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

SEC FILE NUMBER
8-50280

FACING PAGE

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

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

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
FBR Investment Services, Inc.
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
1001 Nineteenth Street North

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street)
Arlington VA 22209
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Janelle R. Schutt 703.312.9747
(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)
250 West Pratt Street Baltimore MD 21201
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED

MAR 07 2007

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

OATH OR AFFIRMATION

I, Janelle R. Schutt, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of FBR Investment Services, Inc., as of December 31, 2006, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

City/County of Arlington
Commonwealth of Virginia
Sworn to and subscribed before me this 19th day of January, 2007
Witness my hand and official seal.
Lois Lena Cady Notary Public

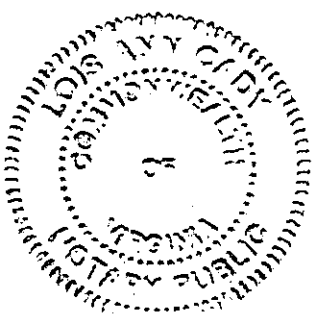
Janelle Schutt
Signature
Chief Financial Officer
Title

My Comm. Exps. 3/31, 2010
Lois Lena Cady
Notary Public

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



FBR Investment Services, Inc.

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December 31, 2006

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Report of Independent Auditors

To the Board of Directors of
FBR Investment Services, Inc.:

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of FBR Investment Services, Inc. at December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, and evaluating the overall statement of financial condition presentation. We believe that our audit of the statement of financial condition provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Baltimore, Maryland
February 27, 2007

FBR Investment Services, Inc.

Statement of Financial Condition

December 31, 2006

	<u>December 31, 2006</u>
Assets	
Cash and cash equivalents	\$ 1,513,756
Receivables:	
Due from affiliates	439,575
Other	293,893
Due from clearing broker	307,648
Furniture, equipment and software net of accumulated depreciation	714
Prepaid expenses and other assets	37,026
Total assets	<u>\$ 2,592,612</u>
Liabilities and Shareholder's Equity	
Liabilities	
Accounts payable and accrued expenses	\$ 591,058
Accrued compensation and benefits	110,004
Due to affiliates	313,592
Total liabilities	<u>1,014,654</u>
Shareholder's equity	
Common stock, \$1 par value, 2,000 shares authorized, 1,000 shares issued and outstanding	1,000
Additional paid-in capital	26,450,455
Accumulated deficit	(24,873,497)
Total shareholder's equity	<u>1,577,958</u>
Total liabilities and shareholder's equity	<u>\$ 2,592,612</u>

The accompanying notes are an integral part of this financial statement.

FBR Investment Services, Inc.

Notes to Statement of Financial Condition

December 31, 2006

Note 1. Organization and Nature of Operations:

FBR Investment Services, Inc. (the "Company") is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and is a member of the National Association of Securities Dealers, Inc. ("NASD"). The Company operates as an online investment bank and electronic brokerage as well as a distributor of related mutual funds. The Company is a wholly-owned subsidiary of FBR TRS Holdings, Inc. ("FBR TRS Holdings"), which is a wholly-owned subsidiary of Friedman, Billings, Ramsey Group, Inc. ("FBR Group").

Note 2. Significant Accounting Policies:

Use of Estimates

The preparation of the Company's financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities at the date of the financial statements. Although management bases estimates and assumptions on historical experience, when available, and on various other factors that management believes to be reasonable under the circumstances, management exercises significant judgment in the final determination of these estimates. Actual results may differ from these estimates.

Cash and Cash Equivalents

Cash equivalents are highly liquid investments with original maturities of three months or less and are not held for sale in the ordinary course of business. The majority of the Company's cash equivalents are held in one US financial institution.

Receivable from Clearing Broker

The Company clears all of its proprietary and customer transactions through another broker-dealer on a fully disclosed basis. The amount receivable from the clearing broker represents cash on hand with the clearing broker plus proceeds from unsettled securities sold.

Securities

The Company acts as an introducing broker executing transactions for customers and forwarding all such transactions to a clearing broker on a fully disclosed basis.

Furniture, Equipment, Software

Furniture and equipment are depreciated using the straight-line method over their estimated useful lives of three to five years. Amortization of purchased software is recorded over the estimated useful lives of three to five years.

Income Taxes

Deferred tax assets and liabilities represent the differences between the financial statement and income tax bases of assets and liabilities using enacted tax rates. The measurement of net deferred tax assets is adjusted by a valuation allowance if, based on our valuation, it is more likely than not that they will not be realized.

FBR Investment Services, Inc.

Notes to Statement of Financial Condition

December 31, 2006

Note 3. Related-Party Transactions:

The Company is a member of an operating group of affiliates that may provide or receive services to and from each other. From time to time, FBR Group and other affiliates may record costs, which, in part, may be based on the Company's operations. Accordingly, the statement of financial condition not necessarily be indicative of the financial position that would have existed had the Company been operated as an unaffiliated corporation.

