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

AB 2/28/06

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

SEC FILE NUMBER  
8-32948

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

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: SIGNAL Securities, INC.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

700 Throckmorton

(No. and Street)

Fort Worth

TX

76102

(City)

(State)

(Zip Code)

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

Jerry Singleton

817-877-4256

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Rhodes Osiek & Company, L.L.P.

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

2170 W. Interstate-20

Arlington

TX

76017

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED  
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FINANCIAL

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SECTION  
WASH, D.C.

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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)

*[Handwritten signature]*

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SEC 1410 (06-02)

OATH OR AFFIRMATION

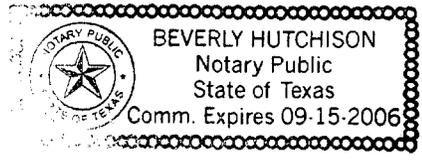
I, Jerry Singleton, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Signal Securities, Inc., as of December 31, 20 05, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Jerry Singleton  
Signature

Pres

Title

Beverly Hutchison  
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.
- (o) Independent auditor's report on internal accounting control.

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

SIGNAL SECURITIES, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2005

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Curt H. Osiek  
Bryan K. Rhodes  
Joan T. Washburn  
Lisa M. Wharton

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Signal Securities, Inc.:

We have audited the accompanying statement of financial condition of Signal Securities Inc., as of December 31, 2005, and the related statements of income, stockholders' equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 financial statements referred to above present fairly, in all material respects, the financial position of Signal 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 accounting principles generally accepted in the United States.

*Rhodes Osiek & Company*

February 14, 2006

SIGNAL SECURITIES, INC.

STATEMENT OF FINANCIAL CONDITION  
AS OF DECEMBER 31, 2005 (NOTE 1)

ASSETS

CURRENT ASSETS:

Cash	\$ 76,821
Clearing deposit and money market	212,752
Receivable from dealers	423,463
Marketable securities (Note 2)	<u>193,281</u>
Total current assets	906,317

PROPERTY AND EQUIPMENT, AT COST,  
net of depreciation (Note 3)

16,579

Total Assets

\$ 922,896

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accrued commissions	\$ 415,435
Accounts payable and accrued liabilities (Note 5)	<u>61,207</u>
Total current liabilities	476,642

COMMITMENTS AND CONTINGENCIES (Note 8)

STOCKHOLDERS' EQUITY (Notes 6 and 7)

Common stock, par value \$1 per share, 100,000 shares authorized, 25,000 shares issued and outstanding	25,000
Additional paid-in capital	79,226
Retained earnings	<u>342,028</u>
Total stockholders' equity	<u>446,254</u>

Total Liabilities And  
Stockholders' Equity

\$ 922,896

The accompanying notes are an integral part  
of these financial statements

SIGNAL SECURITIES, INC.

STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2005 (NOTE 1)

REVENUES:

Commissions income	\$ 4,031,638
Management fee	583,417
Interest income	65,324
Other income	191
Gain (loss) on sale of assets	<u>(29,482)</u>
Total revenue	4,651,088

EXPENSES:

Commissions expense	3,315,243
Regulatory fees	4,064
Operating overhead (Note 5)	1,375,472
Clearing charges	<u>83,052</u>
Total expenses	<u>4,777,831</u>

NET INCOME (LOSS) \$ ( 126,743)

The accompanying notes are an integral part  
of these financial statements

SIGNAL SECURITIES, INC.

STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>
			<u>Capital</u>	<u>(Deficit)</u>
BALANCE AT DECEMBER 31, 2004	25,000	\$25,000	\$79,226	\$ 531,271
DISTRIBUTIONS (\$2.50 per share)				(62,500)
NET INCOME (LOSS)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(126,743)</u>
BALANCE AT DECEMBER 31, 2005	<u>25,000</u>	<u>\$25,000</u>	<u>\$79,226</u>	<u>\$ 342,028</u>

The accompanying notes are an integral part  
of these financial statements

SIGNAL SECURITIES, INC.

STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED  
TO CLAIMS OF GENERAL CREDITORS  
FOR THE YEAR ENDED DECEMBER 31, 2005

Liabilities subordinated to claims of general creditors as of December 31, 2003	\$ 0
Liabilities paid off during the year	<u>0</u>
Liabilities subordinated to claims of general creditors as of December 31, 2005	<u>\$ 0</u>

The accompanying notes are an integral part  
of these financial statements

SIGNAL SECURITIES, INC.

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss)	\$ (126,743)
Adjustment to reconcile net income to net cash provided by operating activities	
Depreciation expense	11,093
(Increase) in receivable	(182,251)
Unrealized loss on investments	11,648
(Decrease) in accrued commission	(277,590)
(Decrease) in accounts payable and accrued liabilities	<u>(32,535)</u>
NET CASH GENERATED FROM OPERATING ACTIVITIES	(596,378)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of equipment	( 1,306)
Purchase of marketable securities	<u>( 5,414)</u>
NET CASH (UTILIZED) FROM INVESTING ACTIVITIES	( 6,720)

CASH FLOWS FROM FINANCING ACTIVITIES:

Dividends Paid	<u>(62,500)</u>
NET CASH (UTILIZED) FROM FINANCING ACTIVITIES	<u>(62,500)</u>

NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(665,598)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>955,171</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>289,573</u>

The accompanying notes are an integral part  
of these financial statements

SIGNAL SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

History and organization -

Signal Securities, Inc. (the Company) was incorporated on September 24, 1984, as a broker-dealer. From October 21, 1986, to September 9, 1988, the Company was dormant.

Accounting policies -

The financial statements of the Company have been prepared on an accrual basis in accordance with generally accepted accounting principles.

Cash and cash equivalents -

For purposes of the statement of cash flows, the Company considers all clearing deposits and money market accounts to be cash equivalents.

Property and equipment -

Property and equipment are carried at cost. The Company has a policy whereby property additions below a minimum amount are expensed as incurred. Depreciation of property and equipment is provided using the straight-line method for financial reporting purposes based on the following useful lives.

<u>Assets</u>	<u>Estimated Useful Lives</u>
Machinery and Equipment	7 years
Furniture and Fixtures	7 years
Data Processing Equipment	5 years
Leasehold improvements	10 years

For federal income tax purposes, depreciation is computed using the modified accelerated cost recovery system. Expenditures for major renewals and betterment that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

U. S. Federal Income Taxes -

The Company has elected to be taxed under the provision of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay federal corporate income taxes on its taxable income. Instead, the shareholders are liable for individual federal income taxes on their respective shares of net income.

Advertising costs -

The advertising costs are expenses as incurred.

Compensated absences -

Compensated absences have not been accrued because the amount cannot be reasonably estimated.

SIGNAL SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(CONTINUED)

Receivable from dealers -

The Company uses the direct write off method for recording uncollectible receivables from dealers. Management has determined that the receivable from dealers are totally collectible.

Estimates -

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Marketable securities -

The Company records marketable securities at fair market value. Upon the sale of marketable securities, gain or loss is included in the income statement. Actual cost is used in computing gain or loss. Unrealized gain or loss on marketable securities has been included in other income in the statement of income.

(2) MARKETABLE SECURITIES:

The Company owned marketable debt and equity securities at December 31, 2005 as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Trading securities				
Equity securities	\$252,177	\$ 8,789	\$111,215	\$ 149,751
Taxable Bonds	56,526	0	22,781	33,745
Tax Exempt Bonds	9,455	330	0	9,785
	<u>\$318,158</u>	<u>\$ 9,119</u>	<u>\$133,996</u>	<u>\$193,281</u>

(3) PROPERTY AND EQUIPMENT:

Property and equipment are summarized by major classifications as follows:

Machinery and Equipment	\$ 25,116
Furniture and Fixtures	49,533
Data Processing Equipment	115,127
Leasehold improvements	<u>3,129</u>
	192,905
Less accumulated depreciation	<u>(176,326)</u>
	<u>\$ 16,579</u>

Depreciation expense for the year ended December 31, 2005, was \$11,093.

