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SECURITIES AND EXCHANGE COMMISSION
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**ANNUAL AUDITED REPORT
 FORM X-17A-5
 PART III**

OMB APPROVAL
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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: Redwood Brokerage LLC
 ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
7 Hanover Square 8th Floor

OFFICIAL USE ONLY
 FIRM I.D. NO.

(No. and Street)

New York NY 10004
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Paul T. Lennon (212) 785-4436
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PKF, CPA, PC

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

29 Broadway New York NY 10006
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

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 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)

3/13

OATH OR AFFIRMATION

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

Paul T. Lennon

Signature

President

Title

Eric C. Spector 2/16/07
Notary Public

ERIC C. SPECTOR
Notary Public, State of New York
No. 01SP5001426
Qualified in Kings County
Commission Expires Sept. 8, 2010

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).

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Independent Auditor's Report

To the Board of Directors
Redwood Brokerage LLC

We have audited the accompanying statement of financial condition of Redwood Brokerage LLC as of December 31, 2006, and the related statements of operations, changes in member's equity and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Redwood Brokerage LLC as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2, during 2006 the Company informed its retail customers that it no longer planned to act as broker for their accounts and accordingly requested that individual accounts held by the Company be liquidated. The Company is currently contemplating its business strategy and may decide to cease operations in 2007.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on page 9 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.



Certified Public Accountants
A Professional Corporation

February 15, 2007

REDWOOD BROKERAGE LLC

Statement of Financial Condition
December 31, 2006

Assets

| | |
|-------------------------------------|-------------------|
| Cash | \$ 5,347 |
| Securities owned at market (note 2) | 734,425 |
| Receivables | |
| Clearing broker | 218 |
| Customers | 49,292 |
| Investments (note 5) | <u>100,000</u> |
| Total assets | <u>\$ 889,282</u> |

Liabilities and Member's Equity

| | |
|---------------------------------------|-------------------|
| Liabilities | |
| Accounts payable and accrued expenses | \$ 23,022 |
| Commissions payable to employees | <u>52,866</u> |
| Total liabilities | 75,888 |
| Member's Equity | <u>813,394</u> |
| Total liabilities and member's equity | <u>\$ 889,282</u> |

See notes to financial statements

REDWOOD BROKERAGE LLC

Statement of Operations
For Year Ended December 31, 2006

| | |
|---|-----------------------|
| Revenues | |
| Commissions (note 2) | \$ 2,529,423 |
| Trading gains | 197,056 |
| Interest and other revenue | 64,966 |
| Total revenues | <u>2,791,445</u> |
| Expenses | |
| Commissions - other brokers | 775,911 |
| Employee compensation and benefits | 1,400,192 |
| Office | 440,235 |
| Market services (note 6) | 503,041 |
| Regulatory fees and expenses | 40,832 |
| Professional fees | 122,723 |
| Telephone and communications | 59,062 |
| Travel and entertainment | 72,325 |
| Interest expense | 650 |
| Other expenses | 58,845 |
| Total expenses | <u>3,473,816</u> |
| (Loss) before valuation allowance on investments and income tax expense | (682,371) |
| Valuation allowance on investments (note 5) | <u>(322,397)</u> |
| (Loss) before income tax expense | (1,004,768) |
| Income tax expense (note 4) | <u>9,628</u> |
| Net (loss) | <u>\$ (1,014,396)</u> |

See notes to financial statements

REDWOOD BROKERAGE LLC
Statement of Changes in Member's Equity
For Year Ended December 31, 2006

| | <u>Amount</u> |
|----------------------------|--------------------|
| Balance, December 31, 2005 | \$ 1,627,790 |
| Member's contribution | 200,000 |
| Net (loss) | <u>(1,014,396)</u> |
| Balance, December 31, 2006 | <u>\$ 813,394</u> |

