

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

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SECURITIES AND EXCHANGE COMMISSION
ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

MAY 14 2007

SEC FILE NUMBER
8-50847

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 10/01/06 AND ENDING 12/31/06
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Kovack Securities, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
6451 N. Federal Highway

Fort Lauderdale, Florida 33308
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Ronald J. Kovack 954-491-1733
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Margolies, Fink and Wichrowski

2201 West Sample Road, #9-1B, Pompano Beach, FL 33073
(Name - if individual, state last, first, middle name)

(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED
JUN 13 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)

OATH OR AFFIRMATION

I, Ronald J. Kovack, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Kovack 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:



Carlo A. Bidone, Jr.
Commission # DD617
Expires: NOV. 27
www.AARONNotary.com

[Signature]
Notary Public

[Signature]
Signature

Chairman

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.

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

ASSETS

Consolidated [0198]	Unconsolidated [0199]	Allowable	Non-Allowable	Total
1. Cash		1,700,692 [0200]		1,700,692 [0750]
2. Receivables from brokers or dealers:				
A. Clearance account		46,170 [0295]		
B. Other		259,429 [0300]	[0550]	305,599 [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		52,343 [0424]		
E. Spot commodities		[0430]		52,343 [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:				
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]	176,621 [0680]	176,621 [0920]
11. Other assets	[0535]	251,420 [0735]	251,420 [0930]
12. TOTAL ASSETS	2,058,634 [0540]	428,041 [0740]	2,486,675 [0940]

LIABILITIES AND OWNERSHIP EQUITY

Liabilities	A.I. Liabilities	Non-A.I. Liabilities	Total
13. Bank loans payable	[1045]	[1255]	[1470]
14. Payable to brokers or dealers:			0
A. Clearance account	[1114]	[1315]	[1560]
B. Other	676,139 [1115]	[1305]	676,139 [1540]
15. Payable to non-customers	[1155]	[1355]	[1610]
16. Securities sold not yet purchased, at market value		[1360]	[1620]
17. Accounts payable, accrued liabilities, expenses and other	249,111 [1205]	[1385]	249,111 [1685]
18. Notes and mortgages payable:			0
A. Unsecured	[1210]		[1690]
B. Secured	[1211]	[1390]	[1700]
19. Liabilities subordinated to claims of general creditors:			0
A. Cash borrowings:		225,000	225,000
1. from outsiders		[1400]	[1710]
[0970]			
2. Includes equity subordination (15c3-1(d)) of			
225,000			
[0980]			
B. Securities borrowings, at market value:			0
from outsiders		[1410]	[1720]
[0990]			
C. Pursuant to secured demand note collateral agreements:			0
1. from outsiders		[1420]	[1730]

		[1000]		
	2. Includes equity subordination (15c3-1(d)) of			
		[1010]		
	D. Exchange memberships contributed for use of company, at market value		0	
		[1430]	[1740]	
	E. Accounts and other borrowings not qualified for net capital purposes	[1220]	[1440]	0
			[1750]	
20.	TOTAL LIABILITIES	<u>925,250</u>	<u>225,000</u>	<u>1,150,250</u>
		[1230]	[1450]	[1760]

Ownership Equity

	Total
21. Sole proprietorship	[1770]
22. Partnership (limited partners (1020))	[1780]
23. Corporations:	
A. Preferred stock	[1791]
B. Common stock	432,931
	[1792]
C. Additional paid-in capital	[1793]
D. Retained earnings	903,593
	[1794]
E. Total	1,336,424
	[1795]
F. Less capital stock in treasury	[1796]
24. TOTAL OWNERSHIP EQUITY	<u>1,336,424</u>
	[1800]
25. TOTAL LIABILITIES AND OWNERSHIP EQUITY	<u>2,486,674</u>
	[1810]

STATEMENT OF INCOME (LOSS)

Period Beginning <u>10/01/2006</u> [3932]	Period Ending <u>12/31/2006</u> [3933]	Number of months <u>3</u> [3931]
--	---	-------------------------------------

REVENUE

1. Commissions:		
a. Commissions on transactions in exchange listed equity securities executed on an exchange	626,547	[3935]
b. Commissions on listed option transactions	3,587	[3938]
c. All other securities commissions	2,251,544	[3939]
d. Total securities commissions	2,881,678	[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	378,008	[3970]
6. Commodities revenue		[3990]
7. Fees for account supervision, investment advisory and administrative services	682,093	[3975]
8. Other revenue	126,307	[3995]
9. Total revenue	4,068,086	[4030]

