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**OMB APPROVAL**  
 OMB Number: 3235-0123  
 Expires: January 31, 2007  
 Estimated average burden hours per response..... 12.00

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

RECEIVED  
 FEB 28 2005  
 WASH. D.C. SEC. DIV.

**SEC FILE NUMBER**  
 8-29681

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 01/01/2004 AND ENDING 12/31/2004  
 MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: SRM SECURITIES, INC.

**OFFICIAL USE ONLY**  
 FIRM I.D. NO.

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

1925 CENTURY PARK EAST, SUITE 880

(No. and Street)

LOS ANGELES, CALIFORNIA 90067

(City)

(State)

(Zip Code)

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

PAUL SOLL

310-551-1624

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

MAYER HOFFMAN MCCANN P.C.

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

11601 WILSHIRE BLVD., #2300, LOS ANGELES, CA 90025

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

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**FOR OFFICIAL USE ONLY**

THOMSON  
 FINANCIAL

\*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)

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OATH OR AFFIRMATION

I, PAUL SOLL, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of SRM SECURITIES, INC.

of FEBRUARY 23, 2005, 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:

Paul Soll  
Signature  
Pres  
Title

Marisela De La Cruz  
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).

**SRM SECURITIES, INC.**  
**FINANCIAL STATEMENTS**  
December 31, 2004



Mayer Hoffman McCann P.C.

An Independent CPA Firm

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Los Angeles, California 90025  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of

### SRM SECURITIES, INC.

We have audited the accompanying statement of financial condition of SRM Securities, Inc. as of December 31, 2004, and the related statement of income, changes in stockholders' equity, and cash flow for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audits provide 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 SRM Securities, Inc. as of December 31, 2004, and the result 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 Schedule I 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 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.

*Mayer Hoffman McCann P.C.*

Los Angeles, California  
January 19, 2005

SRM SECURITIES, INC.

STATEMENT OF FINANCIAL CONDITION

December 31, 2004

ASSETS

Cash - operating accounts	\$	12,054
Due from broker		1,367,434
Commissions receivable		6,577
Trading securities		257,493
Property and equipment, at cost, less accumulated depreciation		3,642
Other assets		<u>87,953</u>
TOTAL ASSETS	\$	<u>1,735,153</u>

LIABILITIES

Bank overdraft - money market	\$	825,388
Due to broker		29,970
Accounts payable and accrued expenses		<u>579,102</u>
TOTAL LIABILITIES		<u>1,434,460</u>

STOCKHOLDERS' EQUITY

Common stock, no par value, authorized 20,000 shares, issued and outstanding 3,000 shares		<u>30,000</u>
Retained earnings		<u>270,693</u>
TOTAL STOCKHOLDERS' EQUITY		<u>300,693</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	<u>1,735,153</u>

See Notes to Financial Statements

SRM SECURITIES, INC.

STATEMENT OF INCOME

Year Ended December 31, 2004

INCOME

Commissions	\$	1,025,075
Trading gains and losses		201,079
Interest and dividends		31,138
Other income		47,492
TOTAL INCOME		<u>1,304,784</u>

EXPENSES

Officer's salaries		492,000
Employee compensation		153,173
Insurance		115,680
Rent		118,282
Commissions		93,051
News and quotations service		59,937
Payroll taxes		38,752
Office supplies		35,153
Reserve		30,000
Parking		19,395
Travel		19,001
Telephone and office utilities		16,494
Other commissions and fees expenses		14,088
Automobile expense		12,290
Taxes & Licenses		10,597
Other operating expenses		32,053
TOTAL EXPENSES		<u>1,259,946</u>

INCOME BEFORE INCOME TAXES 44,838

INCOME TAX EXPENSE 13,815

NET INCOME \$ 31,023

See Notes to Financial Statements

SRM SECURITIES, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Year Ended December 31, 2004

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
Balance, December 31, 2003	\$ 30,000	\$ 239,670	\$ 269,670
Net income	-	31,023	31,023
Balance, December 31, 2004	<u>\$ 30,000</u>	<u>\$ 270,693</u>	<u>\$ 300,693</u>

See Notes to Financial Statements

SRM SECURITIES, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2004

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net income	\$	31,023
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization		1,707
Forgiveness of debt of note payable to clearing broker		(87,500)
Decrease (increase) in operating assets:		
Due from broker		(51,359)
Commissions receivable		(6,577)
Trading securities		(165,126)
Other assets		(3,372)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses		(68,511)

