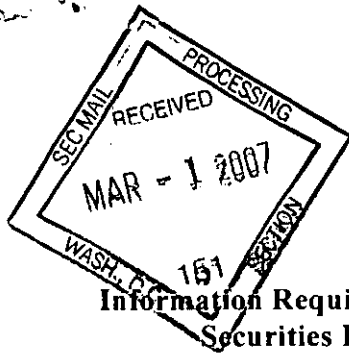
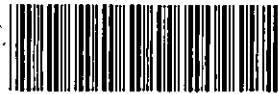


BB 3/27



SECURITIES



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ANNUAL REPORT

FORM X-17A-5  
PART III

OMB APPROVAL  
OMB Number: 3235-0123  
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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: People's Securities Inc.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

1000 Lafayette Blvd

(No. and Street)

Bridgeport

CT

06601-0031

(City)

(State)

(Zip Code)

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

Bruce T. McElwee

(203) 338-4929

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

KPMG LLP

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

3001 Summer Street

(Address)

Stamford

(City)

CT

(State)

06905

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

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

PROCESSED

APR 11 2007

FOR OFFICIAL USE ONLY

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)

SEC 1410 (06-02)

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3/29

OATH OR AFFIRMATION

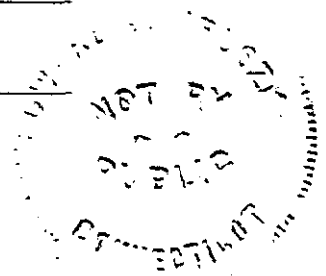
I, Bruce T. McElwee, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of People's Securities Inc., as of December, 31, 2006, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Bruce T. McElwee  
Signature

Treasurer  
Title

Edward J. Krueger  
Notary Public My Commission Expires May 31, 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.
- (o) Report on Internal Controls

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



KPMG LLP  
Stamford Square  
3001 Summer Street  
Stamford, CT 06905

## Independent Auditor's Report on Internal Controls

The Board of Directors  
People's Securities, Inc.:

In planning and performing our audit of the financial statements of People's Securities, Inc. (the "Company"), a wholly-owned subsidiary of People's Bank, as of and for the year ended December 31, 2006, 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 consider 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) and the reserve required by rule 15c3-3(e)
2. Making the quarterly securities examinations, counts, verifications and comparisons and 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
4. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by 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 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, 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.

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 were adequate at December 31, 2006 to meet the SEC's objectives.

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

KPMG LLP

February 28, 2007

**PEOPLE'S SECURITIES, INC.**  
(A Wholly Owned Subsidiary of People's Bank)

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KPMG LLP  
Stamford Square  
3001 Summer Street  
Stamford, CT 06905

## Independent Auditors' Report

The Board of Directors  
People's Securities, Inc.:

We have audited the accompanying statement of condition of People's Securities, Inc. (the "Company") (a wholly owned subsidiary of People's Bank) as of December 31, 2006, and the related statements of income, changes in stockholder'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 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of People's Securities, Inc. 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in schedules 1, 2 and 3 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.

**KPMG LLP**

February 28, 2007

**PEOPLE'S SECURITIES, INC.**  
(A Wholly Owned Subsidiary of People's Bank)

Statement of Condition

December 31, 2006

**Assets**

Cash and cash equivalents (note 3)	\$ 14,842,611
Cash segregated under federal regulations (note 3)	6,582,850
Securities segregated under federal regulations, at fair value (note 3 & 4)	10,036,221
Securities, at fair value (note 4)	19,513,076
Receivables from customers (note 5)	20,838,369
Receivables from clearing organization	1,828,061
Other assets	<u>2,413,081</u>
Total assets	<u>\$ 76,054,269</u>

**Liabilities and Stockholder's Equity**

<b>Liabilities:</b>	
Payables to customers (note 5)	\$ 35,510,558
Due to People's Bank	3,307,481
Due to Broker	2,019,294
Other liabilities	<u>57,088</u>
Total liabilities	<u>40,894,421</u>
<b>Stockholder's equity (note 7):</b>	
Common stock without par value; authorized 5,000 shares; 100 shares issued and outstanding	500,000
Additional paid-in capital	5,536,426
Retained earnings	<u>29,123,422</u>
Total stockholder's equity	<u>35,159,848</u>
Total liabilities and stockholder's equity	<u>\$ 76,054,269</u>

See accompanying notes to financial statements.

