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

OMB APPROVAL
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hours per response..... 12.00

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

U.S. MAIL RECEIVED
APR 21 2003
WASHINGTON, D.C. 20549
SEC. DIV.

SEC FILE NUMBER
8- 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 01/01/02 AND ENDING 12/31/02
MM/DD/YY MM/DD/YY

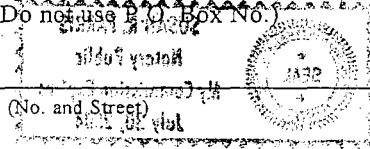
A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Ceros Broker Service, Inc.

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

17 Monsignor O' Brien Highway



OFFICIAL USE ONLY
37869
FIRM I.D. NO.

E. Cambridge

(City)

MA

(State)

02141

(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

(Address)

Westwood

(City)

MA

(State)

02090

(Zip Code)

CHECK ONE:

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

PROCESSED

APR 28 2003

THOMSON
FINANCIAL

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

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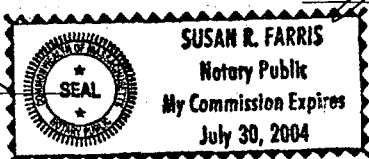
OATH OR AFFIRMATION

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, 2002, 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

President
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).

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

Form
 X-17A-5

APR 21 2003
 SECTION 187

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

NAME OF BROKER-DEALER

SEC FILE NO.

Ceros Broker Service, Inc. 13

8-47955 14

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

FIRM I.D. NO.

17 Monsignor O'Brien Highway 20

37869 15

(No. and Street)

FOR PERIOD BEGINNING (MM/DD/YY)

E. Cambridge 21 MA 22 02141 23

01/01/02 24

(City)

(State)

(Zip Code)

AND ENDING (MM/DD/YY)

12/31/02 25

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 27 day of March 20 03

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. 78f(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

71

Westwood

72

MA

73

02090

74

Number and Street

City

State

Zip Code

CHECK ONE

Certified Public Accountant

75

FOR SEC USE

Public Accountant

76

Accountant not resident in United States
or any of its possessions

77

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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.

as of 12/31/02

STATEMENT OF FINANCIAL CONDITION

		ASSETS		
		<u>Allowable</u>	<u>Non-Allowable</u>	<u>Total</u>
E.	Stocks and warrants	\$ 410		
F.	Options	420		
G.	Arbitrage	422		
H.	Other securities	1 424		
I.	Sport commodities	430		\$ 1 850
8.	Securities owned not readily marketable:			
A.	At Cost \$ 130	440	\$ 610	0 860
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	0 880
11.	Secured demand notes - market value of collateral:			
A.	Exempted securities .. \$ 170			
B.	Other \$ 180	470	640	0 890
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	0 900
13.	Investment in and receivables from affiliates, subsidiaries and associated partnerships	480	670	0 910
14.	Property, furniture, equipment, leasehold improvements and rights under lease agreements: At cost (net of accumulated depreciation and amortization)	490	3,903 680	3,903 920
15.	Other Assets:			
A.	Dividends and interest receivable	500	690	
B.	Free shipments	510	700	
C.	Loans and advances	520	710	
D.	Miscellaneous	530	1,400 720	1,400 930
16.	TOTAL ASSETS	\$ 54,947 540	\$ 69,235 740	\$ 124,182 940

OMIT PENNIES

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

PART II

BROKER OR DEALER

Ceros Broker Service, Inc.

as of 12/31/02

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	\$ 0 1460
B. Other	1040	1250	0 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	0 1490
2. Other	1060	1280	0 1500
B. Securities loaned:			
1. Includable in "Formula for Reserve Requirements"	1070		0 1510
2. Other	1080	1290	0 1520
C. Omnibus accounts:			
1. Includable in "Formula for Reserve Requirements"	1090		0 1530
2. Other	1095	1300	0 1540
D. Clearing organizations:			
1. Includable in "Formula for Reserve Requirements"	1100		0 1550
2. Other	1105	1310	0 1560
E. Other:	1110	1320	0 1570
20. Payable to customers:			
A. Securities accounts-including free credits of\$ 950	1120		0 1580
B. Commodities accounts	1130	1330	0 1590
21. Payable to non customers:			
A. Securities accounts	1140	1340	0 1600
B. Commodities accounts	1150	1350	0 1610
22. Securities sold not yet purchased at market value-including arbitrage of \$ 960		1360	0 1620
23. Accounts payable and accrued liabilities and expenses:			
A. Drafts payable	1160		0 1630
B. Accounts payable	13,148	1170	13,148 1640
C. Income taxes payable	266	1180	266 1650
D. Deferred income taxes		0 1370	0 1660
E. Accrued expenses and other liabilities	1190		0 1670
F. Other	1200	1380	0 1680

