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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  
FACING PAGE**

**SEC FILE NUMBER  
8 - 45136**

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

REPORT FOR THE PERIOD BEGINNING JANUARY 1, 2006 AND ENDING DECEMBER 31, 2006

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: OFFICIAL USE ONLY

**AUERBACH GRAYSON & COMPANY INCORPORATED** **FIRM ID. NO.**

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

**25 WEST 45<sup>TH</sup> STREET - 16<sup>TH</sup> FLOOR**

**NEW YORK, NEW YORK 10036**

(City) (State) (Zip Code)

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

**DAVID S. GRAYSON, Managing Director (212) 557 - 4444**

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

**LERNER & SIPKIN, CPAs, LLP**

**132 Nassau Street, Suite 1023 New York NY 10038**

Certified Public Accountant

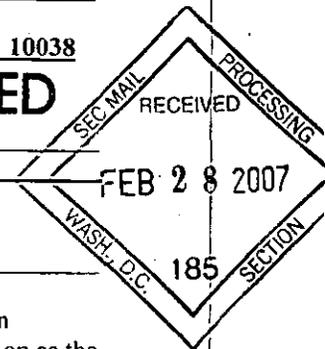
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**FOR OFFICIAL USE ONLY**

**MAR 21 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).

**Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number**

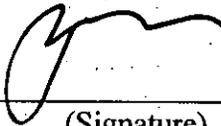
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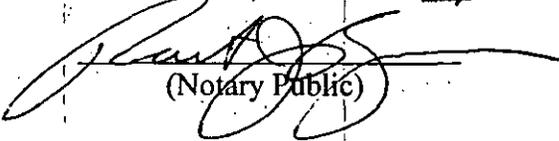
I, **DAVID S. GRAYSON**, swear that to the best of my knowledge and belief, the accompanying financial statements and supporting schedule(s) pertaining to the Firm of **AUERBACH GRAYSON & COMPANY INCORPORATED**, as of **DECEMBER 31, 2006**, are true and correct. I further swear that neither the Company nor any partner, proprietor, principal officer, director or member has any proprietary interest in any account classified solely as that of customer, except as follows:

No Exceptions  
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\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Title)

**ROBERT J. PREZIOSI**  
Notary Public, State of New York  
No. 4900147  
Qualified in Suffolk County  
Certificate Filed in New York County  
Commission Expires Oct. 19, 20 09

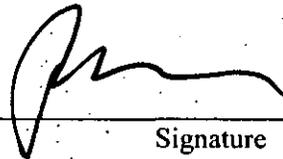
  
(Notary Public)

OATH OR AFFIRMATION

I, **DAVID S. GRAYSON**, swear (or affirm) that, to the best of my knowledge and belief, the accompanying financial statement and supporting schedules pertaining to the firm of **AUERBACH GRAYSON & COMPANY INCORPORATED**, as of **DECEMBER 31, 2006**, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, member, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

NONE

X

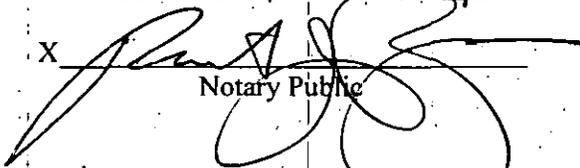


Signature

**ROBERT J. PREZIOSI**  
Notary Public, State of New York  
No. 4900147  
Qualified in Suffolk County  
Certificate Filed in New York County  
Commission Expires Oct. 19, 2009

Title

X



Notary Public

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

- (x) (a) Facing page.
- (x) (b) Statement of Financial Condition.
- (x) (c) Statement of Income (Loss).
- (x) (d) Statement of Cash Flows.
- (x) (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (x) (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (x) (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.
- (x) (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.
- (x) (o) Independent Auditors' Report.

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

**AUERBACH GRAYSON & COMPANY  
INCORPORATED AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF  
FINANCIAL CONDITION**

DECEMBER 31, 2006

**AUERBACH GRAYSON & COMPANY INCORPORATED AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2006**

**ASSETS**

Cash and cash equivalents	\$1,680,818
Securities owned - at market value (Note 3)	88,511
Due from broker	199,018
Commissions receivable	1,573,902
Equipment, leasehold improvements and organization expense - net of accumulated depreciation of \$207,686 (Note 2e and 4)	614,324
Other assets	<u>176,136</u>
Total assets	<u>\$4,332,709</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**Liabilities:**

Accounts payable and accrued expenses	<u>\$1,975,867</u>
Total liabilities	<u>1,975,867</u>

**Commitments and Contingencies (Notes 5 and 8)**

**Liabilities subordinated to the claims of general creditors**

Pursuant to subordinated loan agreement (Note 7)	<u>1,055,121</u>
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**Minority interest**

