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SECURITY

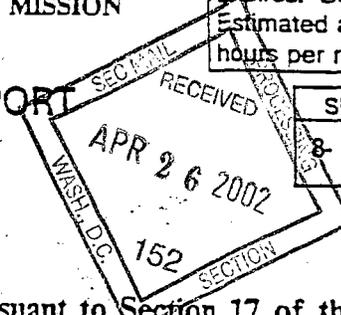


MISSION

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



SEC FILE NUMBER
8- 47955

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 01/01/01 AND ENDING 12/31/01
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

CEROS BROKER SERVICE, INC.

OFFICIAL USE ONLY
37869
FIRM ID. NO.

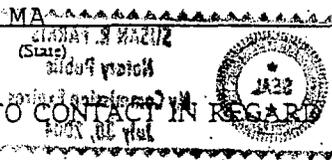
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

17 MONSIGNOR O'BRIEN HIGHWAY

(No. and Street)

E. CAMBRIDGE

(City)



02141

(Zip Code)

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

MICHAEL D. KOPPEL, CPA

781-407-0300

(Area Code -- Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

GRAY, GRAY & GRAY, LLP

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

34 SOUTHWEST PARK

(Address)

WESTWOOD

(City)

MA

(State)

02090

(Zip Code)

CHECK ONE:

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

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PROCESSED
MAY 02 2002
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 (3-91)

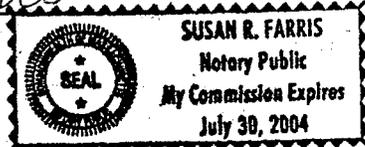
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, MARK HAUSMAN, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CEROS BROKER SERVICE, INC., as of DECEMBER 31, 2001, 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:

Mark Hausman
Signature
Partner
Title

Susan R. Farris
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.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's 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 15c3-1 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).

Form
X-17A-5

FOCUS REPORT
(Financial and Operational Combined Uniform Single Report)
PART II 11

(Please read instructions before preparing Form.)

This report is being filed pursuant to (Check Applicable Block(s)):

- 1) Rule 17a-5(a) 16 2) Rule 17a-5(b) 17 3) Rule 17a-11 18
4) Special request by designated examining authority 19 5) Other 26

NAME OF BROKER-DEALER	SEC FILE NO.
CEROS BROKER SERVICE, INC. <input type="checkbox"/> 13	8-47955 <input type="checkbox"/> 1
ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do Not Use P.O. Box No.)	FIRM I.D. NO.
17 MONSIGNOR O'BRIEN HIGHWAY <input type="checkbox"/> 20	37869 <input type="checkbox"/> 1
(No. and Street)	FOR PERIOD BEGINNING (MM/DD/YY)
E. CAMBRIDGE <input type="checkbox"/> 21 MA <input type="checkbox"/> 22 02141 <input type="checkbox"/> 23	01/01/01 <input type="checkbox"/> 2
(City) (State) (Zip Code)	AND ENDING (MM/DD/YY)
	12/31/01 <input type="checkbox"/> 2

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT	(Area Code)—Telephone No.
MICHAEL D. KOPPEL, CPA <input type="checkbox"/> 30	781-407-0300 <input type="checkbox"/> 3
NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT:	OFFICIAL USE
<input type="checkbox"/> 32	<input type="checkbox"/> 3
<input type="checkbox"/> 34	<input type="checkbox"/> 3
<input type="checkbox"/> 36	<input type="checkbox"/> 3
<input type="checkbox"/> 38	<input type="checkbox"/> 3

DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNTS? YES 40 NO 4

CHECK HERE IF RESPONDENT IS FILING AN AUDITED REPORT 4

EXECUTION:

The registrant/broker or dealer submitting this Form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated the 27th day of MARCH 2002

Manual signatures of:

- 1) [Signature]
Principal Executive Officer or Managing Partner
- 2) _____
Principal Financial Officer or Partner
- 3) _____
Principal Operations Officer or Partner

ATTENTION—Intentional misstatements or omissions of facts constitute Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 78f(a))

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report

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

GRAY, GRAY & GRAY, LLP

70

ADDRESS

34 SOUTHWEST PARK

71

WESTWOOD

72

MA

73

02090

74

Number and Street

City

State

Zip Code

CHECK ONE

Certified Public Accountant

75

Public Accountant

76

Accountant not resident in United States
or any of its possessions

77

FOR SEC USE

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DO NOT WRITE UNDER THIS LINE... FOR SEC USE ONLY

WORK LOCATION	REPORT DATE MM/DD/YY	DOC. SEQ. NO.	CARD				
50	51	52	53				

**FINANCIAL AND OPERATIONAL UNIFORM SINGLE REPORT
PART II**

BROKER OR DEALER	CEROS BROKER SERVICE, INC.	N 2			100
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STATEMENT OF FINANCIAL CONDITION

as of (MM/DD/YY)	12/31/01	99
SEC FILE NO.	8-47955	98
Consolidated	<input type="checkbox"/>	198
Unconsolidated	<input checked="" type="checkbox"/>	199

