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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  
8-52876

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/05 AND ENDING 12/31/05  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: HALES CAPITAL SECURITIES

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

101 LARKSPUR LANDING  
LARKSPUR (City) CA (State) 94939 (Zip Code)  
SECURITIES AND EXCHANGE COMMISSION  
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SEP 25 2006  
BRANCH OF REGISTRATIONS AND EXAMINATIONS  
03

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

ELAINE ANDRIAN (Name) 415 464-2204 (Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

ATT & COMPANY, PLLC (Name - if individual, state last, first, middle name)  
1454 RT. 22, SUITE A-104 (Address) BREWSTER (City) 10509 (Zip Code)

CHECK ONE:

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

SECURITIES AND EXCHANGE COMMISSION  
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03

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THOMSON  
FINANCIAL

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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11/9

**HALES CAPITAL SECURITIES**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTAL INFORMATION**

**FOR THE YEAR ENDED DECEMBER 31, 2005**  
**with Report of Independent Auditors**

**HALES CAPITAL SECURITIES  
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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P.O. Box 253  
Golden's Bridge, New York 10526

## Report of Independent Auditors

To the Stockholder and Board of Directors  
of Hales Capital Securities

We have audited the accompanying statement of financial condition of Hales Capital Securities (the "Company") as of December 31, 2005 and the related statements of operations, changes in stockholder's equity 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 financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 Hales Capital Securities at 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II 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 Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in our audit of the financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Atti & Company, PLLC*

January 13, 2006

**HALES CAPITAL SECURITIES**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2005**

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**ASSETS**

**Current Assets:**

Cash	\$ 43,536
Accounts receivable	5,613
Prepaid expenses	377
	<u>49,526</u>

**Other Assets:**

Goodwill	59,270
Deferred tax benefits (Note 5)	11,895
	<u>71,165</u>

**Total assets** \$ 120,691

**LIABILITIES AND STOCKHOLDER'S EQUITY**

**Current Liabilities:**

Income taxes payable (Note 5)	\$ 2,519
Accrued professional and other expenses	3,150
	<u>5,669</u>

**Stockholder's equity:**

Common stock, no par value	
Authorized shares – 15,000,000	
Issued and outstanding – 10,000	7,200
Preferred stock, no par value	
Authorized shares – 7,500,000	
Issued and outstanding - 0	-
Additional paid-in-capital	151,743
Accumulated deficit	(43,921)
	<u>115,022</u>

**Total liabilities and stockholder's equity** \$ 120,691

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

**HALES CAPITAL SECURITIES  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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**Revenues:**

Finance engagements	<u>\$ 65,000</u>
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**Expenses:**

Expenses charged by parent (Note 4)	40,718
Professional fees	2,950
Other expenses	3,305
	<u>46,973</u>

**Income before taxes**

18,027

Credit for income taxes

8,576

**Net Income**

\$ 26,603

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

**HALES CAPITAL SECURITIES**  
**STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Common Stock</u>	<u>Additional Paid-in- Capital</u>	<u>Accumulated Deficit</u>	<u>Total Shareholder's Equity</u>
Balance at beginning of year	\$ 7,200	\$ 146,743	\$ (70,524)	\$ 83,419
Contributions	-	5,000	-	5,000
Net income	-	-	26,603	26,603
Balance at end of year	<u>\$ 7,200</u>	<u>\$ 151,743</u>	<u>\$ (43,921)</u>	<u>\$ 115,022</u>

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

**HALES CAPITAL SECURITIES  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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**Cash flows from operating activities:**

Net income	\$ 26,603
Deferred tax benefits	(11,895)
Increase in accounts receivable and prepaid expenses	(5,254)
Increase in income taxes payable and accrued expense	3,819
	<u>13,273</u>

**Cash flows from financing activities:**

Contributions to additional paid-in-capital	<u>5,000</u>
<b>Net increase in cash</b>	18,273
<b>Cash at beginning of year</b>	<u>25,263</u>
<b>Cash at end of year</b>	<u>\$ 43,536</u>

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

**HALES CAPITAL SECURITIES  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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**1. Summary Description of Business Activities**

Hales Capital Securities (formerly eEquityhound Securities Corporation) (the "Company") is a corporation formed on August 21, 2000 in the state of California. The Company received its license from the National Association of Securities Dealers, Inc. ("NASD") to become a licensed securities broker-dealer in May 2001. In addition, the Company is registered as a broker-dealer with the Securities and Exchange Commission ("SEC").

