

Report of Independent Certified Public Accountants

Stockholder and Board of Directors
Penson Financial Services, Inc.
Dallas, Texas

We have audited the accompanying statement of financial condition of Penson Financial Services, Inc. (the Company), a wholly owned subsidiary of SAI Holdings, Inc., as of December 31, 2005, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the statement of financial condition 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 statement of financial condition referred to above presents fairly, in all material respects, the financial position of Penson Financial Services, Inc. at December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

BDO Seidman, LLP

Dallas, Texas
February 24, 2006

**PENSON
FINANCIAL SERVICES, INC.**

Including its Division
SAMCO CAPITAL MARKETS

**Statement of Financial Condition
December 31, 2005**

Assets:	
Cash and cash equivalents	\$ 77,031,218
Cash and securities segregated under federal and other regulations	247,911,400
Receivable from customers and non-customers, net of allowance of \$5,701,271	812,428,623
Receivable from correspondents	32,057,729
Receivable from broker-dealers and clearing organizations	141,921,538
Receivable from parent	13,317,292
Securities borrowed	1,212,321,919
Securities owned, at market value	60,486,880
Deposits with clearing organizations	132,210,153
Property and equipment, less accumulated depreciation of \$17,795,049	6,469,858
Other assets	10,829,885
Total assets	\$ <u>2,746,986,495</u>

Liabilities and Stockholder's Equity:

Liabilities:	
Payable to customers and non-customers	\$ 870,231,948
Payable to correspondents	55,528,192
Payable to broker-dealers and clearing organizations	79,666,357
Securities loaned	1,493,470,749
Firm loans payable to banks	51,174,108
Customer loans payable to banks	63,000,000
Accounts payable, accrued expenses and other liabilities	27,597,221
Total liabilities	2,640,668,575

Commitments and Contingencies

Stockholder's Equity:	
Preferred stock	1,000
Common stock, \$1 par value, 1,000 shares authorized, issued and outstanding	100,000
Additional paid-in capital	76,559,065
Retained earnings	29,657,855
Total stockholder's equity	106,317,920
Total liabilities and stockholder's equity	\$ <u>2,746,986,495</u>

See accompanying notes to financial statement

PENSON WORLDWIDE, INC.
subsidiaries include:

PENSON FINANCIAL SERVICES, INC.
Including its Division
SAMCO CAPITAL MARKETS
Dallas, Texas

PENSON FINANCIAL SERVICES CANADA, INC.
Montreal
Member Investment Dealers Association of Canada and CIPF

PENSON FINANCIAL SERVICES, LTD
London
Regulated by The Financial Services Authority
Member London Stock Exchange

PENSON FINANCIAL FUTURES, INC.
Dallas, Texas
Member National Futures Association

SAMCO FINANCIAL SERVICES, INC.
Phoenix, Arizona
Member NASD and SIPC

NEXA TECHNOLOGIES, INC.
Irvine, California

**PENSON
FINANCIAL SERVICES, INC.**



Including its Division

SAMCO CAPITAL MARKETS

**STATEMENT OF
FINANCIAL CONDITION
DECEMBER 31, 2005**

1700 Pacific Avenue
Suite 1400
Dallas, Texas 75201

Phone: 214.765.1100

Member:
NASD
SIPC
Chicago Stock Exchange
Chicago Board of Options Exchange
International Securities Exchange
Pacific Stock Exchange
OneChicago
Boston Options Exchange
Philadelphia Options Exchange

A Subsidiary of

PENSON WORLDWIDE, INC.

PENSON Financial Services, Inc.

Including its Division
SAMCO Capital Markets

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

Penson Financial Services, Inc. (the Company), a North Carolina corporation, is a broker-dealer registered with the Securities and Exchange Commission (SEC) and a member of the National Association of Securities Dealers, Inc. (NASD). The Company is a wholly owned subsidiary of SAI Holdings, Inc. (Parent) which in turn is a wholly owned subsidiary of Penson Worldwide, Inc. (PWI). The Company's operations include SAMCO Capital Markets (SAMCO), which operates as a division of the Company. All material intercompany balances and transactions are eliminated.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Securities Transactions - Proprietary securities transactions are recorded on a trade-date basis as if they had settled. Profit and loss arising from securities transactions entered into for the account and risk of the Company are recorded on a trade-date basis and are included in other revenue in the statement of operations. Customer securities transactions are reported on a settlement-date basis with related commission income and expenses recorded on a trade-date basis and included in net revenues from clearing operations in the statement of operations.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition. All such pending transactions settled after December 31, 2005 without material adverse effect on the Company's results of operations and financial condition.

