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

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

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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: Kashner Davidson Securities Corporation

OFFICIAL USE ONLY
FIRM I.D. NO.

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

77 South Palm Avenue

(No. and Street)

Sarasota

Florida

34236

(City)

(State)

(Zip Code)

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

Melissa J. Rothenbach

(941) 951-2626

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Natherson & Company, P.A.

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

1801 Glengary Street

Sarasota

Florida

34231

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

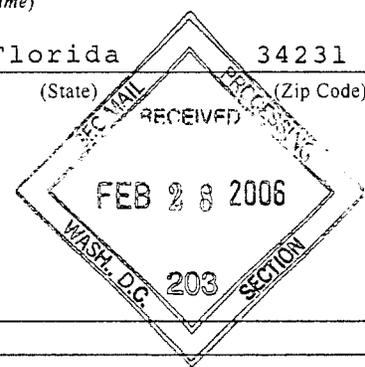
Public Accountant

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)

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OATH OR AFFIRMATION

I, Melissa J. Rothenbach, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Kashner Davidson Securities Corporation, 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:



Cynthia E. Puzzanchera
Commission # DD475952
Expires December 20, 2009
Bonded Troy Fain - Insurance, Inc. 300-385-7019

Melissa J. Rothenbach
Signature

Chief Executive Officer
Title

Cynthia E. Puzzanchera
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 Auditors' Report on Internal Control required by SEC Rule 17a-5

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

KASHNER DAVIDSON SECURITIES
CORPORATION

December 31, 2005 and 2004

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

AND

SUPPLEMENTARY INFORMATION PURSUANT
TO RULE 17a-5 OF THE
SECURITIES EXCHANGE ACT OF 1934

AND

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL REQUIRED
BY SEC RULE 17a-5

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NATHERSON & COMPANY, P.A.
Certified Public Accountants

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Longboat Key, Florida 34228
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Russell S. Natherson, C.P.A.
Patrick L. Gallagher, C.P.A.
Russell E. Natherson, C.P.A.
Randall L. Natherson, C.P.A.
Eileen A. Sarris, C.P.A.

Independent Auditors' Report

Board of Directors
Kashner Davidson Securities Corporation

We have audited the accompanying statements of financial condition of Kashner Davidson Securities Corporation (a Florida S Corporation) as of December 31, 2005 and 2004, and the related statements of operations, changes in stockholder's equity, and cash flows for the years then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 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 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 Kashner Davidson Securities Corporation as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information contained in the Computation of Net Capital Under rule 15c3-1 of the Securities and Exchange Commission as of December 31, 2005 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.

Matheson & Company, P.A.

Sarasota, Florida
February 23, 2006

2005

2004

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES

Accounts payable	\$ 137,964	\$ 23,280
Payable to clearing agency	83,562	253,958
Payroll taxes payable	-	117
Accrued salaries and commissions payable	13,638	20,073
Securities sold, not yet purchased, at market value	<u>-</u>	<u>75,675</u>
	235,164	373,103

STOCKHOLDER'S EQUITY

Common stock - 9,000 shares of \$2.50 par value authorized, issued and outstanding	22,500	22,500
Additional paid-in capital	1,627,637	2,020,438
Accumulated deficit	<u>(961,817)</u>	<u>(168,160)</u>
	<u>688,320</u>	<u>1,874,778</u>
	\$ <u>923,484</u>	\$ <u>2,247,881</u>

