

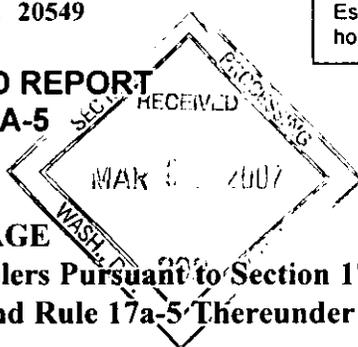
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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



SEC FILE NUMBER
8 - 48723

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:
National Alliance Securities Corporation

OFFICIAL USE ONLY
FIRM ID. NO.

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

1755 Wittington Place, Suite 320

(No. and Street)

Dallas
(City)

Texas
(State)

75234
(Zip Code)

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

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Brad A. Kinder, CPA

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

815 Parker Square
(Address)

Flower Mound
(City)

Texas
(State)

75028
(Zip Code)

CHECK ONE:

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

PROCESSED
APR 11 2007
THOMSON
FINANCIAL

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FOR OFFICIAL USE ONLY

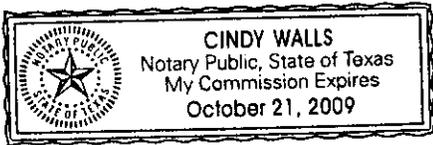
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

AS
4/4

OATH OR AFFIRMATION

I, Bradford A. Phillips, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of National Alliance Securities 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



Cindy Walls
Notary Public

Bradford A. Phillips
Signature
President
Title

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 Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors. **None**
- (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 auditor's report on the internal control as required by SEC rule 17a-5.

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

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BRAD A. KINDER, CPA

CERTIFIED PUBLIC ACCOUNTANT

815 PARKER SQUARE • FLOWER MOUND, TX 75028
972-899-1170 • FAX 972-899-1172

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
National Alliance Securities Corporation

We have audited the accompanying statement of financial condition of National Alliance Securities Corporation as of December 31, 2006, and the related statements of income, changes in stockholders' 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 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 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 National Alliance Securities Corporation 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 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.



BRAD A. KINDER, CPA

Flower Mound, Texas
February 27, 2007

NATIONAL ALLIANCE SECURITIES CORPORATION
Statement of Financial Condition
December 31, 2006

Assets

Cash and cash equivalents	\$ 447,866
Receivable from clearing broker/dealer	265,816
Notes receivable	5,216,244
Accrued interest receivable	18,182
Marketable debt securities	8,122,661
Clearing deposit	<u>267,081</u>
TOTAL ASSETS	<u><u>\$ 14,337,850</u></u>

Liabilities and Stockholders' Equity

Liabilities

Accounts payable	\$ 10,130
Management fees payable	500,000
Accrued commissions payable	309,436
Due to related party	10,000
Payable to clearing broker dealer	<u>6,572,661</u>
Total Liabilities	<u>7,402,227</u>

Stockholders' Equity

Series A 2% preferred stock, \$10 par value, 2,000,000 shares authorized, 414,836 shares issued and outstanding	4,148,381
Class A common stock, \$.01 par value, 5,000,000 shares authorized, 1,000,000 shares issued and outstanding	10,000
Class B common stock, \$.01 par value, 5,000,000 shares authorized, 666,667 shares issued and outstanding	6,667
Additional paid-in capital	7,875,323
Accumulated deficit	<u>(5,104,748)</u>
Total Stockholders' Equity	<u>6,935,623</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 14,337,850</u></u>

NATIONAL ALLIANCE SECURITIES CORPORATION
Statement of Income
Year Ended December 31, 2006

Revenue

Trading profits	\$ 2,988,962
Investment banking	265,842
Securities commissions	157,243
Interest	<u>741,904</u>
 Total Revenue	 <u>4,153,951</u>

Expenses

Compensation and related costs	1,849,238
Clearing costs	310,396
Communications	253,031
Management fees paid to related party	2,060,911
Margin interest	222,323
Occupancy and equipment	100,704
Regulatory fees	25,582
Other expenses	<u>128,612</u>
 Total Expenses	 <u>4,950,797</u>

Net loss before income tax benefit (796,846)