Marketable securities are valued at market value, and securities not readily marketable are valued at fair value as determined by management.

Securities Lending Activities - Securities borrowed and securities loaned transactions are generally reported as collateralized financings except where letters of credit or other securities are used as collateral. Securities borrowed transactions require the Company to deposit cash, letters of credit, or other collateral with the lender. With respect to securities loaned, the Company receives in the form of cash an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

Collateral - The Company reports assets it has pledged as collateral in secured borrowings and other arrangements when the secured party cannot sell or re-pledge the assets or the Company can substitute collateral or otherwise redeem it on short notice. The Company generally does not report assets received as collateral in secured lending and other arrangements because the debtor typically has the right to redeem the collateral on short notice.

Translation of Foreign Currencies – Assets and liabilities denominated in foreign currencies are translated at year-end rates of exchange, while the income statement accounts are translated at average rates of exchange for the year. Gains or losses resulting from foreign currency transactions are included in net income.

Income Tax – The Company is included in the consolidated federal income tax return filed by PWI. 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 PWI. 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.

Property and Equipment - Property and equipment are stated at cost and consist primarily of purchased software of \$13,110,750 and furniture and equipment of \$11,154,157. Depreciation and amortization is generally provided on a straight-line basis using estimated useful lives of three to five years.

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.

Fair Value of Financial Instruments - The financial instruments of the Company are reported on the statement of financial condition at market or fair values, or at carrying amounts that approximate fair values because of the short maturity of the instruments.

Allowance for Doubtful Accounts - The Company maintains an allowance for doubtful accounts that represents amounts, in the judgment of management, necessary to adequately absorb losses from and inherent risks in outstanding receivables from customers and correspondents. Provisions made to this allowance are charged to operations based on anticipated recoverability. The allowance at December 31, 2005 was \$5,701,271 for receivables from customers and \$1,345,000 for receivables from correspondents, which is included in other assets in the statement of financial condition.

Use of Estimates - The preparation of 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.

NOTE 3 - SEGREGATED ASSETS

At December 31, 2005, cash and securities segregated under federal and other regulations totaled \$247,911,400. Of this amount, \$240,037,214 was segregated for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission, against a requirement as of January 3, 2006 of \$309,534,706. An additional deposit of approximately \$100,000,000 was made on January 4, 2006. The remaining balance of \$7,874,186 at year-end relates to the Company's election to compute a reserve requirement for Proprietary Accounts of Introducing Broker-Dealers (PAIB) calculation, as defined. The PAIB calculation is completed in order for each correspondent firm that uses the Company as its clearing broker-dealer to classify its assets held by the Company as allowable assets in the correspondent's net capital calculation. As of January 3, 2006, the Company had a PAIB reserve requirement of approximately \$6,706,270.

NOTE 4 - RECEIVABLE FROM AND PAYABLE TO BROKER-DEALERS AND CLEARING ORGANIZATIONS

Amounts receivable from and payable to broker-dealers and clearing organizations at December 31, 2005, consist of the following:

	Receivable	Payable
Securities failed-to-deliver/receive.....	\$ 111,695,504	\$ 66,964,197
Receivable from/payable to clearing organizations.....	<u>30,226,034</u>	<u>12,702,160</u>
Total.....	<u>\$ 141,921,538</u>	<u>\$ 79,666,357</u>

NOTE 5 - RECEIVABLE FROM CUSTOMERS AND NON-CUSTOMERS

Accounts receivable from and accounts payable to customers and non-customers include amounts due on cash and margin transactions. Securities owned by customers are held as collateral for margin loans made to customers. Such collateral is not reflected on the statement of financial condition.

NOTE 6 - SECURITIES OWNED AND SOLD, NOT YET PURCHASED

Marketable securities owned and sold, not yet purchased, consist of equity investments made in publicly traded equities, government securities as well as investments in certificates of deposit, each with an original maturity of greater than 90 days at market value as follows:

	Owned	Sold, Not Yet Purchased
Federal, state and municipal.....	\$ 45,601,617	\$ 371,800
Corporate.....	12,462,267	5,600,251
Certificates of deposit.....	<u>2,422,996</u>	<u>-</u>
Total.....	<u>\$ 60,486,880</u>	<u>\$ 5,972,051</u>

Marketable securities sold, not yet purchased is included in other liabilities on the statement of financial condition.