	<u>ASSETS</u>			
	<u>Allowable</u>	<u>Non-Allowable</u>	<u>Total</u>	
1. Cash	1,116	200		1,116
2. Cash segregated in compliance with federal and other regulations		210		210
3. Receivable from brokers or dealers and clearing organizations:				
A. Failed to deliver:				
1. Includable in "Formula for Reserve Requirements"		220		
2. Other		230		0
B. Securities borrowed:				
1. Includable in "Formula for Reserve Requirements"		240		
2. Other		250		0
C. Omnibus accounts:				
1. Includable in "Formula for Reserve Requirements"		260		
2. Other		270		0
D. Clearing organizations:				
1. Includable in "Formula for Reserve Requirements"		280		
2. Other	31,431	290		31,431
E. Other	33,384	300	0	33,384
4. Receivables from customers:				
A. Securities accounts:				
1. Cash and fully secured accounts		310		
2. Partly secured accounts		320	560	
3. Unsecured accounts			570	
B. Commodity accounts		330	580	
C. Allowance for doubtful accounts	()	335	()	590
5. Receivables from non-customers:				
A. Cash and fully secured accounts		340		
B. Partly secured and unsecured accounts		350	50,665	50,665
6. Securities purchased under agreements to resell		360	605	605
7. Securities and spot commodities owned, at market value:				
A. Bankers acceptances, certificates of deposit and commercial paper		370		
B. U.S. and Canadian government obligations		380		
C. State and municipal government obligations		390		
D. Corporate obligations		400		

OMIT PENNIES

**FINANCIAL AND OPEF TIONAL COMBINED UNIFORM STATEMENT REPORT
PART II**

BROKER OR DEALER

CEROS BROKER SERVICE, INC.

as of DECEMBER 31, 2001

STATEMENT OF FINANCIAL CONDITION

		<u>ASSETS</u>			
		<u>Allowable</u>	<u>Nonallowable</u>	<u>Total</u>	
E. Stocks and warrants	\$	410			
F. Options		420			
G. Arbitrage		422			
H. Other securities		340	424		
I. Sport commodities		430			
	\$			340	850
8. Securities owned not readily marketable:					
A. At Cost	\$	130	440	610	860
9. Other investments not readily marketable:					
A. At Cost	\$	140			
B. At estimated fair value		450	620		870
10. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:					
A. Exempted securities	\$	150			
B. Other	\$	160	460	630	880
11. Secured demand notes - market value of collateral:					
Exempted securities	\$	170			
Other	\$	180	470	640	890
12. Memberships in exchanges:					
Owned, at market value	\$	190			
Owned at cost			650		
Contributed for use of company, at market value			660		900
13. Investment in and receivables from affiliates, subsidiaries and associated partnerships		480	670		910
14. Property, furniture, equipment, leasehold improvements and rights under lease agreements:					
Cost (net of accumulated depreciation and amortization)		490	5,302	680	5,302
15. Assets:					
Dividends and interest receivable		500		690	
Shipments		510		700	
Loans and advances		520		710	
Other miscellaneous		530	2,294	720	2,294
16. TOTAL ASSETS	\$	66,271	58,261	740	124,532
	\$				940

OMIT PENNIES

**FINANCIAL AND OPERATIONAL UNIFORM SINGLE REPORT
PART II**

BROKER OR DEALER

CEROS BROKER SERVICE, INC.

as of DECEMBER 31, 2001

STATEMENT OF FINANCIAL CONDITION

LIABILITIES AND OWNERSHIP EQUITY

<u>Liabilities</u>	<u>A.I. Liabilities*</u>	<u>Non-A.I. Liabilities*</u>	<u>Total</u>
17. <u>Bank loans payable:</u>			
A. Includable in "Formula for Reserve Requirements"	\$ 1030	\$ 1240	\$ 0 1460
B. Other	1040	1250	0 1470
18. Securities sold under repurchase agreement		1260	0 1480
19. Payable to brokers or dealers and clearing organizations:			
A. Failed to receive:			
1. Includable in "Formula for Reserve Requirements"	1050	1270	0 1490
2. Other	1060	1280	0 1500
B. Securities loaned:			
1. Includable in "Formula for Reserve Requirements"	1070		0 1510
2. Other	1080	1290	0 1520
C. Omnibus accounts:			
1. Includable in "Formula for Reserve Requirements"	1090		0 1530
2. Other	1095	1300	0 1540
D. Clearing organizations:			
1. Includable in "Formula for Reserve Requirements"	1100		0 1550
2. Other	26 1105	1310	26 1560
E. Other	1110	1320	0 1570
20. Payable to customers:			
A. Securities accounts-including free credits of \$	950 1120		0 1580
B. Commodities accounts	1130	1330	0 1590
21. Payable to non customers:			
A. Securities accounts	1140	1340	0 1600
B. Commodities accounts	1150	1350	0 1610
22. Securities sold not yet purchased at market value-including arbitrage of \$	960	1360	0 1620
23. Accounts payable and accrued liabilities and expenses:			
A. Drafts payable	1160		0 1630
B. Accounts payable	23,004 1170		23,004 1640
C. Income taxes payable	456 1180		456 1650
D. Deferred income taxes		0 1370	0 1660
E. Accrued expenses and other liabilities	1190		0 1670
F. Other	1200	1380	0 1680

OMIT-PENNIES

*Brokers or Dealers electing the alternative net capital requirement method need not complete these columns.