EXPENSES

10. Salaries and other employment costs for general partners and voting stockholder officers	20,660	[4120]
11. Other employee compensation and benefits	26,294	[4115]
12. Commissions paid to other broker-dealers	3,078,912	[4140]
13. Interest expense	2,250	[4075]
a. Includes interest on accounts subject to subordination agreements	2,250	[4070]
14. Regulatory fees and expenses	121,418	[4195]
15. Other expenses	607,955	[4100]
16. Total expenses	3,857,489	

[4200]

NET INCOME

17. Net Income(loss) before Federal Income taxes and items below (Item 9 less Item 16)	210,597
	[4210]
18. Provision for Federal Income taxes (for parent only)	-
	[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	210,597
	[4230]

MONTHLY INCOME

23. Income (current monthly only) before provision for Federal income taxes and extraordinary items	-127,450
	[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- <u>17574</u> [4335A]	----- PERSHING LLC [4335A2]	----- All [4335B]
8- <u>26740</u> [4335C]	NATIONAL FINANCIAL SERVICES LL [4335C2]	----- All [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		1,336,424	[3480]
2.	Deduct ownership equity not allowable for Net Capital			[3490]
3.	Total ownership equity qualified for Net Capital		1,336,424	[3500]
4.	Add:			
	A. Liabilities subordinated to claims of general creditors allowable in computation of net capital		225,000	[3520]
	B. Other (deductions) or allowable credits (List)			
		[3525A]		[3525B]
		[3525C]		[3525D]
		[3525E]		[3525F]
			0	[3525]
5.	Total capital and allowable subordinated liabilities		1,561,424	[3530]
6.	Deductions and/or charges:			
	A. Total nonallowable assets from Statement of Financial Condition (Notes B and C)	428,041		[3540]
	B. Secured demand note deficiency			[3590]
	C. Commodity futures contracts and spot commodities - proprietary capital charges			[3600]
	D. Other deductions and/or charges		-428,041	[3610]
7.	Other additions and/or credits (List)			
		[3630A]		[3630B]
		[3630C]		[3630D]
		[3630E]		[3630F]
			0	[3630]
8.	Net capital before haircuts on securities positions		1,133,383	[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	-----	7,851	
		[3734]	
D. Undue Concentration	-----	[3650]	
E. Other (List)			
	-----	[3736A]	[3736B]
	-----	[3736C]	[3736D]
	-----	[3736E]	[3736F]
		0	-7,851
		[3736]	[3740]
10. Net Capital			1,125,532
			[3750]

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A

11. Minimum net capital required (6-2/3% of line 19)	-----	61,683	
		[3756]	
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note(A)	-----	50,000	
		[3758]	
13. Net capital requirement (greater of line 11 or 12)	-----	61,683	
		[3760]	
14. Excess net capital (line 10 less 13)	-----	1,063,849	
		[3770]	
15. Excess net capital at 1000% (line 10 less 10% of line 19)	-----	1,033,007	
		[3780]	

COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.I. liabilities from Statement of Financial Condition	-----	925,250	
		[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			925,250
			[3840]
20. Percentage of aggregate indebtedness to net capital (line 19 / line 10)		%	82
			[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	Insider or Outsider	Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities)	Withdrawal or Maturity Date (MMDDYYYY)	Expect to 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	
\$					
				[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		1,518,536 [4240]
	A. Net income (loss)		210,597 [4250]
	B. Additions (includes non-conforming capital of	[4262]	[4260]
	C. Deductions (includes non-conforming capital of	[4272]	-392,709 [4270]
2.	Balance, end of period (From item 1800)		1,336,424 [4290]

**STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED
TO CLAIMS OF GENERAL CREDITORS**

3.	Balance, beginning of period		225,000 [4300]
	A. Increases		0 [4310]
	B. Decreases		0 [4320]
4.	Balance, end of period (From item 3520)		225,000 [4330]



MARGOLIES, FINK AND WICHROWSKI

CERTIFIED PUBLIC ACCOUNTANTS

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POMPANO BEACH, FLORIDA 33073

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A Partnership of Professional Associations

Barry A. Fink, C.P.A., P.A.
Mark V. Wichrowski, C.P.A., P.A.

Bernard W. Margolies, C.P.A.

