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**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 1/1/2005 AND ENDING 12/31/2005
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
GBS Financial Corp.

OFFICIAL USE ONLY

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

FIRM I.D. NO.

558 "B" Street, 2nd Floor

(No. and Street)

Santa Rosa, CA 95401-5274

(City)

(State)

(Zip Code)

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

Donald G. Gloisten

805-653-5944

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Hovik M. Khaloian

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

520 N. Central Avenue, Suite 650, Glendale, CA 91203

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

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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)

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.

SEC 1410 (06-02)

OATH OR AFFIRMATION

I, Donald G. Gloisten, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of GBS Financial Corp., 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:

Donald G. Gloisten

Signature

Chief Executive Officer

Title

Notary Public

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition. 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).

GBS FINANCIAL CORP.
FINANCIAL REPORT
DECEMBER 31, 2005

HOVIK M. KHALOIAN
CERTIFIED PUBLIC ACCOUNTANT

CALIFORNIA ALL PURPOSE ACKNOWLEDGMENT

STATE OF CALIFORNIA

COUNTY OF VENTURA

On FEBRUARY 24 2006 before me, **Carlene R. Ackley, a Notary Public in and for the State of California** personally appeared:

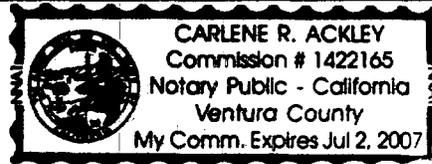
DONALD B GLOISTEN

- Personally known to me --- or --- Proved to me on the basis of satisfactory evidence to be the person(s) whose name is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity (ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Carlene R Ackley

Signature of Notary Public



OPTIONAL

Although the information below is not required by law, it may prove valuable to persons relying on the document and could help prevent fraudulent removal and reattachment of this form to another document.

DISCRIPTION OF ATTACHED DOCUMENT:

Number of Signers This Acknowledgement: ONE

Title of Type of Document:

Right Thumb print
{optional}

WATH + AFFIRMATION OF FINANCIAL STATEMENT

Document Date: _____ **Number of pages** _____

Signer(s) Other Than Named Above: _____

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Board of Directors
GBS Financial Corp.
Santa Rosa, California

Members of the Board:

I have audited the accompanying statement of financial condition of GBS Financial Corp. as of December 31, 2005 and the related statements of income, changes in stockholders' equity and cash flows for the year then ended. 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 my audit in accordance with auditing standards generally accepted in the United States of America. 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 GBS Financial Corp. 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.

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 and III is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the examination 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.

Hovik M. Khaloian

February 3, 2006

GBS FINANCIAL CORP.
STATEMENT OF FINANCIAL CONDITION
As of December 31, 2005

ASSETS

Cash and cash equivalents (Note 1)	\$ 222,109
Deposit with clearing broker	56,447
Commissions receivable (Note 1)	251,236
Receivable from non-customers	26,582
Note receivable-stockholders (Note 4)	91,734
Securities owned, at market (Note 1)	296,060
Deferred income taxes (Note 3)	5,800
Other assets (Note 1)	46,119
Property and equipment at cost, less accumulated depreciation of \$139,284 (Note 1)	<u>28,200</u>
TOTAL ASSETS	<u>\$ 1,024,287</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable and accrued expenses	\$ 104,343
Commissions payable	331,657
Income taxes payable	2,480
Deferred income Taxes (Note 3)	<u>10,700</u>
	449,180
COMMITMENTS AND CONTINGENCIES (Note 5)	-
STOCKHOLDERS' EQUITY	
Common stock, no par value; 1000 shares authorized, 30 shares issued and outstanding stated at	4,500
Additional paid-in capital	62,386
Retained earnings	<u>508,221</u>
TOTAL STOCKHOLDERS' EQUITY	<u>575,107</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,024,287</u>

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

GBS FINANCIAL CORP.
STATEMENT OF INCOME
For the Year Ended December 31, 2005

REVENUES

Commissions	\$ 6,026,170
Net investment gains (losses)	118,495
Interest and dividends	319,424
Consulting revenue	<u>92,085</u>
	<u>6,556,174</u>

