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DIVISION OF MARKET REGULATION

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ANNUAL AUDITED REPORT  
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Information Requested 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: **Tullett Liberty Brokerage Inc.**  
(Please print name and address for contact.)  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
**80 Pine Street, 25<sup>th</sup> Floor**

OFFICIAL USE ONLY  
FIRM I.D. NO.

(No. and street)

**New York** **NY** **10005**  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
**Julian Currie** **201-557-5096**  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

**Deloitte & Touche LLP**  
(Name - if individual, state last, first, middle name)

**Two World Financial Center** **New York** **NY** **10281**  
(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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AND  
EXAMINATIONS

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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)

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DIVISION OF MARKET REGULATION

TULLETT LIBERTY BROKERAGE INC.  
(S.E.C. I.D. No. 8-38114)

STATEMENT OF FINANCIAL CONDITION  
AS OF DECEMBER 31, 2006  
AND  
INDEPENDENT AUDITORS' REPORT  
AND  
SUPPLEMENTAL REPORT ON INTERNAL CONTROL

\*\*\*\*\*

Filed pursuant to Rule 17a-5(e)(3)  
under the Securities Exchange Act of 1934  
as a Public Document.

## INDEPENDENT AUDITORS' REPORT

To the Directors and Stockholder of  
Tullett Liberty Brokerage Inc.

We have audited the accompanying statement of financial condition of Tullett Liberty Brokerage Inc., (the "Company") as of December 31, 2006, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. 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 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 statement is free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, 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, such statement of financial condition presents fairly, in all material respects, the financial position of the Company at December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4, the Company changed its accounting policy for classification of short-term investments.

*Deloitte & Touche LLP*

February 27, 2007

# TULLETT LIBERTY BROKERAGE INC.

## Statement of Financial Condition December 31, 2006

### Assets

Cash and cash equivalents	\$	21,835,100
Short-term investments		5,956,000
Receivables from brokers, dealers, financial institutions and clearing organizations		17,632,400
Due from affiliates		22,996,700
Prepaid expenses		8,800
Deferred tax assets		2,111,300
Other assets		<u>358,700</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>70,899,000</u></b>

### Liabilities and Stockholder's Equity

#### Liabilities

Payables to brokers, dealers, financial institutions and clearing organizations	\$	9,529,400
Securities sold under agreements to repurchase		5,306,600
Accrued personnel costs		4,130,300
Accounts payable and accrued liabilities		453,300
Due to affiliates		<u>666,500</u>
Total liabilities		<u>20,086,100</u>

#### Stockholder's equity

Common Stock, \$0.01 par value; 100,000 shares authorized, 1,000 shares issued and outstanding		-
Paid In Capital		47,622,900
Retained Earnings		<u>3,190,000</u>
Total stockholder's equity		<u>50,812,900</u>

<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b>\$</b>	<b><u>70,899,000</u></b>
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See notes to statement of financial condition

# TULLETT LIBERTY BROKERAGE INC.

## NOTES TO STATEMENT OF FINANCIAL CONDITION FOR THE YEAR ENDED DECEMBER 31, 2006

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### 1. ORGANIZATION

Tullett Liberty Brokerage Inc. (the "Company"), is a registered broker/dealer with the Securities and Exchange Commission ("SEC") and a member of the National Association of Securities Dealers, Inc. ("NASD").

The Company is engaged primarily as a broker of United States and foreign government securities, global debt, corporate fixed income securities and repurchase agreements from its office in New York.

The Company is a wholly owned subsidiary of Tullett Prebon Holdings Corp. ("TPHC"), which is a 100% owned subsidiary of Tullett Prebon Group Limited, formerly known as Tullett Liberty Limited, which is a wholly-owned subsidiary of Tullett Prebon plc ("TPP"), formerly known as Collins Stewart Tullett plc., the ultimate parent company and a United Kingdom public company.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**—The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the statement of financial condition and accompanying notes regarding personnel costs, tax and other matters. Actual results could differ from those estimates.

**Securities Transactions**—Securities transactions are recorded on a trade date basis. Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition and are included in receivables from and payables to brokers, dealers, financial institutions and clearing organizations.

**Estimated Fair Value of Financial Instruments**—Statement of Financial Accounting Standards ("SFAS") No. 107, "Disclosure about Fair Value of Financial Instruments", requires the disclosure of the fair value of financial instruments including assets and liabilities recognized and not recognized in the statement of financial condition.

Management estimates that the fair values of financial instruments recognized in the statement of financial condition approximates their carrying value, as such financial instruments are either reported at fair value or are short-term in nature, bear interest at current market rates or are subject to frequent repricing.

**Securities Purchased/Sold Under Agreements to Resell/Repurchase** — Transactions involving securities purchased/sold under agreements to resell (repurchase) ("reverse repurchase agreements" and "repurchase agreement"), principally government and agency securities, are carried at the amounts at which the securities subsequently will be resold (repurchased) as specified in the respective agreements; such amounts include accrued interest.

