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

## 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 January 1, 2007 AND ENDING December 31, 2007  
MM/DD/YY MM/DD/YY

### A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

EquiTrust Marketing Services, LLC

OFFICIAL USE ONLY

FIRM ID. NO.

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

5400 University Avenue

(No. and Street)

West Des Moines, Iowa 50266

(City)

(State)

(Zip Code)

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

Dennis M. Marker

(515) 225-5522

(Area Code - Telephone No.)

### B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Ernst & Young LLP

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

801 Grand Avenue, Suite 3000, Des Moines, Iowa 50309

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

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

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\*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).

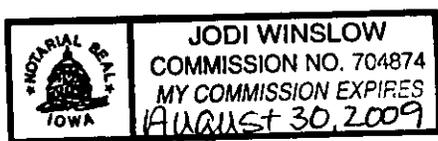
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## Oath or Affirmation

I, Dennis M. Marker, affirm that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of EquiTrust Marketing Services, LLC as of December 31, 2007, are true and correct. I further affirm that neither the Company nor any principal officer or director has any proprietary interest in any account classified solely as that of a customer.



  
Dennis M. Marker  
Vice President - Investment Administration

  
Notary Public

This report contains:

- (X) (a) Facing page
- (X) (b) Statements of Financial Condition
- (X) (c) Statements of Operations
- (X) (d) Statements of Cash Flows
- (X) (e) Statements of Changes in Members' Equity
- ( ) (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors
- (X) (g) Computation of Net Capital
- (X) (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
- (X) (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
- (X) (o) Supplementary Report of Independent Registered Public Accounting Firm on Internal Control Required by Rule 17a-5

EquiTrust Marketing Services, LLC

Financial Statements and  
Supplemental Information

Years Ended December 31, 2007 and 2006

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## Report of Independent Registered Public Accounting Firm

The Members  
EquiTrust Marketing Services, LLC

We have audited the accompanying statements of financial condition of EquiTrust Marketing Services, LLC (the Company) as of December 31, 2007 and 2006, and the related statements of operations, changes in members' equity, 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. 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 audits 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 EquiTrust Marketing Services, LLC at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the accompanying supplemental schedules is presented for purposes of additional analysis and are 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 audits 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*

February 23, 2008

# EquiTrust Marketing Services, LLC

## Statements of Financial Condition

	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Cash and cash equivalents at market value:		
EquiTrust Money Market Fund, Inc. (approximates cost)	\$ 461,931	\$ 362,644
Blackrock Liquidity Funds T-Fund (approximates cost)	1,189,826	907,474
	1,651,757	1,270,118
Accounts receivable	250,034	234,168
Due from Members	3,881	3,359
Due from EquiTrust Series and Money Market Funds	3,000	-
Due from Farm Bureau Life Insurance Company	56,076	28,900
Due from EquiTrust Life Insurance Company	102,395	91,269
Deferred sales costs, less accumulated amortization of \$998,600 in 2007 and \$1,244,858 in 2006	339,186	537,465
Other assets	256,653	171,390
Total assets	\$ 2,662,982	\$ 2,336,669
<b>Liabilities and members' equity</b>		
Due to FBL Financial Group, Inc.	\$ 273,786	\$ 216,832
Due to EquiTrust Investment Management Services, Inc.	1,901	1,814
Due to Members	3,881	3,359
Accounts payable and accrued expenses	520,311	377,867
Total liabilities	799,879	599,872
Members' equity:		
Series A member's equity	1,809,505	1,633,727
Series C member's equity	2,225	50,184
Series D member's equity	51,373	52,886
Total members' equity	1,863,103	1,736,797
Total liabilities and members' equity	\$ 2,662,982	\$ 2,336,669

