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

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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: Colonial Securities Inc

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

41 Elizabeth Street, Suite 502

(No. and Street)

New York

New York

10013

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
David Wong, Vice President (212) 587-3970

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Wei, Wei & Co., LLP

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

133-10 39th Ave.

Flishing

New York

11354

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED  
MAY 04 2006  
THOMSON FINANCIAL

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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

**Affirmation**

I, Yee Yee Wong, affirm that, to the best of my knowledge and belief the accompanying financial statements and supplemental schedule pertaining to Colonial Securities, Inc. as of and for the year ended December 31, 2005, are true and correct. I further affirm that neither Colonial Securities, Inc. nor any officer or director has any proprietary interest in any account classified solely as that of a customer.

*Yee Yee Wong*                      2/23/06  
Yee Yee Wong                      Date

President

\_\_\_\_\_  
Title

*Judy Lim*  
Notary Public

**JUDY LIM  
NOTARY PUBLIC, STATE OF NEW YORK  
NO. 01LI5075233  
QUALIFIED IN NEW YORK COUNTY  
COMMISSION EXPIRES MARCH 31, 2007**

**COLONIAL SECURITIES, INC.**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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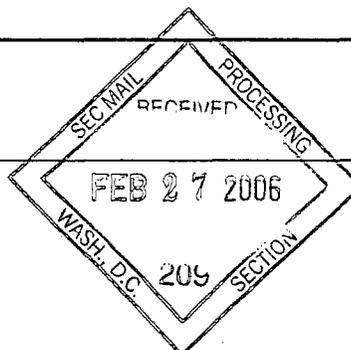
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**INDEPENDENT AUDITORS' REPORT**

Board of Directors and  
Stockholders of  
Colonial Securities, Inc.

We have audited the accompanying statement of financial condition of Colonial Securities, Inc. (the "Company") as of December 31, 2005, and the related statements of operations, cash flows and changes in stockholders' equity for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Colonial 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 of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 under the Securities Act of 1934 is presented for purpose 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 our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

*Wei Wei & Co. LLP*  
February 10, 2006

# COLONIAL SECURITIES, INC.

## STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2005

### ASSETS

Cash	\$	25,727
Receivable from clearing organization		157,581
Loans to stockholders (Note 4)		70,063
Property and equipment, net of accumulated depreciation and amortization of \$178,340 (Notes 2 and 3)		45,050
Deferred income taxes (Notes 2 and 5)		51,600
Other assets		24,470

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TOTAL ASSETS	\$	374,491
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### LIABILITIES AND STOCKHOLDERS' EQUITY

#### LIABILITIES:

Accounts payable and accrued expenses	\$	35,337
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Total current liabilities		35,337
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COMMITMENTS AND CONTINGENCIES (Notes 6 and 8)		-
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#### STOCKHOLDERS' EQUITY:

Common stock, no par value, Class A, voting; authorized 500 shares; issued and outstanding 252 shares		58,500
Class B, non-voting; authorized 500 shares; issued and outstanding 120 shares		26,460
Additional paid-in capital		98,000
Retained earnings		156,194

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Total stockholders' equity		339,154
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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	374,491
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See accompanying notes to financial statements.

# COLONIAL SECURITIES, INC.

## STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2005

<b>REVENUES:</b>	
Commissions	\$ 868,404
Dividends and interest	79,346
<b>TOTAL REVENUES</b>	<b>947,750</b>
<b>EXPENSES:</b>	
Salary and related expenses	304,981
Commissions	188,731
Clearing charges	191,008
Trading losses, net	2,475
Occupancy costs	77,753
Communications	18,455
Statistical	25,473
Promotional	11,112
Computer services	30,554
Insurance	47,179
Office expenses	24,715
Professional fees	14,080
Travel and entertainment	18,325
Automobile	14,134
Interest	46
Bad debt expense	5,755
Depreciation and amortization	13,655
Other operating expenses	13,097
<b>TOTAL EXPENSES</b>	<b>1,001,528</b>
Loss before income taxes	(53,778)
Benefit from income taxes <i>(Notes 2 and 5)</i>	(16,090)
<b>NET LOSS</b>	<b>\$ (37,688)</b>

See accompanying notes to financial statements.

