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DIVISION OF MARKET REGULATION

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

SEC FILE NUMBER
8-50174



10032917

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 01/01/2009 AND ENDING 12/31/2009
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Questar Capital Corporation

OFFICIAL USE ONLY
FIRM I.D. NO.

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

5701 Golden Hills Drive

(No. and Street)

Minneapolis, MN 55416

(City)

(State)

(Zip Code)

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

Emily Reitan

763-765-6089 Area Code - Telephone Number

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG, LLP

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

4200 Wells Fargo Center, 90 S 7th Street, Minneapolis, MN 55402

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

SECURITIES & EXCHANGE COMMISSION
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CHICAGO REGIONAL OFFICE

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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, Emily Reitan, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Questar Capital Corporation, as of December 31, 2009, 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:

Emily Reitan
Signature

Chief Financial Officer
Title



Gail L. Buysse
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.

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

QUESTAR CAPITAL CORPORATION

December 31, 2009

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KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Report of Independent Registered Public Accounting Firm

The Board of Directors
Questar Capital Corporation:

We have audited the accompanying statement of financial condition of Questar Capital Corporation (the Company) as of December 31, 2009, and the related statements of operations, changes in stockholder's equity, 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 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, 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 Questar Capital Corporation as of December 31, 2009, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the Supplementary Schedule 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.

KPMG LLP

February 22, 2010

QUESTAR CAPITAL CORPORATION

Statement of Financial Condition

December 31, 2009

Assets

Cash and clearing deposit	\$	8,966,497
Intangible assets (net of accumulated amortization of \$866,478)		1,234,074
Concessions receivable		565,706
Prepaid expenses		643,863
Net deferred tax asset		1,404,146
Receivables from registered representatives (net of allowance for uncollectible accounts of \$283,592)		491,240
Receivable from affiliate		810,581
Total assets	\$	<u>14,116,107</u>

Liabilities and Stockholder's Equity

Commissions payable	\$	642,135
Accrued expenses		5,054,660
Accounts payable		254,308
Deferred revenue		640,570
Total liabilities		<u>6,591,673</u>
Stockholder's equity:		
Common stock, no par value, 1,000 shares authorized and outstanding		113,728
Additional paid-in capital		89,136,741
Retained deficit		<u>(81,726,035)</u>
Total stockholder's equity		<u>7,524,434</u>
Total liabilities and stockholder's equity	\$	<u>14,116,107</u>

See accompanying notes to financial statements.

QUESTAR CAPITAL CORPORATION

Statement of Operations

Year ended December 31, 2009

Revenue:		
Concessions	\$	48,639,987
Other revenue		<u>2,844,632</u>
Total revenue		<u>51,484,619</u>
Expenses:		
Commissions		43,052,805
Goodwill impairment		18,885,290
Legal and compliance charges		9,140,622
Salaries and employee benefit charges		8,238,955
Information technology charges		1,992,342
Outside consulting		1,176,699
General and administrative charges		890,270
Other expenses		760,556
Meetings and seminars		732,763
Taxes, licenses, and fees		686,708
Occupancy charges		613,064
Travel and entertainment		437,314
Advertising and public relations		257,133
Intangible amortization		210,055
Postage and telephone		144,371
Bad debt expense		129,036
Computer hardware and software		<u>118,368</u>
Total expenses		<u>87,466,351</u>
Loss before taxes		(35,981,732)
Income tax benefit		<u>5,968,380</u>
Net loss	\$	<u><u>(30,013,352)</u></u>

See accompanying notes to financial statements.

QUESTAR CAPITAL CORPORATION

Statement of Changes in Stockholder's Equity

Year ended December 31, 2009

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained deficit</u>	<u>Total</u>
Balance at December 31, 2008	\$ 113,728	79,636,741	(51,712,683)	28,037,786
Capital contribution	—	9,500,000	—	9,500,000
Net loss	—	—	(30,013,352)	(30,013,352)
Balance at December 31, 2009	\$ <u>113,728</u>	<u>89,136,741</u>	<u>(81,726,035)</u>	<u>7,524,434</u>

See accompanying notes to financial statements.

