

09040483

REC'D S.E.C.  
APR 13 2009

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

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

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: February 28, 2010  
Estimated average burden  
hours per response..... 12.00

SEC FILE NUMBER  
8- 28036

SEC Mail Processing  
Section  
FEB 27 2009

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 1/1/08 AND ENDING 12/31/08  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Shields Capital Corporation (d/b/a Shields & Company  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY  
FIRM I.D. NO.

140 Broadway

(No. and Street)

New York

(City)

NY

(State)

10005

(Zip Code)

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

Joseph V. Shields, Jr.

(212) 320-3000

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

Rosen Seymour Shapss Martin & Company LLP

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

757 Third Avenue

(Address)

New York

(City)

NY

(State)

10017

(Zip Code)

CHECK ONE:

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

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, Joseph Shields, Jr., swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Shields Capital Corporation (d/b/a Shields & Company), as of December 31,, 20 08, 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:

Christopher F. Meyer  
Notary Public State of New York  
No. 01ME6149059  
Qualified in Nassau County  
Commission Expires July 3, 2010

[Handwritten Signature]  
Signature

Chairman  
Title

[Handwritten Signature]  
Notary Public

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.
- (o) Independent Auditors' Report.

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

SHIELDS CAPITAL CORPORATION  
(d/b/a SHIELDS & COMPANY)

YEAR ENDED DECEMBER 31, 2008

CONTENTS

	<u>Page</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>FINANCIAL STATEMENT</b>	
Statement of Financial Condition	2
Notes to Financial Statement	3-10
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule I – Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission	11-12



**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Stockholders of  
Shields Capital Corporation (d/b/a Shields & Company):

We have audited the accompanying statement of financial condition of Shields Capital Corporation (d/b/a Shields & Company) as of December 31, 2008. This financial statements is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Shields Capital Corporation (d/b/a Shields & Company) as of December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statement. The information contained in the accompanying Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statement, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements.

*Rosen Seymour Shapss Martin & Company LLP*  
CERTIFIED PUBLIC ACCOUNTANTS

New York, New York  
February 23, 2009

SHIELDS CAPITAL CORPORATION  
(d/b/a SHIELDS & COMPANY)

STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2008

ASSETS

Cash	\$ 71,624
Securities owned, marketable, at market value	602,641
Receivables from and deposits with broker-dealers	555,352
Receivable from affiliate	24,489
Furniture, equipment and leasehold improvements – at cost, net of accumulated depreciation	191,524
Deferred income taxes	90,600
Prepaid expenses and other assets	<u>175,944</u>
Total assets	<u>\$ 1,712,174</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:	
Accounts payable, accrued expenses and other liabilities	\$ 356,850
Payable to broker-dealer	400,000
Capital lease obligations	<u>52,121</u>
Total liabilities	<u>808,971</u>
Commitments and contingent liabilities (Note 8)	
Stockholders' equity:	
Common stock, \$.001 par value, 2,000,000 shares authorized, 1,085,000 shares issued, 1,004,046 shares outstanding	1,085
Additional paid-in capital	1,352,337
Retained earnings	<u>(415,703)</u>
	937,719
Less:	
Treasury stock, 80,954 shares common stock, at cost	<u>(34,516)</u>
Total stockholders' equity	<u>903,203</u>
Total liabilities and stockholders' equity	<u>\$ 1,712,174</u>

The accompanying notes are an integral part of this financial statement.

SHIELDS CAPITAL CORPORATION  
(d/b/a SHIELDS & COMPANY)

NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2008

1. ORGANIZATION AND NATURE OF BUSINESS

The Company is a broker-dealer registered with the Securities and Exchange Commission and is a member of the New York Stock Exchange and the FINRA. The Company's principal line of business is conducting securities transactions for its customers who are located throughout the United States. The Company clears its securities transactions on a fully disclosed basis with other broker-dealers and, accordingly, is exempt from the provisions of SEC Rule 15c3-3, and is not responsible for compliance with Section 4(c) of Regulation T of the Federal Reserve System. There were no liabilities subordinated to the claims of creditors during the year ended December 31, 2008.