SIGNAL SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(CONTINUED)

(4) FEDERAL INCOME TAXES:

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions the Company does not pay federal corporate income taxes on its taxable income. Instead, the shareholders are liable for individual federal income taxes on their respective share of net income.

(5) PROFIT SHARING TRUST:

The Company maintains a defined contribution profit sharing plan and salary reduction plan for its employees. The Company elects to contribute annually a matching contribution for all eligible participants under the plan. The Board of Directors can and did authorize matching contributions of a maximum of 3% of eligible participant's total compensation. The Board of directors elected to make an additional discretionary profit sharing contribution in the amount of \$25,880. For the year ended December 31, 2005, the Company's discretionary and matching contribution to the trust totaled \$47,560. Of this total \$47,560 is payable and is included in the accrued liabilities on the financial statements.

(6) NET CAPITAL REQUIREMENTS:

The Company is subjected to the Securities and Exchange Commission uniform net capital rule (Rule 15c3-1), which requires the maintenance of minimum net capital. This rule requires a minimum net capital of \$100,000 for brokers who participate in initial public offerings as part of the selling group. At December 31, 2005, the Company has net capital of \$392,029, which is in excess of its required net capital.

(7) FOCUS REPORT PART II DIFFERENCE:

Difference between the enclosed financial statements and the Company's December 31, 2005, Focus Report Part II are as follows:

	<u>Per Enclosed</u> <u>Financial Statement</u>	<u>Per</u> <u>Focus</u>	<u>Difference</u>
Cash	\$289,573	\$289,572	\$ 1
Receivable from dealers and securities	423,463	423,464	(1)
Securities owned	193,281	193,282	(1)
Property and equipment, net	16,579	16,579	0
Accounts payable, accrued liabilities, expenses and other payables	476,642	476,642	0
Stockholder's Equity	446,254	446,255	<u>1</u>
		\$	<u>0</u>

SIGNAL SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(CONTINUED)

(8) COMMITMENTS AND CONTINGENCIES:

The Company leases its office space under an operating lease. The term of the lease is 5 years. The landlord provided a finish-out allowance up to \$36,914, with any unused portion applying against base rent. Rent expense for the year ended December 31, 2005 was \$86,399.

The following is a schedule of future minimum rental payments required under these leases as of December 31, 2005:

<u>Year Ending</u> <u>December 31</u>	<u>Amount</u>
2006	\$ <u>59,115</u>

Curt H. Osiek  
Bryan K. Rhodes  
Joan T. Washburn  
Lisa M. Wharton

Independent Auditor's Report on  
Supplementary Information Required by  
SEC Rule 17A-5

We have audited the financial statements of Signal Securities, Inc. for the year ended December 31, 2005, and have issued our report thereon dated February 14, 2006. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II and III on the following pages 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 of the Securities and Exchange Commission. 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, and in conformity with the rules of the Securities and Exchange Commission.

The schedule relating to the segregation requirements and funds in segregation for customers' regulated commodity futures accounts is not applicable for the Company.

*Rhodes Osiek & Company*

February 14, 2006

SIGNAL SECURITIES, INC.

COMPUTATION OF NET CAPITAL UNDER RULE 15c 3-1  
OF THE SECURITIES AND EXCHANGE COMMISSION  
AS OF DECEMBER 31, 2005

SCHEDULE I

NET CAPITAL

TOTAL STOCKHOLDER'S EQUITY	\$ 446,254
DEDUCTIONS	( <u>16,579</u> )
NET CAPITAL BEFORE HAIRCUTS	429,675
HAIRCUTS ON TRADING AND INVESTMENT SECURITIES	( <u>37,646</u> )
NET CAPITAL	\$ <u>392,029</u>

AGGREGATE INDEBTEDNESS

ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ <u>476,642</u>
TOTAL AGGREGATE INDEBTEDNESS	\$ <u>476,642</u>

