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

|                 |
|-----------------|
| SEC FILE NUMBER |
| 8-53006         |

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: Veritrust Financial, L.L.C.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
3755 Capital of Texas Highway South, Suite 130  
(No. and Street)

|                   |
|-------------------|
| OFFICIAL USE ONLY |
| FIRM I.D. NO.     |

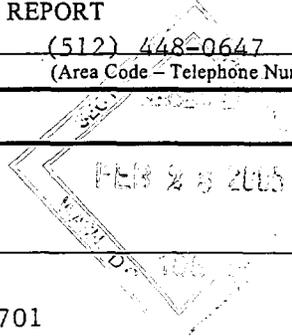
Austin Texas 78704  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Jay Rasbury, CEO (512) 448-0647  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
Sprouse & Anderson, L.L.P.  
(Name - if individual, state last, first, middle name)

515 Congress Avenue, Suite 1212, Austin, Texas 78701  
(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 17 2005  
THOMSON FINANCIAL

|                              |
|------------------------------|
| <b>FOR OFFICIAL USE ONLY</b> |
|                              |

\*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)

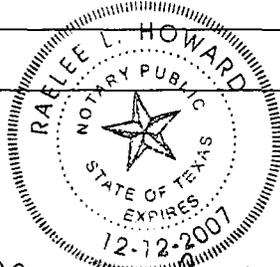
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3-16

OATH OR AFFIRMATION

I, J. G. Rasbury, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Veritrust Financial, L.L.C., as of December 31, 20 04, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



[Signature]  
Signature

Chief Executive Officer  
Title

Raelle L. Howard  
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).

**VERITRUST FINANCIAL, L.L.C.**

FINANCIAL STATEMENTS  
WITH SUPPLEMENTAL INFORMATION  
PURSUANT TO RULE 17a-5 OF THE  
SECURITIES AND EXCHANGE COMMISSION  
AND  
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

VERITRUST FINANCIAL, L.L.C.

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**SPROUSE & ANDERSON, L.L.P.**  
ACCOUNTANTS & CONSULTANTS

Managers and Members of  
Veritrust Financial, L.L.C.  
Austin, Texas

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statements of financial condition of Veritrust Financial, L.L.C. as of December 31, 2004 and 2003, and the related statements of income, changes in members' equity, and cash flows for the years ended December 31, 2004 and 2003. 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 audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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 Veritrust Financial, L.L.C. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Sprouse & Anderson, L.L.P.*

January 14, 2005  
Austin, Texas

FINANCIAL STATEMENTS

VERITRUST FINANCIAL, L.L.C.

STATEMENTS OF FINANCIAL CONDITION

DECEMBER 31, 2004 AND 2003

ASSETS

|  | <u>2004</u>            | <u>2003</u>            |
|--|------------------------|------------------------|
| Cash and cash equivalents (including restricted amounts<br>of \$36,295 and \$42,827, respectively) | \$ 173,241             | \$ 291,016             |
| Accounts receivable  | 10,000                 | 10,000                 |
| Prepaid expenses   | 121,863                | 102,610                |
| Other current assets   | 624,107                | 356,333                |
| Fixed assets, net of accumulated depreciation  | 129,982                | 203,688                |
| Intangibles, net of accumulated amortization   | <u>636,661</u>         | <u>689,117</u>         |
| <br>TOTAL ASSETS   | <br><u>\$1,695,854</u> | <br><u>\$1,652,764</u> |

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES

|                   |                |                |
|-------------------|----------------|----------------|
| Accounts payable  | \$ 49,741      | \$ 46,839      |
| Accrued expenses  | 412,915        | 391,148        |
| Notes payable     | <u>96,032</u>  | <u>-0-</u>     |
| Total Liabilities | <u>558,688</u> | <u>437,987</u> |

