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

*cm*

SEC FILE NUMBER  
8-48091

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: Berry-Shino Securities, Inc.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

14500 N. Northsight Blvd. Suite 101  
(No. and Street)  
Scottsdale, Arizona 85260  
(City) (State) (Zip Code)

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

Mary Daniel 480-315-3660  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Brian R. Lee CPA, PC  
(Name - if individual, state last, first, middle name)  
2101 East Broadway Road Suite 7 Tempe AZ 85282  
(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 23 2006

THOMSON FINANCIAL

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FOR OFFICIAL USE ONLY

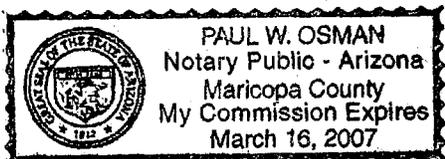
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

*cm*  
*5/22*

OATH OR AFFIRMATION

I, R. Matthew Shino, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Berry-Shino 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



[Signature]  
Signature

President  
Title

[Signature]  
Notary Public

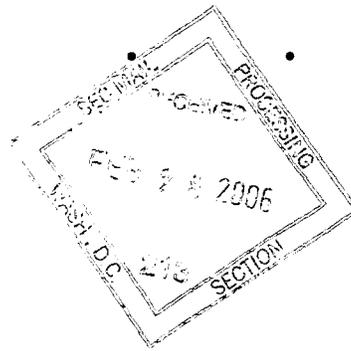
This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

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

Berry-Shino Securities, Inc.

**Financial Statements**  
*And Independent Auditors' Report*



*Year Ended December 31, 2005*

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# Contents

Independent Auditors' Report.....	1
Financial Statements .....	2
Statement of Financial Condition .....	3
Statement of Income.....	5
Statement of Changes in Stockholders' Equity .....	6
Statement of Changes in Subordinated Borrowings .....	7
Statement of Cash Flows.....	8 to 9
Notes to Financial Statements .....	10 to 22
Additional Information.....	23
Computation of Net Capital Under Rule 15c3-1 of SEC.....	24 to 25
Statement Regarding Rule 15c3-3 of SEC.....	26
Independent Auditors' Report on Internal Control Required by SEC Rule 17a-5.....	27 to 28

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## Independent Auditors' Report

To Board of Directors  
**Berry-Shino Securities, Inc.**  
Scottsdale, Arizona

We have audited the accompanying statement of financial condition of **Berry-Shino Securities, Inc.** (an Arizona C-Corporation and the "Company") as of December 31, 2005, and the related statements of income, changes in stockholders' equity, changes in subordinated borrowings and cash flows 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 **Berry-Shino Securities, Inc.** as of December 31, 2005, and the results of its operations and 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 supplemental schedule of computation of net capital under Rule 15c3-1 of the Securities and Exchange Commission, supplemental schedule of statement regarding Rule 15c3-3 of the Securities and Exchange Commission, and independent auditors' report on internal control required by SEC Rule 17a-5 contained in the additional information 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 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.

  
Tempe, Arizona  
February 27, 2006

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# Financial Statements

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**Statement of Financial Condition**  
**December 31, 2005**

**Assets**

Cash and cash equivalents	\$ 289,814
Receivables	
Brokers, dealers and clearing organizations	7,062
Draws on broker commissions and advances	
- Related parties - draws/advances	80,000
- Other (excluding related parties) - draws/advances	526,549
Other	140
<i>Total receivables</i>	<u>613,751</u>
Less allowance for doubtful accounts	<u>(421,026)</u>
<i>Net receivables</i>	<u>192,725</u>
Prepaid expenses	<u>23,109</u>
Securities owned	
Marketable, at market value	78,996
Not readily marketable, at estimated fair value	348,010
<i>Total securities owned</i>	<u>427,006</u>
Secured demand notes - related parties	100,000
Property and equipment, less accumulated depreciation of \$118,983	19,737
Other assets	6,418
<b>Total Assets</b>	<b><u><u>\$1,058,809</u></u></b>

