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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

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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 1/1/06 AND ENDING 12/31/06  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Delta Equity Services Corp.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

(No. and Street) Bolton MA 01740  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Eugene Hayes (978) 779-5361  
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

Paolilli, Jarek & DerAnaian, LLC

(Name - if individual, state last, first, middle name)  
319 Littleton Road Westford, MA. 01886  
(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 06 2007

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J 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)

BB  
3/5

OATH OR AFFIRMATION

I, Eugene Hayes, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Delta Equity Services Corp., 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:

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



SCOTT P. AUBREY  
Notary Public  
Commonwealth of Massachusetts  
My Commission Expires  
April 13, 2012

Eugene F. Hayes J  
Signature  
Financial & Operations Principal  
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).

## DELTA EQUITY SERVICES CORPORATION

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### INDEX

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Independent Auditors' Report - continued

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in supplementary schedules contained on pages 15 and 16 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.

*Paolilli, Jarek & Der Ananian LLC*

Paolilli, Jarek & Der Ananian, LLC  
Certified Public Accountants

Westford, Massachusetts  
February 6, 2007

**Paolilli, Jarek &  
Der Ananian, LLC**

CERTIFIED PUBLIC  
ACCOUNTANTS

**DELTA EQUITY SERVICES CORPORATION**

**BALANCE SHEETS**

As of December 31, 2006 and 2005

|                                                                                               | <u>2006</u>  | <u>2005</u>  |
|-----------------------------------------------------------------------------------------------|--------------|--------------|
| <b>Assets:</b>                                                                                |              |              |
| <b>Current Assets:</b>                                                                        |              |              |
| Cash and cash equivalents                                                                     | \$ 1,553,734 | \$ 1,046,965 |
| Receivables from clearing brokers                                                             | 50,000       | 36,000       |
| Receivables from others                                                                       | 26,367       | 22,557       |
| Refundable income taxes                                                                       | 0            | 1,000        |
| Deferred charges                                                                              | 1,498        | 6,103        |
| Total Current Assets                                                                          | 1,631,599    | 1,112,625    |
| Fixed assets, net                                                                             | 11,757       | 17,386       |
| Cash - deposit                                                                                | 107,504      | 103,227      |
| Other investments                                                                             | 828,369      | 98,550       |
| Total Assets                                                                                  | \$ 2,579,229 | \$ 1,331,788 |
| <b>Liabilities and Stockholder's Equity:</b>                                                  |              |              |
| <b>Current Liabilities:</b>                                                                   |              |              |
| Accounts payable and accrued expenses                                                         | \$ 954,168   | \$ 86,503    |
| Accounts payable - related party                                                              | 0            | 350          |
| Commissions payable - registered representatives                                              | 938,915      | 677,946      |
| Commissions payable - related party                                                           | 14,343       | 3,562        |
| Accrued income taxes                                                                          | 30,000       | 27,750       |
| Total Current Liabilities                                                                     | 1,937,426    | 796,111      |
| Liabilities subordinated to claims of general creditors                                       | 72,000       | 170,000      |
| <b>Stockholder's Equity:</b>                                                                  |              |              |
| Common stock, no par; 1,250 shares authorized,<br>796 shares outstanding at December 31, 2005 | 4,820        | 4,820        |
| Retained earnings                                                                             | 458,423      | 360,857      |
| Accumulated Other Comprehensive Income (Loss):                                                |              |              |
| Unrealized gain on securities                                                                 | 106,560      | 0            |
| Total Stockholder's Equity                                                                    | 569,803      | 365,677      |
| Total Liabilities and Stockholder's Equity                                                    | \$ 2,579,229 | \$ 1,331,788 |

