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OMB APPROVAL  
OMB Number: 3235-0123  
Expires: January 31, 2007  
Estimated average burden  
hours per response..... 12.00

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

SEC FILE NUMBER  
8-34031

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 01/01/04 AND ENDING 12/31/04  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **Cambridge Way, Inc.**  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY  
FIRM I.D. NO.

5214 Maryland Way, Suite 309  
(No. and Street)  
**Brentwood** **TN** **37027**  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
**Maggie Nuzum** **(615) 371-9002**  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

**Maggart & Associates, P.C.**  
(Name - if individual, state last, first, middle name)  
**150 Fourth Avenue, North** **Nashville** **TN** **37002**  
**Suite 2150** (Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED  
MAR 14 2005  
THOMSON  
RECEIVED  
FEB 23 2005  
SECTION 152  
WASH. D.C.

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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)

OATH OR AFFIRMATION

I, Maggie Nuzum, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Cambridge Way, Inc., as of December 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:

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

Maggie Nuzum  
Signature

Senior Vice President  
Title

Karen A. Vaughn  
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. **Statement of Cash Flows.**
- (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. **Not Required.**
- (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).

**MAGGART & ASSOCIATES, P.C.**

*Certified Public Accountants*

150 FOURTH AVENUE, NORTH  
SUITE 2150

NASHVILLE, TENNESSEE 37219-2417

Telephone (615) 252-6100

Facsimile (615) 252-6105

**INDEPENDENT AUDITOR'S REPORT**

To The Board of Directors  
Cambridge Way, Inc.  
Brentwood, Tennessee

We have audited the accompanying statement of financial condition of Cambridge Way, Inc. as of December 31, 2004, and the related statements of income (loss), changes in stockholder's equity, changes in subordinated liabilities 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 Cambridge Way, Inc. at December 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States 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 supplemental Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the 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.

*Maggart & Associates, P.C.*

Nashville, Tennessee  
February 4, 2005

CAMBRIDGE WAY, INC.

Statement of Financial Condition

December 31, 2004

Assets

Current assets:

Cash	\$ 53,719
Deposit with clearing organization	50,000
Commissions receivable	17,340
Due from affiliate	29,438
Other current assets	<u>10,287</u>
Total current assets	<u>160,784</u>

Property and equipment, net:

Office equipment	36,340
Furniture and fixtures	<u>37,312</u>
	73,652
Less accumulated depreciation	<u>(71,596)</u>
Property and equipment, net	<u>2,056</u>

Deposits

4,705

Total assets

\$ 167,545

Liabilities and Stockholder's Equity

Current liabilities:

Commissions payable	\$ 28,646
Accrued expenses	<u>388</u>
Total current liabilities	<u>29,034</u>

Stockholder's equity:

Common stock (no par value), 1,000 shares, authorized, issued and outstanding	1,000
Additional paid-in capital	32,616
Treasury stock (300 shares at cost)	(6,595)
Retained earnings	<u>111,490</u>
Total stockholder's equity	<u>138,511</u>

Total liabilities and stockholder's equity

\$ 167,545

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

*CAMBRIDGE WAY, INC.*

*Statement of Income (Loss)*

*For the Year Ended December 31, 2004*

Revenues:	
Commissions	\$ 366,281
Interest and other income	<u>38,529</u>
Total revenues	<u>404,810</u>
Operating expenses:	
Commission expense	269,624
Insurance	19,047
Professional fees	21,027
Telephone	4,748
Other taxes	574
Office supplies and expense	12,452
Automobile and travel	2,191
Depreciation	1,855
Dues and subscriptions	4,379
Licenses, bonds, and fees	17,443
Management fee	55,505
Miscellaneous	3,062
Rent	19,781
Clearance fees	<u>25,756</u>
Total operating expenses	<u>457,472</u>
Loss before income taxes	(52,662)
Provision for income taxes	<u>-</u>
Loss	<u>\$ (52,662)</u>

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

*CAMBRIDGE WAY, INC.*

*Statement of Changes in Stockholder's Equity*

*For the Year Ended December 31, 2004*

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Treasury Stock</u>	<u>Retained Earnings</u>	<u>Total Stockholder's Equity</u>
Balance at December 31, 2003	\$ 1,000	32,616	(6,595)	164,152	191,173
Loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>(52,662)</u>	<u>(52,662)</u>
Balance at December 31, 2004	<u>\$ 1,000</u>	<u>32,616</u>	<u>(6,595)</u>	<u>111,490</u>	<u>138,511</u>

