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TIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

SEC FILE NUMBER
B-533

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 1/1/04 AND ENDING 12/31/04
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Sage, Ruddy & Co., Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1621 Jefferson Road

(No. and Street)

Rochester

New York

14623

(City)

(State)

(Zip Code)

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

(585) 232-3760

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers, LLP

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

1100 Bausch & Lomb Place

Rochester

New York

14604

(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
RECEIVED
FEB 28 2005
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WASH., D.C.

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, James P Burke, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Sage, Rutty & Co., Inc., 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:

James P. Burke
Signature
VP Finance
Title

Renée M. Rombaut
Notary Public

RENÉE M. ROMBAUT
Notary Public in the State of New York
MONROE COUNTY
No. 01RO6006942
Commission Expires May 11, 20 06

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.
- (o) Report of Independent Auditors on Internal Control Structure Required by SEC

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).
Rule 17a-5 (under separate cover)

Sage, Ruddy & Co., Inc.

Financial Statements

December 31, 2004 and 2003

Sage, Ruddy & Co., Inc.
Contents
December 31, 2004 and 2003

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Report of Independent Auditors

To the Board of Directors and Shareholders
Sage, Rutty & Co., Inc.

In our opinion, the accompanying statement of financial condition and the related statements of income, changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Sage, Rutty & Co., Inc. at December 31, 2004 and December 31, 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities 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.

PricewaterhouseCoopers LLP

February 21, 2005

Sage, Ruddy & Co., Inc.
Statements of Financial Condition
December 31, 2004 and 2003

	2004	2003
Assets		
Cash	987,992	\$ 809,844
Firm margin deposit	167,581	234,511
Receivable from brokers and dealers	228,883	204,708
Securities in Firm account, at market	2,731,290	2,764,327
Deposits and other assets	308,471	272,648
Fixed assets, less accumulated depreciation	224,239	188,488
Total assets	<u>\$ 4,648,456</u>	<u>\$ 4,474,526</u>
Liabilities and Shareholders' Equity		
Liabilities		
Payable to brokers and dealers	\$ 946,132	\$ 1,137,483
Accrued compensation and related taxes	232,228	139,817
Accrued profit sharing	75,477	40,000
Other liabilities	10,783	5,000
Income taxes payable	-	21,753
Deferred tax liability, net	185,094	96,930
Total liabilities	<u>1,449,714</u>	<u>1,440,983</u>
Shareholders' equity		
Common stock - no par value; authorized 1,000 shares; 840 shares issued	261,743	261,743
Dividends	(100,200)	
Retained earnings	4,087,521	3,777,633
	<u>4,249,064</u>	<u>4,039,376</u>
Less: Treasury stock, at cost, 181 and 172 shares, respectively	(1,050,322)	(1,005,833)
Total shareholders' equity	<u>3,198,742</u>	<u>3,033,543</u>
Total liabilities and shareholders' equity	<u>\$ 4,648,456</u>	<u>\$ 4,474,526</u>

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

Sage, Ruddy & Co., Inc.
Statements of Income
Years Ended December 31, 2004 and 2003

	2004	2003
Revenues		
Income on securities transactions	\$ 999,421	\$ 1,078,504
Commissions and fees	5,308,637	4,779,123
Interest and dividends	87,603	88,285
Other income	47,437	20,283
	<u>6,443,098</u>	<u>5,966,195</u>
Expenses		
Employee compensation, payroll taxes and benefits	4,318,738	3,918,249
Securities clearing expense	194,679	171,488
Communications	356,303	351,635
Occupancy	471,041	451,095
Interest	26,397	31,982
Other operating expenses	591,255	513,429
	<u>5,958,413</u>	<u>5,437,878</u>
Income before provision for income taxes	484,685	528,317
Provision for income taxes	174,797	150,316
Net income	<u>\$ 309,888</u>	<u>\$ 378,001</u>

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

Sage, Ruddy & Co., Inc.
Statements of Changes in Shareholders' Equity
Years Ended December 31, 2004 and 2003

	Common Stock	Retained Earnings	Treasury Stock	Total
Balance, December 31, 2002	\$ 261,743	\$ 3,399,632	\$(1,005,833)	\$ 2,655,542
Net income		378,001		378,001
Balance, December 31, 2003	261,743	3,777,633	(1,005,833)	3,033,543
Dividends on common stock		(100,200)		
Treasury share repurchase			(44,489)	
Net income		309,888		309,888
Balance, December 31, 2004	<u>\$ 261,743</u>	<u>\$ 3,987,321</u>	<u>\$(1,050,322)</u>	<u>\$ 3,198,742</u>

