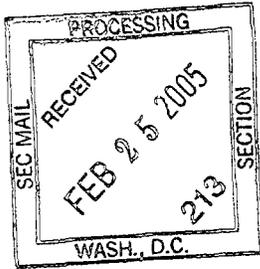




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UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

OMB APPROVAL OMB Number: 3235-0123 Expires: October 31, 2004 Estimated average burden hours per response..... 12.00

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

SEC FILE NUMBER 8- 20225

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: Omega Securities, Inc. ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.) 309 W. 7th Street, Suite 900

OFFICIAL USE ONLY FIRM I.D. NO.

(No. and Street)

Fort Worth (City)

TX (State)

76102 (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT Joe Hardgrove 817-335-5739 (Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

The Walton Group, LLC

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

6100 Southwest Blvd., Suite 300 (Address)

Fort Worth (City)

TX (State)

76109 (Zip Code)

CHECK ONE:

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

PROCESSED MAR 15 2005 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)

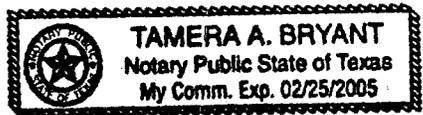
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OATH OR AFFIRMATION

I, Joe Hardgrove, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Omega Securities, 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:

Joseph E. Hardgrove
Signature
President
Title

Tamera A. Bryant
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).

OMEGA SECURITIES, INC.
Financial Statements and Supplemental
Schedules Required by the
Securities and Exchange Commission
For the Year Ended December 31, 2004
and
Supplemental Report on Internal Control
(With Independent Auditors' Report Thereon)

• Consultants • Certified Public Accountants • Business Advisors •

INDEPENDENT AUDITORS' REPORT

Board of Directors
Omega Securities, Inc.

We have audited the accompanying statement of financial condition for noncarrying, nonclearing and certain other brokers or dealers of Omega Securities, Inc. (the Company) as of December 31, 2004, and the related statements of operations and comprehensive income, changes in stockholder's equity and cash flows for the year then ended, that you are filing pursuant to Rule 17a-5 under the Securities and 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. 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 the Company 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.

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 on pages 12 and 13 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 and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Walton Group, LLC

February 4, 2005

OMEGA SECURITIES, INC.
Statement of Financial Condition For
Noncarrying, Nonclearing and Certain
Other Brokers or Dealers
December 31, 2004

Assets

Current assets:

| | |
|--|-----------|
| Cash | \$ 89,095 |
| Accounts receivable | 63,482 |
| Investments in mutual funds (Note 2) | 244,396 |
| Federal income tax receivable (Note 4) | 2,901 |
| Other current assets | <u>12</u> |
| Total current assets | 399,886 |

| | |
|--|---------------|
| Property and equipment, net (Note 3) | 12,597 |
| Investments in stock warrants (Note 2) | <u>20,100</u> |

Total assets **\$ 432,583**

Liabilities and Stockholder's Equity

Current liabilities:

| | |
|--|---------------|
| Accounts payable and accrued liabilities | \$ 52,663 |
| Simple IRA liability (Note 9) | 18,817 |
| Deferred income taxes (Notes 2 and 4) | <u>17,657</u> |

Total current liabilities 89,137

Deferred income taxes (Note 4) 4,276

Total liabilities 93,413

Commitments and contingencies (Note 8) -

Stockholder's equity:

| | |
|---|-----------------|
| Common stock, \$.10 par value; 10,000,000 shares authorized; 50,000 shares issued | 5,000 |
| Additional paid-in capital | 30,281 |
| Accumulated other comprehensive income: | |
| Unrealized gain on marketable securities, net of tax (Note 2) | 34,274 |
| Retained earnings | 297,332 |
| Less cost of treasury stock | <u>(27,717)</u> |

Total stockholder's equity 339,170

Total liabilities and stockholder's equity **\$ 432,583**

The accompanying notes are an integral part of the financial statements

OMEGA SECURITIES, INC.
Statement of Operations and Comprehensive Income
For the Year Ended December 31, 2004