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM STATEMENT REPORT
PART II**

BROKER OR DEALER

CEROS BROKER SERVICE, INC.

as of DECEMBER 31, 2001

STATEMENT OF FINANCIAL CONDITION

LIABILITIES AND OWNERSHIP EQUITY (continued)

<u>Liabilities</u>	<u>A.I. Liabilities*</u>		<u>Non-A.I. Liabilities*</u>		<u>Total</u>	
4. Notes and mortgages payable:						
A. Unsecured	\$	1210			\$	0
B. Secured	\$	1211	\$	1390	\$	0
5. Liabilities subordinated to claims of general creditors:						
A. Cash borrowings:						
1. from outsiders	\$	970		1400		0
2. Includes equity subordination (15c3-1(d)) of ...	\$	980				1710
B. Securities borrowings, at market value from outsiders	\$	990		1410		0
C. Pursuant to secured demand note collateral agreements:				1420		0
1. from outsiders	\$	1000				1730
2. Includes equity subordination (15c3-1(d)) of ...	\$	1010				
D. Exchange memberships contributed for use of company, at market value				1430		0
E. Accounts and other borrowings not qualified for net capital purposes		1220		1440		0
5. TOTAL LIABILITIES	\$	23,486	\$	0	\$	23,486
		1230		1450		1760
Ownership Equity						
7. Sole proprietorship					\$	1770
8. Partnership-limited partners	\$	1020				1780
9. Corporation:						
A. Preferred stock						1791
B. Common stock					\$	150,000
C. Additional paid-in capital						1793
D. Retained earnings						(48,954)
E. Total						101,046
F. Less capital stock in treasury						(1796)
10. TOTAL OWNERSHIP EQUITY					\$	101,046
11. TOTAL LIABILITIES AND OWNERSHIP EQUITY					\$	124,532
						1810

OMIT PENNIES

Brokers or Dealers electing the alternative net capital requirement method need not complete these columns.

**FINANCIAL AND OPERATIONAL UNIFORM SINGLE REPORT
PART II**

BROKER OR DEALER **CEROS BROKER SERVICE, INC.**

as of **DECEMBER 31, 2001**

COMPUTATION OF NET CAPITAL

1. Total ownership equity from Statement of Financial Condition - Item 1800	\$	101,046		3480
2. Deduct: Ownership equity not allowable for Net Capital				3490
3. Total ownership equity qualified for Net Capital		101,046		3500
4. Add:				
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital			0	3520
B. Other (deductions) or allowable credits (List)			0	3525
5. Total capital and allowable subordinated liabilities	\$	101,046		3530
6. Deductions and/or charges:				
A. Total nonallowable assets from Statement of Financial Condition (Notes B and C)	\$	58,261		3540
1. Additional charges for customers' and non-customers' security accounts	\$			3550
2. Additional charges for customers' and non-customers' commodity accounts				3560
B. Aged fail-to-deliver				3570
1. Number of items			3450	
C. Aged short security differences-less reserve of	\$		3470	3580
number of items			3470	
D. Secured demand note deficiency				3590
E. Commodity futures contracts and spot commodities - proprietary capital charges				3600
F. Other deductions and/or charges				3610
G. Deductions for accounts carried under Rule 15c3-1(a)(6), (a)(7) and (c)(2)(x)				3615
H. Total deductions and/or charges				3620
7. Other additions and/or allowable credits (List)			0	3630
8. Net capital before haircuts on securities positions	\$		42,785	3640
9. Haircuts on securities: (computed, where applicable, pursuant to 15c3-1(f)):				
A. Contractual securities commitments	\$			3660
B. Subordinated securities borrowings				3670
C. Trading and investment securities:				3680
1. Bankers' acceptances, certificates of deposit and commercial paper				3690
2. U.S. and Canadian government obligations				3700
3. State and municipal government obligations				3710
4. Corporate obligations				3720
5. Stocks and warrants				3730
6. Options				3732
7. Arbitrage				3734
8. Other securities		744		3736
D. Undue Concentration				3650
E. Other (list)				3736
10. Net Capital	\$		42,041	3750

OMIT PENNIES

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM STATEMENT REPORT
PART II**

BROKER OR DEALER: CEROS BROKER SERVICE, INC.

as of DECEMBER 31, 2001

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A

1. Minimum net capital required (6 2/3% of line 19)	\$ 1,566	3756
2. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$ 30,000	3758
3. Net capital requirement (greater of line 11 or 12)	\$ 30,000	3760
4. Excess net capital (line 10 less 13)	\$ 12,041	3770
5. Excess net capital at 1000% (line 10 less 10% of line 19)	\$ 39,692	3780

COMPUTATION OF AGGREGATE INDEBTEDNESS

1. Total A.L. liabilities from Statement of Financial Condition	\$ 23,486	3790
2. Add:		
A. Drafts for immediate credit	\$ 3800	
B. Market value of securities borrowed for which no equivalent value is paid or credited	\$ 3810	
C. Other unrecorded amounts (List)	\$ 0	3820
3. Deduct: Adjustment based on deposits in Special Reserve Bank Accounts (15c3-1(c)(1)(vii))	\$	3838
4. Total aggregate indebtedness	\$ 23,486	3840
5. Percentage of aggregate indebtedness to net capital (line 19 ÷ by line 10)	% 55.86	3850
6. Percentage of aggregate indebtedness to net capital <u>after</u> anticipated capital withdrawals (line 19 ÷ by line 10 less item 4880 page 11)	% 55.86	3853

COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT

Part B

2. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits	\$	3870
3. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	3880
4. Net capital requirement (greater of line 22 or 23)	\$	3760
5. Excess net capital (line 10 less 24)	\$	3910
6. Percentage of Net Capital to Aggregate Debits (line 10 ÷ by line 17 page 8)	%	3851
7. Percentage of Net Capital, <u>after</u> anticipated capital withdrawals, to Aggregate Debits (Line 10 less item 4880 page 11 ÷ by line 17 page 8)	%	3854
8. Net capital in excess of the greater of:		
A. 5% of combined aggregate debit items or \$120,000	\$	3920

OTHER RATIOS

Part C

9. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1 (d)	%	3860
10. Options deductions/Net Capital ratio (1000% test) total deductions exclusive of liquidating equity under Rule 15c3-1(a)(6), (a)(7) and (c)(2)(x) ÷ Net Capital	%	3852