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

*CAMBRIDGE WAY, INC.*

*Statement of Changes in Subordinated Liabilities*

*For the Year Ended December 31, 2004*

Subordinated liabilities at beginning and end of year

\$ -

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

*CAMBRIDGE WAY, INC.*

*Statement of Cash Flows*

*For the Year Ended December 31, 2004*

*Increase (Decrease) in Cash and Cash Equivalents*

Cash flows from operating activities:		
Loss		\$ (52,662)
Adjustments to reconcile loss to net cash used in operating activities:		
Depreciation	\$ 1,855	
Changes in operating assets and liabilities:		
Increase in commissions receivable	(1,636)	
Increase in other current assets	(5,687)	
Decrease in commissions payable	(1,953)	
Decrease in accrued expenses	<u>(90)</u>	
Total adjustments		<u>(7,511)</u>
Net cash used in operating activities		(60,173)
Cash flows from investing activities:		
Decrease in due from affiliate	42,021	
Purchase of property and equipment	<u>(1,163)</u>	
Net cash provided by investing activities		<u>40,858</u>
Net decrease in cash and cash equivalents		(19,315)
Cash and cash equivalents at beginning of year		<u>73,034</u>
Cash and cash equivalents at end of year		<u>\$ 53,719</u>

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

CAMBRIDGE WAY, INC.

Notes to Financial Statements

December 31, 2004

(1) Organization

Cambridge Way, Inc. is engaged in the securities business. The Company is a broker-dealer which sells general securities on a fully disclosed basis through a clearing broker, direct participation programs and variable contracts on a "best efforts" and subscription basis, and mutual funds with all orders cleared through the sponsoring institution.

(2) Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Company considers all cash, money market funds and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Company places its cash and cash equivalents with financial institutions management considers to be of a high quality.

(b) Property and Equipment

Property and equipment is stated at cost. Depreciation is provided over the assets' estimated useful lives using accelerated methods. Furniture and fixtures are generally depreciated over seven years while office equipment is depreciated over five years.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciations are removed from the accounts, and the resulting gain or loss is included in operations.

(c) Revenue Recognition

The financial statements are prepared on the accrual basis. The Company recognizes commission income on a trade date basis.

(d) Income Taxes

The Company has elected to be taxed as a Subchapter "S" corporation for federal income tax purposes. As such, all federal taxable income and losses pass through to the individual stockholder for inclusion in the personal income tax return and the Company recognizes only state income taxes in the financial statements.

The amount provided for state income taxes is based upon the amounts of current and deferred taxes payable or refundable at the date of the financial statements as a result of all events recognized in the financial statements as measured by the provisions of enacted tax laws.

CAMBRIDGE WAY, INC.

Notes to Financial Statements, Continued

December 31, 2004

(2) Summary of Significant Accounting Policies, Continued

(e) Estimates

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 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.

(f) Advertising Costs

Advertising costs are expensed as incurred.

(3) Net Capital Requirements and Other Restrictions

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (15c3-1) which requires the maintenance of minimum capital equal to \$50,000. At December 31, 2004, the Company had net capital as defined of \$92,025.

The Company maintains an agreement for clearing services with a broker-dealer registered with the Securities and Exchange Commission. In accordance with the agreement between these parties, a \$50,000 cash balance is maintained with the clearing broker and is reflected as deposit with clearing organization in the statement of financial condition.

(4) Due from Affiliate

The advances of \$29,438 at December 31, 2004 represent unsecured non-interest bearing advances made to an affiliated company that is solely-owned by the Company's 100% shareholder. The account is used for clearing of expense allocation between the Company and its affiliate.

(5) Related Party Transactions

Substantially all expenses of the Company, except commission expense and other directly related expenses, represent allocations of such expenses from its affiliate. Both companies share office facilities and incur other common overhead expenses. The Company was allocated 30% of those common expenses for 2004. The affiliate also pays the stockholder's and all other compensation. In addition to the allocated expenses, the Company paid the affiliate \$55,505 for management services for the year ended December 31, 2004.

CAMBRIDGE WAY, INC.

Notes to Financial Statements, Continued

December 31, 2004

(5) Related Party Transactions, Continued

Under a rental arrangement, the affiliated company has noncancelable lease obligations associated with the office facilities through August 11, 2005. The affiliated company's remaining required lease obligation as of December 31, 2004 is \$60,322 and is payable for 2005. The Company shares in this rental obligation through the affiliated company's allocation of common overhead expenses.