Income tax benefit

Current	-
Deferred	<u>52,265</u>

NET LOSS \$ (744,581)

NATIONAL ALLIANCE SECURITIES CORPORATION
Statement of Changes in Stockholders' Equity
Year Ended December 31, 2006

	Series A 2% Preferred Shares Issued	Class A Common Shares Issued	Class B Common Shares Issued	Series A 2% Preferred Stock	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Balances at December 31, 2005	475,406	1,000,000	666,667	\$ 4,805,913	\$ 10,000	\$ 6,667	\$ 6,314,412	\$ (2,347,946)	\$ 8,789,046
Additional capital contributed	-	-	-	-	-	-	1,560,911	-	1,560,911
Series A 2% preferred shares redeemed	(75,000)	-	-	(750,000)	-	-	-	-	(750,000)
Net loss	-	-	-	-	-	-	-	(744,581)	(744,581)
Preferred shares issued in 2006 for prior year accumulated dividends	5,184	-	-	-	-	-	-	-	-
Dividends accumulated, declared and paid in shares on Series A 2% preferred stock	9,246	-	-	92,468	-	-	-	(92,468)	-
Dividends declared on Class B common shares	-	-	-	-	-	-	-	(1,919,753)	(1,919,753)
Balances at December 31, 2006	414,836	1,000,000	666,667	\$ 4,148,381	\$ 10,000	\$ 6,667	\$ 7,875,323	\$ (5,104,748)	\$ 6,935,623

See notes to financial statements.

NATIONAL ALLIANCE SECURITIES CORPORATION
Statement of Cash Flows
For the Year Ended December 31, 2006

Cash Flows From Operating Activities:	
Net loss	\$ (744,581)
Adjustments to reconcile net loss to net cash used in operating activities:	
Deferred tax benefit	(52,265)
Change in assets and liabilities	
Decrease in receivable from clearing broker/dealer	1,466,664
Increase in notes receivable	(1,396,081)
Increase in accrued interest receivable	(18,182)
Decrease in marketable debt securities	12,553,988
Decrease in other assets	8,715
Decrease in accounts payable	(2,369)
Increase in management fees payable	500,000
Increase in accrued commissions payable	113,711
Decrease in securities sold, not yet purchased	(16,114,760)
Increase in due to related party	10,000
Increase in payable to clearing broker/dealer	4,310,773
Decrease in dividends payable	(513,966)
Decrease in deferred revenue	(22,607)
Decrease in refundable deposit	<u>(100,000)</u>
Net cash used in operating activities	<u>(960)</u>
Cash Flows From Financing Activities:	
Additional capital contributed	1,560,911
Series A 2% Preferred shares redeemed	(750,000)
Class B common dividends paid	<u>(1,919,753)</u>
Net cash used in financing activities	<u>(1,108,842)</u>
Net change in cash and cash equivalents	(1,109,802)
Cash and cash equivalents at beginning of year	<u>1,557,668</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 447,866</u></u>

Supplemental Disclosures of Cash Flow Information:

Cash paid during the year for:

Interest	<u><u>\$ 222,323</u></u>
Income taxes	<u><u>\$ -</u></u>

NATIONAL ALLIANCE SECURITIES CORPORATION
Statement of Cash Flows
For the Year Ended December 31, 2006

Non-Cash Financing Activities:

Series A 2% preferred shares accumulate dividends at \$0.20 per share per annum. 5,184 preferred shares were issued in 2006 for prior year accumulated dividends .

Preferred dividends totaling \$92,468 were declared and paid in 9,246 preferred shares during 2006.

NATIONAL ALLIANCE SECURITIES CORPORATION
Notes to Financial Statements

Note 1 - Nature of Business and Summary of Significant Accounting Policies

Nature of Business/Merger:

National Alliance Securities Corporation (Company) was organized in June 2003, under the laws of the State of Nevada. Effective January 1, 2004, National Alliance Capital, LLC (NAC), a registered broker/dealer, merged with and into the Company with the Company being the surviving entity. The Company and NAC were under common control; therefore, the merger was accounted for similar to a pooling of interests. Prior to the merger, the Company had not been capitalized, nor had any operating activities. As a result of the merger, the Company became the registered broker-dealer and continued to operate similar to that of NAC.

