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SECURITIES

COMMISSION

Washington, D.C. 20549

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**

SEC FILE NUMBER
B- 47955

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: CEROS BROKER SERVICE, INC.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

17 MONSIGNOR O'BRIEN HIGHWAY  
(No. and Street)

CAMBRIDGE MA 02141  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
MICHAEL D. KOPPEL, CPA 781-407-0300  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

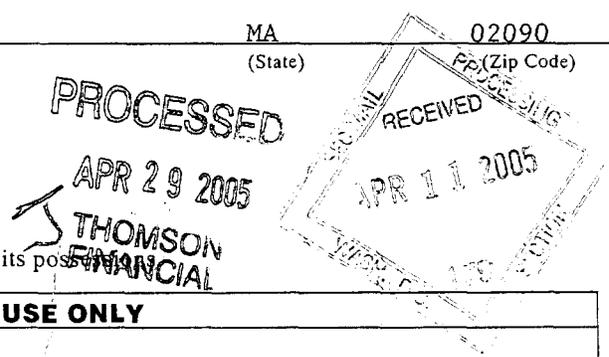
INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

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

34 SOUTHWEST PARK WESTWOOD MA 02090  
(Address) (City) (State) (Zip Code)

CHECK ONE:

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



FOR OFFICIAL USE ONLY

\*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)

*Handwritten signature and date: [Signature] 4/15*

OATH OR AFFIRMATION

I, MARK HAUSMAN, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CEROS BROKER SERVICE, 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:

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

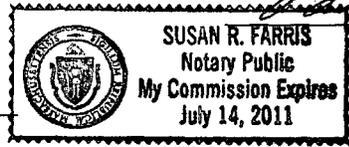
*Mark Hausman*

Signature

*Susan R. Farris*

Title

*Susan R. Farris*  
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).

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

OMB APPROVAL	
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# Form X-17A-5

# FOCUS REPORT

(Financial and Operational Combined Uniform Single Report)

## PART II 11

*(Please read instructions before preparing Form.)*

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

- |  |  |  |
|--|--|--|
| 1) Rule 17a-5(a) <input checked="" type="checkbox"/> 16                          | 2) Rule 17a-5(b) <input type="checkbox"/> 17 | 3) Rule 17a-11 <input type="checkbox"/> 18 |
| 4) Special request by designated examining authority <input type="checkbox"/> 19 | 5) Other <input type="checkbox"/> 26         |  |

NAME OF BROKER-DEALER

CEROS BROKER SERVICE, INC.  13

SEC FILE NO.

8-47955  14

FIRM I.D. NO.

37869  15

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

17 MONSIGNOR O'BRIEN HIGHWAY  20

(No. and Street)

FOR PERIOD BEGINNING (MM/DD/YY)

01/01/04  24

AND ENDING (MM/DD/YY)

12/31/04  25

CAMBRIDGE  21 MA  22 02141  23

(City)

(State)

(Zip Code)

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

(Area Code) — Telephone No.

MICHAEL D. KOPPEL, CPA  30

781-407-0300  31

NAMES OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT:

OFFICIAL USE

32

33

34

35

36

37

38

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 March day of 27, 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 misstatement or omissions of facts constitute Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 78:f(a))

Persons who 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.

**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)

GRAY, GRAY & GRAY, LLP

70

ADDRESS

34 SOUTHWEST PARK

Number and Street

71

WESTWOOD

City

72

MA

State

73

02090

Zip Code

74

CHECK ONE

Certified Public Accountant

75

FOR SEC USE

Public Accountant

76

Accountant not resident in United States  
or any of its possessions

77

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

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

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART II

BROKER OR DEALER	CEROS BROKER SERVICE, INC.	N2				100
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### STATEMENT OF FINANCIAL CONDITION

as of (MM/DD/YY) 12/31/04 99  
SEC FILE NO. 8-47955 98  
Consolidated   198  
Unconsolidated   199

	ASSETS			Total	
	Allowable	Non-Allowable		Total	
1. Cash .....	\$ 10,078		\$ 10,078		750
2. Cash segregated in compliance with federal and other regulations .....	210				760
3. Receivable from brokers or dealers and clearing organizations:					
A. Failed to deliver:					
1. Includable in "Formula for Reserve Requirements" .....	220				
2. Other .....	230				770
B. Securities borrowed:					
1. Includable in "Formula for Reserve Requirements" .....	240				
2. Other .....	250				780
C. Omnibus accounts:					
1. Includable in "Formula for Reserve Requirements" .....	260				
2. Other .....	270				790
D. Clearing organizations:					
1. Includable in "Formula for Reserve Requirements" .....	280				
2. Other .....	112,074		112,074		800
E. Other .....	300	\$ 550			810
4. Receivables from customers:					
A. Securities accounts:					
1. Cash and fully secured accounts .....	310				
2. Partly secured accounts .....	320	560			
3. Unsecured accounts .....		570			
B. Commodity accounts .....	330	580			
C. Allowance for doubtful accounts .....	( ) 335	( ) 590			820
5. Receivables from non-customers:					
A. Cash and fully secured accounts .....	340				
B. Partly secured and unsecured accounts .....	350	600			830
6. Securities purchased under agreements to resell .....	360	605			840
7. Securities and spot commodities owned, at market value:					
A. Bankers acceptances, certificates of deposit and commercial paper .....	370				
B. U.S. and Canadian government obligations .....	380				
C. State and municipal government obligations .....	390				
D. Corporate obligations .....	400				

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# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART II

BROKER OR DEALER

CEROS BROKER SERVICE, INC.

