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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

SEC FILE NUMBER  
8-21323

**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 01/01/07 AND ENDING 12/31/07  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:  
**A I M Distributors, Inc.**

OFFICIAL USE ONLY  
\_\_\_\_\_  
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
**11 Greenway Plaza, Suite 100**

**Houston** (City) **TX** (State) **77046** (Zip Code)  
(No. and Street)

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

**David Hartley** **404-439-3478**

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
**Ernst & Young LLP**

**PROCESSED**

**MAR 18 2008**

**1401 McKinney, Suite 1200** (Address) **Houston** (City) **TX** (State) **THOMSON FINANCIAL** 77010 (Zip Code)  
(Name - if individual, state last, first, middle name)  
SEC - Financial Processing Section

**CHECK ONE:**

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

**FEB 28 2008**

**Washington, DC**  
**104**

**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).

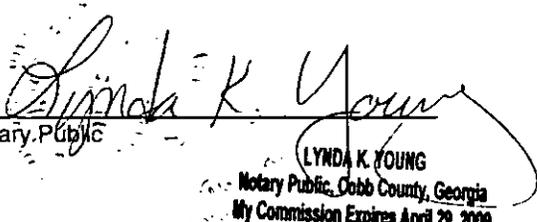
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## OATH OR AFFIRMATION

I, David Hartley, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of A I M Distributors, Inc., as of December 31, 2007, 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.



David Hartley  
Chief Accounting Officer



Notary Public  
LYNDA K. YOUNG  
Notary Public, Cobb County, Georgia  
My Commission Expires April 29, 2009

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

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income.
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Stockholders' Equity.
- (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 or 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).

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

A I M Distributors, Inc.

Year Ended December 31, 2007

With Report and Supplementary Report of Independent Registered Public  
Accounting Firm

A I M Distributors, Inc.

Financial Statements and Supplemental Information

Year Ended December 31, 2007

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors of  
A I M Distributors, Inc.

We have audited the accompanying statement of financial condition of A I M Distributors, Inc. (the Company), as of December 31, 2007, and the related statements of income, changes in stockholder's equity, and cash flows 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 the auditing standards generally accepted in the United States and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 A I M Distributors, Inc., at December 31, 2007, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

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 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 our 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.

*Ernst & Young LLP*

Houston, Texas  
February 26, 2008

AIM Distributors, Inc.  
Statement of Financial Condition

December 31, 2007

**Assets**

Cash equivalents, affiliated registered investment companies	\$ 50,237,079
Accounts receivable:	
Due from dealers for sales of capital stock of affiliated registered investment companies	348,435
Due from affiliated registered investment companies	16,839,862
Commissions receivable	241,324
	17,429,621
Other assets	534,437
Total assets	\$ 68,201,137

**Liabilities and stockholder's equity**

Liabilities:

Due to affiliated registered investment companies for sales of capital stock	\$ 347,646
Due to dealers for redemptions from affiliated registered investment companies	43,652
Due to dealers for distribution fees	39,862,352
Due to affiliated companies	10,647,092
State income taxes payable	429,003
Total liabilities	51,329,745

Stockholder's equity:

Common stock, \$1 par value; 1,000 shares authorized, 10 shares issued and outstanding	10
Additional paid-in capital	7,724,991
Retained earnings	9,146,391
Total stockholder's equity	16,871,392
Total liabilities and stockholder's equity	\$ 68,201,137

*See accompanying notes.*

A I M Distributors, Inc.

Statement of Income

Year Ended December 31, 2007

Operating income:	
Underwriting income	\$ 8,820,756
Marketing servicing fees allocated from affiliates	183,955,007
Distribution fees	15,221,825
Interest and other income	2,157,699
Total operating income	<u>210,155,287</u>
Operating expenses:	
Dealers' concessions	4,567,731
Allocations from affiliates	95,174,415
Compensation allocation from affiliates	94,843,758
Total operating expenses	<u>194,585,904</u>
Income before income taxes	15,569,383
Income tax expense:	
Current	5,443,992
Deferred	48,000
Total income tax expense	<u>5,491,992</u>
Net income	<u>\$ 10,077,391</u>

*See accompanying notes.*

AIM Distributors, Inc.

Statement of Changes in Stockholder's Equity

	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Total Stockholder's Equity</b>
Balance, January 1, 2007	\$ 10	\$ 11,567,035	\$ 3,157,956	\$ 14,725,001
Net income	-	-	10,077,391	10,077,391
Return of capital to parent	-	(3,842,044)	-	(3,842,044)
Dividends paid	-	-	(4,088,956)	(4,088,956)
Balance, December 31, 2007	<u>\$ 10</u>	<u>\$ 7,724,991</u>	<u>\$ 9,146,391</u>	<u>\$ 16,871,392</u>

*See accompanying notes.*

A I M Distributors, Inc.

