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

SEC FILE NUMBER  
8-38647

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 3/1/04 AND ENDING 2/28/05  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: CUSO Equities, Inc.  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
3200 N. Central Ave., Suite 200  
(No. and Street)  
Phoenix Arizona 85012  
(City) (State) (Zip Code)

OFFICIAL USE ONLY  
FIRM I.D. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Michael Melby 602-252-0911  
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
Clifton Gunderson LLP  
(Name - if individual, state last, first, middle name)  
3003 N. Central Ave., Suite 500 Phoenix Arizona 85012  
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED  
JUN 17 2005  
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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)

CA  
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OATH OR AFFIRMATION

I, Michael Melby, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CUSO Equities, Inc. dba CUE, as of February 28, 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:

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



Notary Public State of Arizona  
Maricopa County  
Raye G Rose  
Expires September 02, 2008

[Signature]  
Signature

President

Title

Raye G. Rose  
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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**Clifton  
Gunderson LLP**

Certified Public Accountants & Consultants

## Independent Auditor's Report

Board of Directors  
CUSO Equities, Inc. dba CUE  
Phoenix, Arizona

We have audited the accompanying statement of financial condition of CUSO Equities, Inc. dba CUE as of February 28, 2005, and the related statements of income, changes in stockholders' equity 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 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 CUSO Equities, Inc. dba CUE as of February 28, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental 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 presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

*Clifton Gunderson LLP*

Phoenix, Arizona  
March 24, 2005

**CUSO EQUITIES, INC. dba CUE**  
**STATEMENT OF FINANCIAL CONDITION**  
**February 28, 2005**

**ASSETS**

Cash and cash equivalents	\$ 473,620
Investment securities	3,300
Commissions receivable, net	42,783
Prepaid expenses	<u>48,435</u>

**TOTAL ASSETS** \$ 568,138

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Accounts payable	\$ 5,956
Commissions payable	90,988
Income taxes payable	<u>10,177</u>

Total liabilities 107,121

**STOCKHOLDERS' EQUITY**

Common stock, no par value, 1,000,000 shares authorized and 100,000 shares issued, 95,750 shares outstanding	100,000
Additional paid-in capital	40,000
Retained earnings	395,605
Treasury stock, 4,250 shares, at cost	<u>(74,588)</u>

Total stockholders' equity 461,017

**TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** \$ 568,138

These financial statements should be read only in connection with  
the accompanying summary of significant accounting policies  
and notes to financial statements.

**CUSO EQUITIES, INC. dba CUE**  
**STATEMENT OF INCOME**  
**Year Ended February 28, 2005**

<b>REVENUE</b>	
Commissions	\$ 7,745,283
Investment income	4,447
Other income	<u>484</u>
Total revenue	<u>7,750,214</u>
<b>EXPENSES</b>	
Commissions and employee benefits	5,066,398
Office operations	<u>2,622,602</u>
Total expenses	<u>7,689,000</u>
Income from operations	61,214
<b>PROVISION FOR INCOME TAXES</b>	<u>31,611</u>
<b>NET INCOME</b>	<u>\$ 29,603</u>

These financial statements should be read only in connection with  
the accompanying summary of significant accounting policies  
and notes to financial statements.

**CUSO EQUITIES, INC. dba CUE**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**Year Ended February 28, 2005**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity</u>
<b>BALANCE, BEGINNING OF YEAR</b>	\$ 100,000	\$ 40,000	\$ 616,002	\$ (74,588)	\$ 681,414
<b>NET INCOME</b>	-	-	29,603	-	29,603
<b>DIVIDEND DISTRIBUTION</b>	<u>-</u>	<u>-</u>	<u>(250,000)</u>	<u>-</u>	<u>(250,000)</u>
<b>BALANCE, END OF YEAR</b>	<u>\$ 100,000</u>	<u>\$ 40,000</u>	<u>\$ 395,605</u>	<u>\$ (74,588)</u>	<u>\$ 461,017</u>

These financial statements should be read only in connection with  
the accompanying summary of significant accounting policies  
and notes to financial statements.