*See accompanying notes.*

# EquiTrust Marketing Services, LLC

## Statements of Operations

	<b>Year Ended December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Revenues:</b>		
Administrative service fees	\$ 15,292,622	\$ 14,101,406
Distribution fees	541,750	552,611
Shareholder servicing fees	443,341	439,577
Registered representative fees	474,785	343,583
Other	94,376	121,534
<b>Investment income:</b>		
Dividends from EquiTrust Money Market Fund, Inc.	18,005	13,214
Dividends from other investment	57,352	54,493
<b>Total revenues</b>	<b>16,922,231</b>	<b>15,626,418</b>
<b>Expenses:</b>		
Regulatory fees and expenses	255,692	252,957
Salaries and related expenses	1,865,468	1,712,403
VUL commission expenses	7,258,368	7,507,590
VA commission expenses	4,913,115	4,085,338
Other operating expenses	2,999,901	2,510,874
<b>Total expenses</b>	<b>17,292,544</b>	<b>16,069,162</b>
<b>Net loss</b>	<b>\$ (370,313)</b>	<b>\$ (442,744)</b>

*See accompanying notes.*

# EquiTrust Marketing Services, LLC

## Statements of Changes in Members' Equity

	Series A Member's Equity	Series C Member's Equity	Series D Member's Equity	Total Members' Equity
Balance at January 1, 2006	\$ 1,803,437	\$ 77,562	\$ 51,158	\$ 1,932,157
Capital contributions	400,000	861	-	400,861
Capital distributions	-	(153,477)	-	(153,477)
Net income (loss) for 2006	(569,710)	125,238	1,728	(442,744)
Balance at December 31, 2006	1,633,727	50,184	52,886	1,736,797
Capital contributions	500,000	-	-	500,000
Capital distributions	-	-	(3,381)	(3,381)
Net income (loss) for 2007	(324,222)	(47,959)	1,868	(370,313)
Balance at December 31, 2007	\$ 1,809,505	\$ 2,225	\$ 51,373	\$ 1,863,103

*See accompanying notes.*

# EquiTrust Marketing Services, LLC

## Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating activities</b>		
Net loss	\$ (370,313)	\$ (442,744)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of deferred sales costs	198,279	265,422
Sales costs deferred	-	(26,801)
Changes in operating assets and liabilities:		
Accounts receivable	(15,866)	(84,126)
Due from EquiTrust Series and Money Market Funds	(3,000)	-
Due from Farm Bureau Life Insurance Company	(27,176)	(533)
Due from EquiTrust Life Insurance Company	(11,126)	48,091
Due from Members	(522)	397
Other assets	(85,263)	(119,617)
Due to FBL Financial Group, Inc.	56,954	(16,954)
Due to EquiTrust Investment Management Services, Inc.	87	42
Due to Members	522	(397)
Accounts payable and accrued expenses	142,444	(16,304)
Net cash used in operating activities	(114,980)	(393,524)
<b>Financing activities</b>		
Capital contributions	500,000	400,861
Capital distributions to members	(3,381)	(153,477)
Net cash provided by financing activities	496,619	247,384
Increase (decrease) in cash and cash equivalents	381,639	(146,140)
Cash and cash equivalents at beginning of year	1,270,118	1,416,258
Cash and cash equivalents at end of year	\$ 1,651,757	\$ 1,270,118

*See accompanying notes.*

# EquiTrust Marketing Services, LLC

## Notes to Financial Statements

December 31, 2007

### 1. Significant Accounting Policies

#### Organization

EquiTrust Marketing Services, LLC (the Company) engages primarily in the sale of shares of EquiTrust Series Fund, Inc., EquiTrust Variable Insurance Series Fund, and EquiTrust Money Market Fund, Inc. sponsored by Farm Bureau Life Insurance Company (Farm Bureau), which is an indirect wholly owned subsidiary of FBL Financial Group, Inc. The Company also serves as the principal underwriter and distributor for the EquiTrust Funds.

The Company has one Series A member, FBL Financial Services, Inc., a wholly owned subsidiary of FBL Financial Group, Inc., one Series C member, United Farm Family Life Insurance Company, and one Series D member, Missouri Farm Bureau Life Insurance Company (the Members).

#### Use of Estimates

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

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all investments in mutual funds where the majority of the underlying investments are of a short-term nature (i.e., money market funds) to be cash equivalents.

