

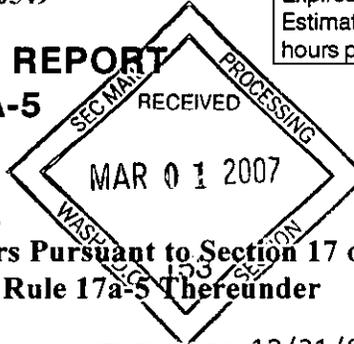
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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



SEC FILE NUMBER
8-11117

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 1/1/06 AND ENDING 12/31/06
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: FOOTHILL SECURITIES, INC.
NASDAQ ID # 1027
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

1674 NORTH SHORELINE BOULEVARD, SUITE 120
(No. and Street)

MOUNTAIN VIEW CA 94043-1374
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
CHRISTINE FLYNN 650-625-9701
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

LAUTZE & LAUTZE CPAs & FINANCIAL ADVISORS
(Name - if individual, state last, first, middle name)

111 WEST ST. JOHN STREET, SUITE 1010 SAN JOSE CA 95113
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED

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THOMSON
FINANCIAL

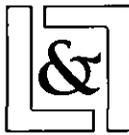
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Foothill Securities, Inc.
Mountain View, California

We have audited the accompanying statement of financial condition of *Foothill Securities, Inc.* (the Company) as of December 31, 2006, and the related statements of income and changes in ownership equity contained in the Form X-17A-5 and the statement of cash flows on page 15, for the year then ended. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit 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 audit provides 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 the Company 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.

San Jose, California
February 23, 2007

FOCUS REPORT

FORM
X-17A-5

(Financial and Operational Combined Uniform Single Report)

Part IIA Quarterly 17a-5(a)

INFORMATION REQUIRED OF BROKERS AND DEALERS PURSUANT TO RULE 17

COVER

Select a filing method:

Basic Alternate [0011]

Name of Broker Dealer: Foothill Securities, Inc. [0013] SEC File Number: 8-11117 [0014]
Address of Principal Place of Business: 1674 North Shoreline Boulevard [0020]
MOUNTAIN VIEW CA 94043-1374 [0021] [0022] Firm ID: 1027 [0015]
[0023]

For Period Beginning 01/01/2006 [0024] And Ending 12/31/2006 [0025]

Name and telephone number of person to contact in regard to this report:

Name: CHRISTINE FLYNN, COO/CFO [0030] Phone: (650) 625-9701 [0031]

Name(s) of subsidiaries or affiliates consolidated in this report:

Name: [0032] Phone: [0033]

Name: [0034] Phone: [0035]

Name: [0036] Phone: [0037]

Name: [0038] Phone: [0039]

Does respondent carry its own customer accounts? Yes [0040] No [0041]

Check here if respondent is filing an audited report [0042]

ASSETS

Consolidated [038]	Unconsolidated Allowable	[0199]	Non-Allowable	Total
1.	Cash	756,828 [0200]		756,828 [0750]
2.	Receivables from brokers or dealers:			
	A. Clearance account	[0295]		
	B. Other	270,256 [0300]	178,435 [0550]	448,691 [0810]
3.	Receivables from non- customers	[0355]	[0600]	0 [0830]
4.	Securities and spot commodities owned, at market value:			
	A. Exempted securities	[0418]		
	B. Debt securities	[0419]		
	C. Options	[0420]		
	D. Other securities	[0424]		
	E. Spot commodities	[0430]		0 [0850]
5.	Securities and/or other investments not readily marketable:			
	A. At cost			
		[0130]		
	B. At estimated fair value	[0440]	[0610]	0 [0860]
6.	Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:	[0460]	[0630]	0 [0880]
	A. Exempted securities			
		[0150]		
	B. Other securities			
		[0160]		

