



07002564

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

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: February 28, 2010  
Estimated average burden  
hours per response..... 12.00

3/22



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

SEC FILE NUMBER  
8- 29542

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 MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: AMERICAN GENERAL SECURITIES INCORPORATED

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

2727 ALLEN PARKWAY, SUITE W290

(No. and Street)

HOUSTON

(City)

TX

(State)

77019

(Zip Code)

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

JEANIE GOLDSMITH

(713) 831-4651

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

PricewaterhouseCoopers LLP

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

1201 LOUISIANA ST., SUITE 2900 HOUSTON

(Address)

(City)

TX

(State)

77002-5678

(Zip Code)

CHECK ONE:

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

PROCESSED

B MAR 29 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)

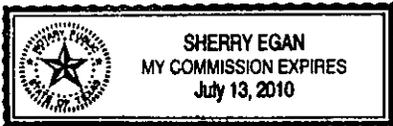
SEC 1410 (06-02)

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.

MA

OATH OR AFFIRMATION

I, JEANIE GOLDSMITH, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of AMERICAN GENERAL SECURITIES INCORPORATED, 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:



Sherry Egan  
Notary Public

Jeanie Goldsmith  
Signature

ASSISTANT CONTROLLER

Title

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).

# **American General Securities Incorporated**

**Financial Statements and Supplemental Schedules  
December 31, 2006**

# American General Securities Incorporated

## Index

December 31, 2006

---

	Page(s)
<b>Report of Independent Auditors</b> .....	1
<b>Financial Statements</b>	
Statement of Financial Condition.....	2
Statement of Operations.....	3
Statement of Changes in Stockholder's Equity .....	4
Statement of Cash Flows .....	5
Notes to Financial Statements.....	6-10
<b>Supplemental Schedules</b>	
Schedule I – Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission.....	11
Schedule II – Computation for Determination of Reserve Requirements Under Rule 15c3-3 of the Securities and Exchange Commission .....	12
Schedule III – Information Relating to Possession or Control Requirements Under Rule 15c3-3 of the Securities and Exchange Commission .....	13
<b>Supplementary Report of Independent Auditors on Internal Control Required by Rule 17a-5 of the Securities and Exchange Commission</b> .....	14-15

**Report of Independent Auditors**

To the Board of Directors and Stockholder of  
American General Securities Incorporated

In our opinion, the accompanying statement of financial condition and the related statements of operations, changes in stockholder's equity and cash flows present fairly, in all material respects, the financial position of American General Securities Incorporated (the "Company") at December 31, 2006, 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. 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 of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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 the purpose 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.

*PricewaterhouseCoopers LLP*

February 26, 2007

**American General Securities Incorporated**  
**Statement of Financial Condition**  
**December 31, 2006**

---

**Assets**

Cash and cash equivalents	\$ 11,151,404
Deposits held by clearing brokers, restricted	70,000
Receivable from clearing broker	528,688
Concessions receivable from product sponsors	4,573,711
Concessions receivable from affiliates	871,237
Accounts receivable from representatives	461,514
Fixed assets, at cost (net of accumulated depreciation of \$282,044)	564,057
Prepaid expenses and other assets	635,197
	<hr/>
Total assets	\$ 18,855,808

**Liabilities and Stockholder's Equity**

**Liabilities**

Commissions payable	\$ 4,589,145
Payable to affiliates	1,080,857
Accrued expenses and other liabilities	3,248,568
Federal income taxes payable	624,126
	<hr/>
Total liabilities	9,542,696

**Stockholder's equity**

Common stock, \$1 par value; 25,000 shares authorized, issued, and outstanding	25,000
Additional paid-in capital	7,100,855
Retained earnings	2,187,257
	<hr/>
Total stockholder's equity	9,313,112
	<hr/>
Total liabilities and stockholder's equity	\$ 18,855,808