Statement of Cash Flows

Year Ended December 31, 2007

**Cash flows from operating activities**

Net income	\$ 10,077,391
Adjustments to reconcile net income to net cash provided by operating activities:	
Change in operating assets and liabilities:	
Increase in accounts receivable	(1,961,545)
Decrease in other assets	878,503
Increase in amounts due to affiliated registered investment companies for sales of capital stock	89,349
Increase in due to dealers for redemptions from affiliated registered investment companies	143
Increase in distribution fees due dealers	2,167,017
Increase in due to affiliated companies	521,142
Decrease in state income taxes payable	(111,142)
Total adjustments	<u>1,583,467</u>
Net cash provided by operating activities	<u>11,660,858</u>

**Cash flows from financing activities**

Dividends paid	(4,088,956)
Return of capital to parent	<u>(3,842,044)</u>
Net cash used in financing activities	<u>(7,931,000)</u>

Net increase in cash equivalents	3,729,858
Cash equivalents, beginning of year	<u>46,507,221</u>
Cash equivalents, end of year	<u>\$ 50,237,079</u>

**Supplemental cash flow disclosures**

Income tax payments	<u>\$ 5,302,805</u>
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*See accompanying notes.*

# A I M Distributors, Inc.

## Notes to Financial Statements

December 31, 2007

### 1. Summary of Significant Accounting Policies

#### Basis of Presentation

A I M Distributors, Inc. (the Company), is a wholly owned subsidiary of A I M Advisors, Inc. (Advisors). Advisors is owned by A I M Management Group Inc. (Management), which in turn is owned by IVZ, Inc. (IVZ), the ultimate U.S. parent of the Company. IVZ is ultimately owned by Invesco, Ltd., a publicly traded holding company that, through its subsidiaries, is primarily engaged in investment management worldwide.

The Company is registered as a broker-dealer in securities under the Securities Exchange Act of 1934.

The Company acts as the principal underwriter and distributor for certain affiliated registered investment companies (AIM Funds) and serves as a municipal securities broker for the affiliated Section 529 AIM College Savings Plan. The Company is also the distributor of Creation Units for each investment portfolio of the PowerShares Exchange – Traded Fund Trusts on an agency basis.

As of December 7, 2007, the business lines of Fund Management Company (FMC) and AT Investor Services (ATIS), affiliates of the Company, were integrated into the Company effectively through a transfer of agreements (i.e., some agreements were assigned; some were amended; and others were replaced. In all instances, the basic terms of such agreements were unchanged). This integration created a unified distribution structure for all U.S. investment products. Effective December 7, 2007, FMC's and ATIS' registrations were withdrawn with the Financial Industry Regulatory Authority (FINRA), and all activities of FMC and ATIS were integrated into the Company's operations.

Subsequent to the integration, the Company serves as the principal underwriter and distributor for certain affiliated unregistered money market funds, a function which was previously performed by FMC. The Company now also maintains an agreement with Pershing LLC, a subsidiary of BNY Brokerage, Inc., previously held with ATIS, for clearing services on a fully disclosed basis for accounts introduced by the Company. Pershing LLC services include access to securities of investment companies, individual equities, and fixed income products.

#### Cash Equivalents

The Company considers highly liquid assets such as the amounts in affiliated money market funds to be cash equivalents.

## A I M Distributors, Inc.

### Notes to Financial Statements (continued)

#### 1. Summary of Significant Accounting Policies (continued)

##### **Underwriting Income**

Underwriting income represents sales charges on sales of capital stock of affiliated registered investment companies and is recorded on a trade-date basis.

##### **Distribution Fees**

The Company receives fees from affiliated registered investment companies pursuant to Rule 12b-1 plans (Investment Company Act of 1940) adopted by the affiliated registered investment companies. Such fees are paid to the Company as compensation for expenses incurred by the Company for the distribution of shares of the affiliated registered investment companies, some of which are in turn passed through to third-party dealers of record. The fees are based on a specified annual percentage of a fund's average daily net assets and are accrued on a monthly basis. The amount presented on the Statement of Income is net of pass-through payments to dealers totaling \$164,461,078.

##### **Dealers' Concessions**

Dealers' concessions represent commission amounts paid to dealers on certain sales of Class A shares of affiliated registered investment companies which are recorded on a trade-date basis, net of Class A share contingent deferred sales charges (CDSC) received of \$625,949.

##### **Transactions With Affiliated Companies**

The Company is allocated expenses by an affiliated company based upon estimates of time devoted to the operations of the Company by personnel of the affiliated company and usage of shared facilities. The Company is also allocated revenue primarily by Advisors for services performed in connection with the marketing of shares of affiliated registered investment companies and other investment products managed by Advisors. The revenue allocation is intended to reimburse the Company for its current expenses.

