



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

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

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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: Falcon Securities, Inc.

OFFICIAL USE ONLY

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

FIRM I.D. NO.

212 Center Street, Suite 800

(No. and Street)

Little Rock

AR

72201

(City)

(State)

(Zip Code)

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

Gus Blass, III

(501) 372-5171

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Erwin & Company, P.A.

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

6311 Ranch Drive, Little Rock, AR 72223

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

APR 11 2007

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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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OATH OR AFFIRMATION

I, Gus Blass, III, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Falcon 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:

Signature

President

Title

Notary Public

Deborah A. Clark
Notary Public, State of Arkansas
Pulaski County
My Commission Exp. 07/07/2007

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 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.

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

FALCON SECURITIES, INC.

STATEMENTS OF FINANCIAL CONDITION

December 31, 2006 and 2005

ASSETS

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 20,273	\$ 15,978
Investment securities owned, at market value	181,661	207,562
Prepaid expenses	<u>530</u>	<u>530</u>
 Total assets	 <u>\$ 202,464</u>	 <u>\$ 224,070</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities	<u>\$ -</u>	<u>\$ -</u>
Stockholder's equity:		
Common stock; \$1 par value; 1,000 shares authorized; 300 shares issued and outstanding	300	300
Additional paid-in capital	140,525	140,525
Retained earnings	<u>61,639</u>	<u>83,245</u>
 Total stockholder's equity	 <u>202,464</u>	 <u>224,070</u>
	<u>\$ 202,464</u>	<u>\$ 224,070</u>

See accompanying notes

FALCON SECURITIES, INC.

STATEMENTS OF OPERATIONS

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Consulting income	\$ 155,000	\$ -
Interest income	304	93
Unrealized gains (losses) on investment securities	<u>(25,901)</u>	<u>126,262</u>
 Total income	 129,403	 126,355
Operating expenses:		
Sales commissions	145,000	-
NASD Fees	855	867
Professional fees	2,150	2,050
Taxes other than income tax	550	550
SIPC Fees	150	150
Other	<u>2,304</u>	<u>996</u>
 Total operating expenses	 <u>151,009</u>	 <u>4,613</u>
 Net income (loss)	 <u>\$ (21,606)</u>	 <u>\$ 121,742</u>

See accompanying notes

FALCON SECURITIES, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2006 and 2005

	Common <u>Stock</u>	Additional Paid-in <u>Capital</u>	Retained <u>Earnings</u>	<u>Total</u>
Balance - December 31, 2004	\$ 300	\$ 103,325	\$ (38,497)	\$ 65,128
Capital contribution		37,200		37,200
Net income	<u> </u>	<u> </u>	<u>121,742</u>	<u>121,742</u>
Balance - December 31, 2005	300	140,525	83,245	224,070
Net loss	<u> </u>	<u> </u>	<u>(21,606)</u>	<u>(21,606)</u>
Balance - December 31, 2006	<u>\$ 300</u>	<u>\$ 140,525</u>	<u>\$ 61,639</u>	<u>\$ 202,464</u>

See accompanying notes

FALCON SECURITIES, INC.

STATEMENTS OF CASH FLOWS

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Net income (loss)	\$ (21,606)	\$ 121,742
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Unrealized (gains) losses on investment securities	<u>25,901</u>	<u>(126,262)</u>
Net cash provided (used) by operating activities	<u>4,295</u>	<u>(4,520)</u>
Cash flows from investing activities:		
Purchases of marketable investment securities	<u>-</u>	<u>(37,200)</u>
Net cash used by investing activities	<u>-</u>	<u>(37,200)</u>
Cash flows from financing activities:		
Capital contribution	<u>-</u>	<u>37,200</u>
Net cash provided by financing activities	<u>-</u>	<u>37,200</u>
Net increase (decrease) in cash and cash equivalents	4,295	(4,520)
Cash and cash equivalents		
Beginning of year	<u>15,978</u>	<u>20,498</u>
End of year	<u>\$ 20,273</u>	<u>\$ 15,978</u>

See accompanying notes

FALCON SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization and nature of business -

Falcon Securities, Inc. (the Company) is registered as a broker/dealer with the Securities Exchange Commission under the Securities Exchange Act of 1934 (the Act) and is a member of the National Association of Securities Dealers, Inc. No securities were held for customers at December 31, 2006 and 2005 or during the years then ended.

Marketable investment securities -

Marketable securities owned December 31, 2006 and 2005 consist of 5,900 shares of NASDAQ Stock Market, Inc., valued at the closing quoted market price (\$30.79 per share at December 31, 2006 and \$35.18 per share at December 31, 2005).

Realized and unrealized gains and losses are based on the specific identification method. Changes in the market value of these securities are classified as unrealized gains and losses and are included in the determination of income.