MEMBERS' EQUITY

|                             |                    |                    |
|-----------------------------|--------------------|--------------------|
| Members' contributed equity | 5,316,500          | 5,111,500          |
| Retained earnings (deficit) | <u>(4,179,334)</u> | <u>(3,896,723)</u> |
| Total Members' Equity       | <u>1,137,166</u>   | <u>1,214,777</u>   |

|                                       |                    |                    |
|---------------------------------------|--------------------|--------------------|
| TOTAL LIABILITIES AND MEMBERS' EQUITY | <u>\$1,695,854</u> | <u>\$1,652,764</u> |
|---------------------------------------|--------------------|--------------------|

SEE NOTES TO FINANCIAL STATEMENTS

VERITRUST FINANCIAL, L.L.C.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

|  | <u>2004</u>         | <u>2003</u>         |
|--|---------------------|---------------------|
| REVENUE  |                     |                     |
| Commission income                              | \$7,661,795         | \$7,111,959         |
| Service income                                 | 120,000             | 120,000             |
| Other income                                   | <u>4,309</u>        | <u>2,155</u>        |
| Total Revenue                                  | <u>7,786,104</u>    | <u>7,234,114</u>    |
| EXPENSES                                       |                     |                     |
| Commission expense                             | 6,101,090           | 5,743,691           |
| General and administrative                     | 241,773             | 484,071             |
| Salaries and related costs                     | 923,210             | 1,020,747           |
| Licenses and permits                           | 29,412              | 9,711               |
| Consulting                                     | 24,020              | 106,578             |
| Marketing and advertising                      | 14,497              | 11,495              |
| Depreciation and amortization                  | 137,970             | 177,209             |
| Professional                                   | 185,936             | 211,283             |
| Rent   | 115,393             | 107,913             |
| Travel and entertainment                       | <u>82,552</u>       | <u>53,832</u>       |
| Total Expenses                                 | <u>7,855,853</u>    | <u>7,926,530</u>    |
| Operating Loss                                 | <u>(69,749)</u>     | <u>(692,416)</u>    |
| OTHER EXPENSE                                  |                     |                     |
| Litigation settlements and related legal costs | 212,862             | -0-                 |
| Loss on sale of assets                         | -0-                 | 12,407              |
| Impairment on intangible assets                | <u>-0-</u>          | <u>37,707</u>       |
| Total Other Expense                            | <u>212,862</u>      | <u>50,114</u>       |
| NET LOSS                                       | <u>\$ (282,611)</u> | <u>\$ (742,530)</u> |

SEE NOTES TO FINANCIAL STATEMENTS

VERITRUST FINANCIAL, L.L.C.

STATEMENTS OF CHANGES IN MEMBERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

|                              | <u>Members' Contributed Equity</u> |                    |                    |                    | Retained              | <u>Total</u>       |
|------------------------------|------------------------------------|--------------------|--------------------|--------------------|-----------------------|--------------------|
|                              | <u>Class A</u>                     | <u>Class B</u>     | <u>Class C</u>     | <u>Total</u>       | Earnings<br>(Deficit) |                    |
| Balance at December 31, 2002 | \$300,000                          | \$3,000,000        | \$1,412,000        | \$4,712,000        | \$(3,154,193)         | \$1,557,807        |
| Shareholder contributions    | -0-                                | -0-                | 399,500            | 399,500            | -0-                   | 399,500            |
| Net loss                     | <u>-0-</u>                         | <u>-0-</u>         | <u>-0-</u>         | <u>-0-</u>         | <u>(742,530)</u>      | <u>(742,530)</u>   |
| Balance at December 31, 2003 | \$300,000                          | \$3,000,000        | \$1,811,500        | \$5,111,500        | \$(3,896,723)         | \$1,214,777        |
| Shareholder contributions    | -0-                                | -0-                | 205,000            | 205,000            | -0-                   | 205,000            |
| Net loss                     | <u>-0-</u>                         | <u>-0-</u>         | <u>-0-</u>         | <u>-0-</u>         | <u>(282,611)</u>      | <u>(282,611)</u>   |
| Balance at December 31, 2004 | <u>\$300,000</u>                   | <u>\$3,000,000</u> | <u>\$2,016,500</u> | <u>\$5,316,500</u> | <u>\$(4,179,334)</u>  | <u>\$1,137,166</u> |