NOTES:

- A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
 - 1. Minimum dollar net capital requirement, or
 - 2. 6 2/3% of aggregate indebtedness or 2% of aggregate debits if alternative method is used.
- B) Do not deduct the value of securities borrowed under subordination agreements or secured demand notes covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.
- C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

REVENUE STATEMENT OF INCOME (LOSS)

1. Commissions:		
a. Commissions on transactions in listed equity securities executed on an exchange	\$ 92,450	3935
b. Commissions on transactions in exchange-listed equity securities executed over-the-counter		3937
c. Commissions on listed option transactions	44,740	3938
d. All other securities commissions	79,827	3939
e. Total securities commissions	217,017	3940
2. Gains or losses on firm securities trading accounts		
a. From market making in over-the-counter equity securities		3941
1. Includes gains or (losses) OTC market making in exchange listed equity securities	3943	
b. From trading in debt securities		3944
c. From market making in options on a national securities exchange		3945
d. From all other trading		3949
e. Total gains or (losses)		3950
3. Gains or losses on firm securities investment accounts		
a. Includes realized gains (losses)	4235	
b. Includes unrealized gains (losses)	4236	
c. Total realized and unrealized gains (losses)		3952
4. Profits or (losses) from underwriting and selling groups		3955
a. Includes underwriting income from corporate equity securities	4237	
5. Margin interest		3960
6. Revenue from sale of investment company shares		3970
7. Fees for account supervision, investment advisory and administrative services	24,837	3975
8. Revenue from research services		3980
9. Commodities revenue		3990
10. Other revenue related to securities business		3985
11. Other revenue	2,487	3995
12. Total revenue	\$ 244,341	4030

EXPENSES

13. Registered representatives' compensation		4110
14. Clerical and administrative employees' expenses		4040
15. Salaries and other employment costs for general partners, and voting stockholder officers	48,960	4120
a. Includes interest credited to General and Limited Partners capital accounts	4130	
16. Floor brokerage paid to certain brokers (see definition)		4055
17. Commissions and clearance paid to all other brokers (see definition)	106,492	4145
18. Clearance paid to non-brokers (see definition)		4135
19. Communications		4060
20. Occupancy and equipment costs		4080
21. Promotional costs		4150
22. Interest expense	0	4075
a. Includes interest on accounts subject to subordination agreements	4070	
23. Losses in error account and bad debts		4170
24. Data processing costs (including service bureau service charges)		4186
25. Non-recurring charges		4190
26. Regulatory fees and expenses	2,864	4195
27. Other expenses	81,149	4100
28. Total expenses	\$ 239,465	4200

NET INCOME

29. Income (loss) before Federal income taxes and items below (Item 12 less Item 28)	4,876	4210
30. Provision for Federal income taxes (for parent only)	(439)	4220
31. Equity in earnings (losses) of unconsolidated subsidiaries not included above		4222
a. After Federal income taxes of	4238	
32. Extraordinary gains (losses)		4224
a. After Federal income taxes of	4239	
33. Cumulative effect of changes in accounting principles		4225
34. Net income (loss) after Federal income taxes and extraordinary items	\$ 4,437	4230

MONTHLY INCOME

35. Income (current month only) before provision for Federal income taxes and extraordinary items	\$	4211
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FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART II

BROKER OR DEALER

CEROS BROKER SERVICE, INC.

as of DECEMBER 31, 2001

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS FOR BROKER-DEALERS UNDER RULE 15c-3-3 (See Rule 15c3-3, Exhibit A and Related Notes)

CREDIT BALANCES

1. Free credit balances and other credit balances in customers' security accounts (see Note A, Exhibit A, Rule 15c3-3)	\$	4340
2. Monies borrowed collateralized by securities carried for the accounts of customers (See Note B)		4350
3. Monies payable against customers' securities loaned (see Note C)		4360
4. Customers' securities failed to receive (see Note D)		4370
5. Credit balances in firm accounts which are attributable to principal sales to customers		4380
6. Market value of stock dividends, stock splits and similar distributions receivable outstanding over 30 calendar days		4390
7. **Market value of short security count differences over 30 calendar days old		4400
8. **Market value of short securities and credits (not to be offset by longs or by debits) in all suspense accounts over 30 calendar days		4410
9. Market value of securities which are in transfer in excess of 40 calendar days and have not been confirmed to be in transfer by the transfer agent or the issuer during the 40 days		4420
10. Other (List)	0	4425
11. TOTAL CREDITS	\$	0 4430

DEBIT BALANCES

12. **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	\$	4440
13. Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver		4450
14. Failed to deliver of customers' securities not older than 30 calendar days		4460
15. Margin required and on deposit with Options Clearing Corporation for all option contracts written or purchased in customer accounts (see Note F)		4465
16. Other (List)	0	4469
17. **Aggregate debit items	\$	0 4470
18. **Less 3% (for alternative method only—see Rule 15c3-1(f)(5)(i))	() 4471
19. **TOTAL 15c3-3 DEBITS	\$	0 4472

RESERVE COMPUTATION

20. Excess of total debits over total credits (line 19 less line 11)	\$	4480
21. Excess of total credits over total debits (line 11 less line 19)		4490
22. If computation permitted on a monthly basis, enter 105% of excess of total credits over total debits		4500
23. Amount held on deposit in "Reserve Bank Account(s)," including value of qualified securities, at end of reporting period		4510
24. Amount of deposit (or withdrawal) including \$ 4515 value of qualified securities		4520
25. New amount in Reserve Bank Account(s) after adding deposit or subtracting withdrawal including \$ 4525 value of qualified securities	\$	0 4530
26. Date of deposit (MMDDYY)		4540

OMIT PENNIES

FREQUENCY OF COMPUTATION

27. Daily 4332 Weekly 4333 Monthly 4334

**In the event the Net Capital Requirement is computed under the alternative method, this "Reserve Formula" shall be prepared in accordance with the requirements of paragraph (f) of Rule 15c3-1.

