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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

SEC FILE NUMBER  
8- 10075

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 January 1, 2005 AND ENDING December 31, 2005  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: C.A. Botzum & Co.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

505 South Main Street, Suite 875

(No and Street)

Orange

California

92868

(City)

(State)

(Zip Code)

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

Charles A. Botzum, Jr.

(714) 973-2322

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Breard & Associates Inc., Certified Public Accountants

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

9010 Corbin Avenue Suite 7

Northridge

CA

91324

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

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

PROCESSED  
JUN 12 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)

SEC 1410 (06-02)

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6/12/06

OATH OR AFFIRMATION

I, Charles A. Botzum, Jr., swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of C.A. Botzum & Co., as of December 31, 20 05, 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:

State of California
County of Orange
Subscribed and sworn (or affirmed) to before me this 28th day of March, 2006
Notary Public

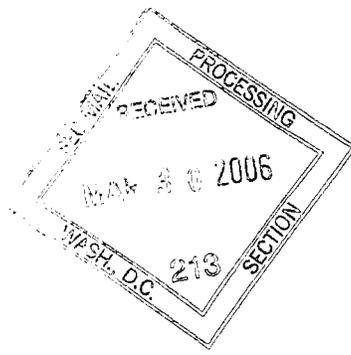
Signature: Charles A. Botzum, Jr.
Title: President



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 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 15c3-3 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.

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



**C.A. Botzum & Co.**

**Report Pursuant to Rule 17a-5 (d)**

**Financial Statements**

**For the Year Ended December 31, 2005**

Independent Auditor's Report

Board of Directors  
C.A. Botzum & Co.

We have audited the accompanying statement of financial condition of C.A. Botzum & Co. ( the Company) as of December 31, 2005 and the related statements of income, changes in stockholders' 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. Our responsibility is to express an opinion on these statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of C.A. Botzum & Co. as of December 31, 2005 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on Schedules I-IV are presented for purposes of additional analysis and is not required as part of the basic financial statements, but as supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subject 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 and in conformity with the rules of the Securities and Exchange Commission.



Breard & Associates, Inc.  
Certified Public Accountants

Northridge, California  
February 13, 2006

***We Focus & Care***<sup>SM</sup>

9010 Corbin Avenue, Suite 7  
Northridge, California 91324  
(818) 886-0940 • Fax (818) 886-1924  
[www.baicpa.com](http://www.baicpa.com)

**C.A. Botzum & Co.**  
**Statement of Financial Condition**  
**December 31, 2005**

**Assets**

Cash	\$ 111,821
Cash and securities segregated under federal and other regulations	22,000
Deposits at clearing organizations	2,500
Receivable from customers	16,161
Receivable from brokers and dealers	2,011
Marketable securities, at market	15,554
Receivable from officer	1,172
Advances to stockholders, collateralized	78,504
Secured demand notes, collateralized by marketable securities	125,000
Prepaid expenses	<u>7,683</u>
<b>Total assets</b>	<b><u>\$ 382,406</u></b>

**Liabilities and Stockholders' Equity**

**Liabilities**

Accounts payable and accrued expenses	\$ 10,784
Payable to brokers	100
Payable to customers	103,731
Liabilities subordinated to claims of general creditors	<u>125,000</u>
<b>Total liabilities</b>	<b>239,615</b>

**Stockholders' equity**

Common stock, \$1 par value, 500,000 shares authorized, 325,000 shares issued and outstanding	325,000
Less excess of par value over consideration	(172,774)
Additional paid-in capital	202,312
Accumulated deficit	<u>(211,747)</u>
<b>Total stockholders' equity</b>	<b><u>142,791</u></b>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$ 382,406</u></b>

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

**C.A. Botzum & Co.**  
**Statement of Income**  
**For the Year Ended December 31, 2005**

**Revenues**

Commissions	\$ 129,549
Investment gains (losses)	7,459
Interest income	1
Other income	<u>3,636</u>