EXPENSES

Commissions and brokerage costs	5,049,263
Employee compensation and benefits	884,827
Occupancy and equipment rental	90,292
Taxes, other than income taxes	57,800
Other operating expenses	<u>409,684</u>
	<u>6,491,866</u>

INCOME BEFORE INCOME TAXES 64,308

INCOME TAXES (Note 3)

Current	20,900
Deferred	<u>(7,800)</u>
	<u>13,100</u>

NET INCOME \$ 51,208

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

HOVIK M. KHALOIAN
CERTIFIED PUBLIC ACCOUNTANT

GBS FINANCIAL CORP.
 STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
 For the Year Ended December 31, 2005

	<u>Common Stock</u>		Additional Paid-in Capital	Retained Earnings	<u>Total</u>
	<u>Number of Shares Outstanding</u>	<u>Amount</u>			
Balance at January 1, 2005	30	\$ 4,500	\$ 62,386	\$457,013	\$523,899
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,208</u>	<u>51,208</u>
Balance at December 31, 2005	<u>30</u>	<u>\$ 4,500</u>	<u>\$ 62,386</u>	<u>\$508,221</u>	<u>\$575,107</u>

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

GBS FINANCIAL CORP
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 6,306,127
Cash paid to suppliers and employees	(6,727,607)
Interest received	319,424
Interest paid	(541)
Income tax refunds received	<u>44,242</u>
NET CASH (USED) BY OPERATING ACTIVITIES	<u>(58,355)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Decrease in deposit with clearing broker	34,762
Decrease in receivable from non-customers	35,105
Decrease in other assets	1,673
Purchase of property and equipment	<u>(13,270)</u>
NET CASH PROVIDED FROM INVESTING ACTIVITIES	<u>58,270</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Increase in note receivable-stockholders	<u>(4,400)</u>
NET CASH (USED) BY FINANCING ACTIVITIES	<u>(4,400)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,485)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>226,594</u>
CASH AND CASH EQUIVALENTS - End of Year	<u><u>\$ 222,109</u></u>
RECONCILIATION OF NET INCOME TO NET CASH (USED) BY OPERATING ACTIVITIES	
Net income	\$ 51,208
Non-cash expenses included in net income:	
Depreciation and amortization	31,002
Deferred income taxes	(7,800)
Changes in assets and liabilities:	
Decrease in commissions receivable	69,377
(Increase) in securities owned	(165,710)
Decrease in prepaid income taxes	62,676
(Decrease) in accounts payable and accrued expense	(47,516)
(Decrease) in commissions payable	(54,072)
Increase in income taxes payable	<u>2,480</u>
NET CASH (USED) BY OPERATING ACTIVITIES	<u><u>\$ (58,355)</u></u>

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

GBS FINANCIAL CORP.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Company is a securities broker/dealer engaged in the sale of securities to the general public.

Securities

Securities owned are valued at market with unrealized gains and losses recognized currently in results of operations.

Income and Expense Recognition

Securities transactions and related revenue and expense are recorded on a settlement date basis, generally the third business day following the transaction date.

Concentration of Credit Risk For Cash Held at Banks

The Company maintains cash balances at a bank. Accounts at the Institution are insured by the Federal Deposit Insurance Corporation up to \$100,000.

Policy of Cash Equivalents

The Company considers money market funds as cash equivalents.

Property and Equipment

The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the modified accelerated cost recovery systems based on the estimated useful lives of the assets, which range from five to seven years.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Other Assets

Other assets consist of prepaid expenses of \$39,838, deposits of \$2,022, organization costs net of amortization of \$3,270, and miscellaneous assets of \$4,259. The Company has fully amortized organization costs on a straight-line basis over five years.

