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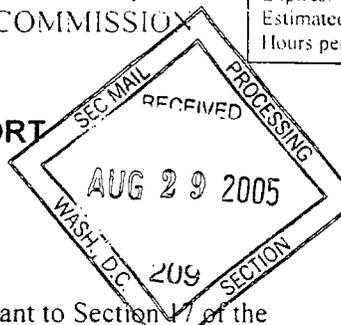
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**ANNUAL AUDITED REPORT  
FORM X-17 A-5  
PART III**



SEC FILE NUMBER  
8-23280

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 07/01/04 AND ENDING 06/30/05  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: FMS Bonds, Inc.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

301 Yamato Road

(No. and Street)

Boca Raton

(City)

FL

(State)

33431

(Zip Code)

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

Michael Seligsohn

(305) 937-0660

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Kaufman, Rossin & Co.

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

2699 S. Bayshore Drive

(Address)

Miami

(City)

Florida

(State)

33133

(Zip Code)

**CHECK ONE:**

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

PROCESSED

SEP 09 2005

THOMSON  
FINANCIAL

FOR OFFICIAL USE ONLY

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

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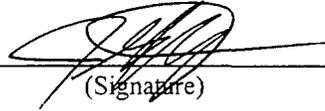
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# OATH OR AFFIRMATION

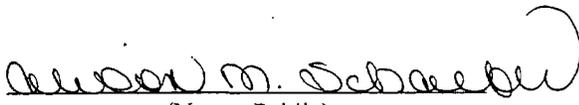
I, James Klotz, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of FMS Bonds, Inc., as of June 30, 2005, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

No exceptions.

  
(Signature)

President

(Title)

  
(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. (Cash Flows)
- (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
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (o) Independent auditors' report on internal control required by CFTC Regulation 1.16 and SEC Rule 17a-5.

\*\* For conditions of confidential treatment of certain portions of this filing. See section 240.17a-5(e)(3).

A report containing a statement of financial condition has been included; accordingly it is requested that this report be given confidential treatment.



# FMS BONDS, INC. AND SUBSIDIARY

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CONSOLIDATED REPORT PURSUANT

TO RULE 17a-5

JUNE 30, 2005

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## INDEPENDENT AUDITORS' REPORT

To the Stockholders  
FMS Bonds, Inc.  
North Miami Beach, Florida

We have audited the accompanying consolidated statement of financial condition of FMS Bonds, Inc. and Subsidiary as of June 30, 2005, and the related consolidated statements of operations, changes in stockholders' equity, changes in liabilities subordinated to claims of general creditors and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FMS Bonds, Inc. and Subsidiary as of June 30, 2005, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidated supplementary information contained on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The consolidated supplementary information on pages 14 through 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Kaufman, Rossin & Co.*

Miami, Florida  
August 12, 2005

**FMS BONDS, INC. AND SUBSIDIARY**  
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION  
JUNE 30, 2005

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**ASSETS**

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CASH, including \$7,131 segregated for the exclusive benefit of customers	\$ 1,660,243
RECEIVABLE FROM BROKERS AND DEALERS	412,775
RECEIVABLE FROM CUSTOMERS	3,331,653
SECURITIES OWNED, AT MARKET (NOTES 5 AND 9)	90,695,073
BOND INTEREST AND REDEMPTIONS RECEIVABLE	816,582
SECURED DEMAND NOTES COLLATERALIZED BY MARKETABLE SECURITIES (NOTE 2)	6,350,000
PROPERTY AND EQUIPMENT (NOTE 3)	503,653
OTHER ASSETS (NOTE 4)	575,686
	<hr/>
	\$ 104,345,665

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**LIABILITIES AND STOCKHOLDERS' EQUITY**

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**LIABILITIES**

Collateral loan payable (Note 5)	\$ 72,556,195
Payable to brokers and dealers	10,369,554
Payable to customers	331,929
Securities sold, but not yet purchased, at market (Note 9)	476,397
Accounts payable and accrued liabilities (Note 7)	4,093,747
Stockholder distributions payable	1,112,057
	<hr/>
	88,939,879

**COMMITMENTS AND CONTINGENT LIABILITIES**

Lease commitments (Note 6)	
Subordinated liabilities (Note 2)	6,350,000

<b>STOCKHOLDERS' EQUITY</b>	9,055,786
	<hr/>
	\$ 104,345,665

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See accompanying notes.

