

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

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

SEC FILE NUMBER  
8- 49213

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 January 1, 2004 AND ENDING December 31, 2004  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:  
**Capital Research Brokerage Services, LLC**  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY  
FIRM I.D. NO.

107 S. Fair Oaks Avenue, #315

(No. and Street)

Pasadena,

CA

91105

(City)

(State)

(Zip Code)

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

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

PROCESSED

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

Kevin G. Breard, CPA, An Accountancy Corporation

MAR 02 2005

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

9010 Corbin Ave., Ste 7,

Northridge,

CA

91324

(Address)

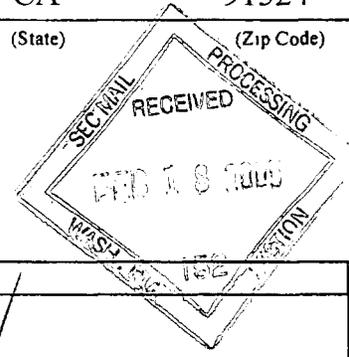
(City)

(State)

(Zip Code)

CHECK ONE:

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



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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)

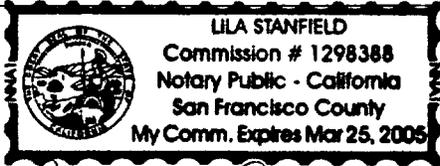
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SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, John Odell, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Capital Research Brokerage Services, LLC, 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:



Lila Stanfield  
Notary Public

[Signature]

Signature

Principal

Title

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 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.
- (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).

**Capital Research Brokerage Services, LLC**

**Report Pursuant to Rule 17a-5 (d)**

**Financial Statements**

**For the Year Ended December 31, 2004**

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KEVIN G. BREARD, C.P.A.  
AN ACCOUNTANCY CORPORATION

Independent Auditor's Report

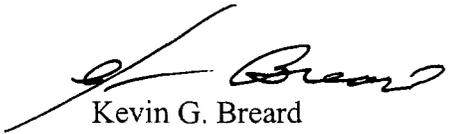
Board of Directors  
Capital Research Brokerage Services, LLC

I have audited the accompanying statement of financial condition of Capital Research Brokerage Services, LLC (a California Limited Liability Company) as of December 31, 2004 and the related statements of income, changes in members' 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. My responsibility is to express an opinion on these statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capital Research Brokerage Services, LLC as of 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.

My examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on Schedules I-IV are presented for purposes of additional analysis and is not required as part of the basic financial statements, but as supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subject to the auditing procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated in all material respects in relating to the basic financial statements taken as a whole and in conformity with the rules of the Securities and Exchange Commission.

  
Kevin G. Breard  
Certified Public Accountant

Northridge, California  
January 20, 2005

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9010 CORBIN AVENUE, SUITE 7  
NORTHRIDGE, CALIFORNIA 91324  
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B r e a r d C P A @ a o i . c o m

**Capital Research Brokerage Services, LLC**  
**Statement of Financial Condition**  
**December 31, 2004**

**Assets**

Cash and cash equivalents	\$ 21,733
Cash and securities segregated under federal and other regulations	995
Receivable from broker and dealer	14,078
Marketable securities, at market	338,904
Other receivables	700
Furniture and equipment, net of accumulated depreciation of \$3,727	<u>10,550</u>
<b>Total assets</b>	<b><u>\$ 386,960</u></b>

**Liabilities and Members' Equity**

**Liabilities**

Accounts payable	\$ 20,006
Income taxes payable	<u>2,500</u>
<b>Total liabilities</b>	22,506

<b>Members' equity</b>	<b><u>364,454</u></b>
<b>Total liabilities and members' equity</b>	<b><u>\$ 386,960</u></b>

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

**Capital Research Brokerage Services, LLC**  
**Statement of Operations**  
**For the Year Ended December 31, 2004**

**Revenues**

Commissions income	\$ 947,960
Interest and dividends	10,292
Unrealized gains (losses)	(6,117)
Other income	<u>8,670</u>
<b>Total revenues</b>	<b>960,805</b>

**Expenses**

Commissions and floor brokerage	71,938
Occupancy and equipment rental	15,856
Taxes, other than income taxes	19,466
Administrative expenses – related party	280,000
Other operating expenses	<u>573,696</u>
<b>Total expenses</b>	<b><u>960,956</u></b>