See notes to financial statements

REDWOOD BROKERAGE LLC

Statement of Cash Flows
For Year Ended December 31, 2006

| | |
|--|--------------------|
| Cash flows from operating activities | |
| Net (loss) | \$ (1,014,396) |
| Adjustment to reconcile net (loss) to net cash (used) by operating activities | |
| Valuation allowance on investments | 322,397 |
| Deferred New York City tax benefit | 5,107 |
| Changes in operating assets and liabilities | |
| Other receivables | 11,480 |
| Receivables from non-customers | 22,875 |
| Advances to employees/affiliates | 53,208 |
| Securities owed | (372,658) |
| Prepaid expenses | 41,389 |
| Accounts payable and accrued expenses | (510) |
| Commissions payable to employees | 18,591 |
| Securities owned | (622,550) |
| Net cash (used) by operating activities | <u>(1,535,067)</u> |
| Cash flows from investing activities | |
| Software development costs | 231,655 |
| Return of capital on investments | 5,904 |
| Net cash provided by investing activities | <u>237,559</u> |
| Cash flows provided by financing activities | |
| Member contributions | <u>200,000</u> |
| (Decrease) in cash | (1,097,508) |
| Cash, beginning of year | <u>1,102,855</u> |
| Cash, end of year | <u>\$ 5,347</u> |
| Supplemental cash flow information | |
| Cash paid during the year for interest | <u>\$ 650</u> |

See notes to financial statements

REDWOOD BROKERAGE LLC

Notes to Financial Statements
December 31, 2006

Note 1 - Organization and business activity

Redwood Brokerage LLC (the "Company") is a registered broker-dealer incorporated in December 1995 in the State of New York as Redwood Brokerage Services, Inc. The Company received approval from the National Association of Securities Dealers, Inc. to commence business operations in March 1996. The Company acts as an introducing broker whose business activities are to provide broker-dealer services to clients and trading on a proprietary basis. In January 2004, the Company changed its corporate status from an S Corporation to a Limited Liability Company and accordingly changed its name from Redwood Brokerage Services, Inc. to Redwood Brokerage LLC (see note 4).

On December 1, 2005 the members of the Company assigned their entire interest in the Company to a newly formed Limited Liability Company, Redwood Capital Holdings LLC ("Holdings"). In connection with the assignment the Company is now wholly owned by Holdings, and the previous members of the Company have become managing members of Holdings.

The Company has an agreement with a clearing house to clear securities transactions, carry customers' accounts on a fully disclosed basis and perform related record keeping functions. The agreement can be canceled by either party upon 30 days written notice. The agreement states that the Company will assume its customer's obligations should a customer of the Company default on its obligations relating to securities trades executed by the clearing house. The clearing house controls customers' credit risk by requiring that they maintain margin collateral in compliance with various regulatory and internal guideline.

See note 2 below for discussion on the Company's ongoing operations.

Note 2 - Summary of significant accounting policiesOngoing operations

During 2006 management began contemplating its business strategy and is currently considering closing its operations in 2007. Accordingly, in 2006, the Company requested that its retail customers close out their accounts. On January 23, 2007 the Company informed all of its customers that they no longer will be executing customer orders.

Estimates

The Company prepares its financial statements in conformity with accounting principles generally accepted in the United States of America, which 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.

Securities owned

Profit and loss arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade date basis.

All securities consist of marketable securities that are marked to market.

Depreciation

Equipment with a cost of \$141,112 is fully depreciated and in use by the Company.

REDWOOD BROKERAGE LLC

Notes to Financial Statements (continued)
December 31, 2006Commissions

Commission revenues and expenses are recorded on a trade date basis as security transactions occur.

Note 3 - Net capital requirements

The Company is subject to the Securities and Exchange Commission's uniform net capital rule (Rule 15c3-1) which requires that net capital, as defined, shall be the greater of \$100,000 or 6.67% of aggregate indebtedness, as defined. At December 31, 2006, the Company had net capital of \$494,481 which was \$394,481 in excess of the minimum net capital requirement of \$100,000. The ratio of aggregate indebtedness to net capital was 0.15 to 1.

Note 4 - Income taxes

On December 1, 2005, the Company assigned its entire interest to Holdings. As a result, the Company became a single-member Limited Liability Company ("LLC") for Federal and State tax reporting purposes, effectively dissolving the Company as a taxable entity. As such, no provision has been made for income taxes since such taxes, if any, are payable by the individual members of Holding. The Company is subject to New York City Corporation taxes.

