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SEC FILE NUMBER
8- 33559

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

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:

Phase II Financial, Ltd.

OFFICIAL USE ONLY

FIRM ID. NO.

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

125 Broad Street

New York

(City)

AVANCE... (No. and Street)  
... NY

(State)

10004

(Zip Code)

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

Albert G. Lowenthal

(212) 668-5782

(Area Code - Telephone No.)

## B. ACCOUNTANT IDENTIFICATION

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

Sullivan, Bleakley & Company, LLP

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

116 W. Baltimore Avenue

(Address)

Media

(City)

PA

(State)

19063

Zip Code)

CHECK ONE:

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

PROCESSED

MAR 25 2005

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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 (3-91)

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.

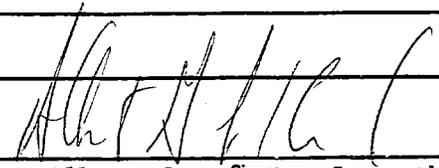
Handwritten initials and date 3/23

**OATH OR AFFIRMATION**

I, Albert G. Lowenthal, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Phase II Financial, Ltd., as of

December 31, ~~19~~ 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

  
\_\_\_\_\_  
Albert G. <sup>Signature</sup> Lowenthal  
\_\_\_\_\_  
General Partner  
\_\_\_\_\_  
Title

  
\_\_\_\_\_  
Notary Public

**GELENA ALEXANDROVSKAYA**  
Notary Public, State of New York  
No. 01AL6036998  
Qualified in Kings County  
Commission Expires 2/14 2006

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 Proprietor's 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.
- N/A  (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).

**TO BE COMPLETED WITH THE ANNUAL AUDIT REPORT ONLY:**

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

**NAME** (If Individual, state last, first, middle name)

**Sullivan, Bleakley & Company, LLP**

70

**ADDRESS**

**116 W. Baltimore Avenue**

71

**Media**

72

**PA**

73

**19063**

Number and Street

City

State

Zip Code

**CHECK ONE**

**Certified Public Accountant**

75

**Public Accountant**

76

**Accountant not resident in United States  
or any of its possessions**

77

**FOR SEC USE**

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**DO NOT WRITE UNDER THIS LINE... FOR SEC USE ONLY**

<b>WORK LOCATION</b>	<b>REPORT DATE</b> MM/DD/YY	<b>DOC. SEQ. NO.</b>	<b>CARD</b>				
50	51	52	53				

SULLIVAN, BLEAKLEY & COMPANY, LLP  
*Certified Public Accountants*

JOSEPH M. SULLIVAN, CPA  
RALPH E. BLEAKLEY, CPA

MEMBERS  
PENNA. INSTITUTE OF CPAs  
AMERICAN INSTITUTE OF CPAs

116 W. BALTIMORE AVENUE  
MEDIA, PA 19063  
(610) 565-8810  
FAX (610) 565-6074  
Email: sbccpa@bigplanet.com

February 3, 2005

To the Partners of  
Phase II Financial, Ltd.  
New York, New York

We have audited the accompanying Statement of Financial Condition of Phase II Financial, Ltd. as of December 31, 2004 and the related Statements of Income and Expense, Ownership Equity and Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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. 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 Phase II Financial, Ltd. as of December 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles accepted in the United States of America.

Respectfully submitted,

*Sullivan, Bleakley & Company, LLP*

**FORM  
X-17A-5**

**FOCUS REPORT**

(Financial and Operational Combined Uniform Single Report)

**PART IIA** 12

SEC 1696 (7-78) 3/78

(Please read instructions before preparing Form.)

This report is being filed pursuant to (Check Applicable Block(s):

- 1) Rule 17a-5(a)  16      2) Rule 17a-5(b)  17      3) Rule 17a-11  18  
 4) Special request by designated examining authority  19      5) Other  26

NAME OF BROKER-DEALER

Phase II Financial, Ltd. 13

ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do Not Use P.O. Box No.)

125 Broad Street 20

(No. and Street)

New York 28

NY

10004 23

(City)

(State)

(Zip Code)

SEC FILE NO.

8-33559 14

FIRM ID. NO.

16249 15

FOR PERIOD BEGINNING (MM/DD/YY)

01-01-2004 24

AND ENDING (MM/DD/YY)

12-31-2004 25

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

Albert G. Lowenthal, General Partner 30

(Area Code)—Telephone No.

