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

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

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**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 07/01/05 (MM/DD/YY) AND ENDING 06/30/06 (MM/DD/YY)

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
BROOKSTREET SECURITIES CORPORATION

| OFFICIAL USE ONLY |
|---|
| |
| FIRM I.D. NO. |

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

2361 Campus Drive, Suite 210
(No. and Street)

Irvine (City) CA (State) 92612 (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Stanley C. Brooks 949/852-6800
(Area Code – Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
LaVine & Associates CPAs, Inc.
(Name – *if individual, state last, first, middle name*)

26691 Plaza Drive, Suite 222 Mission Viejo, CA 92691
(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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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C.

ANNUAL AUDIT REPORT

DATE - JUNE 30, 2006

BROOKSTREET SECURITIES CORPORATION

2361 CAMPUS DRIVE, SUITE 210
IRVINE, CALIFORNIA 92612

MR. STANLEY C. BROOKS, PRESIDENT
BROOKSTREET SECURITIES CORPORATION
2361 CAMPUS DRIVE, SUITE 210
IRVINE, CALIFORNIA 92612

**BROOKSTREET SECURITIES CORPORATION**

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LaVine
& Associates
Certified Public Accountants, Inc.

# REPORT OF INDEPENDENT PUBLIC ACCOUNTANT

Board of Directors
Brookstreet Securities Corporation
Irvine, California

We have audited the accompanying balance sheets of Brookstreet Securities Corporation as of June 30, 2006 and 2005, and the related statements of income, changes in stockholder's equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the years then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audits 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 audits provide 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 Brookstreet Securities Corporation as of June 30, 2006 and 2005, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were 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 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audits 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.

LaVine & Associates CPAs, Inc.

Mission Viejo, California
August 22, 2006



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www.lavine-cpas.com

## BROOKSTREET SECURITIES CORPORATION

Balance Sheets

June 30, 2006 and 2005

| | 2006 | 2005 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash | $ 551,718 | $ 1,226,918 |
| Accounts receivable - Note 2 | 2,703,777 | 2,329,985 |
| Deposits - Note 3 | 393,531 | 397,613 |
| Marketable securities - Notes 1 and 6 | 14,009,692 | 11,097,834 |
| Prepaid expenses and other assets | 1,450,160 | 807,287 |
| TOTAL CURRENT ASSETS | 19,108,878 | 15,859,637 |
| Fixed Assets - at cost - net of accumulated depreciation of $524,780 and $392,409 in 2006 and 2005 - Notes 1 and 4 | 344,429 | 387,452 |
| Deferred tax asset - Note 8 | 211,000 | 624,000 |
| Other assets | 1,238,500 | 5,500 |
| TOTAL ASSETS | $ 20,902,807 | $ 16,876,589 |

### LIABILITIES AND STOCKHOLDER'S EQUITY

| | 2006 | 2005 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Commissions payable - Note 2 | $ 3,593,731 | $ 4,239,549 |
| Accounts payable and accrued expenses - Note 5 | 4,926,450 | 4,147,018 |
| Income taxes payable - Note 8 | 1,802,680 | 1,053,464 |
| TOTAL CURRENT LIABILITIES | 10,322,861 | 9,440,031 |
| COMMITMENTS AND CONTINGENCIES - Note 10 | | |
| **STOCKHOLDER'S EQUITY** | | |
| Capital stock - no par, 10,000,000 shares authorized, 2,588,685 shares issued and outstanding | 20,000 | 20,000 |
| Additional paid-in capital | 110,525 | 110,525 |
| Retained earnings | 10,449,421 | 7,306,033 |
| TOTAL STOCKHOLDER'S EQUITY | 10,579,946 | 7,436,558 |
| TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY | $ 20,902,807 | $ 16,876,589 |

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

## BROOKSTREET SECURITIES CORPORATION

Statements of Income

For The Years Ended June 30, 2006 and 2005

| | 2006 | 2005 |
|---|---|---|
| REVENUES - Note 1 | | |
| Commission income | $ 100,252,658 | $ 83,252,966 |
| Clearance and execution fees recovered | 4,027,666 | 3,458,611 |
| Interest and dividend income | 1,309,029 | 661,535 |
| Other income | 8,328,934 | 4,630,311 |
| TOTAL REVENUES | 113,918,287 | 92,003,423 |
| EXPENSES | | |
| Commission expense | 81,618,753 | 66,972,163 |
| Salaries and payroll taxes | 9,628,951 | 6,213,657 |
| Interest | 310,339 | 232,836 |
| Other operating expenses | 17,000,591 | 15,323,006 |
| TOTAL EXPENSES | 108,558,634 | 88,741,662 |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 5,359,653 | 3,261,761 |
| PROVISION FOR INCOME TAXES - Note 8 | | |
| Current | 1,803,265 | 1,119,034 |
| Deferred | 413,000 | 315,000 |
| TOTAL PROVISION FOR INCOME TAXES | 2,216,265 | 1,434,034 |
| NET INCOME | $ 3,143,388 | $ 1,827,727 |