Kashner Davidson Securities Corporation

STATEMENTS OF OPERATIONS

Years ended December 31,

	<u>2005</u>	<u>2004</u>
Revenue		
Commissions	\$ 303,392	\$ 673,465
Trading profits	172,232	378,365
Underwriting fees	-	25,583
Miscellaneous trading fees	62,981	76,746
Consulting income	-	240,191
Lease income	-	19,839
Settlement income	-	6,000
Interest and dividends	<u>21,883</u>	<u>21,486</u>
	560,488	1,441,675
Expenses		
Salaries and commissions	355,986	591,733
Advertising	947	912
Bad debt expense	361,355	1,699
Depreciation and amortization	7,600	14,512
Independent representation	10,548	446,085
Insurance	17,230	22,463
Interest	34,499	32,863
Loss on disposition of assets	-	5,042
Maintenance	1,750	4,400
Miscellaneous	7,734	9,052
Office	19,810	24,988
Judgements, settlements and fines	75,950	-
Professional fees	187,485	60,179
Retirement plan	10,311	22,268
Regulatory expenses	38,132	29,133
Rent	74,371	72,332
Taxes	33,441	55,678
Telephone and utilities	18,678	25,870
Travel and entertainment	4,753	4,154
Market data services	<u>93,565</u>	<u>116,411</u>
	1,354,145	1,539,774
NET (LOSS)	\$ <u>(793,657)</u>	\$ <u>(98,099)</u>

The accompanying notes are an integral part of these statements.

Kashner Davidson Securities Corporation

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

Years ended December 31,

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>
Balance - January 1, 2004	\$ 22,500	\$ 2,020,438	\$ (70,061)
Net (loss) for the year	<u>-</u>	<u>-</u>	<u>(98,099)</u>
Balance - December 31, 2004	22,500	2,020,438	(168,160)
Net (loss) for the year	-	-	(793,657)
Distribution to stockholder	<u>-</u>	<u>(392,801)</u>	<u>-</u>
Balance - December 31, 2005	\$ <u>22,500</u>	\$ <u>1,627,637</u>	\$ <u>(961,817)</u>

The accompanying notes are an integral part of these statements.

Kashner Davidson Securities Corporation

STATEMENTS OF CASH FLOWS

Years ended December 31,

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)	\$ (793,657)	\$ (98,099)
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,600	14,512
Loss on disposition of assets	-	5,042
Bad debt expense	361,355	1,699
(Increase) decrease in operating assets:		
Deposits with clearing agency	64,139	(425,162)
Receivable from clearing agency	20,543	462,527
Receivables from employees	(21,744)	28,260
Receivables - other	3,035	(415)
Interest receivable	(2,759)	(277)
Marketable securities owned, at market value	501,398	475,900
Securities owned, not readily marketable	40,057	278,575
Prepaid expenses	3,037	3,988
Other assets	150	-
Increase (decrease) in operating liabilities:		
Accounts payable	114,684	(40,254)
Payable to clearing agency	(170,396)	58,887
Payroll taxes payable	(117)	(310)
Accrued salaries and commissions payable	(6,435)	(340,362)
Securities sold, not yet purchased	<u>(75,675)</u>	<u>(445,298)</u>
Total adjustments	<u>838,872</u>	<u>77,312</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	45,215	(20,787)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of furniture and equipment	-	(1,641)
Loans to stockholder	<u>(35,541)</u>	<u>(30,128)</u>
NET CASH (USED IN) INVESTING ACTIVITIES	(35,541)	(31,769)

Kashner Davidson Securities Corporation

STATEMENTS OF CASH FLOWS - CONTINUED

Years ended December 31,

	<u>2005</u>	<u>2004</u>
INCREASE (DECREASE) IN CASH	9,674	(52,556)
Cash at beginning of year	<u>16,529</u>	<u>69,085</u>
Cash at end of year	\$ <u>26,203</u>	\$ <u>16,529</u>

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid during the year for interest	\$ <u>34,499</u>	\$ <u>32,863</u>
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NON-CASH INVESTING AND FINANCING ACTIVITIES:

In 2005, loans to the Company's sole stockholder were treated as a distribution to the stockholder.

The accompanying notes are an integral part of these statements.

Kashner Davidson Securities Corporation

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Company's significant accounting policies applied in the preparation of the accompanying financial statements follows.