OMIT PENNIES

*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 12/31/02

STATEMENT OF FINANCIAL CONDITION

LIABILITIES AND OWNERSHIP EQUITY (continued)

<u>Liabilities</u>	A.I. <u>Liabilities*</u>	Non-A.I. <u>Liabilities*</u>	<u>Total</u>
24. Notes and mortgages payable:			
A. Unsecured	\$ 1210		\$ 0 1690
B. Secured	1211	1390	0 1700
25. Liabilities subordinated to claims of general creditors:			
A. Cash borrowings:			
1. from outsiders ²⁴ \$ 970		1400	0 1710
2. Includes equity subordination (15c3-1(d)) of \$ 980			
B. Securities borrowings, at market value from outsiders \$ 990		1410	0 1720
C. Pursuant to secured demand note collateral agreements:			
1. from outsiders \$ 1000		1420	0 1730
2. Includes equity subordination (15c3-1(d)) of \$ 1010			
D. Exchange memberships contributed for use of company, at market value		1430	0 1740
E. Accounts and other borrowings not qualified for net capital purposes	1220	1440	0 1750
26. TOTAL LIABILITIES	\$ 13,414 1230	\$ 0 1450	\$ 13,414 1760
Ownership Equity			
27. Sole Proprietorship			\$ 1770
28. Partnership-limited partners	\$ 1020		\$ 1780
29. Corporation:			
A. Preferred stock			1791
B. Common stock			150,000 1792
C. Additional paid-in capital			1793
D. Retained earnings			(39,232) 1794
E. Total			110,768 1795
F. Less capital stock in treasury			1796
30. TOTAL OWNERSHIP EQUITY			\$ 110,768 1800
31. TOTAL LIABILITIES AND OWNERSHIP EQUITY			\$ 124,182 1810

OMIT PENNIES

*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 12/31/02

COMPUTATION OF NET CAPITAL

1. Total ownership equity from Statement of Financial Condition - Item 1800	\$	110,768	3480
2. Deduct Ownership equity not allowable for Net Capital		(3490
3. Total ownership equity qualified for Net Capital		110,768	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)	\$	0	3525
5. Total capital and allowable subordinated liabilities	\$	110,768	3530
6. Deductions and/or charges:			
A. Total nonallowable assets from			
Statement of Financial Condition (Notes B and C)	\$	69,235	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	
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		(69,235)	3620
7. Other additions and/or allowable credits (List)		0	3630
8. Net capital before haircuts on securities positions	\$	41,533	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	520	3734
D. Undue Concentration			3650
E. Other (List)			3736
		(520)	3740
10. Net Capital	\$	41,013	3750

OMIT PENNIES

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

PART II

BROKER OR DEALER

Ceros Broker Service, Inc.

as of 12/31/02

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A

11. Minimum net capital required (6 2/3% of line 19)	\$	894	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)	\$	30,000	3758
13. Net capital requirement (greater of line 11 or 12)	\$	30,000	3760
14. Excess net capital (line 10 less 13)	\$	11,013	3770
15. Excess net capital at 1000% (line 10 less 10% of line 19)	\$	39,672	3780

COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.I. liabilities from Statement of Financial Condition	\$	13,414	3790
17. Add:			
A. Drafts for immediate credit	\$	3800	
B. Market value of securities borrowed for which no equivalent value is paid or credited	\$	3810	
C. Other unrecorded amounts (List)	\$	0	3820
18. Deduct: Adjustment based on deposits in Special Reserve Bank Accounts (15c3-1(c)(1)(vii))	\$	0	3830
19. Total aggregate indebtedness	\$	13,414	3840
20. Percentage of aggregate indebtedness to net capital (line 19 ÷ by line 10)	%	32.71%	3850
21. Percentage of aggregate indebtedness to net capital <u>after</u> anticipated capital withdrawals (line 19 ÷ by line 10 less item 4880 page 25)	%	32.71%	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	\$	3870	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	3880
24. Net capital requirement (greater of line 22 or 23)	\$	3760	3760
25. Excess net capital (line 10 less 24)	\$	3910	3910
26. Percentage of Net Capital to Aggregate Debits (line 10 ÷ by line 17 page 8)	%	3851	3851
27. Percentage of Net Capital, <u>after</u> anticipated capital withdrawals, to Aggregate Debits (line 10 less item 4880 page 11 ÷ by line 17 page 8)	%	3854	3854
28. Net capital in excess of the greater of:			
A. 5% of combines aggregate debit items or \$120,000	\$	3920	3920

OTHER RATIOS

Part C

29. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)	%	3860	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	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 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	For the period (MMDDYY) from <u>1/1/02</u> to <u>12/31/02</u>	3932
Ceros Broker Service, Inc.	Number of months included in this statement	12
		3931

STATEMENT OF INCOME (LOSS)

REVENUE

1.	Commissions:		
	a. Commissions on transactions in listed equity securities executed on an exchange	\$ 77,445	3935
	b. Commissions on transactions in exchange listed equity securities executed over-the-counter		3937
	c. Commissions on listed option transactions	53,723	3938
	d. All other securities commissions	57,141	3939
	e. Total securities commissions	188,309	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	3,794	3975
8.	Revenue from research services		3980
9.	Commodities revenue		3990
10.	Other revenue related to securities business		3985
11.	Other revenue	5,483	3995
12.	Total revenue	\$ 197,586	4030

EXPENSES

13.	Registered representative's compensation		
	14. Clerical and administrative employees' expenses		4110
	15. Salaries and other employment costs for general partners, and voting stockholder officers	10,880	4040
	a. Includes interest credited to General and Limited Partners capital accounts	4130	
	16. Floor brokerage paid to certain brokers (see definition)		4120
	17. Commissions and clearance paid to all other brokers (see definition)	99,212	4055
	18. Clearance paid to non-brokers (see definition)		4145
	19. Communications		4135
	20. Occupancy and equipment costs		4060
	21. Promotional costs		4080
	22. Interest expense		4150
	a. Includes interest on accounts subject to subordination agreements	4070	4075
	23. Losses in error account and bad debts		0
	24. Data processing costs (including service bureau service charges)		4170
	25. Non-recurring charges		4186
	26. Regulatory fees and expenses	2,951	4190
	27. Other expenses	74,821	4195
	28. Total expenses	\$ 187,864	4100

NET INCOME

29.	Income (loss) before Federal income taxes and items below (Item 12 less Item 28)		
	30. Provision for Federal income taxes (for parent only)	9,722	4210
	31. Equity in earnings (losses) of unconsolidated subsidiaries not included above		4220
	a. After Federal income taxes of	4238	4222
	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	\$ 9,722	4230

MONTHLY INCOME

35.	Income (current month only) before provision for Federal income taxes and extraordinary items		
			4211

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

PART II

BROKER OR DEALER

Ceros Broker Service, Inc.

as of 12/31/02

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				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)			0	4425
11. TOTAL CREDITS				\$ 0 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	44	\$		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)			0	4469
17. **Aggregate debit items				\$ 0 4470
18. **Less 3% (for alternative method only—see Rule 15c3-1(f)(5)(i))				4471
19. **TOTAL 14c3-3 DEBITS				\$ 0 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 \$ 4515 value of qualified securities				4520
25. New amount in Reserve Bank Account(s) after adding deposit or subtracting withdrawal including \$ 4525 value of qualified securities				\$ 0 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 PART II