The Company manages credit exposure arising from reverse repurchase agreements and repurchase agreements, by, in appropriate circumstances, entering into collateral arrangements with counterparties that provide the Company, in the event of a default, the right to liquidate collateral. The Company also

monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral to ensure such transactions are adequately collateralized.

**Income Taxes**—The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes". The Company recognizes the current and deferred tax consequences of all transactions that have been recognized in the statement of financial condition using the provisions of the enacted tax laws. In this regard, deferred tax assets are recognized for temporary differences that will result in deductible amounts in future years and for tax loss carryforwards, if in the opinion of management, it is more likely than not that the deferred tax assets will be realized. SFAS No. 109 requires companies to set up a valuation allowance for that component of net deferred tax assets which does not meet the "more likely than not" criterion for realization. Deferred tax liabilities are recognized for temporary differences that will result in taxable income in future years.

The Company is included in the consolidated U.S. Federal and combined state and local income tax returns of TPHC. For financial reporting purposes, the Company determines its income tax provision on a separate company basis in accordance with an informal tax sharing agreement with TPHC. Amounts due to or receivable from TPHC, with respect to current income taxes, are settled currently.

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of adopting FIN 48 on the statement of financial condition.

**New Accounting Developments**— In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for the Company on January 1, 2008. The Company is evaluating the impact of adopting SFAS No. 157.

### 3. STOCK-BASED COMPENSATION

At December 31, 2006, the Company participates in two stock option plans, the 2003 Share Option Plan ("SOP") and Tullett Liberty Equity Incentive Plan ("EIP") for eligible employees, sponsored by TPP.

The SOP, started in early 2003, provides for the issuance to eligible employees of incentive and nonqualified stock options, which expire 10 years from the date of grant, at a price not less than the fair market value on the date of the grant. The exercise of an option shall be made wholly or partly conditional upon the satisfaction of such conditions as the TPP Board considers appropriate. The options awarded generally vest over a 3 year period.

The EIP, started in 2004, provides for the issuance to eligible employees of incentive and nonqualified stock options, which expire 10 years from the date of grant. The exercise of an option shall be made wholly or partly conditional upon the satisfaction of such conditions as the TPP Board considers appropriate. The options awarded generally vest over a 3 year period.

#### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes short-term investments of \$15,542,700, and other cash balances of \$6,292,400. Short-term investments with varying maturity dates within ninety days consist of money market funds held at one U.S. financial institution. These investments, which were classified as short-term investments in 2005, are recorded at cost plus accrued interest, which approximates fair value. The other cash accounts are held on deposit at two U.S. financial institutions.

The company changed the classification of short-term investments to conform to the presentation used by other legal entities under control of TPHC. The change in classification for short-term investments to cash and cash equivalents is a change in accounting principle as described in SFAS No. 95, "Statement of Cash Flows".

#### 5. SHORT-TERM INVESTMENTS

Short-term investments have maturity days from 90 days to one year and are comprised of U.S. treasury bills, which are held at one major U.S. financial institution and on deposit to meet the collateral requirements of the Company's two U.S. clearing organizations.

#### 6. RECEIVABLES FROM AND PAYABLES TO BROKERS, DEALERS, FINANCIAL INSTITUTIONS, AND CLEARING ORGANIZATIONS

Amounts receivable from and payable to brokers, dealers, financial institutions and clearing organizations are comprised of the following:

	<u>Receivable</u>	<u>Payable</u>	
Commissions	\$ 2,466,400	\$ 421,400	
Securities failed-to-deliver/receive	10,673,100	10,669,700	*
Clearing organizations	4,492,900	292,900	
Other, including affiliates	<u>-</u>	<u>3,452,000</u>	
	\$ <u>17,632,400</u>	\$ <u>14,836,000</u>	

\* Included in Securities failed-to-receive is \$5,306,600 relating to securities sold under agreements to repurchase as disclosed separately on the Statement of Financial Condition.

#### 7. INCOME TAXES

Deferred tax assets of \$2,111,300, net of valuation allowance, arise from temporary differences between financial statement and taxable income. These temporary differences include deferred compensation, stock options and the allowance for doubtful accounts. The Company had recognized a valuation allowance of \$2,070,900, which related to foreign tax credit. The valuation allowance reduces deferred tax assets to an amount that represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized.

## 8. REGULATORY REQUIREMENTS

As a broker/dealer registered with the SEC and the NASD, the Company is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital equal to \$250,000. At December 31, 2006, the Company had net capital of approximately \$22,554,200, which was approximately \$22,304,200, in excess of the minimum net capital requirements. The Company is exempt from the provisions of SEC Rule 15c3-3 relating to the maintenance of customer reserve accounts and the possession or control of customer securities pursuant to paragraph (k)(2)(i), since the Company does not hold funds or securities of customers.

Dividend payments and other equity withdrawals are subject to certain notification and other provisions of the net capital rules of the SEC.

## 9. EMPLOYEE BENEFIT PLANS

TPHC maintains a Retirement and Savings Plan (the "Plan") pursuant to Section 401(k) of the Internal Revenue Code for its wholly owned U.S. operations. The Plan, a defined contribution plan covering all employees over the age of 21, is funded by contributions of its employees.