GBS FINANCIAL CORP.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 2 - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission's 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. Since the Company does not carry customer accounts, it is permitted under Rule 15c3-1(a)(2) to maintain minimum net capital, as defined, equal to the greater of \$100,000 or 6 2/3 percent of aggregate indebtedness. At December 31, 2005, the Company had net capital of \$224,059 which was \$124,059 in excess of its required net capital of \$100,000. The Company's aggregate indebtedness to net capital ratio was 2.0 to 1.

NOTE 3 - INCOME TAXES

Deferred income taxes arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or noncurrent, depending on the classification of the assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or noncurrent depending on the periods in which the temporary differences are expected to reverse.

The deferred tax assets and deferred tax liabilities comprised of the following at December 31, 2005:

Deferred Tax assets:	
Salary accruals	\$ 3,600
State income Taxes	<u>2,200</u>
	5,800
Valuation allowance	<u>-</u>
	<u>\$ 5,800</u>
Deferred tax liabilities:	
Depreciation	<u>\$10,700</u>

NOTE 4 - NOTE RECEIVABLE-STOCKHOLDERS

5.5% unsecured note receivable from stockholders with interest only annual payments through April 2010. The principal balance of \$80,000 will become due and payable on April 30, 2010.

GBS FINANCIAL CORP.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Leases Commitment

The Company leases certain office facilities under an operating lease agreement from its stockholders. The lease requires monthly rentals of \$3,000 and expires in May 2007.

The Company leases another facility under a month to month operating lease agreement. The lease requires monthly rentals of \$900.

Future minimum lease payments required under these operating leases for the years ending December 31, are as follows:

Year ending <u>December 31,</u>	
2006	\$ 36,000
2007	<u>15,000</u>
Total	<u>\$ 51,000</u>

Total rent expense for the year ended December 31, 2005 amounted to \$90,292, including amounts paid to stockholders of \$36,000.

Retirements Plans

The Company has a profit sharing plan that covers substantially all of its employees. The funding of the profit sharing plan is discretionary (maximum is 15% of total eligible compensation) and is determined annually by the Board of Directors. The contributions to the profit sharing plan for the year ended December 31, 2005 amounted to \$67,829.

The Company also sponsors a defined contribution plan covering substantially all employees who have satisfied a service requirement of one hour. Plan participants may contribute up to 15% of their annual eligible compensation, subject to limitations imposed by the Internal Revenue Service. The Company matches up to 100% of participant contributions to a maximum of 4% of their annual eligible compensation. The Company's total expense under this plan for the year ended December 31, 2005 amounted to \$28,352.

GBS FINANCIAL CORP.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2005

NOTE 5 - COMMITMENTS AND CONTINGENCIES (continued)

NASD Investigation

As a result of a routine examination in 2001 by the United States Securities and Exchange Commission (SEC), the National Association of Securities Dealers, Inc. (NASD) has conducted an investigation of the activities of the Company in the area of fair Dealings with customers and use of class B shares. While the Company believes that its activities are justifiable, the management is unable to determine the outcome of the investigation and its ultimate impact on the financial position of the Company and its operations.

Litigation

The Company is a defendant in a pending arbitration before the National Association of Securities Dealers, Inc. (NASD) in connection with a claim filed by a former registered representative alleging breach of contract and various torts, including defamation. Although the Company is vigorously defending itself, the ultimate outcome of the action cannot be presently determined and no provision for liability has been made in the accompanying financial statements.

Claims and Demands

The Company has received a claim from a former client alleging lack of investment suitability. The Company believes the claim is without merit and intends to vigorously defend its position.