Members of
American Institute of Certified Public Accountants
Florida Institute of Certified Public Accountants
New York State Society of Certified Public Accountants

To the Board of Directors
Kovack Securities, Inc.

In planning and performing our audit of the financial statements of Kovack Securities, Inc. for the year ended December 31, 2006, we considered its internal control structure, including procedures 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 the internal control structure.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by Kovack Securities, Inc. that we considered relevant to the objectives stated in Rule 17a-5(g), (1) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the Company has met the conditions and is exempt from compliance with Rule 15c3-3, (2) in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13; (3) in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System; and (4) in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining an internal control structure 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 internal control structure policies and procedures 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 an internal control structure 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 any internal control structure or the practices and procedures referred to above, errors or irregularities 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 the internal control structure would not necessarily disclose all matters in the internal control structure 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 structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 the internal control structure, including procedures 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 the practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2006, to meet the SEC's objectives.

This report is intended solely for the use of the Board of Directors, management, the Securities and Exchange Commission, 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.

Margolis, Lil and Weikowski

Pompano Beach, Florida
January 17, 2007

**KOVACK SECURITIES, INC.
FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2006 AND 2005
and
INDEPENDENT AUDITORS' REPORT**

KOVACK SECURITIES, INC.
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2. Oath of Officer and Form X-17A-5 (Focus Report)
3. Report on Internal Accounting Control



MARGOLIES, FINK AND WICHROWSKI

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New York State Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
Kovack Securities, Inc.

We have audited the accompanying balance sheets of Kovack Securities, Inc. as of December 31, 2006 and 2005, and the related statements of income, stockholders equity, changes in subordinated borrowings, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kovack Securities, Inc. at December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity 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 accompanying reconciliation of net capital is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Margolies, Fink and Wichrowski

January 17, 2007

KOVACK SECURITIES, INC.
BALANCE SHEETS
DECEMBER 31, 2006 AND 2005

ASSETS

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 1,700,692	\$ 1,542,389
Marketable securities, net of valuation allowance	52,343	41,730
Receivables:		
Clearing broker and insurance companies	305,599	428,385
Employees	5,000	
Prepaid expenses	213,339	195,826
Property and equipment, net of accumulated depreciation	176,621	166,515
Deposits and other assets	<u>33,081</u>	<u>31,940</u>
	<u>\$ 2,486,675</u>	<u>\$ 2,406,785</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable and accrued expenses	\$ 780,005	\$ 800,705
Note payable – insurance	<u>145,246</u>	<u>129,755</u>
	<u>925,251</u>	<u>930,460</u>
Subordinated note payable	<u>225,000</u>	<u>225,000</u>
Stockholders' equity:		
Common stock, no par value per share, 10,000 shares		
Authorized, 1,818, shares issued and outstanding	319,843	319,843
Additional paid-in capital	10,000	10,000
Retained earnings	996,138	903,593
Accumulated other comprehensive income	<u>10,443</u>	<u>17,889</u>
Total stockholders' equity	<u>1,336,424</u>	<u>1,251,325</u>
	<u>\$ 2,486,675</u>	<u>\$ 2,406,785</u>

The accompanying notes are an integral part of these financial statements.

KOVACK SECURITIES, INC.
STATEMENTS OF INCOME AND
COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Revenues:		
Commissions, and other income	\$19,711,806	\$13,822,240
Expenses:		
Commissions	13,871,309	9,841,375
Rent	225,516	209,443
Depreciation and amortization	47,918	40,312
Interest	14,367	12,349
Other	<u>4,082,520</u>	<u>2,853,133</u>
	<u>18,241,630</u>	<u>12,956,612</u>
Net income	1,470,176	865,628
Other comprehensive income :		
Unrealized gain (loss) on marketable securities	<u>(7,446)</u>	<u>35,544</u>
Total comprehensive income	<u>\$ 1,462,730</u>	<u>\$ 901,172</u>

The accompanying notes are an integral part of these financial statements.