**Total revenues** 140,645

**Expenses**

Employee compensation and benefits	7,804
Commissions and floor brokerage	7,000
Occupancy and equipment rental	57,802
Interest	1,250
Taxes, other than income taxes	385
Other operating expenses	<u>63,610</u>

**Total expenses** 137,851

**Income (loss) before provision for income taxes** 2,794

**Income tax provision** 800

**Net income (loss)** \$ 1,994

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

**C.A. Botzum & Co.**  
**Statement of Changes in Stockholders' Capital**  
**For the Year Ended December 31, 2005**

	Common Stock	Par Value In Excess of Consideration	Additional Paid-In Capital	Accumulated Deficit	Total
Balance at January 1, 2005	\$ 325,000	\$ (172,774)	\$ 202,312	\$ (213,741)	\$ 140,797
Net income (loss)	—	—	—	1,994	1,994
Balance at December 31, 2005	<u>\$ 325,000</u>	<u>\$ (172,774)</u>	<u>\$ 202,312</u>	<u>\$ (211,747)</u>	<u>\$ 142,791</u>

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

**C.A. Botzum & Co.**  
**Statement of Changes in Liabilities Subordinated**  
**to the Claims of General Creditors**  
**For the Year Ended December 31, 2005**

	<u>Subordinated debt</u>
Balance at January 1, 2005	\$ 125,000
Additions (Reductions)	<u>—</u>
Balance at December 31, 2005	<u>\$ 125,000</u>

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

**C.A. Botzum & Co.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2005**

**Cash flows from operating activities:**

Net income (loss)		\$ 1,994
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Valuation of marketable securities to market	\$ (7,494)	
(Increase) decrease in:		
Receivable from brokers and dealers	(726)	
Cash and securities segregated	7,000	
Receivable from customers	(15,865)	
Receivable from officer	7,571	
Prepaid expenses	(2,162)	
(Decrease) increase in:		
Accounts payable	(482)	
Accrued expenses	6,563	
Payable to brokers and dealers	100	
Payable to customers	<u>78,434</u>	
Total adjustments		<u>72,939</u>
Net cash provided by (used in) operating activities		74,933

**Cash flows from investing activities:**

Purchase of investments	<u>(5,000)</u>	
Net cash provided by (used in) investing activities		(5,000)

**Cash flows from financing activities:**

Collections on notes receivable-related party	<u>1,186</u>	
Net cash provided by (used in) financing activities		<u>1,186</u>

Net increase (decrease) in cash 71,119

Cash at beginning of year 40,702

Cash at end of year \$ 111,821

**Supplemental disclosure of cash flow information:**

Cash paid during the year for:

Interest	\$ 1,250
Income taxes	\$ 800

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

**C.A. Botzum Co.**  
**Notes to Financial Statements**  
**December 31, 2005**

**Note 1: GENERAL & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General*

C.A. Botzum & Co. (the "Company") was incorporated in the state of California on April 20, 1961 and operates as a registered broker/dealer in securities under the provision of the Securities Exchange Act of 1934. The Company is engaged in the buying and selling of securities for public customer accounts and also performs limited proprietary trading. The Company is a member of the National Association of Securities Dealers ("NASD") and the Securities Investor Protection Corporation ("SIPC").

The Company holds securities for approximately 75 clients. The majority of the clients are in California, especially Southern California. No one client represents an undue concentration of risk to the Company.

*Summary of Significant Accounting Policies*

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Securities transactions are recorded on a trade date basis with related commission income and expenses also recorded on a trade date basis.

Marketable securities are valued at market value. Mark-to-market accounting is used for purposes of determining unrealized gain/loss on security positions in proprietary trading and investment accounts. The securities are sold on a first-in, first-out basis; however, certain securities are inventoried on a specific identification basis. Haircuts are deductions from net capital of certain specified percentages of the market value of securities that are long and short in the capital and proprietary accounts of the broker-dealer.

