

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

OMB APPROVAL
OMB Number: 3235-0123
Expires: September 30, 1998
Estimated average burden
hours per response . . . 12.00

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

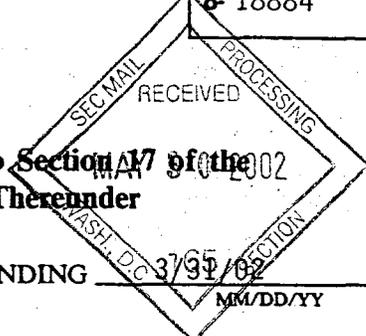


02022734

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

SEC FILE NUMBER
8-18884



REPORT FOR THE PERIOD BEGINNING 04/01/01 AND ENDING 3/31/02
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

J.B. Hanauer & Co.

OFFICIAL USE ONLY
FIRM ID. NO.

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

4 Gatehall Drive

(No. and Street)

Parsippany

New Jersey

07054

(City)

(State)

(Zip Code)

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

Virginia Manna

(973) 829-1000

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Fisner LLP

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

750 Third Avenue

New York

NY

10017

(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 05 2002

THOMSON
FINANCIAL

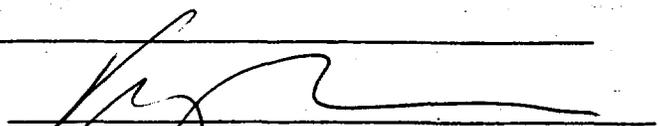
FOR OFFICIAL USE ONLY

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

AM 5/31/2002

OATH OR AFFIRMATION

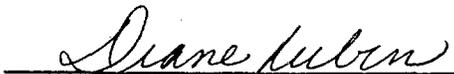
I, Virginia Manna, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of J.B. Hanauer & Co. and Subsidiaries, as of March 31, 2002, are true and correct. I further swear (or affirm) that neither the company 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:



Signature
Executive Vice President

Title

5/29/02



Notary Public

DIANE RUBIN
Notary Public, State of New York
No. 41-4935889
Qualified in Queens County
Commission Expires August 1, 2002

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 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 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).

J.B. HANAUER & CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
MARCH 31, 2002

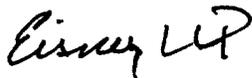
INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
J.B. Hanauer & Co.
Parsippany, New Jersey

We have audited the accompanying consolidated statement of financial condition of J.B. Hanauer & Co. and subsidiaries as of March 31, 2002. This consolidated financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated statement of financial condition referred to above presents fairly, in all material respects, the consolidated financial position of J.B. Hanauer & Co. and subsidiaries at March 31, 2002, in conformity with accounting principles generally accepted in the United States of America.



New York, New York
May 20, 2002

J.B. HANAUER & CO. AND SUBSIDIARIES

Consolidated Statement of Financial Condition March 31, 2002

ASSETS

Cash	\$ 193,000
Receivable from correspondent broker	1,138,000
Securities owned at market value	16,486,000
Restricted investments	1,694,000
Notes receivable	4,028,000
Other assets	2,349,000
Furniture, equipment and leasehold improvements - at cost, net of accumulated depreciation and amortization of \$4,004,000	<u>1,885,000</u>
	<u>\$ 27,773,000</u>

LIABILITIES

Securities sold but not yet purchased at market value	\$ 1,426,000
Accrued compensation and other accrued expenses	<u>7,986,000</u>
	<u>9,412,000</u>
Commitments and contingencies	
Subordinated liabilities	<u>612,000</u>

STOCKHOLDERS' EQUITY

Capital stock - no par value, authorized 1,000,000 shares; issued 765,740 shares at stated value	396,000
Additional paid-in capital	3,576,000
Retained earnings	<u>26,553,000</u>
	30,525,000
Less cost of treasury stock (415,021 shares)	<u>12,776,000</u>
	<u>17,749,000</u>
	<u>\$ 27,773,000</u>