**CUSO EQUITIES, INC. dba CUE**  
**STATEMENT OF CASH FLOWS**  
**Year Ended February 28, 2005**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from sponsors	\$ 7,790,588
Cash paid to registered representatives	(5,149,439)
Cash paid for other expenses	(2,682,021)
Income taxes paid	(6,015)
Interest received	4,447
Collection of accounts receivable	<u>8,811</u>

Cash used in operating activities (33,629)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Dividend distribution	<u>(250,000)</u>
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**NET DECREASE IN CASH AND CASH EQUIVALENTS** (283,629)

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** 757,249

**CASH AND CASH EQUIVALENTS, END OF YEAR** \$ 473,620

**RECONCILIATION OF NET INCOME TO NET CASH USED IN OPERATING ACTIVITIES:**

Net income	\$ 29,603
Effects of changes in operating assets and liabilities:	
Commissions receivable	45,305
Accounts receivable	8,327
Prepaid expenses	(19,955)
Accounts payable	(39,464)
Commissions payable	(83,041)
Income taxes payable	<u>25,596</u>

**NET CASH USED IN OPERATING ACTIVITIES** \$ (33,629)

These financial statements should be read only in connection with  
the accompanying summary of significant accounting policies  
and notes to financial statements.



**CUSO EQUITIES, INC. dba CUE**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**February 28, 2005**

**ORGANIZATION**

CUSO Equities, Inc. dba CUE is wholly owned by CUE Financial Group, Inc., which is a wholly owned subsidiary of CUE Resources, Inc.

CUSO Equities, Inc. dba CUE is a broker-dealer whose business encompasses primarily the sale of publicly traded securities, mutual funds and variable annuities. The Company is licensed to do business in 33 states. On transactions involving publicly traded securities, the Company functions as the introducing broker and communicates trade orders for its customers through a correspondent broker. For the year ended February 28, 2005, commissions on mutual funds accounted for approximately 46%, stocks and bonds approximately 26%, and variable annuities approximately 28% of total commissions revenue.

**CASH AND CASH EQUIVALENTS**

For financial statement purposes, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

**INVESTMENTS**

Investments consist of warrants to purchase 300 shares of a stock. Neither the warrants nor the stock is presently marketable, nor are the stock and warrants listed on any stock exchange. The investment is reported at cost since fair market value cannot be determined.

**REVENUE RECOGNITION**

Commission income from publicly traded securities transactions is recorded on the trade date.

**TREASURY STOCK**

Treasury stock is accounted for at cost.

**INCOME TAXES**

CUSO Equities, Inc. dba CUE files consolidated tax returns with CUE Resources, Inc. and CUE Financial Group, Inc. Income taxes are allocated using the separate tax return liability method.

**USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS**

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

This information is an integral part of the accompanying financial statements.

**CUSO EQUITIES, INC. dba CUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**February 28, 2005**

**NOTE 1 – NET CAPITAL REQUIREMENTS**

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities and Exchange Commission, the Company is required to maintain minimum net capital, as defined under such provisions. Net capital and the related net capital ratio may fluctuate on a daily basis.

At February 28, 2005, the Company had net capital of \$408,610, which was in excess of its required net capital of \$100,000. (See Note 5.)

**NOTE 2 – RELATED PARTY TRANSACTIONS**

The Company reimburses CUE Financial Group, Inc. for office operation expenses, commissions and executive compensation incurred on its behalf. For the year ended February 28, 2005, the Company reimbursed CUE Financial Group, Inc. \$2,480,400 for these expenses.

**NOTE 3 – COMMISSIONS RECEIVABLE**

Commissions receivable consist of amounts owed by various brokers. Management has established an allowance for probable uncollectible amounts of \$36,083.

**NOTE 4 – NET CAPITAL**

Net capital is computed as follows:

Stockholders' equity, total capital		\$ 461,017
Deduct non-allowable assets:		
Prepaid expenses	\$ 48,435	
Commissions receivable	672	
Securities not readily marketable	<u>3,300</u>	
		<u>52,407</u>
Net capital		408,610
Minimum dollar net capital requirement		<u>100,000</u>
<b>Excess net capital</b>		<b><u>\$ 308,610</u></b>

**NOTE 5 – INVESTMENT INCOME**

Money market dividends		<u>\$ 4,447</u>
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**CUSO EQUITIES, INC. dba CUE**  
**NOTES TO FINANCIAL STATEMENTS**  
**February 28, 2005**

