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

CM

SEC FILE NUMBER
83 3746

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 4/1/05 AND ENDING 3/31/06  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: E. BARNES & COMPANY  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
dba PACIFIC INVESTMENT SECURITIES CORP

OFFICIAL USE ONLY
FIRM I.D. NO.

311 Avenue B, Suite G  
(No. and Street)  
Lake Oswego, OR 97034  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Edward B. Haessler 503/699-0618  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

PROCESSED

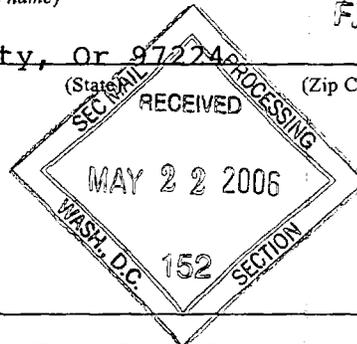
JUL 17 2006

THOMPSON FINANCIAL

MORRISON & LIEBSWAGER, PC  
(Name - if individual, state last, first, middle name)  
15405 SW 116th Avenue, Suite 105 King City, Or 97224  
(Address) (City) (State) (Zip Code)

**CHECK ONE:**

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



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\*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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7/14/06

OATH OR AFFIRMATION

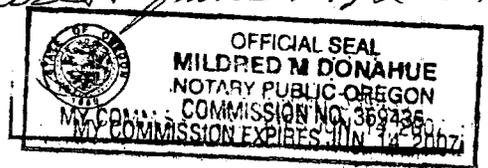
I, Edward B. Haessler, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of E. BARNES & COMPANY dba PACIFIC INVESTMENT SECURITIES CORP, as of March 31, 2006, are true and correct. I further swear (or affirm) 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:

*[Handwritten Signature]*  
Signature

President  
Title

*[Handwritten Signature: Mildred M Donahue]*  
Notary Public

*My Commission Expires: June 14, 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 Financial Condition.
- (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.

(o) Report of independent certified public accountants on internal accounting control  
\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**TO BE COMPLETED WITH THE ANNUAL AUDIT REPORT ONLY:**

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

Name (If individual, state last, first, middle name)

**MORRISON & LIEBSWAGER, PC**

70

**ADDRESS**      Number and Street      City      State      Zip Code

15405 SW 116th Avenue, Suite 105      King City, Oregon      97224

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Check One

Certified Public Accountant

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FOR SEC USE

Public Accountant

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Accountant not resident in United States or any of its possessions

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# Morrison & Liebswager, P.C.

## Certified Public Accountants

15405 SW 116th Avenue, Suite 105  
King City, OR 97224

Bruce J. Morrison

Duane G. Liebswager

### REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
E. Barnes & Company  
dba Pacific Investment Securities Corp.

We have audited the accompanying statements of financial condition of E. Barnes & Company dba Pacific Investment Securities Corp. as of March 31, 2006 and 2005, and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended. 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 audits 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 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 E. Barnes & Company dba Pacific Investment Securities Corp. as of March 31, 2006 and 2005, and results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Morrison & Liebswager, P.C.*  
Morrison & Liebswager, P.C.  
Certified Public Accountants

May 10, 2006

**E. BARNES & COMPANY**  
**dba PACIFIC INVESTMENT SECURITIES CORP.**  
**STATEMENTS OF FINANCIAL CONDITION**

	<b>AS OF MARCH 31,</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$13,889	\$13,788
Accounts receivable	<u>9,893</u>	<u>7,587</u>
Total current assets	23,782	21,375
<b>EQUIPMENT – net of accumulated depreciation</b> of \$7,747 and \$7,747 respectively	<u>0</u>	<u>0</u>
Total Assets	<b><u>\$23,782</u></b>	<b><u>\$21,375</u></b>
 <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ <u>5,638</u>	\$ <u>3,394</u>
Total current liabilities	5,638	3,394
<b>STOCKHOLDER'S EQUITY</b>		
Common stock; \$.01 par value: 250,000 shares authorized, 75 shares issued and outstanding	1	1
Preferred stock; \$.10 par value: 25,000 shares authorized, 0 shares issued and outstanding	0	0
Additional paid in capital	7,499	7,499
Retained earnings	<u>10,644</u>	<u>10,481</u>
Total stockholder's equity	<u>18,144</u>	<u>17,981</u>
Total Liabilities and Stockholder's Equity	<b><u>\$23,782</u></b>	<b><u>\$21,375</u></b>

See accompanying notes and accountants' audit report.

**E. BARNES & COMPANY**  
**dba PACIFIC INVESTMENT SECURITIES CORP.**  
**STATEMENTS OF INCOME**

**FOR THE YEARS ENDED**  
**MARCH 31,**

	<u>2006</u>	<u>2005</u>
REVENUE		
Commissions earned and trading profit	\$98,479	\$85,671
Interest	<u>285</u>	<u>55</u>
Total revenue	98,764	85,726
OPERATING EXPENSES		
Commissions expense	16,923	8,457
Officers salary	13,000	6,000
Rent and parking	19,630	19,835
Quotation Service	3,276	8,565
Regulatory fees	2,796	3,031
Taxes and licenses	1,211	459
Office supplies, printing and postage	19,451	15,975
Telephone	3,205	4,094
Professional services	5,100	6,580
Insurance	10,861	8,459
Advertising and promotion	3,138	2,697
Depreciation	<u>0</u>	<u>680</u>
Total operating expenses	<u>98,591</u>	<u>84,832</u>
Income from operations	173	894
Income tax expense	<u>10</u>	<u>0</u>
Net income	<u>\$ 163</u>	<u>\$ 894</u>

See accompanying notes and accountants' audit report.