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

HOVIK M. KHALOIAN
CERTIFIED PUBLIC ACCOUNTANT

SCHEDULE I
 GBS FINANCIAL CORP.
 COMPUTATION OF NET CAPITAL, AGGREGATE INDEBTEDNESS
 AND BASIC NET CAPITAL REQUIREMENT
 UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION
 As of December 31, 2005

NET CAPITAL

Total stockholders' equity \$ 575,107

Deductions and/or charges

Non-allowable assets:

Commissions receivable

Net of commissions payable \$ 120,251

Receivable from non-customers 26,582

Note receivable-stockholders 91,734

Deferred income taxes 5,800

Other assets 46,119

Property and equipment 28,200 318,686

Net capital before haircuts on securities positions

256,421

Haircuts on securities (computed, where applicable, pursuant to Rule 15c3-1(c)(2):

Trading and investment securities:

Common stocks 18,623

Preferred stocks 1,266

Money market mutual funds 1,387

Other 11,086 32,362

NET CAPITAL

\$ 224,059

AGGREGATE INDEBTEDNESS

Items included in statement of financial condition:

Accounts payable and accrued expenses \$ 104,343

Commissions payable 331,657

Income taxes payable 2,480

TOTAL AGGREGATE INDEBTEDNESS

\$ 438,480

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Minimum net capital required, 6 2/3% of aggregate indebtedness or \$100,000 if greater

\$ 100,000

Excess net capital

\$ 124,059

Ratio: Aggregate indebtedness to net capital

2.0 to 1

SCHEDULE II
 GBS FINANCIAL CORP.
 RECONCILIATION OF NET CAPITAL AND AGGREGATE INDEBTEDNESS
 TO AMOUNTS AS REPORTED BY THE COMPANY IN PART IIA OF FORM X-17A-5
 As of December 31, 2005

	<u>Aggregate Indebtedness</u>	<u>Net Capital</u>
As reported in company's Part IIA (unaudited) FOCUS report	\$ 448,042	\$ 251,167
Decrease in non-allowable assets	-	17,197
Decrease in haircuts on securities	-	231
Increase in accounts payable and accrued expenses	68,788	(68,788)
Decrease in income taxes payable	(61,250)	61,250
Decrease in Deferred tax liability	(17,100)	-
Other audit adjustments	-	(36,998)
	<hr/>	<hr/>
Per Schedule I	<u>\$ 438,480</u>	<u>\$ 224,059</u>

SCHEDULE III
GBS FINANCIAL CORP.
EXEMPTION FROM DETERMINATION OF RESERVE REQUIREMENTS
UNDER RULE 15c3-3 AND INFORMATION RELATING TO POSSESSION OR
CONTROL REQUIREMENTS UNDER RULE 15c3-3
As of December 31, 2005

The Company is exempt from Rule 15c3-3 under the exemptive provisions of paragraph (k)(2)(ii) of that rule and, therefore, has no reserve requirements since it clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer.

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL ACCOUNTING CONTROL REQUIRED BY
SECURITIES AND EXCHANGE COMMISSION RULE 17a-5

Board of Directors
GBS Financial Corp.
Santa Rosa, California

Members of the Board:

In planning and performing my audit of the GBS Financial Corp. for the year ended December 31, 2005, I considered its internal control structure, including procedures for safeguarding securities, in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

I also made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by the company in making the periodic computations of aggregate indebtedness and net capital under Rule 17a3(a)(11) and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3 of the Securities and Exchange Commission. The company is exempt from the requirements of Rule 15c3-3 pursuant to Rule 15c3-3(k)(2)(b) and was in compliance with the conditions of the exemption and no facts came to my attention indicating that such conditions had not been complied with during the period. I did not review the practices and procedures followed by the company (i) in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13 or (ii) in complying with the requirements for prompt payment for securities of Section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the company did not carry security accounts for customers or perform custodial functions relating to customer funds or securities during the year ended December 31, 2005.

The management of the company is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system 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 accounting principles generally accepted in the United States of America.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure 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 structure elements does not reduce to a relatively low level the risk that errors or irregularities 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, I noted no matters involving the internal control structure, including procedures for safeguarding securities, that I consider to be material weaknesses as defined above.

I understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities and 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 my study, I believe that the company's practices and procedures were adequate at December 31, 2005, to meet the Commission's objectives.

This report is intended solely for the use of management and the Securities and Exchange Commission and other regulatory agencies pursuant to their requirements and should not be used for any other purpose.

Hovik M. Khaloian

February 3, 2006