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

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

SEC FILE NUMBER
8-38158

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 01/01/08 AND ENDING 12/31/08  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:  
Institutional Securities Corporation  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
3100 Monticello, Suite 800

OFFICIAL USE ONLY
_____
FIRM ID. NO.

(No. and Street)

Dallas Texas 75205  
(City) (State) (Zip Code)

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

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

CF & Co., L.L.P.

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

14175 Proton Rd. Dallas TX SEC Mail Processing 5244  
(Address) (City) (State) Section (Zip Code)

FEB 26 2009

Washington, DC  
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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).

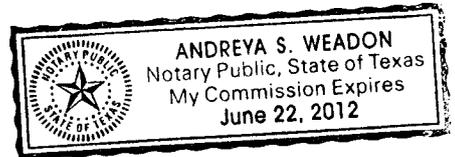
OATH OR AFFIRMATION

I, Terry L. Hill, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Institutional Securities Corporation, as of December 31, 2008, 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*Terry L. Hill*  
Signature  
President  
Title

*Andrey S. Weadon*  
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 Cash Flows
- (e) Statement of Changes in Stockholders' Equity or partners' or Sole Proprietor's 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 auditor's report on internal control

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

**INSTITUTIONAL SECURITIES CORPORATION**

REPORT PURSUANT TO RULE 17a-5(d)

YEAR ENDED DECEMBER 31, 2008

# INSTITUTIONAL SECURITIES CORPORATION

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*CF & Co., L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Institutional Securities Corporation

We have audited the accompanying statement of financial condition of Institutional Securities Corporation, as of December 31, 2008, and the related statements of income, changes in stockholder's equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. 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 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 statements referred to above present fairly, in all material respects, the financial position of Institutional Securities Corporation as of December 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made 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 the 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.

*CF & Co., L.L.P.*  
CF & Co., L.L.P.

Dallas, Texas  
February 17, 2009

INSTITUTIONAL SECURITIES CORPORATION

Statement of Financial Condition

December 31, 2008

ASSETS

Cash and cash equivalents	\$ 225,456
Receivable from brokers-dealers and clearing organizations	244,717
Other receivables	206,137
Certificates of deposit	49,169
Securities owned	9,913
Prepaid expenses and advances	68,527
Receivable from Parent	<u>75,433</u>
	<u>\$ 879,352</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities	
Accounts payable and accrued expenses	\$ 18,136
Commissions payable	336,148
State income tax payable	<u>5,700</u>
	<u>359,984</u>
Stockholder's equity	
Common stock, 10,000 shares authorized with \$.10 par value, 10,000 shares issued and outstanding	1,000
Additional paid in capital	110,658
Retained earnings	<u>407,710</u>
Total stockholder's equity	<u>519,368</u>
	<u>\$ 879,352</u>

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

INSTITUTIONAL SECURITIES CORPORATION

Statement of Income

For the Year Ended December 31, 2008

**Revenues**

Commissions	\$4,775,695
Advisory fees	1,022,473
Interest income	134,776
Other income	35,435
Unrealized gain on securities	<u>4,113</u>
	<u>5,972,492</u>

**Expenses**

Commissions and clearance	4,675,448
Regulatory fees and expenses	110,392
Other expenses	<u>1,052,918</u>
	<u>5,838,758</u>

Income before income taxes	133,734
Federal income taxes expense	(41,638)
State income tax expense	<u>(5,700)</u>
Net Income	<u>\$ 86,396</u>

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

INSTITUTIONAL SECURITIES CORPORATION  
Statement of Changes in Stockholder's Equity  
For the Year Ended December 31, 2008

	<u>Shares</u>	<u>Common Stock</u>	<u>Additional Paid In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at December 31, 2007	10,000	\$ 1,000	\$ 110,658	\$ 321,314	\$ 432,972
Net income	_____	_____	_____	<u>86,396</u>	<u>86,396</u>
Balance at December 31, 2008	<u>10,000</u>	<u>\$ 1,000</u>	<u>\$ 110,658</u>	<u>\$ 407,710</u>	<u>\$ 519,368</u>

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

INSTITUTIONAL SECURITIES CORPORATION  
Statement of Changes in Liabilities Subordinated  
to Claims of General Creditors  
For the Year Ended December 31, 2008

Balance, at December 31, 2007	\$ -0-
Increases	-0-
Decreases	<u>-0-</u>
Balance, at December 31, 2008	<u>\$ -0-</u>

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

INSTITUTIONAL SECURITIES CORPORATION  
Statement of Cash Flows  
For the Year Ended December 31, 2008