7.	Secured demand notes market value of collateral:	[0470]	[0640]	0 [0890]
	A. Exempted securities			
		[0170]		
	B. Other securities			
		[0180]		
8.	Memberships in exchanges:			
	A. Owned, at market			
		[0190]		
	B. Owned, at cost		[0650]	
	C. Contributed for use of the company, at market value		[0660]	0 [0900]
9.	Investment in and receivables from affiliates, subsidiaries and associated partnerships	[0480]	[0670]	0 [0910]
10.	Property, furniture, equipment, leasehold improvements and rights under lease agreements, at cost-net of accumulated depreciation and amortization	[0490]	58,189 [0680]	58,189 [0920]
11.	Other assets	[0535]	48,054 [0735]	48,054 [0930]
12.	TOTAL ASSETS	1,027,084 [0540]	284,678 [0740]	1,311,762 [0940]

LIABILITIES AND OWNERSHIP EQUITY

Liabilities	A.I. Liabilities	Non-A.I. Liabilities	Total
13. Bank loans payable	[1045]	[1255]	0 [1470]
14. Payable to brokers or dealers:			
A. Clearance account	[1114]	[1315]	0 [1560]
B. Other	[1115]	[1305]	0 [1540]
15. Payable to non-customers	438,596 [1155]	[1355]	438,596 [1610]
16. Securities sold not yet purchased, at market value		[1360]	0 [1620]
17. Accounts payable, accrued liabilities, expenses and other	48,692 [1205]	[1385]	48,692 [1685]
18. Notes and mortgages payable:			
A. Unsecured	[1210]		0 [1690]
B. Secured	[1211]	[1390]	0 [1700]
19. Liabilities subordinated to claims of general creditors:			
A. Cash borrowings:		[1400]	0 [1710]
1. from outsiders			
	[0970]		
2. Includes equity subordination (15c3-1(d)) of			
	[0980]		
B. Securities borrowings, at market value:		[1410]	0 [1720]
from outsiders			
	[0990]		
C. Pursuant to secured demand note collateral agreements:		[1420]	0 [1730]
1. from outsiders			

		[1000]		
	2. Includes equity subordination (15c3-1(d)) of			
		[1010]		
	D. Exchange memberships contributed for use of company, at market value		[1430]	0 [1740]
	E. Accounts and other borrowings not qualified for net capital purposes	[1220]	[1440]	0 [1750]
20.	TOTAL LIABILITIES	487,288 [1230]	0 [1450]	487,288 [1760]

Ownership Equity

			Total
21.	Sole proprietorship		[1770]
22.	Partnership (limited partners [1020])		[1780]
23.	Corporations:		
	A. Preferred stock		[1791]
	B. Common stock		5,169 [1792]
	C. Additional paid-in capital		251,463 [1793]
	D. Retained earnings		567,842 [1794]
	E. Total		824,474 [1795]
	F. Less capital stock in treasury		[1796]
24.	TOTAL OWNERSHIP EQUITY		824,474 [1800]
25.	TOTAL LIABILITIES AND OWNERSHIP EQUITY		1,311,762 [1810]

STATEMENT OF INCOME (LOSS)

Period Beginning 01/01/2006 [3932]	Period Ending 12/31/2006 [3933]	Number of months 12 [3931]
---------------------------------------	------------------------------------	----------------------------------

REVENUE

1. Commissions:		
a. Commissions on transactions in exchange listed equity securities executed on an exchange	349,590 [3935]	
b. Commissions on listed option transactions		[3938]
c. All other securities commissions		[3939]
d. Total securities commissions	349,590 [3940]	
2. Gains or losses on firm securities trading accounts		
a. From market making in options on a national securities exchange		[3945]
b. From all other trading		[3949]
c. Total gain (loss)	0 [3950]	
3. Gains or losses on firm securities investment accounts		[3952]
4. Profit (loss) from underwriting and selling groups		[3955]
5. Revenue from sale of investment company shares	13,141,439 [3970]	
6. Commodities revenue		[3990]
7. Fees for account supervision, investment advisory and administrative services	6,692,996 [3975]	
8. Other revenue	557,858 [3995]	
9. Total revenue	20,741,883 [4030]	