#### Recognition of Income

Administrative service fees and other operating expense generally consist of commission revenue and expense related to the sale of mutual fund shares and variable products. Commissions are recognized on a trade-date basis, which is the date a trade is executed.

# EquiTrust Marketing Services, LLC

## Notes to Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

Distribution (12b-1) and shareholder servicing fees received from the EquiTrust Series Fund, Inc. are recognized as such fees are earned.

#### Deferred Sales Costs

Prior to March 15, 2006, certain costs that are directly related to the sale of EquiTrust Series Fund Class B shares were deferred and amortized over the period during which the related revenues were recognized. Effective March 15, 2006, the Company no longer offers EquiTrust Series Fund Class B shares. No additional cost was capitalized after this date.

### 2. Income Taxes

As a limited liability company, the Company has elected to be classified as a partnership for federal tax reporting purposes. Therefore, the Company will generally not be subject to federal or state income taxes.

### 3. Retirement and Compensation Plans

Effective January 1, 2006, FBL Financial Group, Inc. adopted Statement of Financial Accounting Standards (Statement) No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method. Statement No. 123(R) is a revision of Statement No. 123, *Accounting for Stock-Based Compensation*. Beginning in 2006, compensation expense includes expense for awards that were granted prior to the adoption date for which the requisite service had not been provided as of the adoption date.

The Company and affiliates have adopted a policy of allocating the expense recognized under Statement No. 123(R) in a manner consistent with the stock expense discussed above. Expenses related to options were \$89,687 and \$49,189 for the years ended December 31, 2007 and 2006, respectively.

The Company participates with Farm Bureau Life Insurance Company and several other affiliates in various defined-benefit plans covering substantially all employees. The benefits of these plans are based primarily on years of service and employees' compensation. The Company and affiliates have adopted a policy allocating the required contribution to the plans between themselves generally on a basis of time incurred by the respective employees for each employer. Pension expense aggregated \$163,191 and \$131,730 for the years ended December 31, 2007 and 2006, respectively.

## EquiTrust Marketing Services, LLC

### Notes to Financial Statements (continued)

#### **3. Retirement and Compensation Plans (continued)**

The Company and affiliates allocate postretirement benefit expense in a manner consistent with pension expense discussed above. Postretirement benefit expense aggregated \$1,970 and \$2,977 for the years ended December 31, 2007 and 2006, respectively.

The Company provides benefits to representatives of the Company, who also serve as agents to its insurance affiliates, through the Agents' Career Incentive Plan. The Company's contributions to the plan are based upon the individual agent's earned commissions and vary based upon the overall production level and the number of years of service. The Company's contributions, net of refunds, with respect to this plan during the years ended December 31, 2007 and 2006, resulted in income of \$44 and \$82, respectively.

#### **4. Regulatory Requirements**

The Company is subject to the Securities and Exchange Commission uniform net capital rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined therein, shall not exceed 15 to 1. Net capital and the related net capital ratio may fluctuate on a daily basis. At December 31, 2007, the Company had defined net capital of \$818,842, which was \$765,517 in excess of its required net capital of \$53,325. The Company's net capital ratio was 0.98 to 1. Various other regulatory agencies may impose additional capital requirements.

The Company is exempt from maintaining a special reserve bank account under Rule 15c3-3(k)(1).

#### **5. Limited Liability Company Agreement**

The Limited Liability Company Agreement approved by the Members outlines the capital structure of the Company, capital contributions to be made by the Members, allocations of revenues and expenses to the Members, and distributions to the Members.

Interests in the Company are divided into Series, with the interest of each Member constituting a separate Series. The Company is authorized to issue 100 Series. The holder of Series A interest, referred to as the principal member, is the only Member with voting rights for the Company. Associate members are allowed to conduct business relating only to the sale of variable life insurance, variable annuity, and mutual fund products, which have been approved by the Board of Managers for distribution through the Company.