**Income (loss) before provision for income taxes** (151)

**Income tax provision** 3,300

**Net income (loss)** \$ (3,451)

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

**Capital Research Brokerage Services, LLC**  
**Statement of Changes in Members' Equity**  
**For the Year Ended December 31, 2004**

	<u>Members'</u> <u>Equity</u>
Beginning balance at January 1, 2004	\$ 367,905
Net income (loss)	<u>(3,451)</u>
Balance at December 31, 2004	<u>\$ 364,454</u>

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

**Capital Research Brokerage Services, LLC**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2004**

**Cash flows from operating activities:**

Net income (loss)		\$ (3,451)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	\$ 2,730	
Valuation of marketable securities to market	6,117	
(Increase) decrease in:		
Securities segregated	5	
Receivable from broker/dealer	9,522	
(Decrease) increase in:		
Accounts payable	<u>482</u>	
Total adjustments		<u>18,856</u>
<b>Net cash and cash equivalents provided by (used in) operating activities</b>		<b>15,405</b>

**Cash flows from investing activities:**

Purchase of marketable securities	(10,000)	
Proceeds from sale of marketable securities reinvested	<u>32</u>	
<b>Net cash and cash equivalents provided by (used in) investing activities</b>		<b>9,968</b>

**Cash flows from financing activities:**

<b>Net cash and cash equivalents provided by (used in) financing activities</b>		<u>—</u>
---	--	----------

Net increase (decrease) in cash and cash equivalents		5,437
Cash and cash equivalents at beginning of year		<u>16,296</u>
Cash and cash equivalents at end of year		<u><u>\$ 21,733</u></u>

**Supplemental disclosure of cash flow information:**

Cash paid during the year for:

Interest	\$ —	
Income taxes	\$ 3,300	

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

**Capital Research Brokerage Services, LLC**  
**Notes to Financial Statements**  
**December 31, 2004**

**Note 1: GENERAL & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General*

Capital Research Brokerage Services, LLC (the "Company") was organized as a California Limited Liability Company ("LLC") on November 12, 1997. In May of 2000 the Company acquired The Oakwood Group of Michigan, LLC., a broker/dealer organized on February 14, 1996, in the State of North Carolina as a Limited Liability Company. The surviving company maintained the broker/dealer under the name Capital Research Brokerage Services, LLC. The Company operates in all 50 states, but maintains its main office in Pasadena, California. The Company is a registered broker/dealer under the Securities and Exchange Act of 1934 and a member of the National Association of Securities Dealers.

The Company serves as broker of record for mutual fund activity for the clients of a related company.

The Company has around nineteen (19) total clients, with three (3) of the clients accounting for 55% of the Company's commission revenues.

*Summary of Significant Accounting Policies*

The presentation 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Securities transactions are recorded on a trade date basis with related commission income and expenses also recorded on a trade date basis.

For purposes relating to the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company also includes money market accounts as cash equivalents.

Accounts receivables are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial.

Marketable securities are valued at market value. Mark to market accounting is used for purposes of determining unrealized gain/loss on security positions in proprietary trading and investment accounts. The securities are sold on a first in first out basis; however, certain securities are inventoried on a specific identification basis. Haircuts are deductions from net capital of certain specified percentages of the market value of securities that are long and short in the capital and proprietary accounts of the broker-dealer.

Capital Research Brokerage Services, LLC

Notes to Financial Statements

December 31, 2004

**Note 1: GENERAL & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

Furniture and equipment are stated at cost. Repairs and maintenance to these assets are charged to expense as incurred; major improvements enhancing the function and/or useful life are capitalized. When items are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gains or losses arising from such transactions are recognized. Furniture and equipment are depreciated over their estimated useful lives ranging from five (5) to (7) years using the straight-line method.

The Company, with the consent of its Members, has elected to be a Limited Liability Company. For tax purposes the Company is treated like a partnership, therefore in lieu of business income taxes, the Members are taxed on the Company's taxable income. Accordingly, no provision or liability for Federal Income Taxes is included in these financial statements. The State of California has similar treatment, although there exists a provision for a gross receipts tax and a minimum Franchise Tax of \$800.

**Note 2: CASH AND SECURITIES SEGREGATED UNDER FEDERAL AND OTHER REGULATIONS**

Cash of \$995 has been segregated in a special reserve bank account for the benefit of customers under rule 15c3-3 of the Securities and Exchange Commission.

**Note 3: MARKETABLE SECURITIES, AT MARKET**

Marketable securities, at market consisted of certificates of deposit with varying maturities, valued at \$338,904 on December 31, 2004. The company included \$6,117 in unrealized securities losses in income from operations.