The due from affiliates balance represents income tax receivable from FBR TRS Holdings and will be repaid by the affiliate during 2007.

FBR TRS Holdings has agreed to fund any capital or cash shortfalls of the Company through December 31, 2007. For the year ended December 31, 2006, FBR TRS Holdings contributed \$1,300,000 to the Company to fund these shortfalls.

Note 4. Furniture, Equipment and Software:

Furniture, equipment and software, summarized by major classifications, were:

	<u>December 31, 2006</u>
Furniture and equipment	\$ 101,003
Software	3,812
	<u>104,815</u>
Less-Accumulated depreciation and amortization	104,101
	<u>\$ 714</u>

Note 5. Income Taxes:

The Company joins in the filing of a consolidated Federal income tax return with FBR TRS Holdings. The Company's current income expense or benefit is calculated on a separate company basis. Losses and benefits are included as utilized in the consolidated return. Payments and refunds are settled with FBR TRS Holdings, Inc. pursuant to the written tax sharing agreement.

The Company's effective income tax rate primarily differs from the statutory federal tax rate as a result of non-deductible expenses.

At December 31, 2006, advances to affiliates includes a current federal income tax receivable from affiliate of \$439,575.

At December 31, 2006, the Company had a deferred tax asset of \$18,914 of which \$2,369 was attributable to depreciation and \$16,545 was attributable to stock compensation.

FBR Investment Services, Inc.

Notes to Statement of Financial Condition

December 31, 2006

Note 6. Regulatory Capital Requirements:

The Company is registered with the SEC and is a member of the NASD. As such, the Company is subject to minimum net capital requirements promulgated by the SEC. As of December 31, 2006, the Company had net capital of \$806,750 which was \$706,750 in excess of its required net capital of \$100,000.

The Company is exempt from the provisions of Rule 15c3-3 under the Securities and Exchange Act of 1934 because all customer transactions are cleared through another broker-dealer on a fully disclosed basis.

Note 7. Commitments and Contingencies:

Litigation

As of December 31, 2006, the Company was not a defendant or plaintiff in any lawsuits or arbitrations, nor involved in any governmental or self-regulatory organization (SRO) matters that are expected to have a material adverse effect on the Company's financial condition. The Company is a defendant in a small number of civil lawsuits and arbitrations (together, litigation) relating to its various businesses. In addition, the Company is subject to various reviews, examinations, investigations and other inquiries by governmental agencies and SROs. There can be no assurance that these matters individually or in aggregate will not have a material adverse effect on the Company's financial condition in a future period. However, based on management's review with counsel, resolution of these matters is not expected to have a material adverse effect on the Company's financial condition.

Many aspects of the Company's business involve substantial risks of liability and litigation. Underwriters, broker-dealers and investment advisers are exposed to liability under Federal and state securities laws, other Federal and state laws and court decisions, including decisions with respect to underwriters' liability and limitations on indemnification, as well as with respect to the handling of customer accounts. For example, underwriters may be held liable for material misstatements or omissions of fact in a prospectus used in connection with the securities being offered and broker-dealers may be held liable for statements made by their securities analysts or other personnel. In certain circumstances, broker-dealers and asset managers may also be held liable by customers and clients for losses sustained on investments. In recent years, there has been an increasing incidence of litigation and actions by government agencies and SROs involving the securities industry, including class actions that seek substantial damages. The Company is also subject to the risk of litigation, including litigation that may be without merit. As the Company intends to actively defend such litigation, significant legal expenses could be incurred. An adverse resolution of any future litigation against the Company could materially affect the Company's financial condition.

Note 8. Off-Balance-Sheet Risk:

Credit Risk

The Company clears all of its securities transactions through a clearing broker on a fully disclosed basis. Pursuant to the terms of the agreements 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 this right.

FBR Investment Services, Inc.

Notes to Statement of Financial Condition

December 31, 2006

In addition, the Company has the right to pursue collection of 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.

The securities industry is subject to numerous risks, including the risk of loss associated with the underwriting, ownership, and trading of securities, and the risk of reduced revenues in periods of reduced demand for security offerings and activity in secondary trading markets. Changing economic and market trends may negatively impact the liquidity and value of the Company's investments and the level of security offerings underwritten by the Company, which may adversely affect the Company's revenues and profitability.

Through indemnification provisions in agreements with clearing organizations, customer activities may expose the Company to off-balance-sheet credit risk. Financial instruments may have to be purchased or sold at prevailing market prices in the event a customer fails to settle a trade on its original terms or in the event cash and securities in customer margin accounts are not sufficient to fully cover customer obligations. The Company seeks to manage the risks associated with customer activities through customer screening and selection procedures as well as through requirements on customers to maintain margin collateral in compliance with various regulations and clearing organization policies.

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