



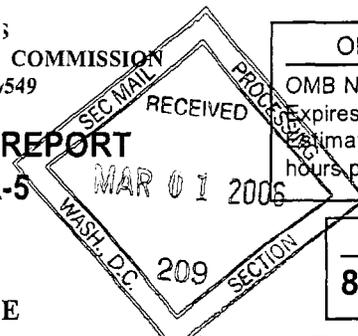
06005364

3 COMMISSION  
17.549

BB 3/17 \*  
AS

|   |  |
|---|--|
| OMB APPROVAL  |  |
| OMB Number: 3235-0123                                   |  |
| Expires: January 31, 2007                               |  |
| Estimated average burden hours per response . . . 12.00 |  |
| SEC FILE NUMBER   |  |
| 8- 42439  |  |

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



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 01/01/2005 AND ENDING 12/31/2005  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

McFADDEN, FARRELL & SMITH, L.P.

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

120 Broadway, 17th Floor

|                   |
|-------------------|
| OFFICIAL USE ONLY |
| -----             |
| FIRM ID. NO.      |

(No. and Street)

New York NY 10271  
(City) (State) (Zip Code)

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

Richard J. Murphy (212) 618-0772

(Area Code- Telephone Number)

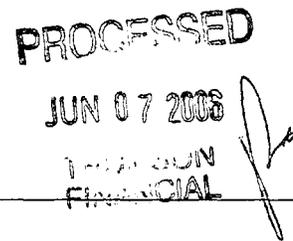
**B. ACCOUNTANT IDENTIFICATION**

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

Goldstein Golub Kessler LLP

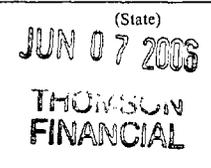
(Name - if individual, state last, first, middle name)

1185 Avenue of the Americas, New York, 10036  
(Address) (City) (State) (Zip Code)



CHECK ONE:

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



|                       |
|-----------------------|
| 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).

SEC 1410 (06-02)

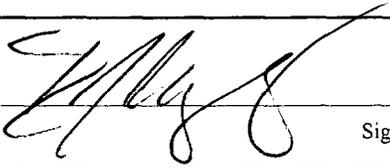
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number

BB  
AS

OATH OR AFFIRMATION

I, Richard J. Murphy swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of McFadden, Farrell & Smith, L.P., 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

  
Signature

  
Notary Public

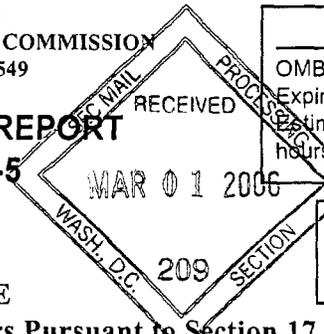
KATHLEEN MILOHA  
Notary Public, State of New York  
No. 01MI4907666  
Qualified in Richmond County  
Commission Expires October 13, 2009

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's 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).

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



|  |                  |
|--|------------------|
| <b>OMB APPROVAL</b>                                  |                  |
| OMB Number:  | 3235-0123        |
| Expires:   | January 31, 2007 |
| Estimated average burden<br>hours per response . . . | 12.00            |

|                        |
|------------------------|
| <b>SEC FILE NUMBER</b> |
| <b>8- 42439</b>        |

**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 01/01/2005 AND ENDING 12/31/2005  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

McFADDEN, FARRELL & SMITH, L.P.

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

120 Broadway, 17th Floor

(No. and Street)

|                          |
|--------------------------|
| <b>OFFICIAL USE ONLY</b> |
| -----                    |
| FIRM ID. NO.             |

New York

NY

10271

(City)

(State)

(Zip Code)

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

Richard J. Murphy

(212) 618-0772

(Area Code- Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Goldstein Golub Kessler LLP

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

1185 Avenue of the Americas,

New York,

NY

10036

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**

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

|                              |
|------------------------------|
| <b>FOR OFFICIAL USE ONLY</b> |
|                              |

\* 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).



**McFADDEN, FARRELL & SMITH, L.P.**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2005**

**GOLDSTEIN GOLUB KESSLER LLP**  
Certified Public Accountants and Consultants

---



# MCFADDEN, FARRELL & SMITH, LP

**CONTENTS**  
**December 31, 2006**

---

|  |              |
|--|--------------|
| <b>Independent Auditor's Report</b>              | <b>1</b>     |
| <b>Statement of Financial Condition</b>          | <b>2</b>     |
| <b>Notes to Statement of Financial Condition</b> | <b>3 - 4</b> |



# GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants



## INDEPENDENT AUDITOR'S REPORT

To the Partners of  
McFadden, Farrell & Smith, L.P.

We have audited the accompanying statement of financial condition of McFadden, Farrell & Smith, L.P. as of December 31, 2005. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement 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, the statement of financial condition referred to above present fairly, in all material respects, the financial position of McFadden, Farrell & Smith, L.P. as of December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

*Goldstein Golub Kessler LLP*

**GOLDSTEIN GOLUB KESSLER LLP**

February 23, 2006

0

1185 Avenue of the Americas Suite 500 New York, NY 10036-2602  
TEL 212 372 1800 FAX 212 372 1801 [www.ggkllp.com](http://www.ggkllp.com)