The Company has entered into an agreement with Management, whereby Management provides funding to the Company for payment of Class B and Class C share commissions. Management obtains the rights to certain future revenues to be generated by the Class B and Class C shares under the respective funds' Rule 12b-1 plan provisions and contingent deferred sales charge provisions for a purchase price equal to a percentage of the price at which each Class B and Class C share is sold. Such transactions occur daily and have been accounted for as sale

# A I M Distributors, Inc.

## Notes to Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

transactions in accordance with FSP EITF 85-24-1. No gain or loss from this arrangement is reflected in the Company's financial statements since the amount paid by Management equals the commissions paid by the Company relating to the sale of Class B and Class C shares. Accordingly, amounts received from the respective funds under the Rule 12b-1 plan provisions and CDSC provisions are not recorded as revenue by the Company as Management owns the rights to such fees.

#### Federal Income Taxes

For federal income tax purposes, the Company's income is included in the consolidated income tax return filed by IVZ. Deferred and current taxes are provided at the statutory rate in effect during the year (35%) by the members of the consolidated group based on the amount that the respective member would pay or have refunded if it were to file a separate return. The effective tax rate was 35.3% due primarily to the effect of state taxes. The deferred tax asset of \$30,362 is included in other assets and relates to the deductibility of state and city taxes for federal tax purposes.

#### Use of Estimates

The preparation of financial statements in conformity with U.S. 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. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from those estimates.

#### Recent Pronouncements

##### Accounting Policies Not Yet Adopted

Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements*, and FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115*, are effective for the Company beginning January 1, 2008. FASB Statement No. 157 establishes a framework for measuring fair value, and FASB Statement No. 159 permits companies the choice of measuring certain financial instruments and other items at fair value. The Company is currently evaluating the impact of FASB Statement No. 157 and FASB Statement No. 159.

# A I M Distributors, Inc.

## Notes to Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), *Business Combinations*, and FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*. Under FASB Statement No. 141(R), the acquirer must recognize, with certain exceptions, 100% of the fair values of assets acquired, liabilities assumed, and noncontrolling interests in acquisitions of less than 100% controlling interest when the acquisition constitutes a change in control of the acquired entity. Additionally, when an acquirer obtains partial ownership in an acquiree, an acquirer recognizes and consolidates assets acquired, liabilities assumed, and any noncontrolling interests at 100% of their fair values at that date regardless of the percentage ownership in the acquiree. As goodwill is calculated as a residual, all goodwill of the acquired business, not just the acquirer's share, is recognized under this "full-goodwill" approach. Contingent consideration obligations that are elements of consideration transferred are recognized as of the acquisition date as part of the fair value transferred in exchange for the acquired business. Acquisition-related costs incurred in connection with a business combination shall be expensed. FASB Statement No. 160 establishes new accounting and reporting standards for noncontrolling interests (formerly known as "minority interests") in a subsidiary and for the deconsolidation of a subsidiary. The Company is currently evaluating the impact of FASB Statement No. 141 and FASB Statement No. 160.

#### FIN 48

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 was effective for the Company on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 was implemented and the impact was immaterial.

### 2. Net Capital Requirements

In accordance with regulations of the Securities and Exchange Commission (the SEC), the Company must maintain minimum net capital, as defined. The Company utilizes the "Alternative Standard" method of Net Capital Computation pursuant to SEC Rule 15c3-1, which requires the Company to maintain minimum net capital of \$250,000. However, the Company intends to maintain regulatory net capital of at least \$300,000 in order to be in compliance with the early warning rules. At December 31, 2007, the Company had net capital of \$11,524,337, which exceeded required net capital of \$250,000 by \$11,274,337.

## AIM Distributors, Inc.

### Notes to Financial Statements (continued)

#### **3. Concentration of Credit Risk**

The Company is engaged in brokerage activities in which counterparties primarily include broker-dealers. In the event that counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