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

**Statement of Financial Condition (CONTINUED)**  
**December 31, 2005**

**Liabilities and Stockholders' Equity**

Liabilities

Payables: Brokers, dealers and clearing organizations	
- Related parties - broker commissions and other	\$ 61,015
- Other (excluding related parties)	8,081
<i>Total payables: brokers, dealers and clearing organizations</i>	<u>69,096</u>
Accounts payable and accrued liabilities	
- Related parties - accrued interest payable	12,575
- Other (excluding related parties)	31,952
<i>Total accounts payable and accrued liabilities</i>	<u>44,527</u>
Obligations under capital lease	3,698
<i>Total Liabilities</i>	<u>117,321</u>

Subordinated borrowings - related parties 100,000

Stockholders' equity

Common stock - no par value, 10,000 shares authorized; 6,290 shares issued and 6,037 shares outstanding	3,187,214
Treasury stock - at cost, 253 shares	(82,688)
Accumulated deficit	(2,263,038)
<i>Total Stockholders' equity</i>	<u>841,488</u>
<b>Total Liabilities and Stockholders' Equity</b>	<b><u>\$ 1,058,809</u></b>

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

**Statement of Income**  
**For the year ended December 31, 2005**

**Revenues**

Commissions - trading	\$ 453,246
Commissions and fees - investment banking	1,461,110
Commissions - other	1,314
Net dealer inventory and investment gains/(losses)	304,620
Other Income	153,202
<i>Total Revenues</i>	<u>2,373,492</u>

**Operating Expenses**

Employee compensation and benefits	226,489
Commissions and floor brokerage fees	1,385,467
Communications	54,141
Occupancy	86,717
Advertising	346
Other operating expenses	345,697
<i>Total Operating Expenses</i>	<u>2,098,857</u>

**Income from Operations**274,635**Other Revenue (Expenses)**

Interest and dividends income	18,368
Interest expense	(9,163)
<i>Total Other Revenue (Expenses)</i>	<u>9,205</u>

**Income before Income Taxes**283,840**Provision for Income Taxes (Benefit)**

Current	1,427
Deferred	-
<i>Total Provision for Income Taxes (Benefit)</i>	<u>1,427</u>

**Net Income**\$ 282,413

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

**Statement of Changes in Stockholders' Equity  
For the year ended December 31, 2005**

<b>Stockholders' Equity</b>	<b>Common Stock</b>	<b>Treasury Stock</b>	<b>Accumulated Deficit</b>
Balances At December 31, 2004	<u>\$ 3,187,214</u>	<u>\$ (25,000)</u>	<u>\$ (2,545,451)</u>
Purchase of 228 treasury stock shares		(57,688)	
Net income			282,413
<b>Balances At December 31, 2005</b>	<u><b>\$ 3,187,214</b></u>	<u><b>\$ (82,688)</b></u>	<u><b>\$ (2,263,038)</b></u>

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

**Statement of Changes in Subordinated Borrowings  
For the year ended December 31, 2005**

<b>Subordinated Borrowings</b>	<b>Amount</b>
Subordinated Borrowings At December 31, 2004	<u>\$ 190,000</u>
Decreases:	
Payment of subordinated note	<u>(90,000)</u>
<b>Subordinated Borrowings At December 31, 2005</b>	<u><u>\$ 100,000</u></u>

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

## Statement of Cash Flows

### For the year ended December 31, 2005

#### Cash Flows From Operating Activities

Net Income	\$ 282,413
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Depreciation	13,647
(Gain) loss on sale of securities owned	(71,047)
Unrealized (gain)/loss on securities owned	(233,579)
(Increase) Decrease in	
Receivables - related parties	(5,000)
Receivables - other (excluding related parties)	15,796
Prepaid expenses	1,057
Securities owned	430,441
Increase (Decrease) in	
Payables: Brokers, dealers and clearing organizations	
- Related parties - broker commissions and other	25,981
- Other (excluding related parties)	(55,984)
Accounts payable and accrued liabilities - related parties	(17,426)
Accounts payable and accrued liabilities - other (excluding related parties)	(99,302)
Total Adjustments	4,584
<i>Net Cash Provided by Operating Activities</i>	286,997

