

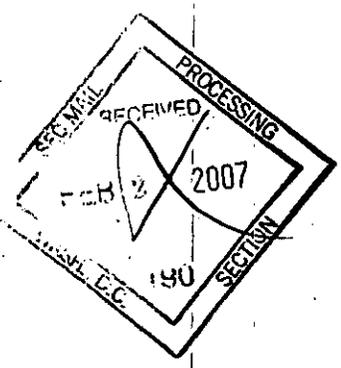
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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

SEC FILE NUMBER  
8- 49734

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: <u>ISG Equity Sales Corporation</u>		OFFICIAL USE ONLY FIRM I.D. NO.
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.) <u>5242 Plainfield NE Suite D</u> (No. and Street)		
<u>Grand Rapids</u> (City)	<u>Michigan</u> (State)	<u>49525</u> (Zip Code)
NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT <u>Karen Droste</u>		<u>(800) 227-3861</u> (Area Code - Telephone Number)

### B. ACCOUNTANT IDENTIFICATION

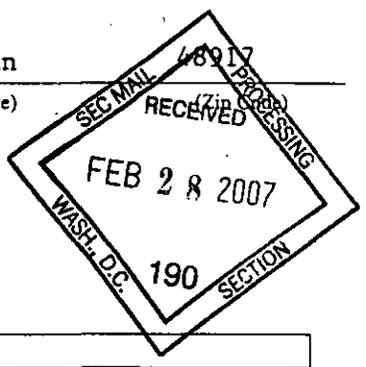
INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Maner, Costerisan & Ellis, P.C.  
(Name - if individual, state last, first, middle name)

544 Cherbourg Drive Suite 200 Lansing Michigan  
(Address) (City) (State)

- CHECK ONE:
- Certified Public Accountant
  - Public Accountant
  - Accountant not resident in United States or any of its possessions

**PROCESSED**  
B MAR 21 2007



**FOR OFFICIAL USE ONLY**

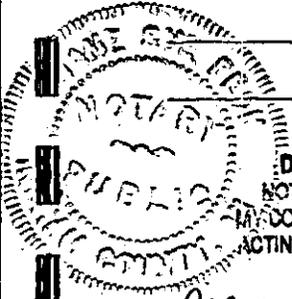
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

DD/3/20

OATH OR AFFIRMATION

I, Wayne Brown, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of ISG Equity Sales Corporation, 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:

None



DIANE SUE BERGEON-PECK  
NOTARY PUBLIC INGHAM CO., MI  
MY COMMISSION EXPIRES Oct 20, 2007  
ACTING IN KENT COUNTY, MI

Wayne Brown  
Signature

President  
Title

Diane Sue Bergeon-Peck  
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. Cash Flows.
- (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 15c3-3 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).

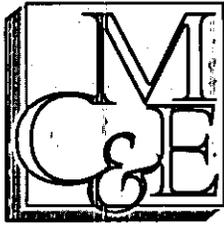
**ISG EQUITY SALES CORPORATION**

**REPORT ON FINANCIAL STATEMENTS**  
**(with supplementary information required by Rule 17a-5**  
**of the Securities and Exchange Commission)**

**YEARS ENDED DECEMBER 31, 2006 AND 2005**

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**Maner,  
Costerisan  
& Ellis, P.C.**  
Certified Public Accountants

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Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
ISG Equity Sales Corporation  
Grand Rapids, Michigan

February 19, 2007

We have audited the accompanying statements of financial condition of ISG Equity Sales Corporation as of December 31, 2006 and 2005, and the related statements of operations, changes in stockholder's equity and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

Board of Directors  
ISG Equity Sales Corporation  
Grand Rapids, Michigan

February 19, 2007

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ISG Equity Sales Corporation as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

*Manes, Costeman & Ellis P.C.*

Certified Public Accountants

**ISG EQUITY SALES CORPORATION**  
**STATEMENTS OF FINANCIAL CONDITION**  
**DECEMBER 31, 2006 AND 2005**

**ASSETS**

	2006	2005
Cash and cash equivalents	\$ 86,071	\$ 59,414
Commissions and concessions receivable	253,837	204,202
Prepaid expenses	36,197	44,275
Refundable income taxes		17,000
Total assets	\$ 376,105	\$ 324,891

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Liabilities:		
Commissions payable	\$ 269,133	\$ 220,629
Accrued income taxes	2,500	
Deferred income taxes	1,800	4,177
Total liabilities	273,433	224,806
Stockholder's equity:		
Common stock, \$1 par value, authorized 60,000 shares, issued and outstanding 10,000 shares	10,000	10,000
Additional paid-in capital	15,557	15,557
Retained earnings	77,115	74,528
Total stockholder's equity	102,672	100,085
Total liabilities and stockholder's equity	\$ 376,105	\$ 324,891

See notes to financial statements.