**PEOPLE'S SECURITIES, INC.**  
(A Wholly Owned Subsidiary of People's Bank)

Statement of Income

Year ended December 31, 2006

Revenues:

Commissions from customer transactions	\$ 12,239,311
Investment management fees	4,108,814
Insurance commissions	1,286,446
Interest income on customer receivables	1,840,690
Interest income on securities and other earning assets	2,236,552
Net unrealized and realized gains on securities	92,630
Other	314,233
	<hr/>
Total revenues	22,118,676

Expenses (note 6):

Compensation and benefits	9,359,809
Data processing	1,113,771
Communications	561,037
Depreciation	319,843
Regulatory	275,244
Occupancy	740,330
Marketing	229,451
Transaction clearing	529,909
Interest expense (note 5)	279,660
Stationery, printing and postage	134,254
Legal	32,562
Other	610,978
	<hr/>

Total expenses 14,186,848

Income before income tax expense 7,931,828

Income tax expense (note 6) 2,780,948

Net income \$ 5,150,880

See accompanying notes to financial statements.



**PEOPLE'S SECURITIES, INC.**  
 (A Wholly Owned Subsidiary of People's Bank)

Statement of Changes in Stockholder's Equity

Year ended December 31, 2006

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total stockholder's equity</u>
Balance at December 31, 2005	\$ 500,000	\$ 5,536,426	\$ 23,972,542	\$ 30,008,968
Net income			5,150,880	5,150,880
Balance at December 31, 2006	<u>\$ 500,000</u>	<u>\$ 5,536,426</u>	<u>\$ 29,123,422</u>	<u>\$ 35,159,848</u>

See accompanying notes to financial statements.

**PEOPLE'S SECURITIES, INC.**  
(A Wholly Owned Subsidiary of People's Bank)

Statement of Cash Flows

Year ended December 31, 2006

Cash flows from operating activities:

Net income	\$ 5,150,880
Adjustments to reconcile net income to net cash used in operating activities:	
Increase in cash segregated under federal regulations	(4,885,871)
Decrease in securities segregated under federal regulations	7,863,661
Increase in securities at fair value	(8,084,611)
Decrease in receivables from customers	1,392,522
Decrease in receivables from clearing organization	2,104,977
Decrease in payables to customers	(7,177,501)
Increase in due to People's Bank	1,202,686
Changes in other assets and other liabilities, net	(729,911)
Net cash used in operating activities	<u>(3,163,168)</u>

Net cash from investing activities

—

Net cash from financing activities

—

Net decrease in cash and cash equivalents

(3,163,168)

Cash and cash equivalents at beginning of year

18,005,779

Cash and cash equivalents at end of year

\$ 14,842,611

Supplemental information:

Interest payments	\$ 279,660
Payments to People's Bank for income taxes	2,780,948
Increase in due to broker for securities purchased	<u>2,019,294</u>

See accompanying notes to financial statements.

**PEOPLE'S SECURITIES, INC.**  
(A Wholly Owned Subsidiary of People's Bank)

Notes to Financial Statements

December 31, 2006

**(1) Organization and Nature of Business**

People's Securities, Inc. (the "Company") is a brokerage firm and a wholly owned subsidiary of People's Bank ("People's"). The Company is a member of the National Association of Securities Dealers and is registered as a broker-dealer pursuant to Section 15(b) of the Securities Exchange Act of 1934, and is a registered investment advisor with the Securities and Exchange Commission.

The Company is registered in all 50 states and operates through a network of 24 Connecticut-based investment and brokerage offices, with 22 located in People's traditional branches or financial centers. Commission revenues are principally fees charged to customers for buying and selling securities, including mutual funds, insurance and annuities. A significant portion of customer transactions are conducted online using the Internet.