NOTE 7 - PAYABLE TO BANKS

As of December 31, 2005, the Company's short-term bank loans consist of four lines of credit. Two of the lines of credit permit the Company to borrow in aggregate up to \$400,000,000. The third and fourth lines of credit have no stated borrowing capacity. These lines of credit have no stated expiration dates.

The Company had a total of \$114,174,108 outstanding at December 31, 2005, under its four existing lines of credit recorded in firm loans payable to banks and customer loans payable to banks in the statement of financial condition. Borrowings under these agreements bear interest at a rate that varies with the federal funds rate, which approximated 4.5% at December 31, 2005. They are generally secured by customers' securities on margin and non-customer securities, and are repayable on demand. The notes were fully collateralized at December 31, 2005.

NOTE 8 - INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Deferred income taxes consisted of the following:

Deferred tax liability:	
Property and equipment.....	\$ 171,898
Deferred tax asset:	
Bad debt reserve.....	2,342,417
Prepaid assets.....	<u>45,231</u>
Total deferred tax assets.....	<u>2,387,648</u>
Total deferred tax asset, net.....	<u>\$ 2,215,750</u>

The Company is included in the consolidated federal and state tax returns filed by PWI. Therefore, the deferred tax asset is included in due from affiliate as of December 31, 2005. No valuation allowance at December 31, 2005 is necessary to reduce the deferred tax asset as it will more likely than not be realized by PWI.

NOTE 9 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Company purchases and sells securities as both principal and agent. If another party to the transaction fails to fulfill its contractual obligation, the Company may incur a loss if the market value of the security is different from the contract amount of the transaction.

The Company deposits customers' margin securities with lending institutions as collateral for borrowings. If a lending institution does not return a security, the Company may be obligated to purchase the security in order to return it to the customer. In such circumstances, the Company may incur a loss equal to the amount by which the market value of the security exceeds the value of the loan from the institution.

In the event a customer or broker fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's or broker's obligations. The Company seeks to control the risks associated with its customer or broker activities by requiring customers and brokers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires customers or brokers to deposit additional collateral or to reduce positions when necessary.

The Company's policy is to continually monitor its market exposure and counterparty risk. The Company does not anticipate nonperformance by counterparties and maintains a policy of reviewing the credit standing of all parties, including customers, with which it conducts business.

For customers introduced on a fully disclosed basis by other broker-dealers, the Company has the contractual right of recovery from such introducing broker-dealers in the event of nonperformance by the customer. In the event the customer or introducing broker does not perform, the Company is at risk of loss.

The Company is a market maker for certain public corporations, primarily regional banks. The Company selects companies in which it makes a market based on a review of the current market activity and also to facilitate trading activity of its own clients. Market making activities may result in concentrations of securities, which may expose the Company to additional off-balance sheet risk.

NOTE 10 - TRANSACTIONS WITH RELATED PARTIES

At December 31, 2005, the Company had a receivable of \$13,317,292 from SAI for payments made by the Company on behalf of SAI to support the operations of SAI and its affiliated companies. The balance is non-interest bearing and has no fixed terms of repayment. The Company paid \$568,560 to SAI for leased equipment during the year.

The Company collects fees from certain of its correspondents relating to their use of software products sold by technology companies owned by SAI. These fees are credited to SAI. The Company is the clearing broker for a broker dealer owned by SAI.

NOTE 11 - 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.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The Company leases furniture and equipment, office space and certain other furniture and equipment under operating leases. Minimum non-cancelable lease payments required under operating leases for the years subsequent to December 31, 2005, are as follows:

	Amount
2006.....	\$ 2,325,397
2007.....	2,205,075
2008.....	2,190,011
2009.....	726,526
2010.....	740,298
Thereafter.....	<u>1,019,160</u>
Total.....	<u>\$ 9,206,467</u>

The Company is named in various legal matters arising in the ordinary course of business. Management of the Company, after consultation with outside legal counsel, believes that the resolution of these various lawsuits will not result in any material adverse effect on the Company's financial position.

NOTE 13 - 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.

Exchange Member Guarantees

The Company is a member of various exchanges that trade and clear securities. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange. While the rules governing different exchange memberships vary, in general the Company's guarantee obligations would arise only if the exchange had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange. Any potential contingent liability under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.

NOTE 14 - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by Rule 15c3-1, which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit balances, as defined in the SEC's Reserve Requirement Rule (Rule 15c3-3). At December 31, 2005, the Company had net capital of \$66,026,496 and was \$47,813,912 in excess of its required net capital of \$18,212,584.