

Report of Independent Registered Public Accounting Firm

Stockholder and Chairman
SAMCO Capital Markets, Inc.
Dallas, Texas

We have audited the accompanying statement of financial condition of SAMCO Capital Markets, Inc. (the Company), a wholly owned subsidiary of SAMCO Holdings, Inc., as of December 31, 2007, 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 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 SAMCO Capital Markets, Inc. at December 31, 2007, 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.

BDO Seidman, LLP

Dallas, Texas
February 12, 2008

SAMCO CAPITAL MARKETS, INC.

**Statement of Financial Condition
December 31, 2007**

Assets:	
Cash and cash equivalents	\$ 680,958
Receivable from clearing organization	3,858,752
Securities owned:	
Marketable, at market value	24,900,479
Not readily marketable, at estimated fair value	443,447
Accounts receivable	184,582
Prepaid expenses	189,505
Fixed assets, net of accumulated depreciation of \$2,428,831	1,021,540
Other assets	189,703
Total assets	<u>\$ 31,468,966</u>
Liabilities:	
Payable to clearing organization	\$ 25,802,695
Accounts payable and accrued liabilities	691,014
Total liabilities	26,493,709
Stockholder's Equity:	
Common stock, \$.01 par value, 2,000 shares authorized, 1,000 issued and outstanding	10
Additional paid-in capital	8,350,571
Retained earnings	(3,375,324)
Total stockholder's equity	<u>4,975,257</u>
Total liabilities and stockholder's equity	<u>\$ 31,468,966</u>

SAMCO CAPITAL MARKETS, INC.

**STATEMENT OF
FINANCIAL CONDITION
DECEMBER 31, 2007**

6805 Capitol of Texas Highway
Suite 350
Austin, Texas 78731

Phone: 512.794.9100

Member:
NASD
SIPC

A Subsidiary of
SAMCO Holdings, Inc.

SAMCO CAPITAL MARKETS, INC.

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

SAMCO Capital Markets, Inc. (SAMCO or the Company) is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority, Inc. (FINRA).

The broker dealer business consists of buying, selling and trading of securities, as well as several types of financial services, including investment banking, financial advisory, underwriting and agency transactions.

The Company introduces its customers on a fully disclosed basis and clears all of its transactions through Penson Financial Services, Inc. (PFSI), which is affiliated with the Company by way of indirect common ownership and Chairman of the Board of Directors. Accordingly, the Company operates under the exemptive provisions of the SEC Rule 15c3-3(k)(2)(ii).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies which are followed consistently by the Company in the preparation of its financial statements.

Securities Transactions - Proprietary security transactions are recorded on a trade-date basis. Profit and loss arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade-date basis and are recorded in net trading income on the statement of income.

Securities owned and securities sold, not yet purchased are valued at market value. Securities traded on a national exchange are valued at the last sales price. Securities for which over-the-counter market quotations are available are valued at the average of the last bid/asked price. Securities not readily marketable are valued at fair value as determined by management.

Cash and Cash Equivalents - The Company considers cash equivalents to be highly liquid investments with original maturities at time of purchase of less than 90 days that are not held for sale in the ordinary course of business.

Income Tax - The Company is included in the consolidated federal and state tax returns filed by SAMCO Holdings, Inc. (SHI). Federal income taxes are calculated as if the company filed on a separate return basis, and the amount of current tax or benefit calculated is either remitted to or received from SHI. The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in deferred tax liabilities or assets between years.

Fixed Assets - Fixed assets consist of furniture and equipment that is stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, generally three to five years. Depreciation expense for the year ended December 31, 2007 totaled \$406,016.

NOTE 3 – RECEIVABLE FROM CLEARING ORGANIZATION

At December 31, 2007, amounts receivable from clearing organization represent the deposit maintained by the Company with PFSI in accordance with a correspondent clearing agreement.