QUESTAR CAPITAL CORPORATION

Statement of Cash Flows

Year ended December 31, 2009

Cash flows from operating activities:	
Net loss	\$ (30,013,352)
Adjustments to reconcile net loss to net cash used in operating activities:	
Intangible amortization	210,055
Impairment of goodwill	18,885,290
Decrease in receivable from registered representatives	83,156
Increase in concessions receivable	(224,407)
Increase in prepaid expenses	(250,036)
Increase in accrued expenses	3,872,555
Decrease in accounts payable	(152,931)
Increase in commissions payable	(101,272)
Decrease in deferred taxes	(1,279,429)
Increase in deferred revenue	60,894
Net cash used in operating activities	<u>(8,909,477)</u>
Cash flows from financing activities:	
Decrease in receivable from affiliated company	1,159,208
Decrease in payable to affiliated company	(1,768,701)
Capital contribution from parent	9,500,000
Net cash provided by financing activities	<u>8,890,507</u>
Net decrease in cash	(18,970)
Cash at beginning of year	<u>8,985,467</u>
Cash at end of year	<u>\$ 8,966,497</u>

See accompanying notes to financial statements.

QUESTAR CAPITAL CORPORATION

Notes to Financial Statements

December 31, 2009

(1) Nature of Business and Significant Accounting Policies

(a) Description of the Company

Questar Capital Corporation (the Company) is a wholly owned subsidiary of Yorktown Financial Companies, Inc. (Yorktown), which in turn is a wholly owned subsidiary of Allianz Life Insurance Company of North America (Allianz Life). Allianz Life is a wholly owned subsidiary of Allianz of America, Inc. (AZOA), a wholly owned subsidiary of Allianz Societas Europaea (Allianz SE), a European company incorporated in Germany.

The Company is registered as a broker-dealer under the Securities Exchange Act of 1934 and operates as a retail broker-dealer. The Company distributes a full range of securities products, including nonproprietary mutual funds and variable life insurance and annuity contracts, and processes general securities transactions through a clearing arrangement with Pershing, LLC. The Company's results of operations may not be indicative of the results that might have been obtained had it operated independently of Yorktown and Allianz Life.

(b) Significant Accounting Policies

Securities Transactions

The Company's primary source of revenue is concessions received on sales of mutual funds, variable annuities, and variable life products. The primary expense of the Company is the corresponding commissions paid to registered representatives for these sales. Concessions and related commission expense are recorded on a settlement date basis. The clearing and depositing operations are provided by Pershing, LLC.

Cash and Clearing Deposit

Cash represents amounts held in depository institutions. The Company is required to maintain deposit accounts with clearing organizations and others to assure the performance of the obligations of the Company under the terms of its agreements. Minimum required balances in deposit accounts with clearing organizations were \$105,000 at December 31, 2009.

Goodwill

Goodwill is the excess of the amount paid to acquire a company over the fair value of its tangible net assets, identifiable intangible assets, and valuation adjustments, if any. The recoverability of goodwill is assessed at least annually based on estimates of future earnings. If estimated future earnings are less than the carrying amount of the related asset, the carrying value of the asset may not be recoverable and an impairment test is performed. If impairment is indicated, the carrying value will be reduced to its fair value with a corresponding charge to earnings.

Intangible Assets

An intangible asset is recognized apart from goodwill when it arises from contractual or legal rights or it is capable of being separated and valued then sold, transferred, licensed, rented, or exchanged. The Company determines the useful life and amortization period for each intangible asset identified.

QUESTAR CAPITAL CORPORATION

Notes to Financial Statements

December 31, 2009

An intangible asset with a determinable useful life is amortized over that period, while an intangible asset with an indefinite useful life is not amortized.

Federal Income Taxes

The Company utilizes the asset and liability method of accounting for income tax. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. Valuation allowances are established when it is determined that it is more likely than not that the deferred tax asset will not be fully realized.