On June 1, 2006, Olson Mobek Investment Advisors, Inc. ("OMIA"), formerly a wholly-owned subsidiary of People's Bank, was merged into the Company. The merger was a combination of entities under common control, and accounted for in a manner similar to a pooling of interests. The existing shares of OMIA common stock were cancelled and the Company assimilated the assets of OMIA and has assumed all the debts, liabilities and obligations of OMIA. The components of total revenue and net income are as follows:

	<b>Total revenues</b>	<b>Net income</b>
People's Securities Inc. (including OMIA after the merger date)	\$ 20,826,887	\$ 4,916,663
OMIA for the pre-merger period (five months ending May 31, 2006)	1,291,789	234,217
Amounts reported in the accompanying financial statements	\$ 22,118,676	\$ 5,150,880

**PEOPLE'S SECURITIES, INC.**  
(A Wholly Owned Subsidiary of People's Bank)

Notes to Financial Statements

December 31, 2006

(2) **Summary of Significant Accounting Policies**

*Basis of Financial Statement Presentation*

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

*Cash and Cash Equivalents*

For purposes of reporting cash flows, cash and cash equivalents include highly liquid instruments (such as commercial paper) with an original maturity at the date of purchase of three months or less, but exclude cash segregated in a special reserve account under federal regulations. Cash equivalents are carried at amortized cost which approximates fair value.

*Securities*

All of the Company's securities at December 31, 2006, including securities segregated under federal regulations, were reported at fair value, with unrealized gains and losses included as revenue in the statement of income. The fair values of securities were based principally on market prices and dealer quotes.

*Commissions*

The Company recognizes commission revenues and expenses on a trade-date basis.

(3) **Cash and Cash Equivalents**

Pursuant to Rule 15c3-3 of the Securities and Exchange Commission, the Company is required to maintain a segregated special reserve bank account for the exclusive benefit of its customers. The Company maintains accounts at People's and Citibank N.A. with a balance of cash and securities totaling \$4,552,845 and \$10,084,317 respectively, at December 31, 2006. The Company had an unsettled purchase of \$1,981,909 of Treasury Notes which is included in securities segregated under federal regulations.

Additional funds are invested daily in an interest-bearing cash management account administered by People's. Interest income earned on this account and other interest-bearing balances with People's amounted to \$639,944 in 2006.

The components of cash (other than the segregated reserve account) and cash equivalents at December 31, 2006 are as follows:

Cash management account administered by People's	\$ 8,105,021
Commercial paper	6,279,891
Cash management accounts administered by others	<u>457,699</u>
Total cash and cash equivalents	<u>\$ 14,842,611</u>

**PEOPLE'S SECURITIES, INC.**  
(A Wholly Owned Subsidiary of People's Bank)

Notes to Financial Statements

December 31, 2006

**(4) Securities, at Fair Value**

The following is a summary of securities at December 31, 2006:

	<u>Fair Value</u>
Common Stock	\$ 46,185
Unit Investment Trust GNMA	101,853
Collateralized mortgage obligations	1,730,929
Federal agency obligations	17,634,109
	<u>\$ 19,513,076</u>

Securities segregated under federal regulations consisted of \$10,036,221 in US Treasury Notes at December 31, 2006.

**(5) Customer Transactions**

In the normal course of business, the Company's activities involve the execution, settlement and financing of various customer securities transactions. These customer activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, collateralized by cash equivalents and securities in the customers' accounts. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory requirements and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, require the customer to deposit additional collateral or to reduce positions when necessary.

Customer receivables and payables include amounts due on margin transactions and cash deposits, respectively, and are generally interests bearing. Interest rates on receivables are set between 0.75% and 2.25% over the Company's base rate which is 1% point above the broker call rate. Interest rates on payables are set slightly below People's money market rate. Receivables are generally collateralized by diversified portfolios of customer-owned margin securities that are not reflected in the Company's financial statements.

**(6) Inter-company Expense Allocations**

The Company's financial statements reflect allocations of certain occupancy, equipment and personnel-related expenses that are paid on its behalf by People's and reimbursed by the Company. Personnel-related allocations include salaries, costs applicable to Company employees' participation in the pension and other benefit plans sponsored by People's. In the opinion of management, the expenses allocated to the Company approximate the actual costs incurred.