1. Organization and Nature of Business

The Company is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers (NASD). The Company was incorporated in Florida in 1969 and is engaged primarily in the brokerage and investment advisory business in Sarasota, Florida. The Company transacts business through corresponding brokers and does not handle any customer securities.

In prior years, the Company entered into agreements with registered representatives in Westminster, Colorado and Wilsonville, Oregon. The registered representatives are independent contractors subject to supervision by the Company. The representatives are responsible for all of the expenses of their operations. Accordingly, the portion of the costs of the registered representatives are not included in the accompanying financial statements. The Colorado representative receives 72.35% of the net commissions generated up to \$80,400 and 80% of the commissions generated above \$80,400 per year. The Oregon representative receives 85% of the commissions generated up to \$500,000 and 90% of the commissions generated over \$500,000 per year. The portion of the commissions retained by the Company are included in revenue in the accompanying statements of operations. In December 2004, the Board of Directors approved terminating both agreements. The offices were closed in 2005.

2. Accounting Estimates

The presentation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Kashner Davidson Securities Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2005 and 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for purposes of the statements of cash flows. The Company maintains its cash accounts at commercial banks. Total cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. At December 31, 2005, amounts on deposit at commercial banks were fully insured by FDIC.

4. Accounts Receivable

The accounts receivable from clearing agency represents commissions and trading profits earned which were not received at year-end. The Company makes certain advances to employees in anticipation of commission income. The Company uses the allowance method of accounting for doubtful accounts. The allowance is based upon a review of the current status of existing receivables and management's estimate as to their collectibility.

5. Securities Transactions

Securities transactions are recorded on the trade date, as if they had settled. Profit and loss arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade-date basis.

Accounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition.

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

Kashner Davidson Securities Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2005 and 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Underwriting Fees

Underwriting fees revenue includes gains, losses, and fees, net of syndication expenses, arising from securities offerings in which the Company acts as an underwriter or agent. Sales concessions are recorded on the settlement date and underwriting fees at the time the underwriting is completed and income is reasonably determinable.

7. Commissions

Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

8. Securities Sold, Not Yet Purchased

The Company is party to a variety of short sales (securities sold, not yet purchased) in its trading activities. These short positions used in trading activities are carried at market value. Realized and unrealized gains and losses are reported as trading profits in the accompanying statements of operations.

9. Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are recorded at cost. Depreciation and amortization is provided for in amounts sufficient to relate the cost of assets to operations over estimated useful lives ranging from three to thirty-nine years principally on the straight-line and accelerated methods for both tax and financial accounting purposes. Major renewals, betterments and replacements are capitalized. Maintenance and repairs are charged to expense as incurred.

10. Income Taxes

Income taxes on net earnings are payable personally by the stockholder pursuant to an election under Subchapter S of the Internal Revenue Code not to have the Company taxed as a corporation.

Kashner Davidson Securities Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2005 and 2004

NOTE B - DEPOSITS WITH CLEARING AGENCY

At December 31, 2004, the Company had cash deposits of \$425,162 in various firm accounts with a clearing agency. These accounts are not insured by FDIC.

At December 31, 2004, the clearing agency placed \$361,194 of the above cash deposit amount in a restricted guarantee account to collateralize two unsecured customers debit balances.

NOTE C - RECEIVABLE FROM AND PAYABLE TO CLEARING AGENCY

Amounts receivable from and payable to clearing agency at December 31, consist of the following:

	2005		2004	
	Receivable	Payable	Receivable	Payable
Commissions receivable	\$ 24,250	\$ -	\$ 23,503	\$ -
Trading receivable/payable	-	763	21,290	-
Payable to clearing agency	<u>-</u>	<u>82,799</u>	<u>-</u>	<u>253,958</u>
	<u>\$ 24,250</u>	<u>\$ 83,562</u>	<u>\$ 44,793</u>	<u>\$ 253,958</u>

The Company clears its proprietary and customer transactions through another broker-dealer on a fully disclosed basis. The amount payable to the clearing agency relates to the aforementioned transactions and is collateralized by securities owned by the Company.