Revenue:

| | |
|--|------------------|
| Commission and advisory fee revenue | \$ 1,385,974 |
| Investment income | 7,883 |
| Realized gain on sale of marketable securities | <u>6,589</u> |
| Total revenue | <u>1,400,446</u> |

Expenses:

| | |
|---|------------------|
| Commission expenses | 139,962 |
| General operating expenses (Notes 3, 7, 8 and 9) | <u>1,176,688</u> |
| Total expenses | <u>1,316,650</u> |
| Net income before other comprehensive income and Federal income taxes | 83,796 |
| Federal income tax expense (Note 4) | <u>(20,976)</u> |
| Net income before other comprehensive income | 62,820 |
| Other comprehensive income, net of tax: Unrealized gain on marketable securities | <u>10,586</u> |
| Total comprehensive income | \$ <u>73,406</u> |

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

OMEGA SECURITIES, INC.
Statement of Changes in Stockholder's Equity
For the Year Ended December 31, 2004

| | <u>Common Stock</u> <u>Shares</u> | <u>Amount</u> | <u>Additional</u> <u>Paid-in</u> <u>Capital</u> | <u>Accumulated</u> <u>Other</u> <u>Comprehensive</u> <u>Income (Loss)</u> | <u>Retained</u> <u>Earnings</u> | <u>Treasury</u> <u>Stock</u> | <u>Total</u> |
|--|--------------------------------------|-----------------|---|--|------------------------------------|---------------------------------|-------------------|
| January 1, 2004 | 50,000 | \$ 5,000 | \$ 30,281 | \$ 23,688 | \$ 234,512 | \$ (27,717) | \$ 265,764 |
| Net income | - | - | - | - | 62,820 | - | 62,820 |
| Comprehensive income: Unrealized gain on marketable securities, net of tax | - | - | - | 10,586 | - | - | 10,586 |
| December 31, 2004 | <u>50,000</u> | <u>\$ 5,000</u> | <u>\$ 30,281</u> | <u>\$ 34,274</u> | <u>\$ 297,332</u> | <u>\$ (27,717)</u> | <u>\$ 339,170</u> |

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

OMEGA SECURITIES, INC.
Statement of Cash Flows
For the Year Ended December 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|--|---------------|
| Reconciliation of net income before other comprehensive income to cash provided by operating activities: | |
| Net income before other comprehensive income | \$ 62,820 |
| Adjustments: | |
| Depreciation | 7,747 |
| Deferred taxes | 15,759 |
| Realized gain on sale of marketable securities | (6,589) |
| Changes in balance sheet accounts: | |
| Increase in accounts receivable | (17,375) |
| Decrease in Federal income taxes receivable | 18,780 |
| Decrease in accounts payable and accrued liabilities | (8,353) |
| Decrease in profit sharing payable | (83,453) |
| Increase in Simple IRA payable | <u>18,817</u> |
| Net cash provided by operating activities | <u>8,153</u> |

CASH FLOWS FROM FINANCING ACTIVITIES -

| | |
|---|---------------|
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchase of investments | (46,214) |
| Sale of investments | 95,251 |
| Purchase of property and equipment | <u>(18)</u> |
| Net cash provided by investing activities | <u>49,019</u> |

| | |
|--|------------------|
| Increase in cash | 57,172 |
| Cash and cash equivalents, beginning of year | <u>31,923</u> |
| Cash and cash equivalents, end of year | <u>\$ 89,095</u> |

Supplemental Disclosure

During the year ended December 31, 2004, the value of the Company's mutual funds increased in value by \$16,040. This resulted in a increase in accumulated other comprehensive income of \$10,586 and a related increase in deferred income tax liabilities of \$5,454.

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

OMEGA SECURITIES, INC.
Notes to Financial Statements
For the Year Ended December 31, 2004

(1) Organization and Summary of Significant Accounting Policies

(a) Nature of Operation

Omega Securities, Inc. (the Company) was organized as a corporation on June 22, 1992, under the laws of the State of Texas. The Company is a registered member of the National Association of Securities Dealers, Inc. as a broker/dealer, and with the Securities and Exchange Commission (SEC) under the Federal Securities and Exchange Act of 1934. The Company acts as a dealer/investment advisor for certain offerings and does not maintain discretionary accounts for its customers. There are no existing obligations of the dealer in regards to offerings made.