# COLONIAL SECURITIES, INC.

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

### CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$	(37,688)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization		13,655
Bad debt expense		5,755
(Increase) in Deferred income taxes		(19,000)
Decrease in receivable from clearing organization		17,492
(Increase) in other assets		(7,565)
(Decrease) in accounts payable and accrued expenses		(7,190)

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Net cash (used in) operating activities		(34,541)
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### CASH FLOWS FROM INVESTING ACTIVITY:

Purchase of property and equipment		(4,256)
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Net cash (used in) investing activity		(4,256)
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### CASH FLOWS FROM FINANCING ACTIVITY:

Payments received on loans to stockholders		16,058
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Net cash provided by financing activity		16,058
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NET CHANGE IN CASH		(22,739)
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CASH AT THE BEGINNING OF YEAR		48,466
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CASH AT THE END OF YEAR	\$	25,727
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### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for interest	\$	46
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Cash paid for income taxes	\$	2,458
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See accompanying notes to financial statements.

**COLONIAL SECURITIES, INC.**

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

	<b>Common Stock Class A</b>	<b>Common Stock Class B</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>
<b>Balance, December 31, 2004</b>	\$ 58,500	\$ 26,460	\$ 98,000	\$ 193,882
Net loss	-	-	-	(37,688)
<b>Balance, December 31, 2005</b>	\$ 58,500	\$ 26,460	\$ 98,000	\$ 156,194

See accompanying notes to financial statements.

# COLONIAL SECURITIES, INC.

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

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### 1. ORGANIZATION

Colonial Securities, Inc. (the "Company") was incorporated in the State of New Jersey on December 11, 1972. The Company is a registered broker-dealer under the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. ("NASD").

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Securities transactions**

The Company records securities transactions and recognizes related revenues on a trade date basis. Investment banking fees and expenses are recorded on an accrual basis.

#### **Property, equipment and depreciation**

Property and equipment are stated at cost. The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Leasehold improvements are amortized over the lesser of the term of the related lease or the estimated useful lives of the assets. Depreciation is computed on the straight-line method for both financial reporting and income tax purposes.

#### **Advertising**

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense charged to operations was \$11,112 for the year ended December 31, 2005.

#### **Income taxes**

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which requires the recognition of deferred income taxes for differences between the basis of assets and liabilities for financial statement and income tax purposes. Deferred tax assets and liabilities represent the future tax consequence for those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses that are available to offset future taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

# COLONIAL SECURITIES, INC.

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

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Use of estimates in preparation of financial statements

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Fair value of financial instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires the Company to report the fair value of financial instruments, as defined. The Company's assets and liabilities are largely carried at fair value or contracted amounts which approximate fair value. Assets consist of cash and receivables. Liabilities consist of accounts payable and accrued expenses.

### 3. PROPERTY AND EQUIPMENT

The useful lives of property and equipment for purposes of computing depreciation are:

Furniture and fixtures	7 years
Office equipment	7 years
Leasehold improvements	Length of lease 5 years

Depreciation and amortization expense, relating to property and equipment, charged to operations for the year ended December 31, 2005 was \$13,655.

### 4. LOANS TO STOCKHOLDERS

Loans to stockholders, representing advances to stockholders, are non-interest bearing and due on demand.

# COLONIAL SECURITIES, INC.

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

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### 5. LEASES

The Company leases its offices under non-cancelable operating leases expiring in various years through 2010. Future minimum rental payments under the leases are approximated as follows:

Year Ending December 31,	Amount
2006	71,000
2007	73,000
2008	76,000
2009	78,000
Thereafter	20,000
	<hr/>
	\$ 318,000

The leases require the Company to pay, as additional rent, cost of living and real estate escalation adjustments. Rent expense charged to operations for the year ended December 31, 2005 was \$77,753.

### 6. INCOME TAXES

The provision (benefit) for income taxes for the year ended December 31, 2005 consists of the following:

State and City income taxes	2,910
Deferred income taxes	(19,000)
	<hr/>
	\$ (16,090)

Deferred income tax asset, at December 31, 2005 in the amount of \$51,600, was recognized for operating losses that are available to offset future taxable income.

The Company has available at December 31, 2005, unused operating loss carry-forward of approximately \$159,000, expiring in various years through 2020.