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

**American General Securities Incorporated**  
**Statement of Operations**  
**Year Ended December 31, 2006**

---

<b>Revenues</b>	
Concession revenue	\$ 71,522,990
Concession revenue from affiliates	22,721,800
Product sponsor revenue	3,245,830
Product sponsor revenue from affiliates	1,102,036
Affiliation fee	1,525,990
Clearing revenue	219,614
Reimbursement of expense from affiliates	91,617
Investment income	677,167
Other income	856,943
Total revenues	<u>101,963,987</u>
<b>Expenses</b>	
Commission expense	82,995,529
Employee compensation and benefits	6,509,542
Clearing expenses	205,227
Professional fees	1,029,132
Taxes, fees and licenses	664,053
Travel and business promotion expenses	453,888
Depreciation expense	19,743
General and administrative	6,192,800
Total expenses	<u>98,069,914</u>
Income before federal income taxes	3,894,073
Federal income tax expense	1,362,926
Net income	<u>\$ 2,531,147</u>

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

**American General Securities Incorporated**  
**Statement of Changes in Stockholder's Equity**  
**Year Ended December 31, 2006**

---

	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Stockholder's Equity
<b>Balances at December 31, 2005</b>	\$ 25,000	\$ 7,100,855	\$ 2,456,110	\$ 9,581,965
Dividends to parent	-	-	(2,800,000)	(2,800,000)
Net income	-	-	2,531,147	2,531,147
<b>Balances at December 31, 2006</b>	<u>\$ 25,000</u>	<u>\$ 7,100,855</u>	<u>\$ 2,187,257</u>	<u>\$ 9,313,112</u>

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

**American General Securities Incorporated**  
**Statement of Cash Flows**  
**Year Ended December 31, 2006**

---

<b>Operating activities</b>	
Net income	\$ 2,531,147
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation expense	19,743
Changes in assets and liabilities	
Concessions receivable from product sponsors	(2,606,983)
Concessions receivable from affiliates	127,846
Receivable from clearing broker	263,932
Accounts receivable from representatives	(61,955)
Accounts receivable from affiliates	87,738
Securities sold, not yet purchased	(6,067)
Prepaid expenses and other assets	(398,383)
Commissions payable	147,462
Payable to affiliates	(574,066)
Federal income taxes payable	355,927
Accrued expenses and other liabilities	861,386
Net cash provided by operating activities	<u>747,727</u>
<b>Investing activities</b>	
Purchase of furniture and equipment	<u>(564,057)</u>
Net cash used in investing activities	<u>(564,057)</u>
<b>Financing activities</b>	
Dividends paid	<u>(2,800,000)</u>
Net cash used in financing activities	<u>(2,800,000)</u>
Net decrease in cash and cash equivalents	(2,616,330)
<b>Cash and cash equivalents</b>	
Beginning of year	<u>13,767,734</u>
End of year	<u>\$ 11,151,404</u>
<b>Supplemental disclosure of cash flow information</b>	
Income taxes paid during the year	\$ 991,000

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

**American General Securities Incorporated**  
**Notes to Financial Statements**  
**December 31, 2006**

---

**1. Description of Business and Significant Accounting Policies**

**Nature of Business**

American General Securities Incorporated ("AGSI" or the "Company") is a wholly owned subsidiary of the AIG Advisor Group, an indirect wholly owned subsidiary of American International Group, Inc. ("AIG"). The Company is registered as a broker-dealer under the Securities and Exchange Act of 1934 as a general securities dealer and is authorized to transact business in all 50 states. The Company is also licensed as a registered investment advisor. The Company has a clearing agreement with Pershing (the "Clearing Broker") who carries the account of the Company on a fully disclosed basis.

The Company does not hold customer funds or securities and, accordingly, is exempt from SEC Customer Protection Rule 15c3-3, subparagraph (k)(2)(i) as described in Supplemental Schedules II and III.

Effective May 31, 2006, AGSI merged with AIG Advisor Group, an affiliated entity and a wholly owned subsidiary of AIG Retirement Services, Inc., and became its subsidiary. AGSI contributed 100% of the net assets and liabilities of its subsidiary, American General Insurance Agency Incorporated ("AGIAI"), to American General Equity Services Corporation ("AGESC"). The merger has been accounted for at historical cost in manner similar to a pooling of interests business combination. Accordingly, the accompanying financial statements exclude the financial position, operating results, and cash flows of AGIAI.