## EquiTrust Marketing Services, LLC

### Notes to Financial Statements (continued)

#### 5. Limited Liability Company Agreement (continued)

A separate capital account has been established for each Member and will be established for each new Member admitted to the Company in the future. Each Member's capital account will contain that Member's initial capital contribution adjusted at the end of each calendar quarter for: (a) the amount of revenue received by the Company during the quarter as a result of that Member's operations; (b) the amount of additional capital contributions by that Member during the quarter; (c) all costs and expenses directly incurred by that Member and all costs and expenses allocated to that Member's Series during the quarter, including general overhead of the Company; and (d) the amount of all distributions made to the Member during the quarter.

For the period July 1, 2002 through December 31, 2007, the Company waived the allocation of general overhead and registered representative fees to the Series D member. During this time frame all such costs were allocated to the Series A member. The amount of minimum required capital for each associate member is currently \$50,000. The Members may be called upon for additional capital contributions in certain situations, including the necessity to maintain minimum regulatory capital requirements. See reference to Note 7 regarding subsequent contributions.

Distributions may be made to the principal member at the discretion of the Board of Managers of the Company. Distributions may be made to an associate member within 30 days after the end of each calendar quarter provided that such distribution would not cause that Member's capital balance to decline below the minimum required capital.

Associate members may terminate their Series at any time, so long as the balance in their capital account is greater than zero. The Board of Managers may also terminate the Series of any associate member if that Member's capital account is less than the minimum required capital and the associate member has failed to honor a capital call for the shortfall.

## EquiTrust Marketing Services, LLC

### Notes to Financial Statements (continued)

#### **6. Related-Party Transactions**

The Company's registered representatives sell variable universal life and variable annuity products under agreements with Farm Bureau and EquiTrust Life Insurance Company (EquiTrust, an affiliate). These agreements provide that Farm Bureau and EquiTrust will compensate the Company for all commissions paid to its registered representatives. In addition, Farm Bureau agrees to pay the Company a registered representative fee to cover the costs and expenses associated with facilitating variable product sales. Prior to July 1, 2007, Farm Bureau compensated the Company \$200 per registered representative per year. The fee was restructured effective July 1, 2007. The Company now receives a monthly overwrite commission from Farm Bureau equal to 5% of variable product commissions and service fees paid to registered representatives and overwrites paid to managers. During the year ended December 31, 2007, the Company received \$13,032,363 (2006 – \$12,455,223) under these agreements, of which \$12,171,483 (2006 – \$11,592,928) was paid directly to the registered representatives serving as the writing agents.

The Company shares certain office facilities and services with the Iowa Farm Bureau Federation and its affiliated companies. These expenses are allocated to the Company on the basis of cost and time studies that are updated annually and consist primarily of salaries and related expenses, travel, and occupancy costs. Aggregate payments for such expenses were approximately \$2,481,598 and \$2,374,789 for the years ended December 31, 2007 and 2006, respectively.

The Company participates in a management agreement with FBL Financial Group, Inc. Under this agreement, FBL Financial Group, Inc. provides general business, administrative analysis, and management services to the Company. During the years ended December 31, 2007 and 2006, the Company incurred expenses under this contract of \$14,217 and \$8,513, respectively.

#### **7. Subsequent Events**

On January 30, 2008, the Company distributed excess capital in the amount of \$1,373 to Series D Member.

On January 31, 2008, the Company received a \$47,775 capital contribution from Series C Member.