2. SIGNIFICANT ACCOUNTING POLICIES

Security Transactions

Security transactions are recorded by the Company on a trade date basis as if they had settled. Securities owned and securities sold, not yet purchased, are stated at quoted market value.

Trade receivables and payables for securities transactions that have not reached their contractual settlement date are recorded net in the statement of financial condition.

Financial instruments are recorded at fair value in accordance with FASB Statement No. 157.

Furniture, Equipment and Leasehold Improvements

Furniture and equipment are stated at cost and are being depreciated over five and seven years which approximates their useful lives, using straight-line and accelerated methods. Leasehold improvements are being amortized using the straight-line method over the term of the related office space lease, which is eleven years. Major expenditures for furniture and equipment and those which substantially increase their useful lives are capitalized; maintenance, repairs, and minor renewals are expensed as incurred.

SHIELDS CAPITAL CORPORATION  
(d/b/a SHIELDS & COMPANY)

NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

No federal income taxes have been provided because the stockholders elected to treat the Company as an "S" Corporation for income tax purposes as provided in the Internal Revenue Code and the applicable state statutes. Accordingly, the Company's income or loss and credits are passed through to the stockholders and combined with their other personal income and deductions to determine taxable income on their individual tax returns. However, some state and local taxing authorities do not recognize this election and the amount of current and deferred taxes payable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax assets or liabilities are recognized in the financial statements for the changes in temporary differences between years.

The Company has elected to defer the application of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), an interpretation of FASB Statement No. 109, *Accounting for Income Taxes* as permitted by FASB Staff Position FIN 48-3. FIN 48, which is effective for annual financial statements beginning after December 15, 2008, clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. The Company's policy is to account for contingent income tax liabilities in accordance with FASB 5, *Accounting for Contingencies* based on its assessment of probable income tax related exposures and the anticipated settlement of those exposures resulting in actual future liabilities. As of December 31, 2008, the Company does not believe it has any uncertain tax positions that would qualify for either recognition or disclosure in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

The Company invests its excess cash in deposits with major financial institutions, money market funds and securities issued by the U.S. and local governments and companies with strong credit ratings, and has established guidelines relative to diversification and maturities that maintain safety and liquidity. Financial instruments that subject the Company to risk of loss include (a) securities owned, (b) receivables and deposits with brokers and dealers; and (c) receivable from an affiliate.

SHIELDS CAPITAL CORPORATION  
(d/b/a SHIELDS & COMPANY)

NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2008

3. SECURITIES OWNED

FASB Statement No. 157 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB Statement No. 157, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the assets or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.)

The following table presents the Company's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2008.

Fair Value Measurements on a Recurring Basis

As of December 31, 2008

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Securities owned:				
Mutual fund	\$ 133,816	\$ -	\$ -	\$ 133,816
Mortgage-backed securities	58,672	-	-	58,672
State and municipal obligations	410,153	-	-	410,153
	<u>\$ 602,641</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 602,641</u>

The aggregate cost of securities was \$658,192 at December 31, 2008.

SHIELDS CAPITAL CORPORATION  
(d/b/a SHIELDS & COMPANY)

NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2008

4. FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Major classes of furniture, equipment and leasehold improvements include the following:

	<u>Life – Years</u>	
Furniture and equipment	5-7	1,470,122
Leasehold improvements	2-11	<u>291,747</u>
		1,761,869
Less accumulated depreciation/amortization		<u>1,570,345</u>
Net furniture, equipment and leasehold improvements		<u>\$ 191,524</u>

5. CAPITAL LEASES

The Company leases office equipment under a capital lease which expires in October 2013. As of December 31, 2008 property and equipment includes leased equipment in the amount of \$44,685, net of accumulated amortization in the amount of \$4,964.

Future minimum lease payments required under leases for December 31, 2008 are as follows:

<u>Year Ending December 31,</u>	<u>Minimum Lease Payment</u>
2009	\$ 14,346
2010	14,346
2011	14,346
2012	14,345
2013	<u>11,954</u>
Minimum lease payments	69,337
Less amounts representing interest and fees	<u>(17,216)</u>
Present value of minimum lease payments	<u>\$ 52,121</u>

SHIELDS CAPITAL CORPORATION  
(d/b/a SHIELDS & COMPANY)

NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2008

6. EMPLOYEE BENEFIT PLANS

Employees' Savings and Investment Plan

The Company maintains a 401(k) deferred compensation plan covering all eligible employees who elect to participate in the plan. Participating employees contribute a percentage of their compensation, as defined, into the plan, which is limited to an amount allowable under the Internal Revenue Code. The Company, at its discretion, may also make matching contributions. The Company made no contribution to the plan for the year ended December 31, 2008.