The Company is a broker-dealer in securities registered with the Securities and Exchange Commission (SEC) under the exemptive provisions of SEC rule 15c3-3 (k)(2)(ii) and is a member of the National Association of Security Dealers, Inc. (NASD). These provisions provide that all the funds and securities belonging to the Company's customers be handled by a clearing broker-dealer.

The Company's operations consist primarily in trading of marketable debt securities. The majority of the Company's customers are broker-dealers and institutions located throughout the United States.

Significant Accounting Policies:

Basis of Accounting

The Company operates under the provisions of Paragraph (k)(2)(ii) of Rule 15c3-3 of the SEC and, accordingly, is exempt from the remaining provisions of that Rule. Essentially, the requirements of Paragraph (k)(2)(ii) provide that the Company clear all transactions on behalf of customers on a fully disclosed basis with a clearing broker/dealer, and promptly transmit all customer funds and securities to the clearing broker/dealer. The clearing broker/dealer carries all of the accounts of the customers and maintains and preserves all related books and records as are customarily kept by a clearing broker/dealer.

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 disclosure 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.

NATIONAL ALLIANCE SECURITIES CORPORATION
Notes to Financial Statements

Note 1 - Nature of Business and Summary of Significant Accounting Policies (continued)

Fair Value

Cash and cash equivalents, receivable from clearing broker/dealer, notes receivable accrued interest receivable, accounts payable, accrued expenses and other payables are short-term in nature and accordingly are reported in the statement of financial condition at fair value or carrying amounts that approximate fair value. Marketable debt securities are also recorded at estimated fair value, determined using quoted market prices, where available, or third-party pricing services.

The Company has a number of financial instruments, which are primarily held for trading purposes. The Company estimates that the fair value of all financial instruments at December 31, 2006, does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of financial condition. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimate of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Cash Equivalents

Money market funds are reflected as cash equivalents in the accompanying statement of financial condition and for purposes of the statement of cash flows.

Marketable Debt Securities

Marketable debt securities are recorded on the trade date and are valued at fair value. The resulting difference between cost and fair value is included in trading profits in the accompanying statement of income.

Securities Sold, Not Yet Purchased

Securities sold, not yet purchased are recorded on the trade date and are valued at fair value. The resulting difference between cost and fair value is included in trading profits in the accompanying statement of income.

Dividends to Shareholders

The Company records dividends to its shareholder on the declaration date.

Revenue Recognition

Security transactions and the related trading profits, securities commissions and expenses are recorded on the trade date.

NATIONAL ALLIANCE SECURITIES CORPORATION
Notes to Financial Statements

Note 2 - Notes Receivable

The Company has an unsecured note receivable totaling \$4,041,078 due from Prime Income Asset Management, Inc., a related party, bearing interest at 8%. Principal and accrued unpaid interest on the note are due in December 2007. There is no accrued unpaid interest at December 31, 2006.

The Company has an unsecured note receivable totaling \$486,798 due from Transcontinental Realty Investors, Inc., a related party, bearing interest at 8.5%. Principal and accrued interest on the note are due in February 2007. Accrued and unpaid interest totaled \$2,069 at December 31, 2006. Management intends to extend this note to March 2007.

The Company has a note receivable totaling \$688,368, bearing interest at 12%. Principal and accrued interest on the note is due in March 2007. The note is secured by 25 acres of unimproved land in Corinth, Texas. Accrued and unpaid interest totaled \$16,113 at December 31, 2006.

Note 3 - Marketable Debt Securities

Marketable debt securities, at fair value as of December 31, 2006, consist of federal, municipal and corporate bonds totaling \$8,122,661.

Note 4 - Dividends to Shareholders

Series A 2% preferred shares accumulate dividends at \$0.20 per share per annum. 5,184 preferred shares were issued in 2006 for prior year accumulated preferred dividends. Dividends for 2006 of \$92,468 were paid in 9,246 preferred shares during the year.

The Company declared a dividend on the Class B common shares totaling \$1,919,753 to shareholders of record as of August 23, 2006. The dividend was paid on August 30, 2006.