**FMS BONDS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**YEAR ENDED JUNE 30, 2005**

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REVENUES	
Trading profits	\$ 32,445,803
Interest	2,758,945
Commissions and other	1,658,106
Total revenues	<u>36,862,854</u>
EXPENSES BEFORE OFFICERS' SALARIES	<u>25,533,244</u>
INCOME BEFORE OFFICERS' SALARIES	11,329,610
OFFICERS' SALARIES	<u>1,239,200</u>
NET INCOME	<u>\$ 10,090,410</u>

See accompanying notes.

**FMS BONDS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEAR ENDED JUNE 30, 2005**

	Common Stock \$0.25 par value: 4,000 shares authorized, 650 issued and outstanding	Additional Paid-in Capital	Retained Earnings	Total
Balances - June 30, 2004	\$ 163	\$ 364,028	\$ 7,501,185	\$ 7,865,376
Net income	-	-	10,090,410	10,090,410
Distributions	-	-	( 8,900,000)	( 8,900,000)
<b>Balances - June 30, 2005</b>	<b>\$ 163</b>	<b>\$ 364,028</b>	<b>\$ 8,691,595</b>	<b>\$ 9,055,786</b>

See accompanying notes.

**FMS BONDS, INC. AND SUBSIDIARY**  
CONSOLIDATED STATEMENT OF CHANGES IN LIABILITIES  
SUBORDINATED TO CLAIMS OF GENERAL CREDITORS  
YEAR ENDED JUNE 30, 2005

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BALANCE - JUNE 30, 2004	\$ 6,350,000
ACTIVITY FOR THE CURRENT FISCAL YEAR	-
BALANCE - JUNE 30, 2005 (NOTE 2)	\$ 6,350,000

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See accompanying notes.

**FMS BONDS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2005**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income	\$ 10,090,410
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	187,007
Changes in operating assets and liabilities:	
Receivable from brokers and dealers	1,836,963
Receivable from customers	4,045,875
Securities owned, at market	6,069,436
Bond interest and redemptions receivable	342,002
Other assets	( 203,594)
Net repayments on collateral loan payable	( 19,693,236)
Payable to brokers and dealers	5,801,515
Payable to customers	76,092
Securities sold, but not yet purchased, at market	( 198,682)
Accounts payable and accrued liabilities	734,616
Total adjustments	( 1,002,006)
Net cash provided by operating activities	9,088,404

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchases of property and equipment	( 24,814)
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**CASH FLOWS FROM FINANCING ACTIVITIES:**

Stockholder distributions	( 9,012,944)
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**NET INCREASE IN CASH** 50,646

**CASH - BEGINNING** 1,609,597

**CASH - ENDING** \$ 1,660,243

**Supplemental Disclosures of Cash Flow Information:**

Interest paid	\$ 1,255,034
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Income taxes paid	\$ -
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**Supplemental Disclosures of Non-Cash Investing and Financing Activities:**

The Company accrued distributions payable to the stockholders as of June 30, 2005.	\$ 1,112,057
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See accompanying notes.

**FMS BONDS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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***Description of Business and Organization***

FMS Bonds, Inc. (formerly known as First Miami Securities, Inc.) and Subsidiary (the Company), is a broker and dealer specializing in municipal bonds. The Company acts primarily in a principal capacity, buying and selling for its own account and trading with customers and other dealers. To a lesser extent, the Company acts in an agency capacity, buying and selling equity securities and annuities for its customers and charging a commission.

***Basis of Financial Statement Preparation***

The consolidated financial statements include the accounts of FMS Bonds, Inc. (the Parent), (a Florida Corporation and registered broker-dealer) and its wholly owned subsidiary, FMS Asset Management, Inc. (a Delaware Corporation). All material intercompany balances and transactions have been eliminated in consolidation.

***Government and Other Regulation***

The Company's business is subject to significant regulation by various governmental agencies and self-regulatory organizations. Such regulation includes, among other things, periodic examinations by these regulatory bodies to determine whether the Company is conducting and reporting its operations in accordance with the applicable requirements of these organizations.