<b>Cash flows from operating activities</b>		
Net income		\$ 86,396
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Change in current assets and liabilities:		
Decrease in other receivables	133,829	
Increase in receivable from broker-dealers	(44,445)	
Increase in prepaid expenses and advances	(1,036)	
Increase in certificates of deposit	(2,180)	
Increase in receivable from Parent	(50,133)	
Increase in accounts payable and accrued expenses	8,665	
Decrease in commissions payable	(76,320)	
Increase in state income tax payable	1,102	
Increase in securities owned	<u>(4,113)</u>	
Net cash provided (used) by operating activities		<u>51,765</u>
<b>Cash flows from investing activities</b>		
Net cash provided (used) by investing activities		<u>-0-</u>
<b>Cash flows from financing activities</b>		
Net cash provided (used) by financing activities		<u>-0-</u>
Net increase in cash		51,765
Cash and cash equivalents at beginning of year		<u>173,691</u>
Cash and cash equivalents at end of year		<u>\$ 225,456</u>

**Supplemental Schedule of Cash Flow Information**

Cash paid during the year for:

Interest	<u>\$ -0-</u>
Income taxes	<u>\$ 41,638</u>

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

INSTITUTIONAL SECURITIES CORPORATION

Notes to Financial Statements

December 31, 2008

Note 1 - Summary of Significant Accounting Policies

Institutional Securities Corporation (the "Company") is a broker-dealer in securities registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA). The Company operates under (SEC) Rule 15c3-3(k)(2)(ii), which provides that all funds and securities belonging to the Company's customers would be handled by a clearing broker-dealer. The Company is a Texas corporation that is a wholly-owned subsidiary of ISC Group, Inc. ("Parent"). Substantially all the Company's business is conducted with customers in Texas.

Compensated absences have not been accrued because the amount cannot be reasonably estimated.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due. The provision for federal income taxes differs from the expected amount using statutory rates because certain expenses included in the determination of net income are non-deductible for tax reporting purposes.

Security transactions (and related commission revenue and expense) are recorded on a settlement date basis, generally the third business day following the transactions. If materially different, commission income and related expenses are recorded on a trade date basis.

Securities readily marketable are carried at market value and securities not readily marketable are carried at fair value as determined by management of the Company. The increase or decrease in net unrealized appreciation or depreciation of securities is credited or charged to operations.

For purposes of reporting cash flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days, that are not held for sale in the ordinary course of business.

The Company has certificates of deposit with a financial institution with original maturities of twenty four months. These investments are stated at cost, as it is the intent of the Company to hold these securities until maturity.

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.

INSTITUTIONAL SECURITIES CORPORATION

Notes to Financial Statements

December 31, 2008

Note 2 - Net Capital Requirements

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. Net capital and the related net capital ratio may fluctuate on a daily basis. At December 31, 2008 the Company had net capital of approximately \$149,938 and net capital requirements of \$24,011. The Company's ratio of aggregate indebtedness to net capital was 2.40 to 1. The Securities and Exchange Commission permits a ratio of no greater than 15 to 1.

Note 3 - Possession or Control Requirements

The Company does not have any possession or control of customer funds or securities. There were no material inadequacies in the procedures followed in adhering to the exemptive provisions of (SEC) Rule 15c3-3(k)(2)(ii) by promptly transmitting all customer funds and securities to the clearing broker who carries the customer accounts.

Note 4 - Income Taxes

The Company files a consolidated income tax return with the Parent. Income taxes are recorded using the separate company method to comply with FASB Statement 109. Any resulting provision or benefit for income taxes is paid to or collected from the Parent.

On December 30, 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FIN 48-3, "*Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Entities*" which permits the Company to defer the implementation of FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48") until its fiscal year beginning January 1, 2009. FIN 48 clarifies that management is expected to evaluate an income tax position taken, or expected to be taken, for likelihood of realization, before recording any amounts for such position in the financial statements. FIN 48 also requires expanded disclosure with respect to income tax positions taken that are not certain to be realized. The Company has elected to defer the implementation of FIN 48 while the FASB amends the disclosure requirements for FIN 48 for nonpublic enterprises.

Management accounts for uncertain tax positions based on their best estimate. If a position is deemed to be aggressive, it is evaluated using guidance for gain contingencies found in SFAS No. 5 *Accounting for Contingencies*.

INSTITUTIONAL SECURITIES CORPORATION

Notes to Financial Statements

December 31, 2008

Note 5 - Related Party Transactions

The Parent has agreed to furnish management services, office space, and various general and administrative expenses to the Company. Payments made to the Parent for these expenses for the year ended December 31, 2008 totaled \$959,685 and are reflected in other expenses.

