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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**

CM

SEC FILE NUMBER
8-51684

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 01/01/11 AND ENDING 12/31/11
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Frost Securities, Inc.

OFFICE USE ONLY

FIRM ID. NO.

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

2727 North Harwood, Suite 1000

(No. and Street)

Dallas

(City)

Texas

(State)

75201

(Zip Code)

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

Patrick Muras

210-220-5880

(Area Code - Telephone No.)

B. ACCOUNT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Ernst & Young LLP

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

1800 Frost Bank Tower

(Address)

San Antonio

(City)

Texas

(State)

78205

(Zip Code)

CHECK ONE:

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



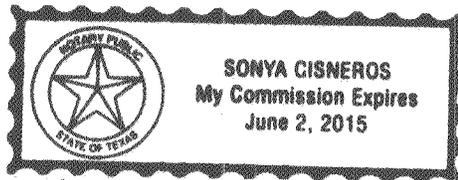
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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

APB
3/1/12

OATH OR AFFIRMATION

I, Patrick Muras, affirm that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of Frost Securities, Inc. (the Company), as of December 31, 2011, are true and correct. I further 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.



Sonya Cisneros
Notary Public

Patrick Muras

Signature

Chief Financial Officer

Title

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 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 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.
- (o) Independent auditor's report on internal accounting control.

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

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FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES

Frost Securities, Inc.
Years Ended December 31, 2011 and 2010
With Report of Independent Registered Public
Accounting Firm

Ernst & Young LLP

 **ERNST & YOUNG**

Frost Securities, Inc.

Financial Statements and Supplemental Schedules

Years Ended December 31, 2011 and 2010

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Frost Securities, Inc.

We have audited the accompanying statements of financial condition of Frost Securities, Inc. (the Company) as of December 31, 2011 and 2010, and the related statements of operations, changes in stockholder's 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 Frost Securities, Inc. at December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, and III 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 is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

February 24, 2012

Frost Securities, Inc.

Statements of Financial Condition

	December 31	
	2011	2010
Assets		
Cash	\$ 1,196,059	\$ 1,011,476
Receivable from settlement of litigation	–	250,000
Receivable from parent company related to income taxes	116,972	–
Furniture and equipment	399	6,398
Deferred taxes	122,389	96,998
Prepaid expenses and other assets	45,710	46,629
Total assets	<u>\$ 1,481,529</u>	<u>\$ 1,411,501</u>
Liabilities and stockholder's equity		
Liabilities:		
Accrued payroll and incentives	\$ 107,794	\$ 27,203
Reserves for employee benefit plans	25,131	23,619
Payable to parent company related to income taxes	–	63,011
Other accrued expenses	29,362	28,777
Total liabilities	<u>162,287</u>	<u>142,610</u>
Stockholder's equity:		
Common stock, par value \$0.01 per share; 100 shares authorized, issued, and outstanding	1	1
Additional paid-in capital	14,640,737	14,640,737
Accumulated deficit	(13,321,496)	(13,371,847)
Total stockholder's equity	<u>1,319,242</u>	<u>1,268,891</u>
Total liabilities and stockholder's equity	<u>\$ 1,481,529</u>	<u>\$ 1,411,501</u>

See accompanying notes.

Frost Securities, Inc.

Statements of Operations

	Year Ended December 31	
	2011	2010
Revenue:		
Management, acquisition, and advisory fees	\$ 1,390,254	\$ 563,263
Proceeds from settlement of litigation	–	450,000
Gain on sale of investment in private placement of common stock	–	115,025
Interest income	10,874	11,031
Other income	1,386	10,720
Total revenue	1,402,514	1,150,039
Expenses:		
Employee compensation and benefits	1,018,662	680,033
Occupancy and equipment	87,773	107,630
Other general and administrative	216,367	286,415
Total expenses	1,322,802	1,074,078
Profit before income taxes	79,712	75,961
Income tax expense	29,361	27,019
Net income	\$ 50,351	\$ 48,942

See accompanying notes.