J.B. HANAUER & CO. AND SUBSIDIARIES

Notes to Consolidated Statement of Financial Condition March 31, 2002

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- [1] The accompanying consolidated statement of financial condition includes the accounts of J.B. Hanauer & Co. and its wholly owned subsidiaries, J.B. Hanauer Agency, Inc., V.S.A. Realty, Inc., Gatehall Financial Corp. and RealityBased Marketing, Inc. (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.
- [2] Security transactions are recorded on a trade date basis.
- [3] Securities are valued at market.
- [4] Depreciation of furniture and equipment (which includes software) is computed on the straight-line method over the estimated useful life of the asset, two to ten years. Leasehold improvements are amortized by the straight-line method over the life of the applicable leases, or the life of the improvement, if shorter.
- [5] 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.

NOTE B - NOTES RECEIVABLE

Notes receivable consist of \$3,575,000 of notes issued in connection with the employment of financial advisors, most of which are collectible on a quarterly basis through January 2007 bearing interest at a rate of 4%, and \$453,000 of notes receivable due from officers and employees.

NOTE C - SUBORDINATED LIABILITIES

The subordinated liabilities at March 31, 2002 consist of borrowings under subordination agreements of \$222,000 bearing interest at an adjustable rate of ½ of one percent above Wachovia Bank's prime commercial lending rate and \$390,000 bearing interest at an adjustable rate of two percent per annum above Wachovia Bank's prime commercial lending rate, due in quarterly installments from April 2002 through September 2005. Of these liabilities, \$140,000 is allowable in computing net capital under Rule 15c3-1 of the Securities and Exchange Commission.

NOTE D - STOCKHOLDERS' EQUITY

Pursuant to the terms of a stockholders' agreement the Company is committed, under certain conditions and events, to redeem a portion of its capital stock. In connection therewith, the Company redeemed 17,258 shares of its stock in May 2002 at an approximate cost of \$864,000, payable over a six-year period commencing December 2002. In addition, in May 2002, the largest shareholder notified the Company of his intention to sell one-third of his stock ownership. Under the terms of this agreement, the aggregate purchase price of approximately \$1,550,000 is payable in installments; \$50,000 payable on September 1, 2002 and the remainder payable over a two-year period, commencing December 2002. The Company intends to obtain satisfactory subordination agreements, under Rule 15c3-1 of the Securities and Exchange Commission, for these liabilities, in the amount of \$1,658,000.

The Company maintains the J.B. Hanauer & Co. Employee Stock Compensation Program and has authorized the issuance of up to 150,000 shares of the Company's stock for this purpose. Of the shares previously awarded hereunder, 2,970 stock appreciation rights and 25,672 performance shares vested over a five-year period from

J.B. HANAUER & CO. AND SUBSIDIARIES

Notes to Consolidated Statement of Financial Condition

March 31, 2002

NOTE D - STOCKHOLDERS' EQUITY (CONTINUED)

April 1998 through April 2002, 7,262 performance shares vested from April 2000 through April 2002 and 4,522 performance shares vest pro rata over a two-year period ending April 2004. These awards can be paid in stock, cash, or subordinated notes as determined by the Program Administrator.

In April 2002, 6,989 stock appreciation rights and performance shares vested and were paid in stock and amounted to approximately \$215,000.

At March 31, 2002 accumulated credits in additional paid-in capital resulting from compensation charges relating to the stock compensation program amounted to \$786,000.

In March 2002, the Company replaced this program with the J.B. Hanauer & Co. Employee Stock Incentive Plan and has authorized the issuance of up to 75,000 shares of the Company's stock for this purpose. For the fiscal year ending March 31, 2003, approximately 12,600 stock bonus shares have been awarded to financial advisors who have met certain productivity requirements. These awards vest after five years. In the event of death or disability, these awards will vest immediately. Upon retirement, these awards will vest 20% for each completed year of service from the date of grant.

NOTE E - COMMITMENTS AND CONTINGENCIES

- [1] The Company has noncancellable leases for office space and various equipment expiring periodically through 2008. The minimum aggregate rentals, net of sublease rentals, are as follows:

<u>Year Ending</u> <u>March 31,</u>	
2003	\$ 2,684,000
2004	2,348,000
2005	2,189,000
2006	2,136,000
2007	1,992,000
Thereafter	<u>989,000</u>
	<u>\$ 12,338,000</u>

Certain of these leases contain escalation clauses for increases in real estate taxes and cost of living adjustments based upon the consumer price index.