**ISG EQUITY SALES CORPORATION**  
**STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>REVENUES:</b>		
Commissions	\$ 2,288,126	\$ 2,133,880
Interest income		54
	2,288,126	2,133,934
<b>EXPENSES:</b>		
Commissions	2,056,437	1,952,131
Management fee	194,992	187,890
Insurance	12,821	12,544
Professional fees	13,575	10,485
NASD/CRD fees	4,449	4,739
Other expenses	765	1,541
	2,283,039	2,169,330
Income (loss) before income taxes	5,087	(35,396)
<b>INCOME TAX BENEFIT (EXPENSE)</b>	(2,500)	3,582
<b>NET INCOME (LOSS)</b>	\$ 2,587	\$ (31,814)

See notes to financial statements.

**ISG EQUITY SALES CORPORATION**  
**STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	Common stock	Additional paid-in capital	Retained earnings	Total
STOCKHOLDER'S EQUITY, January 1, 2005	\$ 10,000	\$ 15,557	\$ 106,342	\$ 131,899
DEDUCT - Net loss			(31,814)	(31,814)
STOCKHOLDER'S EQUITY, December 31, 2005	10,000	15,557	74,528	100,085
ADD - Net income			2,587	2,587
STOCKHOLDER'S EQUITY, December 31, 2006	<u>\$ 10,000</u>	<u>\$ 15,557</u>	<u>\$ 77,115</u>	<u>\$ 102,672</u>

See notes to financial statements.

**ISG EQUITY SALES CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:</b>		
Cash flows from operating activities:		
Net income (loss)	\$ 2,587	\$ (31,814)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Commissions and concessions receivable	(49,635)	52,017
Related party receivable		33,000
Prepaid expenses	8,078	(44,275)
Refundable income taxes	17,000	(17,000)
Commissions payable	48,504	(37,137)
Accrued income taxes	2,500	(3,071)
Deferred income taxes	(2,377)	4,409
Total adjustments	24,070	(12,057)
Net cash provided (used) by operating activities	26,657	(43,871)
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	59,414	103,285
End of year	\$ 86,071	\$ 59,414
Cash paid (received) for:		
Income taxes	\$ (9,957)	\$ 12,080

See notes to financial statements.

**ISG EQUITY SALES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Method of accounting - The accompanying financial statements have been prepared on the accrual basis of accounting.

Cash equivalents - For purposes of the statement of cash flows the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Commissions receivable - Commissions receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts, if needed, through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. No allowance for doubtful accounts is considered necessary.

Commission income - Commission income from insurance companies and mutual funds is recorded on a trade date basis and normally settled within 30 days.

Income taxes - The Company utilizes an asset and liability approach to account for income taxes. The difference between the financial statement and tax basis of assets and liabilities is determined annually. Deferred income tax assets and liabilities are computed for those differences that have future tax consequences using the currently enacted tax laws and rates that apply to the period in which they are expected to affect taxable income. Valuation allowances are established, if necessary, to reduce the deferred tax asset to the amount that will more likely than not be realized. Income tax expense is the current tax payable or refundable for the period plus or minus the net change in the deferred tax assets and liabilities.

Estimates - The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 - NATURE OF ORGANIZATION, RISKS AND UNCERTAINTIES**

ISG Equity Sales Corporation (the "Company") is a wholly owned subsidiary of Investment Services Group, Inc. (ISG or Parent). The Company is a registered broker-dealer under the Securities Exchange Act of 1934 and a licensed member of the National Association of Securities Dealers, Inc. (NASD).

**ISG EQUITY SALES CORPORATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - NATURE OF ORGANIZATION, RISKS AND UNCERTAINTIES (Concluded)**

The Company receives commission revenues for facilitating customer purchases of annuities and mutual funds. The Company markets primarily to employees of hospitals located in the State of Michigan. Historically most of the Company's commission revenue has come from one company. In recent years, the percent of commission revenue received from the one insurance company is declining in relation total revenue, as the Company looks to diversify products offered to clients through other insurance companies. Accrued commission income is normally settled within 30 days and is considered subject to minimal risk.