596,813

**Stockholders' equity (Note 9)**

**Common stock**

Class "A", par value \$.01 per share

Authorized: 2,857 shares

Issued and outstanding: 1,821 shares

18

Class "B", par value \$.01 per share

Authorized: 1,000 shares

Issued and outstanding: 426 shares

5

Additional paid-in capital

1,257,949

Retained earnings

(553,064)

Total stockholders' equity

704,908

Total liabilities and stockholders' equity

\$4,332,709

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

**AUERBACH GRAYSON & COMPANY INCORPORATED AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**Note 1- Nature of Business**

Auerbach Grayson & Company Incorporated and Subsidiary (The "Company"), a Delaware Corporation, is a broker/dealer registered with the Securities and Exchange Commission and a member of the National Association of Securities Dealers. The Company's primary business is to provide direct execution of foreign securities to major U.S. institutions through specialized non-U.S. brokers, in accordance with the Securities Exchange Act Rule 15a-6.

The Company operates under the provisions of Paragraph (k) (2) (ii) of Rule 15c3-3 of the Securities and Exchange Commission and accordingly, is exempt from the remaining provisions of that rule. Essentially, the requirements of Paragraph (k) (2) (ii) provides that the company carry no margin accounts, promptly transmits all customer funds and delivers all securities in connection with its activities as a broker, holds no funds or securities or owes no money or securities to customers and effectuates all financial transactions with its customers through a bank account designated as "Special Accounts for the Exclusive Benefit of Customers."

**Note 2- Summary of Significant Accounting Policies**

**a) Consolidation**

The consolidated financial statements include the accounts of the Company and its minority-owned subsidiary company, after elimination of all material intercompany accounts, transactions, and profits.

Investee companies in which the Company directly or indirectly owns more than 50% of the outstanding voting securities or those in which the Company has effective control over are accounted for under the consolidation method of accounting. Under this method, an Investee company's balance sheet and results of operations are reflected within the company's Consolidated Financial Statements. Minority interests in the net assets and earnings or losses of a consolidated Investee are reflected in the caption "Minority interest" in the Company's Consolidated Balance Sheet and Statement of Operations. Minority interest adjusts the Company's consolidated results of operations to reflect only the Company's share of the earnings or losses of the consolidated Investee company. Upon dilution of control below 50%, the accounting method is adjusted to the equity of cost method of accounting, as appropriate, for subsequent periods.

**b) Revenue Recognition**

Securities transactions (and the recognition of related income and expenses) are recorded on a trade date basis.

Securities owned or sold by the Company are stated at quoted market values. The resulting difference between cost and market is included in operations.

**AUERBACH GRAYSON & COMPANY INCORPORATED AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
 DECEMBER 31, 2006

**Note 2- Summary of Significant Accounting Policies (Continued)**

*c) Cash and Cash Equivalents*

For the purpose of the statement of cash flows, the Company considers money market funds maintained with banks and brokers to be cash and cash equivalents. The Company maintains cash in bank accounts which, at times, may exceed federally insured limits or where no insurance is provided. The Company has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

*d) Income Taxes*

The Company has elected to be treated as an "S" Corporation under the provisions of the Internal Revenue Code. Under the provisions, the Company does not pay federal corporate income taxes on its taxable income. Instead, the stockholders are liable for individual income taxes on their respective shares of the Company's taxable income.

*e) Depreciation and Amortization*

Depreciation of furniture and fixtures is computed on the straight-line method using estimated useful lives of five to seven years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease. Organization expense is amortized over five years using the straight-line method.

*f) Use of Estimates*

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses.

**Note 3- Securities Owned - At Market Value:**

Securities owned at quoted market values, are summarized as follows:

	<u>Owned</u>
Common stock	<u>\$88,511</u>

**Note 4- Property, Equipment and Leasehold Improvements**

Major classifications of property and equipment, as of December 31, 2006 are summarized as follows:

Furniture and equipment	\$427,295
Leasehold improvements	132,020
Organization expense	<u>262,695</u>
	822,010
Less: Accumulated depreciation	<u>(207,686)</u>
	<u>\$ 614,324</u>

**AUERBACH GRAYSON & COMPANY INCORPORATED AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**Note 5- Commitments and Contingencies**

*Office Lease*

The company leases two premises with one lease expiring October 31, 2007, and the second lease expiring July 31, 2015. The Company has sublet the first premises through the expiration period at a rate of \$212,240 per annum. At December 31, 2006, the minimum rental commitments before escalations under the leases are as follows:

<u>Year</u>	<u>Amount</u>
2007	\$987,956
2008	\$510,131
2009	\$522,884
2010	\$535,956
2011	\$549,355
Thereafter	\$2,338,235

The Company has established a letter of credit that expires August 1, 2015, in the amount of \$242,775. As of December 31, 2006, none of this amount has been drawn upon by the Company.