**Note 4: FURNITURE AND EQUIPMENT, NET**

The furniture and equipment are recorded at cost.

		<u>Depreciable Life Years</u>
Furniture & fixtures	\$ 11,744	7
Machinery & equipment	<u>5,263</u>	5
Subtotal	17,007	
Less accumulated depreciation	<u>6,457</u>	
Furniture and equipment, net	<u>\$ 10,550</u>	

Depreciation expense for the year ended December 31, 2004 was \$2,730.

**Capital Research Brokerage Services, LLC**  
**Notes to Financial Statements**  
**December 31, 2004**

**Note 5: INCOME TAXES**

The Company is a registered limited liability company. The Federal taxation is similar to a partnership, whereby the taxes are paid at the member level. All tax effects of a partnership's income or loss are passed through to the partners individually.

The Company is subject to a limited liability company gross receipts tax, with a minimum provision of \$800. For the year ended December 31, 2004, the Company recorded the gross receipts tax for a limited liability company of \$3,300.

**Note 6: RELATED PARTY TRANSACTIONS**

The Company maintains its operations utilizing the office space and staff of another company related by common ownership. The majority of the Company's clients are clients of the other Company. The Company has entered into various related party agreements. On April 29, 2004, the Company entered into a "shared expense" agreement in complying with NASD and SEC rules and regulations. The agreement is between the Company and SBG Capital Management, Inc., Odell Investment Group and Capital Research and Consulting, LLC. Under the agreement, the Company will record monthly fees for office space and facilities, administration advisory services and other fees. For the year ended December 31, 2004, the Company paid under this agreement \$349,113. This consists of the following:

Administration fees	\$ 280,000
Rent	15,857
Other fees	<u>53,256</u>
	<u>\$ 349,113</u>

SBG Capital Management, Inc, and Capital Research Consulting, LLC are related parties through common ownership.

The Company also received \$700 a month from a related party, as reimbursement for advertising expenses that benefits the related party. For the year ending December 31, 2004, the Company included \$8,400 in fees received from the related party in other income.

**Note 7: RECENTLY ISSUED ACCOUNTING STANDARDS**

In January 2003, The Financial Accounting Standards Board ("FASB) issued FASB Interpretation No. 46, "*Consolidation of Variable Interest Entities*" (FIN 46"). This interpretation of Accounting Research Bulletin No. 51, requires companies to consolidate the operations of all variable interest entities ("VIE's") for which they are the primary beneficiary. The term "primary beneficiary" is defined as the entity that will absorb a majority of expected losses, receive a majority of the expected residual returns, or both.

**Capital Research Brokerage Services, LLC**  
**Notes to Financial Statements**  
**December 31, 2004**

**Note 7: RECENTLY ISSUED ACCOUNTING STANDARDS**  
**(Continued)**

This interpretation was later revised by the issuance of Interpretation No. 46R ("FIN 46R"). The revision was issued to address certain implementation issues that had arisen since the issuance of the original interpretation and to provide companies with the ability to defer the adoption of FIN 46 to periods after March 15, 2004. The implementation of FIN No. 46 and FIN 46R, had no material impact on the Company's financial statements.

On July 16, 2004, the FASB ratified the Emerging Issues Task Force ("EITF") consensus on Issue 02-14, "*Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means*" ("EITF 02-14"). The consensus concludes that an investor should apply the equity method of accounting when it can exercise significant influence over an entity through a means other than holding voting rights. The consensus is effective for reporting periods beginning after September 15, 2004. The adoption of EITF 02-14 did not have a material impact on the Company's financial statements.

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payment*" ("FASB 123R"), which addresses the accounting for employee stock options. FASB 123R requires that the cost of all employee stock options, as well as other equity-based compensation arrangements, be reflected in the financial statements based on the estimated fair value of the awards. Stock options are a valuable and important tool that have been used by many companies as a means to motivate employees and to promote business growth. The statement requires that the value of these arrangements be measured and recognized in the financial statements. FASB 123R becomes effective for reports filed after June 15, 2005. Early adoption of FASB 123R had no material effect on the Company's financial statements.

**Note 8: NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (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. Net capital and aggregate indebtedness change day to day, but on December 31, 2004, the Company's net capital of \$348,951 exceeded the minimum net capital requirement by \$98,951; and the Company's ratio of aggregate indebtedness (\$22,506) to net capital was 0.06:1, which is less than the 15 to 1 maximum ratio allowed.