#### Cash Flows From Investing Activities

Purchase of Property and Equipment	(1,377)
<i>Net Cash (Used in) Investing Activities</i>	(1,377)

#### Cash Flows From Financing Activities

Payments on obligations under capital lease	(5,299)
Payments of subordinated borrowings	(40,000)
Purchases of treasury stock	(57,688)
<i>Net Cash (Used in) Financing Activities</i>	(102,987)

Net Increase (Decrease) in Cash and Cash Equivalents	182,633
Cash and Cash Equivalents, Beginning of Year	107,181
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 289,814</b>

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

**Statement of Cash Flows (CONTINUED)**  
**For the year ended December 31, 2005**

**Supplemental Disclosures of Cash Flow Information**

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Cash Paid During the Year for Interest	\$ 27,754
Cash Paid During the Year for Taxes	\$ 1,427

**Non Cash Investing and Financing Activities**

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Decrease to Subordinated Borrowings with Decrease to Secured Demand Note	\$ 50,000
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**The accompanying notes are an integral part of these financial statements.**

**Notes to Financial Statements**  
**December 31, 2005**

**Note A –**  
**Summary of Significant Accounting Policies and Nature of Operations**

A summary of Berry-Shino Securities, Inc. (the Company's) significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

*Organization and Nature of Operations*

Berry-Shino Securities, Inc. (an Arizona C-Corporation) was incorporated in the State of Arizona on July 16, 1993. The Company is a registered broker-dealer under the Securities Exchange Act of 1934 of the Securities and Exchange Commission (SEC) and is registered with the National Association of Securities Dealers, Inc. (NASD). The Company processes its trades through two clearing broker dealers. The Company has its main office and its office of supervisory jurisdiction located in Scottsdale, Arizona. The Company has adopted a fiscal year end of December 31.

*Methods of Accounting*

The Company has adopted the accrual basis of accounting for financial statement purposes and cash basis for income tax purposes.

*Use of Estimates in Preparation of Financial Statements*

The preparation of financial statements in accordance with 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents*

For purposes of reporting cash flows, the Company considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less, that are not held for sale in the ordinary course of business, to be cash equivalents.

*Secured Margin Overdraft*

Margin accounts maintain by the Company at a clearing broker-dealer may become overdrawn. These accounts are secured by collateral held by the clearing broker-dealer and/or demand notes related to the subordinated borrowings.

**Notes to Financial Statements**  
**December 31, 2005**

**Note A – CONTINUED**  
**Summary of Significant Accounting Policies and Nature of Operations**

*Receivables*

The Company had receivables due from brokers, dealers and clearing organizations and relating to draws on broker commissions and advances. \$596,585 (including a receivable of \$75,000 due from a related party that is non-interest bearing) of the \$613,751 total receivables was over 90 days past due at December 31, 2005. The Company has an allowance for doubtful receivables of \$421,026 relating to its receivables as of that date. These receivables are generally non-interest bearing financial instruments for the Company.

*Securities Owned*

Securities owned are classified as trading securities and recording at published market value or at estimated fair market value, as determined by management, with unrealized gains and losses accounted for in the current income/(loss). In computing the realized gains and losses on sale of securities, the Company uses the first-in first-out method to identify the basis of the securities sold. For the purpose of the statement of cash flows, trading securities are classified as operating activities.

*Property and Equipment*

Property and equipment are recorded at cost and depreciated over the estimated useful life of the assets, which range from 3 to 10 years, using straight-line and double-declining balance methods for financial reporting purposes and accelerated methods for tax purposes.

The Company reviews its property and equipment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is less than the carrying amount of the asset. An impairment loss is measured as the amount by which the carrying amount of these assets exceeds its fair value. No impairment loss was recorded during the year ended December 31, 2005.

*Discretionary Liabilities*

The Company records discretionary compensation, even though certain discretionary liabilities, such as a noncontractual bonus accrual, may be added back to the Company's net worth for determining net capital. Discretionary liabilities are estimated and recorded based on appropriateness of the accrual for the statement of financial position date but are subject to changes in estimate with new information from management as to probability of payment of these amounts.