NEXIA INTERNATIONAL IS A WORLDWIDE NETWORK OF INDEPENDENT ACCOUNTING AND CONSULTING FIRMS

# MCFADDEN , FARREL & SMITH, L.P.

## STATEMENT OF FINANCIAL CONDITION

December 31, 2005

### ASSETS

|   |                  |
|---|------------------|
| Cash  | \$ 21,554        |
| Receivable from Clearing Broker   | 370,095          |
| Furniture, Equipment and Leasehold Improvements, at cost<br>(net of accumulated depreciation and amortization of \$418,421) | 34,536           |
| Other Assets  | 58,949           |
| <b>Total Assets</b>   | <b>\$485,134</b> |

### LIABILITIES AND PARTNERS' CAPITAL

#### Liabilities:

|  |                  |
|--|------------------|
| Compensation and benefits payable              | \$228,433        |
| Accrued expenses and other liabilities         | 35,393           |
| <b>Total liabilities</b>                       | <b>263,826</b>   |
| Partners' Capital                              | 221,308          |
| <b>Total Liabilities and Partners' Capital</b> | <b>\$485,134</b> |

See Notes to Statement of Financial Condition

# MCFADDEN, FARRELL & SMITH, L.P.

## NOTES TO FINANCIAL STATEMENTS December 31, 2005

- 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:**

McFadden, Farrell & Smith, L.P. (the "Company") is a partnership formed pursuant to the laws of the State of Delaware. The Company is a registered broker-dealer with the Securities and Exchange Commission (the "SEC") and is a member of the National Association of Securities Dealers Inc. (the "NASD"). The Company acts primarily as an interdealer broker of fixed income securities.

The Company records transaction in securities and related revenue and expenses on a trade-date basis. The Company clears its transactions through a broker-dealer on a fully disclosed basis.

Depreciation of furniture and equipment is provided for on a straight-line basis over the estimated useful lives of such assets, generally five to seven years. Leasehold improvements are amortized on a straight-line basis over the life of the related leases.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates by management.
- 2. RECEIVABLE FROM CLEARING BROKER:**

The Company's security transactions are cleared through one broker. The clearing broker has the right to charge the Company for unsecured losses that result from a customer's failure to complete security transactions.
- 3. REGULATORY REQUIREMENTS:**

As a registered broker-dealer and member of the NASD, the Company is subject to the Uniform Net Capital Rule 15c3-1 of the Securities and Exchange Commission, which requires the maintenance of minimum net capital of 6-2/3% of aggregate indebtedness, as defined, or \$100,000, whichever is greater. At December 31, 2005, the Company had a net capital of \$127,823, which exceeded the minimum requirement by \$27,823.

The Company is exempt from the provisions of Rule 15c3-3 of the Securities and Exchange Commission since the Company's activities are limited to those set forth in the conditions for exemption appearing in subsection (k)(2)(ii) of that Rule.
- 4. INCOME TAXES:**

As a partnership, the Company is not subject to federal and state income taxes. The Company is subject to New York City Unincorporated Business Tax.
- 5. RELATED PARTY TRANSACTIONS:**

An affiliate provides the Company with various services including use of office space and telecommunications equipment for which the Company is allocated expenses based upon actual costs incurred.

**6. EMPLOYEE  
BENEFIT PLAN:**

The Company has a 401(k) profit-sharing plan.

**7. FINANCIAL  
INSTRUMENTS  
WITH OFF-  
BALANCE-SHEET  
RISK:**

The Company may be exposed to off-balance-sheet risk in the event a counterparty is unable to fulfill its contractual obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

Pursuant to the terms of the clearing agreement between the Company and the clearing broker, the clearing broker has the right to charge the Company for losses that result from a counterparty's failure to fulfill its contractual obligations. As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing broker, the Company believes there is no maximum amount assignable to this right. At December 31, 2005, the Company has recorded no liabilities with regard to the right.

In addition, the Company has the right to pursue collection or performance from the counterparties that do not perform under their contractual obligations. The Company monitors the credit standing of the clearing broker and all counterparties with which it conducts business.



**McFADDEN, FARRELL & SMITH, L.P.**

**INDEPENDENT AUDITOR'S  
SUPPLEMENTARY REPORT ON  
INTERNAL CONTROL**

**DECEMBER 31, 2005**

**GOLDSTEIN GOLUB KESSLER LLP**

Certified Public Accountants and Consultants

---





# GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants



## **INDEPENDENT AUDITOR'S SUPPLEMENTARY REPORT ON INTERNAL CONTROL**

To the Partners of  
McFadden, Farrell & Smith, L.P.

In planning and performing our audit of the financial statements and supplemental schedules of McFadden, Farrell & Smith, L.P. (the "Company") 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 (the "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 customers 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 paragraphs. 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 paragraphs 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 accounting principles generally accepted in the United States of America. Rule 17a-5(g) and Regulation 1.16 list additional objectives of the practices and procedures listed in the preceding paragraphs.

1185 Avenue of the Americas Suite 500 New York, NY 10036-2602  
TEL 212 372 1800 FAX 212 372 1801 [www.ggkllp.com](http://www.ggkllp.com)

NEXIA INTERNATIONAL IS A WORLDWIDE NETWORK OF INDEPENDENT ACCOUNTING AND CONSULTING FIRMS



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 one or more of the specific internal control components does not reduce to a relatively low level the risk that misstatements caused by 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 and third paragraphs 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 recognizes that it is not practicable in an organization the size of McFadden, Farrell & Smith, L.P. to achieve all the divisions of duties and cross-checks generally included in a system of internal control and that, alternatively, greater reliance must be placed on surveillance by management.

This report is intended solely for the information and use of management, the SEC, the National Association of Securities Dealers, Inc. and other regulatory agencies which 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.

*Goldstein Golub Kessler LLP*

**GOLDSTEIN GOLUB KESSLER LLP**

February 23, 2006