EXPENSES

10. Salaries and other employment costs for general partners and voting stockholder officers	581,926 [4120]	
11. Other employee compensation and benefits	19,016,092 [4115]	
12. Commissions paid to other broker-dealers		[4140]
13. Interest expense		[4075]
a. Includes interest on accounts subject to subordination agreements		[4070]
14. Regulatory fees and expenses	165,295 [4195]	
15. Other expenses	927,282 [4100]	
16. Total expenses	20,690,595	

		[4200]
NET INCOME		
17. Net Income(loss) before Federal income taxes and items below (Item 9 less Item 16)		51,288 [4210]
18. Provision for Federal Income taxes (for parent only)		20,151 [4220]
19. Equity in earnings (losses) of unconsolidated subsidiaries not included above		[4222]
a. After Federal income taxes of	[4238]	
20. Extraordinary gains (losses)		[4224]
a. After Federal income taxes of	[4239]	
21. Cumulative effect of changes in accounting principles		[4225]
22. Net income (loss) after Federal income taxes and extraordinary items		31,137 [4230]
MONTHLY INCOME		
23. Income (current monthly only) before provision for Federal income taxes and extraordinary items		107,829 [4211]

EXEMPTIVE PROVISIONS

25. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based

A. (k) [4550]
 (1)--Limited business (mutual funds and/or variable annuities only)

B. (k) [4560]
 (2)(i)--"Special Account for the Exclusive Benefit of customers" maintained

C. (k) [4570]
 (2)(ii)--All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm(s)

Clearing Firm SEC#s	Name	Product Code
8- 17574 [4335A]	PERSHING LLC [4335A2]	A11 [4335B]
8- _____ [4335C]	[4335C2]	[4335D]
8- _____ [4335E]	[4335E2]	[4335F]
8- _____ [4335G]	[4335G2]	[4335H]
8- _____ [4335I]	[4335I2]	[4335J]

D. (k) [4580]
 (3)--Exempted by order of the Commission

COMPUTATION OF NET CAPITAL

1.	Total ownership equity from Statement of Financial Condition		824,474	
			[3480]	
2.	Deduct ownership equity not allowable for Net Capital			[3490]
3.	Total ownership equity qualified for Net Capital		824,474	[3500]
4.	Add:			
	A. Liabilities subordinated to claims of general creditors allowable in computation of net capital		0	[3520]
	B. Other (deductions) or allowable credits (List)			
		[3525A]	[3525B]	
		[3525C]	[3525D]	
		[3525E]	[3525F]	0
				[3525]
5.	Total capital and allowable subordinated liabilities		824,474	[3530]
6.	Deductions and/or charges:			
	A. Total nonallowable assets from Statement of Financial Condition (Notes B and C)	284,678		[3540]
	B. Secured demand note deficiency			[3590]
	C. Commodity futures contracts and spot commodities - proprietary capital charges			[3600]
	D. Other deductions and/or charges	4,000		[3610]
			=288,678	[3620]
7.	Other additions and/or credits (List)			
		[3630A]	[3630B]	
		[3630C]	[3630D]	
		[3630E]	[3630F]	0
				[3630]
8.	Net capital before haircuts on securities positions		535,796	[3640]
9.	Haircuts on securities (computed, where applicable, pursuant to 15c3-1(f)):			
	A. Contractual securities commitments			[3660]
	B. Subordinated securities borrowings			[3670]
	C. Trading and investment securities:			

1. Exempted securities	[3735]		
2. Debt securities	[3733]		
3. Options	[3730]		
4. Other securities	[3734]		
D. Undue Concentration	[3650]		
E. Other (List)			
	[3736A]	[3736B]	
	[3736C]	[3736D]	
	[3736E]	[3736F]	
		0	0
		[3736]	[3740]
10. Net Capital			535,796 [3750]