NOTE D - SECURITIES OWNED AND SECURITIES SOLD,
NOT YET PURCHASED

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

	2005		2004	
	Owned	Sold, not yet purchased	Owned	Sold, not yet purchased
Common stocks	\$ 745,305	\$ -	\$ 1,233,188	\$ 75,675
Warrants for common stocks	-	-	58	-
Unit trusts	<u>-</u>	<u>-</u>	<u>13,457</u>	<u>-</u>
	<u>\$ 745,305</u>	<u>\$ -</u>	<u>\$ 1,246,703</u>	<u>\$ 75,675</u>

Kashner Davidson Securities Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2005 and 2004

NOTE D - SECURITIES OWNED AND SECURITIES SOLD,
NOT YET PURCHASED - CONTINUED

The Company purchases securities for its own account in excess of amounts on deposit with the clearing agency.

Securities not readily marketable include investment securities (a) for which there is no market on a securities exchange or no independent publicly quoted market, (b) that cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1933, or (c) that cannot be offered or sold because of other arrangements, restrictions, or conditions applicable to the securities or to the Company.

These securities consisted of:

1,500 warrants valued at \$20,100 on December 31, 2005 and 2004, which management believes approximate fair value. Each warrant entitles the holder to purchase four shares of common stock. The warrants are exercisable in four annual tranches beginning June 28, 2002, with one share of common stock available for purchase in each tranche. Each tranche is exercisable for a one-year period. In the event that any warrant tranche is not exercised prior to its expiration, the shares of common stock subject to such unexercised and unexpired warrant tranche will no longer be available for purchase. The exercise price per share of common stock is \$13 for tranche 1, \$14 for tranche 2, \$15 for tranche 3, and \$16 for tranche 4. The underlying stock price was \$35.18 and \$10.20 per share at December 31, 2005 and 2004, respectively. No warrants were exercised during 2005 or 2004.

65,000 and 200,000 warrants valued at \$7,042 and \$72,000 on December 31, 2005 and 2004, respectively, which management believes approximate fair value. During 2005, the Company transferred 135,000 warrants to various brokers. Each warrant entitles the holder to purchase one share of common stock at \$8.66 per share from the period June 24, 2003 through June 24, 2007. The warrants are restricted securities under Rule 144 of the Securities Act of 1933. The underlying stock price was \$2.48 and \$3.52 at December 31, 2005 and 2004, respectively. No warrants were exercised during 2005 or 2004.

67,000 warrants valued at \$24,901 at December 31, 2005, which management believes approximates fair value. Each warrant entitles the holder to purchase one share of common stock at \$4.25 per share through December 16, 2007. The warrants are restricted securities under Rule 144 of the Securities Act of 1933. The underlying stock price was \$2.48 at December 31, 2005. No warrants were exercised during 2005.

Kashner Davidson Securities Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2005 and 2004

NOTE D - SECURITIES OWNED AND SECURITIES SOLD,
NOT YET PURCHASED - CONTINUED

145,000 warrants, which management believes to be worthless at December 2005 and 2004. Each warrant entitles the holder to purchase up to an aggregate of 145,000 shares of class A common stock at \$7.75 per share from December 15, 2004 through December 15, 2008. The warrants are restricted securities under Rule 144 of the Securities Act of 1933. No warrants were exercised during 2005 or 2004.

NOTE E - FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

A summary of furniture, equipment and leasehold improvements as of December 31, follows:

	<u>2005</u>	<u>2004</u>
Furniture and equipment	\$ 273,204	\$ 273,204
Leasehold improvements	<u>116,426</u>	<u>116,426</u>
	389,630	389,630
Less accumulated depreciation and amortization	<u>378,858</u>	<u>371,258</u>
	\$ <u>10,772</u>	\$ <u>18,372</u>

NOTE F - OPERATING LEASES

The Company conducts its operations in a leased facility under an operating lease. The lease expires in September 2008. The Company may, at its option, renew the lease for an additional five years under the same terms as the current lease.