## 10. COMMITMENTS AND CONTINGENCIES

*Litigation*—In the normal course of business, the Company may be subject to litigation. As of December 31, 2006, there were no pending legal actions against the Company.

*Guarantee*—In the normal course of business, the Company may enter into contracts that contain various guarantees and indemnities including contracts where it executes, as agent, transactions on behalf of customers through a clearing broker on a fully disclosed basis. If the agency transactions brokered by the Company do not settle because of failure to perform by either counterparty, the Company may be required to discharge the obligation of the nonperforming party and, as a result, may incur a loss if the market value of the underlying security is different from the contract amount of the transaction. The Company has the right to pursue collection or performance from the counterparties who do not perform under their contractual obligations. Although the right of the clearing broker to charge the Company applies to all trades executed through the clearing broker, the Company believes that there is no estimable amount assignable to its obligations pursuant to this right as any such obligation would be based on the future nonperformance by one or more counterparties. Accordingly, at December 31, 2006, the Company has recorded no liabilities with respect to these obligations.

## 11. MARKET AND CREDIT RISKS

The Company's brokerage activities include execution and clearance of U.S. Government and mortgage-backed securities. Substantially all transactions are executed on a riskless principal basis, as defined by the NASD, for undisclosed principals and settle within the prescribed time frames established under industry practices for these securities. Additionally, the Company has a policy of reviewing, on an ongoing basis, the credit standing of its counterparties, which are primarily large financial institutions.

The Company may be exposed to off-balance-sheet credit risk from transactions which do not settle through the Government Securities Division ("GSD") or Mortgage Backed Securities Division ("MBSD") of the Fixed Income Clearing Corporation ("FICC"). GSD and MBSD help minimize the Company's credit risk exposure to its counterparties by maintaining margin requirements and minimum credit standards for all members. The Company may be exposed to off-balance-sheet credit risk from unsettled transactions including fails to deliver/receive. In the event a counterparty is unable to fulfill its purchase or

sale transaction, the Company may be then obligated to purchase or sell at market value which may result in a loss if the amount is different from the contract amount of the transaction. The contractual amount of both unsettled purchase and sale transactions with settlement dates subsequent to December 31, 2006, was approximately \$19,610,091,500. Settlement of the Company's open securities purchase and sale transactions did not have a material effect on the Company's financial position.

## 12. STOCKHOLDER'S EQUITY

The Company is authorized to issue 100,000 shares of common stock, \$0.01 par value per share, of which 1,000 shares were issued and outstanding at December 31, 2006.

With the exception of regulatory restrictions (see Note 8), there are no restrictions on the Company's ability to pay dividends.

## 13. RELATED-PARTY TRANSACTIONS

Due from affiliates includes a receivable from TPHC for \$21,597,600. This receivable represents a bilateral interest-bearing loan with TPHC, which is payable on demand, for allocated general and administrative expenses payable and income taxes payable pursuant to the informal tax sharing agreement with TPHC (see Note 2), net of any cash payments. This net amount has been subordinated to claims of the general creditors of TPHC and bears interest at 1% over the prime rate. The average interest rate on this loan for the year ended December 31, 2006, was 8.97%. The Company also has receivables from Tullett Liberty Securities LLC, and Prebon Yamane (USA) Inc. for \$1,365,700 and \$33,400, respectively.

The subordination agreement is not considered equity for purposes of computing the net capital for brokers and dealers pursuant to subsection (d) of SEC Rule 15c3-1.

Due to affiliates include payables to Tullett Liberty Limited, Prebon Financial Products Inc., and Tullett Liberty (Securities) Limited for \$43,200, \$73,300, and \$550,000, respectively. The payables represent noninterest bearing cash advances which are payable on demand.

The Company clears securities transactions on behalf of an affiliated company. As of December 31, 2006, the Company had a net payable to this affiliate totaling \$3,318,500, which is reflected in "Payables to brokers, dealers, financial institutions, and clearing organizations" in the accompanying statement of financial condition (see Note 6).

During the year, the Company paid a dividend of \$6,300,000 to TPHC.

As discussed in footnote 2, the Company is included in the consolidated U.S. Federal and combined state and local income tax returns of TPHC (see note 7).

\* \* \* \* \*

February 27, 2007

Tullett Liberty Brokerage Inc.  
80 Pine Street, 25th Floor  
New York, NY 10005

In planning and performing our audit of the financial statements of Tullett Liberty Brokerage Inc. (the "Company") as of and for the year ended December 31, 2006 (on which we issued our report dated February 27, 2007), 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 the following: (1) making the periodic computations of aggregate debits and net capital under Rule 17a-3(a)(11); (2) making the quarterly securities examinations, counts, verifications, and comparisons, and the 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; and (4) for determining compliance with the exemptive provisions of Rule 15c3-3.

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 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 and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its 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, as described in the second paragraph of this report, were 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 Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered broker-dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

*Deloitte & Touche LLP*

*END*