**NOTE 6 – INCOME TAXES**

Income taxes payable consists of the following components:

Current:	
Federal	\$ 7,789
State	<u>2,388</u>
<b>Total income taxes payable</b>	<b><u>\$ 10,177</u></b>

The provision for income taxes consists of the following components:

Current:	
Federal	\$ 24,340
State	<u>7,271</u>
<b>Total provision for income taxes</b>	<b><u>\$ 31,611</u></b>

**NOTE 7 – SUBSEQUENT EVENT AND LITIGATION**

On March 30, 2005, the Company received a demand seeking \$400,000 in damages filed by former registered representatives of the Company for alleged wrongful termination and unpaid contributions to purchase certain investment accounts. Management and legal counsel believe that the record does not support the allegations and intend to vigorously defend their position. Additionally, management believes that this claim will have no material impact on the Company's financial condition or results of operations.

This information is an integral part of the accompanying financial statements.

**SUPPLEMENTAL INFORMATION**



**Clifton  
Gunderson LLP**  
Certified Public Accountants & Consultants

**Independent Auditor's Report On Supplemental Information  
Required By Rule 17a-5(g)(1) Of The Securities and Exchange Commission**

Board of Directors  
CUSO Equities, Inc. dba CUE  
Phoenix, Arizona

We have audited the accompanying financial statements of CUSO Equities, Inc. dba CUE as of and for the year ended February 28, 2005, and have issued our report thereon dated March 24, 2005. 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 and II 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(g)(1) 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.

*Clifton Gunderson LLP*

Phoenix, Arizona  
March 24, 2005

**CUSO EQUITIES, INC. dba CUE**  
**COMPUTATION OF NET CAPITAL UNDER RULE 15C3-1**  
**OF THE SECURITIES AND EXCHANGE COMMISSION**  
**February 28, 2005**

<b>NET CAPITAL</b>		
Stockholders' equity, total capital		\$ 461,017
Deduct non-allowable assets:		
Prepaid expenses	\$ 48,435	
Commissions receivable	672	
Securities not readily marketable	<u>3,300</u>	
		<u>52,407</u>
<b>NET CAPITAL</b>		<u>\$ 408,610</u>
Computation of net capital requirements:		
Liabilities:		
Accounts payable		\$ 5,956
Commissions payable		90,988
Income taxes payable		<u>10,177</u>
Aggregate indebtedness		107,121
Required percentage		6.67%
Computed net capital requirement		<u>\$ 7,145</u>
Minimum dollar net capital requirement		<u>\$ 100,000</u>
<b>EXCESS NET CAPITAL</b>		<u>\$ 308,610</u>

**CUSO EQUITIES, INC. dba CUE**  
**RECONCILIATION OF NET CAPITAL UNDER RULE 17A-5(D)(4)**  
**OF THE SECURITIES AND EXCHANGE COMMISSION**  
**February 28, 2005**

Reconciliation with Company's computation (included in  
Part IIA of Form X-17a-5) as of February 28, 2005:

Net capital, as reported in Company's Part IIA, FOCUS Report (unaudited)	\$ 419,193
Net audit adjustments	<u>(10,583)</u>
<b>NET CAPITAL, SCHEDULE I</b>	<b><u>\$ 408,610</u></b>

**Independent Auditor's Report on Internal  
Control Structure Required by Rule 17a-5**

Board of Directors  
CUSO Equities, Inc. dba CUE  
Phoenix, Arizona

In planning and performing our audit of the financial statements and supplemental schedules of CUSO Equities, Inc. dba CUE (the Company) for the year ended February 28, 2005, we considered its internal control structure, 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 the internal control structure.

Also, as required by Rule 17a-5(g)(1) of the Securities 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)(1) in the following:

1. 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. 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 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 SEC'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 the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g)(1) 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 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 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 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 practices and procedures were adequate at February 28, 2005 to meet the SEC's objectives.

This report is intended solely for the use of management, the SEC, the National Association of Securities Dealers, and other regulatory agencies that rely on Rule 17a-5(g)(1) 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.

*Clifton Henderson LLP*

Phoenix, Arizona  
March 24, 2005