

193



03011365

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**

RECEIVED
FEB 27 2003
MAIL PROCESSING
SECTION
WASH. D.C. 181

SEC FILE NUMBER
8-50933

**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:

Catalyst Financial LLC

OFFICIAL USE ONLY
FIRM ID. NO.

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

10 South Street Suite 202

Ridgfield

(No. and Street)
CT

06877

(City)

(State)

(Zip Code)

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

Steven Bronson

203 894-9755

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

John P. Comparato, CPA, PC

(Name — if individual, state last, first, middle name)
207 Hallock Road Suite 208, Stony Brook, NY 11790

(Address)

(City)

(State)

Zip Code

CHECK ONE:

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

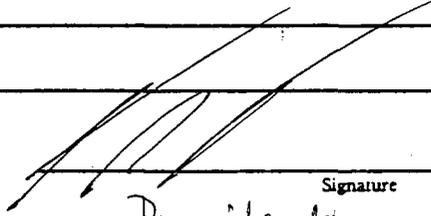
PROCESSED
MAR 12 2003

FOR OFFICIAL USE ONLY
THOMSON FINANCIAL

*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).

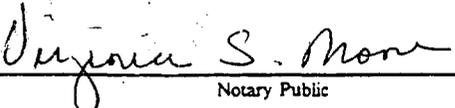
OATH OR AFFIRMATION

I, Steven N. Bronson, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Catalyst Financial LLC, as of December 31, 192002, 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
President

Title



Notary Public

My Commission Expires May 31, 2003

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.

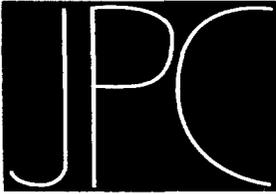
**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

CATALYST FINANCIAL LLC
REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2002

**CATALYST FINANCIAL LLC
INDEX**

DECEMBER 31, 2002

Independent Auditors' Report	1
Financial Statements	
Statement of Financial Condition	2
Statement of Operations	3
Statement of Changes in Members' Capital	4
Statement of Cash Flows	5
Statement of Changes in Liabilities	6
Notes to Financial Statement	7-8
Supplementary Information	
Computation of Net Capital	9
Independent Auditors' Report on Internal Accounting Control Required by Sec Rule 17a-5	10-11



JOHN P. COMPARATO C.P.A., P.C.

February 21, 2003

To the Board of Directors
Catalyst Financial LLC

We have audited the accompanying statements of financial condition of Catalyst Financial LLC as of December 31, 2002, and the related statements of operations, members' capital and cash flows for the year then ended. 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 generally accepted auditing standards. 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 conformity with generally accepted accounting principles, the financial position of Catalyst Financial LLC as of December 31, 2002, the results of its operations and cash flows for the year then ended.

Our audit was made for the purpose of forming an opinion on the basic financial statements, taken as a whole of Catalyst Financial LLC. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the examination 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.

John P. Comparato

CATALYST FINANCIAL LLC

**STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2002**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 3,339
Clearing Deposit	101,505
Marketable Securities Owned, At Market Value	329,069
Other Investments	3,000
Prepaid Expenses and Advances	79,490
Due from Clearing Broker	178,294

	694,697

FIXED ASSETS

Net of Accumulated Depreciation of \$36,702	9,260

TOTAL ASSETS	\$ 703,957
	=====

LIABILITIES AND MEMBERS' CAPITAL

CURRENT LIABILITIES

Accounts Payable and Accrued Expenses	\$ 10,536

MEMBERS' CAPITAL	693,421

TOTAL LIABILITIES AND MEMBERS' CAPITAL	\$ 703,957
	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

CATALYST FINANCIAL LLC

**STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2002**

REVENUE	
Investment Banking	\$ 25,555
Trading Profits	63,742
Interest Income	1,992
Commission Income	13,635
Other Income	19,382

TOTAL REVENUE	124,306

 EXPENSES	
Employee Compensation and Benefits	92,142
Occupancy Costs	45,844
Travel & Entertainment Expenses	24,671
Interest Expense	60,074
Professional Fees	40,049
Quotes & Tickers	5,675
Regulatory Expenses	41,301
Other Operating Expenses	24,173

TOTAL EXPENSES	333,929

NET LOSS	<209,623>
	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

CATALYST FINANCIAL LLC

**STATEMENT OF CHANGES IN MEMBERS CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2002**

Balance, January 1, 2002	\$ <96,956>
Net Loss	<209,623>
Conversion of Subordinated Loan	1,000,000

Balance, December 31, 2002	\$ 693,421
	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

CATALYST FINANCIAL LLC

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002**

OPERATING ACTIVITIES

Net Loss	\$ <209,623>
Adjustments to reconcile net income to net cash used by operating activities:	
Depreciation	10,680

Changes in Operating Assets and Liabilities:

Increase in Clearing Deposits	<1,286>
Decrease in Marketable Securities Owned	444,617
Decrease in Payable to Clearing Broker	<263,477>
Decrease in Accounts Payable and Accrued Expenses	<3,840>
Decrease in Prepaid Expenses and Advances	2,250

NET CASH PROVIDED BY OPERATING ACTIVITIES -----
<20,679>

FINANCING ACTIVITIES

--

NET DECREASE IN CASH -----
<20,679>

CASH AT BEGINNING OF PERIOD 24,018

CASH AT END OF PERIOD -----
\$ 3,339
=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