**DELTA EQUITY SERVICES CORPORATION**

**STATEMENTS OF OPERATIONS**

For the Years Ended December 31, 2006 and 2005

|                                          | <u>2006</u>       | <u>2005</u>       |
|------------------------------------------|-------------------|-------------------|
| <b>Revenues:</b>                         |                   |                   |
| Commissions                              | \$ 13,478,292     | \$ 10,650,502     |
| Other                                    | 33,478            | 11,833            |
|                                          | <u>13,511,770</u> | <u>10,662,335</u> |
| <br><b>Expenses:</b>                     |                   |                   |
| Commissions and clearing costs           | 10,249,634        | 8,136,624         |
| Commissions - related parties            | 88,162            | 93,938            |
|                                          | <u>10,337,796</u> | <u>8,230,562</u>  |
| Other operating expenses                 | 1,029,134         | 739,944           |
| Other operating expenses - related party | 1,735,166         | 1,487,992         |
|                                          | <u>2,764,300</u>  | <u>2,227,936</u>  |
| Communications                           | 111,972           | 94,359            |
| Occupancy - related party                | 102,000           | 102,000           |
| Occupancy and equipment rental           | 8,925             | 8,802             |
| Depreciation                             | 9,376             | 8,455             |
| Interest                                 | 12,919            | 13,145            |
|                                          | <u>245,192</u>    | <u>226,761</u>    |
| Income (Loss) from Operations            | 164,482           | (22,924)          |
| <br><b>Other Income:</b>                 |                   |                   |
| Gain on sale of investment               | <u>0</u>          | <u>136,057</u>    |
| Income before income taxes               | 164,482           | 113,133           |
| Provision for income taxes               | <u>66,916</u>     | <u>12,890</u>     |
| Net Income                               | <u>\$ 97,566</u>  | <u>\$ 100,243</u> |

**DELTA EQUITY SERVICES CORPORATION**

**STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME**

For the Years Ended December 31, 2006 and 2005

|                               | <u>Common Stock</u>     |                      | <u>Retained Earnings</u> | <u>Accumulated</u>                       | <u>Treasury Stock</u> |                | <u>Total Stockholder's Equity</u> |
|-------------------------------|-------------------------|----------------------|--------------------------|------------------------------------------|-----------------------|----------------|-----------------------------------|
|                               | <u>Number of Shares</u> | <u>Issued Amount</u> |                          | <u>Other Comprehensive Income (Loss)</u> | <u>Shares</u>         | <u>At Cost</u> |                                   |
| Balance, December 31, 2004    | 1,046                   | \$ 10,236            | \$ 262,427               | \$ (39,679)                              | 250                   | \$ (7,229)     | \$ 225,755                        |
| Net Income                    |                         |                      | 100,243                  |                                          |                       |                | 100,243                           |
| Unrealized gain on securities |                         |                      |                          | 39,679                                   |                       |                | 39,679                            |
| Retirement of treasury shares | (250)                   | (5,416)              | (1,813)                  |                                          | (250)                 | 7,229          | 0                                 |
| Balance, December 31, 2005    | <u>796</u>              | <u>4,820</u>         | <u>360,857</u>           | <u>0</u>                                 | <u>0</u>              | <u>0</u>       | <u>365,677</u>                    |
| Net Income                    |                         |                      | 97,566                   |                                          |                       |                | 97,566                            |
| Unrealized gain on securities |                         |                      |                          | 106,560                                  |                       |                | 106,560                           |
| Balance, December 31, 2006    | <u>796</u>              | <u>\$ 4,820</u>      | <u>\$ 458,423</u>        | <u>\$ 106,560</u>                        | <u>0</u>              | <u>\$ 0</u>    | <u>\$ 569,803</u>                 |

**Paolilli, Jarek &  
Der Ananian, LLC**

CERTIFIED PUBLIC  
ACCOUNTANTS

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

**DELTA EQUITY SERVICES CORPORATION**

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**STATEMENTS OF CHANGES IN LIABILITIES SUBORDINATED  
TO CLAIMS OF GENERAL CREDITORS**

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For the Years Ended December 31, 2006 and 2005

|                                          | <u>2006</u>      | <u>2005</u>       |
|------------------------------------------|------------------|-------------------|
| Subordinated liabilities at January 1,   | \$ 170,000       | \$ 158,000        |
| Increases:                               |                  |                   |
| Capitalization of interest on note       | 12,000           | 12,000            |
| Decreases:                               |                  |                   |
| Repayments on note                       | <u>(110,000)</u> | <u>0</u>          |
| Subordinated liabilities at December 31, | \$ <u>72,000</u> | \$ <u>170,000</u> |