Note 5 - Net Capital Requirements

The Company is subject to the SEC uniform net capital rule (Rule 15c3-1), which requires the maintenance of a minimum amount of net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Rule 15c3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2006, the Company had net capital and net capital requirements of \$1,281,459 and \$250,000, respectively. The Company's net capital ratio was 0.65 to 1.

NATIONAL ALLIANCE SECURITIES CORPORATION
Notes to Financial Statements

Note 6 - Income Taxes

The Company has a current year tax loss; therefore, there is no provision for current income taxes. The Company has a net operating loss carryforward of \$864,157 available to offset future taxable income, of which \$30,482 expires in 2024 and \$833,675 expires in 2025. The Company has unrealized gains on securities of \$36,830 at December 31, 2006. The net operating loss carryforward net of the unrealized gain on securities creates a deferred tax asset of approximately \$280,000, which is fully reserved with a valuation allowance, therefore, there is no deferred tax asset recognized in the accompanying statement of financial condition.

The current year deferred income tax benefit has resulted from the prior year deferred income payable on unrealized gains being realized during the year.

Note 7 - Capital Stock

The total number of shares of all classes of stock the Company has the authority to issue is 15,000,000, of which 2,000,000 shares, par value \$10, are designated Series A 2% Preferred Stock, 5,000,000 shares, par value \$.01, are designated Class A Common Stock, 5,000,000 shares, par value \$.01, are designated Class B Common Stock, and 3,000,000 shares, par value \$10, are a class designated Preferred Stock.

The shares of Series A 2% Preferred Stock are non-voting, have a liquidation preference of ten dollars per share and are redeemable at the option of the Company at a price equal to the liquidation preference per share plus any accumulated and unpaid dividends. Dividends are cumulative and payable quarterly of each year, at the rate per share of \$.05 per quarter (\$.20 per annum). The preferred shares have dividend preference over all other classes of stock and may not be converted into any other securities of the Company.

The shares of Class A Common Stock constitute the primary ownership of the Company, or 60% of the common stock.

The shares of Class B Common Stock are equal to Class A Common Stock.

The Company is authorized to provide for the issuance in one or more series of any number of shares of Preferred Stock up to a maximum of 3,000,000 shares.

Note 8 - Transactions with Clearing Broker/Dealers

The agreement with the clearing broker/dealer provide for clearing charges at a fixed rate multiplied by the number of tickets traded by the Company. The agreement also requires the Company to maintain a minimum of \$250,000 as a deposit in account with the clearing broker/dealer.

NATIONAL ALLIANCE SECURITIES CORPORATION
Notes to Financial Statements

Note 9 - Deferred Compensation Plan

The Company has a deferred compensation plan for its trading employees. Under this plan, deferred compensation amounts are accrued monthly based on individual trader profitability and paid annually in the form of planned Series B membership units which will vest over two years. When the units are fully vested, they can be redeemed for face value at the option of the holder. At December 31, 2006, the Company has deferred compensation payable of \$120,975 for the issuance of the planned Series B membership units. Deferred compensation payable is included in the accompanying statement of financial condition as accrued commissions payable.

Note 10 - Retirement Plan

The Company has a 401(k) profit sharing plan covering substantially all employees. Under this plan, employees may make elective contributions as allowed under federal law and the Company may make matching and discretionary contributions. Employee contributions vest immediately and Company contributions vest ratably over six years. There were no Company contributions to the plan for 2006.

Note 11 - Related Party Transactions

The Company and several other related companies are under common control and the existence of that control could create operating results and financial position significantly different than if the companies were autonomous.

The Company shares corporate office space with several entities related through common ownership and control. One of the related parties regularly advances payroll and other costs on behalf of the Company, which the Company settles on a regular basis. There is \$10,000 due to this related party at December 31, 2006.

The Company has unsecured note receivables totaling \$4,527,865 due from two related parties. Accrued interest receivable totals \$2,069 at December 31, 2006 (See Note 2).