- [2] The Company is subject to arbitrations and litigation matters in connection with matters which arose during the normal course of its business. The Company is also the subject of an employment practices claim brought by a former employee. It is the opinion of management that it has meritorious defenses to these actions, however, the ultimate outcome of these matters is not presently determinable. The Company believes that these aforementioned actions will result in no material adverse effect on its financial position.
- [3] The Company has severance pay agreements with certain key employees to ensure the continued dedication of these employees in the event there is a Change of Control, as that term is defined in the agreements, and the employee is terminated. These agreements specify a certain agreed upon amount to be paid upon termination at any time during a two-year period following a Change of Control.

In addition, the Company maintains a bonus program whereby certain financial advisors will be paid a quarterly bonus based on specified performance over a five-year period ending January 2007 only if employed by the Company on the scheduled day of payment. In the case of death or disability, the Company will continue to pay the quarterly bonus through the scheduled end date.

J.B. HANAUER & CO. AND SUBSIDIARIES

Notes to Consolidated Statement of Financial Condition March 31, 2002

NOTE E - COMMITMENTS AND CONTINGENCIES (CONTINUED)

- [4] The Company clears its securities transactions through Wexford Clearing Services Corporation ("Wexford") on a fully disclosed basis pursuant to a clearance agreement. Even though the Company clears its transactions through another broker/dealer, nonperformance by its customers in fulfilling their obligations pursuant to securities transactions may expose the Company to risk and potential loss.

The Company's equity in accounts held by Wexford, consisting of securities owned, collateralize the margin amounts due to Wexford.

NOTE F - INCOME TAXES

Deferred income tax benefits are provided for the temporary differences that arise between financial statement and income tax reporting principally relating to the employee stock compensation program, deferred compensation plan, depreciation and amortization, other expenses and a net operating loss carryforward. As of March 31, 2002, the Company has AMT credit carryforwards of \$760,000. Included in other assets are gross deferred tax benefits of \$2,212,000, offset by a valuation allowance of \$1,912,000.

NOTE G - 401(k) SAVINGS AND INVESTMENT PLAN

The Company maintains a 401(k) savings and investment plan. Employees who have completed one year of service and have attained 21 years of age are eligible to participate. The Company, at its discretion, may make contributions to the plan equal to 25% of employee contributions with a maximum of 6% of eligible compensation.

NOTE H - DEFERRED COMPENSATION PLANS

The Company maintains a nonqualified deferred compensation plan for certain key employees that provides the opportunity to defer a portion of their compensation. The Company funds these deferred compensation liabilities by making contributions to a trust. Investments are made in money market and other mutual funds. At March 31, 2002, liabilities for deferred compensation amounted to \$1,694,000.

In March 2002, the Company adopted the J.B. Hanauer & Co. Employee Incentive Plan. This is also a nonqualified plan that provides benefits to key employees who meet certain productivity requirements. Contributions are made to a trust, which may invest these funds into a money market and a mutual fund. For the fiscal year ending March 31, 2003, the Company awarded approximately \$664,000 to financial advisors. These awards will vest after five years of continuous employment with the Company. In the event of death or disability, these awards will vest immediately. Upon retirement, these awards will vest 20% for each completed year of service from the date of grant.

NOTE I - NET CAPITAL REQUIREMENTS

The Company is subject to the Uniform Net Capital Rule promulgated by the Securities and Exchange Commission and has elected to comply with the alternative net capital computation provided in the Rule. This Rule requires the Company to maintain net capital equal to the greater of 2% of aggregate debit balances arising from customer transactions, or \$250,000. At March 31, 2002 the Company had net capital of \$7,936,000 which exceeded requirements by approximately \$7,686,000. The net capital computation does not include the accounts of V.S.A. Realty, Inc., Gatehall Financial Corp., and RealityBased Marketing, Inc.