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part		
A 11. Minimum net capital required (6-2/3% of line 19)		32,485 [3756]
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with <u>Note(A)</u>		50,000 [3758]
13. Net capital requirement (greater of line 11 or 12)		50,000 [3760]
14. Excess net capital (line 10 less 13)		485,796 [3770]
15. Excess net capital at 1000% (line 10 less 10% of line 19)		487,067 [3780]

COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.I. liabilities from Statement of Financial Condition		487,288 [3790]
17. Add:		
A. Drafts for immediate credit	[3800]	
B. Market value of securities borrowed for which no equivalent value is paid or credited	[3810]	
C. Other unrecorded amounts (List)		

	[3820A]	[3820B]	
	[3820C]	[3820D]	
	[3820E]	[3820F]	
		0	0
		[3820]	[3830]
19. Total aggregate indebtedness			487,288
			[3840]
20. Percentage of aggregate indebtedness to net capital (line 19 / line 10)		%	91
			[3850]

OTHER RATIOS

21. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)		%	0
			[3860]

SCHEDULED WITHDRAWALS

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.

Type of Proposed Withdrawal or Accrual	Name of Lender or Contributor	Ins idør Outsider	Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities)	Withdrawal or Ex Maturity Date (MMDDYYYY)	pet Renew
_[4600]		[4601] [4602]	[4603]	[4604]	[4605]
_[4610]		[4611] [4612]	[4613]	[4614]	[4615]
_[4620]		[4621] [4622]	[4623]	[4624]	[4625]
_[4630]		[4631] [4632]	[4633]	[4634]	[4635]
_[4640]		[4641] [4642]	[4643]	[4644]	[4645]
_[4650]		[4651] [4652]	[4653]	[4654]	[4655]
_[4660]		[4661] [4662]	[4663]	[4664]	[4665]
_[4670]		[4671] [4672]	[4673]	[4674]	[4675]
_[4680]		[4681] [4682]	[4683]	[4684]	[4685]
_[4690]		[4691] [4692]	[4693]	[4694]	[4695]
		TOTAL	0		
		L \$	[4699]		

Omit Pennies

Instructions Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c)(2)(iv)), which could be required by the lender on demand or in less than six months.

Withdrawal Code Description

- 1 Equity Capital
- 2 Subordinated Liabilities
- 3 Accruals
- 4 15c3-1(c)(2)(iv) Liabilities

STATEMENT OF CHANGES

STATEMENT OF CHANGES IN OWNERSHIP EQUITY (SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)

1.	Balance, beginning of period		832,334 [4240]
	A.	Net income (loss)	31,137 [4250]
	B.	Additions (includes non-conforming capital of	59,252 [4260]
			[4262]
	C.	Deductions (includes non-conforming capital of	-98,249 [4270]
			[4272]
2.	Balance, end of period (From item 1300)		824,474 [4290]

STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

3.	Balance, beginning of period		[4300]
	A.	Increases	[4310]
	B.	Decreases	[4320]
4.	Balance, end of period (From item 3520)		0 [4330]

FOOTHILL SECURITIES, INC.
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2006

Cash flows from operating activities:		
Net income		<u>\$ 31,137</u>
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	19,140	
Loss on disposal of property and equipment	419	
Change in deferred income tax liability	8,615	
Employee stock bonus compensation	9,808	
Decrease (increase) in assets:		
Commissions receivable	(222,894)	
Other assets	15,953	
Decrease (increase) in liabilities:		
Commissions payable	215,985	
Accrued liabilities	<u>(94,419)</u>	
Net adjustments		<u>(47,393)</u>
Net cash used by operating activities		<u>(16,256)</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(27,787)</u>	
Net cash used by investing activities		<u>(27,787)</u>
Cash flows from financing activities:		
Capital contributed by stockholders	49,444	
Common stock repurchased from terminated representatives	(98,249)	
Payments on capitalized lease obligation	<u>(4,703)</u>	
Net cash used by financing activities		<u>(53,508)</u>
Net decrease in cash		(97,551)
Cash:		
Beginning of year		<u>854,379</u>
End of year		<u>\$ 756,828</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Income taxes		<u>\$ 3,120</u>
Interest		<u>\$ 3,307</u>
Non-cash financing activities:		
Common stock issued through employee bonuses		<u>\$ 9,808</u>

FOOTHILL SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2006

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Business

Foothill Securities, Inc. (the Company) is a fully disclosed broker-dealer, registered with the National Association of Security Dealers, Inc. (NASD), and licensed by the Securities and Exchange Commission (SEC) and the California Department of Corporations.