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

Sage, Ruddy & Co., Inc.
Statements of Cash Flows
Years Ended December 31, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Net income	\$ 309,888	\$ 378,001
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	54,331	69,535
Deferred income taxes	88,164	53,110
Unrealized gain on securities, net	(163,587)	(302,700)
Realized loss on investments	-	-
(Increase) decrease in operating assets		
Firm margin deposit	66,930	28,547
Receivable from brokers and dealers	(24,175)	(27,371)
Deposits and other assets	(35,823)	4,845
Increase (decrease) in operating liabilities		
Payable to brokers and dealers	(191,351)	(487,140)
Accrued compensation and related payroll taxes	92,411	40,444
Accrued profit sharing plan	35,477	(20,000)
Income taxes currently payable	(21,753)	(16,387)
Other liabilities	5,783	-
Total adjustments	<u>(93,593)</u>	<u>(657,117)</u>
Net cash provided by operating activities	<u>216,295</u>	<u>(279,116)</u>
Cash flows from investing activities		
Net purchase of securities in Firm account	196,624	(76,915)
Capital expenditures	(90,082)	(9,233)
Net cash provided by (used in) investing activities	<u>106,542</u>	<u>(86,148)</u>
Cash flows from financing activities		
Dividends paid	(100,200)	-
Repurchase of Treasury Shares	(44,489)	-
Decrease in accrued dividends payable	-	(66,800)
Net cash used in financing activities	<u>(144,689)</u>	<u>(66,800)</u>
Net increase in cash	178,148	(432,064)
Cash		
Beginning of year	809,844	1,241,908
End of year	<u>\$ 987,992</u>	<u>\$ 809,844</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 26,395	\$ 31,982
Cash paid during the year for income taxes	113,690	113,593

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

Sage, Ruddy & Co., Inc.
Notes to Financial Statements
Years Ended December 31, 2004 and 2003

1. The Company

The Company is a Securities Broker engaged in the purchase and sale of securities for its customers. The Company's customers are comprised of corporate, institutional and individual investors. The Company executes transactions and introduces them to a Clearing Broker, a New York Stock Exchange Member Firm, on a fully disclosed basis.

2. Summary of Significant Accounting Policies

Method of Income Recognition

Security transactions are recorded on a settlement date basis which is not materially different from trade date accounting, as required by accounting principles generally accepted in the United States of America. Commission income and expenses are reflected in the financial statements as of the settlement date. Underwriting fees are recorded at the time the underwriting is completed and the income is reasonably determinable.

Statement of Cash Flows

The Company has defined cash equivalents as highly liquid investments, with original maturities of less than 90 days that are not held for sale in the ordinary course of business.

Securities in Firm Account

Securities in trading and investment accounts are valued at market and unrealized gains or losses are recorded as income or loss. Unrealized gain in 2004 and 2003 amounted to \$163,587 and \$ 302,700, respectively.

The Company's trading securities are purchased on margin from its Clearing Broker. The Company must maintain an appropriate balance in an account held by the Clearing Broker to maintain these securities. This balance amounted to \$167,581 and \$234,511 at December 31, 2004 and 2003, respectively.

Fixed Assets

Fixed assets are carried at cost less accumulated depreciation. The Company has adopted accelerated methods of calculating depreciation for all assets using estimated useful lives of five to ten years. When assets are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts.

Income Taxes

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109. This statement requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

Use of Estimates

The preparation 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Sage, Ritty & Co., Inc.
Notes to Financial Statements
Years Ended December 31, 2004 and 2003

3. Securities in Firm Account

Securities in Firm account are comprised of the following:

	2004		2003	
	Market	Cost	Market	Cost
Bonds	\$ 924,737	924,364	\$ 1,127,605	1,115,713
Common stocks	1,806,553	919,710	1,636,722	924,985
	<u>\$ 2,731,290</u>	<u>\$ 1,844,074</u>	<u>\$ 2,764,327</u>	<u>\$ 2,040,698</u>

4. Fixed Assets

The Company's fixed assets are comprised of the following:

	2004	2003
Leasehold improvements	\$ 366,415	\$ 366,415
Furniture and equipment	160,075	122,009
Transportation vehicles	37,463	37,463
	<u>563,953</u>	<u>525,887</u>
Less: Accumulated depreciation	<u>(339,714)</u>	<u>(337,399)</u>
	<u>\$ 224,239</u>	<u>\$ 188,488</u>

Depreciation expense charged to operations for the years ended December 31, 2004 and 2003 amounted to \$54,331 and \$69,535, respectively. At December 31, 2004 and 2003, all cost and accumulated depreciation attributable to fully depreciated fixed assets were written off.

5. Employee Benefit Plans

The Company has a profit sharing plan, qualified under the Internal Revenue Code, covering all full-time employees with one year of service. Subject to certain limitations, the Company may make annual contributions to the plan of up to 15% of salaries paid to individuals participating in the plan. Distributions are made to participants or their beneficiaries upon retirement, death, permanent disability or other termination of employment, but are subject to forfeiture under certain conditions. The expense for the plan for the years ended December 31, 2004 and 2003 amounted to \$75,477 and \$40,000, respectively.

The Company has established a contributory defined contribution 401(k) plan which covers substantially all employees. Under this plan, eligible employees are allowed to contribute up to 100% of their pay (subject to annual legal limitations).