as of 12/31/04

### STATEMENT OF FINANCIAL CONDITION

		ASSETS			
		Allowable	Non-Allowable	Total	
E. Stocks and warrants	\$	410			
F. Options		420			
G. Arbitrage		422			
H. Other securities		424			
I. Sport commodities		430		850	
8. Securities owned not readily marketable:					
A. At Cost	\$	130	440	610	860
9. Other investments not readily marketable:					
A. At Cost	\$	140			
B. At estimated fair value		450	620		870
10. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:					
A. Exempted securities	\$	150			
B. Other	\$	160	460	630	880
11. Secured demand notes- market value of collateral:					
A. Exempted securities	\$	170			
B. Other	\$	180	470	640	890
12. Memberships in exchanges:					
A. Owned, at market value	\$	190			
B. Owned at cost				650	
C. Contributed for use of company, at market value				660	900
13. Investment in and receivables from affiliates, subsidiaries and associated partnerships		480		670	910
14. Property, furniture, equipment, leasehold improvements and rights under lease agreements:					
At cost (net of accumulated depreciation and amortization)		490	1,388	680	1,388
15. Other Assets:					
A. Dividends and interest receivable		500		690	
B. Free shipments		510		700	
C. Loans and advances		520		710	
D. Miscellaneous		530	3,958	720	3,958
16. TOTAL ASSETS	\$	122,152	540	5,346	740
				3,958	930
				127,498	940

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# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART II

BROKER OR DEALER

CEROS BROKER SERVICE, INC.

as of 12/31/04

### STATEMENT OF FINANCIAL CONDITION

#### LIABILITIES AND OWNERSHIP EQUITY (continued)

Liabilities	A.I. Liabilities*	Non-A.I. Liabilities*	Total
17. Bank loans payable:			
A. Includable in "Formula for Reserve Requirements" .....	\$ 1030	\$ 1240	\$ 1460
B. Other .....	1040	1250	1470
18. Securities sold under repurchase agreement....		1260	1480
19. Payable to brokers or dealers and clearing organizations:			
A. Failed to receive:			
1. Includable in "Formula for Reserve Requirements" .....	1050	1270	1490
2. Other .....	1060	1280	1500
B. Securities loaned:			
1. Includable in "Formula for Reserve Requirements" .....	1070		1510
2. Other .....	1080	1290	1520
C. Omnibus accounts:			
1. Includable in "Formula for Reserve Requirements" .....	1090		1530
2. Other .....	1095	1300	1540
D. Clearing organizations:			
1. Includable in "Formula for Reserve Requirements" .....	1100		1550
2. Other .....	1105	1310	1560
E. Other: .....	1110	1320	1570
20. Payable to customers:			
A. Securities accounts-including free credits of .....\$ 950	1120		1580
B. Commodities accounts .....	1130	1330	1590
21. Payable to non customers:			
A. Securities accounts .....	1140	1340	1600
B. Commodities accounts .....	1150	1350	1610
22. Securities sold not yet purchased at market value-including arbitrage of .....\$ 960		1360	1620
23. Accounts payable and accrued liabilities and expenses:			
A. Drafts payable .....	1160		1630
B. Accounts payable .....	13,827	1170	13,827
C. Income taxes payable .....	1180		1650
D. Deferred income taxes .....		1370	1660
E. Accrued expenses and other liabilities .....	1190		1670
F. Other .....	266	1200	266

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\*Brokers or Dealers electing the alternative net capital requirement method need not complete these columns.

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART II

BROKER OR DEALER

CEROS BROKER SERVICE, INC.

as of 12/31/04

### STATEMENT OF FINANCIAL CONDITION

#### LIABILITIES AND OWNERSHIP EQUITY (continued)

Liabilities	A.I. Liabilities*	Non-A.I. Liabilities*	Total
24. Notes and mortgages payable:			
A. Unsecured .....	\$ 1210		\$ 1690
B. Secured .....	25 1211	1390	1700
25. Liabilities subordinated to claims of general creditors:			
A. Cash borrowings:		1400	1710
1. from outsiders 24 \$ 970			
2. Includes equity subordination (15c3-1(d)) of ..... \$ 980			
B. Securities borrowings, at market value from outsiders \$ 990		1410	1720
C. Pursuant to secured demand note collateral agreements:		1420	27 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		25 1430	1740
E. Accounts and other borrowings not qualified for net capital purposes	1220	1440	1750
26. TOTAL LIABILITIES .....	\$ 14,093 1230	\$ 1450	\$ 14,093 1760
Ownership Equity			
27. Sole Proprietorship .....			\$ 1770
28. Partnership-limited partners .....	\$ 1020		\$ 1780
29. Corporation:			
A. Preferred stock .....			1791
B. Common stock .....		28 150,000	1792
C. Additional paid-in capital .....			1793
D. Retained earnings .....			(36,595) 1794
E. Total .....			113,405 1795
F. Less capital stock in treasury .....			( ) 1796
30. TOTAL OWNERSHIP EQUITY .....			\$ 113,405 1800
31. TOTAL LIABILITIES AND OWNERSHIP EQUITY .....			\$ 127,498 1810

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\*Brokers or Dealers electing the alternative net capital requirement method need not complete these columns.