The Company has entered into a "restrictive agreement" with the NASD under which it is exempt from the provisions of the Securities and Exchange Commission's Rule 15c3-3 pursuant to paragraph (k)(1). As such, the Company must comply with the following:

- Limit its securities business to the purchase and sale of mutual funds, annuities and unit investment trusts;
- All transactions must be processed on an application-way basis;
- Cannot receive any customer funds;
- Cannot receive securities under any circumstances;
- Refrain from opening branch offices.

The Company is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and receivables.

The Company deposits its cash with high-credit-quality financial institutions and money market funds. Although such cash balances may exceed the federally insured limits, they are, in the opinion of management, subject to minimal risk. Money market funds, which are not insured, are also considered subject to minimal risk.

Commissions and concessions receivable were substantially collected subsequent to year-end and are likewise considered subject to minimal risk.

**NOTE 3 - INCOME TAXES**

The provision for income tax benefit (expense) is as follows:

	2006	2005
Current	\$ (4,877)	\$ 7,991
Deferred	2,377	(4,409)
	\$ (2,500)	\$ 3,582

The difference between federal income tax expense and the tax computed based on statutory rates is

**ISG EQUITY SALES CORPORATION  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - INCOME TAXES (Concluded)**

Deferred taxes arise from temporary differences resulting from income and expense items reported on the accrual basis in the financial statements and on the cash basis for tax purposes.

	<u>2006</u>	<u>2005</u>
Temporary differences:		
Accrual to cash adjustment	\$ 16,236	\$ 27,848
Net temporary differences	<u>\$ 16,236</u>	<u>\$ 27,848</u>
Deferred tax asset (liability)	<u>\$ (1,800)</u>	<u>\$ (4,177)</u>

**NOTE 4 - RELATED PARTY TRANSACTIONS**

The Company has entered into an agreement with ISG whereby ISG will provide office space and equipment, management, administrative and clerical support to the Company. Under the agreement, the Company incurred expenses of \$194,992 and \$187,890 for the years ended December 31, 2006 and 2005, respectively.

**NOTE 5 - REGULATORY NET CAPITAL REQUIREMENT**

As a registered broker-dealer and member of the NASD the Company is subject to the SEC Uniform Net Capital Rule 15c3-1 which requires the maintenance of minimum regulatory net capital and requires that the ratio of aggregate indebtedness to regulatory net capital, both as defined, shall not exceed 15 to 1. As of December 31, 2006, the Company had regulatory net capital of \$36,119 and a minimum regulatory net capital requirement of \$18,229. The regulatory net capital ratio of the company was 7.57 to 1.

**ISG EQUITY SALES CORPORATION**  
**SCHEDULE I**  
**COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1**  
**OF THE SECURITIES AND EXCHANGE COMMISSION**  
**AND RECONCILIATION WITH COMPANY'S COMPUTATION**  
**AS OF DECEMBER 31, 2006**

**NET CAPITAL:**

Total stockholder's equity	\$ 102,672
Deductions and/or charges:	
Non-allowable assets:	
Commissions receivable net of related commissions payable for fixed annuities	\$ 23,364
Prepaid expenses	36,197
12(b) trail receivables	6,992
	66,553
Net capital before haircuts on securities positions	36,119
Haircuts on securities (computed on money market funds included in cash and cash equivalents)	
Net capital	\$ 36,119

**AGGREGATE INDEBTEDNESS:**

Items included in statement of financial condition:	
Commissions payable and current income tax payable	\$ 273,433

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT:**

Minimum net capital required	
(Aggregate indebtedness \$273,433 x 6 2/3% or \$5,000 if greater)	\$ 18,229
Excess net capital	\$ 17,890
Ratio: Aggregate indebtedness to net capital	7.57:1

**Reconciliation with Company's computation (Included in Part IIA of Form X-17 A-5 as of December 31, 2005)**

Net capital as reported in Company's Part IIA unaudited FOCUS Report	\$ 42,527
Decrease due to increase in accrued expenses	(1,742)
Decrease due to increase in non allowed assets	(4,666)
Net capital	\$ 36,119



**Maner,  
Costerisan  
& Ellis, P.C.**  
Certified Public Accountants

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Leon A. Ellis (1933-1988)

### **Report on Internal Control Required by SEC Rule 17a-5**

Board of Directors  
ISG Equity Sales Corporation  
Grand Rapids, Michigan

February 19, 2007

In planning and performing our audit of the financial statements and supplemental schedule of ISG Equity Sales Corporation (the Company), for the year ended December 31, 2006, 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 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 the 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.

February 19, 2007

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, 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.

Board of Directors  
ISG Equity Sales Corporation

February 19, 2007

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 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 those specified parties.

*Mayer, Costema & Ellis P.C.*

Certified Public Accountants

*END*