**E. BARNES & COMPANY**  
**dba PACIFIC INVESTMENT SECURITIES CORP.**  
**STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY**  
**For the Years Ended March 31, 2006 and 2005**

	Common <u>Stock</u>	Additional Paid In <u>Capital</u>	Retained <u>Earnings</u>	Total Stockholder's <u>Equity</u>
Balances at March 31, 2004	\$ 1	\$7,499	\$ 9,587	\$17,087
Net income (loss) year ended March 31, 2005	_____	_____	<u>894</u>	<u>894</u>
Balances at March 31, 2005	1	7,499	10,481	17,981
Net income (loss) year ended March 31, 2006	_____	_____	<u>163</u>	<u>163</u>
	<u>\$ 1</u>	<u>\$7,499</u>	<u>\$10,644</u>	<u>\$18,144</u>

See accompanying notes and accountants' audit report.

**E. BARNES & COMPANY**  
**dba PACIFIC INVESTMENT SECURITIES CORP.**  
**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED**  
**MARCH 31,**

	<u>2006</u>	<u>2005</u>
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows From Operating Activities:		
Commissions received	\$178,167	\$81,994
Interest income	285	55
Income taxes paid (refunded)	( 10)	( 0)
Cash paid to suppliers and employees	(178,341)	(81,717)
Net cash provided by operating activities	<u>101</u>	<u>332</u>
Net increase, (decrease) in cash and cash equivalents	101	332
Cash and cash equivalents at beginning of year	<u>13,788</u>	<u>13,456</u>
Cash and cash equivalents at end of year	<u>\$ 13,889</u>	<u>\$13,788</u>
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 163	\$ 894
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	0	680
(Increase) Decrease in accounts receivable	( 2,306)	( 3,677)
Increase (Decrease) in accounts payable	<u>2,244</u>	<u>2,435</u>
Total adjustments	( 62)	( 562)
Net cash provided by operating activities	<u>\$ 101</u>	<u>\$ 332</u>

**DISCLOSURE OF ACCOUNTING POLICY:**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and in banks.

See accompanying notes and accountants' audit report.

**E. BARNES & COMPANY**  
**dba PACIFIC INVESTMENT SECURITIES CORP.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006 and 2005**

**1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

E. Barnes & Company, an Oregon securities brokerage firm with offices in Lake Oswego, Oregon, was incorporated on February 15, 1985.

The Company records securities transactions and related commission revenue and expense on a settlement date basis through an "introduced" customer transaction relationship with a San Francisco Securities brokerage firm. The Company is exempt from the reserve requirements under SEC Rule 15C3-3(K)2B, since it does not handle or carry customer securities and cash.

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

A. Revenue Recognition

Security transactions and related revenue are recorded on a settlement date basis as there is not a material difference between the trade date.

Revenue in these financial statements is recorded net of clearing charges.

B. Receivables

Receivables consist of commissions receivable from broker or dealers and are considered fully collectible.

C. Securities

Marketable securities are valued at market value and the resulting difference between cost and market is included in income.

D. Equipment

Equipment is stated at cost. Depreciation is computed using the straight-line method over 5 years for financial reporting purposes and amounted to \$0 and \$680 for fiscal years ended March 31, 2006 and 2005. For income tax purposes, depreciation is computed under the modified accelerated cost recovery system.

**E. BARNES & COMPANY**  
**dba PACIFIC INVESTMENT SECURITIES CORP.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006 and 2005**

**1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

F. Use of Estimates

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

**2. NET CAPITAL**

Pursuant to Rule 15C 3-1 of the Securities and Exchange Act of 1934, the Company is required to maintain a ratio of aggregate indebtedness to net capital, as defined, not to exceed 15 to 1. At March 31, 2006 and 2005, the Company had net capital and net capital requirements of \$18,144 and \$5,000, \$17,981 and \$5,000 respectively. The Company's net capital ratio was .311 to 1 and .189 to 1, respectively for those fiscal years.

**3. RENT**

The Company operates its office on a month to month basis with an annual agreed lease amount. Total rent paid for the years ended March 31, 2006 and 2005, was \$19,630 and \$19,835 respectively.

**4. INCOME TAXES**

The Company at March 31, 2006 has a federal tax loss carryforward of \$561 and a state tax loss carryforward of \$12,072 starting to expire in fiscal year 2010. The deferred tax benefit from these carryforwards has not been recognized as an asset in these financial statements.