KOVACK SECURITIES, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>Common Shares</u>	<u>Amount</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance December 31, 2004	1,818	\$ 319,843	\$ 10,000	\$ 389,715	\$ (17,655)	\$ 701,903
Distributions				(351,750)		(351,750)
Unrealized gain on Marketable securities					35,544	35,544
Net income	-	-	-	<u>865,628</u>	-	<u>865,628</u>
Balance December 31, 2005	1,818	\$ 319,843	\$ 10,000	\$ 903,593	\$ 17,889	\$ 1,251,325
Distributions				(1,377,631)		(1,377,631)
Unrealized loss on Marketable securities					(7,446)	(7,446)
Net income	-	-	-	<u>1,470,176</u>	-	<u>1,470,176</u>
Balance December 31, 2006	<u>1,818</u>	<u>\$ 319,843</u>	<u>\$ 10,000</u>	<u>\$ 996,138</u>	<u>\$ 10,443</u>	<u>\$ 1,336,424</u>

The accompanying notes are an integral part of these financial statements.

KOVACK SECURITIES, INC.
STATEMENT OF CHANGES IN SUBORDINATED BORROWINGS
YEARS ENDED DECEMBER 31, 2006 AND 2005

Subordinated borrowing at December 31, 2004	\$ 225,000
Increase (decrease) in subordinated borrowings	_____ -
Subordinated borrowing at December 31, 2005	225,000
Increase (decrease) in subordinated borrowings	_____ -
Subordinated borrowing at December 31, 2006	<u>\$ 225,000</u>

KOVACK 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	\$ <u>1,470,176</u>	\$ <u>865,628</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	47,918	40,312
Loss on disposal of fixed assets	7,030	
Accounts receivables	122,786	(139,153)
Accounts receivable employees	(5,000)	
Prepaid expenses	143,872	121,648
Accounts payable and accrued expenses	<u>(20,700)</u>	<u>142,214</u>
Total adjustments	<u>295,906</u>	<u>165,021</u>
Total cash flows from operating activities	<u>1,766,082</u>	<u>1,030,649</u>
Cash flows (used in) investing activities:		
Investment in marketable securities	(19,200)	
Proceeds from the sale of fixed assets	5,000	
Purchase of property and equipment	<u>(70,054)</u>	<u>(40,183)</u>
Total cash flows (used in) investing activities	<u>(84,254)</u>	<u>(40,183)</u>
Cash flows from (used in) financing activities:		
Stockholder distributions	(1,377,631)	(351,750)
Principal payments on notes payable insurance, net	<u>(145,894)</u>	<u>(135,926)</u>
Total cash flows (used in) financing activities	<u>(1,523,525)</u>	<u>(487,676)</u>
Net increase in cash and cash equivalents	158,303	502,790
Cash and cash equivalents, beginning of period	<u>1,542,389</u>	<u>1,039,599</u>
Cash and cash equivalents, end of period	<u>\$1,700,692</u>	<u>\$1,542,389</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 16,617</u>	<u>\$ 10,069</u>
Insurance financed with debt	<u>\$ 161,385</u>	<u>\$ 144,417</u>

The accompanying notes are an integral part of these financial statements.

KOVACK SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS

1. BUSINESS

The Company was incorporated in the State of Florida on April 23, 1997, as a registered securities broker-dealer. The Company's headquarters are located in Fort Lauderdale, Florida.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents - The Company considers all unrestricted deposits and highly liquid investments, readily convertible to known amounts, with an original maturity of three months or less to be cash equivalents.

Marketable securities - Marketable securities are carried at their fair market value. The resulting difference between cost and market is included in other comprehensive income. Securities not readily marketable are value at fair value as determined by management.

Property and equipment - Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method.

Revenue recognition - Purchases and sales of securities are recorded on the settlement date. Investment banking income is recorded at the time the services are completed and the income is reasonably determinable.

Accounting estimates - Management of the Company occasionally uses accounting estimates in determining certain revenues and expenses. Estimates are based on subjective as well as objective factors and, as a result, judgment is required to estimate certain amounts at the date of the financial statements.

Fair value of financial instruments - The fair value of the Company's financial instruments such as cash and cash equivalents, accounts receivable, accounts payable, capital lease obligations, and subordinated notes payable approximate their carrying value.

Income taxes - The Company with the consent of its shareholders, elected to be an "S" Corporation under the Internal Revenue Code. All taxable income or loss flows through to the shareholders. Accordingly, no income tax expense or liability is recorded in the accompanying financial statements.

KOVACK SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS

3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2006 and 2005 consists of the following:

	<u>2006</u>	<u>2005</u>	<u>Estimated useful lives</u>
Office equipment and furniture	\$ 323,335	\$ 253,281	5 years
Automobile		22,115	5 years
Leasehold improvements	<u>19,987</u>	<u>19,987</u>	7 years
	343,322	295,383	
Less accumulated depreciation	<u>(166,701)</u>	<u>(128,868)</u>	
	<u>\$ 176,621</u>	<u>\$ 166,515</u>	

Depreciation expense charged to income was \$47,918 and \$40,312 in 2006 and 2005, respectively.