SEE NOTES TO FINANCIAL STATEMENTS

VERITRUST FINANCIAL, L.L.C.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

|  | <u>2004</u>       | <u>2003</u>       |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES   |                   |                   |
| Net loss   | \$(282,611)       | \$(742,530)       |
| Adjustments to reconcile net loss to net cash used<br>by operating activities: |                   |                   |
| Amortization expense   | 52,457            | 105,543           |
| Depreciation expense   | 85,513            | 71,666            |
| Impairment on intangible assets  | -0-               | 37,707            |
| Gain on asset sales and deferred compensation plan                             | -0-               | (6,096)           |
| Loss on sale of assets   | -0-               | 18,503            |
| Increase in prepaid expenses   | 271,131           | (102,610)         |
| Increase in other assets   | (267,775)         | (190,488)         |
| Increase in accounts payable   | 2,902             | 34,974            |
| Increase in accrued expenses   | <u>21,767</u>     | <u>84,313</u>     |
| NET CASH USED BY OPERATING ACTIVITIES  | <u>(116,616)</u>  | <u>(689,018)</u>  |
| CASH FLOWS FROM INVESTING ACTIVITIES   |                   |                   |
| Purchase of fixed assets and intangibles                                       | (11,807)          | (7,034)           |
| Proceeds from sale of fixed assets   | <u>-0-</u>        | <u>3,031</u>      |
| NET CASH USED BY INVESTING ACTIVITIES  | <u>(11,807)</u>   | <u>(4,003)</u>    |
| CASH FLOWS FROM FINANCING ACTIVITIES   |                   |                   |
| Repayments of notes payable  | (194,352)         | -0-               |
| Issuance of Class C Shares   | <u>205,000</u>    | <u>399,500</u>    |
| NET CASH PROVIDED BY FINANCING ACTIVITIES                                      | <u>10,648</u>     | <u>399,500</u>    |
| NET DECREASE IN CASH AND CASH EQUIVALENTS                                      | (117,775)         | (293,521)         |
| CASH AND CASH EQUIVALENTS, beginning of year                                   | <u>291,016</u>    | <u>584,537</u>    |
| CASH AND CASH EQUIVALENTS, end of year   | <u>\$ 173,241</u> | <u>\$ 291,016</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW<br>INFORMATION:                           |                   |                   |
| Cash paid for income taxes   | <u>\$ -0-</u>     | <u>\$ -0-</u>     |
| Cash paid for interest   | <u>\$ 5,629</u>   | <u>\$ 888</u>     |

SEE NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

VERITRUST FINANCIAL, L.L.C.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**NATURE OF OPERATIONS**

Veritrust Financial, L.L.C. (the "Company") is a broker-dealer in securities registered with the Securities and Exchange Commission ("SEC") and is a member of the National Association of Securities Dealers, ("NASD"). The Company's activities are regulated by the NASD and Securities Exchange Act of 1934. The Company operates under (SEC) Rule 15c3-3(k)(2)(i), which provides that all funds and securities belonging to the Company's customers would be held in a segregated account specifically for the benefit of customers. The Company is a Texas limited liability corporation.

**FEDERAL INCOME TAX**

The Company is organized as a limited liability company (L.L.C.) and has elected to be treated as a partnership for Federal income tax purposes. As such, the Company is not, in general, subject to Federal income tax, but rather income and expenses are passed through to the members, who must report the income and expenses on their own income tax return.

**REVENUE RECOGNITION**

Security transactions (and related commission revenue and expense) by the Company are recorded on a trade date basis.

**FIXED ASSETS AND INTANGIBLES**

Depreciation is provided for financial purposes using tax basis, straight-line method over five to seven years.

