

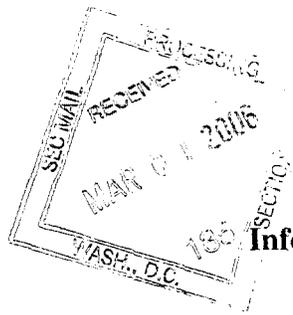


UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL
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hours per response . . . 12.00

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3/29

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

SEC FILE NUMBER
8-16560

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:
DARWOOD ASSOCIATES INC.

OFFICIAL USE ONLY
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
991 U.S. HIGHWAY 22 W.

(No. and Street)

BRIDGEWATER NJ 08807
(City) (State) (Zip Code)

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

JULIUS RENDINARO (908) 595-2189
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

BARRY J., CHARLES
(Name - if individual, state last, first, middle name)

1 NORTH END AVENUE, SUITE 1201, NEW YORK NY 10282
(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 15 2006

FOR OFFICIAL USE ONLY
THOMSON
FINANCIAL

* 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(3-91)

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
4/28

OATH OR AFFIRMATION

I, Julius Rendinaro, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Darwood Associates 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:

Julius Rendinaro

 Signature

Prop

 Title

Marie A. Backes

 Notary Public

MARIE A. BACKES
 NOTARY PUBLIC, State of New York
 No. 43-6126085
 Qualified in Richmond County
 Commission Expires March 30, 2007

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 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 or 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 Supplement 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 the filing, see section 240.17a-5(e)(3).

FOCUS REPORT

OMB No. 3235-0123
(5-31-87)

FORM X-17A-5

(Financial and Operational Combined Uniform Single Report)

PART IIA 12

3/91

(Please read instructions before preparing Form.)

This report is being filed pursuant to (Check Applicable Block(s)):

1) Rule 17a-5(a) 16

2) Rule 17a-5(b) 17

3) Rule 17a-11 18

4) Special request by designated examining authority 19

5) Other 26

NAME OF BROKER-DEALER

Darwood Associates Inc. 13

SEC FILE NO.

8-16560 14

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

991 U.S. Highway 22 W. 20

FIRM ID NO.

13-2682784 15

Bridgewater 21 **NJ** 22 **08807** 23

FOR PERIOD BEGINNING (MM/DD/YY)

01/01/05 24

(City) (State) (Zip Code)

AND ENDING (MM/DD/YY)

12/31/05 25

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

(Area Code) - Telephone No.

Julius Rendinaro 30

(908) 595-2189 31

NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT:

OFFICIAL USE

32

33

34

35

36

37

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39

DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNTS?

YES 40

NO 41

CHECK HERE IF RESPONDENT IS FILING AN AUDITED REPORT

42

Execution:

The registrant/broker or dealer submitting this Form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated this 21st day of FEB 2006

Manual signatures of:

1) Julius Rendinaro
Principal Executive Officer or Managing Partner

2) _____
Principal Financial Officer or Partner

3) _____
Principal Operations Officer or Partner

ATTENTION - Intentional misstatements or omissions of facts constitute
Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 78:(a))

BARRY J. CHARLES

CERTIFIED PUBLIC ACCOUNTANT

ONE NORTH END AVENUE
SUITE 1201
WORLD FINANCIAL CENTER
NEW YORK, NEW YORK 10282-1101
PHONE: (212) 845-5050
FAX: (212) 845-4197

Darwood Associates Inc.
991 U.S. Highway 22 W.
Bridgewater, New Jersey 08807

Gentlemen:

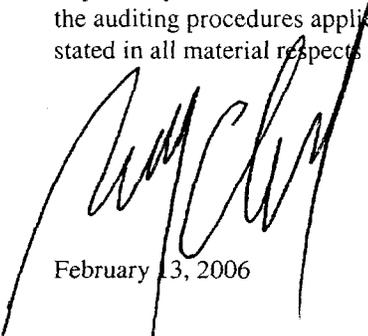
I have audited the accompanying statement of financial condition of Darwood Associates Inc. (the "Company") as of December 31, 2005 and the related statements of income (loss), changes in ownership equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the year 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted this audit in accordance with generally accepted auditing standards, including a review of the system of internal control and procedures for safeguarding securities. There were no material inadequacies in the internal control of the Company.

Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Darwood Associates Inc. as of December 31, 2005, and the results of their operations and their cash flows for the year then ended in conormity with accounting principles generally accepted in the United States.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, III, and IV is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



February 13, 2006

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER

Darwood Associates Inc.

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**STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING AND
CERTAIN OTHER BROKERS OR DEALERS**

as of (MM/DD/YY)

12/31/05

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SEC FILE NO.

8-16560

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Consolidated

198

Unconsolidated

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ASSETS

	<u>Allowable</u>		<u>Non-Allowable</u>		<u>Total</u>
1. Cash	\$ 48,645	200			\$ 48,645 750
2. Receivables from brokers or dealers:					
A. Clearance account	25,695	295	424		
B. Other		300		\$ 550	26,119 810
3. Receivables from non-customers		355	-	600	- 830
4. Securities and spot commodities owned, at market value:					
A. Exempted securities		418			
B. Debt securities		419			
C. Options		420			
D. Other securities		-			
E. Spot commodities		430			- 850
5. Securities and/or other investments not readily marketable:					
A. At cost \$ 6,264		130			
B. At estimated fair value		440	6,264	610	6,264 860
6. Securities borrowed under subordination agreement's and partners' individual and capital securities accounts, at market value:		460		630	880
A. Exempted securities \$		150			
B. Other securities \$		160			
7. Secured demand notes market value of collateral:		470		640	890
A. Exempted securities \$		170			
B. Other securities \$		180			
8. Memberships in exchanges:					
A. Owned, at market \$		190			
B. Owned, at cost				650	
C. Contributed for use of the company, at market value				660	900
9. Investment in and receivables from affiliates, subsidiaries and associated partnerships		480		670	910
10. Property, furniture, equipment, leasehold improvements and rights under lease agreements, at cost-net of accumulated depreciation and amortization		490	-	680	- 920
11. Other assets SECURITY DEPOSIT		535	591	735	591 930
12. TOTAL ASSETS	\$ 74,340	540	\$ 7,279	740	\$ 81,619 940

OMIT PENNIES

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER

as of 12/31/05

Darwood Associates Inc.

**STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING
AND CERTAIN OTHER BROKERS OR DEALERS**

LIABILITIES AND OWNERSHIP EQUITY

	<u>Liabilities</u>	<u>Non-A.I. Liabilities</u>	<u>Total</u>
3. Bank loans payable	\$ 1045	\$ 1255	\$ 1470
4. Payable to brokers or dealers:			
A. Clearance account	1114	1315	1560
B. Other	1115	1305	1540
5. Payable to non-customers	1155	1355	1610
6. Securities sold not yet purchased, at market value:		1360	1620
7. Accounts payable, accrued liabilities, expenses and other	14,143 1205	1385	14,143 1685
8. Notes and mortgages payable:			
A. Unsecured	36,901 1210		36,901 1690
B. Secured	1211	1390	1700
9. Liabilities subordinated to claims of general creditors:			
A. Cash borrowings		1400	1710
1. from outsiders \$	970		
2. Includes equity subordination (15c3-1 (d)) of..... \$	980		
B. Securities borrowings, at market value: from outsiders \$	990	1410	1720
C. Pursuant to secured demand note collateral agreements			
1. from outsiders \$	1000		
2. Includes equity subordination (15c3-1 (d)) of..... \$	1010	1420	1730
D. Exchange memberships contributed for use of company, at market value		1430	1740
E. Accounts and other borrowings not qualified for net capital purposes	1220	1440	1750
10. TOTAL LIABILITIES	\$ 51,044 1230	\$ 1450	\$ 51,044 1760

Ownership Equity

1. Sole Proprietorship		\$ 1770
2. Partnership (limited partners)	\$ 1020	1780
3. Corporation:		
A. Preferred stock		1791
B. Common Stock	50,000	1792
C. Additional paid-in capital		1793
D. Retained earnings	(19,425)	1794
E. Total	30,575	1795
F. Less capital stock in treasury	()	1796
4. TOTAL OWNERSHIP EQUITY		\$ 30,575 1800
5. TOTAL LIABILITIES AND OWNERSHIP EQUITY		\$ 81,619 1810

OMIT PENNIES

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER

Darwood Associates Inc.