**Notes to Financial Statements**  
**December 31, 2005**

**Note A – CONTINUED**  
**Summary of Significant Accounting Policies and Nature of Operations**

*Revenues*

The Company's main sources of revenue are from: (1) trading commissions, and (2) investment banking commissions and fees. The Company, as a broker-dealer, records trading commissions gross and recognizes related revenues on a trade date basis. The Company processes trades on the stock market for clients. These trades are handled through third-party executing brokers and are cleared through a clearing corporation, which provides the Company with a monthly summary report for all trades conducted. Commissions are earned on each trade. The Company also receives income from commissions paid by mutual funds, insurance companies and transfers also known as trailers. These funds are earned when transactions are generated by brokers. The mutual funds and insurance companies issue commission checks to the Company periodically for initial placements. Trailer commissions are generally paid quarterly. The Company also receives revenues from investment banking commissions and fees. For the investment banking commissions, the Company acts as an agent for private placement offerings and earns a commission on the offerings, net of syndicate expenses. Investment banking commissions and fees are recorded on an accrual basis. Essentially, commissions are earned when the terms of the offering are met, the offering is closed, and cash has been received from the issuer. In accordance with selling agreements and management discretion, the payment of commissions is contingent upon the Company's receipt of amounts due from the various offering sponsors in the future periods.

*Advertising*

The Company follows the policy of charging the costs of advertising to expense as incurred. The Company had advertising costs of \$346 for the year ended December 31, 2005.

*Income Taxes*

The Company provides for income taxes under the provisions of Statement of Financial Accounting Standards, No. 109, "Accounting for Income Taxes". Under the asset and liability method of Statement No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on the deferred tax assets and liabilities of a change in tax rates is recognized in income in the period of the enactment date.

**Notes to Financial Statements**  
**December 31, 2005**

**Note A – CONTINUED**  
**Summary of Significant Accounting Policies and Nature of Operations**

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*Income Taxes - CONTINUED*

At December 31, 2004, the Company had a federal net operating loss carryforward available to reduce future taxable income of \$1,323,763. This federal net operating loss carryforward expires beginning in 2020. At December 31, 2004, the Company had Arizona net operating loss carryforward available to reduce future taxable income of \$1,109,524. This Arizona net operating loss carryforward expires beginning in 2005. In addition, the Company has New York State and New York City net operating loss carryforwards that will likely expire over the next several years with no benefit to the Company since they no longer have active operations out of a location in New York as they did in previous years. The Company's 2005 income tax returns have not yet been prepared as of the independent auditors' report date. The recoverability of these loss carryforwards is contingent upon the Company's ability to generate future taxable income and accordingly will be recognized as the Company generates taxable income.

The Company did pay state and local taxes of \$1,427 combined for 2004 tax returns. It included a \$50 minimum tax for Arizona, \$466 and \$79 amounts for New York State and \$832 for New York City.

## Notes to Financial Statements

### December 31, 2005

#### Note B - Related Party Transactions

Certain amounts arising from transactions with related parties are included in the accompanying financial statements as follows for the year ended December 31, 2005:

Receivables – Draws on broker commissions and advances	Amount
– Related parties – draws/advances	
(draws – stockholder (R. M. Shino))	\$75,000
(draw – stockholder (R. Berry))	5,000
<b>Total</b>	<b>\$80,000</b>
Secured demand notes – related parties	Amount
(secured demand note – stockholder (R. Gold))	\$100,000
<b>Total</b>	<b>\$100,000</b>
Payables: Brokers, dealers and clearing organizations –	Amount
Related parties – broker commissions and other	
(payable due broker - commissions – stockholder (R. Berry))	\$50,349
(payable due broker – commissions - stockholder (R. M. Shino))	10,666
<b>Total</b>	<b>\$61,015</b>
Accounts payable and accrued liabilities – Related parties –	Amount
accrued interest payable	
(accrued interest payable – stockholder (R. Gold))	\$ 3,370
(accrued interest payable – stockholder (L. Griffin))	9,205
<b>Total</b>	<b>\$12,575</b>
Subordinated borrowings	Amount
(subordinated loan – stockholder (R. Gold))	\$100,000
<b>Total</b>	<b>\$100,000</b>

