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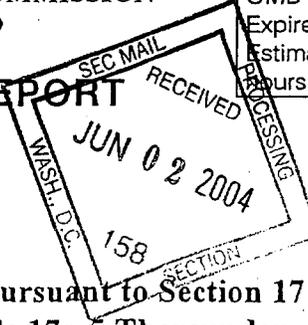
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

VE6-304

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



SEC FILE NUMBER
B-39700

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 04/01/03 AND ENDING 03/31/04  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Woodlands Securities Corp.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

1450 Lake Robbins Drive, Suite 360

(No. and Street)

The Woodlands

Texas

77380

(City)

(State)

(Zip Code)

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

Morris Monroe

(281) 367-2483

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Hereford, Lynch, Sellars & Kirkham, P.C.

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

P.O. Box 2548

Conroe

Texas

77305-2548

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

**PROCESSED**

**JUN 09 2004**

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

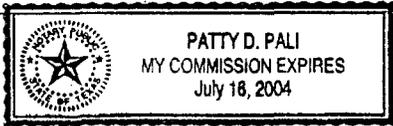
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OATH OR AFFIRMATION

I, Morris Monroe, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Woodlands Securities Corporation, as of March 31, 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]  
Signature

President  
Title



[Signature]  
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).

*Financial Statements*

**Woodlands Securities Corporation**

**March 31, 2004**

**WOODLANDS SECURITIES CORPORATION  
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**Hereford, Lynch, Sellars & Kirkham**  
Certified Public Accountants • A Professional Corporation

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Woodlands Securities Corporation  
The Woodlands, Texas

We have audited the accompanying statement of financial condition of Woodlands Securities Corporation (the "Company") as of March 31, 2004, and the related statements of income, changes in stockholders' 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Woodlands Securities Corporation at March 31, 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 the Supplementary Information is presented for the purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the 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.

*Hereford, Lynch, Sellars & Kirkham, P.C.*  
**HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.**  
Certified Public Accountants

Conroe, Texas  
May 14, 2004

**FINANCIAL STATEMENTS**

**WOODLANDS SECURITIES CORPORATION**  
**STATEMENT OF FINANCIAL CONDITION**  
**MARCH 31, 2004**

**ASSETS**

Cash and Cash Equivalents	\$	58,699
Deposits with Clearing Organization		6,002
Receivables for Commissions and Fees		29,978
Receivables from Related Party		1,558
Split-Dollar Insurance Receivable		52,970
Furniture, Fixtures and Equipment		
(Less: Accumulated Depreciation of \$97,644)		30,720
Prepaid Federal Income Taxes		182
Other Assets		1,448
		1,448
<b>Total Assets</b>	<b>\$</b>	<b><u>181,557</u></b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**LIABILITIES**

Accounts Payable and Other Liabilities	\$	28,470
Commissions Payable		16,904
Note Payable		5,312
Settlement Payable		25,000
		25,000
<b>Total Liabilities</b>	<b>\$</b>	<b><u>75,686</u></b>

Commitments and Contingencies  
(See notes to financial statements)

**STOCKHOLDERS' EQUITY**

Common Stock, \$1 Par Value, Authorized 100,000		
Shares, Issued and Outstanding 1,000 Shares	\$	1,000
Additional Paid-In Capital		6,107
Retained Earnings		98,764
		98,764
<b>Total Stockholders' Equity</b>	<b>\$</b>	<b><u>105,871</u></b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$</b>	<b><u>181,557</u></b>

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

**WOODLANDS SECURITIES CORPORATION**  
**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED MARCH 31, 2004**

**REVENUES**

Commissions and Fees	\$ 1,007,057
Interest and Dividends	44,669
Other Income	<u>5,602</u>
<b>Total Revenues</b>	<b><u>\$ 1,057,328</u></b>

**EXPENSES**

Employee Compensation and Benefits	\$ 323,296
Clearance Fees	19,540
Commission Expense	379,568
Communications and Data Processing	68,315
General and Administrative	220,389
Other Expenses	<u>78,083</u>
<b>Total Expenses</b>	<b><u>\$ 1,089,191</u></b>