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART II

BROKER OR DEALER

CEROS BROKER SERVICE, INC.

as of 12/31/04

### COMPUTATION OF NET CAPITAL

1. Total ownership equity from Statement of Financial Condition - Item 1800 .....	\$ 113,405		3480
2. Deduct Ownership equity not allowable for Net Capital .....		( )	3490
3. Total ownership equity qualified for Net Capital .....		113,405	3500
4. Add:			
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital .....		0	3520
B. Other (deductions) or allowable credits (List) .....	33	0	3525
5. Total capital and allowable subordinated liabilities .....	\$	113,405	3530
6. Deductions and/or charges:			
A. Total nonallowable assets from			
Statement of Financial Condition (Notes B and C) .....	\$ 5,346		3540
1. Additional charges for customers' and non-customers' security accounts .....	\$		3550
2. Additional charges for customers' and non-customers' commodity accounts .....			3560
B. Aged fail-to-deliver .....			3570
1. Number of items .....	29	3450	
C. Aged short security differences-less reserve of .....	\$	3460	3580
number of items .....		3470	30
D. Secured demand note deficiency .....			3590
E. Commodity futures contracts and spot commodities - proprietary capital charges .....			3600
F. Other deductions and/or charges .....			3610
G. Deductions for accounts carried under Rule 15c3-1(a)(6), (a)(7) and (c)(2)(x) .....			3615
H. Total deductions and/or charges .....		( 5,346 )	3620
7. Other additions and/or allowable credits (List) .....			3630
8. Net capital before haircuts on securities positions .....	\$	108,059	3640
9. Haircuts on securities: (computed, where applicable, pursuant to 15c3-1(f)):			
A. Contractual securities commitments .....	\$		3660
B. Subordinated securities borrowings .....			3670
C. Trading and investment securities:			
1. Bankers' acceptances, certificates of deposit and commercial paper .....	31		3680
2. U.S. and Canadian government obligations .....			3690
3. State and municipal government obligations .....			3700
4. Corporate obligations .....			3710
5. Stocks and warrants .....			3720
6. Options .....			3730
7. Arbitrage .....			3732
8. Other securities .....	32	2,011	3734
D. Undue Concentration .....			3650
E. Other (List) .....			3736
		( 2,011 )	3740
10. Net Capital .....	\$	106,048	3750

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# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART II

BROKER OR DEALER **CEROS BROKER SERVICE, INC.**

as of 12/31/04

### COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

**Part A**

11. Minimum net capital required (6 $\frac{2}{3}$ % of line 19) .....	\$	940	3756
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A) .....	\$	5,000	3758
13. Net capital requirement (greater of line 11 or 12) .....	\$	5,000	3760
14. Excess net capital (line 10 less 13) .....	\$	101,048	3770
15. Excess net capital at 1000% (line 10 less 10% of line 19) .....	35%	104,639	3780

### COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.I. liabilities from Statement of Financial Condition .....	\$	14,093	3790
17. Add:			
A. Drafts for immediate credit .....	34%	3800	
B. Market value of securities borrowed for which no equivalent value is paid or credited .....	\$	3810	
C. Other unrecorded amounts (List) .....	\$	3820	3830
18. Deduct: Adjustment based on deposits in Special Reserve Bank Accounts (15c3-1(c)(1)(vii)) .....	\$		3838
19. Total aggregate indebtedness .....	\$	14,093	3840
20. Percentage of aggregate indebtedness to net capital (line 19 ÷ by line 10) .....	%	13.29	3850
21. Percentage of aggregate indebtedness to net capital after anticipated capital withdrawals (line 19 ÷ by line 10 less Item 4880 page 25) .....	%	13.29	3853

### COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT

**Part B**

22. 2% of combined aggregate debt items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits .....	35%		3870
23. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A) .....	\$		3880
24. Net capital requirement (greater of line 22 or 23) .....	\$		3760
25. Excess net capital (line 10 less 24) .....	\$		3910
26. Percentage of Net Capital to Aggregate Debits (line 10 ÷ by line 17 page 8) .....	%		3851
27. Percentage of Net Capital, after anticipated capital withdrawals, to Aggregate Debits (line 10 less item 4880 page 11 ÷ by line 17 page 8) .....	%		3854
28. Net capital in excess of the greater of:			
A. 5% of combines aggregate debit items or \$120,000 .....	\$		3920

### OTHER RATIOS

**Part C**

29. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d) .....	%		3860
30. Options deductions/Net Capital ratio (1000% test) total deductions exclusive of liquidating equity under Rule 15c3-1(a)(6), (a)(7) and (c)(2)(x) ÷ Net Capital .....	%		3852

**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 $\frac{2}{3}$ % of aggregate indebtedness or 2% of aggregate debits if alternative method is used.
- (B) Do not deduct the value of securities borrowed under subordination agreements or secured demand notes 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.

## PART II - FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

BROKER OR DEALER	CEROS BROKER SERVICE, INC.	For the period (MMDDYY) from <u>01/01/04</u> to <u>12/31/04</u>	3933
		Number of months included in this statement	12
STATEMENT OF INCOME (LOSS)			3931

### REVENUE

1.	Commissions:		
	a. Commissions on transactions in listed equity securities executed on an exchange .....	\$ 177,033	3935
	b. Commissions on transactions in exchange listed equity securities executed over-the-counter .....		3937
	c. Commissions on listed option transactions .....	66,357	3938
	d. All other securities commissions .....	151,503	3939
	e. Total securities commissions .....	357,568	3940
2.	Gains or losses on firm securities trading accounts		
	a. From market making in over-the-counter equity securities .....		3941
	1. Includes gains or (losses) OTC market making in exchange listed equity securities .....	3943	
	b. From trading in debt securities .....		3944
	c. From market making in options on a national securities exchange .....		3945
	d. From all other trading .....		3949
	e. Total gains or (losses) .....		3950
3.	Gains or losses on firm securities investment accounts		
	a. Includes realized gains (losses) .....	4235	
	b. Includes unrealized gains (losses) .....	4236	
	c. Total realized and unrealized gains (losses) .....		3952
4.	Profits or (losses) from underwriting and selling groups		3955
	a. Includes underwriting income from corporate equity securities .....	4237	
5.	Margin interest .....		3960
6.	Revenue from sale of investment company shares .....		3970
7.	Fees for account supervision, investment advisory and administrative services .....	11,836	3975
8.	Revenue from research services .....		3980
9.	Commodities revenue .....		3990
10.	Other revenue related to securities business .....		3985
11.	Other revenue .....	562	3995
12.	Total revenue .....	\$ 407,291	4030