## Notes to Financial Statements

### December 31, 2005

#### Note B – CONTINUED

#### Related Party Transactions

Operating Expenses – discretionary bonus/compensation included in Commissions and floor brokerage fees	<u>Amount</u>
(discretionary bonus/compensation – negative expense with change in estimate by Company management relating to prior year accrual – stockholder (R. Berry))	\$(5,665)
(discretionary bonus/compensation – negative expense with change in estimate by Company management relating to prior year accrual – stockholder (R.M. Shino))	(6,668)
(discretionary bonus/compensation – negative expense with change in estimate by Company management relating to prior year accrual – stockholder (J. Gold))	(10,019)
Operating Expenses – included as part of Other expenses	<u>Amount</u>
(contract labor – independent contractor – Financial Operations Principal for Company (M. Daniel))	\$15,900
Other revenue (expenses) – Interest expense	<u>Amount</u>
(interest expense – stockholder (R. Gold))	\$17,613
(interest expense – negative expense with change in estimate by Company management to not accrue interest on unpaid accrued interest payable for subordinated loan – stockholder (L. Griffin))	(13,699)
(interest expense – stockholder (R.M. Shino))	636

One stockholder that is an officer of the Company is paid a salary and broker commissions. One other stockholder is paid only commissions.

## Notes to Financial Statements

### December 31, 2005

#### Note C - Securities Owned

Securities owned are classified as trading securities. Marketable securities are recorded at published market value. Securities not readily marketable include investment securities that cannot be offered or sold because of restriction or conditions applicable to the securities or that cannot be publicly offered or sold unless registration has been affected under the Securities Exchange Act of 1934. At December 31, 2005, securities not readily marketable consist of restricted stocks and warrants, which are stated at their estimated fair market value, as determined by management.

#### Note D - Property and Equipment

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

Furniture and Fixtures	\$ 89,191
Computers and Equipment	48,615
Computer Software	914
Leasehold Improvements	0
	<u>138,720</u>
Accumulated Depreciation	(118,983)
<b>Total</b>	<u><u>\$ 19,737</u></u>

The Company has a capital lease for computers and equipment and these assets have a cost of \$9,970 and an accumulated depreciation of \$5,091 as of December 31, 2005.

## Notes to Financial Statements

### December 31, 2005

#### Note E – Long-Term Obligations

Long-term obligations (obligations under capital lease) consisted of the following at December 31, 2005:

Obligation under capital lease, secured by capital assets, monthly payments of \$339 including interest at 17.804% per annum, due through November 2006	\$ 3,698
	<u>3,698</u>
Current Portion	<u>(3,698)</u>
<b>Total</b>	<b>\$ 0</b>

Future minimum annual principle payments on long-term debt are as follows at December 31, 2005: 2006 - \$3,698.

#### Note F – Subordinated Borrowings and Secured Demand Notes

The notes due to related parties, which are subordinated to claims of general creditors and secured by demand notes, are as follows at December 31, 2005:

Subordinated Note, 8%, Due February 2006 (R. Gold)	\$100,000
<b>Total</b>	<b>\$100,000</b>

The subordinated borrowings are due to certain of the Company's stockholders and are covered by agreements approved by the National Association of Securities Dealers, Inc., thus they are available in computing net capital under the Securities and Exchange Commission's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid. All borrowings are secured by related demand notes totaling \$100,000 at December 31, 2005.

R. Gold plans to terminate her subordinated note in amount of \$100,000 when it matures in February 2006 (approximately date of independent auditors' report).

Interest on the subordinated borrowings is not due until expiration of these notes. Interest expense recorded during the fiscal year ended December 31, 2005 on subordinated borrowings was approximately \$4,550 (including \$17,613, \$(13,699) and \$636 for R. Gold, L. Griffin and R.M. Shino, respectively). Company management has recorded a change in estimate at December 31, 2005 relating to L. Griffin and a subordinated borrowing for which the principal had been paid in full in a previous year. It was decided by Company management that interest expense would not be accrued on unpaid accrued interest on subordinated borrowings when principal had been paid off in full.

