



OATH OR AFFIRMATION

I, Robert Searing, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of Schottenfeld Group 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:

[Signature] 2/25/05  
Signature  
Chief Operating Officer  
Title

[Signature]  
Notary Public

DIANA RIVERA  
Notary Public, State of New York  
No. 01R16110607  
Qualified in Bronx County  
Commission Expires June 2, 2008

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

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Operations.
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Members' 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 15c3-1 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).

**SCHOTTENFELD GROUP LLC**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2004**

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## INDEPENDENT AUDITORS' REPORT

To the Members  
Schottenfeld Group LLC  
New York, New York

We have audited the accompanying statement of financial condition of Schottenfeld Group LLC as of December 31, 2004 that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 statement of financial condition presents fairly, in all material respects, the financial position of Schottenfeld Group LLC as of December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.



New York, New York  
February 14, 2005

# SCHOTTENFELD GROUP LLC

## Statement of Financial Condition December 31, 2004

### ASSETS

Cash	\$ 58,712
Due from clearing broker	5,150,627
Commissions receivable	53,369
Securities owned, at market value	4,439,838
Furniture, equipment and leasehold improvements - at cost, less accumulated depreciation and amortization of \$168,288	1,593,080
Due from affiliate	<u>195,160</u>
	<u>\$ 11,490,786</u>

### LIABILITIES

Securities sold short, at market value	\$ 626,264
Compensation payable	948,591
Accounts payable and accrued expenses	300,860
Deferred rent payable	505,377
Equipment leases payable	<u>217,950</u>
	2,599,042

### MEMBERS' CAPITAL

	<u>8,891,744</u>
	<u>\$ 11,490,786</u>

# SCHOTTENFELD GROUP LLC

## Notes to Statement of Financial Condition December 31, 2004

### NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### [1] Organization and business:

Schottenfeld Group LLC (the "Company") was organized in July 2003 as a Delaware Limited Liability Company. In April 2004 the Company became registered as a broker/dealer and commenced operations in June 2004. The Company trades securities for its own account and provides commission based agency services to its institutional clients, including certain related parties as described in Note D. The Company clears all of its transactions through a correspondent broker, Goldman Sachs Execution and Clearing, L.P., on a fully disclosed basis. The Company operates under the provisions of Paragraph (k)(2)(ii) of Rule 15c3-3 of the Securities and Exchange Commission and, accordingly, is exempt from the remaining provisions of that rule.

The members of the Company provided capital in the form of cash contributions, in addition to payment of certain Company expenses, and the transfer of specific fixed assets, including leasehold improvements, net of related liabilities, from Roadrunner Capital Partners LLC ("Roadrunner") and Schottenfeld Management Corp., commonly controlled affiliates of the Company. The transferred assets were recorded at book value, determined by management to represent fair value as of the transfer dates.

Except as otherwise expressly provided in the Delaware Limited Liability Company Act (the "Delaware Act"), the debts, obligations, and liabilities of the Company shall be solely the debts, obligations, and liabilities of the Company, and no member shall be obligated personally for any such debt, obligation, or liability of the Company solely by reason of being a member. Except as otherwise expressly provided in the Delaware Act, the liability of each member shall be limited to the amount of capital contributions, if any, required to be made by such member in accordance with the provisions of the Limited Liability Company Operating Agreement, but only when and to the extent the same shall become due pursuant to the provisions of the Agreement.

#### [2] Valuation of securities:

Securities owned and sold short are valued at market value based on exchange quoted prices or at fair value as determined by management.

#### [3] Equipment and improvements:

Furniture, equipment and leasehold improvements are recorded at cost. Depreciation of furniture and equipment is computed using the straight-line method over the estimated useful life of the assets. Leasehold improvements are amortized by the straight-line method over the lesser of the estimated useful life of the assets or the lease period.

#### [4] Use of estimates:

The preparation of the statement of financial condition 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 statement. Actual results could differ from those estimates.

### NOTE B - 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 8 to 1. At December 31, 2004, the Company had net capital of \$6,581,350 which was \$6,381,243 in excess of its required net capital. The Company's net capital ratio was .24 to 1.

