>Operating expenses:</b> |                                    |                   |
| General and administrative | <u>200,864</u>                     | <u>27,678</u>     |
| <b>Net loss</b>            | <u>\$ 9,136</u>                    | <u>\$ (5,178)</u> |

*See notes to financial statements.*

**THE REID GROUP LLC**

**Statements of Changes in Members' Equity**

|                                     | <u>Contributed<br/>Capital</u> | <u>Accumulated<br/>Deficit</u> | <u>Total<br/>Members'<br/>Equity</u> |
|-------------------------------------|--------------------------------|--------------------------------|--------------------------------------|
| <b>Balance at January 1, 2005</b>   | \$ 34,842                      | \$ (25,488)                    | \$ 9,354                             |
| Capital contributions               | 12,497                         | -                              | 12,497                               |
| Net loss                            | -                              | (5,178)                        | (5,178)                              |
| <b>Balance at December 31, 2005</b> | <u>47,339</u>                  | <u>(30,666)</u>                | <u>16,673</u>                        |
| Net income                          | -                              | 9,136                          | 9,136                                |
| <b>Balance at December 31, 2006</b> | <u>\$ 47,339</u>               | <u>\$ (21,530)</u>             | <u>\$ 25,809</u>                     |

*See notes to financial statements.*

# THE REID GROUP LLC

## Statements of Cash Flows

|   | Year Ended<br>December 31, |                 |
|---|----------------------------|-----------------|
|   | <u>2006</u>                | <u>2005</u>     |
| <b>Cash flows from operating activities:</b>  |                            |                 |
| Net income  | \$ 9,136                   | \$ (5,178)      |
| Adjustments to reconcile net income (loss) to net cash from (used in) operating activities: |                            |                 |
| Changes in:   |                            |                 |
| Accounts receivable   | 15,000                     | (15,000)        |
| Other current assets  | 2,337                      | (2,272)         |
| Accounts payable and accrued expenses   | <u>-</u>                   | <u>(500)</u>    |
| Net cash from (used in) operating activities  | <u>26,473</u>              | <u>(22,950)</u> |
| <b>Cash flows from investing activities:</b>  |                            |                 |
| Cash from investing activities  | <u>-</u>                   | <u>-</u>        |
| <b>Cash flows from financing activities:</b>  |                            |                 |
| Capital contributions   | -                          | 12,497          |
| Capital withdrawals   | <u>-</u>                   | <u>-</u>        |
| Cash from financing activities  | <u>-</u>                   | <u>12,497</u>   |
| <b>Net increase (decrease) in cash and cash equivalents</b>                                 | <u>26,473</u>              | <u>(10,453)</u> |
| Cash and cash equivalents at beginning of year  | <u>1,836</u>               | <u>12,289</u>   |
| <b>Cash and cash equivalents at end of year</b>   | <u>\$ 28,309</u>           | <u>\$ 1,836</u> |

See notes to financial statements.

## THE REID GROUP LLC

### Notes to Financial Statements December 31, 2006 and 2005

#### NOTE A - ORGANIZATION, DESCRIPTION OF BUSINESS, AND BASIS OF PRESENTATION

##### [1] Organization:

The Reid Group LLC (the "Firm" or "Company") is an independent boutique investment-banking firm headquartered in New York. The Firm is a limited liability company formed on December 30, 1998 under the laws of the State of Delaware. The Firm is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. ("NASD"), effective on September 14, 2004.

##### [2] Description of business:

The Firm offers its middle-market institutional clients corporate finance services, including debt and equity private placements, and advisory services, including advice on mergers and acquisition, corporate restructuring, and strategic matters. The firm has no research, trading, lending, or related activities and, instead, is dedicated to providing high-quality, conflict-free, client-focused advice.

##### [3] Basis of presentation:

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company has incurred recurring losses and has been principally financed by the Company's sole equity member.

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

##### [1] Cash and cash equivalents:

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

##### [2] 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

##### [3] Revenue recognition:

Revenues include fees for the Firm's retention, its role as arranger and agent in private placements, and for advisory services. Retention fees are typically non-reimbursable and recorded when earned upon the execution of client engagement letters. Arrangement and private placement agency fees are earned through the Firm's arrangement of credit facilities and private placements of debt and equity securities, respectively. Advisory fees are earned by the Firm in its role as financial advisor in mergers and acquisitions and similar transactions. Arrangement and private placement agency fees are recorded at the time the credit facilities and private placement of debt and equity transactions are completed, respectively. Merger and acquisition fees and other advisory service revenues are generally earned and recognized only upon successful completion of the engagement. Un-reimbursed expenses associated with private placement and advisory transactions are recorded as non-compensation expenses.