### EXPENSES

13.	Registered representative's compensation .....		4110
14.	Clerical and administrative employees' expenses .....		4040
15.	Salaries and other employment costs for general partners, and voting stockholder officers .....	21,760	4120
	a. Includes interest credited to General and Limited Partners capital accounts .....	4130	
16.	Floor brokerage paid to certain brokers (see definition) .....		4055
17.	Commissions and clearance paid to all other brokers (see definition) .....	213,976	4145
18.	Clearance paid to non-brokers (see definition) .....		4135
19.	Communications .....		4060
20.	Occupancy and equipment costs .....		4080
21.	Promotional costs .....		4150
22.	Interest expense .....		4075
	a. Includes interest on accounts subject to subordination agreements .....	4070	
23.	Losses in error account and bad debts .....		4170
24.	Data processing costs (including service bureau service charges) .....		4186
25.	Non-recurring charges .....		4190
26.	Regulatory fees and expenses .....	3,714	4195
27.	Other expenses .....	153,381	4100
28.	Total expenses .....	\$ 392,831	4200

### NET INCOME

29.	Income (loss) before Federal income taxes and items below (Item 12 less Item 28) .....	14,460	4210
30.	Provision for Federal income taxes (for parent only) .....		4220
31.	Equity in earnings (losses) of unconsolidated subsidiaries not included above .....		4222
	a. After Federal income taxes of .....	4238	
32.	Extraordinary gains (losses) .....		4224
	a. After Federal income taxes of .....	4239	
33.	Cumulative effect of changes in accounting principles .....		4225
34.	Net income (loss) after Federal income taxes and extraordinary items .....	\$ 14,460	4230

### MONTHLY INCOME

35.	Income (current month only) before provision for Federal income taxes and extraordinary items .....		4211
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# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART II

BROKER OR DEALER

CEROS BROKER SERVICE, INC.

as of 12/31/04

### COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS FOR BROKER-DEALERS UNDER RULE 15c3-3 (See Rule 15c3-3, Exhibit A and Related Notes)

#### CREDIT BALANCES

1. Free credit balances and other credit balances in customers' security accounts (see Note A, Exhibit A, Rule 15c3-3) .....	46 \$	4340
2. Monies borrowed collateralized by securities carried for the accounts of customers (see Note B) .....		4350
3. Monies payable against customers' securities loaned (see Note C) .....		4360
4. Customers' securities failed to receive (see Note D) .....		4370
5. Credit balances in firm accounts which are attributable to principal sales to customers .....		4380
6. Market value of stock dividends, stock splits and similar distributions receivable outstanding over 30 calendar days .....		4390
7. **Market value of short security count differences over 30 calendar days old .....		4400
8. **Market value of short securities and credits (not to be offset by logs or by debits) in all suspense accounts over 30 calendar days .....	47	4410
9. Market value of securities which are in transfer in excess of 40 calendar days and have not been confirmed to be in transfer by the transfer agent or the issuer during the 40 days .....		4420
10. Other (List) .....		4425
11. TOTAL CREDITS .....	\$	4430

#### DEBIT BALANCES

12. **Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection net of deductions pursuant to Note E, Exhibit A, Rule 15c3-3 .....	\$	4440
13. Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver .....		4450
14. Failed to deliver of customers' securities not older than 30 calendar days .....		4460
15. Margin required and on deposit with Options Clearing Corporation for all option contracts written or purchased in customer accounts (see Note F) .....		4465
16. Other (List) .....	48	4469
17. **Aggregate debit items .....	\$	4470
18. **Less 3% (for alternative method only--see Rule 15c3-1(f)(5)(i)) .....		4471
19. **TOTAL 14c3-3 DEBITS .....	\$	4472

#### RESERVE COMPUTATION

20. Excess of total debits over total credits (line 19 less line 11) .....	49 \$	4480
21. Excess of total credits over total debits (line 11 less line 19) .....		4490
22. If computation permitted on a monthly basis, enter 105% of excess of total credits over total debits .....		4500
23. Amount held on deposit in "Reserve Bank Account(s)," including value of qualified securities, at end of reporting period .....		4510
24. Amount of deposit (or withdrawal) including \$ <span style="border: 1px solid black; padding: 0 5px;">4515</span> value of qualified securities .....		4520
25. New amount in Reserve Bank Account(s) after adding deposit or subtracting withdrawal including \$ <span style="border: 1px solid black; padding: 0 5px;">4525</span> value of qualified securities .....	\$	4530
26. Date of deposit (MMDDYY) .....		4540

#### FREQUENCY OF COMPUTATION

27. Daily  4332 Weekly  4333 Monthly  4334

\*\* In the event the Net Capital Requirement is computed under the alternative method, this "Reserve Formula" shall be prepared in accordance with the requirements of paragraph (f) of Rule 15c3-1.

