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SECURITIES AND EXCHANGE COMMISSION
RECEIVED
 FEB 21 2006
 BRANCH OF REGISTRATIONS
 AND
 05 ~~EXAMINATIONS~~ **Required**

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

SEC FILE NUMBER
8- 50847

FACING PAGE

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 10/01/05 AND ENDING 12/31/05
 MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Kovack Securities, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
6451 North Federal Highway, Suite 1201
 (No. and Street)
Fort Lauderdale Florida 33308
 (City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Ronald J. Kovack (954) 491-1733
 (Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
Margolies, Fink and Wichrowski
 (Name - if individual, state last, first, middle name)
2201 West Sample Road, #9-1B Pompano Beach, Florida 33073
 (Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED
MAR 13 2006
THOMSON FINANCIAL

FOR OFFICIAL USE ONLY

*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)

Handwritten signature and date: [Signature] 2/10/06

OATH OR AFFIRMATION

I, Ronald J. Kovack, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Kovack 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: None



Carlo A. Bidone, Jr.
Commission # DD162660
Expires Nov. 14, 2006
Aaron Notary
1-800-350-5161

[Signature]
Notary Public

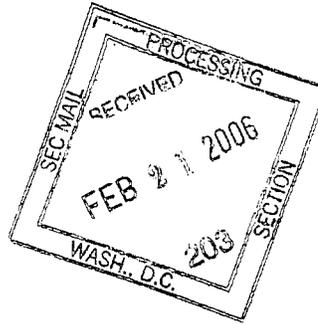
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Title

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).

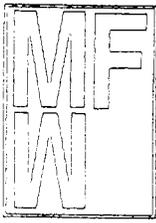


**KOVACK SECURITIES, INC.
FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2005 and 2004
and
INDEPENDENT AUDITORS' REPORT**

KOVACK SECURITIES, INC.
TABLE OF CONTENTS

1. Independent Auditors' Report and Financial Statements
2. Oath of Officer and Form X-17A-5 (Focus Report)
3. Report on Internal Accounting Control



MARGOLIES, FINK AND WICHROWSKI

CERTIFIED PUBLIC ACCOUNTANTS

BUILDING 9, SUITE 1B

2201 W. SAMPLE RD.

POMPANO BEACH, FLORIDA 33073

OFFICE: (954) 979-5440

FAX: (954) 979-1939

www.mfwcpa.net

A Partnership of Professional Associations

Barry A. Fink, C.P.A., P.A.
Mark V. Wichrowski, C.P.A., P.A.

Bernard W. Margolies, C.P.A.

Members of
American Institute of Certified Public Accountants
Florida Institute of Certified Public Accountants
New York State Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
Kovack Securities, Inc.

We have audited the accompanying balance sheets of Kovack Securities, Inc. as of December 31, 2005 and 2004, and the related statements of income, stockholders equity, changes in subordinated borrowings, 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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 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 Kovack Securities, Inc. at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying reconciliation of net capital is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Margolies, Fink and Wichrowski

January 19, 2006

KOVACK SECURITIES, INC.
BALANCE SHEETS
DECEMBER 31, 2005 AND 2004

ASSETS

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 1,542,389	\$ 1,039,599
Marketable securities, net of valuation allowance	41,730	6,186
Receivables:		
Clearing broker and insurance companies	428,385	289,232
Prepaid expenses	195,826	173,057
Property and equipment, net of accumulated depreciation	166,515	166,644
Deposits	<u>31,940</u>	<u>31,940</u>
	<u>\$ 2,406,785</u>	<u>\$ 1,706,658</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable and accrued expenses	\$ 800,705	\$ 658,491
Note payable – insurance	<u>129,755</u>	<u>121,264</u>
	<u>930,460</u>	<u>779,755</u>
Subordinated note payable	<u>225,000</u>	<u>225,000</u>
Stockholders' equity:		
Common stock, no par value per share, 10,000 shares		
Authorized, 1,818, shares issued and outstanding	319,843	319,843
Additional paid-in capital	10,000	10,000
Retained earnings	903,593	389,715
Accumulated other comprehensive income (loss)	<u>17,889</u>	<u>(17,655)</u>
Total stockholders' equity	<u>1,251,325</u>	<u>701,903</u>
	<u>\$ 2,406,785</u>	<u>\$ 1,706,658</u>

The accompanying notes are an integral part of these financial statements.