Sage, Ruddy & Co., Inc.
Notes to Financial Statements
Years Ended December 31, 2004 and 2003

6. Income Taxes

The provision for income tax expense for the years ended December 31 consists of the following:

	2004	2003
Current:		
Federal income taxes	\$ 67,202	\$ 76,074
State income taxes	19,431	21,132
	<u>86,633</u>	<u>97,206</u>
Deferred	88,164	53,110
	<u>\$ 174,797</u>	<u>\$ 150,316</u>

The deferred income tax expense for 2004 and 2003 results from the impact of temporary differences between assets and liabilities for financial reporting purposes and the balances for tax purposes.

The components of the deferred tax assets and (liabilities) as of December 31 consists of the following:

	2004	2003
Depreciation	\$ 55,760	\$ 78,517
Realized carry over of capital loss	56,988	56,988
Unrealized investment gain, net	(297,842)	(232,435)
	<u>\$ (185,094)</u>	<u>\$ (96,930)</u>

The effective tax rate is different from the federal statutory rate of 34% due principally to tax exempt income of approximately \$185,000 and \$97,000 in 2004 and 2003, respectively, as well as state taxes, net of federal tax benefits.

7. Line of Credit

The Company has a line of credit with a commercial bank. The line is collateralized by substantially all of the Company's assets and bears interest at the bank's prime rate. The agreement allows the Company to borrow up to \$750,000. The line of credit was unused as of December 31, 2004 and 2003.

8. Lease Commitment

The Company operates under a lease agreement expiring August 31, 2009. Under the agreement, the Company will pay \$140,000 annually and at the end of the lease term have the option to extend the agreement for up to an additional ten years.

During 2004, the Company entered into a new lease agreement which expires October 1, 2009. Under the agreement the Company will pay \$61,072 annually and at the end of the lease term have the option to extend the agreement for up to an additional ten years.

9. Financial Instruments with Off-Balance Sheet Credit Risk

As discussed in Note 1, the Company executes transactions and introduces them to a Clearing Broker on a fully disclosed basis. The Company's exposure to credit risk associated with nonperformance of its customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets which may impair the customers' ability to satisfy their obligations to the Company.

The Company, through its Clearing Broker, seeks to control these risks by requiring customers to maintain sufficient levels of collateral in compliance with various regulatory and internal guidelines. The Company's Clearing Broker monitors required margin levels daily and, pursuant to such guidelines, requires the customers to deposit additional collateral, or reduce positions, when necessary. The Company's policy is to monitor its market exposure risk. In addition, the Company has a policy of reviewing, as considered necessary, the credit standing of each customer with which it conducts business.

10. Net Capital Requirements

The Company is subject to the requirements of Rule 15c3-1 ("the net capital rule") under the Securities Exchange Act of 1934 which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, as both defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). On December 31, 2004, the Company has net capital (as defined) of \$2,506,449 of which \$2,256,449 excess of its required net capital of \$250,000. The Company's net capital ratio was .127 to 1.

Sage, Ruddy & Co., Inc.
Computation of Net Capital Under Rule 15c3-1 of the
Securities and Exchange Commission
Year Ended December 31, 2004

Schedule I

1. Total ownership equity		\$ 3,198,742
2. Deduct: Ownership equity not allowable for net capital		-
3. Total ownership equity qualified for net capital		<u>3,198,742</u>
4. Add:		
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital	\$ -	
B. Other (deductions) or allowable credits	-	-
5. Total capital and allowable subordinated liabilities		<u>3,198,742</u>
6. Deductions and/or charges:		
A. Total non-allowable assets from Statement of Financial Condition:	432,476	
1. Additional charges for customers' and non-customers' security accounts	-	
2. Additional charges to customers' and non-customers' commodity accounts	-	
B. Aged fail-to-deliver:		
1. Number of items	-	
C. Aged short security differences	-	
D. Secured demand note deficiency	-	
E. Commodity futures contracts and spot commodities	-	
F. Other deductions and/or charges	-	<u>(432,476)</u>
G. Deductions for accounts carried under Rule 15c3-1(a)(6), (a)(7) and (c)(2)(x)		-
7. Other additions and/or allowable credits		-
8. Net capital before haircuts on securities positions		<u>2,766,266</u>
9. Haircuts on securities:		
A. Contractual securities commitments		
B. Subordinated securities borrowings		
C. Trading and investment securities:		
1. Bankers' acceptances, certificates of deposit and commercial paper		
2. U.S. and Canadian Government obligations	34,183	
3. State and Municipal Government obligations		
4. Corporate obligations		
5. Stocks and warrants	176,024	
6. Options		
7. Arbitrage		
8. Other securities	49,610	
D. Undue concentration		
E. Other		<u>(259,817)</u>
10. Net capital		<u>\$ 2,506,449</u>

Sage, Ruddy & Co., Inc.
Computation for Determination of Reserve and Information for
Possession or Control Requirements
For the Year Ended December 31, 2003

Schedule II

Exemption Under SEC Rule 15c3-3 Section (k)(2)(ii) Has Been Claimed

The Company promptly transmits all funds received in connection with its activities as a broker-dealer, and does not otherwise hold funds or securities for, or owe money or securities to, customers.