The Company uses the asset and liability method of accounting for income taxes whereby deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

The income tax expense in the accompanying statement of operations is summarized as follows:

| | | |
|--------------------|----|--------------|
| Current | | |
| State | \$ | - |
| City | | 4,521 |
| | | <u>4,521</u> |
| Deferred | | |
| State | | - |
| City | | 5,107 |
| | | <u>5,107</u> |
| Income tax expense | \$ | <u>9,628</u> |

Note 5 - Investments

Investments as of December 31, 2006 is as follows:

| | |
|--|-------------------|
| Nextek Power Systems (NPS) - 16,000 shares of Series B Convertible Preferred Stock in a company which designs, develops and manufactures products that convert and condition electric power for high reliability, DC-based applications (cost \$400,000, net of a \$300,000 valuation allowance) | \$ <u>100,000</u> |
|--|-------------------|

The Company's investment in NPS is carried at the lower of cost or net realizable value

The Company's valuation allowance on investments for the year ended December 31, 2006 amounted to \$322,397 consisting of \$22,397 representing the remaining carrying value of various entities for which the Company had a minor equity interest in, and \$300,000 on of its investment in NPS.

REDWOOD BROKERAGE LLC

Notes to Financial Statements (continued)
December 31, 2006

Note 6 - Software development costs

The Company capitalizes its costs of computer software to be sold, leased, or otherwise marketed in accordance with Statement of Financial Accounting Standards No. 86 (SFAS No. 86) "Accounting for Costs of Software for Sale or Lease". SFAS No. 86 specifies that costs incurred internally in creating a computer software product shall be charged to expense when incurred as research and development expense until technological feasibility has been established for the product. Technological feasibility is established upon completion of a detail program design, or, in its absence, completion of a working model. Thereafter, all software production costs shall be capitalized and subsequently reported at the lower of unamortized cost or net realizable value.

During 2006 a product the company was marketing, did not become available for general release to customers and it was determined by management that previously capitalized costs were fully impaired. As a result, \$231,655 of previously capitalized software costs were expensed as part of marketing services in the statement of operations for the year ended December 31, 2006.

Note 7 - Contingencies

On occasion the Company may become involved in various legal matters. At December 31, 2006 management does not believe that there is any potential legal matters which could have an adverse effect on the Company's financial position.

REDWOOD BROKERAGE LLC

Supplementary Information

Computation of Net Capital Under Rule 15c3-1
December 31, 2006

| | | |
|---|---------------|-------------------|
| Computation of net capital | | |
| Total member's equity | | \$ 813,394 |
| Deduct nonallowable assets | | |
| Investments | \$ 100,000 | |
| Accounts receivable - customers | <u>49,292</u> | <u>149,292</u> |
| Net capital before haircuts | | 664,102 |
| Deduct haircuts on marketable securities | | (73,442) |
| Deduct undue concentrations | | <u>(96,179)</u> |
| Net capital | | <u>494,481</u> |
| Aggregate indebtedness | | |
| Accounts payable and accrued expenses | | 23,022 |
| Commissions payable to employees | | <u>52,866</u> |
| | | <u>75,888</u> |
| Ratio of aggregate indebtedness to net capital | | <u>0.15 to 1</u> |
| Minimum capital requirement of 6.67% of aggregate indebtedness or \$100,000, whichever is greater | | <u>\$ 100,000</u> |
| Excess net capital | | <u>\$ 394,481</u> |

The Company was in compliance with the exemption provisions of SEC Rule 15c3-3.

There were no material differences between the above computation and the computation included in the Company's corresponding unaudited Form X-17A-5 Part IIA filed on January 25, 2007.

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Independent Auditor's Supplementary Report on Internal Control

To the Members
Redwood Brokerage LLC

In planning and performing our audit of the financial statements and supplementary schedule of Redwood Brokerage LLC (the "Company") for the year ended December 31, 2006, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "Commission"), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons.
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures 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 Commission's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal controls 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 the internal controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal controls, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission 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 adequate at December 31, 2006, to meet the Commission's objectives.

This report recognizes that it is not practicable in an organization the size of Redwood Brokerage LLC to achieve all the divisions of duties and cross-checks generally included in a system of internal controls and that, alternatively, greater reliance must be placed on surveillance by management.

This report is intended solely for the use of the Members, management, the Commission, the National Association of Securities Dealers, Inc. 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.

PKF

Certified Public Accountants
A Professional Corporation

February 15, 2007

END