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

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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 01/01/2004 AND ENDING 12/31/2004
mm/dd/yy mm/dd/yy

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

STOCKTON SECURITIES, INC.

OFFICIAL USE ONLY

FIRM ID. NO

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

1255 POST STREET #405

(No and Street)

SAN FRANCISCO

(City)

CALIFORNIA

(State)

94109

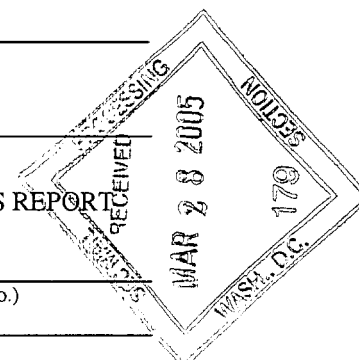
(Zip Code)

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

MICHAEL S. BLUM

(415) 614-9755

(Area Code - Telephone No.)



B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose option is contained in this Report*

Ernst Wintter & Associates, Certified Public Accountants

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

675 Ygnacio Valley Road, Suite B-213,

(Address)

Walnut Creek,

(City)

California

(State)

94596

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant nor resident in United State or any of its possession.

PROCESSED

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THOMSON FINANCIAL

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*Claims for exemption from the requirement that the annual report be covered by the option 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, **MICHAEL S. BLUM**, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of **STOCKTON SECURITIES, INC.** as of **DECEMBER 31, 2004**, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

NONE

Signature

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 Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirement 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.
- (o) Independent Auditor's Report on Internal Accounting Control.

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

Stockton Securities, Inc.

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675 Ygnacio Valley Road, Suite B-213
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Independent Auditor's Report

Board of Directors
Stockton Securities, Inc.
San Francisco, California

We have audited the accompanying statement of financial condition of Stockton Securities, Inc. as of December 31, 2004, and the related statements of income, changes in stockholders' equity, and cash flows for year ended December 31, 2004 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 Stockton Securities, Inc. at December 31, 2004, and the results of their operations and their cash flows for the period 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 financial statements taken as a whole. The information contained in Schedules I 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 under 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.

 + Associates

March 4, 2005

Stockton Securities, Inc.

Statement of Financial Condition

December 31, 2004

Assets

Cash and cash equivalents	\$ 74,293
Deposit at clearing organization	25,000
Due from shareholders	233
Prepaid expenses and other assets	1,291
Furniture and equipment, net of \$760 accumulated depreciation	<u>3,187</u>
Total assets	<u>\$ 104,004</u>

Liabilities and Stockholders' Equity

Accounts payable and accrued expenses	\$ 350
Due to clearing organization	<u>244</u>
Total liabilities	594

Stockholders' equity

Common stock (50,000,000 shares of no par value authorized; 25,000 shares issued and outstanding)	\$ 25,000
Additional paid-in capital	81,864
Retained earnings (deficit)	<u>(3,454)</u>
Total stockholders' equity	<u>103,410</u>
Total liabilities and stockholders' equity	<u>\$ 104,004</u>

See independent auditor's report and accompanying notes.

Stockton Securities, Inc.

Statement of Income

For the Year Ended December 31, 2004

Revenue	
Consulting income	\$ 52,501
Interest income	<u>247</u>
Total revenue	52,748
Expenses	
Professional fees	6,765
Consulting fees	5,000
Rent	4,993
Compensation	1,300
Depreciation	760
Other operating expenses	<u>17,995</u>
Total expenses	36,813
Income before income taxes	<u>15,935</u>
Income tax provision	<u>800</u>
Net income	<u>\$ 15,135</u>

See independent auditor's report and accompanying notes.

Stockton Securiess, Inc.

Statement of Changes in Stockholders' Equity

For the Year Ended December 31, 2004

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings (Deficit)</u>	<u>Stockholders' Equity</u>
December 31, 2003	\$ 25,000	\$ 6,864	\$ (18,589)	\$ 13,275
Capital contributions		75,000		75,000
Net income			15,135	15,135
December 31, 2004	<u>\$ 25,000</u>	<u>\$ 81,864</u>	<u>\$ (3,454)</u>	<u>\$ 103,410</u>

See independent auditor's report and accompanying notes.

Stockton Securities, Inc.

Statement of Cash Flows

For the Year Ended December 31, 2004

Net income	\$ 15,135
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation	760
(Increase) decrease in:	
Deposit at clearing organization	(25,000)
Prepaid expenses and other assets	(664)
Increase (decrease) in:	
Accounts payable and accrued expenses	350
Due to clearing organization	<u>244</u>
Net cash provided (used) by operating activities	(9,175)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of equipment	(3,946)
CASH FLOWS FROM FINANCING ACTIVITIES	
Capital contribution	75,000
Net increase (decrease) in cash and cash equivalents	<u>61,879</u>
Cash and cash equivalents, beginning of year	<u>12,414</u>
Cash and cash equivalents, end of year	<u>\$ 74,293</u>
SUPPLEMENTAL DISCLOSURES	
Taxes paid	<u>\$ 800</u>

See independent auditor's report and accompanying notes.