The following is a summary of significant accounting policies which have been consistently followed in the preparation of the Company's financial statements.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and all highly liquid investments with maturities of 90 days or less when purchased.

**Income Taxes**

The Company and AGIAI will be included in the filing of the consolidated federal tax return with AGESC through May 31, 2006. The Company, from June 1, 2006, through December 31, 2006, will be included in the filing of the consolidated federal income tax return with AIG Retirement Services, Inc. The Company will be allowed to join in the filing of a consolidated federal income tax return with AIG and its affiliates beginning January 1, 2007. The Company's tax calculations are made as if the Company prepared a separate tax return; however, the Company may record a tax benefit for net operating losses, if such losses can be utilized in the consolidated return.

Deferred income tax assets and liabilities are computed annually for the differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable for the period and the change in deferred tax assets and liabilities during the period.

The effective tax rate for 2006 was 34% which differed from the statutory federal income tax rate of 35% due to a prior year tax true-up of \$25,574. The true-up was from an adjustment to the final tax return for 2005, which was filed during 2006, and represented the difference between the estimated federal income tax liability at 35% and the actual income tax liability as calculated in the final 2005 tax return.

**American General Securities Incorporated**  
**Notes to Financial Statements**  
**December 31, 2006**

---

The Company files separate state and local income tax returns.

**Revenue Recognition**

Concession revenue represents revenue earned on the sale of products distributed by the Company's registered representatives. Concession revenue and the related commission expense is recorded on a trade-date basis as securities transactions occur.

Clearing revenue represents fees earned from the Company's representatives for executing trades through the Clearing Broker in excess of the fees charged to the Company by the Clearing Broker. Clearing revenue is recorded on a trade-date basis as securities transactions occur.

Product Sponsor revenue represents revenues from various investment advisors and insurance companies (the "Sponsors") related to sales by the Company's registered representatives of mutual fund, variable annuity and other products of the Sponsors, as well as in return for Sponsors attending the company's representative meetings. Product Sponsor revenue is recognized when earned and based on sales and agreements with each Product Sponsor. The Company incurs expenses related to conventions and other events to provide Sponsors with access to the Company's registered representatives. The Company records marketing and meeting expense when incurred.

Affiliation fee revenue represents a weekly fee charged to the Company's representatives to cover certain agency costs such as continuing education and communications.

**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.

**Fair Value of Financial Instruments**

Management has determined that the fair value of the Company's financial instruments is equivalent to the carrying amount of such financial instruments as presented or disclosed in the financial statements.

**Fixed Assets and Depreciation**

Fixed assets consist of furniture and fixtures which are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method based upon the estimated useful lives of the assets, generally between three to ten years. Upon disposal of assets, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in earnings.

At December 31, 2006, the Company purchased fixed assets from an affiliate totaling \$564,057. Given the timing of acquiring these fixed assets, no depreciation was recorded on the assets for the year ended December 31, 2006.

**American General Securities Incorporated**  
**Notes to Financial Statements**  
**December 31, 2006**

---

**2. Commitments and Contingencies**

The Company is subject to various legal and regulatory actions in the ordinary course of its business. Pending legal and regulatory actions include proceedings relating to aspects of our business and operations that are typical of the business in which the Company operates. The outcomes of the legal and regulatory matters are subject to many uncertainties and therefore cannot be predicted. It is possible that the results of operations or the cash flow of the Company could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters. Management believes, however, that the ultimate outcome of all pending litigation and regulatory matters should not have a material adverse effect on the Company's financial position.

During the normal course of business, the Company enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company expects the risk of loss to be remote.

American General Corporation ("AGC") has agreed to indemnify AGSI and AIG Advisor Group for any damages from liabilities or potential liabilities as defined in the Indemnification Agreement that are a result of transactions, conditions, or events that occurred from the operations of the business of AGSI, prior to the transfer date of May 31, 2006. The Indemnification Agreement also covers any damages known by involved parties on or before the fourth anniversary of the Transfer.