**Income (Loss) Before Income Taxes** **\$ (31,863)**

Provision (Benefit) for Income Taxes -

**NET INCOME (LOSS)** **\$ (31,863)**

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

**WOODLANDS SECURITIES CORPORATION**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEAR ENDED MARCH 31, 2004**

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Earnings</u>	<u>Stockholders'</u>
			<u>Capital</u>		<u>Equity</u>
<b>Balance at April 1, 2003</b>					
<b>As previously reported</b>	1,000	\$ 1,000	\$ 6,107	\$ 85,451	\$ 92,558
Prior Period					
Adjustment - Note 13	-	-	-	45,176	45,176
<b>Balance at April 1, 2003</b>					
<b>As restated</b>	1,000	\$ 1,000	\$ 6,107	\$ 130,627	\$ 137,734
Net Income (Loss)	-	-	-	(31,863)	(31,863)
<b>Balance at March 31, 2004</b>	<u>1,000</u>	<u>\$ 1,000</u>	<u>\$ 6,107</u>	<u>\$ 98,764</u>	<u>\$ 105,871</u>

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

**WOODLANDS SECURITIES CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED MARCH 31, 2004**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net Income (Loss) \$ (31,863)

Adjustments to Reconcile Net Income to Net Cash Provided  
by Operating Activities:

Prior Period Adjustment	\$	45,176
Depreciation		16,485
Loss on Sale of Furniture, Fixtures and Equipment		847
<b>(Increase) Decrease in Operating Assets:</b>		
Deposits with Clearing Organization		1
Receivables for Commissions and Fees		(4,268)
Receivables from Related Party		20,000
Split-Dollar Insurance Receivable		(52,970)
Prepaid Expenses		1,949
Prepaid Federal Income Tax		2,138
Other Assets		1,558
<b>Increase (Decrease) in Operating Liabilities:</b>		
Accounts Payable and Other Liabilities		12,933
Commissions Payable		3,731
Settlement Payable		<u>25,000</u>

**Total Adjustments** 72,580

**Net Cash Provided by Operating Activities** \$ 40,717

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of Furniture, Fixtures and Equipment \$ (16,199)

**Net Cash Used in Investing Activities** \$ (16,199)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from Note Payable	\$	27,287
Payments on Note Payable		<u>(31,960)</u>

**Net Cash Used by Financing Activities** \$ (4,673)

**Increase in Cash and Cash Equivalents** \$ 19,845

Cash and Cash Equivalents at Beginning of Year 38,854

**Cash and Cash Equivalents at End of Year** \$ 58,699

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW  
INFORMATION**

Federal Income Taxes Paid	\$	-
Interest Expense Paid		370

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

**WOODLANDS SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2004**

**NOTE 1- ORGANIZATION AND NATURE OF BUSINESS**

Woodlands Securities Corporation (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 (NASD). The Company was incorporated under the laws of the State of Texas on April 26, 1988.

**NOTE 2- SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Commissions**

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

**Income Taxes**

The provision for federal income taxes is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates.

**Fixed Assets and Depreciation**

Fixed assets are recorded at cost. Depreciation is provided on a straight-line basis using estimated useful lives of five to seven years.

**Statement of Cash Flows**

For purposes of the Statement of Cash Flows, the Company has defined cash equivalents as highly liquid investments, such as cash interest-bearing demand deposits and money market funds.

**NOTE 3- DEPOSITS WITH CLEARING ORGANIZATION**

As of March 31, 2004, Woodlands Securities Corporation had cash on deposit in a clearance account with Southwest Securities, Inc. in the amount of \$6,002. Southwest Securities, Inc. is located in Dallas, Texas and is a member of the NASD, Midwest Stock Exchange, New York Exchange, Inc., American Stock Exchange, Inc., Pacific Stock Exchange and the Securities Investor Protection Corporation. Additionally, Southwest Securities, Inc. is registered with the SEC. According to the Clearing Agreement between Southwest Securities, Inc. and the Company, Southwest Securities, Inc. is responsible for executing, clearing and settling securities transactions on a fully disclosed basis for the accounts of the Company.