NET CASH FLOWS FROM OPERATING ACTIVITIES (349,715)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Bank overdraft - money market		<u>376,802</u>
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NET CASH FLOWS FROM FINANCING ACTIVITIES 376,802

NET CHANGES IN CASH AND CASH EQUIVALENTS 27,087

BANK OVERDRAFT, BEGINNING OF YEAR (15,033)

CASH, END OF YEAR \$ 12,054

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash paid for taxes	\$	<u>6,315</u>
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See Notes to Financial Statements

# SRM SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENTS

### (1) Summary of significant accounting policies

**Nature of operations** - SRM Securities, Inc. (the Company) is engaged in a single line of business as a securities broker dealer which comprises several classes of services, including principal transactions, agency transactions, and investment advisory. The Company produces revenue by clearing those transactions on behalf of their customers through a clearing broker/dealer and charging commissions for those services. The Company was incorporated in California on April 29, 1983 as a C corporation. The Company's customers are primarily individuals located throughout Southern California.

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. Essentially, the requirements of paragraph (k)(2)(ii) provide that the Company clear all transactions on behalf of customers on a fully disclosed basis with a clearing broker/dealer, and promptly transmit all customer funds and securities to the clearing broker/dealer. The clearing broker/dealer carries all of the accounts of the customers of the Company and maintains and preserves all related books and records as are customarily kept by a clearing broker/dealer.

**Securities transactions** - Securities transactions, commission revenue and related expenses are recorded on a trade date basis. Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition as due from broker.

The Company's securities investments that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Trading securities are recorded at fair value on the balance sheet, with the change in fair value during the period included in earnings. Unrealized loss of \$4,787 was included in operations for the year ended December 31, 2004.

**Concentrations of credit risk** - Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of uninsured cash and cash equivalent balances and the Due From Broker Account. The Company places its cash and cash equivalents and the Due From Broker Account with high-credit quality financial institutions. At times, balances in the Company's accounts may exceed the Federal Deposit Insurance Corporation (FDIC) limit of \$100,000 or the Securities Investor Protection Corporation (SIPC) limit of \$500,000.

**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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (Continued)

**Off-balance sheet risk** - The clearing broker/dealer carries all of the accounts of the customers of the Company and is responsible for execution, receipt and delivery of securities relative to customer transactions. All customers' securities transactions are fully disclosed by the Company to its clearing broker/dealer. Off-balance sheet risk exists due to the possibility that the customers may fail to meet their contractual commitments wherein the clearing broker/dealer may charge any losses it incurs to the Company. The Company seeks to minimize this risk through procedures designed to monitor the creditworthiness of its customers and proper execution of customers' transactions by the clearing broker/dealer.

**Property, equipment and depreciation** - Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization of property and equipment are computed primarily using the straight-line and declining balance methods over the following estimated useful lives:

<u>Asset Classification</u>	<u>Estimated Useful Life</u>
Office equipment	5 - 7 Years

Leasehold improvements are amortized on the straight-line method over the term of the lease or estimated useful life, whichever is shorter.

Expenditures for maintenance and repairs are charged to operations as incurred. Major renewals and betterments are capitalized.

**Impairment of long-lived assets** - The Company assesses the recoverability of its long-lived assets on an annual basis or whenever adverse events or changes in circumstances or business climate indicate that expected undiscounted future cash flows related to such long-lived assets may not be sufficient to support the recorded assets, impairment is recognized to reduce the carrying value of the long-lived assets to the estimated fair value. Cash flow projections, although subject to a degree of uncertainty, are based on trends of historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions. Additionally, in conjunction with the review for impairment, the remaining estimated lives of certain of the Company's long-lived assets are assessed.

SRM SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (Continued)

**Income taxes** - Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due. Income taxes payable are included in accounts payable and accrued expenses for the year ended December 31, 2004.

Deferred tax assets or liabilities reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. For the year ended December 31, 2004, the Company did not have any deferred tax assets or liabilities.