Profit-Sharing Plan

The Company also maintains a defined contribution profit-sharing plan which provides retirement benefits for all eligible employees. Eligibility is based on years of service to the Company. The Company's contribution to the plan is at the discretion of the Company's management, and is limited to the amount allowable under the Internal Revenue Code. The Company made no contribution to the plan for the year ended December 31, 2008.

7. INCOME TAXES

Temporary differences between tax and financial reporting bases at December 31, 2008 include the following items: (a) unrealized gains on marketable securities recognized for financial statement purposes, but not recognized for tax purposes; (b) amounts receivable from brokers and dealers recognized for financial statement purposes, but not recognized for tax purposes; (c) other assets and accrued expenses recognized for financial statement purposes, but not for tax purposes; and (d) recognizing the tax benefit of net operating loss for financial reporting purposes.

The Company has a net operating loss carryforward available for local income tax purposes of approximately \$1,518,374 which is scheduled to expire at various dates between the years 2021 and 2026. The net operating loss is expected to be used prior to expiration; therefore no valuation allowance has been established.

SHIELDS CAPITAL CORPORATION  
(d/b/a SHIELDS & COMPANY)

NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2008

8. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company is obligated under several operating leases for office space and equipment which expire at various dates between June 30, 2009 and December 31, 2013. In January 1997 the Company entered into a noncancellable operating lease for office space. This lease commenced upon the completion of the landlord's renovations to the premises on December 15, 1997 and expired on December 31, 2008. The lease required annual payments of \$472,890, with no rental payment in the first year. Rental payments commenced in the second year beginning December 15, 1998. The Company also rented additional space under an amendment to this lease which required annual payments of \$35,160. The Company exercised a five year option, extending the lease period to December 31, 2013. The lease requires an annual payment of \$835,000 in the first year and \$852,000 per annum in years two through five.

The Company is also obligated under several noncancellable lease agreements for office equipment expiring at various dates through March 2011.

Future minimum annual lease payments under operating leases are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Minimum</u> <u>Lease Payment</u>
2009	\$ 923,278
2010	867,849
2011	852,237
2012	852,000
2013	852,000
	<hr/>
	\$ 4,347,364

Arbitration Proceedings and Litigation

In 2004 the Company was named the defendant in a state court proceeding in Hillsborough County, Florida. The case is currently set for trial in October 2009. Management and its counsel maintain numerous defenses to this claim, which they intend to vigorously pursue, and expect they will prevail.

SHIELDS CAPITAL CORPORATION  
(d/b/a SHIELDS & COMPANY)

NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2008

9. RELATED PARTY TRANSACTIONS

The Company shares office space with an affiliate related by common ownership. Allocation of expenses to this affiliate is based on management estimates. For the year ended December 31, 2008 expenses aggregating \$407,462 were allocated to this affiliate, and at December 31, 2008 the receivable from this affiliate was \$24,489 and is due on demand.

10. MEMORANDUM OF UNDERSTANDING

The Company has entered into a Memorandum of Understanding (the "Memorandum") with an unrelated broker-dealer. Under the terms of the memorandum the Company and the unrelated party will enter into a business combination in the form of a new limited liability company. Each party will make an initial capital contribution and contribute certain of their assets, in exchange for an ownership interest. The Company will receive a 55% ownership interest in the combined entity. The memorandum is nonbinding upon the parties and the combination is subject to regulatory approval.

11. NET CAPITAL REQUIREMENT

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC 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, shall not exceed 15 to 1 (and that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2008, the Company had net capital of \$413,240 which was \$313,240 in excess of its required net capital of \$100,000. The Company's net capital ratio was 1.96 to 1.

