

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

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 12/01/01 AND ENDING 12/31/02  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Gridley & Company LLC

OFFICIAL USE ONLY
FIRM ID. NO.

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

7 Penn Plaza, Suite 1128

(No. and Street)

New York

New York

10001

(City)

(State)

(Zip Code)

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

Linda Gridley

(646) 674-1885

(Area Code -- Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Rothstein, Kass & Company, P.C.

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

85 Livingston Avenue

Roseland

New Jersey

07068

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

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 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).

SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, Linda Gridley, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Gridley & Company LLC, 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:

Signature: Linda Gridley
Title: President & CEO

RAZI KHAJA
Notary Public, State of New York
NO. 01KH6053481
Qualified in New York County
Commission Expires 12-2-2007
Notary Public

2/26/03

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.
(o) Independent auditor's report on internal accounting control.
(p) Schedule of segregation requirements and funds in segregation--customers' regulated commodity futures account pursuant to Rule 171-5.

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

**GRIDLEY & COMPANY LLC**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**DECEMBER 31, 2002**

**(CONFIDENTIAL PURSUANT TO RULE 17a-5(e)(3))**

# GRIDLEY & COMPANY LLC

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## INDEPENDENT AUDITORS' REPORT

To the Member of  
Gridley & Company LLC

We have audited the accompanying statement of financial condition of Gridley & Company LLC (the "Company") as of December 31, 2002, and the related statements of operations, changes in member's equity, and cash flows for the thirteen months 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 Gridley & Company LLC as of December 31, 2002, and the results of its operations and its cash flows for the thirteen months 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 supplementary information listed in the accompanying table of contents 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 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.

*Rothstein, Kass & Company, P.C.*

Roseland, New Jersey  
January 30, 2003

# GRIDLEY & COMPANY LLC

## STATEMENT OF FINANCIAL CONDITION

December 31, 2002

### ASSETS

Cash	\$	412,918
Accounts receivable		41,792
Prepaid expenses and other current assets		30,079
Due from Parent		<u>32,160</u>
	\$	<u>516,949</u>

### LIABILITIES AND MEMBER'S EQUITY

Liabilities, Accrued expenses	\$	10,917
Commitments and contingencies		
Member's equity		<u>506,032</u>
	\$	<u>516,949</u>

# GRIDLEY & COMPANY LLC

## STATEMENT OF OPERATIONS

13 Months Ended December 31, 2002

### Revenues

Investment banking revenue	\$ 1,077,267
Interest income	<u>7,190</u>
	1,084,457

### Operating expenses

Commissions	213,686
Administrative service fee	143,399
Employee compensation and benefits	184,213
Professional fees	50,478
Registration fee	1,059
Other expenses	<u>144,202</u>
	<u>737,037</u>

### Net income

\$ 347,420

# GRIDLEY & COMPANY LLC

## STATEMENT OF CHANGES IN MEMBER'S EQUITY

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### 13 Months Ended December 31, 2002

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Member's equity, December 1, 2001	\$ 158,612
Net income	<u>347,420</u>
Member's equity, December 31, 2002	<u>\$ 506,032</u>

# GRIDLEY & COMPANY LLC

## STATEMENT OF CASH FLOWS

13 Months Ended December 31, 2002

### Cash flows from operating activities

Net income	\$ 347,420
Adjustments to reconcile net income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Accounts receivable	7,587
Prepaid expenses and other current assets	539
Due from Parent	(55,549)
Accrued expenses	<u>(93,430)</u>
<b>Net cash provided by operating activities</b>	<u>206,567</u>
<b>Net increase in cash</b>	206,567
<b>Cash, beginning of period</b>	<u>206,351</u>
<b>Cash, end of period</b>	<u>\$ 412,918</u>

# GRIDLEY & COMPANY LLC

## NOTES TO FINANCIAL STATEMENTS

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### 1. Nature of business

Gridley & Company LLC (the "Company"), a wholly owned entity of Gridley Holdings LLC (the "Parent"), is a broker-dealer registered with the Securities and Exchange Commission (SEC). The Company is also a member of the National Association of Securities Dealers, Inc. (NASD). The Company's operations consist primarily of engaging in riskless principal transactions and providing investment banking services.