**Notes to Financial Statements**  
**December 31, 2005****Note G –**  
**Commitments and Contingencies***Operating Leases*

The Company conducts its Scottsdale, Arizona offices and leases equipment under operating leases that are currently to expire May 2006 and May 2007, respectively. The following is a schedule by years of future minimum rental payments required under the Company's leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2005.

Year Ending December 31,	Amount
2006	\$ 37,897
2007	2,099
2008	0
2009	0
2010 and thereafter	0
<b>Total</b>	<b>\$39,996</b>

Total rent expense for the year ended December 31, 2005 was \$86,433.

## Notes to Financial Statements

### December 31, 2005

#### Note G – CONTINUED

#### Commitments and Contingencies

##### *Capital Leases*

The Company has capital lease obligations for furniture and fixture items and for computers and equipment.

The following is a schedule by years of future minimum payments required under the capital lease obligations are as follows:

For the year ended December 31,	
2006	\$ 4,064
Total minimum lease payments	4,064
Less: amount representing interest	(366)
Present value of minimum lease payments	3,698
Less: current portion	(3,698)
<b>Long-term capital lease obligation</b>	<b>\$0</b>

##### *Litigation and/or Arbitrations*

The Company may be a party to various legal actions arising from the normal course of business. In management's opinion, the Company has adequate legal defenses, and does not believe the outcome of such legal actions will materially affect the Company's operation and/or financial position. The Company had legal settlements during 2005 with settled arbitrations, etc. resulting in various legal settlements and legal fees recorded on the books of the Company during 2005.

##### *Governmental Regulation*

The Company is subject to federal and state provisions regulating brokers and dealers. Compliance with these provisions has not had a material effect in 2005 upon the capital expenditures, net income, financial condition or competitive position of the Company although the NASD did assess a fine to the Company in 2005 relating to its 2004 examination resulting in a fine of \$45,050 (recorded as part of other operating expenses and a portion included in accounts payable and accrued liabilities as of December 31, 2005) plus accrued interest on the unpaid balance. The Company paid a \$15,000 down payment with a \$30,050 remaining balance due with scheduled semi-annual payments. The final payment for this fine is due December 2006 and the unpaid balance has an interest rate of 9%, compounded semi-annually. The Company's management believes that its current practices and procedures comply with applicable federal and state requirements.

**Notes to Financial Statements**  
**December 31, 2005**

**Note G – CONTINUED**  
**Commitments and Contingencies**

*Concentration of Risk - Geographic Concentration*

The Company currently has customers in approximately 45 states within the United States (higher volumes of revenues relating to customers in Arizona, New York and California) and approximately 12 foreign countries (higher volumes of activity in United Kingdom, Jamaica and Germany) with no concentrations of revenues in any specific geographical location.

*Concentration of Risk – Credit Risk*

Financial instruments that potentially subject the Company to credit risk include cash balances at banks, which exceeded the related federal deposit insurance by \$60,989 as of December 31, 2005.

*Off-Balance-Sheet Risk*

The Company introduces all customer transactions in securities traded on U.S. securities markets to two other New York Stock Exchange member firms on a fully-disclosed basis. The agreements between the Company and their clearing broker dealers provide 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 dealer's guidelines and industry standards. The Company monitors required margin levels daily and, pursuant to such guidelines, require the customer to deposit additional collateral, or to reduce positions when necessary.

**Note H –**  
**Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform (SEC) Net Capital Rule (rule 15c3-1), which requires the maintenance of minimum net capital and requires a specific ratio of aggregate indebtedness to net capital, both as defined. At December 31, 2005, the Company had net capital of \$340,929, which was \$290,929 in excess of its required net capital of \$50,000. The Company's net capital ratio was 32 to 1. The net capital ratio in 2005 is in excess of the required ratio of 15 to 1.

**Notes to Financial Statements**  
**December 31, 2005**

**Note I -**  
**Fair Values of Financial Instruments**

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments", requires that the Company disclose estimated fair values for its financial instruments. The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

*Cash and Cash Equivalents*

The carrying amount reported in the statement of financial position for cash and cash equivalents approximates their fair value because of the short maturity of these instruments.