KOVACK SECURITIES, INC.
STATEMENTS OF INCOME AND
COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Revenues:		
Commissions, and other income	<u>\$13,822,240</u>	<u>\$10,477,697</u>
Expenses:		
Commissions	9,841,375	7,669,028
Rent	209,443	198,738
Depreciation and amortization	40,312	31,867
Interest	12,349	11,055
Other	<u>2,853,133</u>	<u>2,246,646</u>
	<u>12,956,612</u>	<u>10,157,334</u>
Net income	865,628	320,363
Other comprehensive income :		
Unrealized gain on marketable securities	<u>35,544</u>	<u>320</u>
Total comprehensive income	<u>\$ 901,172</u>	<u>\$ 332,683</u>

The accompanying notes are an integral part of these financial statements.

KOVACK SECURITIES, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>Common Shares</u>	<u>Amount</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance December 31, 2003	1,818	\$ 319,843	\$ 10,000	\$ 219,352	\$ (17,975)	\$ 531,220
Distributions				(150,000)		(150,000)
Unrealized gain on Marketable securities					320	320
Net income	-	-	-	320,363	-	320,363
Balance December 31, 2004	1,818	319,843	10,000	389,715	(17,655)	701,903
Distributions				(351,750)		(351,750)
Unrealized gain on Marketable securities					35,544	35,544
Net income	-	-	-	865,628	-	865,628
Balance December 31, 2005	<u>1,818</u>	<u>\$ 319,843</u>	<u>\$ 10,000</u>	<u>\$ 903,593</u>	<u>\$ 17,889</u>	<u>\$ 1,251,325</u>

The accompanying notes are an integral part of these financial statements.

KOVACK SECURITIES, INC.
STATEMENT OF CHANGES IN SUBORDINATED BORROWINGS
YEARS ENDED DECEMBER 31, 2005 AND 2004

Subordinated borrowing at December 31, 2003	\$ 225,000
Increase (decrease) in subordinated borrowings	_____ -
Subordinated borrowing at December 31, 2004	225,000
Increase (decrease) in subordinated borrowings	_____ -
Subordinated borrowing at December 31, 2005	<u>\$ 225,000</u>

KOVACK SECURITIES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Net income	\$ <u>865,628</u>	\$ <u>320,363</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	40,312	31,867
Accounts receivables	(139,153)	145,920
Accounts receivable officer		15,000
Prepaid expenses	121,648	85,510
Accounts payable and accrued expenses	<u>142,214</u>	<u>151,042</u>
Total adjustments	<u>165,021</u>	<u>429,339</u>
Total cash flows from operating activities	<u>1,030,649</u>	<u>749,702</u>
Cash flows (used in) investing activities:		
Purchase of property and equipment	<u>(40,183)</u>	<u>(72,772)</u>
Cash flows from (used in) financing activities:		
Stockholder distributions	(351,750)	(150,000)
Principal payments on notes payable insurance, net	<u>(135,926)</u>	<u>(81,566)</u>
Total cash flows (used in) financing activities	<u>(487,676)</u>	<u>(231,566)</u>
Net increase in cash and cash equivalents	502,790	445,364
Cash and cash equivalents, beginning of period	<u>1,039,599</u>	<u>594,235</u>
Cash and cash equivalents, end of period	<u>\$1,542,389</u>	<u>\$1,039,599</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ <u>10,069</u>	\$ <u>8,806</u>
Insurance financed with debt	<u>\$ 144,417</u>	<u>\$ 132,608</u>

The accompanying notes are an integral part of these financial statements.

KOVACK SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS

1. BUSINESS

The Company was incorporated in the State of Florida on April 23, 1997, as a registered securities broker-dealer. The Company's headquarters are located in Fort Lauderdale, Florida.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents - The Company considers all unrestricted deposits and highly liquid investments, readily convertible to known amounts, with an original maturity of three months or less to be cash equivalents.

Marketable securities - Marketable securities are carried at their fair market value. The resulting difference between cost and market is included in other comprehensive income. Securities not readily marketable are value at fair value as determined by management.

