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

| |
|-----------------|
| SEC FILE NUMBER |
| 8-20438 |

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 01/01/04 AND ENDING 12/31/04
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Morgan Stanley Securities, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
7700 Canterbury St.
(No. and Street)
Prairie Village, KS 66208
(City) (State) (Zip Code)

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

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
Marcin A. Birnbauer
(Name - if individual, state last, first, middle name)
11016 Cardinal Crest Lane Las Vegas, NV 89144
(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 31 2005
THOMSON FINANCIAL

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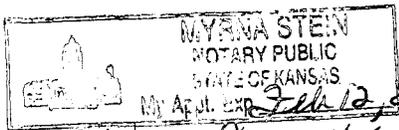
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

3/29/05

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OATH OR AFFIRMATION

I, Allan Abrams, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of MerchantHouse Securities, Inc., as of Dec 31, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Johnson County

Myrna Stein
Notary Public Jan 19, 2005

Allan Abrams

Signature

President

Title

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).

MERCHANTHOUSE SECURITIES, INC.
Report on Examination of Financial Statements
FOR THE YEAR ENDING DECEMBER 31, 2004

MARVIN A. BIRNBAUM
Certified Public Accountant
11016 CARDINAL CREST LANE
LAS VEGAS, NEVADA 89144
PHONE (702) 243-7281
FAX (702) 243-6428

INDEPENDENT AUDITORS' REPORT

MerchantHouse Securities, Inc.
Attn: Mr. Alan Abrams
7700 Canterbury Street
Prairie Village, KS 66208

Dear Mr. Abrams:

We have audited the accompanying statements of financial condition of MerchantHouse Securities, Inc. as of December 31, 2004, and related statements of income, changes in financial condition, changes in stockholders equity, changes in liabilities subordinated to claims of creditors, net capital computation, and the other attached and required items of computations, reconciliation, and reports for the year then ended. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to present fairly, in all material respects, the financial position of MerchantHouse Securities, Inc. as of December 31, 2004, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.



Marvin A. Birnbaum
Certified Public Accountant

January 22, 2005

**MERCHANTHOUSE SECURITIES, INC.
FOR THE YEAR ENDED DECEMBER 31, 2004**

(b) STATEMENT OF FINANCIAL CONDITION

| | |
|--|-----------------|
| <u>Assets</u> | |
| Cash | <u>\$11,538</u> |
| Total Assets | <u>\$11,538</u> |
| <u>Liabilities and Stockholders Equity</u> | |
| Liabilities payable to non-customers | \$ 0 |
| Stockholders' Equity | <u>11,538</u> |
| Total Liabilities and Ownership Equity | <u>\$11,538</u> |

(c) STATEMENT OF INCOME

| | |
|--------------------------------|----------------------|
| <u>Revenue</u> | |
| Commissions Earned | \$ 7,500 |
| Variable Annuity Income | 5,665 |
| Interest Income | 94 |
| Private Placement Commissions | 30,000 |
| Money Fund Dividend | 11 |
| Expense Reimbursement | <u>20,000</u> |
| Total Revenue | 63,270 |
| <u>Expenses</u> | |
| Bank Charges | 126 |
| Commission Expense | 22,300 |
| Legal and Professional Expense | 3,000 |
| Regulatory Fees and Expenses | 22,644 |
| Administrative Exp. Parent | 17,250 |
| Compensation Expense | <u>5,000</u> |
| Total Expenses | 70,320 |
| Net Income | <u>\$ -7,050</u> |

(d) STATEMENT OF CHANGES IN FINANCIAL CONDITION

(e) STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

| | |
|---------------------------------|-----------------|
| Cash/balance, January 1, 2004 | \$ 6,310 |
| Net income (loss) | -7,050 |
| Plus: Net capital additions | <u>12,278</u> |
| Cash/balance, December 31, 2004 | <u>\$11,538</u> |

(g) COMPUTATION OF NET CAPITAL

| | |
|--|-----------------|
| Total ownership equity—qualified for net capital | \$11,538 |
| Less: Haircut on Money Market Fund | <u>201</u> |
| Net capital | <u>\$11,337</u> |

EXCESS NET CAPITAL

| | |
|--|-----------------|
| Net capital | \$11,337 |
| Less: Minimum net capital requirement of B/D | <u>5,000</u> |
| Excess Net Capital | <u>\$ 6,337</u> |

MERCHANTHOUSE SECURITIES, INC.
FOR THE YEAR ENDED DECEMBER 31, 2004

(h - j) RULE 15c3-3: COMPUTATION FOR RESERVE REQUIREMENT; INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS, & RECONCILIATION OF COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 AND DETERMINATION OF RESERVE REQUIREMENTS UNDER EXHIBIT A OF RULE 15c3-3

Broker/dealer exempted under Rule 15c3(k)20(ii)

(k) RECONCILIATION PURSUANT TO RULE 17a-5(d)(4) OF AUDITED AND UNAUDITED STATEMENTS December 31, 2004

There are no differences between the amounts indicated in the audited report and the amounts indicated in the firm's unaudited Form X-17a-5 filed with the NASD for the quarter ending December 31, 2004

(n) MATERIAL INADEQUACIES REPORT

No material inadequacies have been found to exist since the previous audit.