(b) Net Capital Requirements

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c 3-1), 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 certain limits.

(c) Income Taxes

The Company provides for Federal income taxes, currently payable or receivable, and deferred income taxes resulting from temporary differences between assets and liabilities as presented for financial reporting and Federal income tax reporting. If it is anticipated that any portion of a deferred tax asset will not be realized, a valuation allowance is recorded.

(d) Accounts Receivable

Accounts receivable consist primarily of commissions earned during the year but not received as of year-end. Commissions are earned through quality financial institutions and reputable mutual fund companies. Receivables are recorded only when substantial evidential matter is obtained as to the validity of the receivable. Accordingly, the Company does not record an allowance for doubtful accounts. As collectibility of receivables is reasonably assured, the Company does not maintain a policy for determining reserves for past due or delinquent receivables.

(e) Property and Equipment

Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets which is 3 to 5 years.

Major improvements significantly extending the useful lives of the assets are capitalized while expenditures which do not improve or extend the useful lives of the respective assets are expensed as incurred.

(f) Statement of Cash Flows

For purposes of the statement of cash flows, cash equivalents include cash in banks and cash in money market funds.

OMEGA SECURITIES, INC.
Notes to Financial Statements
For the Year Ended December 31, 2004

(1) Organization and Summary of Significant Accounting Policies (Continued)

(g) Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

(h) Investments in Mutual Funds

The Company's investments in mutual funds are classified as available-for-sale securities. The unrealized gains and losses, net of related deferred income taxes, are reported as a separate component of stockholder's equity. The realized gain or loss on the sale of securities is calculated using the average cost method.

(i) Concentrations of Credit and Market Risk

Concentrations of credit and market risk consists of cash, accounts receivable and mutual funds. The Company places its cash with quality financial institutions and by policy, limits the amount of exposure to any one financial institution. Accounts receivable relates to commissions earned from the sale of investment products of insurance companies and numerous mutual funds. The Company has not experienced problems in collecting commissions due from these entities. The Company's investments in mutual funds are diversified among issuers with various investment strategies that minimize overall market risk.

(2) Investments in Mutual Funds

Investments in mutual funds at December 31, 2004 consisted of the following:

| | <u>Cost</u> | <u>Market Value</u> |
|-----------------------------------|-------------------|---------------------|
| AMCAP Fund | \$ 25,241 | \$ 26,371 |
| Capital Income Builder | 18,978 | 26,300 |
| Capital World Growth and Income | 29,774 | 43,857 |
| The Investment Company of America | 39,234 | 47,012 |
| New Perspective Fund | 32,154 | 46,384 |
| Washington Mutual Investors Fund | <u>47,084</u> | <u>54,472</u> |
| | <u>\$ 192,465</u> | <u>\$ 244,396</u> |

OMEGA SECURITIES, INC.
Notes to Financial Statements
For the Year Ended December 31, 2004

(2) Investments in Mutual Funds (Continued)

Investments are classified as available-for-sale, and are carried at market value. Unrealized appreciation (devaluation) relating to the investments as of December 31, 2004 is shown as a separate component of stockholder's equity in the accompanying financial statements, net of the effect of deferred income taxes.

The change in unrealized appreciation (devaluation) for the year ended December 31, 2004 is as follows:

| | |
|--|------------------|
| Unrealized appreciation at January 1, 2004 | \$ 35,891 |
| Unrealized appreciation during 2004 | <u>16,040</u> |
| Unrealized appreciation at December 31, 2004 | \$ <u>51,931</u> |

The \$51,931 in unrealized appreciation is recorded in the accompanying financial statements in the following captions:

| | |
|--|------------------|
| Deferred income taxes | \$ 17,657 |
| Stockholder's equity: | |
| Accumulated other comprehensive income | <u>34,274</u> |
| | \$ <u>51,931</u> |

During a prior year, the Company invested \$20,100 in stock warrants of NASDAQ Stock Market, Inc., of which there is currently no market to dispose of the securities; accordingly, the investment is recorded at cost in the accompanying financial statements.