The Company provides for federal income taxes based on amounts the Company believes it ultimately will owe. Inherent in the provision for federal income taxes are estimates regarding the deductibility of certain items and the realization of certain tax credits. In the event the ultimate deductibility of certain items or the realization of certain tax credits differs from estimates, the Company may be required to significantly change the provision for federal income taxes recorded in the financial statements. Any such change could significantly affect the amounts reported in the statement of operations. Quarterly, management evaluates the appropriateness of such provisions based on any new developments specific to their fact patterns. Information considered includes results of completed tax examinations, technical advice memorandums, and other rulings issued by the Internal Revenue Service (IRS) or the tax courts.

The Company is included in the consolidated federal income tax return with AZOA and all of its wholly owned subsidiaries. The consolidated tax allocation agreement stipulates that each company participating in the return will bear its share of the tax liability pursuant to U.S. Treasury Department regulations. The Company generally will be paid for the tax benefit on their losses and any other tax attributes to the extent they could have obtained a benefit against their post-1990 separate return taxable income or tax.

Basis of Presentation

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP).

Use of Estimates

The preparation of financial statements in conformity with GAAP 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. Such changes in estimates are recorded in the period they are determined.

QUESTAR CAPITAL CORPORATION

Notes to Financial Statements

December 31, 2009

Receivables from Registered Representatives

The Company has a program of offering advanced commission and forgivable and nonforgivable loans to qualified registered representatives (rep). The terms of the loans vary for each rep and are forgiven based on reaching predetermined production levels. The nonforgivable loans are paid back through a withholding of the reps' commissions. As of December 31, 2009, the Company had advanced commission and loan receivables related to this program of \$377,489. The Company established an allowance for uncollectible accounts based on a reserve policy that reflects its expected collectibility. In 2009, the Company had a write-off, against a reserve recorded in 2008, of \$397,785 relating to a single rep with terms violation. As of December 31, 2009, the Company did not have an allowance for uncollected accounts of registered representatives.

The Company also has fee receivables from registered representatives. The receivables are stated net of write-offs and allowances for uncollectibles. The Company established an allowance for uncollectible accounts based on a reserve policy that reflects its expected collectibility. As of December 31, 2009, the gross receivable was \$397,343 and the Company recorded an allowance for uncollected accounts of \$283,592. There were no write-offs during 2009.

(2) Goodwill and Intangible Assets

In November 2005, Yorktown, the Company's parent, was purchased by Allianz Life, and the transaction was recorded using the purchase method of accounting. The Company recorded goodwill of \$18,885,290 and intangible assets of \$2,100,552. The components of intangible assets at acquisition are summarized as follows:

	<u>Amount</u>	<u>Useful life</u>
Tradename	\$ 1,050,276	Indefinite
Noncompete and transition agreements	<u>1,050,276</u>	5 years
Total intangible assets, at acquisition	<u>\$ 2,100,552</u>	

A portion of the intangible assets relates to the trade name and service mark of the Company and has an indefinite useful life. Therefore, the trade name is not being amortized, but is subject to periodic impairment testing. The remaining intangible asset is related to noncompete and transition agreements and is being amortized over five years using the straight-line method. Amortization expense of \$210,055 was recorded in 2009 and is included in intangible amortization on the statement of operations. As of December 31, 2009, the Company has recorded intangible assets of \$1,234,074.

As a result of the 2009 impairment testing, it was determined the entire goodwill amount of \$18,885,290 was impaired, and the total amount was written off in 2009.

(3) Transactions with Related Parties

The Company is managed by Yorktown. The Company may pay management fees (determined periodically) to Yorktown for various operating expenses. Management fees charged reflect the actual costs of these services; however, Yorktown is in a position to and could influence the operating results of

QUESTAR CAPITAL CORPORATION

Notes to Financial Statements

December 31, 2009

the Company. During the year ended December 31, 2009, the Company incurred no management fees. At December 31, 2009, the Company had no amounts payable to Yorktown.