One of the stockholders of the Company was appointed to serve on the National Association of Securities Dealers, Inc. (NASD) District 7 Committee for a three year term through the end of 2006.

***Securities Transactions and Revenue Recognition***

Securities transactions are reported on a trade date basis, and securities owned and securities sold, but not yet purchased are valued at market. The resulting difference between cost and market is included in the statement of operations.

Interest income is recorded on an accrual basis.

***Property and Equipment***

Property and equipment is recorded at cost. Expenditures for major betterments and additions are charged to the asset accounts while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are charged to expense currently.

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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***Depreciation and Amortization***

Depreciation and amortization of property and equipment is computed using the straight-line method at various rates based upon the estimated useful lives of the assets. The range of estimated useful lives is summarized as follows:

Furniture and fixtures	5 to 8 years
Office equipment	5 to 8 years
Leasehold improvements	5 to 10 years
Transportation equipment	5 years

***Receivables***

The Company does not provide a reserve for uncollected receivables as substantially all amounts are collateralized by securities awaiting delivery. Amounts are charged directly to expense when deemed uncollectible, and have historically been immaterial.

***Income Taxes***

The Company has elected, with the stockholders' consent, to be taxed under the S Corporation provisions of the Internal Revenue Code. Under these provisions, the taxable income of the Company is reflected by the stockholders on their personal income tax returns.

***Use of Estimates in the Preparation of Financial Statements***

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.

***Advertising Costs***

Advertising costs are charged to operations when incurred. Advertising expense approximated \$1,100,080 for the year ended June 30, 2005.

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**NOTE 2. SECURED DEMAND NOTES COLLATERALIZED BY MARKETABLE SECURITIES AND SUBORDINATED LIABILITIES**

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Secured demand notes collateralized by marketable securities consist of non-interest bearing loans to stockholders of \$6,350,000.

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**NOTE 2. SECURED DEMAND NOTES COLLATERALIZED BY MARKETABLE SECURITIES AND SUBORDINATED LIABILITIES (Continued)**

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The subordinated liabilities may be repaid at the stated maturity dates only if, after giving effect to such repayment, the Company meets the regulatory net capital requirements governing repayment of such subordinated debt. These loans were made under agreements pursuant to the rules and regulations of the Securities and Exchange Commission, approved by the NASD and are subordinated to the claims of general creditors.

Effective August 3, 2005, \$3,035,000 of secured demand notes receivable and corresponding liabilities to stockholders were retired and reissued, with NASD approval, with a new expiration date of July 31, 2008.

The maturities of the subordinated liabilities for the years subsequent to June 30, 2005, including the effect of the reissuance of \$3,035,000 on August 3, 2005 are as follows:

2006	\$	-
2007		3,315,000
2008		-
2009		3,035,000
		<hr/>
	\$	6,350,000

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**NOTE 3. PROPERTY AND EQUIPMENT**

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Property and equipment consisted of the following:

Furniture and fixtures	\$	595,210
Office equipment		662,296
Leasehold improvements		294,515
Transportation equipment		258,906
		<hr/>
		1,810,927
Less accumulated depreciation and amortization	(	1,307,274)
		<hr/>
	\$	503,653

Depreciation and amortization expense for the year amounted to \$187,007.

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**NOTE 4. OTHER ASSETS**

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Other assets consisted of the following:

Prepays	\$	113,198
Other receivables		50,029
Net cash value of life insurance policies		25,000
Deposits		252,834
Employee loans receivable		134,625
	\$	575,686

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**NOTE 5. COLLATERAL LOAN PAYABLE**

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Collateral loan payable represents amounts due to the Company's clearing broker and is collateralized by securities owned or held as collateral by the Company and securities awaiting delivery on uncompleted transactions. Interest is payable monthly at the prevailing variable rate, which was 3.825% at June 30, 2005. All amounts due are payable on demand.

Interest expense for the year on all indebtedness amounted to \$1,250,877.

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**NOTE 6. LEASE COMMITMENTS**

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The Company is obligated under various non-cancelable operating leases for certain equipment and its office facility in Boca Raton, Florida.