CATALYST FINANCIAL LLC

**STATEMENT OF CHANGES IN LIABILITIES
SUBORDINATED TO CLAIMS OF GENERAL CREDITORS
FOR THE YEAR ENDED DECEMBER 31, 2002**

SUBORDINATED LIABILITIES AT JANUARY 1, 2002	\$ 1,000,000
CHANGES IN SUBORDINATED LIABILITIES	<1,000,000 >

SUBORDINATED LIABILITIES AT DECEMBER 31, 2002	\$ --
	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

CATALYST FINANCIAL LLC

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 1 -- GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

Catalyst Financial LLC (Company) is registered as a broker and dealer in securities under the Securities Exchange Act of 1934.

The Company clears all of its transactions through one security clearing firm. The Company acts as a broker-dealer and is exempt from Securities and Exchange Commission Rule 1503-3 under paragraph k (2) (ii) since it uses another firm for security clearing.

The following is a summary of significant accounting policies followed by the Company:

a. Securities Transactions

Securities transactions and related revenues are recorded in the financial statements on a settlement-date basis; however, all transactions are reviewed and adjusted on a trade-date basis for significant amounts.

b. Depreciation and Amortization

Fixed assets are stated at cost. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets for both book and income tax purposes.

NOTE 2 -- NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Rule 15c3-1, Uniform Net Capital Rule, which requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2002 the Company had net capital of \$551,631 which was \$451,631 in excess of the amount required. The Company's net capital ratio was .019 to 1.

NOTE 3 -- SUBORDINATED LOAN

In November 1998, the Company borrowed \$1,000,000 from its stockholder. The NASD has ruled that the Subordinated Loan Agreement is acceptable and was therefore includable in the computation of net capital. On December 15, 2002, the loan became due and was converted to Members' Capital. Interest expense on this loan for the year ended Dec. 31, 2002 was \$57,581.

CATALYST FINANCIAL LLC

**NOTES TO FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2002**

NOTE 4 -- INCOME TAXES

The Company has elected to be taxed as a Limited Liability Corporation, in which income and losses flow through directly to the stockholder. Therefore, no provision for federal and state corporate taxes has been made.

**NOTE 5—FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONCENTRATION
CREDIT RISK**

As a securities broker, the Company is engaged in various trading and brokerage activities on a principal and agency basis. The Company's exposure to the credit risk occurs in the event that the customer, clearing agents or counterparts do not fulfill their obligations of the transaction.

In the normal course of business, the Company enters into transactions in securities sold, but not yet purchased. Sale of securities not yet purchased represent an obligation of the company to deliver specified equity securities at a future date and price. The Company will be obligated to acquire the required securities at prevailing market prices in the future to satisfy this obligation which is recorded in the balance sheet at its current market value. These financial instruments contain off-balance sheet risk where by changes in the future market value, as described above, may be in excess of amount recognized in the statement of financial condition.

CATALYST FINANCIAL LLC

**COMPUTATION OF NET CAPITAL UNDER RULE 15C3-1 OF THE
SECURITIES AND EXCHANGE COMMISSION
AS OF DECEMBER 31, 2002**

NET CAPITAL	
Total Ownership Equity	\$ 693,421
Add:	
Liabilities Subordinated to Claims of General Creditors Allowable in Computation of Net Capital	--
Other (Deductions) or Allowable Credits	--

Total Capital and Allowable Subordinated Liabilities	693,421
Deductions and /or Charges:	
Non-allowable Assets	88,750

Net Capital Before Haircuts on Securities Positions	604,671
Haircuts on Securities Positions	<53,040>

Net Capital	\$ 551,631
	=====
AGGREGATE INDEBTEDNESS	
Items Included in the Statement of Financial Condition:	
Accounts Payable and Accrued Expenses	10,536
	=====
COMPUTATION OF BASIC NET CAPITAL REQUIREMENT	
Minimum Net Capital Required	100,000
	=====
Ratio: Aggregate Indebtedness to Net Capital	.019 to 1
	=====

There is no difference between this audited computation of net capital and that included in the Company's unaudited December 31, 2002 Focus Part II A filing.



JOHN P. COMPARATO C.P.A., P.C.

207 Hallock Road ■ Stony Brook, NY 11790
631.689.0400 ■ 631.689.0181 Fax

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

To The Board of Directors
Catalyst Financial LLC

We have examined the financial statements of Catalyst Financial LLC for the year ended December 31, 2002 and have issued our report therein dated February 21, 2003. As part of our examination, we made a study and evaluation of the Company's system of internal accounting control (which includes the procedures for safeguarding securities) to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation, which included obtaining an understanding of the accounting system, was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the financial statements.

We also made a study of the practices and procedures followed by the Company in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a) (11) and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13 or 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, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining a system of internal accounting control and 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 control procedures and practices and procedures referred to in the preceding paragraph to assess whether those practices and procedures can be expected to achieve the Commission's above-mentioned objectives. The objectives of a system 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 the unauthorized use of 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) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal accounting control procedures or the practices and procedures referred to above, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of them to future period is subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with them may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weakness in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Catalyst Financial LLC as a whole. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

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 management and the Securities and Exchange Commission and should not be used for any other purpose.