The lease calls for monthly payments of \$5,476, plus sales tax and \$41 per month for water, sewer, and trash services. The rental payments are adjusted annually for fluctuations of the Consumer Price Index (CPI). The cost for water, sewer, and trash services will be adjusted 3.5% annually.

The following is a schedule by year of minimum lease payments, without any CPI adjustments.

<u>Year</u>	<u>Amount</u>
2006	\$ 70,837
2007	70,837
2008	47,225

Kashner Davidson Securities Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2005 and 2004

NOTE F - OPERATING LEASES - CONTINUED

Rent expense for the years ended December 31, 2005 and 2004 was \$74,371 and \$72,332, respectively.

In a prior year, the Company entered into a month-to-month contract with a limited liability company to lease six workstations and a network connection port for internet access for \$2,000 per month. The limited liability company terminated the lease in November 2004. Lease income totaled \$19,839 for the year ended December 31, 2004.

NOTE G - UNDERWRITING AND CONSULTING INCOME

During a prior year, the Company assumed the role of lead underwriter for the Vaso Active Pharmaceuticals, Inc. stock issue. During the year ended December 31, 2004, the Company recognized \$187,500 for consulting fee income from Vaso Active Pharmaceuticals, Inc. arising from an agreement, wherein the Company undertook assistance in arranging a private financing. In 2004, the Company also recognized \$50,000 consulting fee from Huron Ventures, Inc. for services in arranging private financing. In addition, in 2004, the Company participated in the underwriting syndicates for the Natural Golf Corporation, Inc. and Sand Hill It Sec Acquisition Corp. The Company earned \$25,583 related to these underwritings.

NOTE H - DISTRIBUTION TO STOCKHOLDER

In prior years, the Company incurred certain expenses and made cash advances to its sole stockholder. Through December 31, 2005, the cumulative amount of such advances together with accrued interest amounted to \$392,801. Since the Company does not have retained earnings, the distribution has been accounted for as a reduction of additional paid-in capital.

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

The Company enters into various transactions involving off-balance sheet financial instruments. These financial instruments include options and short sales (securities sold, not yet purchased). These financial instruments are used to meet the needs of customers, conduct trading activities, and manage market risks and are, therefore, subject to varying degrees of market and credit risk. Such transactions are entered into for trading purposes or to hedge other positions or transactions.

Kashner Davidson Securities Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2005 and 2004

NOTE I - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK -
CONTINUED

As a writer of options, the Company receives a premium in exchange for giving the counterparty the right to buy or sell the security at a future date at a contracted price. The credit risk for options is limited to the unrealized market valuation gains recorded in the statement of financial condition. Market risk is substantially dependent upon the value of the underlying financial instruments and is affected by market forces such as volatility and changes in interest and foreign exchange rates.

In addition, at December 31, 2004, the Company had sold securities that it did not currently own and therefore was obligated to purchase such securities at a future date. The Company recorded these obligations in the financial statements at December 31, 2004, at the market values of the related securities.

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss. The Company controls such risks by establishing limits and monitoring procedures.

NOTE J - RETIREMENT PLAN

The Company has established a qualified deferred compensation plan covering substantially all employees. The plan provides for the Company to match fifty percent of the employee's contribution up to a maximum of four percent of gross wages. Contributions vest ratably over a six year period. Plan expense was \$10,311 and \$22,268 for the years ended December 31, 2005 and 2004, respectively.

Kashner Davidson Securities Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2005 and 2004

NOTE K - 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 and requires that the ratio of aggregate indebtedness to net capital both as defined, shall not exceed 15 to 1. At December 31, 2005 and 2004, the Company had a minimum net capital requirement of \$100,000, and net capital of \$368,352 and \$710,427, respectively. The Company's net capital ratio at December 31, 2005 was 1.30 to 1. Management does not anticipate any distributions during the six month period ended June 30, 2006. The Company operates pursuant to the (k)(2)(ii) exemptive provisions of SEC rule 15c3-3 and does not hold customer funds or securities; therefore, there were no procedures performed regarding information relative to the possession or control requirements or the reserve requirement under SEC rule 15c3-3.