#### **4. Regulatory Inquiries and Actions**

Following industry-wide regulatory investigations, multiple lawsuits based on market timing allegations were filed against Management, Advisors, the Company and other affiliates (collectively "AIM"). These lawsuits were consolidated in the United States District Court for the District of Maryland, together with market timing lawsuits brought against affiliates of other mutual fund companies, and on September 29, 2004, three amended complaints were filed against company-affiliated parties: (1) a putative shareholder class action complaint brought on behalf of shareholders of AIM Funds formerly advised by INVESCO Funds Group, Inc. (a former affiliated advisor); (2) a derivative complaint purportedly brought on behalf of the AIM Funds and the shareholders of such funds; and (3) an ERISA complaint purportedly brought on behalf of participants in the company's 401(k) plan. On September 15, 2006, the court dismissed the ERISA lawsuit with prejudice. The plaintiff has appealed that dismissal to the United States Court of Appeals for the Fourth Circuit. Oral argument was held on December 5, 2007. AIM and plaintiffs have reached a settlement in principle of the shareholder class action and derivative lawsuits. The proposed settlement, which is subject to court approval, calls for a payment by AIM of \$9.8 million (of which \$665,000 was recorded by the Company in Allocations from affiliates in the 2007 Statement of Income) in exchange for dismissal with prejudice of all pending claims. In addition, under the terms of the proposed settlement AIM may incur certain costs in connection with providing notice of the proposed settlement to affected shareholders. Based on information currently available, it is not believed that any such incremental notice costs will have any material effect on the financial position or results of operations of AIM or the Company.

The Company and/or company-affiliated parties have also been named as defendants in a lawsuit alleging that one or more of the Company's funds inadequately employed fair value pricing, and thereby made such funds more susceptible to market timing. The lawsuit is a purported class action seeking unspecified monetary damages. It is now pending in the State court in Madison County, Illinois after a series of removals to the United States District Court for the Southern District of Illinois and remands back to the State Court. The Auditor of the State of West Virginia, in his capacity as securities commissioner, has initiated administrative proceedings

## AIM Distributors, Inc.

### Notes to Financial Statements (continued)

#### 4. Regulatory Inquiries and Actions (continued)

against many mutual fund companies, including AIM, seeking disgorgement and other monetary relief based on allegations similar to those underlying the market timing lawsuits. The action against AIM was initiated on August 30, 2005. AIM's time to respond to the Auditor's proceeding has not yet elapsed. Although there can be no assurances, based on information currently available, the Company does not believe it is probable that the ultimate outcome of any of these actions will have a material adverse effect on the Company's financial position or results of operations.

The asset management industry also is subject to extensive levels of ongoing regulatory oversight and examination. In the United States and other jurisdictions in which the Company operates, governmental authorities regularly make inquiries, hold investigations and administer market conduct examinations with respect to compliance with applicable laws and regulations. Additional lawsuits or regulatory enforcement actions arising out of these inquiries may in the future be filed against the Company and related entities and individuals in the U.S. and other jurisdictions in which the Company and its affiliates operate. Any material loss of investor and/or client confidence as a result of such inquiries and/or litigation could result in a significant decline in assets under management, which would have an adverse effect on the Company's future financial results and its ability to grow its business.

In the normal course of its business, the Company is subject to various litigation matters. Although there can be no assurances, at this time management believes, based on information currently available to it, that it is not probable that the ultimate outcome of any of these actions will have a material adverse effect on the financial condition or results of operations of the Company.

Advisors intends to make additional capital contributions to maintain the Company's capital at the required minimum level as necessary.



## Supplemental Information

## A I M Distributors, Inc.

Schedule I – Computation of Net Capital  
Under Rule 15c3-1(a)(1)(ii)

December 31, 2007

Net capital:	
Stockholder's equity, as reported on statement of financial condition	\$16,871,392
Less– nonallowable assets:	
Due from dealers for sales of capital stock of affiliated registered investment companies	10,075
Due from affiliated registered investment companies	3,797,801
Other assets	<u>534,437</u>
	4,342,313
Less– adjustments:	
Haircuts on cash equivalents	<u>1,004,742</u>
Net capital	<u>\$11,524,337</u>
Net capital requirement	<u>\$ 250,000</u>
Net capital in excess of required amount	<u>\$11,274,337</u>

There were no material differences between the audited computation of net capital included in this report and the corresponding schedule included in the Company's unaudited December 31, 2007, Part IIA FOCUS filing.

A I M Distributors, Inc.

Schedule II – Exemptive Provision of Rule 15c3-3

December 31, 2007

The Company is exempt from the reserve requirements and related computations for the determination thereof under paragraphs (k)(2)(i) and (k)(2)(ii) of Rule 15c3-3 under the Securities and Exchange Commission.

**Supplementary Report of Independent Registered Public  
Accounting Firm on Internal Control Required by SEC  
Rule 17a-5(g)(1)**

Board of Directors

A I M Distributors, Inc.

In planning and performing our audit of the financial statements of A I M Distributors, Inc. (the Company), as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States and auditing standards of the Public Company Accounting Oversight Board (PCAOB), we considered its 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. The 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 the 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 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 deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the Company's financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

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, 2007, 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 Financial Industry Regulatory Authority 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.

*Ernst & Young LLP*

Houston, Texas  
February 26, 2008

**END**