For the period (MMDYY) from	01/01/05	3932	to	12/31/05	3933
Number of months included in this statement		12			3931

Part A

STATEMENT OF INCOME (LOSS)

REVENUE

Commissions:		
a. Commissions on transactions in exchange listed equity securities executed on an exchange	\$ 209,708	3935
b. Commissions on listed option transactions	3,323	3938
c. All other securities commissions	319,270	3939
d. Total securities commissions	532,301	3940
Gains or losses on firm securities trading accounts		
a. From market making in options on a national securities exchange		3945
b. From all other trading		3949
c. Total gain (loss)	-	3950
Gains or losses on firm securities investment accounts		3952
Profit (value is paid or credited)		3955
Revenue from sale of investment company shares		3970
Commodities revenue		3990
Fees for account supervision, investment advisory and administrative services		3975
Other revenue	124	3995
Total revenue	\$ 532,425	4030

EXPENSES

1. Salaries and other employment costs for general partners and voting stockholder officers	\$ 15,966	4120
1. Other employee compensation and benefits	309,684	4115
2. Commissions paid to other broker dealers		4140
3. Interest expense	3,685	4075
a. Includes interest on accounts subject to subordination agreements	4070	
4. Regulatory fees and expenses	3,071	4195
5. Other expenses	191,958	4100
5. Total expenses	\$ 524,364	4200

NET INCOME

7. Net income (loss) before Federal income taxes and items below (Item 9 less 16)	\$ 8,061	4210
3. Provision for Federal income taxes (for parent only)	3,756	4220
3. Equity in earnings (losses) of unconsolidated subsidiaries not included above		4222
a. After Federal income taxes of	4238	
3. Extraordinary gains (losses)		4224
a. After Federal income taxes of	4239	
1. Cumulative effect of changes in accounting principles		4225
2. Net income (loss) after Federal income taxes and extraordinary items	\$ 4,305	4230

MONTHLY INCOME

3. Income (current month only) before provision for Federal income taxes and extraordinary items	\$	4211
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**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER

Darwood Associates Inc.

For the period (MMDDYY) from 01/01/05 to 12/31/05

STATEMENT OF CHANGES IN OWNERSHIP EQUITY
(SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)

Balance, beginning of period		\$	26,270	4240
A. Net income (loss)			4,305	4250
B. Additions (Includes non-conforming capital of	\$		4262	4260
C. Deductions (Includes non-conforming capital of	\$		4272	4270
Balance, end of period (From item 1800)		\$	30,575	4290

STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED
TO CLAIMS OF GENERAL CREDITORS

Balance, beginning of period		\$		4300
A. Increases				4310
B. Decreases				4320
Balance, end of period (From item 3520)		\$		4330

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BARRY J. CHARLES

CERTIFIED PUBLIC ACCOUNTANT

DARWOOD ASSOCIATES INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

NET INCOME		\$ 4,305
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Increase in accounts receivable	(3,623)	
Increase in marketable securities	(4,500)	
Decrease in other assets	850	
Decrease in accounts payable	<u>(11,038)</u>	
Total Adjustments		(18,311)
NET CASH PROVIDED BY FINANCING ACTIVITIES		
Increase in loans payable		<u>4,465</u>
INCREASE/(DECREASE) IN CASH		(9,541)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		<u>58,186</u>
CASH AND CASH EQUIVALENTS - END OF YEAR		<u>\$ 48,645</u>