Stockton Securities, Inc.

Notes to the Financial Statements

December 31, 2004

(1) Organization

Stockton Securities, Inc. (the Company), was founded in June 2002. The Company was accepted as a member of the National Association of Securities Dealers, Inc. (NASD) effective January 16, 2003. The purpose of the Company is to act as a broker dealer engaging in general securities activities.

(2) Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company has defined cash equivalents as highly liquid investments with original maturities of three months or less that are not held for sale in the ordinary course of business.

Fair Value of Financial Instruments

Unless otherwise indicated, the fair values of all reported assets and liabilities which represent financial instruments (none of which are held for trading purposes) approximate the carrying values of such amounts.

Income Taxes

The Company, with the consent of its shareholders, has elected under the Internal Revenue Code to be treated as an S corporation. In lieu of corporate income taxes, the Company's income or loss is generally passed through to the shareholders' federal and state individual income tax returns. However, the Company is liable for California Franchise tax on S corporations.

Deferred income taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Furniture and Equipment

Furniture and equipment are valued at cost. Depreciation is being provided by the use of the accelerated method over the estimated useful lives of the assets.

Stockton Securities, Inc.

Notes to the Financial Statements

December 31, 2004

(3) Exemption from Rule 15c3-3

The Company claims an exemption from Securities and Exchange Commission (SEC) Rule 15c3-3, based upon section (k)(2)(ii). All customer transactions are cleared through Pershing, LLC on a fully disclosed basis or otherwise processed in accordance with SEC Rule 15c3-1(a)(2).

(4) Net Capital Requirements

The Company is subject to the Securities and Exchange Commission's uniform net capital (Rule 15c3-1) which requires the Company to maintain minimum net capital equal to or greater than \$5,000 and a ratio of aggregate indebtedness to net capital not exceeding 15 to 1, both as defined. At December 31, 2004, the Company's net capital was \$98,699, which exceeded the requirement by \$93,699.

(5) Income Taxes

Income tax expense consists of the 2004 California minimum franchise tax of \$800. Deferred taxes were not significant at December 31, 2004.

(6) Lease

The Company entered into a lease for office space in San Francisco, California. The one year lease commenced on May 1, 2004 and ends on April 30, 2005.

(7) Related Party

At December 31, 2004, one shareholder owed the Company \$233 for cash advances.

(8) Risk Concentration

Consulting revenue was generated from one client during the year ended December 31, 2004.

SUPPLEMENTAL INFORMATION

Stockton Securities, Inc.

Schedule I

Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission

As of December 31, 2004

Net Capital:		
Total stockholders' equity qualified for net capital		\$ 103,410
Less: Non-allowable assets		
Due from shareholder	\$ 233	
Prepaid expenses and other assets	1,291	
Furniture and equipment (net)	<u>3,187</u>	
Total non-allowable assets		<u>4,711</u>
Net capital		\$ 98,699
Net minimum capital requirement of 6 2/3% of aggregate indebtedness of \$594 or \$5,000, whichever is greater		<u>5,000</u>
Excess net capital		<u><u>\$ 93,699</u></u>

**Reconciliation with Company's Net Capital Computation
(included in Part II of Form X-17A-5 as of December 31, 2004)**

Net capital as reported in Company's Part II of Form X-17A-5 as of December 31, 2004		\$ 98,943
Decrease in stockholders' equity		(1,516)
Decrease in non-allowable assets		<u>1,272</u>
Net capital per above computation		<u><u>\$ 98,699</u></u>

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Independent Auditor's Report on Internal
Accounting Control Required by SEC Rule 17a-5

Board of Directors
Stockton Securities, Inc.
San Francisco, California

In planning and performing our audit of the financial statements and supplemental schedules of Stockton Securities, Inc. (the Company), for the year ended December 31, 2004, 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 financial statements and not to provide assurance on 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 making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payments for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements 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. Rule 17a-5(g) lists 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, errors 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 the 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 the following matter involving the Company's internal control and its operation that we consider to be a material weakness as defined above. This condition was considered in determining the nature, timing, and extent of procedures to be performed in our audit of the financial statements of the Company for the period ended December 31, 2004, and this report does not affect our report thereon dated March 4, 2005.

The size of the business and the resultant limited number of employees impose practical limitations on the effectiveness of those internal control policies and procedures that depend on the segregation of duties. Because this condition is inherent in the size of the Company, the specific weaknesses are not described herein and no corrective action has been taken or proposed by the Company.

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 December 31, 2004, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission, the National Association of Securities Dealers 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.

A handwritten signature in cursive script, followed by the text "+ Associates". The signature appears to be "A. W. Smith".

March 4, 2005