The Company has a management agreement with an entity related through common control. The Company is to receive general management services, including oversight and management of operations, trading, accounting, payroll, and regulatory filings, as well as investment banking efforts. The agreement provides for an annual base fee of \$2,000,000 plus an additional \$500,000 for each \$1,000,000 in annual revenue growth. In addition, the Company pays management fees for investment banking referrals. The Agreement can be cancelled with 30 days written notice by either party. Management fees totaled \$2,060,911 for 2006, of which \$500,000 was payable at December 31, 2006.

NATIONAL ALLIANCE SECURITIES CORPORATION
Notes to Financial Statements

Note 12 - Contingencies

There are currently no asserted claims or legal proceedings against the Company, however, the nature of the Company's business subjects it to various claims, regulatory examinations, and other proceedings in the ordinary course of business. The ultimate outcome of any such action against the Company could have an adverse impact on the financial condition, results of operations, or cash flows of the Company.

Note 13 - Off-Balance-Sheet Risk

As discussed in Note 1, the Company's customers' securities transactions are introduced on a fully disclosed basis with its clearing broker/dealer. The clearing broker/dealer carries all of the accounts of the customers of the Company and is responsible for execution, collection and payment of funds, and receipt and delivery of securities relative to customer transactions. Off-balance-sheet risk exists with respect to these transactions due to the possibility that customers may be unable to fulfill their contractual commitments wherein the clearing broker/dealer may charge any losses it incurs to the Company. The Company seeks to minimize this risk through procedures designed to monitor the credit worthiness of its customers and that customer transactions are executed properly by the clearing broker/dealer.

In addition, the Company has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company records these obligations in the financial statements at fair values of the related securities and will incur a loss if the fair value of the securities subsequently increases. There were no securities sold, not yet purchased at December 31, 2006.

Note 14 - Concentration of Credit Risk

The Company has cash, a receivable from clearing broker/dealer, a clearing deposit and marketable debt securities due from and held by its clearing broker/dealer totaling \$9,052,855, or approximately 63% of total assets at December 31, 2006. The Company also has a payable to clearing broker/dealer totaling \$6,572,661 or approximately 89% of total liabilities due to the same clearing broker/dealer.

Note 15 - Concentration of Revenue

A Class B common shareholder generated approximately 51% of the Company's revenue.

Schedule I

NATIONAL ALLIANCE SECURITIES CORPORATION Computation of Net Capital and Aggregate Indebtedness Pursuant to Rule 15c3-1 December 31, 2006

Total stockholders' equity qualified for net capital	\$ 6,935,623
Deductions and/or charges	
Non-allowable assets:	
Receivable from clearing broker/dealer	3,629
Notes receivable	5,216,244
Accrued interest receivable	<u>18,182</u>
Total deductions and/or charges	<u>5,238,055</u>
Net capital before haircuts on securities positions	<u>1,697,568</u>
Haircuts on securities:	
Marketable debt securities	<u>416,109</u>
Net Capital	<u><u>\$ 1,281,459</u></u>
Aggregate indebtedness	
Accounts payable	\$ 10,130
Management fee payable	500,000
Payable to related party	10,000
Accrued commissions payable	<u>309,436</u>
Total aggregate indebtedness	<u><u>\$ 829,566</u></u>
Computation of basic net capital requirement	
Minimum net capital required (greater of \$250,000 or 6 2/3% of aggregate indebtedness)	<u><u>\$ 250,000</u></u>
Net capital in excess of minimum requirement	<u><u>\$ 1,031,459</u></u>
Ratio of aggregate indebtedness to net capital	<u><u>0.65 to 1</u></u>

Note: The above computation does not differ from the computation of net capital

BRAD A. KINDER, CPA

CERTIFIED PUBLIC ACCOUNTANT

815 PARKER SQUARE • FLOWER MOUND, TX 75028
972-899-1170 • Fax 972-899-1172

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors
National Alliance Securities Corporation

In planning and performing our audit of the financial statements and supplemental schedule of National Alliance Securities Corporation (the Company) for the year ended December 31, 2006, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on 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 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 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
2. 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.

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 accordance 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.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including 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 use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc. 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.


BRAD A. KINDER, CPA

Flower Mound, Texas
February 27, 2007

END