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP").

Effective July 16, 2002, all of the common stock of the Company was acquired for cash by Hales Group, Inc. (formerly MBJC Holdings, Inc.) The acquisition resulted in a new basis of accounting for the Company. The net purchase price, plus acquisition costs, of \$59,270, was recorded as goodwill in the Company's financial statements.

As a wholly-owned subsidiary, the financial statements of the Company do not necessarily reflect the results of operations or financial condition that would have existed had the Company been an independent entity.

**Use of Estimates**

The preparation of the financial statements in conformity with GAAP 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. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from those estimates.

**3. Net Capital Requirement**

As a registered broker-dealer, the Company is subject to the SEC's Uniform Net Capital Rule 15c3-1 (the "Rule") that requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital not exceed 15 to 1, both as defined by the Rule. At December 31, 2005 the Company had net capital of \$32,867 in excess of its required net capital of \$5,000. The Company's ratio of aggregate indebtedness to net capital was .150 to 1 at December 31, 2005.

#### 4. Services From Parent

Hales Group, Inc. provides general and administrative services to the Company. Such services amounted to \$ 40,718 in 2005 and comprised:

Salaries and benefits	\$ 39,651
Rent	843
Other	<u>224</u>
	<u>\$ 40,718</u>

#### 5. Income Taxes

The Company is included in the consolidated tax returns filed by its parent and other members of the group. Taxes payable by the Company are calculated as if it were a separate taxpayer. Federal income taxes are computed using the maximum corporate tax rate. California taxes are calculated in a manner consistent with the federal income tax calculation approach.

The Company accounts for income taxes under the provisions of SFAS No. 109 "Accounting for Income Taxes". SFAS No. 109 requires recognition of deferred tax assets for expected future tax benefits associated with net operating loss carryforwards (NOLCs). As a result of the change in ownership of the parent company in October 2004, the Company's NOLCs have been limited under the tax rules.

Management currently believes that it is more likely than not that the tax benefits related to the NOLCs will be realized fully. Accordingly, the Company has reflected a tax credit in its income tax provision for 2005 and has recorded a deferred tax asset of \$11,895 as of December 31, 2005.

The provision (credit) for taxes on income in 2005 consists of :

Current:		
Federal		
Computed per agreement		\$ 2,704
Utilization of NOLC		<u>(612)</u>
		<u>2,092</u>
California		
Computed per agreement		1,594
Utilization of NOLC		<u>(367)</u>
		<u>1,227</u>
Deferred:		
NOLC tax benefits		
Federal		(9,291)
California		<u>(2,604)</u>
		<u>(11,895)</u>
Total Provision (Credit):		<u>\$ (8,576)</u>

The Company had NOLCs of approximately \$62,000 and \$29,000 at December 31, 2005 for federal and California income tax purposes, respectively. Federal and California expiration dates range from 2022 through 2024 and 2012 through 2014, respectively.

**HALES CAPITAL SECURITIES**  
**COMPUTATION OF NET CAPITAL REQUIREMENT UNDER RULE 15c3-1**  
**DECEMBER 31, 2005**

**Net capital**

Total shareholder's equity qualified for net capital	\$ 115,022
Less non-allowable assets	<u>(77,155)</u>

<b>Net capital</b>	<b>\$ <u>37,867</u></b>
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**Aggregate indebtedness**

Items included in statement of financial condition:	
Income taxes payable	\$ 2,519
Accrued expenses	<u>3,150</u>

<b>Total aggregate indebtedness</b>	<b>\$ <u>5,669</u></b>
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**Computation of basic net capital requirement**

Net capital	\$ 37,867
Minimum net capital required	<u>(5,000)</u>

<b>Excess net capital</b>	<b>\$ <u>32,867</u></b>
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<b>Ratio: Aggregate indebtedness to net capital</b>	<b><u>.150 to 1</u></b>
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*There were no differences between the audited Computation of Net Capital included in this report and the corresponding schedules included in the Company's unaudited December 31, 2005 Part IIA FOCUS filing, as amended.*

**HALES CAPITAL SECURITIES  
STATEMENT REGARDING RULE 15c3-3  
DECEMBER 31, 2005**

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The Company is exempt from Rule 15c3-3 of the Securities and Exchange Commission under paragraph (k)(2)(ii) of that Rule.