

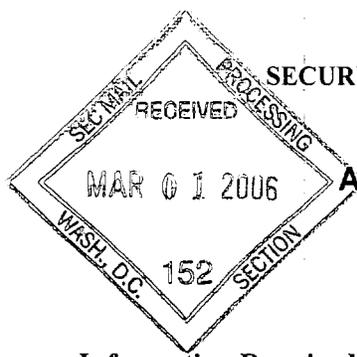
KO  
3/24

AB 22406



06005884

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549



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

SEC FILE NUMBER  
8-51278

**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: SYNERGY INVESTMENT GROUP, LLC

Official Use Only  
FIRM ID. NO.

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

1660 DALE EARNHARDT BOULEVARD  
(No. and Street)

KANNAPOLIS NORTH CAROLINA 28083  
(City) (State) (Zip code)

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

TIMOTHY J. BAIN (704) 938-2010  
(Area Code-Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

FAULKNER AND THOMPSON, PA  
(Name-if individual, state, last, first, middle name)

226 NORTH PARK DRIVE, #110 ROCK HILL SC 29730  
(Address) (City) (State) (Zip Code)

**CHECK ONE:**

- Certified Public Accountant
- Public Accountant
- Accountant not resident in U.S. or any of its possessions.

**PROCESSED**  
MAY 31 2006  
THOMSON  
FINANCIAL

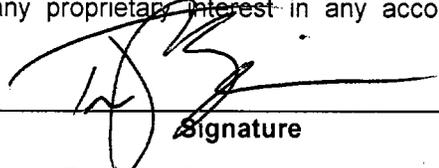
**FOR OFFICIAL USE ONLY**

\*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).

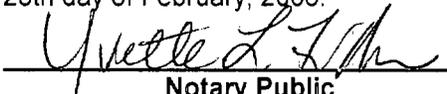
109  
5/30

## Oath or Affirmation

I, **Timothy J. Bain**, swear (or affirm) that, to the best of my knowledge and belief, the accompanying financial statements and supporting schedules pertaining to the firm of **Synergy Investment Group, LLC**, 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 as that of a customer.

  
\_\_\_\_\_  
Signature  
\_\_\_\_\_  
Financial Operations Principal  
\_\_\_\_\_  
Title

Subscribed and sworn to before me this  
28th day of February, 2006.

  
\_\_\_\_\_  
Notary Public



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

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income.
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Member's Equity.
- (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 15c3-3 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 Accounting Control.

\*For conditions of confidential treatment of certain portions of this filing, see Section 240.17a5(e)(3).

Securities and Exchange Commission

Washington, D.C. 20549

Annual Audit Report

For the year January 1, 2005 to December 31, 2005

Synergy Investment Group, LLC

(Name of Respondent)

1660 Dale Earnhardt Boulevard  
Kannapolis, North Carolina 28083

(Address of Principal Executive Officer)

Timothy J. Bain

Synergy Investment Group, LLC  
1660 Dale Earnhardt Boulevard  
Kannapolis, North Carolina 28083

(Name and address of person authorized to receive  
notices and communications from the Securities  
and Exchange Commission)

**SYNERGY INVESTMENT GROUP, LLC  
REPORT ON AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

---

**TABLE OF CONTENTS**

	<u>Page</u>
<b>AUDITED FINANCIAL STATEMENTS</b>	
Report of Independent Auditors .....	1
Statement of Financial Condition .....	2
Statement of Income.....	3
Statement of Changes in Member's Equity.....	4
Statement of Cash Flows .....	5
Notes to Financial Statements.....	6
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule I – Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission .....	9
Independent Auditors' Report on Internal Accounting Control Required by SEC Rule 17a-5 .....	10

**FAULKNER AND THOMPSON, P.A.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

ROBERT E. FAULKNER  
T. DALE THOMPSON

CERTIFIED IN S.C. AND N.C.