**DELTA EQUITY SERVICES CORPORATION**

**STATEMENTS OF CASH FLOWS**

For the Years Ended December 31, 2006 and 2005

|                                                                                      | <u>2006</u>         | <u>2005</u>         |
|--------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>Cash Flows from Operating Activities:</b>                                         |                     |                     |
| Net Income                                                                           | \$ <u>97,566</u>    | \$ <u>100,243</u>   |
| Adjustments to Reconcile Net Income to<br>Net Cash Provided by Operating Activities: |                     |                     |
| Depreciation                                                                         | 9,376               | 8,455               |
| Gain on sale of investment                                                           | 0                   | (136,057)           |
| Interest accrued on subordinated liability                                           | 12,000              | 12,000              |
| (Increase) decrease in investments                                                   | (551,259)           | 0                   |
| (Increase) decrease in accounts receivable                                           | (17,810)            | 57,136              |
| (Increase) decrease in refundable income taxes                                       | 1,000               | 10,500              |
| (Increase) decrease in deferred charges                                              | 4,605               | 3,585               |
| (Increase) decrease in cash - deposit                                                | (4,277)             | (2,300)             |
| Increase (decrease) in deferred revenue                                              | 0                   | (30,000)            |
| Increase (decrease) in accounts payable<br>and accrued expenses                      | <u>1,141,314</u>    | <u>57,130</u>       |
| Net Cash Provided by Operations                                                      | <u>692,515</u>      | <u>80,692</u>       |
| <b>Cash Flows from Investing Activities:</b>                                         |                     |                     |
| Proceeds from sale of investment                                                     | 0                   | 201,057             |
| Purchase of fixed assets                                                             | (3,746)             | (11,632)            |
| Exercise of warrants                                                                 | <u>(72,000)</u>     | <u>(67,500)</u>     |
| Net Cash Provided (Used) by Investing Activities                                     | <u>(75,746)</u>     | <u>121,925</u>      |
| <b>Cash Flows from Financing Activities:</b>                                         |                     |                     |
| Repayment of subordinated liability                                                  | <u>(110,000)</u>    | <u>0</u>            |
| Net Increase in Cash and Cash Equivalents                                            | 506,769             | 202,617             |
| Cash and cash equivalents - January 1,                                               | <u>1,046,965</u>    | <u>844,348</u>      |
| Cash and cash equivalents - December 31,                                             | \$ <u>1,553,734</u> | \$ <u>1,046,965</u> |
| <b>Supplemental Disclosure of Cash Flow Information:</b>                             |                     |                     |
| Cash paid for interest                                                               | \$ <u>919</u>       | \$ <u>1,145</u>     |
| Income taxes paid                                                                    | \$ <u>63,679</u>    | \$ <u>5,200</u>     |

DELTA EQUITY SERVICES CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005

Note 1. Summary of Significant Accounting Policies

**NATURE OF BUSINESS**

Delta Equity Services Corporation (the Company) is located in Bolton, Massachusetts. The Company is a registered Broker and Dealer in securities, and conducts business on a fully-disclosed basis over a nation-wide network of registered representatives. The Company offers services in stocks, bonds, and mutual funds to retail clients. The Company is subject to the regulations of certain federal and state agencies, and undergoes periodic examinations by the National Association of Securities Dealers, Inc.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

**Recognition of Income**

Commissions earned on securities transactions and related income and expenses are recorded on a settlement date basis, an industry standard.

**Concentration of Credit Risk**

The Company maintains a cash balance at a Bolton, MA bank, and at December 31, 2006, that balance was \$103,353 of which \$100,000 was insured by the Federal Deposit Insurance Corporation.

**Management Fees**

The Company pays monthly management fees to Andover Capital Corporation, a related corporation wholly-owned by Raymond L. Grenier, the president and sole shareholder of the Company, under a management contract (See Related Party Transactions, Note 7). The fees provide compensation for supervisory responsibilities, and for any operational and overhead expenses incurred. These fees, in addition to the expenses incurred by Andover Capital Corporation in connection with the Company's broker and dealer business, shall include 100% of the Company's first \$50,000 in pre-tax profits, 50% of its pre-tax profits below \$200,000, and 25% of any pre-tax profits over \$200,000.