Frost Securities, Inc.

Statements of Changes in Stockholder's Equity

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total Stockholder's Equity
Balance at January 1, 2010	\$ 1	\$ 14,640,737	\$ (13,420,789)	\$ 1,219,949
Net income	-	-	48,942	48,942
Balance at December 31, 2010	1	14,640,737	(13,371,847)	1,268,891
Net income	-	-	50,351	50,351
Balance at December 31, 2011	\$ 1	\$ 14,640,737	\$ (13,321,496)	\$ 1,319,242

See accompanying notes.

Frost Securities, Inc.

Statements of Cash Flows

	Year Ended December 31	
	2011	2010
Operating activities		
Net income	\$ 50,351	\$ 48,942
Adjustments to reconcile net income to net cash from (used in) operating activities:		
Depreciation and amortization	5,999	9,929
Deferred tax (benefit) expense	(25,391)	443
Gain on sale of investment in private placement of common stock	-	(115,025)
Net change in:		
Accounts receivable	-	2,205
Receivable from settlement of litigation	250,000	(250,000)
Current amount (receivable from) payable to parent company related to income taxes	(179,983)	173,518
Prepaid expenses and other assets	919	1,216
Accrued payroll and incentives	80,591	27,203
Reserves for employee benefit plans	1,512	(14,435)
Other accrued expenses	585	2,130
Net cash from operating activities	184,583	(113,874)
Investing activities		
Proceeds from sale of investment in private placement of common stock	-	115,026
Net cash from investing activities	-	115,026
Net change in cash	184,583	1,152
Cash at beginning of year	1,011,476	1,010,324
Cash at end of year	\$ 1,196,059	\$ 1,011,476

See accompanying notes.

Frost Securities, Inc.

Notes to Financial Statements

December 31, 2011

1. Organization and Nature of Operations

Frost Securities, Inc. (the Company), a wholly owned second-tier subsidiary of Cullen/Frost Bankers, Inc. (CFBI), is registered as a broker-dealer under the Securities Exchange Act of 1934. The Company was incorporated in the state of Delaware on March 1, 1999, and began operations on August 2, 1999. The Company employs a small group of investment bankers that provide advisory and private equity services to companies located primarily in Texas.

The Company is a member of the Financial Industry Regulatory Authority (FINRA) and is subject to regulation by the United States Securities and Exchange Commission (SEC) and FINRA. The Company is also a member of the Securities Investors Protection Corporation (SIPC), a nonprofit membership corporation designed to protect, up to specified amounts, customers' cash and securities in the event of the liquidation of a broker-dealer. The Company does not and did not hold customer cash or securities in connection with customer transactions during 2011 or 2010.

2. Significant Accounting Policies

The accounting and reporting policies followed by the Company are in accordance with accounting principles generally accepted in the United States and conform to general practices within the securities industry. The more significant accounting and reporting policies are summarized below.

Subsequent Events

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date these financial statements were issued. No subsequent events occurred during this reporting period that require recognition or disclosure in these financial statements.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Frost Securities, Inc.

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Cash

Cash includes cash held in a deposit account at Frost National Bank (FNB), a banking subsidiary of CFBI, and a deposit account at a nonaffiliated bank in an amount that exceeds federal deposit insurance coverage. Management regularly evaluates the credit risk associated with the counterparties and believes that the Company is not exposed to any significant credit risks on cash.

Revenue Recognition

Management, acquisition, and advisory fees are recognized as earned based on the agreement with the customer. Performance-based fees are recorded when the services to be performed have been completed.

Receivable from Settlement of Litigation

The receivable represents the second installment payable under a settlement agreement dated December 10, 2010, between the Company and a former client. The second installment was received in 2011. See Note 9 – Contingency.