**NOTE 4- RECEIVABLES FOR COMMISSIONS AND FEES**

Accounts receivable for commissions and fees consisted of \$29,978 at March 31, 2004.

**NOTE 5- RETIREMENT PLAN**

The Company provides the opportunity to enroll in a Simple IRA plan for retirement. The Simple IRA assets are fully vested and may be withdrawn at any time subject to taxes and penalties. The participants are generally required to begin taking minimum distributions from their Simple IRA upon attainment of age seventy and a half (70½) in accordance with Internal Revenue Service regulations. The Company matches the participating employees' contributions up to three percent (3%) of the employees' compensation. The Company contributed \$6,741 to the participating employees' Simple IRAs during the year ended March 31, 2004.

**WOODLANDS SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2004**

**NOTE 6- CONCENTRATION OF RISK**

**Credit Risk**

Woodlands Securities Corporation engages in various broker-dealer activities in which counterparties primarily include broker-dealers, banks, other financial institutions and individuals. In the event the counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

**Major Source of Revenue**

The Company's major source of revenue is its broker-dealer services.

**NOTE 7- COMMITMENTS AND CONTINGENT LIABILITIES**

Woodlands Securities Corporation has an obligation under an operating lease with noncancelable terms in excess of one year. The lease agreement has been guaranteed by a stockholder. Minimum aggregate annual rentals for equipment at March 31, 2004 are listed below:

2005	\$ 1,681
	<u>\$ 1,681</u>

Equipment rent expense for March 31, 2004 was \$5,105.

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's financial statements.

**NOTE 8- NOTE PAYABLE**

Woodlands Securities Corporation has an obligation to AFCO bearing interest at 5.5%. The loan is payable in monthly installments of \$3,102 including interest, and is unsecured. The outstanding balance on the obligation was \$5,312 at March 31, 2004.

**NOTE 9- INCOME TAXES**

A reconciliation of the difference between the expected income tax benefit and the actual income tax provision is shown below:

Net Income (Loss) per Audit	\$ (31,863)
Permanent Differences	21,908
Temporary Differences	<u>(1,695)</u>
Taxable Income	\$ (11,650)
U.S. Statutory Tax Rate	<u>15%</u>
<b>Provision (Benefit) of Income Taxes</b>	<u><u>\$ -</u></u>

**WOODLANDS SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2004**

**NOTE 10- NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital at the greater of 6 2/3% of total aggregate indebtedness or \$5,000. Woodlands Securities Corporation had net capital of \$17,920, which was \$12,920 in excess of the minimum net capital requirement of \$5,000 at March 31, 2004. The excess of net capital at 1,000% was \$9,279 and the ratio of aggregate indebtedness to net capital was 4.22 to 1 at March 31, 2004.

**NOTE 11- RESERVE REQUIREMENTS**

Woodlands Securities Corporation is not obligated to report under SEC rule 15c3-3 since it does not maintain customer accounts or hold securities. Therefore, the Company does not have a reserve requirement nor does it have any information relating to the possession or control requirement under rule 15c3-3. The Company clears all customer transactions through a broker-dealer, Southwest Securities, Inc., on a fully disclosed basis as requested for exemption under SEC rule 15c3-3 (k)(2)(ii).

**NOTE 12- RELATED PARTY TRANSACTIONS**

Woodlands Securities Corporation (the "Company") is affiliated with Woodlands Asset Management, Inc. (WAMI) and Woodlands Financial Services, Inc. (WFSI) through common ownership. During the fiscal year ending March 31, 2004, the Company received \$260,000 from WAMI for shared expenses of the facility where they share office space and \$142,143 from WFSI for Private Offerings, in revenues from the affiliated companies.

A receivable has been recorded in the amount of \$52,970 for a split-dollar insurance policy that the Company pays the premiums.

