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

REC'D S.E.C.  
NOV 22 2004  
523

SEC FILE NUMBER
B-48776

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 10/01/03 AND ENDING 09/30/04  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

ALTON SECURITIES GROUP, INC.  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
2410 STATE STREET

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street)

ALTON IL 62002  
(City) (State) (Zip Code)

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

DENNIS ROSE (618) 465-4999  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

SCHEFFEL & COMPANY, P.C.  
(Name - if individual, state last, first, middle name)

322 STATE STREET ALTON IL 62002  
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED

DEC 01 2004

THOMSON FINANCIAL

**FOR OFFICIAL USE ONLY**

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

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SEC 1410 (06-02)

SO

OATH OR AFFIRMATION

I, DENNIS ROSE, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of ALTON SECURITIES GROUP, INC., as of SEPTEMBER 30, 2004, 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

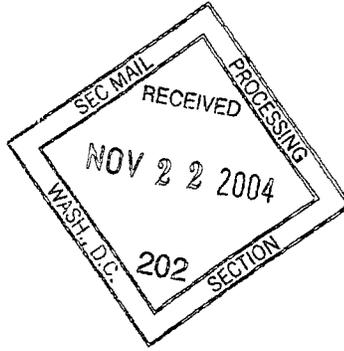
\_\_\_\_\_  
Signature  
TREASURER  
\_\_\_\_\_  
Title

\_\_\_\_\_  
Notary Public

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



**ALTON SECURITIES GROUP, INC.**

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**SEPTEMBER 30, 2004**

**ALTON SECURITIES GROUP, INC.**  
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Dennis E. Ulrich, C.P.A.  
Ronald C. Schneider, C.P.A.  
Michael E. Fitzgerald, C.P.A.  
Kimberly S. Krueger, C.P.A.  
Steven P. Langendorf, C.P.A.  
Steven C. Pembroke, C.P.A.

Scheffel & Company, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

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- 143 N. Kansas  
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618-656-1206 Fax 656-3536
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- 106 County Road  
Jerseyville, IL 62052  
618-498-6841 Fax 498-6842
- Rural Rt. 3, Box 129 BA  
U.S. Highway 267 North  
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INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Alton Securities Group, Inc.  
Alton, IL

We have audited the accompanying statement of financial condition of Alton Securities Group, Inc. as of September 30, 2004, and the related statements of income, changes in stockholders' equity, changes in subordinated borrowings, 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 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 Alton Securities Group, Inc. at September 30, 2004, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I 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 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.

Scheffel & Company  
November 17, 2004

*Scheffel & Company, P.C.*

Richard C. Scheffel, C.P.A.  
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL REQUIRED  
BY SEC RULE 17A-5

Board of Directors  
Alton Securities Group, Inc.  
Alton, IL

In planning and performing our audit of the financial statements and supplemental schedule of Alton Securities Group, Inc. for the year ended September 30, 2004, we considered its internal control, including control activities 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 internal control.

Also as required by rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of 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 for determining compliance with the exemptive provisions of rule 15c3-3. 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 internal control 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 controls 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 internal control 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 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 limitation in internal control or the practices and procedures referred to above, error or fraud 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 internal control would not necessarily disclose all matters in internal control 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 components does not reduce to a relatively low level the risk that error or fraud 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 internal control, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at September 30, 2004, to meet the SEC's objectives.

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

Scheffel & Company  
November 17, 2004

*Scheffel & Company, P.C.*

**ALTON SECURITIES GROUP, INC.**  
Statement of Financial Condition  
September 30, 2004

ASSETS

Cash and cash equivalents	\$ 63,409
Deposit with clearing broker	50,000
Receivable from clearing broker	74,181
Receivable from Alton Capital Management, Inc.	5,456
Note receivable from stockholder	11,612
Prepaid insurance	4,810
Prepaid membership fees	776
Prepaid state income tax	2,165
Furniture, and equipment, at cost, less accumulated depreciation of \$41,986	 10,797
Deferred tax asset – state	700
Rent deposit	<u>500</u>
Total assets	<u>\$224,406</u>