## **THE REID GROUP LLC**

### **Notes to Financial Statements December 31, 2006 and 2005**

#### **NOTE C - MEMBERS' EQUITY AND LIMITED LIABILITY COMPANY AGREEMENT**

The Limited Liability Company Agreement (the "Agreement"), as amended, dated March 20, 2004, sets forth the respective rights and obligations of Members of the Firm and provide for terms of its management and conduct of its affairs. The Firm has two Managing Members of which the current Chief Executive Officer is the sole equity Member and owner. The Firm's Management Committee is responsible for managing the affairs of the Firm.

#### **NOTE D - REGULATORY AUTHORITIES**

The Firm is a U.S. registered broker-dealer and is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934. Rule 15c3-1 requires the Firm to maintain net capital, as defined, which shall be the greater of \$5,000 or 6 2/3% of aggregate indebtedness, as defined. The Firm's regulatory net capital at December 31, 2006 and 2005 was \$25,809 and \$(665), respectively, which exceeded the minimum net capital requirement by \$20,809 and violated the minimum net capital requirement by \$(5,665), respectively.

#### **NOTE E - INCOME TAXES**

The Company is treated as a partnership for federal income tax purposes and does not incur income taxes. Instead, its earnings and losses are included in the income tax returns of the members whose tax impact depends on their respective tax situations. Accordingly, the financial statements do not reflect a provision for federal, state, and local income taxes.

**Pablo F. Sanchez, CPA**

32-36 Bell Blvd.  
Bayside, New York 11361

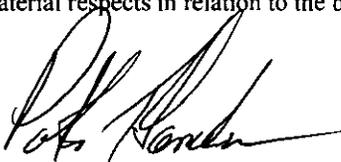
Phone: (917) 562-3675

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**REPORT OF INDEPENDENT AUDITOR ON SUPPLEMENTARY INFORMATION**

The Management Committee  
The Reid Group LLC

We have audited the accompanying financial statements of The Reid Group LLC as of December 31, 2006 and 2005 and for the years then ended, and have issued our report thereon, dated January 12, 2007. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the 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.



January 12, 2007

# THE REID GROUP LLC

## Computation of Net Capital – Schedule 1

|  | December 31,  |              |
|--|---------------|--------------|
|  | <u>2006</u>   | <u>2005</u>  |
| Members' equity                                | 25,809        | 16,673       |
| Non-allowable asset deductions and/or charges: |               |              |
| Accounts receivable                            | 0             | 15,000       |
| Other current assets                           | 0             | 2,338        |
| Tentative net capital                          | <u>25,809</u> | <u>(665)</u> |
| Less: Haircuts                                 | -             | -            |
| Net capital                                    | <u>25,809</u> | <u>(665)</u> |

## Computation of Aggregate Indebtedness

|                        |                 |                 |
|------------------------|-----------------|-----------------|
| Aggregate Indebtedness | <u>\$ 2,500</u> | <u>\$ 2,500</u> |
|------------------------|-----------------|-----------------|

## Computation of Basic Net Capital Requirement

|   |                 |                 |
|---|-----------------|-----------------|
| (1) Minimum net capital based on aggregate indebtedness | \$ 167          | \$ 167          |
| (2) Minimum dollar requirement                          | <u>5,000</u>    | <u>5,000</u>    |
| Capital requirement - greater of (1) or (2) above       | <u>\$ 5,000</u> | <u>\$ 5,000</u> |

## Reconciliation of Net Capital

There were no material differences between the audited and unaudited computation of net capital.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS**

The Management Committee  
The Reid Group LLC

In planning and performing our audits of the financial statements and supplemental schedules of The Reid Group LLC for the years ended December 31, 2006 and 2005, we considered its internal control structure, including procedures 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 structure.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with exemptive provisions of SEC 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, verification and comparisons
2. Recordation of differences required by SEC Rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practice and procedures are to provide management with reasonable but not absolute assurance that the 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 preparation of financial statements in accordance with generally accepted accounting principles. SEC 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 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 internal 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 purpose 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 aspects indicate a material inadequacy for such purposes. Based on this understanding and our study, we believe that the Company's practices and procedures were adequate at December 31, 2006 and 2005, to meet the SEC's objectives.

This report is intended solely for the use of the Management Committee, management, the Securities and Exchange Commission, the New York Stock Exchange and other regulatory agencies that rely on SEC 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.



January 12, 2007

*END*