**NOTE 13- PRIOR PERIOD ADJUSTMENT**

Due to an error in recording a split-dollar insurance policy, a restatement of 2004 beginning balance of retained earnings, split-dollar insurance receivable and general and administrative expense has been made. The net effect of the restatement was to decrease prior net losses by \$45,176, which did not have a related income tax effect.

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**SUPPLEMENTARY INFORMATION**



**Hereford, Lynch, Sellars & Kirkham**

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**REPORT ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5  
FOR A BROKER-DEALER CLAIMING AN EXEMPTION  
FROM SEC RULE 15c3-3**

To the Board of Directors of  
Woodlands Securities Corporation  
The Woodlands, Texas

In planning and performing our audit of the financial statements and supplementary schedules of Woodlands Securities Corporation (the "Company"), for the year ended March 31, 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 and 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 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 customers 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 accordance 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 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 the 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 a material weakness 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 the 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 the Company's practices and procedures were adequate at March 31, 2004, to meet the SEC's objective.

This report is intended solely for the information and use of the Board of Directors, management, others within the company, the SEC 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 is not intended to be and should not be used by anyone other than these specified parties.

*Hereford, Lynch, Sellars & Kirkham, P.C.*

**HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.**  
**Certified Public Accountants**

**Conroe, Texas**  
**May 14, 2004**

**WOODLANDS SECURITIES CORPORATION  
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE  
SECURITIES EXCHANGE COMMISSION  
FOR THE YEAR ENDED MARCH 31, 2004**

**COMPUTATION OF NET CAPITAL**

Total Stockholders' Equity	\$ 105,871
Deduct Stockholders' Equity Not Allowable for Net Capital	<u>-</u>
Total Stockholders' Equity Qualified for Net Capital	\$ 105,871
Add:	
Subordinated Borrowings Allowable in Computation of Net Capital	-
Other (Deductions) or Allowable Credits	<u>-</u>
Total Capital and Allowable Subordinated Liabilities	\$ 105,871
Deductions and/or Charges:	
Non-allowable Assets	<u>86,878</u>
Net Capital Before Haircuts on Securities Positions	\$ 18,993
Haircuts on Other Securities	<u>1,072</u>
<b>Net Capital</b>	<b><u><u>\$ 17,921</u></u></b>

**COMPUTATION OF AGGREGATE INDEBTEDNESS**

Items Included in Statement of Financial Condition	
Accounts Payable, Accrued Expenses and Other Liabilities	\$ 28,470
Commissions Payable	16,904
Note Payable	5,312
Settlement Payable	25,000
Items Not Included in Statement of Financial Condition	<u>-</u>
<b>Total Aggregate Indebtedness</b>	<b><u><u>\$ 75,686</u></u></b>

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

Minimum Net Capital Required	
Greater of \$5,000 or \$5,048 (6 2/3% of \$75,686)	<u><u>\$ 5,000</u></u>
Excess Net Capital at 1,000 Percent	<u><u>\$ 9,280</u></u>
Ratio: Aggregate Indebtedness to Net Capital	<u><u>4.22 to 1</u></u>

**WOODLANDS SECURITIES CORPORATION  
RECONCILIATION OF THE COMPUTATION OF NET CAPITAL  
UNDER RULE 15c3-1 OF THE SECURITIES EXCHANGE COMMISSION  
FOR THE YEAR ENDED MARCH 31, 2004**

Net Capital, as Reported in Company's Part II (unaudited) FOCUS Report	\$ 14,848
Net Bookkeeping Adjustments to Revenues and Expenses	56,043
Bookkeeping Adjustments to Accrue and/or Adjust Receivables, Furniture, Fixtures and Equipment and Liabilities	<u>(52,970)</u>
<b>Net Capital per Above</b>	<b><u>\$ 17,921</u></b>
Retained Earnings, as Reported in Company's Part II (unaudited) FOCUS Report	\$ 42,721
Net Bookkeeping Adjustments to Revenues and Expenses	<u>56,043</u>
<b>Retained Earnings per Audited Financial Statements</b>	<b><u>\$ 98,764</u></b>