(6) Income Taxes

During the current year, the Company recognized a loss of \$52,662. No benefit from this loss for state income tax purposes has been recognized. This state net operating loss carryforward is available for state income tax purposes through 2019.

(7) Receivable from Clearing Organizations and Payable to Brokers

Amounts receivable from clearing organizations and payable to brokers at December 31, 2004, consist of the following:

	<u>Receivable</u>	<u>Payable</u>
Fees and commissions receivable/payable	\$ <u>17,340</u>	<u>28,646</u>

(8) Commission Concentrations

During 2004, one of the registered representatives utilized by the Company through an independent contractor arrangement, was paid approximately \$250,000 in commissions for the current year. This amount represents approximately 93% of the total commission expense for 2004. Conversely, this one individual was responsible for generating the vast majority of the Company's commission revenue for the current year.

*CAMBRIDGE WAY, INC.*

*Computation of Net Capital*

*December 31, 2004*

Total stockholder's equity	\$ 138,511
Less nonallowable assets and haircuts:	
Other current assets	10,287
Property and equipment, net	2,056
Deposits	4,705
Due from affiliate	29,438
Haircuts	-
Total nonallowable assets and haircuts	<u>46,486</u>
Net capital	92,025
Net capital required	<u>50,000</u>
Excess net capital	<u>\$ 42,025</u>

The computation as presented above includes a line item for other current assets of \$10,287 resulting from an adjustment made in the conduct of the audit of the Company's financial statements as of December 31, 2004 and was not included in the Company's FOCUS Report - Part IIA (unaudited) at December 31, 2004. However, the effect of the adjustment correspondingly increased total stockholder's equity at that date with no change in the net capital amount of \$92,025 that was submitted with the Company's aforementioned FOCUS Report.

*CAMBRIDGE WAY, INC.*

*Computation for Determination of  
Reserve Requirements Pursuant to Rule 15c3-3*

*December 31, 2004*

The Company is exempt from the requirements of Rule 15c3-3 under Section K(2) (ii) of the Rule.

*CAMBRIDGE WAY, INC.*

*Information Relating to the Possession or  
Control Requirements Under Rule 15c3-3*

*December 31, 2004*

The Company is exempt from the requirements of Rule 15c3-3 under Section K(2) (ii) of the Rule.

*CAMBRIDGE WAY, INC.*

*Reconciliation, Including Appropriate Explanation, of the  
Computation of Net Capital Under 15c3-1 and the  
Computation for Determination of the Reserve  
Requirements Under Exhibit A of Rule 15c3-3*

*December 31, 2004*

A reconciliation of the net capital computed with the computation of net capital on the December 31, 2004 FOCUS Report - Part IIA is shown below:

Net capital computed on Schedule 1 and as computed on the Company's FOCUS Report - Part IIA (unaudited) at December 31, 2004	<u>\$ 92,025</u>
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An adjustment was made to reflect other current assets of \$10,287 that resulted in a corresponding increase to total stockholders' equity at December 31, 2004 with no effect on the net capital as indicated at Schedule 1 and the net capital as calculated in the FOCUS Report as submitted for the quarter ended December 31, 2004.

The Company is exempt from the requirements of Rule 15c3-3 under Section K(2) (ii) of the Rule.

*CAMBRIDGE WAY, INC.*

*Reconciliation Between the Audited and Unaudited  
Statements of Financial Condition with Respect  
to Methods of Consolidation*

*December 31, 2004*

Not Applicable

*CAMBRIDGE WAY, INC.*

*Material Inadequacies Found to Exist or Found  
to Have Existed Since the Date of the Previous Audit*

*December 31, 2004*

None

**MAGGART & ASSOCIATES, P.C.**

*Certified Public Accountants*

150 FOURTH AVENUE, NORTH  
SUITE 2150

NASHVILLE, TENNESSEE 37219-2417

Telephone (615) 252-6100

Facsimile (615) 252-6105

**Independent Auditor's Report on Internal Control**

To the Board of Directors  
Cambridge Way, Inc.  
Brentwood, Tennessee

In planning and performing our audit of the financial statements and supplemental schedules of Cambridge Way, Inc. (the Company) for the year ended December 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 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 generally accepted accounting principles. 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 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 December 31, 2004 to meet the SEC's objectives.

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

*Maggart & Associates, P.C.*

MAGGART & ASSOCIATES, P.C.

Nashville, Tennessee  
February 4, 2005