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PAR

BROKER OR DEALER	CEROS BROKER SERVICE, INC.	as of <u>12/31/04</u>
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## COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS FOR BROKER-DEALERS UNDER RULE 15c3-3 (continued)

### EXEMPTIVE PROVISIONS

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

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 disclosed basis. Name of clearing firm <sup>51</sup> .....		X	4570
D. (k)(3) — Exempted by order of the Commission .....			4580

### Information for Possession or Control Requirements Under Rule 15c3-3

State the market valuation and number of items of:

1. Customers' fully paid securities and excess margin securities not in the respondent's possession or control as of the report date (for which instructions to reduce to possession or control had been issued as of report date) but for which the required action was not taken by respondent within the time frame specified under Rule 15c. Notes A and B .....	\$		4586
A. Number of items .....			4587
2. Customers' fully paid securities and excess margin securities for which instructions to reduce possession or control had not been issued as of the report date, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3. Notes B, C and D .....	\$		4588
A. Number of items .....		\$3	4589
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3. The system and procedures utilized in complying with the requirement to maintain physical possession or control of customers' fully paid and excess margin securities have been tested and are functioning in a manner adequate to fulfill the requirements of Rule 15c3-3 .....		Yes	4584
		No	4585

### NOTES

- A—Do not include in item one customers' fully paid and excess margin securities required by Rule 15c3-3 to be in possession or control but for which no action was required by the respondent as of the report date or required action was taken by respondent within the time frames specified under Rule 15c3-3.
- B—State separately in response to items one and two whether the securities reported in response thereto were subsequently reduced to possession or control by the respondent.
- C—Be sure to include in item two only items not arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3.
- D—Item two must be responded to only with report which is filed as of the date selected for the broker's or dealer's annual audit of financial statements, whether or not such date is the end of a calendar quarter. The response to item two should be filed within 60 calendar days after such date, rather than with the remainder of this report. This information may be required on a more frequent basis by the Commission or the designated examining authority in accordance with Rule 17a-5(a)(2)(iv).

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART II

BROKER OR DEALER

CEROS BROKER SERVICE, INC.

as of 12/31/04

### SCHEDULE OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION

#### CUSTOMER'S REGULATED COMMODITY FUTURES ACCOUNTS

#### SEGREGATION REQUIREMENTS

1.	Net ledger balance:		
	A. Cash .....		7010
	B. Securities (at market) .....		7020
2.	Net unrealized profit (loss) in open futures contracts traded on a contract market .....		7030
3.	Exchange traded options:		
	A. Add: Market Value of an open option contracts purchased on a contract market .....		7032
	B. Deduct: Market Value of an open option contracts granted (sold) on a contract market .....		7033
4.	Net equity (deficit) (total of 1, 2 and 3) .....		7040
5.	Add accounts liquidating to a deficit and accounts with debit balances with no open trades .....		7050
6.	Amount required to be segregated (total of 5 and 4) .....		7060

#### FUNDS ON DEPOSIT IN SEGREGATION

7.	Deposited in segregated funds bank accounts:		
	A. Cash .....		7070
	B. Securities representing investments of customers' fund (at market) .....		7080
	C. Securities held in particular customers or option customers in lieu of cash (at market) .....		7090
8.	Margin on deposits with clearing organizations of contract markets:		
	A. Cash .....		7100
	B. Securities representing investments of customers' fund (at market) .....		7110
	C. Securities held in particular customers or option customers in lieu of cash (at market) .....		7120
9.	Settlement due from (to) clearing organizations of contract markets .....		7130
10.	Exchange traded options:		
	A. Add: Unrealized receivables for option contracts purchased on contract markets .....		7132
	B. Deduct: Unrealized obligations for option contracts granted (sold) on contract markets .....		7133
11.	Net equities with other FCMs .....		7140
12.	Segregated funds on hand:		
	A. Cash .....		7150
	B. Securities representing investments of customers' funds (at market) .....		7160
	C. Securities held for particular customers in lieu of cash (at market) .....		7170
13.	Total amount in segregation *total of 7 through 12) .....	\$	7180
14.	Excess (insufficiency) funds in segregation (13 minus 6) .....	\$	7190

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART II

BROKER OR DEALER

CEROS BROKER SERVICE, INC.

as of 12/31/04

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 Proposal Withdrawal or Accrual See below for code to enter	Name 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)	
54	4600	4601	4602 \$	4603	4604	4605
55	4610	4611	4612	4613	4614	4615
56	4620	4621	4622	4623	4624	4625
57	4630	4631	4632	4633	4634	4635
58	4640	4641	4642	4643	4644	4645
59	4650	4651	4652	4653	4654	4655
60	4660	4661	4662	4663	4664	4665
61	4670	4671	4672	4673	4674	4675
62	4680	4681	4682	4683	4684	4685
63	4690	4691	4692	4693	4694	4695

Total \$ 64 4699\*

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\* To agree with the total on Recap (Item No. 4880)

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:**

**DESCRIPTIONS**

- |    |                              |
|----|------------------------------|
| 1. | Equity Capital               |
| 2. | Subordinated Liabilities     |
| 3. | Accruals                     |
| 4. | 15c3-1(c)(2)(iv) Liabilities |

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT**  
**Capital Withdrawals**  
**PART II**

BROKER OR DEALER CEROS BROKER SERVICE, INC.

as of 12/31/04

**RECAP**

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.