**Capital Research Brokerage Services, LLC**  
**Schedule I - Computation of Net Capital Requirements**  
**Pursuant to Rule 15c3-1**  
**As of December 31, 2004**

**Computation of net capital**

<b>Members' equity</b>	\$ 364,454	
<b>Additions:</b>	<u>—</u>	
<b>Total members' equity and allowable additions</b>		\$ 364,454
<b>Less: Non-allowable assets</b>		
Other receivables	(700)	
Furniture and equipment, net	<u>(10,550)</u>	
<b>Total non-allowable assets</b>		<u>(11,250)</u>
<b>Net capital before haircuts</b>		353,204
<b>Less: Haircuts and undue concentration</b>		
Haircuts on securities	(4,235)	
Haircuts on money market accounts	(18)	
Undue concentration	<u>—</u>	
<b>Total haircuts and undue concentration</b>		<u>(4,253)</u>
<b>Net Capital</b>		348,951

**Computation of net capital requirements**

Minimum net capital requirements		
6 2/3 percent of net aggregate indebtedness	\$ 1,500	
Minimum dollar net capital required	<u>250,000</u>	
Net capital required (greater of above)		<u>250,000</u>
<b>Excess net capital</b>		<u>\$ 98,951</u>
Percentage of aggregate indebtedness to net capital	0.06:1	

There was no material difference between net capital shown here and net capital as reported on the Company's unaudited Form X-17A-5 report dated December 31, 2004.

*See independent auditor's report.*

**Capital Research Brokerage Services, LLC**  
**Schedule II - Computation for Determination of Reserve**  
**Requirements Pursuant to Rule 15c3-3**  
**As of December 31, 2004**

**Credit Balances**

Free credit balances and other credit balances in customers' security accounts	\$	-	
Customers' securities failed to receive		-	
Total credits		-	\$ -

**Debit Balances**

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		-	
Failed to deliver of customers' securities not older than 30 calendar days		-	
Total debits		-	-

**Reserve Computation**

Excess of total credits over total debits	\$	-
Reserve required at 105%	\$	-

Amount held on deposit in reserve account at December 31, 2003	\$	1,000
Amounts deposited (withdrawn) after December 31, 2003		(5)
Amount in reserve account at December 31, 2004	\$	995

There was no material difference between reserve requirements here and reserve requirements as reported on the Company's unaudited Form X-17A-5 report dated December 31, 2004.

*See independent auditor's report.*

**Capital Research Brokerage Services, LLC**  
**Schedule IV - Information Relating to Possession or Control**  
**Reserve Requirements Under Rule 15c3-3**  
**As of December 31, 2004**

The Company is a self-clearing firm and is subject to the possession or control requirements under Rule 15c3-3 of the Securities and Exchange Commission. The Company is in compliance with these requirements and there were no instances noted during our audit of securities that were required to be in possession or control that had not been reduced to possession or control in the proper time frame.

*See independent auditor's report.*

**Capital Research Brokerage Services, LLC**

**Supplementary Accountant's Report**

**on Internal Accounting Control**

**Report Pursuant to 17a-5**

**For the Year Ended December 31, 2004**

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KEVIN G. BREARD, C.P.A.  
AN ACCOUNTANCY CORPORATION

Board of Directors  
Capital Research Brokerage Services, LLC

In planning and performing my audit of the financial statements and supplemental schedules of Capital Research Brokerage Services, LLC for the year ended December 31, 2004, I considered its internal control structure, for the purpose for safeguarding securities, in order to determine my auditing procedures for the purpose of expressing my 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, I have made a study of the practices and procedures followed by Capital Research Brokerage Services, LLC including tests of such practices and procedures that I considered relevant to 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 security accounts for customers or perform custodial functions relating to customer securities, I did not review the practices and procedures followed by the Company in any of the following:

1. Making the 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 structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements 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 generally accepted accounting principles. Rule 17-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

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

My consideration of the internal control structure would not necessarily disclose all matters in the 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 design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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, I noted no matters involving the internal control structure, including procedures for safeguarding securities, that I considered to be material weakness as defined above.

I understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purpose 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 material inadequacy for such purposes. Based on this understanding on my study, I believe that the Company's practices and procedures were adequate at December 31, 2004 to meet the Commission's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, and other regulatory agencies which rely on rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.



Kevin G. Breard  
Certified Public Accountant

Northridge, California  
January 20, 2005