226 NORTHPARK DRIVE, SUITE 110  
POST OFFICE BOX 2456  
ROCK HILL, SOUTH CAROLINA 29732  
TELEPHONE: 803-324-3160  
FACSIMILE: 803-324-2767

NORTH CAROLINA:  
10800 SIKES PLACE, SUITE 300  
CHARLOTTE, NORTH CAROLINA 28277  
TELEPHONE: 704-541-6180  
FACSIMILE: 704-846-3103

**REPORT OF INDEPENDENT AUDITORS**

The Manager and Member  
Synergy Investment Group, LLC

We have audited the accompanying statement of financial condition of Synergy Investment Group, LLC as of December 31, 2005, and the related statements of income, changes in member's equity 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Synergy Investment Group, LLC as of December 31, 2005 and the results of its operations and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I is presented for the 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 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.

*Faulkner and Thompson, P.A.*

February 22, 2006

**SYNERGY INVESTMENT GROUP, LLC**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2005**

<b>ASSETS</b>	
<b>ASSETS</b>	
Cash and cash equivalents	\$ 394,675
Receivables from clearing organizations	370,710
Deposits with clearing organizations and others	153,297
Receivables from broker-dealers, net of allowance for uncollectible accounts of \$85,000	116,720
Other receivables	4,000
Receivable from related parties	8,432
Prepaid expenses	38,185
Furniture, equipment and leasehold improvements, net of accumulated depreciation	<u>13,243</u>
 Total assets	 <u>\$ 1,099,262</u>
 <b>LIABILITIES AND MEMBER'S EQUITY</b>	
<b>LIABILITIES</b>	
Payables to broker-dealers	\$ 390,684
Accounts payable and accrued expenses	<u>188,319</u>
 Total liabilities	 579,003
 <b>MEMBER'S EQUITY</b>	 <u>520,259</u>
 Total liabilities and member's equity	 <u>\$ 1,099,262</u>

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

SYNERGY INVESTMENT GROUP, LLC  
STATEMENT OF INCOME  
For the year ended December 31, 2005

REVENUE	
Commission and related income	\$ 11,370,963
Investment advisory fees	<u>244,515</u>
Total revenue	<u>11,615,478</u>
OPERATING EXPENSES	
Commission, employee compensation and benefits	9,389,282
Clearing and execution	1,043,825
Management fees	440,000
Insurance	187,565
Professional fees	90,377
License and registration	150,831
Advertising and promotion	96,831
Other expenses	63,176
Rent and occupancy	59,728
Litigation	78,349
Travel and entertainment	33,094
Office expense	24,749
Bad debt	20,000
Telephone and communications	13,393
Depreciation	<u>4,766</u>
Total operating expenses	<u>11,695,966</u>
Net income	\$( <u>80,488</u> )

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

SYNERGY INVESTMENT GROUP, LLC  
STATEMENT OF CHANGES IN MEMBER'S EQUITY  
For the year ended December 31, 2005

---

MEMBER'S EQUITY, BEGINNING OF YEAR	\$ 600,747
Net income	( <u>80,488</u> )
MEMBER'S EQUITY, END OF YEAR	\$ <u>520,259</u>

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

SYNERGY INVESTMENT GROUP, LLC  
STATEMENT OF CASH FLOWS  
For the year ended December 31, 2005

---

CASH FLOW FROM OPERATING ACTIVITIES	
Net income	\$( 80,488 )
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation and amortization	4,766
Decrease in deposits with clearing organizations	1,447
Decrease in receivables from clearing organizations	8,969
Decrease in other receivables	12,348
Decrease in prepaid expenses	1,290
Decrease in receivable from related parties	96,053
Increase in payables	<u>50,017</u>
Net cash provided by operating activities	<u>94,402</u>
CASH FLOW FROM INVESTING ACTIVITIES	
Purchase of furniture and equipment	( <u>10,286</u> )
Net cash used for investing activities	( <u>10,286</u> )
Increase in cash	84,116
CASH, BEGINNING OF YEAR	<u>310,559</u>
CASH, END OF YEAR	<u>\$ 394,675</u>

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

**SYNERGY INVESTMENT GROUP, LLC  
NOTES TO FINANCIAL STATEMENTS**

---

**NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS**

Synergy Investment Group, LLC (the *Company*) is registered as a broker-dealer with the Securities and Exchange Commission (*SEC*) and is a member of the National Association of Securities Dealers, Inc. (*NASD*). The Company was formed on June 24, 1998 as a North Carolina Limited Liability Company and received its broker-dealer status June 25, 1999. As a limited liability company, members have limited liability for certain acts. The Company's charter will terminate in the year 2099. The Company has offices in the southeastern United States and throughout other areas in the United States. The Company's primary source of revenue is derived from providing brokerage services and electronic trading facilities to customers who are predominantly middle and upper income individuals and small and middle-market businesses. The Company clears all of its customer transactions through other broker-dealers on a fully disclosed basis.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Cash and Cash Equivalents**