Investments

Investments are stated at fair value, with related changes recognized as a realized gain or loss in the statements of operations. Due to the limited marketability, investments in private placement of common stock are carried at management's estimate of fair value. No investment in private placement of common stock was held as of December 31, 2011 and 2010. See Note 4 – Investment in Private Placement of Common Stock.

Income Taxes

The Company's operations are included in the consolidated federal and state income tax returns filed by CFBI using a calendar year-end. The Company's income tax provision is determined as if it filed a separate return using the consolidated income tax rate for CFBI (35% during the periods presented), as this is the rate charged by CFBI to the Company. Cash paid to CFBI for income taxes was \$234,735 in 2011, and cash received from CFBI for income taxes was \$144,364 in 2010.

Frost Securities, Inc.

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Related-Party Transactions

FNB provides certain services for the Company, including, but not limited to, payroll processing, financial operations, and payable disbursement processing. The Company reimburses FNB for these services, which totaled approximately \$70,000 and \$44,000 for 2011 and 2010, respectively.

The Company maintains certain lease agreements with FNB. See Note 6 – Leases.

The Company has a \$1,000,000 line of credit under an agreement with CFBI. The line of credit matures on May 31, 2012, and bears interest at a fixed rate equal to the prime rate at the date of renewal. The interest rate in effect was 3.25% at both December 31, 2011 and 2010. There were no borrowings outstanding on this line of credit during 2011 and 2010.

3. Furniture and Equipment

Furniture and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which range from 4 to 12 years.

A summary of furniture and equipment follows:

	Year Ended December 31	
	2011	2010
Cost	\$ 146,023	\$ 159,398
Less accumulated depreciation	(145,624)	(153,000)
Net carrying value	<u>\$ 399</u>	<u>\$ 6,398</u>

Depreciation of furniture and equipment totaled \$5,999 in 2011 and \$9,929 in 2010.

Frost Securities, Inc.

Notes to Financial Statements (continued)

4. Investment in Private Placement of Common Stock

In October 2001, the Company received preferred stock in a privately held telecommunications equipment company as compensation for services provided. In June 2007, the telecommunications equipment company was purchased by a privately held telecommunications systems supplier. As compensation for its ownership interest in the acquired company, the Company received cash plus 22,100 shares of common stock in two subsidiaries of the acquiring entity. The common stock was carried at management's estimate of fair value, which was \$1.

In May 2010, the Company's common stock position in both subsidiaries was purchased by the telecommunications systems supplier for net cash of \$115,026. The cash received resulted in the Company recording a gain on the sale of the investment of \$115,025. The realized gain was calculated based on the specific identification method.

5. Employee Benefit Plans

As a subsidiary, the Company participates in various employee benefit plans offered by CFBI, including a 401(k) stock purchase plan, a profit-sharing plan, and a defined benefit plan. Expense related to these plans totaled approximately \$57,000 for 2011 and \$47,000 for 2010.

The 401(k) stock purchase plan is a defined contribution plan whereby participants are permitted to make before- or after-tax contributions in an amount no less than 2% and not exceeding 50% of eligible compensation, subject to Internal Revenue Service limitations. The Company matches 100% of employee contributions up to a maximum of 6% of eligible compensation. Eligible employees must complete 90 days of service in order to enroll and vest in the Company's matching contributions immediately. The plan covers substantially all eligible employees of the Company. Expense related to the plan totaled \$33,000 in both 2011 and 2010 and is included in the amounts disclosed above. The Company's matching contribution is initially invested in CFBI common stock. However, employees may immediately reallocate the Company's matching portion, as well as invest their individual contribution, to any of a variety of investment alternatives offered under the plan.

The profit-sharing plan is a defined contribution retirement plan that allows the Company to make discretionary annual contributions to individual eligible employee accounts based upon CFBI's fiscal-year profitability. Eligible employees must complete at least one year of service and be age 21 or older. Contributions are allocated to eligible participants pro rata, based on compensation, age, and other factors. Participants self-direct the investment of allocated

Frost Securities, Inc.