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

**BROOKSTREET SECURITIES CORPORATION**
Statements of Changes in Stockholder's Equity
For The Years Ended June 30, 2006 and 2005

| | Common Stock | Additional Paid-In Capital | Retained Earnings | Total Stockholder's Equity |
|---|---|---|---|---|
| Balance - June 30, 2004 | $ 20,000 | $ 110,525 | $ 5,640,306 | $ 5,770,831 |
| Net Income | - | - | 1,827,727 | 1,827,727 |
| Stock repurchase - Note 7 | - | - | (162,000) | (162,000) |
| Balance - June 30, 2005 | 20,000 | 110,525 | 7,306,033 | 7,436,558 |
| Net Income | - | - | 3,143,388 | 3,143,388 |
| Balance - June 30, 2006 | $ 20,000 | $ 110,525 | $ 10,449,421 | $ 10,579,946 |

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

**BROOKSTREET SECURITIES CORPORATION**
Statements of Cash Flows
For The Years Ended June 30, 2006 and 2005

| | 2006 | 2005 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 3,143,388 | $ 1,827,727 |
| Adjustments to reconcile net income to net cash used by operating activities: | | |
| Depreciation | 132,371 | 92,726 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (373,792) | (261,199) |
| Decrease (Increase) in marketable securities | (2,911,858) | 5,677,878 |
| Increase in prepaid expenses and other assets | (1,875,873) | (518,720) |
| Decrease (Increase) in deposits | 4,082 | (7,925) |
| Increase (Decrease) in accounts payable and accrued expenses | 779,432 | (6,388,395) |
| (Decrease) Increase in commissions payable | (645,818) | 1,489,390 |
| Increase (Decrease) in income taxes payable | 749,216 | (1,174,932) |
| Decrease (Increase) in deferred taxes | 413,000 | 315,000 |
| Net cash provided by operating activities | (585,852) | 1,051,550 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of fixed assets | (89,348) | (298,365) |
| Net cash consumed by investing activities | (89,348) | (298,365) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Stock repurchase | - | (162,000) |
| Net cash consumed by financing activities | - | (162,000) |
| Net (decrease) increase in cash | (675,200) | 591,185 |
| CASH BALANCE - beginning | 1,226,918 | 635,733 |
| CASH BALANCE - ending | $ 551,718 | $ 1,226,918 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | $ 310,339 | $ 232,836 |
| Income taxes paid | $ 1,020,968 | $ 2,293,841 |

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

BROOKSTREET SECURITIES CORPORATION

Statements of Changes in Liabilities
Subordinated To Claims of General Creditors

For The Years Ended June 30, 2006 and 2005

Not applicable.

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

## THE COMPANY

Brookstreet Securities Corporation (a California corporation), "the Company", is a registered securities broker/dealer. The Company sells financial products, primarily mutual funds, securities and insurance, through independent registered representatives.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and practices of the Company are as follows:

Accounting method - the Company uses the accrual method of accounting for financial statement reporting and for income tax preparation.

Recognition of sales and income - securities transactions are recorded on a settlement basis. The marketable securities are marked to market and the difference between cost and market value is included in the statement of operations. The securities are classified as trading securities. (See Note 6)

Furniture and fixtures - fixed assets are stated at cost. Repairs and maintenance expenditures, which do not extend the useful life of the assets owned, are expensed as incurred. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets.

Income taxes - a provision has been made for the estimated amount of income taxes which are payable currently and in the future. (See Note 7) As of July 1, 2006, the Company has elected to become an S Corporation for federal and state income tax purposes. As a result of this election, the Company will change its fiscal year-end to December 31.

Concentration of risks - the Company maintains its cash accounts in financial institutions guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. At June 30, 2006 and 2005, the cash balances exceeded the FDIC limit.