The Company has fully depreciated furniture and equipment of \$21,879. Furniture and equipment, have been depreciated over the estimated useful lives of the related assets. Depreciation was computed using the straight-line method for both financial statement and income tax purposes.

**C.A. Botzum Co.**  
**Notes to Financial Statements**  
**December 31, 2005**

**Note 2: CASH AND SECURITIES SEGREGATED UNDER THE FEDERAL AND OTHER REGULATIONS**

Cash of \$22,000 has been segregated in a special reserve bank account for the benefit of customers under rule 15c3-3 of the Securities and Exchange Commission.

**Note 3: DEPOSITS HELD AT CLEARING FIRM**

The Company has deposited \$2,500 with Emmett A. Larkin Company, Inc. as security for its transactions with them.

**Note 4: RECEIVABLE FROM BROKERS AND DEALERS AND CLEARING ORGANIZATIONS**

Amounts receivable from and payable to brokers-dealers and clearing organizations at December 31, 2005 consist of the following:

	<u>Receivable</u>
Securities failed-to-deliver	\$ 1,240
Clearing commissions	<u>771</u>
	<u>\$ 2,011</u>

**Note 5: MARKETABLE SECURITIES, AT MARKET VALUE**

Securities, at market value consisted of the following at quoted market values:

NASD stock	\$ 10,554
Municipal bonds	<u>5,000</u>
Total	<u>\$ 15,554</u>

**Note 6: RECEIVABLE FROM OFFICER**

The receivable from officer is non-interest bearing, non-collateralized, and due on demand.

**C.A. Botzum Co.**  
**Notes to Financial Statements**  
**December 31, 2005**

**Note 7: ADVANCES TO STOCKHOLDERS COLLATERALIZED**

Advances to the stockholders collateralized for \$78,504 are demand, non-interest bearing obligations secured by collateral, valued net of haircuts, at \$78,504 on December 31, 2005. The collateral securing the advances is as follows:

<u>Description</u>	<u>Fair Market Value</u>	<u>Value Net of Haircuts</u>
Corporate stocks	\$ 2,490	\$ 2,117
Municipal obligations	<u>81,643</u>	<u>76,387</u>
Total	<u>\$ 84,133</u>	<u>\$ 78,504</u>

**Note 8: COMMITMENTS AND CONTINGENCIES**

In August 2005, the Company entered into a five (5) year lease for office space. The lease commenced in December 2005. Future minimum lease expenses are as follows:

Year Ending December 31,	
2006	\$ 29,303
2007	30,501
2008	31,699
2009	32,910
2010	<u>31,300</u>
	<u>\$ 155,713</u>

Rent expense for the year ended December 31, 2005 was \$51,390.

**Note 9: SECURED DEMAND NOTES AND LIABILITIES SUBORDINATED TO THE CLAIMS OF GENERAL CREDITORS**

The borrowings under subordination agreements at December 31, 2005 are listed below.

Liabilities subordinated to secured demand note collateral agreement:	
Interest at 1% due May 1, 2006	\$ 120,000
Liabilities subordinated to secured demand note collateral agreement:	
Interest at 1.2% due September 2, 2006	<u>5,000</u>
Total	<u>\$ 125,000</u>

**C.A. Botzum & Co.**  
**Notes to Financial Statements**  
**December 31, 2005**

**Note 9: SECURED DEMAND NOTES AND LIABILITIES SUBORDINATED TO THE CLAIMS OF GENERAL CREDITORS**

**(Continued)**

On April 28, 2004, the National Association of Security Dealers, Inc., accepted an amendment to this agreement for subordinated loan of \$120,000 extending the maturity date from May 1, 2004 to May 1, 2006. In addition, on August 27, 2004, the maturity date of the subordinated loan for \$5,000 was also extended from September 6, 2004, to September 2, 2006.