Amortization for intangibles is computed on a tax basis, straight-line method over five years.

**CHANGE IN ESTIMATES**

During 2003, management determined that the useful life of the fixed assets and the intangibles were longer than originally expected. A change in accounting estimate was recognized to reflect this decision, resulting in a decrease in net loss \$89,370.

VERITRUST FINANCIAL, L.L.C.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**CASH AND CASH EQUIVALENTS**

For purposes of reporting cash flows, cash and equivalents include cash on hand and highly liquid debt instruments with original maturities of three months or less.

Cash deposits exceeded the securities investors protection corporation limit by approximately \$618,051 and \$737,863, respectively, for the years ended December 31, 2004 and 2003.

**MEMBERS' EQUITY**

The Company is authorized to issue three classes of membership interests. Class A Membership Interests are voting membership interests. Class B Membership Interests are nonvoting membership interests entitled to a six percent cumulative, preferential return on any distribution or dissolution. Class B Membership Interests are convertible into Class A Membership Interests in a 1:1 ratio, based on percentage interest, not monetary contribution, at any time following the third anniversary of their issuance. Class C Membership Interests are voting membership interests that may be issued only to managers, officers or full-time employees subject to forfeiture or indenture upon their termination of position, office or employment with the Company. Class C Membership Interests will be entitled to all the privileges and responsibilities granted to the Class A Membership Interests.

Ownership interests are as follows:

| <u>Class</u> | <u>Ownership<br/>Percentage</u> |
|--------------|---------------------------------|
| A            | 81%                             |
| B            | 9%                              |
| C            | 10%                             |

**USE OF ESTIMATES**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

VERITRUST FINANCIAL, L.L.C.

NOTES TO FINANCIAL STATEMENTS  
(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

ADVERTISING

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2004 and 2003, was \$14,497 and \$11,495, respectively.

**NOTE 2: FIXED ASSETS AND INTANGIBLES**

The classes of fixed assets and intangibles and the related accumulated depreciation and amortization are as follows:

|                                | <u>Cost</u>      | <u>Accumulated<br/>Depreciation/<br/>Amortization</u> | <u>Net</u>       |
|--------------------------------|------------------|---|------------------|
|                                | <u>2004</u>      |   |                  |
| Fixed Assets:                  |                  |   |                  |
| Equipment                      | \$362,057        | \$244,292   | \$117,765        |
| Furniture                      | 8,864            | 3,235   | 5,629            |
| Other                          | 24,469           | 17,881  | 6,588            |
| Total                          | <u>\$395,390</u> | <u>\$265,408</u>                                      | <u>\$129,982</u> |
| Intangibles:                   |                  |   |                  |
| Software Development-Amortized | \$329,948        | \$188,484   | \$141,464        |
| Other-Unamortized              | 495,197          | -0-   | 495,197          |
| Total                          | <u>\$825,145</u> | <u>\$188,484</u>                                      | <u>\$636,661</u> |
|                                | <u>2003</u>      |   |                  |
| Fixed Assets:                  |                  |   |                  |
| Website                        | \$350,250        | \$170,023   | \$180,227        |
| Equipment                      | 8,864            | 2,531   | 6,333            |
| Furniture                      | 24,469           | 7,341   | 17,128           |
| Total                          | <u>\$383,583</u> | <u>\$179,895</u>                                      | <u>\$203,688</u> |
| Intangibles:                   |                  |   |                  |
| Software Development-Amortized | \$329,948        | \$136,028   | \$193,920        |
| Other-Unamortized              | 495,197          | -0-   | 495,197          |
| Total                          | <u>\$825,145</u> | <u>\$136,028</u>                                      | <u>\$689,117</u> |

VERITRUST FINANCIAL, L.L.C.

