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

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

SEC FILE NUMBER
8-53322

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 01/01/2005 AND ENDING 12/31/2005
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: CAPITAL MARKET SECURITIES, INC.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

121 EAST MAIN STREET

(No. and Street)

KENT

OHIO

44240

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
STEPHEN CLINTON 330-364-3345

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

ESCOTT & COMPANY

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

628 S. WATER STREET

KENT

OHIO

44240

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

APR 21 2006

THOMSON
FINANCIAL



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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)

SEC 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

4/20/06

OATH OR AFFIRMATION

I, STEPHEN CLINTON, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CAPITAL MARKET SECURITIES, INC., as of DECEMBER 31, 2005, 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:

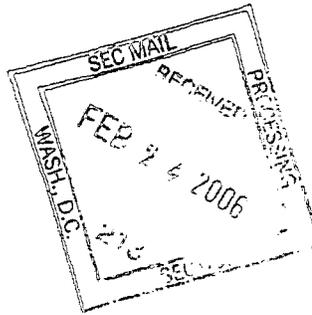
ANGELA LIGGETT
NOTARY PUBLIC, STATE OF OHIO
My Commission Expires February 13, 2008

[Signature]
Signature
PRESIDENT
Title

[Signature]
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.

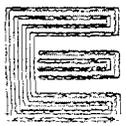
**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



CAPITAL MARKET SECURITIES, INC.
FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2005

CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF FINANCIAL CONDITION	2
STATEMENT OF INCOME	3
STATEMENT OF SHAREHOLDER'S EQUITY	4
STATEMENT OF CHANGES IN SUBORDINATED BORROWINGS	5
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION REQUIRED BY RULE 17a-5 OF THE SECURITIES AND EXCHANGE COMMISSION	10
SUPPLEMENTAL SCHEDULES	
SCHEDULE I – COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1	11
SCHEDULE II – COMPUTATION OF RESERVE REQUIREMENTS UNDER RUL 15c3-3	12
INDEPENDENT AUDITOR'S REPORT ON MATERIAL INADEQUACIES	13



ESCOTT & COMPANY

Certified Public Accountants

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OHIO SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

RICHARD J. TINKER, CPA
AL STEFANOV, CPA

JAMES A. TINKER, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Capital Market Securities, Inc.

We have audited the accompanying statement of financial condition of Capital Market Securities, Inc. (an Ohio S corporation) as of December 31, 2005, and the related statements of income, shareholder's equity, changes in subordinated borrowings, and cash flows for the year ended December 31, 2005 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 and supplemental schedules based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and supplemental schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and supplemental schedules. 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 and supplemental schedules referred to above present fairly, in all material respects, the financial position of Capital Market Securities, Inc. as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Escott & Company LLC

Kent, Ohio

February 22, 2006

628 S. Water St., P.O. Box 609
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CAPITAL MARKET SECURITIES, INC.
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2005

ASSETS

CURRENT ASSETS

Cash	\$ 91,518
Prepaid Expenses – Note C	18,600
Office Equipment – Note D	1,034
Less: Accumulated Depreciation	<u>258</u>
Total Current Assets	<u>110,894</u>

OTHER ASSETS

Organization Costs – Note E	2,531
Less: Accumulated Amortization	<u>2,320</u>
Total Other Assets	<u>211</u>

Total Assets \$ 111,105

LIABILITIES AND SHAREHOLDER'S EQUITY

LIABILITIES

Shareholder Distributions Payable	\$ 34,345
City Income Tax Payable	<u>1,582</u>
Total Liabilities	<u>35,927</u>

SHAREHOLDER'S EQUITY

Common Stock – \$1 par value, 100 Shares Authorized, Issued and Outstanding	25,000
Retained Earnings	<u>50,178</u>
Total Shareholder's Equity	<u>75,178</u>

Total Liabilities and Shareholder's Equity \$ 111,105

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

CAPITAL MARKET SECURITIES, INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2005

INCOME

M & A Services	\$ 317,500
Valuation Fees	60,000
Planning & Consulting	32,250
Retainer Fees	<u>149,500</u>
Total Income	<u>559,250</u>