As of June 30, 2005, the approximate future minimum annual rentals under the non-cancellable leases are as follows:

2006	\$	55,000
2007		55,000
2008		55,000
2009		49,000
2010		21,000
	\$	235,000

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The Company has a month-to-month lease arrangement with its stockholders for an office facility in North Miami Beach, Florida. Rent expense and real estate taxes on this facility approximated \$202,620 and \$17,445 respectively. Total rent expense for all facilities for the year ended June 30, 2005 amounted to \$502,444.

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**NOTE 7. EMPLOYEE BENEFIT PLANS**

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The Company maintains a 401(k) plan covering substantially all employees. Employer contributions to the plan are at the discretion of management. For the year ended June 30, 2005, the Company had accrued \$139,863 for this plan. Additionally, the Company maintains a non-qualified Senior Executives' Retirement Plan (SERP). Contributions, the funding of which is at management's discretion, are calculated based on the qualifying employee's salary and years of employment. At June 30, 2005, the Company had accrued \$1,538,512 for the SERP.

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**NOTE 8. NET CAPITAL REQUIREMENTS**

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As a registered broker-dealer, the Company is subject to the Uniform Net Capital Rule of the Securities and Exchange Commission, which requires that "Net Capital", as defined, shall be at least the greater of \$250,000 or 6-2/3% of "Aggregate Indebtedness", as defined. At June 30, 2005, the Company's "Net Capital" was \$6,615,240 which exceeded requirements by \$6,239,151. The ratio of "Aggregate Indebtedness" to "Net Capital" was 0.85 to 1 at June 30, 2005.

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**NOTE 9. CREDIT CONCENTRATIONS AND OFF-BALANCE-SHEET RISK**

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In the normal course of business, the Company enters into financial transactions in which there is a risk of loss due to changes in the market ("market risk") or failure of the other party to the transaction to perform ("credit risk"), as described below.

***Securities Sold, But Not Yet Purchased***

Securities sold, but not yet purchased aggregate \$476,397 at June 30, 2005. Subsequent market fluctuations may require the Company to purchase these securities at prices which exceed the market value in the accompanying statement of financial condition.

***Custody of Securities***

Custodial functions for the Company's securities transactions are substantially provided by a New York City bank. At June 30, 2005, a majority of securities owned is held by this bank.

***Deposits with Financial Institutions***

The Company may, during the course of operations, maintain cash deposits in excess of federally insured limits.

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**NOTE 9. CREDIT CONCENTRATIONS AND OFF-BALANCE-SHEET RISK**  
**(Continued)**

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*Other Risk Concentrations*

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

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**CONSOLIDATED SUPPLEMENTARY INFORMATION**

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**FMS BONDS, INC. AND SUBSIDIARY**  
**CONSOLIDATED SCHEDULE OF EXPENSES**  
**YEAR ENDED JUNE 30, 2005**

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Advertising and promotion	\$ 1,100,080
Automobile and travel	258,489
Contributions	274,176
Clearing charges	727,724
Computer	451,381
Depreciation and amortization	187,007
Dues and subscriptions	209,175
Employee benefits	629,445
Employees' salaries and commissions	15,990,788
Entertainment	256,908
Equipment rental	208,224
Insurance	1,286,310
Interest	1,250,877
Licenses, taxes and registration	188,301
Office	648,127
Payroll taxes	687,573
Professional fees	292,852
Rent	502,444
Repairs and maintenance	118,966
Telephone and communication	215,841
Utilities	48,556
	<hr/>
	\$ 25,533,244

See independent auditors' report.