NOTE L - CLAIMS AND CONTINGENCIES

On December 27, 1993, the Commonwealth of Massachusetts, Office of the Secretary of State, Securities Division, commenced an administrative complaint proceeding seeking to permanently revoke the Company's registration as a broker-dealer in Massachusetts, an accounting and disgorgement of profits and other monies, an administrative fine, costs, a cease and desist order, and other relief. The Massachusetts complaint remains unsettled, but there was no substantial activity on this matter since 1996.

In a prior year, actions were filed against the Company alleging damages as a result of losses incurred and certain costs. In the first case, the Claimant asserted claims for negligent supervision, excessive trading, omissions regarding margin risk, suitability, and violations of Florida Securities Laws. The Claimant sought \$150,000 in compensatory damages. The Company served and filed an Answer denying any wrongdoing. An arbitration hearing was held in late January 2004, but was not concluded and additional hearing dates were to be scheduled. The Claimant withdrew the case in 2004.

In another case from a prior year, the Claimant asserted claims for fraud, unauthorized trading, suitability, breach of contract, and failure to supervise. The Claimant sought \$307,008 in compensatory damages and punitive damages in an amount double the amount of compensatory damages. This claim was dismissed with prejudice in October 2002. The Company was granted the right to recover attorney's fees. The Claimant

Kashner Davidson Securities Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2005 and 2004

NOTE L - CLAIMS AND CONTINGENCIES - CONTINUED

filed a petition seeking to vacate the portion of the award allowing recovery of the attorney fees. In January 2004, the petition was settled for \$6,000.

The Company was involved in an arbitration proceeding before the NASD in which the Company filed a claim against two former customers for a margin debt due the Company. The former clients filed a counter-claim against the Company asserting claims for unsuitability, fraud, unauthorized transactions and RICO seeking unspecified damages. In June 2005, the NASD arbitration panel awarded the Company \$421,000 plus interest until the date of payment of the award and dismissed the former clients' counter-claim. Thereafter, the Company filed an action in the United States District Court for the District of Massachusetts seeking a confirmation of the Award and judgment against the Company's former customers. In August 2005, the Company's former customers filed a counterclaim seeking to vacate the Award. These matters are pending before the Court and, in the opinion of management, the ultimate outcome of these matters is uncertain. Accordingly, the Award receivable has not been recognized in the accompanying financial statements. In connection with the margin debt of the two former customers involved with the NASD arbitration proceeding, the Company's clearing agency restricted \$361,194 of cash deposits in various firm trading accounts to collateralize the unsecured debit balances of these former customers. In July 2005, the Company's clearing firm used \$361,023 of the Company's cash deposits to cover the unsecured debit balances of the former clients. Recovery of this amount is dependent on the Company's ability to collect the NASD arbitration Award from the two former customers. Accordingly, the Company has recorded an allowance and corresponding bad debt expense of \$361,023 in the accompanying financial statements.

During December 2004, three separate actions were filed against the Company.

In the first case, the Claimants asserted a claim filed for arbitration with the NASD for unsuitable investments, theft of \$20,236 directly from their account, and losses sustained in a private investment entered into outside of the Company's brokerage activities through a broker employed by the Company. The Claimants sought compensatory damages in the amount of \$746,775, plus pre-judgement interest. In January 2006, the claim was settled for \$50,000. The Company has recorded the settlement expense and liability at December 31, 2005.