**PEOPLE'S SECURITIES, INC.**  
(A Wholly Owned Subsidiary of People's Bank)

Notes to Financial Statements

December 31, 2006

During 2006 People's allocated the following expenses to the Company:

Compensation and benefits	\$ 9,059,972
Income tax expense	2,780,948
Occupancy	961,558
Data processing	674,581
Other	1,253,190
Total	<u>\$ 14,730,249</u>

***Income Taxes***

The Company is included in the consolidated federal and state income tax returns filed by People's. Pursuant to a tax sharing arrangement, People's charges or credits the Company for the portion of the consolidated income tax expense or benefit attributable to the Company's stand-alone operations, based on income for financial reporting purposes. For 2006, income tax expense was allocated to the Company using the applicable federal statutory tax rate of 35%, since People's consolidated tax group did not incur a Connecticut income tax liability for the year.

**(7) Net Capital Requirement**

As a registered broker and dealer in securities, the Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. As permitted by Rule 15c3-1, the Company has elected to compute its net capital requirement at December 31, 2006 using the alternative method. This method requires the maintenance of minimum net capital, as defined, equal to the greater of (i) \$250,000 or (ii) 2% of aggregate debit balances arising from customer transactions, as defined. At December 31, 2006, the Company had net capital of \$32,420,768, which was approximately 143% of aggregate debit balances and \$31,967,552 in excess of its required net capital.

**PEOPLE'S SECURITIES, INC.**  
(A Wholly Owned Subsidiary of People's Bank)

Computation of Net Capital Under Rule 15c3-1

December 31, 2006

Net capital, as defined:

Total stockholder's equity	\$ 35,159,848
Less unsecured customer receivables and other nonallowable assets	(1,310,283)

Net capital before haircuts on securities positions	33,849,565
---	------------

Haircuts on securities positions (computed, where applicable, pursuant to Rule 15c3-1(f))	(1,428,797)
---	-------------

Net capital, as defined	32,420,768
-------------------------	------------

Computation of alternative net capital requirement:

The greater of (i) \$250,000 or (ii) \$453,216, representing 2% of aggregate debit items of \$22,660,839 as shown in the formula for reserve requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation	(453,216)
--	-----------

Excess net capital	\$ 31,967,552
--------------------	---------------

Net capital in excess of:

4% of aggregate debit items	\$ 31,514,335
-----------------------------	---------------

5% of aggregate debit items	31,287,727
-----------------------------	------------

Note: There is no material difference between the above computation and the Company's calculation which was included in Part II of Form X-17a-5 as of December 31, 2006.

See accompanying independent auditors' report.

**PEOPLE'S SECURITIES, INC.**  
(A Wholly Owned Subsidiary of People's Bank)

Computation for Determination of Reserve Requirements Under Rule 15c3-3

December 31, 2006

Credit balances:

Free credit balances and other credit balances in customers' security accounts	\$	35,510,558
Other		19,941
Total credit balances	\$	<u>35,530,499</u>

Debit balances:

Debit balances in customers' cash and margin accounts, excluding unsecured accounts and accounts doubtful of collection, net of deductions pursuant to Rule 15c3-3	\$	20,833,781
Receivables from clearing organization		1,827,058
Total debit balances		<u>22,660,839</u>
Less 3% of aggregate debit items		<u>(679,825)</u>
Total debit balances, net	\$	<u>21,981,014</u>

Reserve computation:

Excess of total credits over total debits	\$	13,549,485
Amount held on deposit in reserve bank accounts including qualified securities		14,637,162
Excess per this calculation	\$	<u>1,087,677</u>

Note: There is no material difference between the above computation and the Company's calculation which was included in Part II of Form X-17a-5 as of December 31, 2006.

See accompanying independent auditors' report.



**PEOPLE'S SECURITIES, INC.**  
 (A Wholly Owned Subsidiary of People's Bank)

Information Relating to Possession or Control Requirements Under Rule 15c3-3

December 31, 2006

- |   |             |
|---|-------------|
| <p>1. Customers' fully paid securities and excess margin securities not in the respondent's possession or control as of the report date (for which instructions to reduce date to possession or control had been issued as of the report date) but for which the required action was not taken by the respondent within the time frames specified under Rule 15c3-3</p> | <p>\$ -</p> |
| <p>Number of items</p>  | <p>None</p> |
| <p>2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of the report date, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3</p>  | <p>\$ -</p> |
| <p>Number of items</p>  | <p>None</p> |

See accompanying independent auditors' report.

**END**