(3) Property and Equipment

Property and equipment is composed of the following at December 31, 2004:

| | |
|-------------------------------|------------------|
| Office equipment | \$ 9,937 |
| Furniture and fixtures | <u>25,711</u> |
| | 35,648 |
| Less accumulated depreciation | <u>(23,069)</u> |
| | \$ <u>12,579</u> |

Depreciation expense for the year ended December 31, 2004 was \$7,747, and it was included as a component of general operating expenses in the accompanying financial statements.

OMEGA SECURITIES, INC.
Notes to Financial Statements
For the Year Ended December 31, 2004

(4) Income Taxes

The provision for income taxes in the accompanying financial statements is as follows:

| | |
|------------------------|------------------|
| Current tax expense | \$ 5,217 |
| Deferred tax expense | <u>15,759</u> |
| Net income tax expense | <u>\$ 20,976</u> |

See also note 2.

The actual Federal income tax provision differs from that amount computed by applying the Federal corporate income tax rate of 20% to income before other comprehensive income and Federal income taxes, as follows:

| | |
|---------------------------------|------------------|
| Computed "expected" tax expense | \$ 16,759 |
| Various differences | <u>4,217</u> |
| Net income tax expense | <u>\$ 20,976</u> |

The deferred tax liabilities recorded on the balance sheet as of December 31, 2004 are as follows:

| | |
|---|------------------|
| Unrealized appreciation of marketable securities | \$ 17,657 |
| Property and equipment | <u>4,276</u> |
| | <u>\$ 21,933</u> |

The Federal income tax receivable recorded in the accompanying financial statements is composed of \$2,901 in overpaid taxes from prior years.

(5) Possession or Control Requirements

There were no material inadequacies in the procedures followed in adhering to the exemptive provisions of SEC Rule 15c3-3 (K)(2)(i) which requires that all customer funds and securities be promptly transmitted to the clearing broker who carries the customer accounts. The Company does not have any possession or control of customer funds or securities.

(6) Subordinated Liabilities

There are no liabilities which were subordinated to claims of general creditors at December 31, 2004.

OMEGA SECURITIES, INC.
Notes to Financial Statements
For the Year Ended December 31, 2004

(7) General Operating Expenses

For the year ended December 31, 2004, general operating expenses consisted of the following:

| | |
|---|---------------------|
| Salaries and related, officers | \$ 656,596 |
| Salaries and related, all other | 118,789 |
| Professional fees and licenses | 28,178 |
| Dues and subscriptions | 24,432 |
| Insurance | 37,263 |
| Printing and labels | 4,244 |
| Rent | 38,015 |
| Equipment rental | 18,818 |
| Taxes | 3,138 |
| Office supplies and expense | 28,489 |
| Depreciation expense | 7,747 |
| Repairs and maintenance | 3,786 |
| Postage | 6,550 |
| Advertising | 12,855 |
| Securities information fees | 1,353 |
| Telephone and communications | 17,376 |
| Clearance charges | 5,881 |
| Delivery charges | 3,365 |
| NASD fees | 8,645 |
| Miscellaneous | 12,857 |
| Parking | 8,925 |
| Computer support | 5,242 |
| Travel and entertainment | 44,331 |
| Profit sharing contribution and Simple IRA expenses | 20,040 |
| Contract labor | 25,808 |
| Contributions and gifts | 33,384 |
| Interest expense | 581 |
| | <u>\$ 1,176,688</u> |

(8) Commitments and Contingencies

The Company is a party to non-cancelable operating leases for general office space and office equipment. The aggregate amount of rental expenses for the year ending December 31, 2004 was \$ 56,833, and it was included as a component of general operating expenses in the accompanying financial statements.