1. Equity Capital			
A. Partnership Capital:			
1. General Partners .....	65	\$	4700
2. Limited .....			4710
3. Undistributed Profits .....			4720
4. Other (describe below) .....			4730
5. Sole Proprietorship .....			4735
B. Corporation Capital:			
1. Common Stock .....			4740
2. Preferred Stock .....			4750
3. Retained Earnings (Dividends and Other) .....	66		4760
4. Other (describe below) .....			4770
2. Subordinated Liabilities			
A. Secured Demand Notes .....			4780
B. Cash Subordinates .....			4790
C. Debentures .....			4800
D. Other (describe below) .....			4810
3. Other Anticipated Withdrawals			
A. Bonuses .....			4820
B. Voluntary Contributions to Pension or Profit Sharing Plans .....	67		4860
C. Other (describe below) .....			4870
Total .....		\$	4880
4. Description of Other			
.....			
.....			
.....			

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

1. Balance, beginning of period .....		\$	98,945	4240
A. Net income (loss) .....			14,460	4250
B. Additions (includes non-conforming capital of .....		\$	4263	68 4260
C. Deductions (includes non-conforming capital of .....		\$	4272	4270
2. Balance, end of period (From Item 1800) .....		\$	113,405	4290

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

3. Balance, beginning of period .....		\$		4300
A. Increases .....				4310
B. Decreases .....				4320
4. Balance, end of period (From Item 3520) .....		\$		4330

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# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART II

BROKER OR DEALER **CEROS BROKER SERVICE, INC.**

as of 12/31/04

### FINANCIAL AND OPERATIONAL DATA

	Valuation	Number
1. Month end total number of stock record breaks unresolved over three business days		
A. breaks long .....	\$ <span style="border: 1px solid black; padding: 0 5px;">4890</span>	<span style="border: 1px solid black; padding: 0 5px;">4900</span>
B. breaks short .....	\$ <span style="border: 1px solid black; padding: 0 5px;">4910</span>	<span style="border: 1px solid black; padding: 0 5px;">4920</span>
2. Is the firm in compliance with Rule 17a-13 regarding periodic count and verification of securities positions and locations at least once in each calendar quarter? (Check one) .....	Yes <input type="checkbox"/> <span style="border: 1px solid black; padding: 0 5px;">4930</span>	No <input type="checkbox"/> <span style="border: 1px solid black; padding: 0 5px;">4940</span>
3. Personnel employed at end of reporting period:		
A. Income producing personnel .....		<span style="border: 1px solid black; padding: 0 5px;">4950</span>
B. Non-income producing personnel (all other) .....		<span style="border: 1px solid black; padding: 0 5px;">4960</span>
C. Total .....		<span style="border: 1px solid black; padding: 0 5px;">4970</span>
4. Actual number of tickets executed during current month of reporting period .....		<span style="border: 1px solid black; padding: 0 5px;">4980</span>
5. Number of corrected customer confirmations mailed after settlement date .....		<span style="border: 1px solid black; padding: 0 5px;">4990</span>

	No. of Items	Debit (Short Value)	No. of Items	Credit (Long Value)
6. Money differences .....	<span style="border: 1px solid black; padding: 0 5px;">5000</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5010</span>	<span style="border: 1px solid black; padding: 0 5px;">5020</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5030</span>
7. Security suspense accounts .....	<span style="border: 1px solid black; padding: 0 5px;">5040</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5050</span>	<span style="border: 1px solid black; padding: 0 5px;">5060</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5070</span>
8. Security difference accounts .....	<span style="border: 1px solid black; padding: 0 5px;">5080</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5090</span>	<span style="border: 1px solid black; padding: 0 5px;">5100</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5110</span>
9. Commodity suspense accounts .....	<span style="border: 1px solid black; padding: 0 5px;">5120</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5130</span>	<span style="border: 1px solid black; padding: 0 5px;">5140</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5150</span>
10. Open transactions with correspondents, other brokers, clearing organizations, depositories and interoffice and inter-company accounts which could result in a charge — unresolved amounts over 30 calendar days .....	<span style="border: 1px solid black; padding: 0 5px;">5160</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5170</span>	<span style="border: 1px solid black; padding: 0 5px;">5180</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5190</span>
11. Bank account reconciliations — unresolved amounts over 30 calendar days .....	<span style="border: 1px solid black; padding: 0 5px;">5200</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5210</span>	<span style="border: 1px solid black; padding: 0 5px;">5220</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5230</span>
12. Open transfers over 40 calendar days, not confirmed .....	<span style="border: 1px solid black; padding: 0 5px;">5240</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5250</span>	<span style="border: 1px solid black; padding: 0 5px;">5260</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5270</span>
13. Transactions in reorganization accounts — over 60 calendar days .....	<span style="border: 1px solid black; padding: 0 5px;">5280</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5290</span>	<span style="border: 1px solid black; padding: 0 5px;">5300</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5310</span>
14. Total .....	<span style="border: 1px solid black; padding: 0 5px;">5320</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5330</span>	<span style="border: 1px solid black; padding: 0 5px;">5340</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5350</span>