BROKER OR DEALER	Ceros Broker Service, Inc.	as of <u>12/31/02</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 such 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 fully disclosed basis. Name of clearing firm ⁵¹ <u>SEC 17574</u>	4335	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 the report date) but for which the required action was not taken by respondent within the time frame specified under Rule 15c3-3, 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	53	4589
OMIT PENNIES		
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 with 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 12/31/02

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 12/31/02

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*	

OMIT PENNIES

* 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 12/31/02

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	\$	101,046	4240
A. Net income (loss)		9,722	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)	\$	110,768	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

OMIT PENNIES

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

PART II

BROKER OR DEALER

Ceros Broker Service, Inc.

as of 12/31/02

FINANCIAL AND OPERATIONAL DATA

	<u>Valuation</u>	<u>Number</u>
1. Month end total number of stock record breaks unresolved over three business days:		
A. breaks long	\$ 4890	4900
B. breaks short	\$ 4910	4920
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"/> 4930	No <input type="checkbox"/> 4940
3. Personnel employed at end of reporting period:		
A. Income producing personnel		4950
B. Non-income producing personnel (all other)		4960
C. Total		4970
4. Actual number of tickets executed during current month of reporting period		4980
5. Number of corrected customer confirmations mailed after settlement date		4990

	<u>No. of Items</u>	<u>Debit (Short Value)</u>	<u>No. of Items</u>	<u>Credit (Long Value)</u>
6. Money differences	5000	\$ 5010	5020	\$ 5030
7. Security suspense accounts	5040	\$ 5050	5060	\$ 5070
8. Security difference accounts	5080	\$ 5090	5100	\$ 5110
9. Commodity suspense accounts	5120	\$ 5130	5140	\$ 5150
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	5160	\$ 5170	5180	\$ 5190
11. Bank account reconciliations — unresolved amounts over 30 calendar days	5200	\$ 5210	5220	\$ 5230
12. Open transfers over 40 calendar days, not confirmed	5240	\$ 5250	5260	\$ 5270
13. Transactions in reorganization accounts — over 60 calendar days	5280	\$ 5290	5300	\$ 5310
14. Total	5320	\$ 5330	5340	\$ 5350

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

OMIT PENNIES



2002

CEROS BROKER SERVICE, INC.

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

DECEMBER 31, 2002

CEROS BROKER SERVICE, INC.

AUDITED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

DECEMBER 31, 2002

AUDITED FINANCIAL STATEMENTS

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CERTIFIED PUBLIC ACCOUNTANTS
THE NEXT GENERATION IN ACCOUNTING

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, 2002 and 2001, 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, 2002 and 2001 and the results of its operations and its cash flows for the years ended December 31, 2002 and 2001 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 14, 2003

LIABILITIES AND STOCKHOLDER'S EQUITY

	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
CURRENT LIABILITIES		
Accounts payable	\$ 13,148	\$ 12,007
Other payables	266	456
Accrued expenses	<u>0</u>	<u>11,023</u>
TOTAL CURRENT LIABILITIES	<u>13,414</u>	<u>23,486</u>
STOCKHOLDER'S EQUITY		
Common stock, Class A, voting, \$1.00 par value	150,000	150,000
Accumulated deficit	<u>(39,232)</u>	<u>(48,954)</u>
TOTAL STOCKHOLDER'S EQUITY	<u>110,768</u>	<u>101,046</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 124,182</u>	<u>\$ 124,532</u>

CEROS BROKER SERVICE, INC.

STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

	<u>Year Ended December 31,</u>	
	<u>2002</u>	<u>2001</u>
INCOME		
Commissions and service revenues	\$ 188,309	\$ 217,017
Net realized and unrealized gain (loss) from investment activities	(709)	361
Interest income	6,192	2,126
Management fees	<u>3,794</u>	<u>24,837</u>
TOTAL INCOME	<u>197,586</u>	<u>244,341</u>
OPERATING EXPENSES		
General and administrative expenses	186,465	238,498
Depreciation	<u>1,399</u>	<u>1,406</u>
TOTAL OPERATING EXPENSES	<u>187,864</u>	<u>239,904</u>
NET INCOME	9,722	4,437
ACCUMULATED DEFICIT AT BEGINNING OF YEAR	<u>(48,954)</u>	<u>(53,391)</u>
ACCUMULATED DEFICIT AT END OF YEAR	<u>\$ (39,232)</u>	<u>\$ (48,954)</u>