**FMS BONDS, INC. AND SUBSIDIARY**

CONSOLIDATED COMPUTATION OF NET CAPITAL PER UNIFORM NET  
CAPITAL RULE 15c3-1 AND RECONCILIATION TO COMPANY'S  
CORRESPONDING UNAUDITED FORM X-17A-5, PART II FILING  
JUNE 30, 2005

**CREDITS**

Stockholders' equity	\$	9,055,786
Subordinated liabilities		6,350,000
<b>Total credits</b>		<b>15,405,786</b>

**DEBITS**

Bond redemptions receivable		1,923
Property and equipment		503,653
Other assets		575,686
Customers' unsecured accounts		1,910
Haircut on aged failed to deliver		4,108
Commissions receivable		40,705
<b>Total debits</b>		<b>1,127,985</b>

**NET CAPITAL BEFORE HAIRCUTS ON SECURITY POSITIONS** 14,277,801

**HAIRCUTS ON SECURITY POSITIONS** 7,662,561

**NET CAPITAL** 6,615,240

**MINIMUM NET CAPITAL REQUIREMENT - GREATER OF \$250,000 OR 6 2/3% OF  
AGGREGATE INDEBTEDNESS OF \$5,638,516** 376,089

**EXCESS NET CAPITAL** \$ 6,239,151

**RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL** 0.85 to 1

**SCHEDULE OF AGGREGATE INDEBTEDNESS**

Collateral loan payable	\$	81,385
Payable to brokers and dealers		19,398
Payable to customers		331,929
Accounts payable and accrued liabilities		4,093,747
Stockholder distributions payable		1,112,057
<b>Total aggregate indebtedness</b>	<b>\$</b>	<b>5,638,516</b>

**RECONCILIATION WITH COMPANY'S COMPUTATION IN PART IIA OF  
FORM X-17A-5 AS OF JUNE 30, 2005**

Net capital as reported in Company's Part IIA (unaudited) Focus report	\$	6,500,988
Net audit adjustments (primarily arising from trade date adjustment)		114,252
<b>Net capital per above</b>	<b>\$</b>	<b>6,615,240</b>

See independent auditors' report.

**FMS BONDS, INC. AND SUBSIDIARY**

CONSOLIDATED COMPUTATION FOR DETERMINATION OF RESERVE  
REQUIREMENTS PURSUANT TO RULE 15C3-3 AND RECONCILIATION TO  
COMPANY'S CORRESPONDING UNAUDITED FORM X-17A-5, PART II FILING  
JUNE 30, 2005

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**CREDIT BALANCES**

Free credit balances and other credit balances in customers' securities accounts	\$	331,929
Monies borrowed, collateralized by securities carried for the account of customers		81,385
Customers' securities failed to receive		-
Credit balances in firm accounts which are attributable to principal sales to customers		391,172
<b>Total credits</b>		<b>804,486</b>

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**DEBIT BALANCES**

Debit balances in customers' cash and margin accounts, excluding unsecured accounts and accounts doubtful of collection		3,296,445
<b>Excess of total debits over total credits</b>	<b>\$</b>	<b>2,491,959</b>

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**RESERVE COMPUTATION**

Reserve requirement	\$	-
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As of July 1, 2005 (the first business day after June 30, 2005) the Company had \$7,131 in a special reserve bank account segregated for the exclusive benefit of customers.

**RECONCILIATION TO THE COMPANY'S COMPUTATION  
(INCLUDED IN PART II OF FORM UNAUDITED X-17a-5 AS OF JUNE 30, 2005)**

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The reconciliation to the Company's computation included in Part II of the Unaudited Form X-17A-5 as of June 30, 2005 is not considered necessary, as the difference from the audited computation is not material.

See independent auditors' report.

**FMS BONDS, INC. AND SUBSIDIARY**  
INFORMATION RELATING TO POSSESSION OR CONTROL  
REQUIREMENTS UNDER RULE 15c3-3  
JUNE 30, 2005

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There are no 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 the report date but for which the required action was not taken by respondent within the time frames specified under rule 15c3-3).

There are no customers' fully paid securities and excess margin securities for which instructions to reduce to 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.

See independent auditors' report.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
REQUIRED BY SEC RULE 17a-5**

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To the Stockholders  
FMS Bonds, Inc.  
North Miami Beach, Florida

In planning and performing our audit of the consolidated financial statements of FMS Bonds, Inc. and Subsidiary (the Company) for the year ended June 30, 2005, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3-3(e)
2. Making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System
4. 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 and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles in the United States of America. Rule 17a-5(g) list additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at June 30, 2005, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, NASD and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*Kaufman, Rossin & Co.*

Miami, Florida  
August 12, 2005