SCHEDULE I

FINANCIAL AND OPERATION COMBINED UNIFORM SINGLE REPORT
PART IIA

BROKER OR DEALER

Darwood Associates Inc.

as of **12/31/05**

COMPUTATION OF NET CAPITAL

Total ownership equity from Statement of Financial Condition		\$	30,575	3480
Deduct ownership equity not allowable for Net Capital		()	3490
Total ownership equity qualified for Net Capital			30,575	3500
Add:				
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital				3520
B. Other (deductions) or allowable credits (List)				3525
Total capital and allowable subordinated liabilities		\$	30,575	3530
Deductions and/or charges				
A. Total nonallowable assets from Statement of Financial Condition (Notes B and C)	\$	7,279		3540
B. Secured demand note deficiency				3590
C. Commodity futures contracts and spot commodities-proprietary capital charges				3600
D. Other (deductions) and/or charges				3610
Other additions and/or allowable credits (List)				3630
Net capital before haircuts on securities positions		\$	23,295	3640
Haircuts on securities (computed, where applicable, pursuant to 15c3-1 (f)):				
A. Contractual securities commitments				3660
B. Subordinated securities borrowings				3670
C. Trading and investment securities:				
1. Exempted securities				3735
2. Debt securities				3733
3. Options				3730
4. Other securities				3734
D. Undue Concentration				3650
E. Other (List)				3736
Net capital		\$	23,295	3750

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SCHEDULE II

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA

BROKER OR DEALER

Darwood Associates Inc.

as of 12/31/05

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A

1. Minimum net capital required (6-2/3% of line 19)	\$	3,405	3756
2. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	5,000	3758
3. Net capital requirement (greater of line 11 or 12)	\$	5,000	3760
4. Excess net capital (line 10 less 13)	\$	18,295	3770
5. Excess net capital at 1000% (line 10 less 10% of line 19)	\$	18,190	3780

COMPUTATION OF AGGREGATE INDEBTEDNESS

6. Total A.I. Liabilities from Statement of Financial Condition	\$	51,044	3790
7. Add:			
A. Drafts for immediate credit	\$	3800	
B. Market value of securities borrowed for which no equivalent value is paid or credited	\$	3810	
C. Other unrecorded amounts (List)	\$	3820	3830
8. Total aggregate indebtedness	\$	51,044	3840
9. Percentage of aggregate indebtedness to net capital (line 19 / line 10)	%	219.116%	3850
10. Percentage of debt to debt-equity total computed in accordance with rule 15c3-1 (d)	%		3860

COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT

Part B

2. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits			3870
3. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$		3880
4. Net capital requirement (greater of line 22 or 23)	\$		3760
5. Excess net capital (line 10 less 24)	\$		3910
6. Net capital in excess of: 5% of combined aggregate debit items or \$120,000	\$		3920

OMIT PENNIES

NOTES:

- 1) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
 1. Minimum dollar net capital requirement, or
 2. 6-2/3% of aggregate indebtedness or 2% of aggregate debits if alternate method is used
- 2) Do not deduct the value of securities borrowed under subordination agreements or secured demand note covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.
- 3) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

SCHEDULE III

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA

BROKER OR DEALER

Darwood Associates Inc.

as of 12/31/05

Exemptive Provision Under Rule 15c3-3

an exemption from Rule 15c3-3 is claimed, identify below the section upon

which such exemption is based (check one only)

(k) (1)--\$2500 capital category as per Rule 15c3-1 4550

(k) (2)(A)--"Special Account for the Exclusive Benefit of customers" maintained 4560

(k) (2)(B)--All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm RBC Dain Rauscher, Inc. 4335 4570

(k) (3)--Exempted by order of the Commission 4580

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.