BROKER OR DEALER

CEROS BROKER SERVICE, INC.

as of DECEMBER 31, 2001

**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
FOR BROKER-DEALERS UNDER RULE 15c-3-3 (continued)**

EXEMPTIVE PROVISIONS

28. If an exemption from Rule 15c-3-3 is claimed, identify below the section upon which such exemption is based (check one only)

- A. (k)(1) — \$2,500 capital category as per Rule 15c-3-1 \$ 4550
- B. (k)(2)(A) — "Special Account for the Exclusive Benefit of customers" maintained 4560
- C. (k)(2)(B) — All customer transactions cleared through another broker-dealer on a fully disclosed basis.
Name of clearing firm SEC 17574 4335 4570
- D. (k)(3) — Exempted by order of the Commission 4580

Information for Possession or Control Requirements Under Rule 15c-3-3

State the market valuation and number of items of:

- 1. Customers' fully paid securities and excess margin securities not in the respondent's possession or control as of the report date (for which instructions to reduce to possession or control had been issued as of the report date) but for which the required action was not taken by respondent within the time frame specified under Rule 15c-3-3. Notes A and B \$ 4586
 - A. Number of items 4587
 - 2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of the report date, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c-3-3. Notes B, C and D \$ 4588
 - A. Number of items 4589
- OMIT PENNIES
- 3. The system and procedures utilized in complying with the requirement to maintain physical possession or control of customers' fully paid and excess margin securities have been tested and are functioning in a manner adequate to fulfill the requirements of Rule 15c-3-3 Yes 4584 No 4585

NOTES

- A—Do not include in item one customers' fully paid and excess margin securities required by Rule 15c-3-3 to be in possession or control but for which no action was required by the respondent as of the report date or required action was taken by respondent within the time frames specified under Rule 15c-3-3.
- B—State separately in response to items one and two whether the securities reported in response thereto were subsequently reduced to possession or control by the respondent.
- C—Be sure to include in item two only items not arising from "temporary lags which result from normal business operations" as permitted under Rule 15c-3-3.
- D—Item two must be responded to only with report which is filed as of the date selected for the broker's or dealer's annual audit of financial statements, whether or not such date is the end of a calendar quarter. The response to item two should be filed within 60 calendar days after such date, rather than with the remainder of this report. This information may be required on a more frequent basis by the Commission or the designated examining authority in accordance with Rule 17a-5(a)(2)(iv).

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II**

BROKER OR DEALER

CEROS BROKER SERVICE, INC.

as of DECEMBER 31, 2001

SCHEDULE OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION

CUSTOMERS' REGULATED COMMODITY FUTURES ACCOUNTS

SEGREGATION REQUIREMENTS

1. Net ledger balance:	
A. Cash	7010
B. Securities (at market)	7020
2. Net unrealized profit (loss) in open futures contracts traded on a contract market	7030
3. Exchange traded options:	
A. Add: Market Value of open option contracts purchased on a contract market	7032
B. Deduct: Market Value of open option contracts granted (sold) on a contract market	7033
4. Net equity (deficit) (total of 1, 2 and 3)	7040
5. Add accounts liquidating to a deficit and accounts with debit balances with no open trades	7050
6. Amount required to be segregated (total of 5 and 5)	7060

FUNDS ON DEPOSIT IN SEGREGATION

7. Deposited in segregated funds bank accounts:	
A. Cash	7070
B. Securities representing investments of customers' funds (at market)	7080
C. Securities held for particular customers or option customers in lieu of cash (at market)	7090
8. Margins on deposit with clearing organizations of contract markets:	
A. Cash	7100
B. Securities representing investments of customers' funds (at market)	7110
C. Securities held for particular customers or option customers in lieu of cash (at market)	7120
9. Settlement due from (to) clearing organizations of contract markets	7130
10. Exchange traded options:	
A. Add: Unrealized receivables for option contracts purchased on contract markets	7132
B. Deduct: Unrealized obligations for option contracts granted (sold) on contract markets	7133
11. Net equities with other FCMs	7140
12. Segregated funds on hand:	
A. Cash	7150
B. Securities representing investments of customers' funds (at market)	7160
C. Securities held for particular customers in lieu of cash (at market)	7170
13. Total amount in segregation (total of 7 through 12)	\$ 7180
14. Excess (insufficiency) funds in segregation (13 minus 6)	\$ 7190

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.

Type of Proposed Withdrawal or Accrual See below for code to enter	Name of Lender or Contributor	Insider or Outsider? (In or Out)	Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities)	(MMDDYY) Withdrawal or Maturity Date	Expect to Renew (Yes or No)	
4600		4601	4602 \$	4603	4604	4605
4610		4611	4612	4613	4614	4615
4620		4621	4622	4623	4624	4625
4630		4631	4632	4633	4634	4635
4640		4641	4642	4643	4644	4645
4650		4651	4652	4653	4654	4655
4660		4661	4662	4663	4664	4665
4670		4671	4672	4673	4674	4675
4680		4681	4682	4683	4684	4685
4690		4691	4692	4693	4694	4695

Total \$ 4699*

OMIT PENNIES

*To agree with the total on Recap (Item No. 4880)

Instructions: Detail Listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c)(2)(iv)), which could be required by the lender on demand or in less than six months.