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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Comprehensive income – Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, (SFAS 130), requires that total comprehensive income be reported in the financial statements. Comprehensive income is the same as net income as reported in the Statements of Income for the years ended June 30, 2006 and 2005.

**NOTE 2 - ACCOUNTS RECEIVABLE/COMMISSIONS PAYABLE**

Accounts receivable consists primarily of commissions due the Company from the sale of securities, principally mutual funds and government securities.

The commissions payable represents amounts due to the Company's sales representatives in connection with the sale of securities.

**NOTE 3 - DEPOSITS**

Deposits as of June 30, 2006 and 2005, consist of the following:

| | 2006 | 2005 |
|---|---|---|
| National Financial Services Corporation (NFSC) | $ 50,000 | $ 50,000 |
| National Security Clearing Corporation (NSCC) | 40,109 | 40,109 |
| Cantor Fitzgerald | 198,062 | 198,480 |
| Wedbush | 105,360 | 109,024 |
| | $ 393,531 | $ 397,613 |

NFSC, NSCC and Wedbush are the Company's clearinghouses. The deposit with Cantor Fitzgerald relates to the Company's bond trading.

**NOTE 4 - FIXED ASSETS**

Fixed assets are stated at cost and as of June 30, 2006 and 2005, consist of the following:

| | 2006 | 2005 |
|---|---|---|
| Computers, office equipment and software | $ 543,674 | $ 476,097 |
| Office furniture and fixtures | 325,535 | 303,764 |
| | 869,209 | 779,861 |
| Less accumulated depreciation | (524,780) | (392,409) |
| Net fixed assets | $ 344,429 | $ 387,452 |

Depreciation expense for the years ended June 30, 2006 and 2005, was $132,371 and $92,726, respectively.

## NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Included in accounts payable is \$3,603,980 and \$1,840,409 as of June 30, 2006 and 2005, respectively, relating to the purchase of marketable securities.

## NOTE 6 - NOTE PAYABLE – BANK

The Company has available a \$1,000,000 revolving line of credit from its bank at an interest rate of prime plus ¼% per annum.

## NOTE 8 - CAPITAL STOCK

During the year ended June 30, 2005, the Company entered into a stock repurchase agreement to acquire the stock of the minority shareholders for \$162,000.

## NOTE 8 - PROVISION FOR INCOME TAXES

The Company provides for income taxes under Financial Accounting Standard 109 (FAS 109), which uses an asset and liability approach in recognizing timing differences. This approach requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of other assets and liabilities. As of June 30, 2006 and 2005, the deferred tax asset was \$211,000 and \$624,000, respectively. The deferred tax asset arises mainly from a legal reserve temporary timing difference that will be deductible in future periods for tax purposes, depreciation differences and the future benefit of the state income tax deduction.

The provision for income taxes at June 30, 2006 and June 30, 2005, consists of the following:

| | Current | Deferred | Total |
|---|---|---|---|
| **2006** | | | |
| Federal | \$ 1,413,781 | \$ 314,000 | \$ 1,727,781 |
| State | 389,484 | 99,000 | 488,484 |
| | \$ 1,803,265 | \$ 413,000 | \$ 2,216,265 |
| **2005** | | | |
| Federal | \$ 848,793 | \$ 271,000 | \$ 1,119,793 |
| State | 270,241 | 44,000 | 314,241 |
| | \$ 1,119,034 | \$ 315,000 | \$ 1,434,034 |

**NOTE 9 - NET CAPITAL REQUIREMENT**

As of June 30, 2006 and 2005, the Company had met its net capital requirement pursuant to SEC Rule 15c-1. As of these dates, the Company had net capital in the amount of $5,299,988 and $4,054,691, respectively, which was $4,808,322 and $3,429,416 in excess of its required net capital of $491,666 and $625,276, respectively.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

The Company leases its office space in Irvine under an operating lease which has been renewed and amended at various times throughout the lease term. Currently, the monthly rent expense is $61,928 and is due to expire in December 2010. Rent expense for the years ended June 30, 2006 and 2005, is $791,011 and $755,699, respectively.

The Company also leases equipment under an operating lease which expires in 2005.

The minimum future lease payments under the non-cancelable operating leases as of June 30, 2006, through the remainder of the lease terms, are as follows:

| | | |
|---|---|---|
| For year ended June 30, | 2007 | $734,618 |
| | 2008 | $763,200 |
| | 2009 | $773,236 |
| | 2010 | $773,236 |

The Company is also subject to various claims and lawsuits which arose primarily in the ordinary course of business.