Questar Asset Management, Inc. (Asset Management) is a related company through common control and ownership. The Company pays various operating and commission expenses on behalf of Asset Management, which are then charged to Asset Management on a periodic basis. The expenses charged reflect the actual costs of these services. During the year ended December 31, 2009, the Company paid no operating expenses and \$2,810,380 of commission expenses on behalf of Asset Management. At December 31, 2009, the Company had a payable to Asset Management of \$425,990.

The Company maintains a selling agreement with Allianz Life Financial Services, LLC, a wholly owned subsidiary of Allianz Life. During 2009, the agreement resulted in \$2,518,129 in concession revenue, which is 5.2% of the Company's total concession revenue.

The Company has an expense sharing arrangement with Allianz Life to pay certain direct operating expenses on behalf of the Company and then be reimbursed by the Company. During 2009, Allianz Life paid \$18,331,003 in direct operating expenses. The Company also receives allocated expenses for overhead. During 2009, \$5,414,023 was allocated to the Company using an allocation method developed by management of Allianz Life. At December 31, 2009, the Company had a receivable from Allianz Life of \$472,161.

In May and September 2009, Allianz Life adopted two board resolutions agreeing to make a capital contribution in the form of debt forgiveness to the Company. The debt relates to the expense sharing agreement with Allianz Life. Under the resolutions, unpaid expenses incurred up to the date of the resolution were forgiven by Allianz Life, and capital contributions of \$5,500,000, on May 8, 2009 and \$4,000,000 on September 17, 2009, were made to the Company to satisfy the net capital requirements as required by the Securities and Exchange Commission's (SEC) Uniform Net Capital Rule (Rule 15c3-1).

At December 31, 2009, receivable from affiliate includes a \$764,410 tax receivable from AZOA as a result of the tax sharing agreement.

(4) Financial Instruments with Off-Balance-Sheet Risk

In the ordinary course of business, the Company's securities activities involve execution, settlement, and financing of various securities transactions as agent. These activities may expose the Company to credit and market risks in the event customers, other brokers and dealers, banks, depositories, or clearing organizations are unable to fulfill contractual obligations. Such risks may be increased by volatile trading markets. The Company clears all transactions for its customers on a fully disclosed basis with a clearing firm that carries all customer accounts and maintains related records. Nonetheless, the Company is liable to the clearing firm for the transactions of its customers. These activities may expose the Company to off-balance-sheet risk in the event a counterparty is unable to fulfill its contractual obligations.

(5) Net Capital Requirement

The Company is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), and is required to maintain minimum net capital of \$468,425 as of December 31, 2009. At December 31, 2009, the Company had net

QUESTAR CAPITAL CORPORATION

Notes to Financial Statements

December 31, 2009

capital of \$2,227,377, which was \$1,758,952 in excess of the minimum required. The Company's net capital ratio (ratio of aggregate indebtedness to net capital) was 3.15:1 at December 31, 2009.

(6) Rule 15c3-3 Exemption

The Company clears all customer transactions on a fully disclosed basis with a clearing broker-dealer. The Company does not hold customer funds or safekeep customer securities and is therefore exempt from Rule 15c3-3 of the SEC under subsection (k)2(ii). Under this exemption, the "Computation for Determination of Reserve Requirements" and "Information Relating to the Possession or Control Requirements" are not required.

(7) Income Taxes

The income tax benefit reflected on the statement of operations is as follows:

Current tax benefit	\$	4,688,950
Deferred tax benefit		<u>1,279,430</u>
Income tax benefit as reported	\$	<u><u>5,968,380</u></u>

There was no provision for state income taxes reflected on the statement of operations for the year ended December 31, 2009 due to the state income tax benefit from the net loss being fully offset by an increase in the valuation allowance.