The Company was incorporated in California on October 11, 1962, and conducts business from fifty-five Offices of Supervisory Jurisdiction (OSJ) located in that state, in addition to two OSJ offices in Hawaii, one in Arizona, and one in Utah.

Basis of Presentation

The financial statements of the Company have been prepared on the accrual basis. The significant accounting policies which follow are described to enhance the usefulness of the financial statements to the reader.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amounts of receivables and payables approximate fair value due to the short maturity of these instruments. The carrying value of any debt approximates fair value based on discounting the projected cash flows using market rates available for similar maturities. None of the financial instruments are held for trading purposes.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less from the date of purchase to be cash equivalents.

Commissions Receivable and Payable

Commissions receivable are uncollateralized commissions due to the Company from sales of mutual funds, stock trades, variable products, and direct participation programs. When orders are placed, the Company records an estimated commission receivable and an estimate of the related commission payable to the registered representatives.

The Company reviews all open orders every ninety days with the respective registered representatives responsible for placing those orders. If any order is determined to be no longer valid, then the related commission receivable and commission payable are voided.

Payments of commissions receivable are allocated to specific investor orders.

FOOTHILL SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2006

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Furniture and Equipment

Company properties are carried at cost. Assets acquired by capital leases are carried at their present values on their acquisition dates. Maintenance, repairs, and minor renewals are charged against earnings. Additions and major renewals costing \$1,000 or more are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts, and any gain or loss is reflected in earnings. Depreciation is calculated using the double declining balance and straight-line methods over the following estimated useful lives:

Computer equipment	5 years
Office equipment	5 - 7 years
Software	3 years
Leasehold improvements	8 years

Revenue Recognition

The Company's revenue is generated from registered investment advisory fees derived from asset management and financial planning fees, and concessions and commissions related to sales of mutual funds, stock trades, variable products, fixed products, and direct participation programs. Revenue is recorded when earned.

Income Taxes

The provision for income taxes includes federal income and California franchise taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. Deferred income taxes are provided based on the estimated future tax effects of differences between financial statement carrying amounts and the tax bases of existing assets and liabilities. Deferred income taxes result primarily from deductions and income recorded on the financial statements but not yet allowable or reportable for income tax purposes.

The Company uses the asset and liability method to account for deferred income taxes. The asset and liability method requires the recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between tax bases and financial reporting bases of assets and liabilities.

Concentrations of Credit Risk

The Company maintains its cash in bank accounts, which may, at times, exceed the federally insured limits. The Company has not experienced any losses in such accounts. Management believes that it is not exposed to any significant credit risk on cash and cash equivalents.

FOOTHILL SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2006

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Advertising Costs

Advertising costs are charged to operations when incurred. For the year ended December 31, 2006, advertising expense was \$3,333.

2. **CASH CLEARING DEPOSIT ACCOUNTS**

In the event that a registered representative incurs a market action error, the Company has available a clearing deposit that can cover such errors to the extent of \$100,000 with Pershing, LLC. When a registered representative creates such a loss, the representative is contractually obligated to reimburse the Company.

The Company also has a \$10,000 clearing fund deposit with The Depository Trust & Clearing Corporation, which is required by the NSCC as a condition for utilizing the Fund/SERV and Insurance Processing Services.

Both of these deposits are included in cash.