	No. of Items	Leger Amount		Market Value
15. Failed to deliver 11 business days or longer (21 Business Days or longer in the case of Municipal Securities) .....	<span style="border: 1px solid black; padding: 0 5px;">5360</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5361</span>		<span style="border: 1px solid black; padding: 0 5px;">5362</span>
16. Failed to receive 11 business days or longer (21 business Days or longer in the case of Municipal Securities) .....	<span style="border: 1px solid black; padding: 0 5px;">5363</span>	\$ <span style="border: 1px solid black; padding: 0 5px;">5364</span>		<span style="border: 1px solid black; padding: 0 5px;">5365</span>
17. Security concentrations (See instructions in Part I):				
A. Proprietary positions .....			\$	<span style="border: 1px solid black; padding: 0 5px;">5370</span>
B. Customers' accounts under Rule 15c3-3 .....			\$	<span style="border: 1px solid black; padding: 0 5px;">5374</span>
18. Total of personal capital borrowings due within six months .....			\$	<span style="border: 1px solid black; padding: 0 5px;">5378</span>
19. Maximum haircuts on underwriting commitments during the period .....			\$	<span style="border: 1px solid black; padding: 0 5px;">5380</span>
20. Planned capital expenditures for business expansion during next six months .....			\$	<span style="border: 1px solid black; padding: 0 5px;">5382</span>
21. Liabilities of other individuals or organizations guaranteed by respondent .....			\$	<span style="border: 1px solid black; padding: 0 5px;">5384</span>
22. Lease and rentals payable within one year .....			\$	<span style="border: 1px solid black; padding: 0 5px;">5386</span>
23. Aggregate lease and rental commitments payable for entire term of the lease				
A. Gross .....			\$	<span style="border: 1px solid black; padding: 0 5px;">5388</span>
B. Net .....			\$	<span style="border: 1px solid black; padding: 0 5px;">5390</span>

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2004

**CEROS BROKER SERVICE, INC.**

AUDITED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

DECEMBER 31, 2004

**CEROS BROKER SERVICE, INC.**

**AUDITED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION**

DECEMBER 31, 2004

**AUDITED FINANCIAL STATEMENTS**

INDEPENDENT AUDITORS' REPORT ..... 1  
STATEMENTS OF FINANCIAL CONDITION ..... 2  
STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT ..... 4  
STATEMENTS OF CASH FLOWS - DIRECT METHOD ..... 5  
NOTES TO FINANCIAL STATEMENTS ..... 7

**OTHER FINANCIAL INFORMATION**

INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION ..... 11  
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES ..... 12  
INDEPENDENT AUDITORS' REPORT ON INTERNAL ACCOUNTING CONTROL ..... 13



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
**Ceros Broker Service, Inc.**

We have audited the accompanying statements of financial condition of **Ceros Broker Service, Inc.** as of December 31, 2004 and 2003, and the statements of operations and accumulated deficit and cash flows - direct method for the years 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 audit.

We conducted our audit 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. 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 **Ceros Broker Service, Inc.** as of December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other financial information section, presented for the purposes of additional analysis, is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. 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.

GRAY, GRAY & GRAY, LLP

*Gray, Gray & Gray, LLP*

March 15, 2005

**LIABILITIES AND STOCKHOLDER'S EQUITY**

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 13,828	\$ 19,480
Other payables	<u>266</u>	<u>266</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>14,094</u>	<u>19,746</u>
<b>STOCKHOLDER'S EQUITY</b>		
Common stock, Class A, voting, \$1.00 par value	150,000	150,000
Accumulated deficit	<u>(36,596)</u>	<u>(51,055)</u>
<b>TOTAL STOCKHOLDER'S EQUITY</b>	<u>113,404</u>	<u>98,945</u>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<u>\$ 127,498</u>	<u>\$ 118,691</u>

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

**CEROS BROKER SERVICE, INC.**

STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

	Year Ended December 31,	
	2004	2003
<b>INCOME</b>		
Commissions and service revenues	395,455	\$ 312,073
Net unrealized (loss) from investment activities	-	(17)
Management fees	11,836	14,653
<b>TOTAL INCOME</b>	<u>407,291</u>	<u>326,709</u>
<b>OPERATING EXPENSES</b>		
General and administrative expenses	391,715	337,133
Depreciation	1,117	1,399
<b>TOTAL OPERATING EXPENSES</b>	<u>392,832</u>	<u>338,532</u>
<b>INCOME (LOSS) BEFORE PROVISION FOR STATE INCOME TAXES</b>	14,459	(11,823)
<b>PROVISION FOR STATE INCOME TAXES</b>		
<b>NET INCOME (LOSS)</b>	14,459	(11,823)
<b>ACCUMULATED DEFICIT AT BEGINNING OF YEAR</b>	<u>(51,055)</u>	<u>(39,232)</u>
<b>ACCUMULATED DEFICIT AT END OF YEAR</b>	<u>\$ (36,596)</u>	<u>\$ (51,055)</u>

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

	<u>Year Ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
<b>RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 14,459	\$ (11,823)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,117	1,399
Net realized and unrealized (gain) loss	-	17
(Increase) decrease in assets:		
Commissions receivable	(8,524)	(1,519)
Prepaid expenses	(1,927)	(631)
Due from affiliate	-	61,932
Employee advances	-	2,000
Increase (decrease) in liabilities:		
Accounts payable	(5,652)	6,332
<b>TOTAL ADJUSTMENTS</b>	<u>(14,986)</u>	<u>69,530</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ (527)</u>	<u>\$ 57,707</u>

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

**CEROS BROKER SERVICE, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

**NOTE 1 - BUSINESS**

**Principal Business Activity** - Ceros Broker Service, Inc. is an introducing broker in the business of trading securities. The Company is a registered member of the Securities and Exchange Commission, the National Association of Securities Dealers, and is registered with various state securities commissions.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

**Property and Equipment** - Property and equipment are stated at cost, less accumulated depreciation. Expenditures for routine repairs and maintenance are charged to operations as they are incurred while those which significantly improve or extend the lives of existing assets are capitalized. Depreciation is computed using the straight-line and accelerated methods.

**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.

**Income Taxes** - Income tax expense includes federal and state taxes currently payable and, when material, deferred taxes arising from temporary differences between income from financial reporting and tax purposes and also operating losses that are available to offset future taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. At December 31, 2004, deferred tax assets and liabilities were immaterial.