Notes to Financial Statements (continued)

5. Employee Benefit Plans (continued)

contributions by choosing from a menu of investment options. Account assets are subject to withdrawal restrictions, and participants vest in their accounts after three years of service. Expense related to this plan totaled approximately \$24,000 for 2011 and \$14,000 for 2010 and is included in the amounts disclosed above.

The defined benefit plan is a noncontributory plan that was frozen as of December 31, 2001. The plan provides pension and death benefits to substantially all employees who were at least 21 years of age and had completed at least one year of service prior to December 31, 2001. Expenses related to this plan were minimal in 2011 and 2010.

6. Leases

The Company leases office space and equipment from FNB and third parties under operating lease agreements. On October 1, 2008, FNB signed a new lease with a third-party landlord for space that included the Company's existing office space. Concurrently, the Company signed a new sublease agreement with FNB for the existing office space under the same terms and conditions as those contained in the lease agreement between FNB and the third-party landlord. In June 2010, the Company amended the sublease agreement with FNB to reflect a reduction in the Company's office space requirements.

The aggregate lease expense is reported on a straight-line basis over the life of the lease. Total lease expense was approximately \$62,000 for 2011 and \$76,000 for 2010 and is included in occupancy and equipment expense in the accompanying statements of operations. Accumulated lease expense payable of approximately \$5,000 is recorded in other accrued expenses in the accompanying statements of financial condition as of both December 31, 2011 and 2010. Total operating costs paid by the Company to FNB under the terms of the sublease agreement were approximately \$13,000 in 2011 and \$14,000 in 2010.

Frost Securities, Inc.

Notes to Financial Statements (continued)

6. Leases (continued)

Future minimum lease payments due under noncancelable operating leases as of December 31, 2011, are as follows:

2012	\$ 63,783
2013	64,662
2014	32,549
2015	-
2016	-
Thereafter	-
	<u>\$ 160,994</u>

7. Income Taxes

The Company is included in the consolidated federal income tax return filed by CFBI, and the Company's income tax provision is computed in accordance with a tax-sharing agreement. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2008. The Company files separate state and local income/franchise tax returns where applicable. State and local taxes have been provided for in these financial statements on separate entity income at the effective rate of the Company.

Reported income tax expense differed from the amount computed by applying the U.S. federal statutory income tax rate of 35% to income before income taxes as follows:

	<u>2011</u>	<u>2010</u>
Income tax expense at statutory rate	\$ 27,899	\$ 26,586
Meals and entertainment	120	433
Other	(722)	-
State income tax	2,064	-
Income tax expense	<u>\$ 29,361</u>	<u>\$ 27,019</u>

Frost Securities, Inc.

Notes to Financial Statements (continued)

7. Income Taxes (continued)

Income tax expense consists of the following:

	<u>2011</u>	<u>2010</u>
Current income tax expense	\$ 54,752	\$ 26,576
Deferred income tax (benefit) expense	(25,391)	443
Income tax expense	<u>\$ 29,361</u>	<u>\$ 27,019</u>

Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. Year-end deferred taxes were as follows:

	<u>2011</u>	<u>2010</u>
Deferred tax assets:		
Bank premises and equipment	\$ 111,182	\$ 113,317
Bonus accrual	33,818	-
Total gross deferred tax assets	<u>145,000</u>	<u>113,317</u>
Deferred tax liabilities:		
Section 481(a) adjustments – bonus accrual	6,612	-
Prepaid expenses	15,999	16,319
Total gross deferred tax liabilities	<u>22,611</u>	<u>16,319</u>
Net deferred tax asset	<u>\$ 122,389</u>	<u>\$ 96,998</u>

No valuation allowance for deferred tax assets was recorded at December 31, 2011 and 2010, as management believes it is more likely than not that all of the deferred tax assets will be realized.