The subordinated borrowings are covered by agreements approved by the National Association of Security Dealers, Inc. and are thus 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.

The secured demand note of \$120,000 is collateralized by municipal bonds valued, net of haircuts, at \$125,133 on December 31, 2005. The collateral securing the demand note is as follows:

<u>Description</u>	<u>Fair Market Value</u>	<u>Value Net of Haircuts</u>
Municipal obligations	<u>\$ 131,783</u>	<u>\$ 125,133</u>

The secured demand note of \$5,000 is collateralized by cash and municipal bonds valued, net of haircuts, at \$5,495 on December 31, 2005. The collateral securing the demand note is as follows:

<u>Description</u>	<u>Fair Market Value</u>	<u>Value Net of Haircuts</u>
Municipal obligations	\$ 5,103	\$ 4,745
Cash	<u>750</u>	<u>750</u>
Total	<u>\$ 5,853</u>	<u>\$ 5,495</u>

**C.A. Botzum & Co.**  
**Notes to Financial Statements**  
**December 31, 2005**

**Note 10: INCOME TAXES**

The income tax provision for the year ended December 31, 2005 consists of the California Franchise Tax Board minimum tax of \$800.

The Company has available at December 31, 2005, unused operating loss carry-forwards, which may be applied against future taxable income, resulting in a deferred tax asset of approximately \$9,747, that expires as follows:

Amount of unused operating loss carry-forwards	Expiration during year ended December 31,
\$ 1,975	2014
20,933	2015
4,511	2018
9,761	2019
20,711	2020
<u>7,086</u>	2023
<u>\$ 64,977</u>	

A 100% valuation allowance has been established against this asset since management cannot determine if it is more likely than not that the asset will be realized.

**Note 11: RECENTLY ISSUED ACCOUNTING STANDARDS**

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("FAS 123R"), which requires the measurement and recognition of compensation expense for all stock-based compensation payments including grants of employee stock options. Stock options are a valuable and important tool used by many companies as a means to motivate employees and promote business growth. This statement eliminates the ability to account for such share-based compensation transactions using the intrinsic value method as prescribed by Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees," and requires that such transactions be reflected in the financial statements based upon the estimated fair value of the awards. In addition, there are a number of other requirements under the new standard that will result in differing accounting treatment than currently required. These differences include, but are not limited to, the accounting treatment for the tax benefit on employee stock options and for stock issued under an employee stock purchase plan. FASB 123R becomes effective for all reports issued after June 15, 2005. Adoption of the new standard has not had a material effect upon the financial statements of the company.

**C.A. Botzum & Co.**  
**Notes to Financial Statements**  
**December 31, 2005**

**Note 12: NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (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, shall not exceed 15 to 1. Net capital and aggregate indebtedness change day to day, but on December 31, 2005, the Company's net capital of \$257,003, which was \$7,003 in excess of its required net capital of \$250,000; and the Company's ratio of aggregate indebtedness (\$114,615) to net capital was 0.36:1, which is less than the 15 to 1 maximum ratio allowed for a broker/dealer.

**C.A. Botzum & Co.**  
**Schedule I - Computation of Net Capital Requirements**  
**Pursuant to Rule 15c3-1**  
**As of December 31, 2005**

**Computation of net capital**

**Stockholders' equity**

Common stock	\$ 325,000	
Less excess of par value over consideration	(172,774)	
Additional paid-in capital	202,312	
Accumulated deficit	<u>(211,747)</u>	
<b>Total stockholders' equity</b>		<b>\$ 142,791</b>
<b>Add:</b>		
Secured demand notes	<u>125,000</u>	
Total additions		<u>125,000</u>
Total capital and allowable subordinated loans		267,791
<b>Less:</b>		
Non allowable assets		
Prepaid expenses	(7,683)	
Receivable from officer	<u>(1,172)</u>	
Total non allowable assets	(8,855)	
Haircuts on securities	<u>(1,933)</u>	
Net adjustments to capital and subordinated loans		<u>(10,788)</u>
<b>Net Capital</b>		<b>257,003</b>