The provision for income taxes consist of the following:

	<u>2006</u>	<u>2005</u>
Current taxes:		
Federal	\$ 0	\$ 0
State	<u>10</u>	<u>0</u>
	<u>\$10</u>	<u>\$ 0</u>

**E. BARNES & COMPANY**  
**dba PACIFIC INVESTMENT SECURITIES CORP.**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2006 and 2005**

**5. ADVERTISING COSTS**

The Company expenses its advertising costs as incurred in accordance with SOP 93-7. Advertising costs expensed for the years ended March 31, 2006 and 2005, was \$3,138 and \$2,697 respectively.

# Morrison & Liebswager, P.C. Certified Public Accountants

15405 SW 116th Avenue, Suite 105  
King City, OR 97224

Bruce J. Morrison

Duane G. Liebswager

## Report of Independent Auditors on Supplemental Information Required by SEC Rule 17a-5

Board of Directors  
E. Barnes & Company  
dba Pacific Investment Securities Corp.

Our audit of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The information contained in Schedules 1 and 2 on the following pages is presented for purposes of additional analysis and is not a required part of the basic financial statements, and is supplement information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the 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.

*Morrison & Liebswager, P.C.*  
Morrison & Liebswager, P.C.  
Certified Public Accountants

May 10, 2006

SUPPLEMENTARY INFORMATION  
PURSUANT TO Rule 17A-5 OF THE  
SECURITIES EXCHANGE ACT OF 1934

**E. BARNES & COMPANY**  
**dba PACIFIC INVESTMENT SECURITIES CORP.**  
**SCHEDULE 1**

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT – PART IIA  
FORM X-17A-5 THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

COMPUTATION OF NET CAPITAL  
For Years Ended March 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Stockholders' equity from statement of financial condition	\$18,144	\$17,981
Deductions and/or charges		
Non-allowable assets:		
Equipment	(____0)	(____0)
Net Capital	<u>\$18,144</u>	<u>\$17,981</u>
Computation of net capital requirement		
Minimum net capital required	\$ <u>376</u>	\$ <u>226</u>
Minimum dollar net capital requirement	\$ <u>5,000</u>	\$ <u>5,000</u>
Excess net capital	<u>\$13,144</u>	<u>\$12,981</u>
Excess net capital at 1000%	<u>\$17,580</u>	<u>\$17,642</u>
Aggregate Indebtedness		
Items included from statement of financial condition:		
Accounts payable and accrued liabilities	\$ <u>5,638</u>	\$ <u>3,394</u>
Total aggregate indebtedness	<u>\$ 5,638</u>	<u>\$ 3,394</u>
Ratio: Aggregate indebtedness to net capital	<u>311 to 1</u>	<u>189 to 1</u>

**E. BARNES & COMPANY**  
**dba PACIFIC INVESTMENT SECURITIES CORP.**  
**SCHEDULE 2**

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT – PART IIA  
FORM X-171-5 THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

RECONCILIATION OF COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1  
For Years Ended March 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
NET CAPITAL		
Net capital as of March 31, per unaudited report filed by respondent	\$18,022	\$17,981
Adjustments		
Cash adjustments	122	0
Rounding	<u>0</u>	<u>0</u>
Net capital at March 31, as adjusted	<u>\$18,144</u>	<u>\$17,981</u>
AGGREGATE INDEBTEDNESS		
Total aggregate indebtedness as of March 31, per unaudited report filed by respondent	\$ 5,637	\$ 3,394
Increase in payables	0	0
Rounding	<u>1</u>	<u>0</u>
Total aggregate indebtedness as of March 31, as adjusted	<u>\$ 5,638</u>	<u>\$ 3,394</u>

# Morrison & Liebswager, P.C.

## Certified Public Accountants

15405 SW 116th Avenue, Suite 105  
King City, OR 97224

*Bruce J. Morrison*

*Duane G. Liebswager*

### **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5**

To the Board of Directors  
E. Barnes & Company  
dba Pacific Investment Securities Corp.  
Lake Oswego, Oregon

In planning and performing our audit of the financial statements of E. Barnes & Company dba Pacific Investment Securities Corp. for the years ended March 31, 2006 and 2005, we considered its internal control structure, including procedures 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 structure.

Also, as required by rule 17a-5(g) (1) of the Securities and Exchange Commission, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by E. Barnes & Company dba Pacific Investment Securities Corp. that we considered relevant to the objectives stated in rule 17a-5(g), (1) in 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) in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13; (3) in complying with the requirements for prompt payment for securities under section 8 of Regulation T of the Board of Governors of the Federal Reserve system; and (4) in 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 internal control structure policies and procedures 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 Commission's above-mention objectives. Two of the objectives of an internal control structure 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 of 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 practice and procedures listed in the preceding paragraph.

Because of the inherent limitations in any internal control structure of the practices and procedures referred to above, errors or irregularities 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 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 of 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, we noted no matters involving the internal control structure, including procedures 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 Commission 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 March 31, 2006 and 2005, to meet the Commission's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, the New York Stock Exchange and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.

*Morrison & Liebswager, P.C.*  
Morrison & Liebswager, P.C.  
Certified Public Accountants

May 10, 2006