4. NOTE PAYABLE - INSURANCE

Notes payable - insurance at December 31, 2006 and 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Installment note payable, due in monthly installments of interest and principal of \$16,139 and \$14,417, interest at 8.40 and 8.35% in 2006 and 2005 respectively, unsecured	<u>\$ 145,247</u>	<u>\$ 129,755</u>

5. SUBORDINATED NOTE PAYABLE

Subordinated note payable at December 31, 2006 and 2005 consists of the following:

	<u>2006</u>	<u>2005</u>
Subordinated note payable, with interest at 4% payable annually, maturing on November 30, 2015, unsecured.	<u>\$ 225,000</u>	<u>\$ 225,000</u>

KOVACK SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS

6. LEASES

The Company has several non-cancelable leases for transportation equipment, office facilities and equipment that expire over the next three years. The following is a schedule of future minimum lease payments for operating leases as of December 31, 2006: 2007 - \$251,380, 2008 - \$248,313, 2009 - \$235,445, 2010 - \$241,629.

7. PROFIT SHARING PLAN

The Company has a noncontributory profit-sharing plan offered to all full-time employees after 12 months of service. The Company makes annual contributions to the profit-sharing plan at the discretion of the Company. Participants become 100 percent vested after six years. The Company made contributions of \$-0-, to the plan for the years ended December 31, 2006 and 2005.

8. COMMITMENTS AND CONTINGENCIES

The Company is party to certain claims and legal actions arising in the ordinary course of business. In some cases, plaintiffs are seeking compensatory and punitive damages. It is the opinion of management that ultimate disposition of these matters will not have a material adverse effect on the Company's financial condition. The Company has accrued \$45,000 of settlement costs in 2006.

9. REQUIREMENTS OF RULE 15c3-3

The Company is a non-clearing broker, exempt from making computations of amounts on deposit in the Special Reserve Bank Account for the Exclusive Benefits of Customers, under the provisions of paragraph (k) of Rule 15c3-3 under the Securities and Exchange Act of 1934.

10. NET CAPITAL PROVISION OF RULE 15c3-1

The Company is subject to Rule 15c3-1 under the Securities and Exchange Act of 1934. The rule provides the aggregate indebtedness may not exceed 8 times net capital for 12 months after commencing business as a broker-dealer and 15 times net capital thereafter.

The net capital of the Company, as defined by the rule was \$1,125,532 at December 31, 2006. The ratio of aggregate indebtedness to net capital was .82 to 1.

KOVACK SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS

11. REPORTING REQUIREMENTS UNDER RULE 17a-5

The Company is subject to the reporting requirements of Rule 17a-5 of the Securities and Exchange Act of 1934, which requires certain brokers and dealers to file annual statements of financial condition with the Securities and Exchange Commission. The Company has met this requirement by filing Form X-17A-5 with the Commission. Copies of Parts I and II of Form X-17A-5 and any comments as to weaknesses found in the accounting system, the internal accounting controls or procedures for safeguarding securities are available for examination at the Fort Lauderdale, Florida, office of the Company, and in the regional office of the Securities and Exchange Commission.

**KOVACK SECURITIES, INC.
COMPUTATION AND RECONCILIATION OF NET CAPITAL
UNDER RULE 15c3-1 OF THE
SECURITIES AND EXCHANGE COMMISSION
DECEMBER 31, 2006**

NET CAPITAL COMPUTATION:

Total stockholders equity qualified for net capital	\$ 1,336,424
Add:	
Allowable subordinated liabilities	<u>225,000</u>
Total capital and allowable subordinated liabilities	1,561,424
Deducts and or charges:	
Total non-allowable assets	<u>(428,041)</u>
Net capital before haircuts	<u>1,133,383</u>
Haircuts on securities:	
Other securities	(7,851)
Undue concentrations	
Money markets	<u>-</u>
	<u>(7,851)</u>
Net capital	<u>\$ 1,125,532</u>

RECONCILIATION:

Net capital, per page 10 of the December 31, 2006 un-audited Focus Report, as originally filed	\$ 1,125,532
Net audit adjustments	<u>-</u>
Net capital, per December 31, 2006 audited report, as filed	<u>\$ 1,125,532</u>