DELTA EQUITY SERVICES CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005

Note 1. Summary of Significant Accounting Policies - continued

**Allowance for Doubtful Accounts**

Management believes that accounts receivable are fully collectible; thus, an allowance for potentially doubtful accounts was not considered necessary at December 31, 2006 or at December 31, 2005.

**Income Taxes**

In accordance with Statement of Financial Accounting Standards No. 109 (SFAS No. 109), "Accounting for Income Taxes," the Company computes its future income tax payments, using current tax rates, on temporary differences resulting from the different periods in which events are recognized in the financial statements and in the income tax returns. SFAS No. 109 requires deferred tax assets and liabilities to be adjusted when tax rates or other provisions of the income tax laws change. The Company provides for income taxes based upon pre-tax earnings at applicable federal and state corporate income tax rates. Thus, current income taxes are provided for on taxable income. There were not any significant differences in the timing of recognition of transactions for financial and income tax reporting purposes for the years ended December 31, 2006 and 2005.

**Depreciation**

Depreciation is provided for on a straight-line basis using the estimated useful lives of the related assets. The Company's fixed assets at December 31, 2006, and at December 31, 2005, were comprised entirely of computer and office equipment with estimated useful lives of three years (See Fixed Assets, Note 3).

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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.

DELTA EQUITY SERVICES CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005

Note 2. Cash - Deposit

This account represents security deposits required by its clearing brokerage firm. Interest earned on such deposits can be drawn upon by the Company.

Note 3. Fixed Assets

The Company's fixed assets consisted of:

|                               | <u>2006</u>      | <u>2005</u>      |
|-------------------------------|------------------|------------------|
| Computer and office equipment | \$ 49,067        | \$ 45,320        |
| Less accumulated depreciation | <u>(37,310)</u>  | <u>(27,934)</u>  |
| Fixed assets, net             | \$ <u>11,757</u> | \$ <u>17,386</u> |

Depreciation expense for the years ended December 31, 2006 and 2005 was \$9,376 and \$8,455, respectively.

Note 4. Other Investments

At December 31, 2006, the Company's other investments were comprised of equity securities classified as available for sale. Marketable securities considered available for sale are recorded in the financial statements at fair market value, in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The corresponding unrealized gain or loss in the fair market value in relation to cost is accounted for as a separate item in the stockholder's equity section of the balance sheet. Realized gains and losses of available for sale securities are determined using the specific identification method and are included in earnings.

At December 31, 2006, the Company had positions in certain securities resulting from unsettled sales to customers. The securities, included in these financial statements at their fair value of \$551,259, were traded on December 29, 2006 but did not settle until January 2, 2007.

The Company also held positions in securities made available to the Company in a private placement offering made by the National Association of Securities Dealers, Inc. to its member firms.

**DELTA EQUITY SERVICES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006 and 2005

**Note 4. Other Investments – continued**

At December 31, 2006 and 2005, these holdings included the following:

|                                                                                                                                                             | <u>2006</u>           | <u>2005</u>          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| 300 warrants to purchase common stock of The NASDAQ Stock Market, Inc., (NDAQ) purchased in April 2000, at cost                                             | \$ 3,300              | \$ 3,300             |
| 4,200 additional warrants, purchased in December 2000, at cost                                                                                              | 58,800                | 58,800               |
| 4,500 shares of common stock of The NASDAQ Stock Market, Inc. purchased in June 2006, at cost of \$72,000, including cost of exercised warrants of \$15,525 | 87,525                | 0                    |
| 4,500 shares of common stock of The NASDAQ Stock Market, Inc. purchased in June 2005, at cost of \$67,500, including cost of exercised warrants of \$15,525 | <u>83,025</u>         | <u>83,025</u>        |
|                                                                                                                                                             | 232,650               | 145,125              |
| Cumulative expiration of warrants                                                                                                                           | (62,100)              | (46,575)             |
| Unrealized gain on securities                                                                                                                               | <u>106,560</u>        | <u>-0-</u>           |
| <br>Fair Market Value of NDAQ                                                                                                                               | <br><u>\$ 277,110</u> | <br><u>\$ 98,550</u> |

During 2005, the Company sold 5,000 shares of NDAQ, purchased in December 2000, for \$201,057. The sale of these shares, which had a cost basis of \$65,000, resulted in a gain totaling \$136,057, and is included the statement of operations for the year ended December 31, 2005.