Note 6 - Concentration Risk

At various times throughout the year, the Company had cash balances in excess of federally insured limits.

Note 7 - Fair Value Measurements

Effective January 1, 2009, the Company adopted Statement No. 157, *Fair Value Measurements*, which provides a framework for measuring fair value under generally accepted accounting principles. Statement No. 157 applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in Statement No. 157, 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. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

INSTITUTIONAL SECURITIES CORPORATION

Notes to Financial Statements

December 31, 2008

Note 7 - Fair Value Measurements, continued

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the year ended December 31, 2008, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

**Investment Securities**

The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Note 8 - Commitment and Contingencies

Included in the Company's clearing agreement with its clearing broker-dealer, is an indemnification clause. This clause relates to instances where the Company's customers fail to settle security transactions. In the event this occurs, the Company will indemnify the clearing broker-dealer to the extent of the net loss on the unsettled trade. At December 31, 2008, management of the Company had not been notified by the clearing broker-dealer, nor were they otherwise aware, of any potential losses relating to this indemnification.

At December 31, 2008, any claim or legal action is of such amount or nature that management believes any adverse outcome would not have a material impact on the Company.

Supplementary Information  
Pursuant to Rule 17a-5 of the  
Securities and Exchange Act of 1934  
For the Year Ended  
December 31, 2008

## Schedule I

INSTITUTIONAL SECURITIES CORPORATION  
Computation of Net Capital Under Rule 15c3-1  
of the Securities and Exchange Commission  
As of December 31, 2008

### COMPUTATION OF NET CAPITAL

Total stockholder's equity qualified for net capital		\$ 519,368
Add:		
Other deductions or allowable credits		<u>-0-</u>
Total capital and allowable subordinated liabilities		519,368
Deductions and/or charges		
Non-allowable assets:		
Concession receivable in excess of the payable	\$ 15,173	
Other receivables	206,137	
Prepaid expenses and advances	68,527	
Investment in non marketable equity securities	2,500	
Receivable from parent-income taxes	<u>75,433</u>	<u>(367,770)</u>
Net capital before haircuts on securities positions		151,598
Haircuts on securities (computed, where applicable, pursuant to rule 15c3-1(f))		
Exempt securities	548	
Other securities	<u>1,112</u>	<u>(1,660)</u>
Net capital		<u>\$ 149,938</u>

### AGGREGATE INDEBTEDNESS

Items included in statement of financial condition		
Accounts payable and accrued expenses		\$ 18,136
Commissions payable		336,148
State income tax payable		<u>5,700</u>
Total aggregate indebtedness		<u>\$ 359,984</u>

**Schedule I (continued)**

**INSTITUTIONAL SECURITIES CORPORATION**  
**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 (6 2/3% of total aggregate indebtedness)	<u>\$ 24,011</u>
Minimum dollar net capital requirement of reporting broker or dealer	<u>\$ 5,000</u>
Net capital requirement (greater of above two minimum requirement amounts)	<u>\$ 24,011</u>
Net capital in excess of required minimum	<u>\$ 125,927</u>
Excess net capital at 1000%	<u>\$ 113,940</u>
Ratio: Aggregate indebtedness to net capital	<u>2.40 to 1</u>

**RECONCILIATION WITH COMPANY'S COMPUTATION**

There were no material differences in the computation of net capital under Rule 15c3-1 from the Company's computation of net capital.

## **Schedule II**

**INSTITUTIONAL SECURITIES CORPORATION**  
**Computation for Determination of Reserve Requirements Under**  
**Rule 15c3-3 of the Securities and Exchange Commission**  
**As of December 31, 2008**

### **EXEMPTIVE PROVISIONS**

The Company has claimed an exemption from Rule 15c3-3 under section (k)(2)(ii), in which all customer transactions are cleared through another broker-dealer on a fully disclosed basis.

Company's clearing firm:      Southwest Securities, Inc.

Independent Auditor's Report

On Internal Control

Required By SEC Rule 17a-5

Year Ended December 31, 2008



*CF & Co., L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL REQUIRED BY SEC RULE 17a-5

To the Board of Directors of  
Institutional Securities Corporation

In planning and performing our audit of the financial statements and supplemental information of Institutional Securities Corporation (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 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 Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness 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 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, 2008, to meet the SEC's objectives.

This report is intended solely for the information and use of 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.

  
CF & Co., L.L.P.

Dallas, Texas  
February 17, 2009