WITHDRAWAL CODE:	DESCRIPTIONS
1.	Equity Capital
2.	Subordinated Liabilities
3.	Accruals
4.	15c3-1(c)(2)(iv) Liabilities

**Capital Withdrawals
PART II**

BROKER OR DEALER **CEROS BROKER SERVICE, INC.**

as of **DECEMBER 31, 2001**

RECAP

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, which have not been deducted in the computation of net capita.

1. Equity Capital

A. Partnership Capital:

1. General Partners	\$	4700
2. Limited		4710
3. Undistributed Profits		4720
4. Other (describe below)		4730
5. Sole Proprietorship		4735

B. Corporation Capital:

1. Common Stock		4740
2. Preferred Stock		4750
3. Retained Earnings (Dividends and Other)		4760
4. Other (describe below)		4770

2. Subordinated Liabilities

A. Secured Demand Notes		4780
B. Cash Subordinates		4790
C. Debentures		4800
D. Other (describe below)		4810

3. Other Anticipated Withdrawals

A. Bonuses		4820
B. Voluntary Contributions to Pension or Profit Sharing Plans		4860
C. Other (describe below)		4870

Total \$ 4880

4. Description of Other

**STATEMENT OF CHANGES IN OWNERSHIP EQUITY
(SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)**

1. Balance, beginning of period	\$	96,609	4240
A. Net income (loss)		4,437	4250
B. Additions (includes non-conforming capital of	\$	4262	4260
C. Deductions (includes non-conforming capital of	\$	4272	4270
2. Balance, end of period (From Item 1800)	\$	101,046	4290

**STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED
TO CLAIMS OF GENERAL CREDITORS**

3. Balance, beginning of period	\$	4300
A. Increases		4310
B. Decreases	(4320
4. Balance, end of period (From Item 3520)	\$	4330

OMIT PENNIES

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART II

BROKER OR DEALER

CEROS BROKER SERVICE, INC.

as of DECEMBER 31, 2001

FINANCIAL AND OPERATIONAL DATA

1. Month end total number of stock record breaks unresolved over three business days	Valuation		Number
A. breaks long	\$	4890	4900
B. breaks short	\$	4910	4920
2. Is the firm in compliance with Rule 17a-13 regarding periodic count and verification of securities positions and locations at least once in each calendar quarter? (Check one)			
	Yes	<input type="checkbox"/> 4930	No <input type="checkbox"/> 4940
3. Personnel employed at end of reporting period:			
A. Income producing personnel			4950
B. Non-income producing personnel (all other)			4960
C. Total			4970
4. Actual number of tickets executed during current month of reporting period			4980
5. Number of corrected customer confirmations mailed after settlement date			4990

	No. of Items	Debit (Short Value)		No. of Items	Credit (Long Value)
6. Money differences	5000	\$ 5010		5020	\$ 5030
7. Security suspense accounts	5040	\$ 5050		5060	\$ 5070
8. Security difference accounts	5080	\$ 5090		5100	\$ 5110
9. Commodity suspense accounts	5120	\$ 5130		5140	\$ 5150
10. Open transactions with correspondents, other brokers, clearing organizations, depositories and interoffice and inter-company accounts which could result in a charge — unresolved amounts over 30 calendar days	5160	\$ 5170		5180	\$ 5190
11. Bank account reconciliations — unresolved amounts over 30 calendar days	5200	\$ 5210		5220	\$ 5230
12. Open transfers over 40 calendar days, not confirmed	5240	\$ 5250		5260	\$ 5270
13. Transactions in reorganization accounts — over 60 calendar days	5280	\$ 5290		5300	\$ 5310
14. Total	5320	\$ 5330		5340	\$ 5350

	No. of Items	Leger Amount	Market Value
15. Failed to deliver 11 business days or longer (21 business days or longer in the case of Municipal Securities)	5360	\$ 5361	5362
16. Failed to receive 11 business days or longer (21 business days or longer in the case of Municipal Securities)	5363	\$ 5364	5365
17. Security concentrations (See instructions in Part I):			
A. Proprietary positions			5370
B. Customers' accounts under Rule 15c3-3			5374
18. Total of personal capital borrowings due within six months			5378
19. Maximum haircuts on underwriting commitments during the period			5380
20. Planned capital expenditures for business expansion during next six months			5382
21. Liabilities of other individuals or organizations guaranteed by respondent			5384
22. Lease and rentals payable within one year			5386
23. Aggregate lease and rental commitments payable for entire term of the lease			
A. Gross			5388
B. Net			5390

OMIT PENNIES



2001

CEROS BROKER SERVICE, INC.

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

DECEMBER 31, 2001

CEROS BROKER SERVICE, INC.

AUDITED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

DECEMBER 31, 2001

AUDITED FINANCIAL STATEMENTS

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CERTIFIED PUBLIC ACCOUNTANTS
THE NEXT GENERATION IN ACCOUNTING

INDEPENDENT AUDITORS' REPORT

Board of Directors
Ceros Broker Service, Inc.

We have audited the accompanying statements of financial condition of **Ceros Broker Service, Inc.** as of December 31, 2001 and 2000, and the statements of operations and accumulated deficit and cash flows - direct method 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 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 **Ceros Broker Service, Inc.** as of December 31, 2001 and 2000 and the results of its operations and its cash flows for the years ended December 31, 2001 and 2000 in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other financial information section, presented for the purposes of additional analysis, 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 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.