EXPENSES

Management Fees – Note F	421,374
NASD Fees	318
Advertising	2,887
Amortization	506
Auto Expense	521
Depreciation	258
Dues & Subscriptions	12,145
Insurance & Bond	6,180
Miscellaneous Expense	140
Postage & Delivery	550
Professional Fees	6,962
Rent	5,700
SIPC Fees	150
Supplies	92
Taxes	2,033
Telephone	2,333
Travel	356
Training	<u>906</u>
Total Expenses	<u>463,411</u>

INCOME FROM OPERATIONS 95,839

OTHER INCOME

Interest Income	<u>682</u>
Total Other Income	<u>682</u>

NET INCOME \$ 96,521

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

CAPITAL MARKET SECURITIES, INC.
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2005

COMMON STOCK – JANUARY 1, 2005	\$ 25,000	
2005 ACTIVITY	<u> --</u>	
COMMON STOCK – DECEMBER 31, 2005		\$ 25,000
RETAINED EARNINGS – JANUARY 1, 2005	\$ 3	
2005 NET INCOME	96,521	
2005 SHAREHOLDER DISTRIBUTIONS	<u>(46,346)</u>	
RETAINED EARNINGS – DECEMBER 31, 2005		<u>\$ 50,178</u>
TOTAL SHAREHOLDER'S EQUITY – DECEMBER 31, 2005		<u>\$ 75,178</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

CAPITAL MARKET SECURITIES, INC.
STATEMENT OF CHANGES IN SUBORDINATED BORROWINGS
FOR THE YEAR ENDED DECEMBER 31, 2005

SUBORDINATED BORROWINGS AT JANUARY 1, 2005	\$	--
2005 INCREASES		--
2005 DECREASES		<u>--</u>
SUBORDINATED BORROWINGS AT DECEMBER 31, 2005	\$	<u><u>--</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

CAPITAL MARKET SECURITIES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Income	\$ 96,521
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:	
Amortization	506
Depreciation	258
(Increase) Decrease in Accounts Receivable	344
(Increase) Decrease in Prepaid Expenses	(3,100)
Increase (Decrease) in Shareholder Distribution Payable	34,345
Increase (Decrease) in CIT Payable	<u>1,582</u>
Total Adjustments	<u>33,935</u>
Net Cash Provided By Operating Activities	<u>130,456</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital Expenditures	<u>(1,034)</u>
Net Cash Used in Investing Activities	<u>(1,034)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Stockholder Distributions	<u>(46,346)</u>
Net Cash Used In Financing Activities	<u>(46,346)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	83,076
CASH AND CASH EQUIVALENTS AT BEG. OF YEAR	<u>8,442</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 91,518</u>

SUPPLEMENTAL CASH FLOWS DISCLOSURES

Cash paid during the year for:

Income Tax	\$ 2,033
Interest	--

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

CAPITAL MARKET SECURITIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE A – REPORT OF MANAGEMENT

The Company has prepared the financial statements and related financial information included in this report. Management has the responsibility for the integrity of the financial statements and other financial information included for ascertaining that the data accurately reflect the financial position and results of operations of the Company. The financial statements were prepared in accordance with U.S. generally accepted accounting principles appropriate in the circumstances, and necessarily included amounts that are based on best estimates and judgments with appropriate consideration to materiality.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company was incorporated on May 8, 2001, in the State of Ohio for the purpose of forming a National Association of Securities Dealers, Inc. (NASD) registered broker – dealer to serve clients in equity offerings and other investment banking services. The Company does not conduct other broker dealer activities such as the trading of securities or market making.

The Company uses the accrual basis of accounting.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment and Related Depreciation Policies – Depreciation is computed using the straight-line method. The estimated useful lives used in computing depreciation expense are as follows:

<u>Depreciation</u>	<u>Life</u>
Office Equipment	3 Years

Maintenance and repairs are charged to expense as incurred and major renewals and improvements are capitalized.

The cost of property retired or disposed of is removed from the accounts together with related accumulated depreciation and any resulting gain or loss is reflected in income.