NOTE 4 - INVESTMENTS

Marketable securities owned and sold, not yet purchased, consist of trading and investment securities at market values, as follows:

	Owned	Sold Not Yet Purchased
Obligations of U.S. government Federal, state and municipal government obligations	\$14,448,034	\$ 356,320
Corporate obligations	4,265,472	-
Corporate stocks	3,469,820	1,557,730
	<u>683,876</u>	<u>119,227</u>
	<u>\$22,867,202</u>	<u>\$2,033,277</u>

Securities not readily marketable include investments in equity securities in privately held companies.

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable represent outstanding invoices for financial advisory fee billings and intercompany receivable.

NOTE 6 – PREPAID EXPENSES

Prepaid expenses include \$58,617 in registration fees paid to FINRA to register the Company and certain representatives in each state that the Company operates in for 2008, \$42,625 for prepaid quotation services, and \$88,263 for prepaid insurance.

NOTE 7 – PAYABLE TO CLEARING ORGANIZATION

At December 31, 2007, the Company owed PFSI, its clearing organization, \$25,802,695. All of the Company's securities are held at the clearing organization. The securities are pledged as collateral for amounts due to the clearing organization and any obligations arising out of securities sold, not yet purchased.

NOTE 8 - TRANSACTIONS WITH RELATED PARTIES

The Company settles transactions with PFSI for its investment activities. The clearing and depository operations for the Company's investment activities are performed pursuant to agreements with this clearing broker. The Company is subject to credit risk to the extent the brokers with which the Company conducts business are unable to deliver cash balances or securities, or clear security transactions

on the Company's behalf. The Company monitors the financial condition of the brokers with which the Company conducts business and believes the likelihood of loss under those circumstances is remote.

NOTE 9 - INCOME TAXES

The Company is included in the consolidated federal income tax return filed by SHI. Federal income taxes are calculated as if the Company filed a separate federal income tax return. The Company files its own state tax returns.

NOTE 10 - PROFIT SHARING PLAN

The Company sponsors a defined contribution 401(k) profit sharing plan (the Plan) that covers substantially all employees. Under the Plan, the Company may make a discretionary contribution determined by the Board of Directors. All employees are eligible to participate in the Plan, based on meeting certain age and term of employment requirements. During 2007, the Company contributed \$74,500 on behalf of the employees.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Leases - The Company leases its office facilities under non-cancelable leases. The following is a schedule of the approximate future minimum lease payments required under the leases:

2008	559,944
2009	542,925
2010	478,099
2011	488,563
2012	236,917
Thereafter	<u>377,825</u>
Total	<u>\$2,684,273</u>

For the year ended December 31, 2007, the Company's rental expense totaled \$873,265.

NOTE 12 - GUARANTEES

FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires the Company to disclose information about its obligations under certain guarantee arrangements. FIN 45 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or non-occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. FIN 45 also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others. In this regard, the Company has agreed to indemnify its clearing broker for losses that it may sustain from the customer accounts introduced by the Company. As of December 31, 2007,

there were no amounts to be indemnified to the clearing broker for these accounts.

NOTE 13 - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2007, the Company had net capital of \$1,263,125 which was \$1,013,125 in excess of its required net capital of \$250,000. The Company's ratio of aggregate indebtedness to net capital was .55 to 1.

NOTE 14 – FINANCIAL INSTRUMENTS

Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company executes, as agent or principal, transactions on behalf of customers. If the transactions do not settle because of failure to perform by either the customer or the counterparty, the Company may be obligated to discharge the obligation of the nonperforming party and, as a result, may incur a loss if the market value of the securities are different from the contract amount of the transaction.

The Company does not anticipate nonperformance by customers or counterparties in the above situation. The Company's policy is to monitor its market exposure and counterparty risk. In addition, the Company has a policy of reviewing, as considered necessary, the credit standing of each customer with which it conducts business. Additionally, the Company is subject to credit risk if the Clearing Broker is unable to repay the balance in the Company's accounts.

Concentration of Credit Risk

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to continually monitor its market exposure and counterparty risk. The Company does not anticipate non-performance by counterparties and maintains a policy of reviewing the credit standing of all parties; including customers, with whom it conducts business.