Cash equivalents -

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand and demand deposits in commercial banks and brokerage firms.

Statement of changes in subordinated liabilities -

The accompanying financial statements do not include a statement of changes in liabilities subordinated to the claims of general creditors as required under Rule 17a-5 of the Act, since no such liabilities existed at December 31, 2006 and 2005 or during the years then ended.

Use of estimates -

The preparation of financial statements in conformity with generally accepted accounting principles 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.

(2) MARKETABLE INVESTMENT SECURITIES:

Marketable investment securities at December 31, 2005 and 2004 are summarized as follows:

	<u>Original Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Market Value</u>
December 31, 2006	<u>\$ 94,700</u>	<u>\$ 86,961</u>	<u>\$ -</u>	<u>\$ 181,661</u>
December 31, 2005	<u>\$ 94,700</u>	<u>\$ 112,862</u>	<u>\$ -</u>	<u>\$ 207,562</u>

(3) INCOME TAXES:

The Company's stockholders have elected to be taxed under Subchapter S of the Internal Revenue Code whereby the income or loss of the Company is, in general, reported by the stockholder. Accordingly, the Company does not recognize a provision for income taxes.

(4) NET CAPITAL REQUIREMENTS:

The Company is required to maintain minimum net capital as defined in Rule 15c3-1 of the Securities Exchange Act of 1934. The Company uses the aggregate indebtedness method which requires the Company to maintain minimum net capital of 6 2/3% of aggregate indebtedness or \$25,000, whichever is greater, unless the broker-dealer: does not receive, directly or indirectly, or hold funds or securities for, or owe funds or securities to customers; does not carry customer accounts; and clears all trades through another broker-dealer, in which case minimum net capital of \$5,000 is required. The Act also requires that the ratio of aggregate indebtedness to net capital not exceed 15 to 1.

The Company does not carry customer accounts and does not transact trades and, accordingly, the Company is required to maintain \$5,000 minimum net capital. Net capital as defined under Rule 15c3-1 was \$174,685 and \$192,406 at December 31, 2006 and 2005, respectively. The Company had no indebtedness at December 31, 2006 and 2005.

(5) RELATED PARTY TRANSACTIONS:

The Company uses certain office facilities and general and administrative services provided by a company affiliated through common ownership without charge.

All of the Company's consulting income was earned from entities or individuals that are related to the Company's stockholder and president. All of the Company's commission expense was paid to the Company's stockholder and president.

ADDITIONAL INFORMATION

FALCON SECURITIES, INC.

**COMPUTATION OF NET CAPITAL, AGGREGATE INDEBTEDNESS,
AND RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL
UNDER RULE 15c3-1**

December 31, 2006

Net Capital:	
Total stockholder's equity	\$ 202,464
Less nonallowable assets - prepaid expenses	(530)
Less 15% haircut on marketable securities	<u>(27,249)</u>
Net capital	174,685
Net capital requirement	<u>5,000</u>
Excess net capital	<u>\$ 169,685</u>
Aggregate Indebtedness	<u>\$ -</u>
Ratio of aggregate indebtedness to net capital	0.00 to 1
Reconciliation with Company's Computation:	
Net capital, as reported in Company's Part II of Form X-17A-5 (unaudited)	\$ 174,685
Net audit adjustments	<u>-</u>
Net capital per above	<u>\$ 174,685</u>

FALCON SECURITIES, INC.

EXEMPTIVE PROVISION UNDER RULE 15c3-3

December 31, 2006

An exemption from Rule 15c3-3 is claimed under Section (k)(2)(ii).

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
UNDER RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION

AND

INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS
UNDER RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION

The Company clears all customer transactions with and for customers on a fully-disclosed basis with a clearing broker, promptly transmits all customer funds and securities to the clearing broker, does not carry securities accounts for customers or perform custodial functions related to customer securities. Accordingly, no reconciliation between the computation of the reserve requirement under Rule 15c3-3 and the computation filed with Part II of Form X-17A-5 is necessary.

ERWIN & COMPANY
A PROFESSIONAL ASSOCIATION
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' SUPPLEMENTARY
REPORT ON INTERNAL CONTROL

6311 Ranch Drive
Little Rock, AR 72223
(501) 868-7486
(501) 868-7750 (Fax)

The Board of Directors and Stockholder
Falcon Securities, Inc.

In planning and performing our audit of the financial statements and additional information of Falcon 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 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.

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, except for the condition discussed in the preceding paragraph that we believe is a material inadequacy in the practices and procedures comprehended in the SEC's objectives.

This report is intended solely for the use of the stockholders and management of Falcon Securities, Inc., the SEC, the National Association of Securities Dealers, Inc., the Arkansas Securities Department, 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.

Erwin & Company

Little Rock, Arkansas
January 15, 2007