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

## LIABILITIES AND STOCKHOLDERS' EQUITY

### Liabilities:

Accounts payable	\$ 41,720
Accrued payroll	31,763
Accrued pension	5,251
Accrued real estate taxes	8,550
Accrued interest	1,788
Payroll taxes payable	2,101
Federal income tax payable	2,061
State income tax payable	174
Deferred tax liability – federal	600
Deferred tax liability – state	<u>200</u>

94,208

### Subordinated borrowings:

Notes payable to stockholders	<u>29,800</u>
-------------------------------	---------------

### Stockholders' equity:

Common stock, class A, \$100 par value, authorized 2,250 shares, issued and outstanding 1,052 shares	105,200
Common stock, class B, \$100 par value, authorized 15,000 shares, issued 301 shares, outstanding 0 shares	30,100
Treasury stock, class B, \$100 par value, 301 shares, at cost	(30,100)
Additional paid-in capital	19,241
Retained earnings (deficit)	<u>(24,043)</u>

Total stockholders' equity 100,398

Total liabilities and stockholders' equity \$224,406

**ALTON SECURITIES GROUP, INC.**  
Statement of Income  
For the Year Ended September 30, 2004

Revenues:	
Commissions and fees	\$1,534,294
Interest income	<u>126,225</u>
 Total revenues	 <u>1,660,519</u>
Expenses:	
Employee compensation and benefits	223,143
Commissions	255,733
Contractual commissions	566,760
Communications/Informational systems	326,810
Continuing education	4,271
Contributions	835
Occupancy and equipment rental	41,750
Interest	2,101
Taxes, other than income taxes	44,248
Advertising	6,982
Depreciation	8,637
Insurance	36,841
License and fees	3,142
Professional fees	8,504
Travel and entertainment	54,943
Telephone	10,095
Repairs and maintenance	8,594
Supplies	10,463
Subscriptions	26,527
Utilities	12,039
Other operating expenses	<u>9,129</u>
 Total expenses	 <u>1,661,547</u>
Income (loss) before income taxes	(1,028)
Provision for income taxes, including net deferred taxes of \$450	<u>5,449</u>
 Net income (loss)	 <u>\$ (6,477)</u>
 Earnings (loss) per share of common stock	 <u>\$ (6.16)</u>

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

**ALTON SECURITIES GROUP, INC.**  
Statement of Changes in Stockholders' Equity  
For the Year Ended September 30, 2004

	<u>Common Stock</u>		<u>Treasury Stock</u> <u>Class B</u>	<u>Additional</u> <u>Paid-in</u> <u>Capital</u>	<u>Retained</u> <u>Earnings</u> <u>(Deficit)</u>	<u>Total</u> <u>Stockholders'</u> <u>Equity</u>
	<u>Class A</u> <u>Shares</u>	<u>Class B</u> <u>Shares</u>				
Balances at October 1, 2003	1,052	301	\$30,100	\$30,100	\$(17,566)	\$106,875
Net income (loss)	—	—	—	—	(6,477)	(6,477)
Balances at September 30, 2004	<u>1,052</u>	<u>301</u>	<u>\$30,100</u>	<u>\$19,241</u>	<u>\$(24,043)</u>	<u>\$100,398</u>

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

**ALTON SECURITIES GROUP, INC.**  
Statement of Changes in Subordinated Borrowings  
For the Year Ended September 30, 2004

Subordinated borrowings at October 1, 2003	\$29,800
Increases:	
Issuance of subordinated notes	0
Decreases:	
Payment of subordinated notes	<u>0</u>
Subordinated borrowings at September 30, 2004	<u>\$29,800</u>