(212) 668-5782 31

NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT:

32

34

36

38

OFFICIAL USE

33

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39

DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNTS? YES  40 NO  41

CHECK HERE IF RESPONDENT IS FILING AN AUDITED REPORT  42

**EXECUTION:**

The registrant/broker or dealer submitting this Form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated the 12<sup>th</sup> day of February, 2005

Manual signatures of:

1) [Signature]  
Principal Executive Officer or Managing Partner

2) \_\_\_\_\_  
Principal Financial Officer or Partner

3) \_\_\_\_\_  
Principal Operations Officer or Partner

**ATTENTION**—Intentional misstatements or omissions of facts constitute Federal Criminal Violations. (See 18 U.S.C. 1001 and 1003.)

**ANDROVSKAYA**  
Notary Public, State of New York

No. 01AL6036998

Qualified in Kings County

Commission Expires 2/14/2006

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART IIA**

**BROKER OR DEALER**

Phase II Financial, Ltd.

**N 3**

100

**STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING AND  
CERTAIN OTHER BROKERS OR DEALERS**

as of (MM/DD/YY) 12-31-04 99  
 SEC FILE NO. 8-33559 98  
 Consolidated 198  
 Unconsolidated 199

**ASSETS**

	<u>Allowable</u>	<u>Non-Allowable</u>	<u>Total</u>
1. Cash .....	\$ 40,051		\$ 40,051
2. Receivables from brokers or dealers:			
A. Clearance account .....	3,972,347		3,972,347
B. Other .....	300	550	850
3. Receivables from non-customers .....	355	94	449
4. Securities and spot commodities owned, at market value:			
A. Exempted securities .....	418		418
B. Debt securities .....	410,000		410,000
C. Options .....	420		420
D. Other securities .....	1,582,635		1,582,635
E. Spot commodities .....	430		430
5. Securities and/or other investments not readily marketable:			
A. At cost \$ <u>19,646,759</u> .....			
B. At estimated fair value .....	440	70,468,826	70,468,826
6. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:	460	630	1,090
A. Exempted securities \$ .....	150		150
B. Other securities \$ .....	160		160
7. Secured demand notes: .....	470	640	1,110
market value of collateral:			
A. Exempted securities \$ .....	170		170
B. Other securities \$ .....	180		180
8. Memberships in exchanges:			
A. Owned, at market \$ .....	190		190
B. Owned, at cost .....		650	650
C. Contributed for use of the company, at market value .....		660	660
9. Investment in and receivables from affiliates, subsidiaries and associated partnerships .....	480	670	1,150
10. Property, furniture, equipment, leasehold improvements and rights under lease agreements, at cost-net of accumulated depreciation and amortization .....	490	680	1,170
11. Other assets .....	535	735	1,270
12. <b>TOTAL ASSETS</b> .....	\$ 6,005,033	\$ 70,468,920	\$ 76,473,953

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**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART IIA**

**BROKER OR DEALER**

Phase II Financial, Ltd.

as of 12-31-04

**STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING  
AND CERTAIN OTHER BROKERS OR DEALERS**

**LIABILITIES AND OWNERSHIP EQUITY**

<u>Liabilities</u>	<u>A.I. Liabilities</u>	<u>Non-A.I. Liabilities</u>	<u>Total</u>
13. Bank loans payable.....	\$ 1045	\$ 1255	\$ 1470
14. Payable to brokers or dealers:			
A. Clearance account.....	1114	1315	1560
B. Other.....	1115	1305	1540
15. Payable to non-customers.....	1155	1355	1610
16. Securities sold not yet purchased, at market value.....		1360	1620
17. Accounts payable, accrued liabilities, expenses and other.....	14,000 1205	1385	14,000 1685
18. Notes and mortgages payable:			
A. Unsecured.....	1210		1690
B. Secured.....	1211	1390	1700
19. Liabilities subordinated to claims of general creditors:			
A. Cash borrowings:			
1. from outsiders \$ 970		1400	1710
2. Includes equity subordination (15c3-1 (d)) of .... \$ 980			
B. Securities borrowings, at market value:...		1410	1720
from outsiders \$ 990			
C. Pursuant to secured demand note collateral agreements:.....		1420	1730
1. from outsiders \$ 1000			
2. Includes equity subordination (15c3-1 (d)) of .... \$ 1010			
D. Exchange memberships contributed for use of company, at market value.....		1430	1740
E. Accounts and other borrowings not qualified for net capital purposes.....	1220	1440	1750
20. <b>TOTAL LIABILITIES</b> .....	\$ 14,000 1230	\$ 1450	\$ 14,000 1760