Property and equipment - Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method.

Revenue recognition - Purchases and sales of securities are recorded on the settlement date. Investment banking income is recorded at the time the services are completed and the income is reasonably determinable.

Accounting estimates - Management of the Company occasionally uses accounting estimates in determining certain revenues and expenses. Estimates are based on subjective as well as objective factors and, as a result, judgment is required to estimate certain amounts at the date of the financial statements.

Fair value of financial instruments - The fair value of the Company's financial instruments such as cash and cash equivalents, accounts receivable, accounts payable, capital lease obligations, and subordinated notes payable approximate their carrying value.

Income taxes - The Company with the consent of its shareholders, elected to be an "S" Corporation under the Internal Revenue Code. All taxable income or loss flows through to the shareholders. Accordingly, no income tax expense or liability is recorded in the accompanying financial statements.

KOVACK SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS

3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2005 and 2004 consists of the following:

	<u>2005</u>	<u>2004</u>	<u>Estimated useful lives</u>
Office equipment and furniture	\$ 253,281	\$ 214,116	5 years
Automobile	22,115	22,115	5 years
Leasehold improvements	<u>19,987</u>	<u>19,987</u>	7 years
	295,383	256,218	
Less accumulated depreciation	<u>(128,868)</u>	<u>(89,574)</u>	
	<u>\$ 166,515</u>	<u>\$ 166,644</u>	

Depreciation expense charged to income was \$40,312 and \$31,867 in 2005 and 2004, respectively.

4. NOTE PAYABLE - INSURANCE

Notes payable - insurance at December 31, 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
Installment note payable, due in monthly installments of interest and principal of \$14,417 and \$15,158, interest at 8.35 and 6.00% in 2005 and 2004 respectively, unsecured	<u>\$ 129,755</u>	<u>\$ 121,264</u>

5. SUBORDINATED NOTE PAYABLE

Subordinated note payable at December 31, 2005 and 2004 consists of the following:

	<u>2005</u>	<u>2004</u>
Subordinated note payable, with interest at 4% payable annually, maturing on November 30, 2015, unsecured.	<u>\$ 225,000</u>	<u>\$ 225,000</u>

KOVACK SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS

6. LEASES

The Company has several non-cancelable leases for transportation equipment, office facilities and equipment that expire over the next three years. The following is a schedule of future minimum lease payments for operating leases as of December 31, 2005, 2006 - \$240,984, 2007 - \$238,943, 2008 - \$235,876, 2009 - \$234,409, 2010 - \$241,629.

7. PROFIT SHARING PLAN

The Company has a noncontributory profit-sharing plan offered to all full-time employees after 12 months of service. The Company makes annual contributions to the profit-sharing plan at the discretion of the Company. Participants become 100 percent vested after six years. The Company made contributions of \$-0-, to the plan for the years ended December 31, 2005.

8. COMMITMENTS AND CONTINGENCIES

The Company is party to certain claims and legal actions arising in the ordinary course of business. In some cases, plaintiffs are seeking compensatory and punitive damages. It is the opinion of management that ultimate disposition of these matters will not have a material adverse effect on the Company's financial condition. The Company has accrued \$19,500 of settlement costs in 2005.

9. REQUIREMENTS OF RULE 15c3-3

The Company is a non-clearing broker, exempt from making computations of amounts on deposit in the Special Reserve Bank Account for the Exclusive Benefits of Customers, under the provisions of paragraph (k) of Rule 15c3-3 under the Securities and Exchange Act of 1934.

10. NET CAPITAL PROVISION OF RULE 15c3-1

The Company is subject to Rule 15c3-1 under the Securities and Exchange Act of 1934. The rule provides the aggregate indebtedness may not exceed 8 times net capital for 12 months after commencing business as a broker-dealer and 15 times net capital thereafter.

The net capital of the Company, as defined by the rule was \$1,046,500 at December 31, 2005. The ratio of aggregate indebtedness to net capital was .89 to 1.