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

**ALTON SECURITIES GROUP, INC.**

Statement of Cash Flows

For the Year Ended September 30, 2004

Cash Flows from Operating Activities:	
Net income (loss)	\$ (6,477)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation and amortization	8,637
Net deferred taxes	(450)
(Increase) decrease in operating assets:	
Receivable from clearing broker	17,340
Receivable from Alton Capital Management, Inc.	(5,456)
Prepaid insurance	(3,031)
Prepaid membership fee	(304)
Prepaid income taxes	4,575
Refundable taxes	4,761
Increase (decrease) in operating liabilities:	
Accounts payable	(5,532)
Accrued payroll	(8,701)
Accrued pension	5,251
Payroll taxes payable	9
Accrued real estate taxes	400
Accrued interest	1,788
Income taxes payable	<u>2,235</u>
Net cash provided by operating activities	<u>15,045</u>
Cash Flows from Financing Activities:	
Lease purchase payments	(1,133)
Interest on note receivable from stockholder	<u>(648)</u>
Net cash (used) by financing activities	<u>(1,781)</u>
Net increase in cash, cash equivalents, and deposits with clearing broker	13,264
Cash, cash equivalents, and deposits with clearing broker:	
Beginning of year	<u>100,145</u>
End of year	<u>\$113,409</u>
Supplemental disclosures:	
Cash paid during the year for income taxes	\$ <u>810</u>
Interest paid	\$ <u>323</u>

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

# ALTON SECURITIES GROUP, INC.

Notes to Financial Statements

For the Year Ended September 30, 2004

## 1. Organization and Nature of Business

Alton Securities Group, Inc. (the Company) is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers, Inc. (NASD). The Company is an Illinois corporation with headquarters in Alton, Illinois and operating throughout the United States. The broker-dealer's primary source of revenue is commissions from providing brokerage services to customers who are small businesses and individuals.

## 2. Significant Accounting Policies

### *Basis of Presentation*

The Company is engaged in a single line of business as a securities broker-dealer.

### *Securities Transactions and Commissions*

Customers' securities transactions are reported on a settlement date basis with related commission income and expenses reported on a trade date basis.

### *Income Taxes*

The amount of current and deferred tax assets and payables or refundable taxes is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in deferred tax assets or liabilities between years.

### *Depreciation*

Depreciation is provided on a straight-line basis using estimated useful lives of three to ten years for equipment.

	<u>Years</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Furniture and equipment	3-10	\$ 48,267	\$38,954
Signage	5	<u>4,516</u>	<u>3,032</u>
		52,783	\$41,986
Less: accumulated depreciation		<u>(41,986)</u>	
Net property and equipment		<u>\$ 10,797</u>	

### *Statement of Cash Flows*

For purposes of the Statement of Cash Flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days, that are not held for sale in the ordinary course of business.

### ***Concentrations of Cash***

The Company at times during the year had cash deposits which exceeded \$100,000 in multiple accounts in two banks. The Federal Deposit Insurance Corporation (FDIC) insures only the first \$100,000 of funds at member banks.

### **3. Cash and Securities Segregated Under Federal and Other Regulations**

No cash has been segregated in a special reserve bank account for the benefit of customers under rule 15c3-3 of the Securities and Exchange Commission. The Company does not hold any customer funds, accordingly, no reserve account is required.

### **4. Payable to Clearing Broker**

No amounts are due to the clearing broker.

### **5. Subordinated Borrowings**

The borrowings under subordination agreements originally dated September 30, 1996, and extended on July 8, 2004, are listed below.

Subordinated notes, 6 percent, due July 15, 2011	<u>\$29,800</u>
--	-----------------

The subordinated borrowings are covered by agreements approved by the National Association of Securities Dealers, Inc. and are thus available in computing net capital under the Securities and Exchange Commission's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

### **6. Note Receivable**

The company has a demand note receivable from a stockholder in the amount of \$11,612. Interest on the note is at six (6) percent.

### **7. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At September 30, 2004, the Company had net capital of \$93,283, which was \$43,283 in excess of its required net capital of \$50,000. The Company's net capital ratio was 1 to 1.