### 2. Summary of significant accounting policies

#### *Cash and Cash Equivalents*

Cash equivalents include all highly liquid instruments having a maturity of less than three months from the purchase date. Cash equivalents include an interest bearing money market account.

#### *Accounts Receivable*

The Company carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. No allowance for doubtful accounts was required at December 31, 2002.

#### *Investment Banking Revenue*

Investment banking revenues include gains, losses and fees, arising from securities offerings in which the Company acts as an agent. Investment banking revenues also include fees earned for providing financial advisory services. These revenues are recorded in accordance with the terms of the investment banking agreements.

#### *Income Taxes*

As a limited liability company, no provision for federal and state income taxes is required.

#### *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.

# GRIDLEY & COMPANY LLC

## NOTES TO FINANCIAL STATEMENTS

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### 3. Related party transaction

During the thirteen months ended December 31, 2002, the Company was charged an aggregate of \$143,399 for administrative services provided by their Parent, as provided for in an operating agreement between the Company and the Parent, which stipulates the reimbursement to the Parent of 110% of administrative expenses incurred by the Parent.

### 4. Major customer

The Company had one major customer in 2002 aggregating approximately 69% of total revenues.

### 5. Commitments

The Company is obligated by the terms of an agreement with a broker dealer to remit a percentage of its advisory fees as commission expense. In exchange, the Company receives selected business, marketing and administrative assistance. This agreement expires December 31, 2003.

### 6. Net capital requirement

The Company is a member of the NASD and is subject to the SEC Uniform Net Capital Rule 15c3-1. This Rule requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 and that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2002, the Company's net capital was approximately \$390,000, which was approximately \$385,000 in excess of its minimum requirement of \$5,000.

### 7. Concentrations of credit risk

The Company maintains its cash in financial institutions, which at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not subject to any significant credit risk on cash.

### 8. Exemption from Rule 15c3-3

The Company is exempt from the SEC Rule 15c3-3 and, therefore, is not required to maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers."

### 9. Retirement plan

The Company has a 401(k) Plan covering all employees who meet certain eligibility requirements. The Company makes a matching contribution to the Plan, which is at the discretion of the Parent and is determined annually in advance and funded bi-monthly. There were no matching contributions for the thirteen months ended December 31, 2002.

# GRIDLEY & COMPANY LLC

## SUPPLEMENTARY INFORMATION COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION

December 31, 2002

<b>Member's equity</b>		<u>\$ 506,032</u>
<b>Less nonallowable assets</b>		
Accounts receivable greater than 30 days		10,723
Prepaid expenses and other current assets		<u>30,079</u>
		<u>40,802</u>
<b>Net capital</b>		<u>\$ 465,230</u>
<b>Aggregate indebtedness</b>		<u>\$ 10,917</u>
<b>Computed minimum net capital required</b> (6.67% of aggregate indebtedness)		<u>\$ 728</u>
<b>Minimum net capital required (under SEC Rule 15c3-1)</b>		<u>\$ 5,000</u>
<b>Excess net capital (\$390,079 - \$5,000)</b>		<u>\$ 460,230</u>
<b>Percentage of aggregate indebtedness to net capital</b>		
	\$ 10,917	
	<u>\$ 465,230</u>	
		<u>2%</u>

There are no material differences between the computation of net capital presented above and the computation of net capital in the Company's unaudited Form X-17A-5, Part II-A filing as of December 31, 2002.



To the Member of  
Gridley & Company LLC

In planning and performing our audit of the financial statements and supplemental schedule of Gridley & Company LLC (the "Company") as of and for the thirteen months ended December 31, 2002, 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 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 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 payment 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 judgments 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 accordance 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 internal control or the practices and procedures referred to above, error 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 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 no matters involving internal control, including control activities 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's practices and procedures were adequate at December 31, 2002 to meet the SEC's objectives.

This report recognizes that it is not practicable in an organization the size of Gridley & Company LLC to achieve all the divisions of duties and cross-checks generally included in a system of internal control, and that, alternatively, greater reliance must be placed on surveillance by management.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, 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.

*Rothstein, Kass & Company, P.C.*

Roseland, New Jersey  
January 30, 2003