**Ownership Equity**

21. Sole proprietorship.....		\$ 1770
22. Partnership (limited partners).....	\$ 32,267,372 1020	\$ 76,459,953 1780
23. Corporation:		
A. Preferred stock.....		1791
B. Common stock.....		1792
C. Additional paid-in capital.....		1793
D. Retained earnings.....		1794
E. Total.....		1795
F. Less capital stock in treasury.....		1796
24. <b>TOTAL OWNERSHIP EQUITY</b> .....		\$ 76,459,953 1800
25. <b>TOTAL LIABILITIES AND OWNERSHIP EQUITY</b> .....		\$ 76,473,953 1810

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**FINANCIAL AND OPERATION COMBINED UNIFORM SINGLE REPORT  
PART IIA**

**BROKER OR DEALER**

Phase II Financial, Ltd.

as of 12-31-04

**COMPUTATION OF NET CAPITAL**

1. Total ownership equity from Statement of Financial Condition.....	\$	76,459,953		<b>3480</b>
2. Deduct ownership equity not allowable for Net Capital.....				<b>3490</b>
3. Total ownership equity qualified for Net Capital.....		76,459,953		<b>3500</b>
4. Add:				
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital.....				<b>3520</b>
B. Other (deductions) or allowable credits (List).....				<b>3525</b>
5. Total capital and allowable subordinated liabilities.....	\$	76,459,953		<b>3530</b>
6. Deductions and/or charges:				
A. Total nonallowable assets from Statement of Financial Condition (Notes B and C).....	\$	70,468,920		<b>3540</b>
B. Secured demand note deficiency.....				<b>3590</b>
C. Commodity futures contracts and spot commodities- proprietary capital charges.....				<b>3600</b>
D. Other deductions and/or charges.....				<b>3610</b>
7. Other additions and/or allowable credits (List).....			( 70,468,920 )	<b>3620</b>
8. Net capital before haircuts on securities positions.....	\$	5,991,033		<b>3640</b>
9. Haircuts on securities (computed, where applicable, pursuant to 15c3-1 (f)):				
A. Contractual securities commitments.....	\$			<b>3660</b>
B. Subordinated securities borrowings.....				<b>3670</b>
C. Trading and investment securities:				
1. Exempted securities.....				<b>3735</b>
2. Debt securities.....		410,000		<b>3733</b>
3. Options.....				<b>3730</b>
4. Other securities.....		237,395		<b>3734</b>
D. Undue Concentration.....				<b>3650</b>
E. Other (List)..... Money Fund.....		79,847		<b>3736</b>
10. Net Capital.....	\$	5,263,791	( 727,242 )	<b>3740</b> <b>3750</b>

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**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART IIA**

**BROKER OR DEALER**

Phase II Financial, Ltd.

as of 12-31-04

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

**Part A**

11. Minimum net capital required (6-2/3% of line 19) .....	\$	933	<b>3756</b>
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A) .....	\$	100,000	<b>3758</b>
13. Net capital requirement (greater of line 11 or 12) .....	\$	100,000	<b>3760</b>
14. Excess net capital (line 10 less 13) .....	\$	5,163,791	<b>3770</b>
15. Excess net capital at 100% (line 10 less 10% of line 19) .....	\$	5,262,391	<b>3780</b>

**COMPUTATION OF AGGREGATE INDEBTEDNESS**

16. Total A.I. liabilities from Statement of Financial Condition .....	\$	14,000	<b>3790</b>
17. Add:			
A. Drafts for immediate credit .....	\$	3800	
B. Market value of securities borrowed for which no equivalent value is paid or credited .....	\$	3810	
C. Other unrecorded amounts (List) .....	\$	3820	<b>3830</b>
18. Total aggregate indebtedness .....	\$	14,000	<b>3840</b>
20. Percentage of aggregate indebtedness to net capital (line 19 ÷ by line 10) .....	%	0.266	<b>3850</b>
21. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1 (d) .....	%	-	<b>3860</b>

**COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT**

**Part B**

22. 4% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits .....	\$		<b>3870</b>
23. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A) .....	\$	N	<b>3880</b>
24. Net capital requirement (greater of line 22 or 23) .....	\$	/	<b>3760</b>
25. Excess net capital (line 10 less 24) .....	\$	A	<b>3910</b>
26. Net capital in excess of the greater of:			
A. 6% of combined aggregate debit items or \$120,000 .....	\$		<b>3920</b>
B. 7% of combined aggregate debit items or \$120,000 .....	\$		<b>3930</b>

OMIT PENNIES

**NOTES:**

- (A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
1. Minimum dollar net capital requirement, or
  2. 6-2/3% of aggregate indebtedness or 4% of aggregate debits if alternative method is used.
- (B) Do not deduct the value of securities borrowed under subordination agreements or secured demand note covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.
- (C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART IIA**

**BROKER OR DEALER** Phase II Financial, Ltd.

For the period (MMDDYY) from 1-1-04 2002 to 12-31-04 2003  
 Number of months included in this statement 12 2001

**STATEMENT OF INCOME (LOSS)**

**REVENUE**

<b>1. Commissions:</b>		
a. Commissions on transactions in exchange listed equity securities executed on an exchange .....	\$	3935
b. Commissions on listed option transactions .....	"	3938
c. All other securities commissions .....		3938
d. Total securities commissions .....		3940
<b>2. Gains or losses on firm securities trading accounts</b>		
a. From market making in options on a national securities exchange .....		3945
b. From all other trading .....	(556,963)	3949
c. Total gain (loss) .....	(556,963)	3950
<b>3. Gains or losses on firm securities investment accounts</b> .....	(22,868,532)	3952
<b>4. Profit (loss) from underwriting and selling groups</b> .....	"	3955
<b>5. Revenue from sale of investment company shares</b> .....		3970
<b>6. Commodities revenue</b> .....		3990
<b>7. Fees for account supervision, investment advisory and administrative services</b> .....		3975
<b>8. Other revenue</b> .....	1,101,608	3995
<b>9. Total revenue</b> .....	\$	(22,323,887) 4030

**EXPENSES**

<b>10. Salaries and other employment costs for general partners and voting stockholder officers</b> .....	\$	4120
<b>11. Other employee compensation and benefits</b> .....	"	4115
<b>12. Commissions paid to other broker-dealers</b> .....	4,935	4140
<b>13. Interest expense</b> .....	17	4075
a. Includes interest on accounts subject to subordination agreements .....	4070	
<b>14. Regulatory fees and expenses</b> .....	21,716	4195
<b>15. Other expenses</b> .....	164,201	4100
<b>16. Total expenses</b> .....	\$	190,869 4200

**NET INCOME**

<b>17. Net income (loss) before Federal income taxes and items below (Item 9 less Item 16)</b> .....	\$	(22,514,756)	4210
<b>18. Provision for Federal income taxes (for parent only)</b> .....	"		4220
<b>19. Equity in earnings (losses) of unconsolidated subsidiaries not included above</b> .....			4222
a. After Federal income taxes of .....	4238		
<b>20. Extraordinary gains (losses)</b> .....			4224
a. After Federal income taxes of .....	4239		
<b>21. Cumulative effect of changes in accounting principles</b> .....			4225
<b>22. Net income (loss) after Federal income taxes and extraordinary items</b> .....	\$	(22,514,756)	4230

**MONTHLY INCOME**

<b>23. Income (current month only) before provision for Federal income taxes and extraordinary items</b> .....	\$	3,577,596	4211
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**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART IIA**

**BROKER OR DEALER** Phase II Financial, Ltd.

For the period (MMDDYY) from 1-1-04 to 12-31-04

**STATEMENT OF CHANGES IN OWNERSHIP EQUITY  
(SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)**

1. Balance, beginning of period .....	\$	95,199,151	<b>4240</b>
A. Net income (loss) .....		(22,514,756)	<b>4250</b>
B. Additions (Includes non-conforming capital of .....	\$	6,025,000	<b>4260</b>
C. Deductions (Includes non-conforming capital of .....	\$	(2,249,442)	<b>4270</b>
2. Balance, end of period (From item 1800) .....	\$	<u>76,459,953</u>	<b>4290</b>

**STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED  
TO CLAIMS OF GENERAL CREDITORS**

3. Balance, beginning of period .....	\$	-0-	<b>4300</b>
A. Increases .....			<b>4310</b>
B. Decreases .....			<b>4320</b>
4. Balance, end of period (From item 3520) .....	\$	<u>-0-</u>	<b>4330</b>

OMIT PENNIES

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART IIA**

<b>BROKER OR DEALER</b>	Phase II Financial, Ltd.	as of <u>12-31-04</u>
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**Exemptive Provision Under Rule 15c3-3**

25. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based (check one only)

- A. (k) (1)—\$2,500 capital category as per Rule 15c3-1 ..... 4550
- B. (k) (2)(A)—"Special Account for the Exclusive Benefit of customers" maintained ..... 4560
- C. (k) (2)(B)—All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm  Oppenheimer & Co. Inc. #P-4077 4335 X 4570
- D. (k) (3)—Exempted by order of the Commission ..... 4580

**Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.**

Type of Proposed withdrawal or Accrual See below for code to enter	Names of Lender or Contributor	Insider or Outsider? (In or Out)	Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities)	(MMDDYY) Withdrawal or Maturity Date	Expect to Renew (yes or no)
<input checked="" type="checkbox"/> 4600		<input checked="" type="checkbox"/> 4601	<input checked="" type="checkbox"/> 4602	<input checked="" type="checkbox"/> 4603	<input checked="" type="checkbox"/> 4604
<input checked="" type="checkbox"/> 4610		<input checked="" type="checkbox"/> 4611	<input checked="" type="checkbox"/> 4612	<input checked="" type="checkbox"/> 4613	<input checked="" type="checkbox"/> 4614
<input checked="" type="checkbox"/> 4620		<input checked="" type="checkbox"/> 4621	<input checked="" type="checkbox"/> 4622	<input checked="" type="checkbox"/> 4623	<input checked="" type="checkbox"/> 4624
<input checked="" type="checkbox"/> 4630		<input checked="" type="checkbox"/> 4631	<input checked="" type="checkbox"/> 4632	<input checked="" type="checkbox"/> 4633	<input checked="" type="checkbox"/> 4634
<input checked="" type="checkbox"/> 4640		<input checked="" type="checkbox"/> 4641	<input checked="" type="checkbox"/> 4642	<input checked="" type="checkbox"/> 4643	<input checked="" type="checkbox"/> 4644
<input checked="" type="checkbox"/> 4650		<input checked="" type="checkbox"/> 4651	<input checked="" type="checkbox"/> 4652	<input checked="" type="checkbox"/> 4653	<input checked="" type="checkbox"/> 4654
<input checked="" type="checkbox"/> 4660		<input checked="" type="checkbox"/> 4661	<input checked="" type="checkbox"/> 4662	<input checked="" type="checkbox"/> 4663	<input checked="" type="checkbox"/> 4664
<input checked="" type="checkbox"/> 4670		<input checked="" type="checkbox"/> 4671	<input checked="" type="checkbox"/> 4672	<input checked="" type="checkbox"/> 4673	<input checked="" type="checkbox"/> 4674
<input checked="" type="checkbox"/> 4680		<input checked="" type="checkbox"/> 4681	<input checked="" type="checkbox"/> 4682	<input checked="" type="checkbox"/> 4683	<input checked="" type="checkbox"/> 4684
<input checked="" type="checkbox"/> 4690		<input checked="" type="checkbox"/> 4691	<input checked="" type="checkbox"/> 4692	<input checked="" type="checkbox"/> 4693	<input checked="" type="checkbox"/> 4694
<b>TOTAL \$:</b>			-0-	<span style="border: 1px solid black; padding: 2px;">4699</span>	

OMIT PENNIES

**Instructions:** Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c)(2)(iv)), which could be required by the lender on demand or in less than six months.