The Company considers highly liquid investments with original maturities of less than ninety days to be cash equivalents. At December 31, 2005, \$153,297 of the Company's cash balance was on deposit at a clearing brokers and was therefore restricted. This amount is not considered a cash equivalent.

**Securities Transactions**

Securities transactions, commission revenue and commission expenses are recorded on a trade-date basis. Unrealized gains and losses on securities transactions, if any, are included in riskless principal transactions in the statement of operations. Marketable securities are recorded at market value.

**Receivables from Brokers or Dealers**

Receivables from brokers or dealers are reported at the amount management expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off all balances when amounts are deemed uncollectible.

**Furniture, Equipment and Leasehold Improvements**

Furniture and equipment is recorded at cost. Minor additions and renewals are expensed in the year incurred. Major additions and renewals are capitalized and depreciated using the straight-line method over the estimated useful lives of the related assets, which range from three to forty years. Leasehold improvements are amortized over the lesser of their economic useful lives or the expected term of the related lease.

**Commissions**

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

**Investment Advisory Income**

Investment advisory fees are received in advance on a quarterly basis but are recognized as earned.

**SYNERGY INVESTMENT GROUP, LLC  
NOTES TO FINANCIAL STATEMENTS**

---

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Use of Estimates**

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

**NOTE 3 – FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Furniture, equipment and leasehold improvements consisted of the following at December 31, 2005:

Computer and office equipment	\$ 80,505
Computer software	1,775
Furniture and fixtures	6,601
Leasehold improvements	<u>3,300</u>
	92,181
Less: Accumulated depreciation	<u>78,938</u>
	<u>\$ 13,243</u>

Depreciation for the year ended December 31, 2005 was \$4,766.

**NOTE 4 – INCOME TAXES**

The Company, as a limited liability company under the Internal Revenue Code and applicable state statutes, has elected to be treated as a partnership for income tax purposes. Any income or loss of the Company flows through to the member to be taxed at the member's respective rates. Accordingly, no provision has been made for federal or state income taxes in the accompanying financial statements.

**NOTE 5 – RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2005, the Company paid approximately \$85,000 for certain employee-related costs and other operational costs of related parties.

The Company rents a facility from a related party on a month-to-month basis. Rent expense in 2005 amounted to \$18,000.

The Company paid management fees totaling \$440,000 to its managing member during 2005.

At December 31, 2005, amounts due from related parties amounted to \$8,432.

**SYNERGY INVESTMENT GROUP, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

---

**NOTE 6 – CONTINGENCIES AND COMMITMENTS**

In some instances, the Company can be held liable for trades that have not been closed by certain company representatives. However, management believes the likelihood of such an occurrence is remote, and accordingly, no provision has been recorded in these financial statements.

The Company is a defendant in litigation incidental to its securities business. Management of the Company, after consultation with outside legal counsel, believes that except for the following, the resolution of these lawsuits will not have a material adverse effect on the Company's financial position. An accrual of \$50,000 has been included in the financial statements based upon management's estimate of expense related to this matter.

**NOTE 7 – CONCENTRATIONS OF CREDIT RISK**

The Company does not carry accounts for customers or perform custodial functions related to customers' securities. The Company introduces all of its customer transactions, which are not reflected in these financial statements, to its clearing broker, who maintains the customer accounts and clears the customer transactions. Additionally, this clearing broker provides the clearing and depository operations for the Company's proprietary securities transactions. These activities may expose the Company to off-balance-sheet risk in the event that the customers do not fulfill their obligations with the clearing broker, as the Company has agreed to indemnify the clearing broker for any resulting losses.

The Company performs ongoing credit evaluations of its customers' financial condition as part of the lending process. No single customer accounts for greater than one percent of total revenue.