**Commissions** - Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

**Cash** - During the course of the normal business cycle the Company, at times, maintains on deposit cash balances in excess of FDIC insured limits.

**CEROS BROKER SERVICE, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

**NOTE 3 - PROPERTY AND EQUIPMENT**

The estimated useful lives used for computing depreciation are as follows:

	<u>2004</u>	<u>2003</u>	<u>Estimated Useful Lives</u>
Property and equipment	\$ 11,919	\$ 11,919	5 – 7 Years
Less accumulated depreciation	<u>10,531</u>	<u>9,414</u>	
	<u>\$ 1,388</u>	<u>\$ 2,505</u>	

**NOTE 4 - INCOME TAXES**

In 2003, the Company did not reflect a provision for income taxes because it had an operating loss. In 2004, current federal and state income taxes on approximately \$16,000 of taxable income were offset by the use of net operating loss carryforwards; therefore, the Company did not reflect a provision for income taxes. As of December 31, 2004, the Company has approximately \$76,000 of net operating loss carryforwards available to offset future taxable income.

The net deferred tax amounts included in the accompanying statements of financial condition include the following amounts of deferred tax assets and liabilities as of December 31:

	<u>2004</u>		<u>2003</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Deferred tax asset	\$ 5,955	\$ -	\$ 11,100	\$ -
Deferred tax liability	-	-	-	-
Valuation allowance	<u>(5,955)</u>	<u>-</u>	<u>(11,100)</u>	<u>-</u>
Deferred tax asset (liability), net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The deferred tax asset results from net federal and state operating loss carryforwards. The Company believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the reliability of the deferred tax asset such that a full valuation allowance has been recorded.

**CEROS BROKER SERVICE, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

**NOTE 5 - REGULATORY REQUIREMENTS**

Pursuant to net capital provision of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. Net capital may fluctuate on a daily basis. The Company had net capital, as defined, of \$106,048 and \$92,409 at December 31, 2004 and 2003, respectively. The minimum net capital requirement is \$5,000.

**Exemptive Provision Under Rule 15c3-3** - The Company, as an introducing broker, is exempt under subparagraph (k)(2)(ii) of Rule 15c3-3 from maintaining a "Special Reserve Bank Account for the Exclusive Benefit of Customers."

**NOTE 6 - RELATED PARTY TRANSACTIONS**

**Economic Dependency** - The Company is affiliated with other companies in the same line of business. Ninety-five percent of the Company's commissions are earned from transactions with these affiliates. Per a written agreement, a foreign corporation with the same ownership refers customers who purchase securities through the Company. A significant portion (55% in 2004 and 60% in 2003) of the commissions earned, on these transactions are paid back to the foreign affiliate as commission expense. In 2003, this affiliate was also reimbursing the Company for certain operational costs.

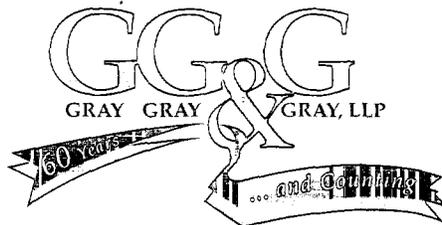
Total commissions paid back, net of reimbursed costs totaled \$213,976 and \$182,866 for the years ended December 31, 2004 and 2003, respectively. The Company received management fees of \$11,836 and \$14,653 from an affiliate in 2004 and 2003, respectively. The management fees relate to administrative charges to the related party.

Approximately 5% and 10% of the Company's commissions are earned from entities that are related to an officer of the Company for the years ended December 31, 2004 and 2003.

**NOTE 7 - CAPITAL STRUCTURE**

As of December 31, 2004 and 2003, the Company had 200,000 shares of Class A voting, \$1 par value common stock authorized, and 150,000 shares issued and outstanding.





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## INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

Board of Directors  
**Ceros Broker Service, Inc.**

Our audits for the years ended December 31, 2004 and 2003 were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

GRAY, GRAY & GRAY, LLP

*Gray, Gray & Gray, LLP*

March 15, 2005

**CEROS BROKER SERVICE, INC.**

**SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>Year Ended December 31,</u>	
	<u>2004</u>	<u>2003</u>
Officer's salary	\$ 21,760	\$ 27,200
Commissions expense	213,976	182,866
Clearing charges	114,339	94,266
Professional fees	23,428	18,727
Office	7,797	4,951
Payroll and other taxes	4,275	2,851
Dues and registrations	3,714	2,106
Telephone	1,791	2,106
Insurance	635	2,060
	<hr/>	<hr/>
<b>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>\$ 391,715</b>	<b>\$ 337,133</b>
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## INDEPENDENT AUDITORS' REPORT ON INTERNAL ACCOUNTING CONTROL

Board of Directors  
**Ceros Broker Service, Inc.**

In planning and performing our audits of the financial statements of **Ceros Broker Service, Inc.** for the years ended December 31, 2004 and 2003, we considered its internal control structure, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by **Ceros Broker Service, Inc.** that we considered relevant to the objectives stated in Rule 17a-5(g), (1) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e); (2) in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13; (3) in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System; and (4) in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures 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 Commission's above mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.



Board of Directors  
**Ceros Broker Service, Inc.**  
Page 2

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure 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 structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including procedures 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 Commission 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 Commission's objectives.

This report is intended solely for the use of the management, the Securities and Exchange Commission, the New York Stock Exchange and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be for any other purpose.

GRAY, GRAY & GRAY, LLP

*Gray, Gray & Gray, LLP*

March 15, 2005