*Receivables*

The fair value of receivables due from brokers, dealers and clearing organizations and from draws on broker commissions and advances is not determinable since these financial instruments are not readily marketable. Management maintains an allowance for doubtful receivables relating to these receivables.

*Secured Demand Notes*

The fair value of secured demand notes is not determinable since these financial instruments are not readily marketable.

*Payables: Brokers, dealers and clearing organizations*

The fair value of the payables: brokers, dealers and clearing organizations is not determinable since these financial instruments are not readily marketable.

*Accounts Payable and Accrued Liabilities*

The fair value of the accounts payable and accrued liabilities is not determinable since these financial instruments are not readily marketable.

*Obligation under capital lease*

The carrying amount reported in the statement of financial condition for obligation under capital lease approximates its fair value because the interest rates on these instruments approximates interest rates charged on borrowings with similar risk.

**Notes to Financial Statements**  
**December 31, 2005**

**Note J -**  
**Reclassifications**

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Certain reclassifications have been made to the 2004 statement of financial position to conform to the 2005 presentation. These reclassifications do effect the statement of cash flows for the year ended December 31, 2005 relating to adjustments to reconcile net income to net cash provided by operating activities. The changes mainly relate to spreading of receivables and payables between related parties amounts and unrelated parties amounts. These had been disclosed in notes to the financial statements for 2004 but had not been reported in such detail on the face of the statement of financial position for 2004. Also, payables relating to brokers for commissions, etc. were reclassified from accounts payable and accrued liabilities to a separate section for payables due to brokers, dealers and clearing organizations. Such reclassifications have no effect on the net income for either 2004 or 2005.

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## Additional Information

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**Supplemental Schedule of Computation of Net Capital Under Rule 15c3-1 of the  
Securities and Exchange Commission**

**December 31, 2005**

**Net Capital**

Total stockholders' equity qualified for net capital	\$ 841,488
Additions	
Subordinated liabilities allowable in computations of net capital	<u>100,000</u>
Total capital and allowable subordinated borrowings	941,488
Deductions for non-allowable assets	
Receivables - over 30 days	185,862
Securities - not readily marketable	348,010
Furniture, equipment, and leasehold improvements, net	17,888
Other assets	<u>29,527</u>
Net capital before haircuts on securities positions (tentative net capital)	<u>360,201</u>
Haircuts on securities (computed, where applicable, pursuant to Rule 15c3-1 (f))	
Other securities	(13,273)
Undue concentration	<u>(5,999)</u>
<b>Total</b>	<b><u><u>\$ 340,929</u></u></b>

**Aggregate Indebtedness**

Items Included in Statement of Financial Condition	
Accounts Payable, Accrued Expenses, Short-Term Debt and Unsecured Debt	\$ 102,897
Other Unrecorded Amounts	<u>6,669</u>
	<b><u><u>\$ 109,566</u></u></b>

**Computation of Basic Net Capital Requirement**

Minimum Net Capital Required	<b><u><u>\$ 50,000</u></u></b>
Excess Net Capital	<b><u><u>\$ 290,929</u></u></b>
Ratio: Aggregate Indebtedness to Net Capital	32 to 1

**Supplemental Schedule of Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission (CONTINUED)**

**December 31, 2005**

**Reconciliation with Company's Computation**

(included in Part II of Form 17a-5(a) as of December 31, 2005)

Net Capital, as Reported in Company's Part II (Unaudited Revised FOCUS Report Filed January 24, 2006)	\$ 323,091
Net audit adjustments, if any	17,838
<b>Net Capital Per Above</b>	<b><u>\$ 340,929</u></b>

**Supplemental Schedule of Statement Regarding Rule 15c3-3 of the  
Securities and Exchange Commission**

**December 31, 2005**

The Company is exempt from Rule 15c3-3 pursuant to paragraph (K)(2)(ii).



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

To Board of Directors  
**Berry-Shino Securities, Inc.**  
Scottsdale, Arizona

In planning and performing our audit of the financial statements of **Berry-Shino Securities, Inc.** (the Company) for the year ended December 31, 2005, on which we issued our report dated February 27, 2006, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons 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 an 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 of risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2005, to meet the SEC's objectives.

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



Tempe, Arizona  
February 27, 2006