- WITHDRAWAL CODE:    DESCRIPTION**
- 1.            Equity Capital
  - 2.            Subordinated Liabilities
  - 3.            Accruals
  - 4.            15c3-1(c)(2)(iv) Liabilities

**PHASE II FINANCIAL, LTD.**  
**INCOME AND EXPENSE RECONCILIATION**  
**WITH COMPANY'S COMPUTATION**  
**DECEMBER 31, 2004**

<b>NET LOSS AS REPORTED BY COMPANY'S UNAUDITED FOCUS REPORTS</b>	<b>(22,366,839)</b>
<b><u>LESS:</u></b>	
Foreign Tax Withheld on Dividend Income at Source (Canada) and Carried as Receivable on Unaudited Balance Sheet	<u>147,917</u>
<b>NET LOSS PER AUDITED FOCUS REPORT</b>	<b><u><u>(22,514,756)</u></u></b>

**PHASE II FINANCIAL, LTD.**  
**NET CAPITAL RECONCILIATION**  
**WITH COMPANY'S COMPUTATION**  
**DECEMBER 31, 2004**

<b>NET CAPITAL AS REPORTED ON COMPANY'S UNAUDITED PART II - FOCUS REPORTS</b>	5,263,791
<b><u>ADD:</u></b>	
Reduction in Nonallowable Assets	147,917
<b><u>LESS:</u></b>	
Additional Expense - Foreign Tax Withheld	<u>(147,917)</u>
<b>NET CAPITAL PER AUDITED FOCUS REPORT</b>	<u><u>5,263,791</u></u>

**PHASE II FINANCIAL, LTD.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

Net Loss	(22,514,756)
Increase in Receivables from Brokers	(70,603)
Increase in Prepaid Expenses	(16,254)
Increase in Accounts Payable	6,500
Net Securities Purchased and Change in Market Value	18,843,102
Capital Contributions	6,025,000
Capital Withdrawals	<u>(2,233,188)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	39,801
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>250</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>40,051</u></u>

**NOTES TO FINANCIAL STATEMENTS**  
**PHASE II FINANCIAL, LTD.**  
**DECEMBER 31, 2004**

1. **ACCOUNTING METHOD**

The statements are prepared on the accrual method of accounting. For cash flow purposes, only the checking account balances are considered as cash and cash equivalents.

2. **INVESTMENTS**

Investments are stated at market value, with unrealized gain or loss recognized in income.

3. **INCOME TAXES**

The Company is a partnership and both Federal and New York income taxes are applicable credits flow-through to the partners.

4. **RESERVE REQUIREMENTS**

The Company does not carry any customer accounts or handle any securities. All customer accounts are cleared on an introducing fully disclosed basis with Oppenheimer & Co. Inc. Therefore, the computation for determination of reserve requirements, and information relating to the possession or control requirements under Rule 15C 3-3 are not applicable.

5. **SAFEGUARDING PROCEDURES**

The Company does not carry customer accounts or handle securities and, therefore, there are no safeguarding procedures to review.

6. **MATERIAL INADEQUACIES**

No material inadequacies were found to exist at December 31, 2004, nor to have existed during the year ended December 31, 2004.

<b>OMB APPROVAL</b>	
OMB Number:	3235-0123
Expires:	January 31, 1993
Estimated average burden hours per response	.... 12.00

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

# FOCUS REPORT FORM X-17A-5 SCHEDULE I

*(To be filed annually as of the end of calendar year)*

## Contents

Schedule I      **INFORMATION REQUIRED OF ALL BROKERS  
AND DEALERS PURSUANT TO RULE 17a-5**

\* \* \* \* \*

Phase II Financial, Ltd.

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Name of Respondent

# Form X-17A-5

# FOCUS REPORT

(Financial and Operational Combined Uniform Single Report)

## Schedule I

INFORMATION REQUIRED OF BROKERS AND DEALERS PURSUANT TO RULE 17a-5

Report for the Calendar Year ~~19~~2004 8004  
or if less than 12 months

Report for the period beginning MM / DD / YY 8005 and ending MM / DD / YY 8006

SEC FILE NUMBER	
8- 33559	8011

1. NAME OF BROKER DEALER Phase II Financial, Ltd.	8020	N 9	OFFICIAL USE ONLY				8021
			Firm No.	M	M	Y	

2. Name(s) of broker-dealer(s) merging with respondent during reporting period:

NAME:	8053	OFFICIAL USE ONLY				8057
	8054	Yes				8058
	8055					8059
	8056					8060

3. Respondent conducts a securities business exclusively with registered broker-dealers: (enter applicable code: 1 = Yes 2 = No)  2 8073