Frost Securities, Inc.

Notes to Financial Statements (continued)

8. Net Capital Requirements

The Company is subject to the SEC 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, shall not exceed 15 to 1 (and the rule of the “applicable” exchange also provides that equity capital may not be withdrawn or cash dividends be paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2011, the Company had net capital of \$1,033,772, which was \$1,022,953 in excess of its required net capital of \$10,819. At such date, the Company’s aggregate indebtedness to net capital ratio was 0.16 to 1. At December 31, 2010, the Company had net capital of \$868,866, which was \$859,359 in excess of its required net capital of \$9,507. At such date, the Company’s aggregate indebtedness to net capital ratio was 0.16 to 1.

9. Contingency

In 2009, the Company filed a lawsuit against a former client for breach of contract concerning the payment of a success fee under an exclusive financial advisor contract. The Company was granted summary judgment against the former client in August 2010. In December 2010, a settlement agreement was reached whereby the former client agreed to pay the Company a total of \$450,000, with \$200,000 payable in late December 2010 and \$250,000 payable no later than February 9, 2011. Both installment payments were paid as agreed, and the Agreed Order of Dismissal was filed February 14, 2011. The total settlement amount of \$450,000 was recognized in revenue on the statement of operations in 2010, and \$250,000 was recorded as a receivable on the statement of financial condition as of December 31, 2010.

10. Accounting Standards Updates

Accounting Standards Update (ASU) 2011-04, *Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 amends Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820, and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company’s financial statements.

Supplemental Schedules

Frost Securities, Inc.

Schedule I – Computation of Net Capital Under Rule 15c3-1

December 31, 2011

Net capital

Total stockholder's equity from statement of financial condition		\$ 1,319,242
Deduct stockholder's equity not allowable for net capital		<u> -</u>
Total stockholder's equity qualified for net capital		1,319,242
Deductions:		
Receivable from parent company related to income taxes	\$ 116,972	
Prepaid expenses and other assets	45,710	
Other nonallowable assets	122,788	285,470
Net capital		<u><u>\$ 1,033,772</u></u>

Aggregate indebtedness

Accrued payroll and incentives		\$ 107,794
Reserves for employee benefit plans		25,131
Other accrued expenses		29,362
Total aggregate indebtedness		<u><u>\$ 162,287</u></u>

Computation of basic net capital requirement

Minimum net capital required (\$5,000 or 6 2/3% of aggregate indebtedness, whichever is greater)		<u><u>\$ 10,819</u></u>
Excess net capital at 1,500%		<u><u>\$ 1,022,953</u></u>
Excess net capital at 1,000%		<u><u>\$ 1,017,543</u></u>
Ratio of aggregate indebtedness to net capital		<u><u>0.16 to 1</u></u>

Reconciliation with Company's original computation

Net capital, as originally reported in Company's Part IIA (unaudited) focus report		\$ 1,035,282
Adjustment related to under-accrual of employee benefits		<u>(1,510)</u>
Net capital, as reported in Company's Part IIA (unaudited) focus report, as amended		<u><u>\$ 1,033,772</u></u>

Frost Securities, Inc.

Schedule II – Computation for Determination of the Reserve
Requirements Under Rule 15c3-3

December 31, 2011

The Company is exempt from Rule 15c3-3 of the Securities and Exchange Commission under paragraph K(2)(ii) of that rule.

Frost Securities, Inc.

Schedule III – Information Relating to the Possession or
Control Requirements Under Rule 15c3-3

December 31, 2011

The Company is exempt from Rule 15c3-3 of the Securities and Exchange Commission under paragraph K(2)(ii) of that rule.

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

Board of Directors
Frost Securities, Inc.

In planning and performing our audit of the financial statements of Frost Securities, Inc. (the Company), as of and for the year ended December 31, 2011, 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, including 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 deficiency in internal control 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 and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or 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, 2011, 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

February 24, 2012

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