**3. Deposits Held by Clearing Broker**

Under the terms of the clearing agreement between the Company and the Clearing Broker, the Company is required to maintain a certain level of cash or securities on deposit with the Clearing Broker. Should the Clearing Broker suffer a loss due to a failure of a customer of the Company to complete a transaction, the Company is required to indemnify the Clearing Broker. The Company has funds invested in a money market account on deposit with the Clearing Broker to meet this requirement. As of December 31, 2006, \$411 is owed to the Clearing Broker by these customers.

**4. Liabilities Subordinated to Claims of General Creditors**

The Company had no subordinated liabilities during the year ended December 31, 2006. Therefore, the statement of changes in liabilities subordinated to claims of general creditors has not been presented for the year ended December 31, 2006.

**5. 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, both as defined, shall not exceed 15 to 1. The Company is required to maintain net capital equal to the greater of \$250,000 or 6-2/3% of aggregate indebtedness.

At December 31, 2006, the Company had net capital of \$5,021,374 which was \$4,384,876 in excess of the \$636,498 minimum net capital established by the Company. The Company's ratio of aggregate indebtedness to net capital was 1.90 to 1 at December 31, 2006.

**American General Securities Incorporated**  
**Notes to Financial Statements**  
**December 31, 2006**

---

**6. Related Party Transactions**

Insurance-related business is transacted through insurance agencies, which are wholly owned subsidiaries or affiliates, that remit all revenues (net of state taxes and fees) to the Company or VALIC Financial Advisors ("VFA"). The Company is responsible for commission payment of revenues that are distributed to it and all support functions for these insurance agencies. AGSI allocates a portion of the administrative expenses of the network. During 2006, the Company received \$27,378 of expense reimbursements, which have been recorded as reimbursements of expense from affiliates in the Statement of Operations.

AGSI performs administrative services for its former parent company and subsidiary and receives reimbursement for the expenses related to these services. During 2006, the Company received \$56,777 from AGESC and \$7,462 from AGIAI in expense reimbursements, which have been recorded as reimbursements of expense from affiliates in the Statement of Operations.

AGSI received services from American General Life Companies ("AGLC") and AIG Advisor Group that in turn allocated a portion of the applicable departmental expenses to AGSI. Departmental expenses in the amount of \$2,427,936 were allocated to AGSI during 2006 from AGLC and \$296,539 from the AIG Advisor Group.

Salaries and other employee benefits for AGSI employees, certain data processing expenses, and office rent are paid by AGLC and billed to AGSI. The Company recognized \$6,509,542, \$1,506,580 and \$502,809 for salaries and employee benefits expense, data processing expenses and rent expense, respectively, during 2006.

At December 31, 2006, the Company had concessions receivable from affiliated product sponsors for the sales of proprietary products. During 2006, the Company earned concessions revenue and product sponsor revenue sharing for sale of proprietary products.

**7. Disclosures About Guarantees**

The Company clears all of its securities transactions through the Clearing Broker on a fully disclosed basis. Pursuant to the terms of the agreement between the Company and the Clearing Broker, the Clearing Broker has the right to charge the Company for losses that result from a counterparty's failure to fulfill its contractual obligations.

As the right to charge the Company has no maximum amount and applies to all trades executed through the Clearing Broker, the Company believes there is no maximum amount assignable to this right. At December 31, 2006, the Company has recorded no liabilities with regard to the right. During 2006, the Company did not have any losses related to these guarantees for which payments were made.

In addition, the Company has the right to pursue collection or performance from the counterparties who do not perform under their contractual obligations. The Company monitors the credit standing of the Clearing Broker and all counterparties with which it conducts business.

**American General Securities Incorporated**  
**Notes to Financial Statements**  
**December 31, 2006**

---

**8. Off Balance Sheet Risk and Concentration of Credit Risk**

Occasionally, the Company executes transactions involving the sale of securities, not yet purchased. Such transactions expose the Company to off balance sheet risk in the event the market value of securities sold short increases, subjecting the Company to trading losses. Management monitors the market value of these positions on a daily basis to control the risk associated with these sales.