**Computation of net capital requirements**

Minimum net capital requirements		
6 2/3 percent of net aggregate indebtedness	\$ 6,174	
Minimum dollar net capital required	<u>250,000</u>	
Net capital required (greater of above)		<u>250,000</u>
<b>Excess net capital</b>		<b><u>\$ 7,003</u></b>
Percentage of aggregate indebtedness to net capital	0.36:1	

There was no difference between net capital shown here and net capital as reported on the Company's unaudited Form X-17A-5 report dated December 31, 2005.

*See independent auditor's report.*

**C.A. Botzum & Co.**  
**Schedule II - Computation for Determination of Reserve**  
**Requirements Pursuant to Rule 15c3-3**  
**As of December 31, 2005**

**Credit Balances**

Free credit balances and other credit balances in customers' security accounts	\$ 103,731	
Customers' securities failed to receive	<u>100</u>	
Total credits		\$ 103,831

**Debit Balances**

Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection net of deductions pursuant to Note E, Exhibit A, Rule 15c3-3	16,000	
Failed to deliver of customers' securities not older than 30 calendar days	<u>1,240</u>	
Total debits		<u>17,240</u>

**Reserve Computation**

Excess of total credits over total debits	<u>\$ 86,591</u>
Reserve required at 105%	<u>\$ 90,921</u>
Amount held on deposit in reserve account at December 31, 2005	\$ 22,000
Deposit (withdrawal) after year end	<u>\$ 86,000</u>
Amount in reserve account	<u>\$ 108,000</u>

There was a \$1 difference between reserve requirements here and reserve requirements as reported on the Company's unaudited Form X-17A-5 report dated December 31, 2005, due to rounding.

*See independent auditor's report.*

**C.A. Botzum & Co.**  
**Schedule III - Reconciliation of Net Capital and**  
**Reserve Requirements Under Rule 15c3-3**  
**As of December 31, 2005**

Net Capital as calculated per audit report	\$ 257,003
Net Capital as calculated per broker-dealer's most recent filing of Form X-17a-5, Part II, December 31, 2005	<u>257,003</u>
Net difference in computation of net capital	<u>\$ -</u>
Reserve requirement as calculated per audit report	\$ 90,921
Reserve requirement as calculated per broker-dealer's most recent filing of Form X-17a-5, Part II, December 31, 2005	<u>90,920</u>
Net difference in computation of reserve requirements	<u>\$ 1</u>

*See independent auditor's report.*

**C.A. Botzum & Co.**  
**Schedule IV - Information Relating to Possession or Control**  
**Requirements Under Rule 15c3-3**  
**As of December 31, 2005**

The Company is a self-clearing firm and is subject to the possession or control requirements under rule 15c3-3 of the Securities and Exchange Commission. The Company is in compliance with these requirements and there were no instances noted during our audit of securities that were required to be in possession or control that had not been reduced to possession or control in the proper time frame.

*See independent auditor's report.*

**C.A. Botzum & Co.**  
**Supplementary Accountant's Report**  
**on Internal Accounting Control**  
**Report Pursuant to 17a-5**  
**For the Year Ended December 31, 2005**

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# **BREARD & ASSOCIATES, INC.**

Certified Public Accountants

Board of Directors

C.A. Botzum & Co., Inc.

In planning and performing our audit of the financial statements and supporting schedules of C.A. Botzum & Co., Inc. ("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 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 compliance with such practices and procedures that we considered relevant to objectives stated in rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3-3(e)
2. Making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13
3. 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
4. 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 an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of 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 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.

*i*

***We Focus & Care***<sup>SM</sup>

9010 Corbin Avenue, Suite 7  
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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 the 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, 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 for anyone other than these specified parties.



Breard & Associates, Inc.  
Certified Public Accountants

Northridge, California  
February 13, 2006