# COLONIAL SECURITIES, INC.

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

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### 7. NET CAPITAL REQUIREMENTS

As a registered broker-dealer, the Company is subject to the Uniform Net Capital Rule (Rule 15c3-1) under the Securities Exchange Act of 1934. The Company computes its net capital using the aggregate indebtedness standard method, which requires the maintenance of minimum net capital of \$100,000 and requires the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2005, the Company had a net capital of \$142,241, which was \$42,241 in excess of its required capital.

### 8. FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK

The Company introduces all customer transactions in securities traded on U.S. securities markets to another New York Stock Exchange member firm on a fully-disclosed basis. The agreement between the Company and its clearing broker provides that the Company is obligated to assume any exposure related to non-performance by customers or counter parties.

The Company's exposure to credit risk associated with the non-performance of customers and counter parties in fulfilling their contractual obligations pursuant to these securities transactions can be directly impacted by volatile trading markets which may impair the customer's or counter party's ability to satisfy their obligations to the Company. In the event of non-performance, the Company may be required to purchase or sell financial instruments at unfavorable market prices resulting in a loss to the Company. The Company does not anticipate non-performance by customers and counter parties in the above situations.

The Company seeks to control the aforementioned risks by requiring customers or counter parties to maintain margin collateral in compliance with various regulatory requirements, the clearing broker's guidelines and industry standards. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral, or to reduce positions, when necessary.

# COLONIAL SECURITIES, INC.

## COMPUTATION OF NET CAPITAL FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-1 UNDER THE SECURITY EXCHANGE ACT OF 1934 DECEMBER 31, 2005

<b>NET CAPITAL:</b>		
Total stockholders' equity	\$	339,154
Total capital		339,154
Deductions and/or charges:		
Non-allowable assets		
Receivable from clearing organization, unsecured bad debt reserve		1,180
Loans to stockholders		70,063
Property and equipment, net		45,050
Deferred income taxes		51,600
Other assets		24,470
		192,363
Net capital before haircuts on securities positions		146,791
Haircuts on securities:		
Corporate securities		2,044
Money market funds		2,506
<b>NET CAPITAL</b>	<b>\$</b>	<b>142,241</b>
<b>COMPUTATION OF BASIC NET CAPITAL REQUIREMENT:</b>		
Minimum net capital required	\$	100,000
Excess net capital	\$	42,241
Excess net capital at 1000% (net capital less 10% of total aggregate indebtedness)	\$	138,707
<b>COMPUTATION OF AGGREGATE INDEBTEDNESS:</b>		
Accounts payable and accrued expenses	\$	35,337
<b>TOTAL AGGREGATE INDEBTEDNESS</b>	<b>\$</b>	<b>35,337</b>
Percentage of aggregate indebtedness to net capital		24.84%

**COLONIAL SECURITIES, INC.**

**COMPUTATION OF NET CAPITAL FOR BROKERS AND DEALERS PURSUANT TO  
RULE 15c3-1 UNDER THE SECURITY EXCHANGE ACT OF 1934 (continued)  
DECEMBER 31, 2005**

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

Net capital, as reported in Company's Part IIA (unaudited)	
FOCUS report	\$ 145,241
Understatement in non-allowable assets, deferred income taxes	(19,000)
Net audit adjustments	16,000
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<b>NET CAPITAL PER ABOVE</b>	<b>\$ 142,241</b>

The Company is exempt from the provisions of 15c3-3 under Securities Exchange Act of 1934 as set forth in the conditions for exemption in paragraph (k)(2)(ii).

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**INDEPENDENT AUDITORS' REPORT ON**  
**INTERNAL CONTROL STRUCTURE**

Board of Directors and  
Stockholders of  
Colonial Securities, Inc.

In planning and performing our audit of the financial statements of Colonial Securities Inc. (the "Company") for the year ended December 31, 2005, on which we issued our report dated February 10, 2006, 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) under the Security Exchange Act of 1934, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by the Company that we considered relevant to the objectives stated in Rule 17a-5(g), in making the periodic computation of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3. The Company was in compliance with the conditions of the exemption and no facts came to our attention to indicate that such conditions had not been complied with during the period. 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 compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13 or 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, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

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 Securities and Exchange Commission'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 the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. 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 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 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 weakness 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 Commissions to be adequate for their 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 Commission's objectives.

This report is intended solely for the use of the board of directors, management, the Securities and Exchange Commission, the National Association of Securities Dealers, Inc., 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 should not be used for any other purposes.

*Wei & Co. LLP*  
February 10, 2006