

AD*
3/16

SECURIT



07004808

MISSION

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	January 31, 2007
Estimated average burden hours per response.....	12.00

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

SEC FILE NUMBER
8-67146

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 From October 18, 2005 AND ENDING 12-31-06
 (Inception) MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER DEALER:
HSH N FINANCIAL SECURITIES LLC

OFFICIAL USE ONLY
FIRM ID. NO.

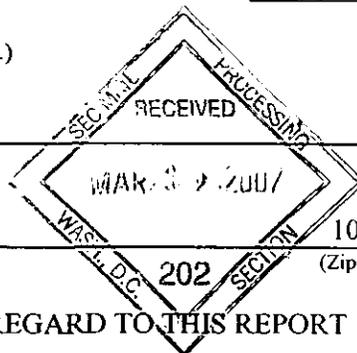
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

230 Park Avenue
(No. and Street)

New York
(City)

NY
(State)

10169
(Zip Code)



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

Peter G. Burke 212-407-6116
(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

BDO Seidman, LLP

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

330 Madison Avenue New York New York 10017-5001
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED

MAR 19 2007

THOMSON FINANCIAL

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).

AD
2A
3/17

State of New York) SS:
County of New York

OATH OR AFFIRMATION

I, PETER G. BURKE, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of HSH N FINANCIAL SECURITIES LLC, as of DECEMBER 31, 2006, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Sworn to Before me 27th
day of February 2007

Peter Burke
Signature

Managing Director
Title

J. D. Karnofsky
Notary Public

JON D. KARNOFSKY
Notary Public, State of New York
No. 30-4514328
Qualified in Nassau County
Term Expires August 31, 2009

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Financial Condition.
- (f) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (g) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (h) Computation of Net Capital.
- (i) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (j) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (k) 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.
- (l) A Reconciliation Between the Audited and Unaudited Statements of Financial Condition With Respect to Methods of Consolidation.
- (m) An Oath or Affirmation.
- (n) A copy of the SIPC Supplemental Report.
- (o) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (p) Independent Auditors' Report on internal accounting control required by SEC Rule 17a-5.

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



BDO Seidman, LLP
Accountants and Consultants

330 Madison Avenue
New York, New York 10017
Telephone: (212) 885-8000
Fax: (212) 697-1299

Independent Auditors' Report

The Member
HSH N Financial Securities LLC
New York, New York

We have audited the accompanying statement of financial condition of HSH N Financial Securities LLC ("Company") as of December 31, 2006. 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 statement of financial condition is 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, 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 statement of financial condition referred to above presents fairly, in all material respects, the financial position of HSH N Financial Securities LLC as of December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

BDO Seidman, LLP

February 27, 2007

HSH N Financial Securities LLC

Statement of Financial Condition

December 31, 2006

Assets

Cash and cash equivalents (Note 1)	\$451,496
Underwriting fee receivable	50,000
	<hr/>
	\$501,496

Liabilities and Member's Equity**Liabilities:**

Due to affiliate (Notes 2 and 4)	\$227,875
Other liabilities	1,160
	<hr/>
Total liabilities	229,035
Commitments (Notes 2 and 3)	
Member's equity (Note 3)	272,461
	<hr/>
	\$501,496

See accompanying summary of business and significant accounting policies and notes to statement of financial condition.

HSH N Financial Securities LLC

Summary of Business and Significant Accounting Policies

Organization and Business

HSH N Financial Securities LLC (“Company”) is a Delaware limited liability company, which was formed on August 23, 2005. The Company received an initial capital contribution of \$250,000 on October 18, 2005 (inception) from HSH Nordbank AG, Cayman Islands Branch (“Member”), the sole member of the Company. On May 11, 2006, the Company registered as a broker-dealer and commenced operations. The Company provides investment banking services to its customers. The Company is relying on its Member for continued financial support.

The Company is registered as a broker-dealer under the provisions of the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. (“NASD”). The Company claims exemption from the requirements of Rule 15c3-3 under Section (k)(2)(i) of the Rule.

Revenue Recognition

The Company intends to effect transactions in debt instruments underwriting and private placement activities. The Company recognizes revenue from these services on a trade-date basis. Success fees are recorded upon the close of the underlying transaction.

Customer Transactions

The Company engages in investment banking activities with its customers. In the event a customer does not fulfill its obligation, the Company may be exposed to credit risk.

The Company does not anticipate nonperformance by its customers. The Company’s policy is to monitor its market exposure and risk. In addition, the Company has a policy of reviewing, as considered necessary, the credit standing of each customer with which it conducts business.

HSH N Financial Securities LLC

Summary of Business and Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of less than ninety days that are not held for sale in the ordinary course of business as cash and cash equivalents. All cash and cash equivalents are held at one financial institution and exceed the amount of \$100,000 insured by the FDIC.

Income Taxes

No income tax provision has been made in the accompanying statement of financial condition as the Member reports its share of the Company's income or loss on its income tax return.

Use of Estimates

In preparing the statement of financial condition in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates.

HSH N Financial Securities LLC

Notes to Statement of Financial Condition

- 1. Clearing Agreement**

The Company has a clearing agreement with a brokerage firm to carry its account and the accounts of its customers. The broker has custody of the Company securities and, from time to time, cash balances, which may be due from this broker.

These securities and/or cash positions serve as collateral for any amounts due to broker or as well as collateral for securities sold short or securities purchased on margin. The securities and/or cash positions also serve as collateral for potential defaults of the Company's customers which are carried on the books and records of the clearing firm.

The Company is subject to credit risk if the broker is unable to repay balances due or deliver securities in its custody.
- 2. Related Party Transactions**

Pursuant to a management service agreement (the "Agreement") with the parent of the Member, the Company will receive various services from an affiliate of the Member's parent. The Agreement is for a period of twelve months and can be extended for successive one year periods unless cancelled by either party, upon 30 days written notice. These services include salaries, professional fees, office space, equipment and general and administrative expenses. At December 31, 2006, the Company had a payable of \$227,875 related to these expenses.
- 3. Regulatory Net Capital Requirements**

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 8 to 1. As of December 31, 2006, the Company had regulatory net capital of \$222,461 and a minimum regulatory net capital requirement of \$100,000. The Company's ratio of aggregate indebtedness to net capital at December 31, 2006 was 1.03 to 1.

HSH N Financial Securities LLC

Notes to Statement of Financial Condition

4. Subordinated Borrowings

As of December 31, 2006, the Company has a subordinated loan agreement ("SLA") with the Member. The SLA provides for the Member to lend up to \$10,000,000 on a revolving basis, bearing interest at an annual rate of the Member's cost of funds plus 0.08%. As of December 31, 2006, the Company has not drawn on the SLA. The Company incurred a one-time commitment fee for the SLA in the amount of \$1,955 which is unpaid at December 31, 2006 and included in due to affiliate.



Independent Auditors' Report on Internal Control Required by Securities and Exchange Commission Rule 17a-5 for a Broker-Dealer Claiming an Exemption from SEC Rule 15c-3-3

The Member
HSH N Financial Securities LLC
New York, New York

In planning and performing our audit of the financial statements and supplemental schedules of HSH N Financial Securities LLC ("Company") for the period from October 18, 2005 (inception) to 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 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 such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications, and comparisons and the 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 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 accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in 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 accounting principles generally accepted in the United States of America 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.



BDO Seidman, LLP
Accountants and Consultants

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 management, 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.

BDO Seidman, LLP

Certified Public Accountants

New York, New York

February 27, 2007

END