SHIELDS CAPITAL CORPORATION  
(d/b/a SHIELDS & COMPANY)

NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2008

12. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET  
RISK AND CONCENTRATION OF CREDIT RISK

The Company's transactions are cleared by another broker-dealer in securities pursuant to a clearance agreement. Although the Company clears its transactions through another broker-dealer in securities, the Company is exposed to off-balance-sheet risk in the event that customers or other parties fail to satisfy their obligations. Should a customer fail to deliver cash or securities as agreed, the Company may be required to purchase or sell securities at unfavorable market prices. At December 31, 2008, substantially all of the securities owned and the amounts due from brokers reflected in the statement of financial condition are positions held at and amounts due from one clearing broker, a large financial institution. The Company is subject to credit risk should this broker be unable to fulfill its obligations. The Company maintains its cash in bank deposit accounts which, at times may exceed federal insured limits. The Company has not experienced any losses in such accounts. At December 31, 2008, no deposits in one account exceeded the federally insured limit.

## **SUPPLEMENTARY INFORMATION**

SHIELDS CAPITAL CORPORATION  
(d/b/a SHIELDS & COMPANY)

SCHEDULE I

COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF  
THE SECURITIES AND EXCHANGE COMMISSION

AS OF DECEMBER 31, 2008

NET CAPITAL

Stockholders' equity		\$ 903,203
Deductions:		
Nonallowable assets:		
Furniture, equipment and leasehold improvements, net	\$ 191,524	
Receivable from affiliate	24,489	
Prepaid expenses and other assets	145,565	
Deferred income taxes, net	<u>90,600</u>	
		452,178
Other deductions and/or charges		<u>2,000</u>
Net capital before haircuts on securities positions		449,025
Haircuts on securities:		
Trading and investment securities:		
Exempted securities		15,713
Other securities		<u>20,072</u>
Net capital		<u>\$ 413,240</u>

AGGREGATE INDEBTEDNESS

Accounts payable, accrued expenses and other liabilities	\$ 356,850
Payable to broker-dealer	400,000
Capital lease obligation	<u>52,121</u>
Total aggregate indebtedness	<u>\$ 808,971</u>

(Continued)

SHIELDS CAPITAL CORPORATION  
(d/b/a SHIELDS & COMPANY)

SCHEDULE I

(Continued)

COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF  
THE SECURITIES AND EXCHANGE COMMISSION

AS OF DECEMBER 31, 2008

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Minimum net capital required	<u>\$ 100,000</u>
Net capital at 1,500 percent	<u>\$ 313,240</u>
Excess net capital at 1,000 percent	<u>\$ 293,240</u>
Ratio: aggregate indebtedness to net capital	<u>1.96 to 1</u>

Reconciliation with Company's computation (included in Part II A of Form X17a-5 as of December 31, 2008):

Net capital as reported in Company's Part II A (unaudited)	
FOCUS report	\$ 421,342
Audit adjustment to deferred tax asset	(8,200)
Audit adjustment to tax accrual	(10,047)
Decrease in nonallowable assets	<u>10,145</u>
Net capital per above	<u>\$ 413,240</u>

See independent auditors' report.

**SHIELDS CAPITAL CORPORATION  
(d/b/a SHIELDS & COMPANY)**

**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL ACCOUNTING CONTROL  
REQUIRED BY SEC RULE 17a-5**

**YEAR ENDED DECEMBER 31, 2008**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL ACCOUNTING CONTROL REQUIRED BY SEC RULE 17A-5**

The Board of Directors and Stockholders of  
Shields Capital Corporation (d/b/a Shields & Company)

In planning and performing our audit of the financial statements of Shields Capital Corporation (d/b/a Shields & Company) (the "Company") as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computation of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by rule 17a-13.
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in 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 practice 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.

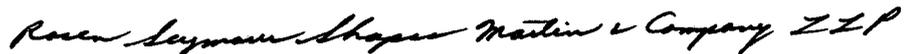
A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control 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 control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2008 to meet the SEC's objectives.

This report is intended solely for the use of the Board of Directors and stockholders, management, the SEC and other regulatory agencies which 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.



CERTIFIED PUBLIC ACCOUNTANTS

New York, New York  
February 23, 2009