Gray, Gray & Gray, LLP
GRAY, GRAY & GRAY, LLP

February 20, 2002

STATE OF CALIFORNIA
 COUNTY OF SAN DIEGO
 STATEMENT OF FINANCIAL POSITION

LIABILITIES AND STOCKHOLDER'S EQUITY

	December 31,	
	2001	2000
CURRENT LIABILITIES		
Accounts payable	\$ 12,007	\$ 12,688
Income taxes payable	456	456
Due to officer	11,023	5,717
Due to broker	<u> </u>	<u>33,280</u>
TOTAL CURRENT LIABILITIES	<u>23,486</u>	<u>52,141</u>
STOCKHOLDER'S EQUITY		
Common stock, Class A, voting, \$1.00 par value, 1000 shares authorized	150,000	150,000
Accumulated deficit	<u>(48,954)</u>	<u>(53,391)</u>
TOTAL STOCKHOLDER'S EQUITY	<u>101,046</u>	<u>96,609</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 124,532</u>	<u>\$ 148,750</u>

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

STATE OF MICHIGAN
 DEPARTMENT OF TREASURY
 FINANCIAL STATEMENTS

	<u>Year Ended December 31,</u>	
	<u>2001</u>	<u>2000</u>
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH		
(USED) BY OPERATING ACTIVITIES:		
Net income (loss)	\$ 4,437	\$ (33,188)
Adjustments to reconcile net income (loss) to net cash		
(used) by operating activities:		
Depreciation	1,406	1,399
Net realized and unrealized gains	(361)	(2,897)
(Increase) decrease in assets:		
Commissions receivable	57,131	(45,698)
Income taxes receivable and prepaid	0	18,162
Prepaid expenses	(394)	(885)
Due from affiliate	(34,196)	(16,469)
Deposits	0	4,030
Increase (decrease) in liabilities:		
Accounts payable	(681)	(868)
Due to officer	15,306	27
Due to affiliate	0	(64,495)
Due to broker	(33,280)	33,280
TOTAL ADJUSTMENTS	(5,069)	(74,414)
NET CASH (USED) BY OPERATING ACTIVITIES	\$ (632)	\$ (107,602)

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

CEROS BROKER SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity - Ceros Broker Service, Inc. is an introducing broker in the business of trading securities. The Company is a registered member of the Securities and Exchange Commission, the National Association of Securities Dealers, the National Futures Association and is registered with various state securities commissions.

Property and Equipment - Property and equipment are stated at cost, less accumulated depreciation. Expenditures for routine repairs and maintenance are charged to operations as they are incurred while those which significantly improve or extend the lives of existing assets are capitalized. Depreciation is computed using the straight-line and accelerated methods.

Concentrations of Credit Risk - Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of commissions receivable.

The Company performs a significant amount of services for one major customer, related to the officer of the Company. Approximately 70% of the Company's revenues for 2001 were derived from this customer.

Concentrations of credit risk with respect to commissions receivable are limited due to the large number of customers comprising the Company's customer base. As of December 31, 2001, the Company had no significant concentrations of credit risk.

Use of Estimates - The preparation 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes - Income tax expense includes federal and state taxes currently payable and, when material, deferred taxes arising from temporary differences between income from financial reporting and tax purposes and also operating losses that are available to offset future taxable income.

Commissions - Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

Cash - During the course of the normal business cycle the Company, at times, maintains on deposit cash balances in excess of FDIC insured limits.

CEROS BROKER SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 2 - PROPERTY AND EQUIPMENT

The estimated useful lives used for computing depreciation are as follows:

	<u>2001</u>	<u>2000</u>	<u>Estimated Useful Lives</u>
Property and equipment	\$ 11,918	\$ 11,918	5 - 7 Years
Less accumulated depreciation	<u>6,616</u>	<u>5,210</u>	
	<u>\$ 5,302</u>	<u>\$ 6,708</u>	

Depreciation expense was \$1,406 and \$1,399 for the years ended December 31, 2001 and 2000, respectively.

NOTE 3 - DEPOSITS WITH CLEARING ORGANIZATIONS

Deposits with clearing organizations are shown on the December 31 statements of financial condition at market value as follows:

	<u>2001</u>	<u>2000</u>
Aggregate cost	\$ 59,331	\$ 56,506
Gross unrealized gain	<u>361</u>	<u>2,897</u>
Market value	<u>\$ 59,692</u>	<u>\$ 59,403</u>
Net unrealized gains recorded as income	<u>\$ 361</u>	<u>\$ 2,897</u>

Subsequent to year end the client discontinued doing business with one of its clearing organizations.

NOTE 4 - INCOME TAXES

Components of the (benefit) from income taxes for the years ended December 31, are as follows:

	<u>2001</u>	<u>2000</u>
Current		
Federal	\$ 0	\$ 0
State	<u>0</u>	<u>0</u>
	<u>0</u>	<u>0</u>
Deferred		
Federal	0	0
State	<u>0</u>	<u>0</u>
	<u>0</u>	<u>0</u>
	<u>\$ 0</u>	<u>\$ 0</u>

CEROS BROKER SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 4 - INCOME TAXES (CONTINUED)

The net deferred tax amounts included in the accompanying statement of financial condition include the following amounts of deferred tax assets and liabilities as of December 31:

	<u>2001</u>		<u>2000</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Deferred tax asset	\$ 11,000	\$ 0	\$ 11,000	\$ 0
Deferred tax liability	0	0	0	0
Valuation allowance	<u>(11,000)</u>	<u>0</u>	<u>(11,000)</u>	<u>0</u>
Deferred tax asset (liability), net	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The deferred tax asset results from net federal and state operating loss carryforwards. The Company believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the reliability of the deferred tax asset such that a full valuation allowance has been recorded.