The Company's obligations under the lease agreements subsequent to December 31, 2004 are as follows:

| | |
|-----------------|-------------------|
| 2005 | \$ 54,744 |
| 2006 | 50,120 |
| 2007 | 46,931 |
| 2008 | 48,371 |
| 2009 | 46,123 |
| 2010 and beyond | 43,602 |
| | <u>\$ 289,891</u> |

OMEGA SECURITIES, INC.
Notes to Financial Statements
For the Year Ended December 31, 2004

(9) Profit Sharing Plan

The Company terminated its previous benefit plan (the Plan) during December 2003. During the year ended December 31, 2004, the Company paid \$83,453 in employer contributions related to the Plan year 2003, all of which were accrued at December 31, 2003.

In the current year, the Company established a Simple IRA for the benefit of its employees. The employees are allowed to contribute between \$9,000 to \$10,500 based on the employee's age. The Company elected to match employees' contributions, up to 3% of each employee's gross salary. Company contributions to the Simple IRA totaled \$18,817 and are included in general operating expenses in the accompanying financial statements.

Supplemental Information
Pursuant to Rule 17a-5 of the
Securities and Exchange Act of 1934
As of and For the Year Ended
December 31, 2004

OMEGA SECURITIES, INC.
 Supplemental Schedules Required by Rule 17a-5
 As of and For the Year Ended December 31, 2004

Net Capital

| | |
|--|-------------------|
| Total stockholder's equity | \$ <u>339,170</u> |
| Non-allowable assets: | |
| Property and equipment, net | (12,597) |
| Other current assets | (12) |
| Investments in stock warrants | (20,100) |
| 12b-1 fees receivable not offset by related payable | <u>(51,467)</u> |
| Total non-allowable assets | (84,176) |
| Haircuts on securities | (36,659) |
| Deferred tax liabilities | <u>21,933</u> |
| Total changes in stockholder's equity | <u>(98,902)</u> |
| Net allowable capital | \$ <u>240,268</u> |

Computation of Basic Net Capital Requirement

| | |
|---|-------------------|
| Minimum net capital required | \$ <u>4,765</u> |
| Minimum dollar net capital requirement of reporting broker or dealer | \$ <u>100,000</u> |
| Net capital requirement | \$ <u>100,000</u> |
| Excess net capital | \$ <u>140,268</u> |

Computation of Aggregate Indebtedness

| | |
|---|------------------|
| Total aggregate indebtedness | \$ <u>71,480</u> |
| Percentage of aggregate indebtedness to allowable net capital | <u>29%</u> |

Reconciliation with Company's Computation of Allowable Net Capital

| | |
|--|-------------------|
| Net allowable capital - As reported in Company's unaudited FOCUS report | \$ 249,616 |
| Net Company and audit adjustments | <u>(9,348)</u> |
| Adjusted net allowable capital, per audited financial statements | \$ <u>240,268</u> |

OMEGA SECURITIES, INC.
Supplemental Schedules Required by Rule 17a-5
As of and For the Year Ended December 31, 2004

Exemptive Provisions Under Rule 15c3-3

The Company is exempt from Rule 15c3-3, because all customer transactions are cleared through another broker-dealer on a fully disclosed basis. Transactions are cleared through dealer number 8-45123.

Changes in Liabilities Subordinated to Claims of General Creditors

| | |
|---|-------------|
| Such claims at January 1, 2004 | \$ - |
| Additions | - |
| Reductions | <u>-</u> |
| Balance of such claims at December 31, 2004 | \$ <u>-</u> |

**REPORT ON INTERNAL CONTROL
DECEMBER 31, 2004**

THE WALTON GROUP, LLC

6100 Southwest Blvd.
Suite 300
Fort Worth, TX 76109
817-731-1155
817-731-1562 (Fax)

• Consultants • Certified Public Accountants • Business Advisors •

To the Board of Directors
Omega Securities, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Omega Securities, Inc. (the Company), for the year ended December 31, 2004, we considered its internal control structure, 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 the periodic computations of aggregate indebtedness 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 accordance with accounting principles generally accepted in the United States. 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, errors 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.

(Continued)

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 errors 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 that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to previously in this report are considered by the SEC to be adequate for its purposes in accordance with the Securities and 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 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 use of management and the SEC and other regulatory agencies that rely on rule 17a-5(g) under the Securities and 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.



February 4, 2005