KOVACK SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS

11. REPORTING REQUIREMENTS UNDER RULE 17a-5

The Company is subject to the reporting requirements of Rule 17a-5 of the Securities and Exchange Act of 1934, which requires certain brokers and dealers to file annual statements of financial condition with the Securities and Exchange Commission. The Company has met this requirement by filing Form X-17A-5 with the Commission. Copies of Parts I and II of Form X-17A-5 and any comments as to weaknesses found in the accounting system, the internal accounting controls or procedures for safeguarding securities are available for examination at the Fort Lauderdale, Florida, office of the Company, and in the regional office of the Securities and Exchange Commission.

KOVACK SECURITIES, INC.
COMPUTATION AND RECONCILIATION OF NET CAPITAL
UNDER RULE 15c3-1 OF THE
SECURITIES AND EXCHANGE COMMISSION
DECEMBER 31, 2005

NET CAPITAL COMPUTATION:

Total stockholders equity qualified for net capital	\$ 1,251,325
Add:	
Allowable subordinated liabilities	<u>225,000</u>
Total capital and allowable subordinated liabilities	1,476,325
Deducts and or charges:	
Total non-allowable assets	<u>(429,825)</u>
Net capital before haircuts	<u>1,046,500</u>
Haircuts on securities:	
Other securities	
Undue concentrations	
Money markets	<u>-</u>
	<u>-</u>
Net capital	<u>\$ 1,046,500</u>

RECONCILIATION:

Net capital, per page 10 of the December 31, 2005 un-audited Focus Report, as originally filed	\$ 1,046,500
Net audit adjustments	<u>-</u>
Net capital, per December 31, 2005 audited report, as filed	<u>\$ 1,046,500</u>

FORM X-17A-5	<h1 style="margin: 0;">FOCUS REPORT</h1> <p style="margin: 0;">(Financial and Operational Combined Uniform Single Report)</p> <p style="margin: 0;">Part IIA Quarterly 17a-5(a)</p> <p style="margin: 0; font-size: small;">INFORMATION REQUIRED OF BROKERS AND DEALERS PURSUANT TO RULE 17</p>
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COVER

Select a filing method:

Basic Alternate [0011]

Name of Broker Dealer:	<u>KOVACK SECURITIES INC.</u>	
	[0013]	SEC File Number: 8- <u>50847</u>
Address of Principal Place of Business:	<u>6451 N. FEDERAL HWY.</u>	[0014]
	[0020]	
	<u>FT. LAUDERDALE FL</u>	Firm ID: <u>44848</u>
	[0021] [0022]	[0015]
	[0023]	

For Period Beginning 10/01/2005 And Ending 12/31/2005

[0024] [0025]

Name and telephone number of person to contact in regard to this report:

Name: RONALD J. KOVACK - CHAIRMAN Phone: 954-491-1733

[0030] [0031]

Name(s) of subsidiaries or affiliates consolidated in this report:

Name: _____ Phone: _____

[0032] [0033]

Name: _____ Phone: _____

[0034] [0035]

Name: _____ Phone: _____

[0036] [0037]

Name: _____ Phone: _____

[0038] [0039]

Does respondent carry its own customer accounts? Yes [0040] No [0041]Check here if respondent is filing an audited report [0042]

ASSETSConsolidated [0198] Unconsolidated [0199]

	Allowable	Non-Allowable	Total
1. Cash	<u>1,542,389</u> [0200]		<u>1,542,389</u> [0750]
2. Receivables from brokers or dealers:			
A. Clearance account	<u>216,504</u> [0295]		
B. Other	<u>211,881</u> [0300]	<u> </u> [0550]	<u>428,385</u> [0810]
3. Receivables from non-customers	<u> </u> [0355]	<u> </u> [0600]	<u>0</u> [0830]
4. Securities and spot commodities owned, at market value:			
A. Exempted securities	<u> </u> [0418]		
B. Debt securities	<u> </u> [0419]		
C. Options	<u> </u> [0420]		
D. Other securities	<u> </u> [0424]		
E. Spot commodities	<u>1,141</u> [0430]		<u>1,141</u> [0850]
5. Securities and/or other investments not readily marketable:			
A. At cost	<u>22,700</u> [0130]		
B. At estimated fair value	<u>5,045</u> [0440]	<u>35,544</u> [0610]	<u>40,589</u> [0860]
6. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:			
A. Exempted securities	<u> </u> [0150]		
B. Other securities	<u> </u> [0160]		