CONSOLIDATED STATEMENTS OF OPERATIONS

CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended December 31,
2002 2001

**RECONCILIATION OF NET INCOME TO NET CASH
(USED) BY OPERATING ACTIVITIES:**

Net income	\$ 9,722	\$ 4,437
Adjustments to reconcile net income to net cash (used) by operating activities:		
Depreciation	1,399	1,406
Net realized and unrealized (gain) loss	709	(361)
(Increase) decrease in assets:		
Commissions receivable	3,432	(57,131)
Prepaid expenses	894	(394)
Due from affiliate	(11,267)	(34,196)
Employee advances	(2,000)	0
Increase (decrease) in liabilities:		
Accounts payable	1,141	(681)
Accrued expenses	(11,023)	5,306
Due to broker	0	(33,280)
Other payables	(190)	0
TOTAL ADJUSTMENTS	<u>(16,905)</u>	<u>(5,069)</u>
NET CASH (USED) BY OPERATING ACTIVITIES	<u>\$ (7,183)</u>	<u>\$ (632)</u>

CEROS BROKER SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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, the National Futures Association and is registered with various state securities commissions.

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.

Concentrations of Credit Risk - Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of commissions receivable.

The Company performs a significant amount of services for one major customer, related to the officer of the Company. Approximately 70% of the Company's revenues for 2002 and 2001 were derived from this customer.

Concentrations of credit risk with respect to commissions receivable are limited due to the large number of customers comprising the Company's customer base. As of December 31, 2002 and 2001, the Company had no significant concentrations of credit risk.

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.

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, 2002

NOTE 2 - PROPERTY AND EQUIPMENT

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

	<u>2002</u>	<u>2001</u>	<u>Estimated Useful Lives</u>
Property and equipment	\$ 11,918	\$ 11,918	5 - 7 Years
Less accumulated depreciation	<u>8,015</u>	<u>6,616</u>	
	<u>\$ 3,903</u>	<u>\$ 5,302</u>	

Depreciation expense was \$1,399 and \$1,406 for the years ended December 31, 2002 and 2001, respectively.

NOTE 3 - DEPOSITS WITH CLEARING ORGANIZATIONS

Deposits with clearing organizations are shown on the December 31st statements of financial condition at market value as follows:

	<u>2002</u>	<u>2001</u>
Aggregate cost	\$ 25,646	\$ 59,331
Gross unrealized gain (loss)	<u>(709)</u>	<u>361</u>
Market value	<u>\$ 24,937</u>	<u>\$ 59,692</u>
Net unrealized gain (loss) recorded as income	<u>\$ (709)</u>	<u>\$ 361</u>

As of December 31, 2001, the client discontinued doing business with one of its clearing organizations.

CEROS BROKER SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 4 - INCOME TAXES

In 2002 and 2001, current federal and state income taxes have been offset by the use of net operating loss carryforwards; therefore, the Company did not set up a provision for income taxes. As of December 31, 2002, the Company has approximately \$49,000 of net operating loss carryforwards available to offset future taxable income.

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

	<u>2002</u>		<u>2001</u>	
	<u>Current</u>	<u>Noncurrent</u>	<u>Current</u>	<u>Noncurrent</u>
Deferred tax asset	\$ 9,000	\$ 0	\$ 11,000	\$ 0
Deferred tax liability	0	0	0	0
Valuation allowance	<u>(9,000)</u>	<u>0</u>	<u>(11,000)</u>	<u>0</u>
Deferred tax asset (liability), net	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</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.

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 \$40,340 and \$42,041 at December 31, 2002 and 2001, respectively. The minimum net capital requirement is \$30,000.

Pursuant to the net capital provisions of the National Futures Association, the Company is required to maintain a deferred net capital requirement of \$30,000. At December 31, 2001 the Company had net capital, as defined, of \$42,175. During 2002, the client did not renew their membership with the National Futures Association.

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."