The Company is responsible to its clearing broker for payment of all transactions executed both on its behalf and on behalf of its customers. Therefore, the Company is exposed to off balance sheet risk in the event a customer cannot fulfill its commitment and the clearing broker must purchase or sell a financial instrument at prevailing market prices. The Company and its clearing broker seek to control risk associated with customer transactions through daily monitoring to assure margin collateral is maintained under regulatory and internal guidelines.

**American General Securities Incorporated**  
**Computation of Net Capital Under Rule 15c3-1 of the**  
**Securities and Exchange Commission**  
**December 31, 2006**

**Schedule I**

**Net capital**

Total stockholder's equity (from the consolidated statement of financial condition)	\$ 9,313,112
Less	
Nonallowable assets	
Receivable from clearing broker	80,989
Concessions and accounts receivable from product sponsors	2,337,665
Accounts receivable from representatives	461,514
Fixed assets, leasehold improvements and capitalized software	564,057
Prepaid expenses and other assets	635,197
Total nonallowable assets	<u>4,079,422</u>
Haircut on securities positions	211,905
Unsecured debt Pershing	411
Net capital	<u>\$ 5,021,374</u>

**Aggregate indebtedness**

Items included on statement of financial condition	
Commissions payable	\$ 4,589,145
Payable to affiliates	1,080,857
Accrued expenses and other liabilities	3,248,568
Federal income taxes payable	624,126
Total aggregate indebtedness	<u>\$ 9,542,696</u>

**Computation of basic net capital requirement**

Minimum net capital required (greater of 6-2/3% of aggregated indebtedness or \$250,000)	<u>\$ 636,498</u>
Excess net capital	<u>\$ 4,384,876</u>
Ratio: Aggregate indebtedness to net capital	<u>1.90</u>

The Company filed an amended Form X 17A 5 Part IIA filing on February 28, 2007, to adjust for certain items identified after the filing of the original Form X 17A 5 Part IIA filing on January 26, 2007. The Company does not consider these adjustments to be material. A reconciliation of net capital as originally reported to the amount per the amended Form X 17A 5 Part IIA is provided below:

Net capital, as reported in the Company's Part II (unaudited)	\$ 3,956,076
FOCUS Report dated January 26, 2007	
Allowable assets reported as nonallowable	1,211,716
Difference due to offsetting various asset accounts against related liabilities	198,863
Audit adjustments to record additional fixed assets	<u>(345,281)</u>
Net capital, as reported with Company's amended Part II (unaudited)	
FOCUS Report	<u>\$ 5,021,374</u>

**American General Securities Incorporated**  
**Computation for Determination of Reserve Requirements**  
**Under Rule 15c3-3 of the Securities and Exchange Commission**  
**December 31, 2006**

---

**Schedule II**

The Company is exempt from the reserve requirements under paragraph (k)(2)(ii) of Rule 15c3-3.

**American General Securities Incorporated**  
**Information Relating to Possession or Control Requirements**  
**Under Rule 15c3-3 of the Securities and Exchange Commission**  
**December 31, 2006**

---

**Schedule III**

The Company is exempt from the possession or control requirements under paragraph (k)(2)(ii) of Rule 15c3-3.

**Supplementary Report of Independent Auditors on Internal Control  
Required by Rule 17a-5 on the Securities and Exchange Commission**

To Board of Directors and Stockholder of  
American General Securities Incorporated

In planning and performing our audit of the financial statements of American General Securities Incorporated (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 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 making the following:

1. The periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11); and
2. 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 the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13; and
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 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, second, and third paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We noted the following control deficiency that we consider to be a material weakness as defined above.

At December 31, 2006, the Company did not maintain effective controls over the preparation and review of the net capital and the accrual of certain revenues and expenses. These control deficiencies resulted in material audit adjustments to concessions revenue accruals and also materially impacted the net capital computation in the 2006 financial statements. Accordingly, this control deficiency constitutes a material weakness. The audit adjustments have been recorded by the Company and are correctly reflected in the December 31, 2006 financial statements.

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 not 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 26, 2007