Type of Proposed withdrawal or Accrual See below for code to enter	Name of Lender or Contributor	Insider or Outsider? (In or Out)	Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities)	(MMDDYY) Withdrawal or Maturity Date	Expect to Renew (yes or no)
4600	4601	4602	4603	4604	4605
4610	4611	4612	4613	4614	4615
4620	4621	4622	4623	4624	4625
4630	4631	4632	4633	4634	4635
4640	4641	4642	4643	4644	4645
4650	4651	4652	4653	4654	4655
4660	4661	4662	4663	4664	4665
4670	4671	4672	4673	4674	4675
4680	4681	4682	4683	4684	4685
4690	4691	4692	4693	4694	4695
TOTAL \$			4699	OMIT PENNIES	

Instructions: Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c)(2)(iv)), which could be required by the lender on demand or in less than six months.

WITHDRAWAL CODE:	DESCRIPTION
1.	Equity Capital
2.	Subordinated Liabilities
3.	Accruals
4.	15c3-1(c)(2)(iv) Liabilities

BARRY J. CHARLES

CERTIFIED PUBLIC ACCOUNTANT

SCHEDULE IV

DARWOOD ASSOCIATES INC.

RECONCILIATION OF NET CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2005

Net Capital per Unaudited Report	\$ 34,422
Additional accrued income	-
Additional accrued expenses	<u>(11,127)</u>
Net Capital per Audited Report	<u>\$ 23,295</u>

BARRY J. CHARLES

CERTIFIED PUBLIC ACCOUNTANT

Darwood Associates Inc.

Notes to Financial Statements

December 31, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL INFORMATION

Darwood Associates Inc.. ("Company") is registered as a broker dealer in securities under the Securities Exchange Act of 1934.

B. SECURITIES TRANSACTIONS

Purchases and sales of securities and the related commission revenue and expense are recorded on a trade date basis which is generally three business days before settlement

C. SECURITIES VALUATION

Trading and investment securities are stated at market value with related changes in *unrealized appreciation or depreciation reflected in net earnings.*

D. FIXED ASSETS

Fixed assets are recorded at cost and depreciated over their estimated useful lives; 5 years for computer and office equipment, 7 years for furniture and fixtures, and leasehold improvements of the remaining term of the lease at the time of acquisition.

NOTE 2 - NET CAPITAL REQUIREMENT

The Company is subject to the uniform net capital rule which provides for minimum standards of financial responsibility. These standards basically require that the Company maintain "net capital" as defined. The Company has elected to have all customer transactions cleared through another broker-dealer on a fully disclosed basis. The Company is required to maintain a "net capital" of at least the greater \$5,000 or 6 2/3% of aggregate indebtedness. At December 31, 2005 the Company had capital in excess of the required amount of \$18,295.

BARRY J. CHARLES

CERTIFIED PUBLIC ACCOUNTANT

Darwood Associates Inc.

Notes to Financial Statements

December 31, 2005

NOTE 3 - OTHER ASSETS

The Company purchased 300 warrants divided into four tranches to purchase shares of common stock of The NASDAQ Stock Market Inc. The first two tranches expired worthless. The Company exercised the warrant in the third tranche and paid \$4,500 for 300 shares of restricted stock. The fourth tranche does not expire until June 27, 2006. The warrants and the stock are a non-allowable asset for the purpose of determining net capital. Due to the restrictions placed on the stock and the warrants and the fact that they are non-allowable assets, they are recorded at their cost.

The Company has a \$591 rent security deposit for its office in Plattsburgh, New York.

NOTE 4 - INCOME TAXES

The Company has a current tax liability \$2,464 consisting of \$1,222 for various state and local liabilities and a \$1,242 Federal liability. No deferred asset or liability exists because the only differences between the Company's book and tax income are permanent in character with the exception of a \$1,537 capital loss carryforward. Since the utilization of that carryforward is contingent upon the realization of capital gains which may or may not materialize, no deferred asset has been created.

NOTE 5 - AVAILABILITY OF SECURITIES AND EXCHANGE COMMISSION REPORTS

A copy of the most recent annual report of the Company is available for examination at the principal office of the Company and the regional office of the Securities and Exchange Commission.