**Note 6- Profit Sharing Plan**

The Company maintains a defined contribution plan covering substantially all employees. The Company contributes annually at the discretion of management. The Company's maximum contribution is one half of the employees' contribution, up to 5% of the eligible compensation. For the year ended December 31, 2006, the Company contributed \$81,493.

**Note 7- Liabilities Subordinated to the Claims of General Creditors**

The Company borrowed \$1,332,500, under subordinated agreements, for a period of three years. Under terms of the agreements, the Company will accrue interest, which will be considered subordinated capital, at a rate of 20% per annum. The Company, with the approval of the NASD, repaid \$617,500 of the original balance, plus \$257,292 of accrued interest, considered as subordinated capital during the year. In addition, the Company extended the maturity date of the remaining \$715,000 originally borrowed to February 13, 2009, with an interest rate of 5% per annum effective February 8, 2006.

The subordinated loans, approved by the National Association of Securities Dealers, Inc., mature as follows:

<u>Maturity Date</u>	<u>Original Principal</u>	<u>Accrued Interest</u>	<u>Balance December 31, 2006</u>
February 13, 2009	\$715,000	\$340,121	\$1,055,121

**AUERBACH GRAYSON & COMPANY INCORPORATED AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**Note 7-           Liabilities Subordinated to the Claims of General Creditors (continued)**

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 8-           Financial Instruments with Off-Balance Sheet Credit Risk**

As a securities broker, the Company is engaged in buying and selling securities for a diverse group of institutional investors. The Company's transactions are collateralized and are executed with and on behalf of banks, brokers and dealers and other financial institutions. The Company introduces these transactions for clearance to non-U.S. broker/dealers pursuant to the provisions of paragraph (k) (2) (I) of Rule 15c3-3.

The Company's exposure to credit risk associated with non-performance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets, which may impair customers' ability to satisfy their obligations to the Company and the Company's ability to liquidate the collateral at an amount equal to the original contracted amount.

**Note 9-           Net Capital Requirement**

The Company is subject to the Securities and Exchange Commission's Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 1500%. At December 31, 2006, the Company's net capital of \$1,786,155 was \$1,664,658 in excess of its required net capital of \$121,497. The Company's net capital ratio was 101.98%.

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A copy of the Company's Consolidated Statement of Financial Condition as of December 31, 2006, pursuant to SEC Rule 17a-5 is available for examination at the Company's office and at the regional office of the Securities and Exchange Commission and the office of the National Association of Securities Dealers, Inc.



**LERNER & SIPKIN**  
CERTIFIED PUBLIC ACCOUNTANTS LLP

132 Nassau Street, New York, NY 10038 Tel 212.571.0064 / Fax 212.571.0074  
E-mail: LS@lerner-sipkin.com

**INDEPENDENT AUDITORS' REPORT**

To the Officers and Directors of  
Auerbach Grayson & Company Incorporated and Subsidiary  
25 West 45<sup>th</sup> Street – 16<sup>th</sup> Floor  
New York, N.Y. 10036

We have audited the accompanying consolidated statement of financial condition of Auerbach Grayson & Company Incorporated and Subsidiary as of December 31, 2006. This consolidated financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated statement of financial condition 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 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated statement of financial condition referred to above presents fairly, in all material respects, the financial position of Auerbach Grayson & Company Incorporated and Subsidiary as of December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

*Lerner & Sipkin, CPAs, LLP*  
Lerner & Sipkin, CPAs, LLP  
Certified Public Accountants (NY)

New York, NY  
February 15, 2007

**AUERBACH GRAYSON & COMPANY INCORPORATED  
AND SUBSIDIARY  
INDEPENDENT AUDITORS' REPORT ON  
INTERNAL ACCOUNTING CONTROL**

**FOR THE YEAR ENDED DECEMBER 31, 2006**



**LERNER & SIPKIN**  
CERTIFIED PUBLIC ACCOUNTANTS LLP

132 Nassau Street, New York, NY 10038 Tel 212.571.0064 / Fax 212.571.0074  
E-mail: LS@lernerstipkin.com

To the Officers and Directors of  
Auerbach Grayson & Company Incorporated and Subsidiary  
25 West 45<sup>th</sup> Street – 16<sup>th</sup> Floor  
New York, NY 10036

Gentlemen:

In planning and performing our audit of the financial statements of Auerbach Grayson & Company Incorporated and Subsidiary as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion of 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 (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 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 (or aggregate debits) 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, and recordation of differences required by rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the 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 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 any 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 recognizes that it is not practicable in an organization the size of Auerbach Grayson & Company Incorporated and Subsidiary to achieve all the divisions of duties and cross checks generally included in a system of internal accounting control and that alternatively greater reliance must be placed on surveillance by management.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, NASD 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.

  
Lerner & Sipkin, CPAs, LLP  
Certified Public Accountants (N.Y.)

New York, NY  
February 15, 2007

END