Kashner Davidson Securities Corporation

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2005 and 2004

NOTE L - CLAIMS AND CONTINGENCIES - CONTINUED

In the second case, the Claimant asserts claims in the Circuit Court of Sarasota County, Florida for breach of fiduciary duty, negligence, fraud, failure to supervise, and violations of Florida Securities Laws in connection with losses sustained in a private investment entered into outside of the Company's brokerage activities through a broker employed by the Company. The Claimant seeks compensatory damages of approximately \$140,000, attorney fees, and interest. The Company served and filed an Answer denying any wrongdoing and asserting numerous affirmative defenses. As this matter is at the discovery stage of the proceeding, it is difficult to estimate the likelihood of an unfavorable outcome and estimate the amount or range of potential loss, if any. Management has indicated that it intends to vigorously this matter.

The Company was added as a defendant in a Consolidated Amended Class Action Complaint filed with the United States District Court for the District of Massachusetts. The Amended Complaint asserted a cause of action under Section 11 of the Securities Act of 1933 against the Company in its role as lead underwriter of Vaso Active Pharmaceuticals' securities. The complaint was settled in July 2005 for \$25,000.

In 2005, a former client filed a claim against the Company seeking to recover compensatory and punitive damages for losses sustained. The complaint was settled in September 2005 for \$950.

In 2005, a former client filed a complaint against the Company asserting a claim for losses sustained in a private investment entered into outside the Company's brokerage activities through a broker employed by the Company. The Claimant seeks compensatory damages of \$94,500 plus pre-judgement interest. The case is scheduled to go to arbitration in July 2006. The Company filed an Answer denying any wrongdoing and is asserting numerous affirmative defenses. As this matter is at the early stages of the proceeding, it is difficult to estimate the likelihood of an unfavorable outcome and estimate the amount or range of potential loss, if any. Management has indicated that it intends to vigorously defend this matter.

SUPPLEMENTARY INFORMATION
PURSUANT TO RULE 17a-5 OF THE
SECURITIES EXCHANGE ACT OF 1934

As of December 31, 2005

Kashner Davidson Securities Corporation

COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1
OF THE SECURITIES AND EXCHANGE COMMISSION

December 31, 2005

NET CAPITAL

Stockholder's equity		\$ 688,320
Deductions for non-allowable assets		
Accounts receivable - employees	\$ 31,144	
Prepaid expenses	25,784	
Interest receivable	7,983	
Warrants for common stocks	52,043	
Furniture, equipment and leasehold improvements	10,772	
Cross guarantee account	<u>188</u>	
Deductions for deficits in customers' accounts		<u>127,914</u>
Net capital before haircuts on securities positions (tentative net capital)		560,406
Haircuts on securities		
Trading and investment securities	111,796	
Undue concentrations	78,171	
Money market funds	<u>2,087</u>	<u>192,054</u>
NET CAPITAL		\$ <u>368,352</u>

AGGREGATE INDEBTEDNESS

Items included in balance sheet		
Accounts payable	\$ 137,964	
Payable to clearing agency	83,562	
Accrued salaries and commissions payable	<u>13,638</u>	
	235,164	
Other unrecorded amounts		
Contingent liabilities	<u>244,385</u>	
Total aggregate indebtedness	\$ <u>479,549</u>	
Ratio: Aggregate indebtedness to net capital		<u>1.30 to 1</u>
Minimum net capital requirement		\$ <u>100,000</u>

A reconciliation with the Company's computation (included in Part II of Form X-17A-5 as of December 31, 2005, as amended on February 23, 2006) is not presented as there are no material differences.

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL REQUIRED
BY SEC RULE 17a-5



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Independent Auditors' Report on
Internal Control Required
by SEC Rule 17a-5

Board of Directors
Kashner Davidson Securities Corporation

In planning and performing our audit of the financial statements and supplementary information of Kashner Davidson Securities Corporation for the year ended December 31, 2005, we considered its internal control, including control activities 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 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 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 and recordation of differences required by rule 17a-13
2. 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
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customer as required by rule 15c3-3

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 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 internal control 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 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 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 Securities and Exchange Commission, the National Association of Securities Dealers, 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.

Nathanson & Company, P.A.

Sarasota, Florida
February 23, 2006