The Company's cash consists primarily of funds in money market accounts and time deposits. At certain times the Company has cash balances in excess of federally insured limits. Concentration of credit risk with respect to cash is limited due to the fact the Company restricts investing cash to only highly rated financial institutions.

**NOTE 8 – RETIREMENT PLAN**

The Company implemented a Simple IRA Plan for the benefit of its employees. The Plan requires the Company to make a matching contribution equal to the salary reduction contribution of each eligible employee, up to a maximum of three percent of the eligible employee's compensation. The Company contributed approximately \$29,400 to the Plan for the year ended December 31, 2005.

**NOTE 9 – NET CAPITAL REQUIREMENT**

As a registered broker-dealer, the Company is subject to the Securities and Exchange Commission Uniform Net Capital 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) not exceed 15 to 1.

At December 31, 2005, the Company had net capital (as defined) of \$339,679, which exceeded the minimum net capital requirements by \$289,679. The Company's ratio of aggregate indebtedness to net capital was 1.7 to 1 at December 31, 2005.

**SUPPLEMENTARY INFORMATION**

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

**As of December 31, 2005**

**SYNERGY INVESTMENT GROUP, LLC**  
**SCHEDULE I – COMPUTATION OF NET CAPITAL UNDER**  
**RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION**  
**As of December 31, 2005**

<b>Net Capital</b>	
Total member's equity	\$ 520,259
Deductions and/or charges:	
Nonallowable assets:	
Receivables from related parties	( 8,432 )
Furniture, equipment and leasehold improvements, net	( 13,243 )
Other assets	( <u>158,905</u> )
Net capital	\$ <u><u>339,679</u></u>
<b>Aggregate Indebtedness</b>	
Items included in the statement of financial condition:	
Payables to broker-dealers	\$ 390,684
Accounts payable, accrued expenses and other liabilities	<u>188,319</u>
Aggregate indebtedness	\$ <u><u>579,003</u></u>
<b>Computation of Basic Net Capital Requirements</b>	
6-2/3% of aggregate indebtedness	\$ <u><u>38,600</u></u>
<b>Minimum Net Capital Requirement</b>	\$ <u><u>50,000</u></u>
<b>Net Capital Requirement</b>	\$ <u><u>50,000</u></u>
<b>Excess Net Capital</b>	\$ <u><u>289,679</u></u>
<b>Percentage of Aggregate Indebtedness to Net Capital</b>	<u><u>170</u></u> %
<b>Excess Net Capital at 1000%</b>	\$ <u><u>281,778</u></u>
<b>Reconciliation with Company's Computation (included in Part II of Form X-17A-5 as of December 31, 2005)</b>	
Net capital as reported in Company's Part II (unaudited) FOCUS Report	\$ 371,690
Audit adjustment to cash	26,826
Audit adjustment to accounts receivable	26,697
Audit adjustment to payables	( 69,985 )
Adjustments related to furniture, equipment and leasehold improvements	( 13,176 )
Other	( <u>2,373</u> )
Net capital per above	\$ <u><u>339,679</u></u>

**FAULKNER AND THOMPSON, P.A.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

ROBERT E. FAULKNER  
T. DALE THOMPSON

CERTIFIED IN S.C. AND N.C.

226 NORTHPARK DRIVE, SUITE 110  
POST OFFICE BOX 2456  
ROCK HILL, SOUTH CAROLINA 29732  
TELEPHONE: 803-324-3160  
FACSIMILE: 803-324-2767

NORTH CAROLINA:  
10800 SIKES PLACE, SUITE 300  
CHARLOTTE, NORTH CAROLINA 28277  
TELEPHONE: 704-541-6180  
FACSIMILE: 704-846-3103

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

The Manager and Member  
Synergy Investment Group, LLC

In planning and performing our audit of the financial statements and supplemental schedule of Synergy Investment Group, LLC (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 (*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 criteria 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 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 accordance with U.S. generally accepted accounting principles. Rule 17a-5(g) lists additional criteria of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control or the practices and procedures referred to above, misstatements due to errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that internal control may become inadequate because of changes in conditions, or that the effectiveness of its 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 errors 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 procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that meet the criteria 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 managing member, management, the SEC, the NASD 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.

*Faulkner and Thompson, P.A.*

February 22, 2006