4. Respondent is registered as a specialist on a national securities exchange: (enter applicable code: 1 = Yes 2 = No)  2 8074

5. Respondent makes markets in the following securities:

(a) equity securities	(enter applicable code: 1 = Yes 2 = No)	<input checked="" type="checkbox"/> 2	8075
(b) municipals	(enter applicable code: 1 = Yes 2 = No)	<input checked="" type="checkbox"/> 2	8076
(c) other debt instruments	(enter applicable code: 1 = Yes 2 = No)	<input checked="" type="checkbox"/> 2	8077

6. Respondent is registered solely as a municipal bond dealer: (enter applicable code: 1 = Yes 2 = No)  2 8078

7. Respondent is an insurance company or an affiliate of an insurance company: (enter applicable code: 1 = Yes 2 = No)  2 8079

8. Respondent carries its own public customer accounts: (enter applicable code: 1 = Yes 2 = No)  2 8084

9. Respondent's total number of public customer accounts: (carrying firms filing X-17A-5 Part II only)

(a) Public customer accounts	0	8080
(b) Omnibus accounts	0	8081

10. Respondent clears its public customer and/or proprietary accounts: (enter applicable code: 1 = Yes 2 = No)  2 8085

# FOCUS REPORT

## Schedule I

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**11. Respondent clears its public customer accounts in the following manner:**

(enter a "1" in appropriate boxes)

- (a) Direct Mail (New York Stock Exchange Members Only) .....
- (b) Self-Clearing .....
- (c) Omnibus .....
- (d) Introducing .....
- (e) Other .....

If Other please describe:

- (f) Not applicable .....

**12. (a) Respondent maintains membership(s) on national securities exchange(s):**

(enter applicable code: 1 = Yes 2 = No)

**(b) Names of national securities exchange(s) in which respondent maintains memberships:**

(enter a "1" in appropriate boxes)

- (1) American .....
- (2) Boston .....
- (3) CBOE .....
- (4) Midwest .....
- (5) New York .....
- (6) Philadelphia .....
- (7) Pacific Coast .....
- (8) Other .....

**13. Employees:**

- (a) Number of full-time employees .....

- (b) Number of full-time registered representatives employed by respondent included in 13(a) .....

**14. Number of NASDAQ stocks respondent makes market**

**15. Total number of underwriting syndicates respondent was a member**

(Carrying or clearing firms filing X-17A-5 Part II)

**16. Number of respondent's public customer transactions:**

Actual .....    
 Estimate .....

- (a) equity securities transactions effected on a national securities exchange .....
- (b) equity securities transactions effected other than on a national securities exchange .....
- (c) commodity, bond, option, and other transactions effected on or off a national securities exchange .....

# FOCUS REPORT

## Schedule I

### page 3

17. Respondent is a member of the Securities Investor Protection Corporation  
(enter applicable code: 1=Yes 2=No)  1  2 **8111**

18. Number of branch offices operated by respondent .....  0  1 **8112**

19. (a) Respondent directly or indirectly controls, is controlled by, or is under common control with, a U.S. bank  
(enter applicable code: 1=Yes 2=No)  1  2 **8130**

(b) Name of parent or affiliate **8131**

(c) Type of Institution **8132**

20. Respondent is an affiliate or subsidiary of a foreign broker-dealer or bank  
(enter applicable code: 1=Yes 2=No)  1  2 **8113**

21. (a) Respondent is a subsidiary of a registered broker-dealer  
(enter applicable code: 1=Yes 2=No)  1  2 **8114**

(b) Name of parent <sup>12</sup> **8116**

22. Respondent is a subsidiary of a parent which is not a registered broker or dealer  
(enter applicable code: 1=Yes 2=No)  1  2 **8115**

23. Respondent sends quarterly statements to customers pursuant to 10b-10(b) in lieu of daily or immediate confirmations:  
(enter applicable code: 1=Yes 2=No)\*  1  2 **8117**

24. Aggregate Dollar Amount of Non-Exempted OTC Sales of Exchange-Listed Securities Done by Respondent During the Reporting Period ..... \$  0  1 **8118**

\*Required in any Schedule I filed for the calendar year 1978 and succeeding years