### **8. Income Taxes**

The income tax provision consists of the following:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$4,640	\$(850)	\$3,790
State	<u>1,259</u>	<u>400</u>	<u>1,659</u>
	<u>\$5,899</u>	<u>\$(450)</u>	<u>\$5,449</u>

Deferred income tax assets and liabilities are principally applicable to differences in tax and book depreciation and net operating loss carry forwards. Net deferred income tax liability is \$100 as of September 30, 2004.

	Deferred Tax <u>Asset</u>	Deferred Tax <u>Liability</u>	Net Deferred <u>Tax Liability (Assets)</u>
Federal		\$600	\$ 600
States	\$700	<u>200</u>	<u>(500)</u>
	<u>\$700</u>	<u>\$800</u>	<u>\$ 100</u>

#### 9. Earnings Per Share

Earnings per share of common stock was computed by dividing net income by the weighted average number of common shares outstanding for the year (1,052 shares).

#### 10. SIPC Annual Assessment

Regional Operations Group, Inc., the clearing broker for Alton Securities Group, Inc., assesses and remits to the Securities and Investor Protection Corporation all required assessments.

#### 11. Pension Plan

The company adopted a SIMPLE - IRA plan effective September 1, 1997. The plan calls for the company to make matching contributions towards employee contributions. The contribution matches dollar for dollar up to three (3) percent of compensation. The company has no future liability beyond the match. Pension expense for the year amounted to \$7,332.

#### 12. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### 13. Lease Commitments

The company leased computer equipment under a 24 month agreement which expired June, 2004. The company paid monthly rental payments of \$128.91. Payments under this lease totaled \$902 for the year.

The company leases office space under a 1 year lease agreement. The lease agreement calls for lease payments of \$3,500 per month and the associated cost of real estate taxes and insurance. Lease payments totaled \$38,500 for the year. The office space is leased from a related company which is owned by the same stockholders as Alton Securities Group, Inc.

The company leases postage equipment under a 57 month agreement expiring November, 2008. The company pays quarterly rental payments of \$393. Payments under this lease totaled \$1,186 for the year.

The Company leases copier equipment under a 60 month agreement expiring June, 2009. The company pays monthly rental payments of \$181.05. Payments under this lease totaled \$765 for the year.

At year end, the future minimum lease payments under the terms of the various leases are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2005	\$ 45,745
2006	45,745
2007	45,745
2008	45,745
2009	<u>43,891</u>
	<u>\$226,871</u>

#### **14. Contingent Liabilities Litigation/Arbitration**

The Company is a party to an arbitration case administered by NASD. It is the belief of the company that the maximum financial impact this case will have on the company will be \$1,500.

The Company has also received notice of potential litigation. Management's intent is to vigorously defend the Company. Legal council has advised that if the case is filed the liability would be minimal.

Schedule I  
**ALTON SECURITIES GROUP, INC.**  
 Computation of Net Capital Under Rule 15c3-1 of the  
 Securities and Exchange Commission  
 As of September 30, 2004

NET CAPITAL

Total stockholders' equity	\$100,398
Total stockholders' equity qualified for net capital	
Add:	
Subordinated borrowings allowable in computation of net capital	<u>29,800</u>
Total capital and allowable subordinated borrowings	130,198
Deductions and/or charges:	
Non-allowable assets:	
Accounts receivable from non-customers	17,068
Furniture and equipment (net)	10,797
Other assets	<u>9,050</u>
Total	<u>36,915</u>
Total net capital	<u>\$ 93,283</u>

AGGREGATE INDEBTEDNESS

Items included in statement of financial condition	
Accrued payroll	\$ 31,763
Accounts payable	46,056
Other accrued expenses	<u>15,589</u>
Total aggregate indebtedness	<u>\$ 93,408</u>

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Minimum net capital required	<u>\$ 50,000</u>
Excess net capital at 1500%	<u>\$ 88,613</u>
Excess net capital at 1000%	<u>\$ 83,942</u>
Ratio: Aggregate indebtedness to net capital	<u>1 to 1</u>

Reconciliation with company's computation (included in Part II of Form X-17A-5(a)) as of September 30, 2004. There is no material difference from the company's computation and Part II of Form X-17A-5(a) on September 30, 2004.