CAPITAL MARKET SECURITIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE B – CONTINUED

Income Taxes – The Company, with the consent of its shareholders, has elected under the Internal Revenue Code to be an S corporation. In lieu of corporation income taxes, the shareholders of an S corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in these financial statements.

NOTE C – PREPAID EXPENSES

During the year ended December 31, 2005, the Company paid software expenses for 2006 in the amount of \$18,600.

NOTE D – OFFICE EQUIPMENT

Office equipment additions during the year amounted to \$1,034. Office equipment retirements and disposals during the year amounted to zero. Depreciation charged to expense during the year amounted to \$258.

NOTE E – ORGANIZATION COSTS

The Company has incurred legal fees and incorporation costs in the amount of \$2,531. The costs have been amortized using the straight-line method over a sixty-month period. Amortization expense for the period ended December 31, 2005 amounted to \$506.

NOTE F – RELATED PARTIES

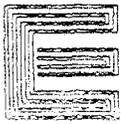
The Company does not have any employees and has a management service agreement with Young & Associates, Inc. which provides for Young & Associates, Inc. to provide staffing and other administrative services for the Company. For the year ended December 31, 2005 management fees paid under this agreement amounted to \$421,374.

Effective January 1, 2005, the ownership of the Company changed, and as a result, the Company is no longer a wholly owned subsidiary of Young & Associates, Inc. but there continues to be a common controlling ownership interest of the Company and Young & Associates, Inc. at December 31, 2005.

CAPITAL MARKET SECURITIES, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE F – CONTINUED

The company has entered into a lease agreement to rent office space from an officer/shareholder of the Company in the amount of \$475 per month. The lease has a term of one year and provides for annual renewal with the mutual consent of both parties. Rent expense under this lease amounted to \$5,700 for the year ended December 31, 2005.



ESCOTT &
COMPANY

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AL STEFANOV, CPA

JAMES A. TINKER, CPA

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION
REQUIRED BY RULE 17A-5 OF THE SECURITIES AND EXCHANGE
COMMISSION

To The Board of Directors and Stockholders of
Capital Market Securities, Inc.

We have audited the accompanying financial statements of Capital Market Securities, Inc. as of and for the year ended December 31, 2005, and have issued our report thereon dated February 22, 2006. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Escott & Company

Kent, Ohio

February 22, 2006

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CAPITAL MARKET SECURITIES, INC.
SCHEDULE I – COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1
DECEMBER 31, 2005

Net Capital – December 31, 2005	\$ 75,178
Less: Non-Allowable Assets	19,587
Net Capital – Required Minimum	<u>5,000</u>
Excess Net Capital	<u>\$ 50,591</u>

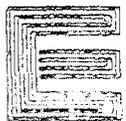
No material differences exist between the above-referenced audited computation of net capital under Rule 15c3-1 and the amount of excess net capital reported on the unaudited Part IIA filing for the fourth quarter 2005 submitted on February 22, 2006.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

CAPITAL MARKET SECURITIES, INC.
SCHEDULE II – COMPUTATION OF RESERVE REQUIREMENTS UNDER RULE 15c3-3
DECEMBER 31, 2005

The Company does not carry securities accounts for customers or perform custodial functions relating to customer activities as defined by Rule 15c3-3 of the Securities Exchange Act of 1934, therefore, the Company is exempt from the provisions of that rule. See attached Independent Auditor's Report dated February 22, 2006, under separate cover.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL
STATEMENTS



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JAMES A. TINKER, CPA

INDEPENDENT AUDITOR'S REPORT ON MATERIAL INADEQUACIES

Board of Directors
Capital Market Securities, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Capital Market Securities, Inc. (the Company), for the year ended December 31, 2005, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedure for the purpose of expressing our opinion on the financial statements and not to provide assurance on 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 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
2. Recordation of differences required by rule 17a-18
3. 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 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

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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 or 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.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including 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 were adequate at December 31, 2005, to meet the SEC's objectives.

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

Essatt & Co. PC

Kent, Ohio

February 22, 2006