7.	Secured demand notes market value of collateral:	[0470]	[0640]	0 [0890]
	A. Exempted securities			
		[0170]		
	B. Other securities			
		[0180]		
8.	Memberships in exchanges:			
	A. Owned, at market			
		[0190]		
	B. Owned, at cost		[0650]	
	C. Contributed for use of the company, at market value		[0660]	0 [0900]
9.	Investment in and receivables from affiliates, subsidiaries and associated partnerships	[0480]	[0670]	0 [0910]
10.	Property, furniture, equipment, leasehold improvements and rights under lease agreements, at cost-net of accumulated depreciation and amortization	[0490]	166,515 [0680]	166,515 [0920]
11.	Other assets	[0535]	227,766 [0735]	227,766 [0930]
12.	TOTAL ASSETS	1,976,960 [0540]	429,825 [0740]	2,406,785 [0940]

LIABILITIES AND OWNERSHIP EQUITY

Liabilities	A.I. Liabilities	Non-A.I. Liabilities	Total
13. Bank loans payable	[1045]	[1255]	0 [1470]
14. Payable to brokers or dealers:			0
A. Clearance account	[1114]	[1315]	[1560]
B. Other	726,616 [1115]	[1305]	726,616 [1540]
15. Payable to non-customers	[1155]	[1355]	0 [1610]
16. Securities sold not yet purchased, at market value		[1360]	0 [1620]
17. Accounts payable, accrued liabilities, expenses and other	203,844 [1205]	[1385]	203,844 [1685]
18. Notes and mortgages payable:			0
A. Unsecured	[1210]		[1690]
B. Secured	[1211]	[1390]	0 [1700]
19. Liabilities subordinated to claims of general creditors:			0
A. Cash borrowings:		225,000	225,000
1. from outsiders		[1400]	[1710]
	[0970]		
2. Includes equity subordination (15c3-1(d)) of			
	225,000 [0980]		
B. Securities borrowings, at market value:			0
from outsiders		[1410]	[1720]
	[0990]		
C. Pursuant to secured demand note collateral agreements:			0
1. from outsiders		[1420]	[1730]

	[1000]		
	2. Includes equity subordination (15c3-1(d)) of		
	[1010]		
	D. Exchange memberships contributed for use of company, at market value	[1430]	0 [1740]
	E. Accounts and other borrowings not qualified for net capital purposes	[1220]	[1440]
			0 [1750]
20.	TOTAL LIABILITIES	930,460 [1230]	225,000 [1450]
			1,155,460 [1760]

Ownership Equity

		Total
21.	Sole proprietorship	[1770]
22.	Partnership (limited partners [1020])	[1780]
23.	Corporations:	
	A. Preferred stock	[1791]
	B. Common stock	329,483 [1792]
	C. Additional paid-in capital	[1793]
	D. Retained earnings	921,842 [1794]
	E. Total	1,251,325 [1795]
	F. Less capital stock in treasury	[1796]
24.	TOTAL OWNERSHIP EQUITY	1,251,325 [1800]
25.	TOTAL LIABILITIES AND OWNERSHIP EQUITY	2,406,785 [1810]

STATEMENT OF INCOME (LOSS)Period Beginning 10/01/2005
[3932]Period Ending 12/31/2005
[3933]Number of months _____
3
[3931]**REVENUE**

1. Commissions:		
a. Commissions on transactions in exchange listed equity securities executed on an exchange		708,909 [3935]
b. Commissions on listed option transactions		35,120 [3938]
c. All other securities commissions		2,616,238 [3939]
d. Total securities commissions		3,360,267 [3940]
2. Gains or losses on firm securities trading accounts		
a. From market making in options on a national securities exchange		[3945]
b. From all other trading		[3949]
c. Total gain (loss)		0 [3950]
3. Gains or losses on firm securities investment accounts		[3952]
4. Profit (loss) from underwriting and selling groups		[3955]
5. Revenue from sale of investment company shares		309,083 [3970]
6. Commodities revenue		[3990]
7. Fees for account supervision, investment advisory and administrative services		[3975]
8. Other revenue		591,334 [3995]
9. Total revenue		4,260,684 [4030]