# SCHOTTENFELD GROUP LLC

## Notes to Statement of Financial Condition December 31, 2004

### NOTE C - INCOME TAXES

No provision has been made for federal and state income taxes since these taxes are the responsibility of the members. The Company is subject to New York City unincorporated business tax.

### NOTE D - RELATED PARTY TRANSACTIONS

The Company provides brokerage services to an affiliate, Schottenfeld Qualified Associates, L.P., which is managed by an affiliate controlled by one of the members of the Company.

The Company has engaged the services of Roadrunner to manage certain of its assets in connection with the Company's proprietary securities trading activities. As of December 31, 2004, the Company owed \$573,623 to Roadrunner, which is included in compensation payable.

Roadrunner is the lessee and obligor on the premises lease for the office facilities occupied by the Company. Although no formal arrangement exists between the Company and Roadrunner, the Company has borne all of the lease costs incurred by Roadrunner for the year ended December 31, 2004, including the required security deposit of \$195,160, which amount is reflected as due from affiliate.

Roadrunner is also the lessee of certain telecommunications equipment used by the Company. The Company has determined to capitalize the related lease cost of \$237,394 and record a liability for the amounts due pursuant to the equipment leases.

(See Note F - Lease Commitments and Deferred Rent)

### NOTE E - EQUIPMENT AND IMPROVEMENTS:

At December 31, 2004, furniture, equipment and improvements consisted of:

	<u>Cost (1)</u>	<u>Estimated Lives</u>
Office equipment, furniture and fixtures	\$ 426,236	3 to 5 years
Telecommunications equipment (2)	261,587	5 years
Leasehold improvements	<u>1,073,546</u>	Lease term
	1,761,369	
Accumulated depreciation and amortization	<u>168,289</u>	
	<u>\$ 1,593,080</u>	

- (1) Office equipment and leasehold improvements are recorded at cost, including \$742,795 transferred from affiliates as part of the members' capital contributions.
- (2) Telecommunications equipment includes \$237,394 representing capitalized lease costs.

# SCHOTTENFELD GROUP LLC

## Notes to Statement of Financial Condition December 31, 2004

### NOTE F - LEASE COMMITMENTS AND DEFERRED RENT

As described in Note D, as the primary user of certain office facilities and equipment, the Company has borne the costs for the year ended December 31, 2004 of certain lease arrangements of its affiliate Roadrunner. The future minimum lease payments due under these operating and capital leases are as follows:

<u>Year Ending December 31,</u>	<u>Operating Lease</u>	<u>Capital Leases</u>
2005	\$ 643,066	\$ 58,454
2006	643,066	58,454
2007	643,066	58,454
2008	643,066	58,454
2009	643,066	29,227
Thereafter	<u>105,264</u>	<u>-</u>
Total minimum lease payments	<u>\$ 3,320,594</u>	<u>\$ 263,043 *</u>

\*Includes interest of approximately \$45,100.

The capital leases require monthly payments over a 60-month term ending July 2009 and include interest at the annual rate of 8.5%.

The office facilities lease expires on February 27, 2010 and provides for a 3-month period during which no payments of rent were required. The difference between rent expense incurred and rent paid is recorded as deferred rent. In addition, the lessor contributed \$407,915 towards the cost of initial alterations which amount was recorded as deferred rent. For financial reporting purposes, expense related to the lease is recognized on a straight-line basis over the lease term and the total amount of deferred rent is to be amortized over the lease term.

### NOTE G - CONCENTRATION OF CREDIT RISK

As a nonclearing broker, the Company has its customers' transactions cleared through another broker/dealer pursuant to a clearance agreement. Nonperformance by its customers in fulfilling their contractual obligations pursuant to securities transactions with the clearing broker may expose the Company to risk and potential loss. The Company utilizes a clearing broker that is highly capitalized and is a member of major securities exchanges.

The Company keeps a portion of its cash with a major bank. The account balances may exceed the FDIC insurance limit.