NOTES TO FINANCIAL STATEMENTS

(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

**NOTE 2: FIXED ASSETS AND INTANGIBLES (Continued)**

In 2003, there were 98 representatives terminated due to low performance, which was approximately 35% of total originally acquired representatives. Based on management's best estimates, 20% of customer accounts could be lost due to representative termination. The Company recorded \$37,707 impairment loss related to the rights to acquired representatives in 2003. No impairment loss was deemed necessary in 2004.

Depreciation expense for the years ended December 31, 2004 and 2003, was \$85,513 and \$71,666, respectively.

Amortization expense for the years ended December 31, 2004 and 2003, was \$52,457 and \$105,543, respectively. Future estimated amortization expense for intangible assets are as follows:

|      |                  |
|------|------------------|
| 2005 | \$ 71,554        |
| 2006 | 45,641           |
| 2007 | 24,173           |
| 2008 | 96               |
|      | <u>\$141,464</u> |

**NOTE 3: LEASE**

The Company leases office space and office equipment under noncancelable operating leases. Rental expense for the years ended December 31, 2004 and 2003, amounted to \$115,393 and \$107,913, respectively. Rental expenses relating to leased equipment amounted to \$45,689 and \$21,922, for the years ended December 31, 2004 and 2003, respectively. Future minimum lease payments in excess of one year at December 31, 2004, are as follows:

|      |                  |
|------|------------------|
| 2005 | \$130,732        |
| 2006 | 126,077          |
| 2007 | 98,851           |
| 2008 | 6,267            |
|      | <u>\$361,927</u> |

VERITRUST FINANCIAL, L.L.C.

NOTES TO FINANCIAL STATEMENTS

(Continued)

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

**NOTE 4: NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital of \$250,000, and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2004 and 2003, the Company had net capital of \$319,561 and \$321,972, respectively. The Company's ratio of aggregate indebtedness to net capital was 1.75 to 1 at December 31, 2004, and 1.36 to 1 at December 31, 2003.

**NOTE 5: DEFERRED COMPENSATION PLAN**

During 2002, the Company acquired a non-qualified deferred compensation plan under Internal Revenue Code section 457. The plan permits key representatives to defer a specified portion of their compensation. The Company has accrued approximately \$38,000 and \$34,000 for December 31, 2004 and 2003, respectively, for its obligation under their plans.

**NOTE 6: LINE OF CREDIT**

The Company has a line of credit in the amount of \$100,000. The line of credit matures in March 2005 and is secured by all accounts of the Company. At December 31, 2004 and 2003 the balance on the line of credit was \$-0-.

**NOTE 7: NOTES PAYABLE**

The Company entered into agreements with financial institutions to finance insurance premiums. Notes payable consist of the following at December 31, 2004:

|   | <u>2004</u>     |
|---|-----------------|
| Note payable dated June 2004 to an insurance company, due in monthly installments of \$23,482 including interest at 5.0%, maturing May 2005   | \$92,847        |
| Note payable dated July 2004 to an insurance company, due in monthly installments of \$1,213 including interest at 6.79%, maturing April 2005 | <u>3,185</u>    |
| Total Notes Payable   | <u>\$96,032</u> |

SUPPLEMENTAL FINANCIAL INFORMATION



**SPROUSE & ANDERSON, L.L.P.**  
ACCOUNTANTS & CONSULTANTS

To the Members and Managers of  
Veritrust Financial, L.L.C.  
Austin, Texas

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY  
INFORMATION REQUIRED BY RULE 17a-5 OF THE  
SECURITIES AND EXCHANGE COMMISSION

We have audited the accompanying financial statements of Veritrust Financial, L.L.C. for the year ended December 31, 2004, and have issued our report thereon dated January 14, 2005. 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 accompanying schedules 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 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.

*Sprouse & Anderson, L.L.P.*

January 14, 2005  
Austin, Texas

VERITRUST FINANCIAL, L.L.C.

COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES  
AND EXCHANGE COMMISSION

DECEMBER 31, 2004

|  |                   |
|--|-------------------|
| TOTAL MEMBERS' EQUITY  | \$1,137,166       |
| Deductions:  |                   |
| Non-allowable assets:  |                   |
| Fixed asset, net of accumulated depreciation   | (129,982)         |
| Intangible, net of accumulated amortization  | (636,661)         |
| Unsecured receivable and prepaid insurance   | (50,962)          |
| NSCC required reserve  | -0-               |
| Total Net Capital  | <u>\$ 319,561</u> |
| <br>AGGREGATE INDEBTEDNESS   |                   |
| Accounts payable   | \$ 49,741         |
| Accrued expenses   | 412,915           |
| Note payable   | 96,032            |
| Total Aggregate Indebtedness   | <u>\$ 558,688</u> |
| <br>COMPUTATION OF BASIC NET CAPITAL REQUIREMENT                                       |                   |
| Minimum net capital required of broker-dealer (6-2/3% of total aggregate indebtedness) | <u>\$ 37,245</u>  |
| Minimum dollar net capital requirement of broker-dealer                                | <u>\$ 250,000</u> |
| Net capital requirement (greater of two above)   | <u>\$ 250,000</u> |
| Net capital in excess of required minimum  | <u>\$ 69,561</u>  |
| Ratio: Aggregate indebtedness of net capital   | 1.75 to 1         |
| <br>RECONCILIATION WITH COMPANY'S COMPUTATION  |                   |
| Difference in net capital by SEC and Company   |                   |
| Net capital under Company's computation  | \$ 319,561        |
| Miscellaneous differences, audit adjustments   | -0-               |
| NET CAPITAL PER AUDITED REPORT   | <u>\$ 319,561</u> |

SEE AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

VERITRUST FINANCIAL, L.L.C.

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS  
AND INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS UNDER  
RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION

DECEMBER 31, 2004

COMPUTATION FOR DETERMINATION OF RESERVE REQUIRMENETS UNDER RULE  
15c3-3

CREDIT BALANCES:

|   |                 |
|---|-----------------|
| Free credit balances and other credit balances in customers'<br>security accounts | <u>\$ 2,208</u> |
| Total Credits   | <u>2,208</u>    |

DEBIT BALANCES:

|              |            |
|--------------|------------|
| Total Debits | <u>-0-</u> |
|--------------|------------|

RESERVE COMPUTATION:

|   |                 |
|---|-----------------|
| Excess of total credits over total debits | <u>\$ 2,208</u> |
|---|-----------------|

|   |                 |
|---|-----------------|
| 105% of excess of total credits over total debits | <u>\$ 2,318</u> |
|---|-----------------|

|  |                 |
|--|-----------------|
| Amount held on deposit in "Reserve Bank Account", including<br>value of qualified securities, at December 31, 2004 | <u>\$34,087</u> |
|--|-----------------|

INFORMATION FOR POSSESSION OR CONTROL REQUIRMENTS UNDER 15c3-3

The system and procedures utilizes in complying with the requirement to maintain physical possession or control of customers' fully paid and excess securities have been tested and are functioning in a manner adequate to fulfill the requirements of Rule 15c3-3

Yes   x    
No       

SEE AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

REPORT ON INTERNAL CONTROL STRUCTURE



**SPROUSE & ANDERSON, L.L.P.**  
ACCOUNTANTS & CONSULTANTS

To the Managers and Members

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
STRUCTURE REQUIRED BY SEC RULE 17a-5

In planning and performing our audit of the financial statements and supplemental schedules of Veritrust Financial, L.L.C. (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 the 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. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13 or in complying with the requirements for prompt payment for securities under section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining an 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 internal 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 an 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 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.

Independent Auditor's Report on Internal  
Control Structure Required By SEC Rule 17a-5

Because of inherent limitations in any 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.

Our consideration of the internal control 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 the design or operation of specific internal control 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, we noted no matters involving the 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 use of management, the Securities and Exchange Commission, the National Association of Securities Dealers, Inc. 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.

*Spraupe & Anderson, L.L.P.*

January 14, 2005  
Austin, Texas