EXPENSES

10. Salaries and other employment costs for general partners and voting stockholder officers		17,430 [4120]
11. Other employee compensation and benefits		23,497 [4115]
12. Commissions paid to other broker-dealers		3,280,255 [4140]
13. Interest expense		2,250 [4075]
a. Includes interest on accounts subject to subordination agreements	2,250 [4070]	
14. Regulatory fees and expenses		109,416 [4195]
15. Other expenses		650,945 [4100]
16. Total expenses		4,083,793

[4200]

NET INCOME

17. Net Income(loss) before Federal Income taxes and items below (Item 9 less Item 16)	<u>176,891</u>
	[4210]
18. Provision for Federal Income taxes (for parent only)	<u>[4220]</u>
19. Equity in earnings (losses) of unconsolidated subsidiaries not included above	<u>[4222]</u>
a. After Federal income taxes of	<u>[4238]</u>
20. Extraordinary gains (losses)	<u>[4224]</u>
a. After Federal income taxes of	<u>[4239]</u>
21. Cumulative effect of changes in accounting principles	<u>[4225]</u>
22. Net income (loss) after Federal income taxes and extraordinary items	<u>176,891</u>
	[4230]
MONTHLY INCOME	
23. Income (current monthly only) before provision for Federal income taxes and extraordinary items	<u>10,952</u>
	[4211]

EXEMPTIVE PROVISIONS

25. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based

A. (k) [4550]
 (1)--Limited business (mutual funds and/or variable annuities only)

B. (k) [4560]
 (2)(i)--"Special Account for the Exclusive Benefit of customers" maintained

C. (k) [4570]
 (2)(ii)--All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm(s)

Clearing Firm SEC#s	Name	Product Code
8- 17574 [4335A]	PERSHING LLC [4335A2]	A11 [4335B]
8- 26740 [4335C]	NATIONAL FINANCIAL SERVICES LL [4335C2]	A11 [4335D]
8- _____ [4335E]	_____ [4335E2]	_____ [4335F]
8- _____ [4335G]	_____ [4335G2]	_____ [4335H]
8- _____ [4335I]	_____ [4335I2]	_____ [4335J]

D. (k) [4580]
 (3)--Exempted by order of the Commission

COMPUTATION OF NET CAPITAL

1.	Total ownership equity from Statement of Financial Condition			1,251,325
				[3480]
2.	Deduct ownership equity not allowable for Net Capital			[3490]
3.	Total ownership equity qualified for Net Capital			1,251,325
				[3500]
4.	Add:			
	A. Liabilities subordinated to claims of general creditors allowable in computation of net capital			225,000
				[3520]
	B. Other (deductions) or allowable credits (List)			
		[3525A]	[3525B]	
		[3525C]	[3525D]	
		[3525E]	[3525F]	0
				[3525]
5.	Total capital and allowable subordinated liabilities			1,476,325
				[3530]
6.	Deductions and/or charges:			
	A. Total nonallowable assets from Statement of Financial Condition (Notes B and C)		429,825	
			[3540]	
	B. Secured demand note deficiency			[3590]
	C. Commodity futures contracts and spot commodities - proprietary capital charges			[3600]
	D. Other deductions and/or charges			-429,825
				[3610]
7.	Other additions and/or credits (List)			
		[3630A]	[3630B]	
		[3630C]	[3630D]	
		[3630E]	[3630F]	0
				[3630]
8.	Net capital before haircuts on securities positions			1,046,500
				[3640]
9.	Haircuts on securities (computed, where applicable, pursuant to 15c3-1(f)):			
	A. Contractual securities commitments			[3660]
	B. Subordinated securities borrowings			[3670]
	C. Trading and investment securities:			

1. Exempted securities		[3735]	
2. Debt securities		[3733]	
3. Options		[3730]	
4. Other securities		[3734]	
D. Undue Concentration		[3650]	
E. Other (List)			
	[3736A]	[3736B]	
	[3736C]	[3736D]	
	[3736E]	[3736F]	
		0	0
		[3736]	[3740]
10. Net Capital			1,046,500
			[3750]