**Note 5. Liabilities Subordinated To Claims of General Creditors**

The borrowings under subordination agreements are as follows:

|                                                                                                                                                                                        |                  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Subordination Loan Agreement between Raymond L. Grenier and the Company, dated December 26, 1995, payable with interest, at an interest rate of 17.2% per annum, on December 31, 2007. | <u>\$ 72,000</u> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|

DELTA EQUITY SERVICES CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005

Note 5. Liabilities Subordinated To Claims of General Creditors - continued

The above subordinated borrowing is covered by an agreement approved by the National Association of Securities Dealers, Inc. and is thus available in computing net capital under the Securities and Exchange Commission's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

Note 6. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (rule 15c3-1). This rule requires the maintenance of minimum net capital, and also requires that the ratio of aggregate indebtedness to net capital, as defined by rule 15c3-1, shall not exceed 15 to 1. The rule provides that equity capital may not be withdrawn, liabilities subordinated to claims of general creditors may not be repaid, or cash dividends may not be paid if the resulting capital ratio would exceed 10 to 1. The Company, at December 31, 2006 and at December 31, 2005, had net capital of \$439,756 and \$383,914, respectively, which was \$310,594 and \$330,840, respectively, in excess of its required net capital. At these levels of net capital, the Company's broker dealer activities are limited to introducing customer transactions to buy or sell securities cleared through other broker dealers.

Note 7. Related Party Transactions

The Company incurred approximately \$88,000 and \$94,000 in commission expenses during 2006 and 2005, respectively, to Raymond L. Grenier (a related party).

In addition, the Company shares facilities, equipment, and operational resources with Andover Capital Corporation, a related entity wholly owned by Raymond L. Grenier. Supervisory and overhead costs incurred under this arrangement totaled approximately \$1,719,000 and \$1,488,000 for the years ended December 31, 2006 and 2005, respectively.

The Company leases office space at 579 Main Street, Bolton, MA, as a tenant-at-will from 579 Main Street Realty Trust, a trust in which a related party has a beneficial interest. The property is, under an operating lease, the main headquarters of the Company. Monthly rentals of the 579 Main

DELTA EQUITY SERVICES CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005

Note 7. Related Party Transactions - continued

Street property are \$8,500. Rent expense, for each of the years ended December 31, 2006 and 2005, was \$102,000.

Note 8. Contingent Liabilities

The Company is contingently liable to indemnify Pershing, LLC for any failure by customers to maintain an adequate margin, to deliver securities sold, to pay for securities purchased, or for any other breach of obligation by customers. Margin balances in customers' accounts averaged approximately \$22,023,000 at December 31, 2006.

Note 9. Income Taxes

The components of income tax expense, for the years ended December 31, 2006 and 2005, are as follows:

|                    | <u>2006</u>      | <u>2005</u>      |
|--------------------|------------------|------------------|
| Federal            | \$ 45,604        | \$ 15,434        |
| State              | <u>21,312</u>    | <u>(2,544)</u>   |
| Total income taxes | \$ <u>66,916</u> | \$ <u>12,890</u> |

Note 10. Economic Dependency

As part of an agreement with Pershing, LLC, the Company introduces all of its accounts through Pershing, LLC. Thus, the Company currently clears all its customers' general securities transactions through Pershing, LLC.

Note 11. Focus (Form X - 17a - 5) Report

A copy of the Company's most recent, annually audited Focus Form X-17a-5 Report (December 31, 2006) is available for examination at the principal office of the firm and at the regional office of the Securities and Exchange Commission.

DELTA EQUITY SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 12. Exempt Provisions Under Rule 15c3-3

The Company claims an exemption from Securities and Exchange Commission Rule 15c3-3(k)(2)(ii), as an introducing broker or dealer who clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, which carries all the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to rule 17a-3 and 17a-4, as are customarily made by a clearing broker or dealer.