Current		
Federal	\$	8,686
California		5,129
		<hr/>
	\$	13,815
		<hr/>

**Recent Accounting Pronouncements** – In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 was amended in June 1999 by SFAS No. 137 "Accounting for Derivative Instrument and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133," and in June 2000 by SFAS No. 138 for "Accounting for Certain Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133." These statements establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. They require that an entity recognize all derivatives as either assets or liabilities and measure those instruments at fair value with changes from fair value reflected in earnings. The Company has adopted the provisions of SFAS No. 133, as amended by SFAS No. 137 and SFAS No. 138. The effect of the adoption was immaterial to the financial statements.

In December 2003, the FASB issued Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R), an interpretation of Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements. FIN 46R establishes accounting guidance for consolidation of a variable interest entity (VIE), formerly referred to as special purpose entities. FIN 46R applies to any business enterprise that has a controlling interest, contractual relationship or other business relationship with a VIE. FIN 46R provides guidance for determining when an entity (the "Primary Beneficiary") should consolidate another entity, a VIE, that functions to support the activities of the Primary Beneficiary.

The consolidation requirements of FIN No. 46R are applicable immediately for VIEs created subsequent to December 31, 2003. The consolidation requirements for VIEs existing prior to December 31, 2003, are required by the beginning of the first annual fiscal year beginning after December 15, 2004. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003 regardless of when the VIE was established. The Company has adopted the disclosure provisions which did not have a material effect on our financial statements.

## NOTES TO FINANCIAL STATEMENTS

**( 1 ) Summary of significant accounting policies (Continued)**

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R), which is a revision of SFAS No. 123 and addresses the accounting for stock-based payment transactions. SFAS No. 123R eliminates the ability to account for stock-based compensation transactions using APB Opinion No. 25, Accounting for Stock Issued to Employees, and generally requires instead that such transactions be accounted and recognized in the statement of income based on their fair value. SFAS No. 123R will be effective for public companies other than small business issuers as of the first interim or annual reporting period that begins after June 15, 2005. SFAS No. 123R offers us alternative methods of adoption of this standard. At the present time, we have not yet determined which alternative method we will use and the resulting impact on our financial position or results of operations.

**( 2 ) Property and equipment**

Cost	
Office equipment	\$ 251,901
Leasehold improvements	29,837
Total cost	<u>281,738</u>
Accumulated depreciation	<u>(278,096)</u>
Net property and equipment	<u>\$ 3,642</u>

Depreciation expense charged to operations was \$1,707 for the year ended December 31, 2004.

**( 3 ) Note payable to clearing broker/dealer**

In October 2002, the Company changed its clearing broker-dealer. As an incentive to change brokers, the new clearing broker-dealer extended the Company a loan of \$175,000 that, by the terms of the agreement, was forgiven by the clearing broker-dealer over a two-year period.

The loan was payable in two equal annual installments of \$87,500 plus accrued interest on September 30, 2003 and 2004. Interest was being accrued at 8% per annum on the unpaid principal balance. As of September 30, 2004, the Company and the clearing broker-dealer maintained the clearing agreement. Therefore, the second installment of \$87,500, plus accrued interest of \$7,000, has been forgiven by the clearing broker/dealer. These amounts are recorded as an offset to commissions expenses and interest expense on the accompanying Statement of Income.

SRM SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

( 4 ) **Profit sharing plan**

The Company has a qualified, discretionary profit sharing plan in effect for eligible employees. The plan covers full-time employees who have reached 21 years of age and have completed a minimum of 12 months of service. The plan provides for discretionary contributions determined annually by the Board of Directors. No profit sharing expense was charged to operations for the year ended December 31, 2004.

( 5 ) **Related party transactions**

The Company shares office space with and provides certain administrative functions to an affiliated company related by common ownership. Administrative expenses charged to this affiliated company were \$46,000 for the year ended December 31, 2004. These amounts are recorded as other income on the accompanying Statement of Income.

( 6 ) **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 and requires that the ratio of aggregate indebtedness to net capital, both as 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). At December 31, 2004, the Company had net capital of \$127,012 which was \$27,012 in excess of its required net capital of \$100,000. The Company's net capital ratio at December 31, 2004 was 11.3 to 1.

( 7 ) **Operating Leases**

The Company leases its office space under a non-cancelable operating lease expiring on December 31, 2005 and is committed to minimum future rental payments approximating \$114,809 in 2005. The lease requires payment of certain additional expenses including repairs, maintenance, taxes and other operating expenses. Rent expense charged to operations was \$118,282 for the year ended December 31, 2004.