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A

11. Minimum net capital required (6-2/3% of line 19)		62,030	
		[3756]	
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with <u>Note(A)</u>		50,000	
		[3758]	
13. Net capital requirement (greater of line 11 or 12)		62,030	
		[3760]	
14. Excess net capital (line 10 less 13)		984,470	
		[3770]	
15. Excess net capital at 1000% (line 10 less 10% of line 19)		953,454	
		[3780]	

COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.I. liabilities from Statement of Financial Condition		930,460	
		[3790]	
17. Add:			
A. Drafts for immediate credit		[3800]	
B. Market value of securities borrowed for which no equivalent value is paid or credited		[3810]	
C. Other unrecorded amounts (List)			

	[3820A]	[3820B]	
	_____	_____	
	[3820C]	[3820D]	
	_____	_____	
	[3820E]	[3820F]	
		0	0
		[3820]	[3830]
19. Total aggregate indebtedness			930,460
			[3840]
20. Percentage of aggregate indebtedness to net capital (line 19 / line 10)		%	89
			[3850]

OTHER RATIOS

21. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)	%	0
		[3860]

SCHEDULED WITHDRAWALS

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.

Type of Proposed Withdrawal or Accrual	Name of Lender or Contributor	Insider or Outsider	Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities)	Withdrawal or Maturity Date (MMDDYYYY)	Expect to Renew
[4600]		[4601]	[4602]	[4603]	[4604] [4605]
[4610]		[4611]	[4612]	[4613]	[4614] [4615]
[4620]		[4621]	[4622]	[4623]	[4624] [4625]
[4630]		[4631]	[4632]	[4633]	[4634] [4635]
[4640]		[4641]	[4642]	[4643]	[4644] [4645]
[4650]		[4651]	[4652]	[4653]	[4654] [4655]
[4660]		[4661]	[4662]	[4663]	[4664] [4665]
[4670]		[4671]	[4672]	[4673]	[4674] [4675]
[4680]		[4681]	[4682]	[4683]	[4684] [4685]
[4690]		[4691]	[4692]	[4693]	[4694] [4695]
		TOTAL	0		
		\$			
				[4699]	
				Omit Pennies	

Instructions Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c)(2)(iv)), which could be required by the lender on demand or in less than six months.

Withdrawal Code	Description
1	Equity Capital
2	Subordinated Liabilities
3	Accruals
4	15c3-1(c)(2)(iv) Liabilities

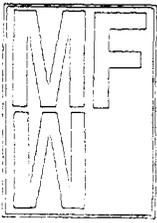
STATEMENT OF CHANGES

**STATEMENT OF CHANGES IN OWNERSHIP EQUITY
(SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)**

1.	Balance, beginning of period		1,082,775	
			[4240]	
	A. Net income (loss)		176,891	
			[4250]	
	B. Additions (includes non-conforming capital of	[4262])	[4260]	
	C. Deductions (includes non-conforming capital of	[4272])	-8,341	
			[4270]	
			1,251,325	
2.	Balance, end of period (From item 1800)		[4290]	

**STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED
TO CLAIMS OF GENERAL CREDITORS**

3.	Balance, beginning of period		225,000	
			[4300]	
	A. Increases		0	
			[4310]	
	B. Decreases		0	
			[4320]	
			225,000	
4.	Balance, end of period (From item 3520)		[4330]	



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Members of
American Institute of Certified Public Accountants
Florida Institute of Certified Public Accountants
New York State Society of Certified Public Accountants

To the Board of Directors
Kovack Securities, Inc.

In planning and performing our audit of the financial statements of Kovack Securities, Inc. for the year ended December 31, 2005, we considered its internal control structure, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by Kovack Securities, Inc. that we considered relevant to the objectives stated in Rule 17a-5(g), (1) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the Company has met the conditions and is exempt from compliance with Rule 15c3-3, (2) in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13; (3) in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System; and (4) in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining an internal control structure 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 internal control structure policies and procedures 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 an internal control structure 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 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 any internal control structure or the practices and procedures referred to above, errors or irregularities 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 the internal control structure would not necessarily disclose all matters in the internal control structure 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 structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 the internal control structure, including procedures 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 the 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 use of the Board of Directors, management, the Securities and Exchange Commission, 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.

Margolis, Lil and Krutowski

Pompano Beach, Florida
January 19, 2006