The income tax benefit computed at the statutory rate of 35% varies from the tax benefit reported on the statement of operations as follows:

Income tax benefit computed at the statutory rate	\$	12,593,606
Change to non-deductible goodwill		(6,609,852)
Other		<u>(15,374)</u>
Income tax benefit as reported	\$	<u><u>5,968,380</u></u>

QUESTAR CAPITAL CORPORATION

Notes to Financial Statements

December 31, 2009

Tax effects of temporary differences giving rise to the significant components of the deferred tax assets and liabilities at December 31, 2009 are as follows:

Deferred tax assets (liabilities):	
State net operating loss carry forward	\$ 551,165
Intangible asset amortization	(431,926)
Deferred compensation	65,602
Agent debt reserve	99,258
Accruals	<u>1,671,212</u>
Total	1,955,311
Valuation allowance	<u>(551,165)</u>
Net deferred tax asset	<u>\$ 1,404,146</u>

Although realization is not assured, the Company believes it is not necessary to establish a full valuation allowance for the total deferred tax assets as it is more likely than not the deferred tax asset of \$1,836,072 will be realized principally through reimbursement from AZOA as the existing deductible temporary differences reverse.

The IRS has surveyed 2003 through 2005 and has informed the Company that they do not intend to do any further review of those years. During 2008, the IRS reviewed the credit taken for the Telephone Excise Tax on AZOA and Subsidiaries' 2006 consolidated return. The auditor had no issues while on site and informed the Company the review was completed and closed with no changes to the return.

At this time, the Company is not aware of any adjustments that may be proposed by the IRS.

On January 1, 2007, the Company adopted the provisions of the new guidance within the Income Taxes topic of the Financial Accounting Standards Board Accounting Standards Codification. The Company had no unrecognized tax benefits as of January 1, 2009 and December 31, 2009. The Company does not expect any significant changes related to unrecognized tax benefits during the next twelve months.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in federal income tax expense. As of December 31, 2009, the Company had not recognized any interest and penalties.

QUESTAR CAPITAL CORPORATION

Notes to Financial Statements

December 31, 2009

(8) Commitments and Contingencies

The Company is currently a defendant in various pending litigation and arbitration matters generally incidental to its business. This includes a putative class action and related Financial Industry Regulatory Authority (FINRA) arbitration proceedings arising from the conduct of a former Company registered representative. These matters have not yet progressed to a stage at which the Company can reasonably predict the outcome or exposure. The Company recognizes legal costs for defending itself as incurred.

The financial services industry, including distribution companies, has been the subject of increasing scrutiny by regulators, legislators, and the media over the past few years. As with other financial services firms, the level of regulatory activity and inquiry concerning the Company's business remains elevated. From time to time, the Company receives requests for information from, and has been subject to examination by, the SEC, FINRA, and various other regulatory authorities concerning the Company's business activities and practices. The Company is cooperating with regulators in responding to these requests.

(9) Subsequent Events

Subsequent events have been evaluated through February 22, 2010, which is the date the financial statements were available to be issued.

Supplementary Schedule

QUESTAR CAPITAL CORPORATION

Computation of Net Capital and
Aggregate Indebtedness under Rule 15c3-1
of the Securities and Exchange Commission

December 31, 2009

Net capital	\$ 7,524,434
Deduct - non-allowable assets:	
Receivable from Allianz Life	3,776,731
Intangible asset	1,234,074
Deposit accounts	<u>105,000</u>
Net capital before haircuts on cash and clearing deposit positions	2,408,629
Haircuts on cash and clearing deposit positions	<u>181,252</u>
Net capital	2,227,377
Minimum capital required to be maintained (greater of \$50,000 or 6-2/3% of aggregate indebtedness)	<u>468,425</u>
Net capital in excess of requirement	<u>\$ 1,758,952</u>
Aggregate indebtedness	\$ 7,026,371
Ratio of aggregate indebtedness to net capital	3.15 : 1

There were no material differences in the computation of net capital or aggregate indebtedness between the amounts included in Part II of Form X-17A-5 and the above audited computation.

See accompanying independent auditors' report.



KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

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

The Board of Directors
Questar Capital Corporation:

In planning and performing our audit of the financial statements of Questar Capital Corporation (the Company) as of and for the year ended December 31, 2009, 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 computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

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

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with U.S. 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 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 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, 2009, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, 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.

KPMG LLP

February 22, 2010