CEROS BROKER SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 6 - RELATED PARTY TRANSACTIONS

The Company is affiliated with other companies in the same line of business. Per a written agreement, a foreign corporation with the same ownership refers customers who purchase securities through the Company. A significant portion (49%) of the commissions earned on these transactions are passed through to the foreign affiliate. This affiliate is also reimbursing the Company for certain operational costs.

Total commissions passed through the affiliate, net of reimbursed costs, totaled \$99,212 and \$106,492 for the years ended December 31, 2002 and 2001, respectively. As of December 31, 2002 and 2001 net commissions receivable from the foreign affiliate, reduced by reimbursements of operating expenses, were \$61,932 and \$50,665, respectively. The Company charged interest on such outstanding balances. Interest income totaled \$5,057 and \$524 for 2002 and 2001, respectively.

The Company received management fees of \$3,794 and \$24,837 from an affiliate in 2002 and 2001, respectively. The management fees relate to administrative charges to the related party.

Approximately 70% of the Company's commissions are earned from entities that are related to an officer of the Company.

NOTE 7 - SECURITIES

Deposits with clearing organizations include investments in United States Government Securities. These securities are classified as held-to-maturity securities and recorded at amortized cost, adjusted for premiums and discounts that are recognized in unrealized gains and losses.

NOTE 8 - CAPITAL STRUCTURE

As of December 31, 2002 and 2001, the Company had 200,000 shares of Class A voting, \$1 par value common stock authorized, and 150,000 shares issued and outstanding.

OTHER FINANCIAL INFORMATION



CERTIFIED PUBLIC ACCOUNTANTS
THE NEXT GENERATION IN ACCOUNTING

INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

Board of Directors

Ceros Broker Service, Inc.

Our audits for the years ended December 31, 2002 and 2001 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 14, 2003

CEROS BROKER SERVICE, INC.

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

	<u>Year Ended December 31,</u>	
	<u>2002</u>	<u>2001</u>
Officer's salary	\$ 10,880	\$ 48,960
Miscellaneous	(11,123)	0
Commissions expense	99,212	106,492
Clearing charges	43,876	46,439
Professional fees	24,140	20,911
Office	5,195	3,099
Insurance	4,777	3,804
Payroll and other taxes	4,092	4,164
Dues and registrations	2,951	2,864
Telephone	2,427	1,525
Travel and entertainment	<u>38</u>	<u>240</u>
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 186,465</u>	<u>\$ 238,498</u>



CERTIFIED PUBLIC ACCOUNTANTS
THE NEXT GENERATION IN ACCOUNTING

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, 2002 and 2001, 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, 2002 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 14, 2003

CEROS BROKER SERVICE, INC.

DECEMBER 31, 2002

CEROS BROKER SERVICE, INC.

REGULATORY REPORTS

DECEMBER 31, 2002

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- C. Audited Financial Statements and Other Financial Information
- D. Report on Internal Control Structure



CERTIFIED PUBLIC ACCOUNTANTS
THE NEXT GENERATION IN ACCOUNTING

Securities and Exchange Commission
73 Tremont Street - Suite 600
Boston, MA 02108-3912

We have audited the Focus Report of **Ceros Broker Service, Inc.** as of December 31, 2002. The audit was made in accordance with auditing standards generally accepted in the United States of America and, accordingly, includes a review of the system of internal control, the procedures employed for safeguarding securities, the practices and procedures employed in complying with rule 17a-13 and in the resolution of securities differences, and such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including the auditing procedures prescribed by the Securities and Exchange Commission. There were no material differences with respect to the computation of Net Capital under SEC Rule 15c3-1, and the computation of Determination of the Reserve Requirements under Exhibit A of Rule 15c3-3. We found no inadequacies in our audit of the above mentioned procedures and systems.

In our opinion, the Focus Report, with all supporting statements and schedules, present fairly the financial position of **Ceros Broker Service, Inc.** at December 31, 2002 in the form prescribed by the Securities and Exchange Commission, in conformity with accounting principles generally accepted in the United States of America applied on a basis consistent with that of the preceding year.

Gray, Gray & Gray, LLP
GRAY, GRAY & GRAY, LLP

March 14, 2003