3. **NET CAPITAL REQUIREMENTS**

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital equal to the greater of six and two-thirds percent (6-2/3%) of aggregated indebtedness or \$50,000. The rule also defines the required ratio of aggregate indebtedness to net capital. The Company has computed the net capital and aggregate indebtedness calculations in accordance with NASD Notice to Members, Numbers 84-48 and 85-5, respectively. At December 31, 2006, the Company has net capital of \$535,796, which was \$485,796 in excess of its required net capital of \$50,000. The Company's aggregate indebtedness to net capital ratio was .91 to 1.00.

4. **PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

Computer equipment	\$ 73,755
Office equipment	77,825
Software	13,884
Leasehold improvements	<u>1,478</u>
	166,942
Less accumulated depreciation and amortization	<u>(108,753)</u>
	<u>\$ 58,189</u>

For the year ended December 31, 2006, depreciation and amortization expense was \$19,140.

FOOTHILL SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2006

5. OTHER ASSETS

Other assets consist of the following:

Prepaid insurance	\$ 44,824
Security deposit	<u>3,230</u>
	<u>\$ 48,054</u>

6. OTHER LIABILITIES

Other liabilities consist of the following:

Accounts payable	\$ 797
Capitalized lease obligations	13,809
Accrued expenses	<u>34,086</u>
	<u>\$ 48,692</u>

7. CAPITALIZED LEASE OBLIGATION

The Company has two capital leases for office equipment costing \$21,028 that have been capitalized as assets and are being amortized over periods of three and seven years. Accumulated amortization as of December 31, 2006 is \$8,267, and current year amortization of \$3,950 has been included in depreciation and amortization expense. The monthly lease payments total \$1,340, and these leases bear interest rates of 0% and 37.5%.

Future minimum lease payments are as follows:

2007	\$ 7,765
2008	7,164
2009	<u>4,157</u>
Total future lease payments	19,086
Less amount representing interest	<u>(5,277)</u>
Present value of future payments	<u>\$ 13,809</u>

FOOTHILL SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2006

8. PROVISION FOR INCOME TAXES

The provision for income taxes consists of the following:

	Federal	California	Total
Currently payable	\$ 6,920	\$ 4,616	\$ 11,536
Deferred	5,000	3,615	8,615
	\$ 11,920	\$ 8,231	\$ 20,151

The principal reasons for the difference between the statutory federal income tax rate of 16.5% and the effective income tax rate of 23.2% are as follows:

Computed federal tax payable using the statutory income tax rates	\$ 8,456
Temporary differences	3,464
	\$ 11,920

9. COMMON STOCK

Shares Authorized, Issued and Outstanding

At December 31, 2006, 10,000,000 shares of common stock were authorized and 3,971,226 shares were issued and outstanding.

Employee Stock Bonus Plan

The Company had a nonqualified stock bonus plan (the Plan) available to all eligible employees, other than the founding stockholder. A maximum of 263,157 shares of common stock was allowed to be issued under the Plan. Beginning in 1997, an annual amount of 26,316 shares was awarded. Eligible employees were defined as those employees who had been employed by the Company for three (3) years, and who worked at least 1,000 hours per year. The shares were allocated after final approval from the Board of Directors, based upon a weighted formula of years of service and compensation. The employees vested in the shares awarded at a rate of 20% per year, over a five-year period beginning in the year of eligibility. Unvested balances in shares of terminated employees were be reallocated to active plan participants based on service years and compensation weights in the calendar year shares become available for reallocation. The value per share assigned to the awarded shares was equivalent to the annual amount per share paid by the registered representatives to the founding stockholder for his shares, as determined under a separate business ownership succession plan which concluded at the end of 2005. For the year ended December 31, 2006, \$9,808 was recognized as compensation costs associated with this Plan. The Plan was terminated as of December 31, 2005.

Additional Capital Contributed

During the year, as a result of representatives' assessments and the employee stock bonus plan, additional paid-in capital of \$59,252 was contributed to the Company.

FOOTHILL SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2006

9. **COMMON STOCK (CONTINUED)**

Common Stock Repurchase

During the year, the Company repurchased 491,817 shares of common stock from terminated representatives at a total cost of \$98,249.