# Supplemental Information

EquiTrust Marketing Services, LLC

Computation of Net Capital – Part IIA

December 31, 2007

Computation of Net Capital

1.	Total ownership equity from Statement of Financial Condition		<u>\$1,863,103</u>
2.	Deduct ownership equity not allowable for Net Capital		<u>-</u>
3.	Total ownership equity qualified for Net Capital		<u>1,863,103</u>
4.	Add:		
A.	Liabilities subordinated to claims of general creditors allowable in computation of net capital		<u>-</u>
B.	Other deductions or allowable credits		<u>-</u>
5.	Total capital and allowable subordinated liabilities		<u>1,863,103</u>
6.	Deductions and/or charges:		
A.	Total nonallowable assets from Statement of Financial Condition (Notes B and C):		
1.	Accounts receivable	\$ 250,034	
2.	Due from Members	<u>3,881</u>	
3.	Due from EquiTrust Series and Money Market Funds	<u>3,000</u>	
4.	Due from Farm Bureau Life Insurance Company	<u>56,076</u>	
5.	Due from EquiTrust Life Insurance Company	<u>102,395</u>	
6.	Deferred sales costs	<u>339,186</u>	
7.	Other assets	<u>256,653</u>	\$1,011,225
B.	Secured demand note deficiency		<u>-</u>
C.	Commodity futures contracts and spot commodities – proprietary capital charges		<u>-</u>
D.	Other deductions and/or charges		<u>- (1,011,225)</u>
7.	Other additions and/or allowable credits		<u>-</u>
8.	Net capital before haircuts on securities positions		<u>851,878</u>
9.	Haircuts on securities [computed, where applicable, pursuant to 15c3-1(f)]:		
A.	Contractual securities commitments	\$ -	
B.	Subordinated securities borrowings	<u>-</u>	
C.	Trading and investment securities:		
1.	Exempted securities	<u>-</u>	
2.	Debt securities	<u>-</u>	
3.	Options	<u>-</u>	
4.	Other securities	<u>33,036</u>	
D.	Undue concentration	<u>-</u>	
E.	Other	<u>-</u>	(33,036)
10.	Net Capital		<u>\$ 818,842</u>

EquiTrust Marketing Services, LLC

Computation of Net Capital – Part IIA (continued)

**Computation of Basic Net Capital Requirement**

**Part A**

11.	Minimum net capital required (6-2/3% of line 19)	<u>\$ 53,325</u>
12.	Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	<u>5,000</u>
13.	Net capital requirement (greater of line 11 or 12)	<u>53,325</u>
14.	Excess net capital (line 10 less 13)	<u>765,517</u>
15.	Excess net capital at 1000% (line 10 less 10% of line 19)	<u>738,854</u>

**Computation of Aggregate Indebtedness**

16.	Total A.I. liabilities from Statement of Financial Condition	<u>799,879</u>
17.	Add:	
A.	Drafts for immediate credit	<u>\$ -</u>
B.	Market value of securities borrowed for which no equivalent value is paid or credited	<u>-</u>
C.	Other unrecorded amounts	<u>-</u>
19.	Total aggregate indebtedness	<u>799,879</u>
20.	Percentage of aggregate indebtedness to net capital (line 19 ÷ by line 10)	<u>98%</u>
21.	Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)	<u>-</u>

Notes:

(A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:

1. Minimum dollar net capital requirement, or
2. 6 2/3% of aggregate indebtedness or 2% of aggregate debits if alternative method is used.

(B) Do not deduct the value of securities borrowed under subordination agreements or secured demand note covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of Company (contra to item 1740) and partners' securities which were included in nonallowable assets.

(C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material nonallowable assets.

EquiTrust Marketing Services, LLC

Statement Relating to Certain Determinations  
Required Under Rule 15c3-3 – Part IIA

December 31, 2007

**Computation for Determination of Reserve Requirements  
Pursuant to Rule 15c3-3:**

**Exemptive Provision**

25. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based (check one only):

- A. (k)(1) – Limited business (mutual funds and/or variable annuities only)
- B. (k)(2)(i) – “Special Account for the Exclusive Benefit of customers” maintained
- C. (k)(2)(ii) – All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm \_\_\_\_\_.
- D. (k)(3) – Exempted by order of the Commission

\_\_\_\_\_ X  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

EquiTrust Marketing Services, LLC

Statement Pursuant to Rule 17a-5(d)(4)

December 31, 2007

There are no differences between the computation of net capital under Rule 15c3-1 included in this audited report and the computation included in the Company's corresponding unaudited Form X-17A-5 Part IIA filing as of December 31, 2007.

## Supplementary Report of Independent Registered Public Accounting Firm on Internal Control Required by Rule 17a-5

The Members  
EquiTrust Marketing Services, LLC

In planning and performing our audit of the consolidated financial statements and supplemental schedules of EquiTrust Marketing Services, LLC (the Company), as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States, 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 internal control and 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, 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 Institution 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*

February 23, 2008

**END**