In 2001, current federal and state income taxes have been offset by the use of net operating loss carryforwards. As of December 31, 2001, the Company has approximately \$50,000 of net operating loss carryforwards available to offset future taxable income.

NOTE 5 - REGULATORY REQUIREMENTS

Pursuant to net capital provision of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. Net capital may fluctuate on a daily basis. The Company had net capital, as defined, of \$42,041 and \$54,034 at December 31, 2001 and 2000, respectively. The minimum net capital requirement is \$30,000.

Pursuant to the net capital provisions of the National Futures Association, the Company is required to maintain a deferred net capital requirement of \$30,000. At December 31, 2001 and 2000 the Company had net capital, as defined, of \$42,175 and \$37,395, respectively.

Exemptive Provision Under Rule 15c3-3 - The Company, as an introducing broker, is exempt under subparagraph (k)(2)(ii) of Rule 15c3-3 from maintaining a "Special Reserve Bank Account for the Exclusive Benefit of Customers."

CEROS BROKER SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 6 - RELATED PARTY TRANSACTIONS

The Company is affiliated with other companies in the same line of business. Per a written agreement, a foreign corporation with the same ownership refers customers who purchase securities through the Company. A significant portion (49%) of the commissions earned on these transactions are passed through to the foreign affiliate. This affiliate is also reimbursing the Company for certain operational costs.

Total commissions passed through the affiliate, net of reimbursed costs, totaled \$106,492 and \$120,371 for the years ended December 31, 2001 and 2000, respectively. As of December 31, 2001 and 2000 net commissions due to (receivable from) the foreign affiliate, reduced by reimbursements of operating expenses, were \$(50,665) and \$(16,469), respectively. The Company pays interest on the net commissions due to the affiliate. The interest paid to the affiliate totaled \$0 and \$6,133 for the years ended December 31, 2001 and 2000, respectively.

The Company received management fees of \$24,837 and \$34,666 from an affiliate in 2001 and 2000, respectively. The management fees relate to administrative charges to the related party.

Approximately 70% of the Company's commissions are earned from entities that are related to an officer of the Company.

NOTE 7 - DUE TO BROKER

Amount due broker consisted of a short sale with a transaction date of December 28, 2000. The sale was settled January 3, 2001 for \$31,844.

NOTE 8 - SECURITIES

Deposits with clearing organizations include investments in United States Government Securities. These securities are classified as held-to-maturity securities and recorded at amortized cost, adjusted for premiums and discounts that are recognized in unrealized gains and losses.

NOTE 9 - CAPITAL STRUCTURE

As of December 31, 2001 and 2000, the Company had 200,000 shares of Class A voting, \$1 par value common stock authorized, and 150,000 shares issued and outstanding.

OTHER FINANCIAL INFORMATION



CERTIFIED PUBLIC ACCOUNTANTS
THE NEXT GENERATION IN ACCOUNTING

INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

Board of Directors
Ceros Broker Service, Inc.

Our audits for the years ended December 31, 2001 and 2000 were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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.

Gray, Gray & Gray, LLP
GRAY, GRAY & GRAY, LLP

February 20, 2002

CEROS BROKER SERVICE, INC.

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

	<u>Year Ended December 31,</u>	
	<u>2001</u>	<u>2000</u>
Officer's salary	\$ 48,960	\$ 65,280
Commissions expense	106,492	120,371
Clearing charges	46,439	54,422
Professional fees	20,911	22,245
Insurance	3,804	4,094
Payroll and other taxes	4,164	5,995
Office	3,099	4,966
Dues and registrations	2,864	3,878
Telephone	1,525	4,299
Travel and entertainment	240	1,584
Rent	<u>0</u>	<u>4,030</u>
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 238,498</u>	<u>\$ 291,164</u>



CERTIFIED PUBLIC ACCOUNTANTS
THE NEXT GENERATION IN ACCOUNTING

INDEPENDENT AUDITORS' REPORT ON INTERNAL ACCOUNTING CONTROL

Board of Directors
Ceros Broker Service, Inc.

In planning and performing our audits of the financial statements of **Ceros Broker Service, Inc.** for the years ended December 31, 2001 and 2000, 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 **Ceros Broker Service, Inc.** 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 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 preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

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 risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

CEROS BROKER SERVICE, INC.

DECEMBER 31, 2001

CEROS BROKER SERVICE, INC.

REGULATORY REPORTS

DECEMBER 31, 2001

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- D. Report on Internal Control Structure



Securities and Exchange Commission
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Boston, MA 02108-3912

We have audited the Focus Report of **Ceros Broker Service, Inc.** as of December 31, 2001. The audit was made in accordance with auditing standards generally accepted in the United States of America and, accordingly, includes a review of the system of internal control, the procedures employed for safeguarding securities, the practices and procedures employed in complying with rule 17a-13 and in the resolution of securities differences, and such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including the auditing procedures prescribed by the Securities and Exchange Commission. There were no material differences with respect to the computation of Net Capital under SEC Rule 15c3-1, and the computation of Determination of the Reserve Requirements under Exhibit A of Rule 15c3-3. We found no inadequacies in our audit of the above mentioned procedures and systems.

In our opinion, the Focus Report, with all supporting statements and schedules, present fairly the financial position of **Ceros Broker Service, Inc.** at December 31, 2001 in the form prescribed by the Securities and Exchange Commission, in conformity with accounting principles generally accepted in the United States of America applied on a basis consistent with that of the preceding year.

Gray, Gray & Gray, LLP
GRAY, GRAY & GRAY, LLP

February 20, 2002