10. **401(K) PROFIT SHARING PLAN AND TRUST**

Effective January 1, 2004, the Company adopted a 401(k) profit sharing plan for all eligible employees. Eligible employees are defined as all full-time employees who have attained age 21, and who have been employed at least one year and have completed at least 1,000 hours of service annually. Employees may elect to defer 1% to 25% of their salary, up to the federal limit, and are 100% vested upon entering the plan. The Company annually matches the participants' contribution up to 4% of participants' gross wages. The Company may also elect to make a discretionary contribution annually to the profit sharing plan and trust. In 2006, the Company contributed a total of \$78,218 under these arrangements.

11. **COMMITMENTS**

Facility Lease

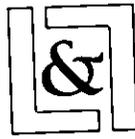
The Company is leasing its corporate office under a lease expiring on August 31, 2007, with an option to extend the lease term an additional five years. The future minimum rental commitments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2007	\$ <u>25,840</u>

Rent expense was \$37,760 for the year ended December 31, 2006.

Xtiva Financial Systems

During the 2004, the Company entered into a contract to purchase software, which would automate the commissions process. In 2005, the Company determined that the software did not address their needs and would not continue with its implementation. The asset was written off as of December 31, 2005, but the Company was required to honor the contract. During 2006, the Company came to a settlement agreement with the software company whereby the remaining balance of \$27,500 was forgiven. Additionally, the Company received a refund of \$17,900.



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CPAs & FINANCIAL ADVISORS

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION REQUIRED
BY RULES 15c3-3 AND 17a-5 OF THE SECURITIES AND EXCHANGE COMMISSION**

Board of Directors and Stockholders
Foothill Securities, Inc.
Mountain View, California

We have audited the accompanying financial statements of *Foothill Securities, Inc.*, contained in the Form X-17A-5, as of and for the year ended December 31, 2006, and have issued our report thereon dated February 23, 2007. 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 I and II are presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rules 15c3-3 and 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.

San Jose, California
February 23, 2007

FOOTHILL SECURITIES, INC.
COMPUTATION FOR DETERMINATION OF
RESERVE REQUIREMENTS PURSUANT TO RULE 15c3-3
AND
INFORMATION RELATING TO THE POSSESSION OR
CONTROL REQUIREMENTS UNDER RULE 15c3-3
December 31, 2006

Schedule I

Exemptive provision under Rule 15c3-3. Firm is operating as a (k)(2)(A) and (k)(2)(B) broker/dealer.

The Company is a fully disclosed broker/dealer. The clearing broker used is:

Pershing, LLC
77 West Port Plaza, Suite 318
St. Louis, MO 63146

Firm is a NASD member.

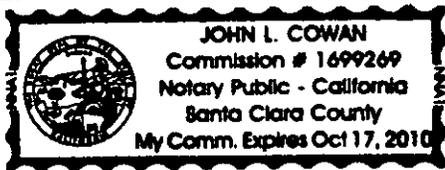
FOOTHILL SECURITIES, INC.
RECONCILIATIONS PURSUANT TO RULE 17a-5
December 31, 2006

Schedule II

The respondent's reconciliation of the computation of net capital did not differ from the net capital calculated on page 11.

OATH OR AFFIRMATION

I, CHRISTINE FLYNN, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of FOOTHILL 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:



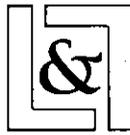
John L. Cowan
Notary Public

Christine Flynn
Signature
Chief Operating Officer CFO
Title

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) Independent Auditors' Report on Internal Controls

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



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

Board of Directors and Stockholders
Foothill Securities, Inc.
Mountain View, California

In planning and performing our audit of the financial statements and supplemental schedules of *Foothill Securities, Inc.* (the Company) 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 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 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 SEC's above mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control 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, as described in the second paragraph of this report, were adequate at December 31, 2006 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers and other regulatory agencies which 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.



San Jose, California
February 23, 2007

END