COMPUTATION OF BASIC NET CAPITAL REQUIREMENTS:

Greater of 6 2/3% of Aggregate Indebtedness	\$ 31,776
or	
Minimum Dollar Net Capital	<u>100,000</u>
Minimum Net Capital Required	\$ <u>100,000</u>

Ratio:

Aggregate Indebtedness to Net Capital	<u>1.22 to 1</u>
---------------------------------------	------------------

RECONCILIATION WITH COMPANY'S COMPUTATION (included in  
Part II of Form X-17a-5 as of December 31, 2005)

Net Capital as Reported in Company's Part II Focus Report	\$ 392,029
Adjustments	( <u>0</u> )
Net Capital Per Above	\$ <u>392,029</u>

SIGNAL SECURITIES, INC.

COMPUTATION FOR DETERMINATION OF THE RESERVE REQUIREMENT  
OF RULE 15c 3-3 OF THE SECURITIES AND EXCHANGE COMMISSION  
WITH RECONCILIATION WITH CORRESPONDING PART II OF  
FINANCIAL OPERATIONAL COMBINED SINGLE REPORT (FOCUS)  
AS OF DECEMBER 31, 2005

SCHEDULE II

Signal Securities, Inc. is registered as a broker-dealer under Rule 15c 3-1-(a)(1). Signal Securities, Inc. is exempt from SEC Rule 15c 3-3 under Section (K)(2)(ii).

Signal Securities, Inc. has not had any transactions during the year ending December 31, 2005, relating to the possession or control of securities for which Rule 15c 3-3 is applicable and due to the absence of such transactions, Rule 15c 3-3 does not apply. There were no transactions during the year that required a reserve computation to be made. No facts came to our attention to indicate that the exemption had not been complied with during the period since the last examination.

SIGNAL SECURITIES, INC.

INFORMATION RELATING TO POSSESSION OR CONTROL  
REQUIREMENTS UNDER RULE 15c 3-3 OF THE  
SECURITIES AND EXCHANGE COMMISSION  
AS OF DECEMBER 31, 2005

SCHEDULE III

Signal Securities, Inc. is registered as a broker-dealer under Rule 15c 3-1(a)(1). Signal Securities, Inc. is exempt from SEC Rule 15c 3-3 under Section (K)(2)(ii).

Signal Securities, Inc. has not had any transactions during the year ending December 31, 2005, relating to the possession or control of securities for which Rule 15c 3-3 is applicable and due to the absence of such transactions, Rule 15c 3-3 does not apply. No facts came to our attention to indicate that the exemption had not been complied with during the period since the last examination.

Curt H. Osiek  
Bryan K. Rhodes  
Joan T. Washburn  
Lisa M. Wharton

Independent Auditor's Report on Internal  
Accounting Control Required by SEC Rule 17a-5

To the Board of Directors of  
Signal Securities, Inc.:

We have audited the financial statements of Signal Securities, Inc. for the year ended December 31, 2005, and have issued our report thereon dated February 14, 2006. As part of our audit, we made a study and evaluation of the Company's system of internal accounting control (which includes the procedures for safeguarding securities) to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation, which included obtaining an understanding of the accounting system, was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the financial statements.

We also made a study of the practices and procedures followed by the Company in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the procedures for determining the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the company (i) in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13 or (ii) in complying with requirements for prompt payment for securities of Section 4(c) of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not currently carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining a system of internal accounting 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 control 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 Commission's above-mentioned objectives.

The objectives of a system and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance 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 accounting control procedures of the practices and procedures referred to above, errors or irregularities may nevertheless 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 degree of compliance with them may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Signal Securities, Inc. taken as a whole. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities and 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 current practices and procedures were adequate at December 31, 2005, to meet the Commissions' objectives.

This report is intended solely for the use of management and the Securities and Exchange Commission and should not be used for any other purposes.

*Rhodes Orick & Company*

February 14, 2006