The Company intends to vigorously defend all actions and, based on its present understanding of the law and the facts, believes it has meritorious defenses to the alleged claims; however, the ultimate outcome of the lawsuits cannot presently be determined. As of June 30, 2006 and 2005, the Company has included in its financial statements an allowance for estimated losses.

As an underwriter of direct private placements, the Company may receive options/warrants relating to the direct private placements that can be exercised in the future. Since the value of these future options/warrants cannot readily be determined, no amount has been recorded in the current financial statements.

**NOTE 11 - EMPLOYEE BENEFIT PLAN**

During the year ended June 30, 2002, the Company adopted a 401(k) and Profit Sharing Plan. Employer contributions were $275,569 and $254,849 for the years ended June 30, 2006 and 2005, respectively.

**BROOKSTREET SECURITIES CORPORATION**
Computations of Net Capital Pursuant to Rule 15c3-1
June 30, 2006 and 2005

| | 2006 | 2005 |
|---|---|---|
| COMPUTATION OF NET CAPITAL | | |
| Total ownership equity: | | |
| Stockholders' equity (from balance sheet) | $ 10,579,946 | $ 7,436,558 |
| Deductions: | | |
| Prepaid expenses and other assets | (2,778,577) | (814,862) |
| Marketable securities haircut | (1,276,452) | (973,394) |
| Fixed assets | (344,429) | (387,452) |
| Deferred tax asset | (211,000) | (624,000) |
| Restricted securities | (669,500) | (582,158) |
| | (5,279,958) | (3,381,866) |
| Net Capital | $ 5,299,988 | $ 4,054,692 |
| COMPUTATION OF BASIC NET CAPITAL REQUIREMENTS | | |
| Minimum dollar net capital requirement | $ 250,000 | $ 250,000 |
| Minimum net capital (6-2/3% of aggregate indebtedness) | 491,666 | 625,276 |
| Excess Net Capital | $ 4,808,322 | $ 3,429,416 |
| COMPUTATION OF AGGREGATE INDEBTEDNESS | | |
| Total aggregate indebtedness (from balance sheet) (less non AI Liabilities of $2,951,555 and $65,578 in 2006 and 2005) | $ 7,371,306 | $ 9,374,453 |
| Ratio of aggregate indebtedness to Net Capital | 1.39 to 1 | 2.31 to 1 |

RECONCILIATION

The following is a reconciliation as of June 30, 2006 and 2005, of the above net capital computation with the Company's corresponding unaudited computation pursuant to Rule 17a-5(d)(4):

| | 2006 | 2005 |
|---|---|---|
| Net Capital - Company's computation | $ 5,366,413 | $ 4,733,443 |
| Reconciling items: | | |
| Accounts payable accrual | (109,095) | (128,643) |
| Legal/settlement accrual | - | (111,500) |
| Income tax provision adjustment | 43,652 | (438,608) |
| Haircut adjustment | (982) | - |
| Net Capital | $ 5,299,988 | $ 4,054,692 |

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

**BROOKSTREET SECURITIES CORPORATION**
Computation for Determination of Reserve Requirements
Pursuant to Rule 15c3-3
June 30, 2006 and 2005

The respondent claims an exemption under paragraph (k)(2)(ii) of SEC Rule 15c3-3.

**BROOKSTREET SECURITIES CORPORATION**
Information Relating to the Possession or Control
Requirements Under Rule 15c3-3
June 30, 2006 and 2005

The respondent claims an exemption under paragraph (k)(2)(ii) of SEC Rule 15c3-3.

LaVine
& Associates
Certified Public Accountants, Inc.

**Independent Auditor's Report On Internal Control Structure Required By SEC Rule 17a-5**

Board of Directors
Brookstreet Securities Corporation
Irvine, California

In planning and performing our audits of the financial statements and supplemental schedules of Brookstreet Securities Corporation (the Company), for the years ended June 30, 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.

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 the objectives stated in rule 17a-5(g), in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3-3(e). Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons

2. 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

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 SEC's above-mentioned 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 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 generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.



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Because of inherent limitations in any internal control structure or 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 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, we noted no matters involving the internal control structure, including procedures for safeguarding securities, which 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 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 our study, we believe that the Company's practices and procedures were adequate at June 30, 2006 and 2005, to meet the SEC's objectives.

This report is intended solely for the use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on rule 17a-5(g) under the Securities and Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

LaVine & Associates CPAs, Inc.

Mission Viejo, California
August 22, 2006