Note 13. Business Concentrations

The Company had approximately 90 registered representative affiliations during 2006 and 2005, respectively. Six of those registered representatives were responsible for approximately 43% and 41% of the Company's commission volume during the years ended December 31, 2006 and 2005, respectively.

Note 14. Contingencies

During 2006 and 2005, the Company was involved in various claims and lawsuits against the Company, arising in the normal course of business. Management believes that any financial responsibilities that may be incurred in the ultimate resolution of these matters will not have a material adverse effect on the Company's financial position or results of operations.



# DELTA EQUITY SERVICES CORPORATION

## COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION

As of December 31, 2006

### COMPUTATION OF NET CAPITAL

|                                                                                                         |    |              |                  |
|---------------------------------------------------------------------------------------------------------|----|--------------|------------------|
| Stockholder's Equity                                                                                    |    | \$           | 569,803          |
| Less: Non-allowable assets:                                                                             |    |              |                  |
| Unsecured accounts receivable                                                                           | \$ | 26,367       |                  |
| Fixed assets, net                                                                                       |    | 11,757       |                  |
| Deferred charges                                                                                        |    | <u>1,498</u> |                  |
|                                                                                                         |    |              | (39,622)         |
| Add: Liabilities subordinated to claims of general<br>creditors allowable in computation of net capital |    |              | <u>72,000</u>    |
| Tentative net capital                                                                                   |    |              | 602,181          |
| Less: Haircuts on Securities                                                                            |    |              | <u>(162,425)</u> |
| Net Capital                                                                                             |    | \$           | <u>439,756</u>   |

### AGGREGATE INDEBTEDNESS

|                                       |    |                  |
|---------------------------------------|----|------------------|
| Accounts payable and accrued expenses | \$ | 984,168          |
| Commissions payable                   |    | 938,915          |
| Commissions - related party           |    | <u>14,343</u>    |
| Total Aggregate Indebtedness          | \$ | <u>1,937,426</u> |

### COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

|                                              |    |                |
|----------------------------------------------|----|----------------|
| Minimum capital requirement                  | \$ | <u>129,162</u> |
| Excess Net Capital                           | \$ | <u>310,594</u> |
| Ratio: Aggregate indebtedness to net capital |    | <u>4.41</u>    |

**DELTA EQUITY SERVICES CORPORATION**

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**COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE  
SECURITIES AND EXCHANGE COMMISSION**

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As of December 31, 2006

**RECONCILIATION WITH COMPANY'S COMPUTATION**

(included in Part IIA, of Form X-17A-5 as of December 31, 2006)

|                                                                            |                   |
|----------------------------------------------------------------------------|-------------------|
| Net capital, as reported in Company's Part IIA (unaudited)<br>FOCUS report | \$ 439,756        |
| Net audit adjustments                                                      | <u>0</u>          |
| Net Capital per above                                                      | \$ <u>439,756</u> |

**Paolilli, Jarek &  
Der Ananian, LLC**

CERTIFIED PUBLIC  
ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL**  
**REQUIRED BY SEC RULE 17a-5**

To the Stockholders and Board of Directors  
DELTA EQUITY SERVICES CORPORATION  
Bolton, Massachusetts

In planning and performing our audit of the financial statements and supplementary schedules of DELTA EQUITY SERVICES CORPORATION for the year ended December 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

We also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), made a study of the practices and procedures followed by the Company in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry security accounts for customers or perform custodial functions related to customer securities, we did not review the practices and procedures followed by the Company in making quarterly securities examinations, counts, verifications and comparisons, in the recordation of differences required by rule 17a-13, or in 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 or the practices and procedures referred to above, errors 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 errors 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 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 and 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 use of the Board of Directors, management, the SEC, 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 for any other purpose.

*Paolilli, Jarek & Der Ananian LLC*

Paolilli, Jarek & Der Ananian, LLC  
Certified Public Accountants

Westford, Massachusetts  
February 6, 2007

**Paolilli, Jarek &  
Der Ananian, LLC**

CERTIFIED PUBLIC  
ACCOUNTANTS

*END*