( 8 ) **Commitments and Contingencies**

**Buy/sell agreement** - Under terms of the Shareholders' Agreement, each shareholder is entitled to the first right of refusal to purchase shares of the company upon the occurrence of disability, termination, death and certain other events related to other shareholders at an amount based on a mutually-agreed value or arbitration process.

**SUPPLEMENTARY INFORMATION**

SRM SECURITIES, INC.

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

December 31, 2004

SCHEDULE I

NET CAPITAL

Total stockholders' equity	\$ 300,693
Deduct stockholders' equity not allowable for net capital	-
	<hr/>
Total stockholders' equity qualified for net capital	300,693
Add:	
Subordinated borrowings allowable in computation of net capital	-
Other (deductions) or allowable credits - deferred income taxes payable	-
	<hr/>
Total capital and allowable subordinated borrowings	300,693
Deductions and/or charges:	
Non-allowable assets	
Fixed assets (net)	3,642
Other assets	87,953
Aged fails-to-deliver	-
Aged short security differences	-
Secured demand note deficiency	-
Commodity futures contracts and spot commodities/proprietary capital charges	-
Other deductions and/or charges	-
	<hr/>
Net capital before haircuts on securities positions (tentative net capital)	209,098
Haircuts on securities	
Contractual securities commitments	-
Securities collateralizing secured demand notes	-
Trading and investment securities	-
Bankers' acceptances, certificates of deposit and commercial paper	-
U.S. and Canadian government obligations	-
State and municipal government obligations	-
Corporate obligations	-
Stocks and warrants	-
Options	-
Other securities	57,348
Undue concentrations	24,738
	<hr/>
NET CAPITAL	<u>\$ 127,012</u>

SRM SECURITIES, INC.

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

December 31, 2004

SCHEDULE I

**AGGREGATE INDEBTEDNESS**

Items included in statement of financial condition	
Total accrued liabilities	\$ 1,434,460
Items not included in statement of financial condition	
Market value of securities borrowed for which no equivalent value is paid or credited	-
Other unrecorded amounts	-

**TOTAL AGGREGATE INDEBTEDNESS** \$ 1,434,460

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

Minimum net capital required	<u>\$ 100,000</u>
Excess net capital at 1500%	<u>\$ 27,012</u>
Excess net capital at 1000%	<u>\$ (16,434)</u>
Ratio: aggregate indebtedness to net capital	<u>11.3 to 1</u>

**RECONCILIATION WITH COMPANY'S COMPUTATION**

Net capital, as reported in Company's Part II (unaudited) FOCUS Report	\$ 172,012
Net audit adjustments	
Other adjustments, net	<u>(45,000)</u>

**NET CAPITAL PER ABOVE** \$ 127,012



Mayer Hoffman McCann P.C.

An Independent CPA Firm

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
REQUIRED BY RULE 17a-5 OF THE SECURITIES AND EXCHANGE COMMISSION**

To the Board of Directors and Stockholders of

**SRM SECURITIES, INC.**

In planning and performing our audit of the financial statements and supplemental schedule of SRM Securities, Inc. (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 internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities 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 (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 generally accepted accounting principles. 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, error 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 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 error 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, 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 information and use of the board of directors, management, the SEC, the National Association of Securities Dealers, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended and should not be used by anyone other than these specified parties.

*Mayer Hoffman McLean P.C.*

Los Angeles, California  
January 19, 2005

**SRM SECURITIES, INC.**

**SCHEDULES NOT INCLUDED IN AUDIT PACKAGE**

December 31, 2004

The following schedules are not applicable to SRM Securities, Inc.:

1. Statement of Changes in Liabilities Subordinated to Claims of General Creditors -  
SRM Securities, Inc. has no subordinated liabilities.
2. Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 -  
SRM Securities, Inc. is exempt from the reserve requirement under Rule 15c3-3(K)(2)(ii).
3. Information Relating to Possession or Control Requirements under Rule 15c3-3 -  
SRM Securities, Inc. is exempt from the possession or control requirements under Rule 15c3-3(K)(2)(ii).
4. A reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation -  
SRM Securities, Inc. has no subsidiaries; therefore, no consolidation is necessary.
5. Schedule of Segregation Requirements and Funds in Segregation for Customers' Regulated Commodity Futures and Options Accounts -  
SRM Securities, Inc. has no commodity future accounts.