



03013828

AB 3/4/03

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

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

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

SEC FILE NUMBER
8-40053

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

PROCESSED
RECEIVED
FEB 28 2003
SEC. 17A-5
SECTION 207
OFFICIAL USE ONLY
FIRM ID. NO.

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
Shone Associates, Ltd.

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

300 South High Street

(No. and Street)

West Chester,

PA

19382

(City)

(State)

(Zip Code)

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

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Cover+Rossiter, P.A.

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

62 Rockford Road,

Wilmington,

DE

19806

(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 18 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).

[Handwritten signature]

OATH OR AFFIRMATION

I, Michael W. Sporn, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of SHORE ASSOCIATES LTD, as of 12/31, 192006, 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:

Michael W. Sporn
Signature

Title

Gail E. Fretz
NOTARY PUBLIC
GAIL E. FRETZ, Notary Public
West Chester Boro., Chester County
My Commission Expires January 13, 2007

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) Computation of aggregate indebtedness

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

SHONE ASSOCIATES, LTD.

**FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2002 AND 2001**

**WITH
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

COVER+ROSSITER P.A.

Certified Public Accountants & Advisors
The plus is added value.

INDEPENDENT AUDITORS' REPORT

Michael Shone
Shone Associates, Ltd.
West Chester, Pennsylvania

We have audited the statements of financial condition, computations of net capital, basic net capital requirements and aggregate indebtedness of Shone Associates, Ltd. as of December 31, 2002 and 2001, and the related statements of income, changes in ownership equity and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 statements presentation. We believe that our audits provide 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 Shone Associates, Ltd. as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Cover + Rossiter

Certified Public Accountants

January 31, 2003

SHONE ASSOCIATES, LTD.
STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2002	2001
<u>ASSETS</u>		
Cash and cash equivalents	\$ 79,022	\$ 18,719
Accounts receivable	160,228	7,200
	\$ 239,250	\$ 25,919
<u>LIABILITIES</u>		
Accounts payable	\$ 153,582	\$ 15,540
<u>STOCKHOLDER'S EQUITY</u>		
<u>CAPITAL STOCK</u>		
Common stock - par value \$1		
Authorized - 100 shares		
Issued and outstanding - 10 shares	10	10
ADDITIONAL PAID-IN CAPITAL	9,943	9,943
ACCUMULATED INCOME	75,715	426
	85,668	10,379
	\$ 239,250	\$ 25,919

See accompanying notes

SHONE ASSOCIATES, LTD.
COMPUTATIONS OF NET CAPITAL

	December 31,	
	2002	2001
Total ownership equity from statement of financial condition	\$ 85,668	\$ 10,379
Ownership equity not allowable for net capital	-	-
Total ownership equity qualified for net capital	85,668	10,379
Haircut on securities (computed, where applicable, pursuant to Rule 15C3-1(f))	(1,580)	(374)
NET CAPITAL	\$ 84,088	\$ 10,005

SHONE ASSOCIATES, LTD.
COMPUTATIONS OF BASIC NET CAPITAL REQUIREMENTS

	December 31,	
	2002	2001
MINIMUM NET CAPITAL	\$ 10,239	\$ 1,037
MINIMUM DOLLAR NET CAPITAL REQUIREMENT OF REPORTING BROKER AND DEALER	\$ 5,000	\$ 5,000
NET CAPITAL REQUIREMENT	\$ 10,239	\$ 5,000
EXCESS NET CAPITAL	\$ 73,849	\$ 5,005
EXCESS NET CAPITAL AT 1,000%	\$ 68,730	\$ 8,451

SHONE ASSOCIATES, LTD.
COMPUTATIONS OF AGGREGATE INDEBTEDNESS

	December 31,	
	<u>2002</u>	<u>2001</u>
TOTAL LIABILITIES FROM STATEMENT OF FINANCIAL CONDITION	<u>\$ 153,582</u>	<u>\$ 15,540</u>
PERCENTAGE OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	<u>182.64%</u>	<u>155.32%</u>

SHONE ASSOCIATES, LTD.
STATEMENTS OF INCOME

	Years Ended December 31,	
	2002	2001
INCOME		
Commission income	\$ 204,067	\$ 155,059
Interest	1,063	1,477
	205,130	156,536
EXPENSES		
Consulting	2,500	2,400
Fees	20,000	20,000
Insurance	384	274
Interest	-	-
Licenses	3,423	2,282
Miscellaneous	-	23
Taxes	3,534	125
	29,841	25,104
NET INCOME	\$ 175,289	\$ 131,432

See accompanying notes

SHONE ASSOCIATES, LTD.
STATEMENTS OF CHANGES IN OWNERSHIP EQUITY

	Years Ended December 31,	
	<u>2002</u>	<u>2001</u>
BALANCE, BEGINNING OF YEAR	\$ 10,379	\$ 15,454
NET INCOME	175,289	131,432
DISTRIBUTIONS	<u>100,000</u>	<u>136,507</u>
BALANCE, END OF YEAR	<u>\$ 85,668</u>	<u>\$ 10,379</u>

SHONE ASSOCIATES, LTD.
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 189,081	\$ 155,251
Interest received	1,063	1,477
Cash paid to suppliers	(29,841)	(33,818)
Net cash provided by operating activities	160,303	122,910
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to shareholders	(100,000)	(136,507)
Net cash used by financing activities	(100,000)	(136,507)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	60,303	(13,597)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	18,719	32,316
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 79,022	\$ 18,719
<u>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Net income	\$ 175,289	\$ 131,432
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(153,028)	192
Increase (decrease) in accounts payable	138,042	(8,714)
	(14,986)	(8,522)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 160,303	\$ 122,910

See accompanying notes

SHONE ASSOCIATES, LTD.
RECONCILIATION OF AUDITED AND UNAUDITED
FOCUS REPORT AMOUNTS FOR DECEMBER 31, 2002

STATEMENT OF FINANCIAL CONDITION

<u>Line Reference #/ Description</u>	<u>Unaudited</u>	<u>Audited</u>	<u>Difference</u>	<u>Note</u>
2B Receivables from broker/dealers	\$ 170,510	\$ 160,228	\$ (10,282)	1
4D Other securities	99,091	79,022	(20,069)	1
14B/17 Accounts payable	183,572	153,582	(29,990)	1
23C Additional paid-in capital	9,944	9,943	(1)	2

COMPUTATION OF NET CAPITAL

<u>Line Reference #/ Description</u>	<u>Unaudited</u>	<u>Audited</u>	<u>Difference</u>	<u>Note</u>
1 Total equity	85,669	85,668	\$ (1)	2
6A Nonallowable assets	873	-	(873)	4
9 Haircut	1,982	1,580	(402)	1
10 Net Capital	82,814	84,088	1,274	1,2,4

COMPUTATION OF NET CAPITAL REQUIREMENTS

<u>Line Reference #/ Description</u>	<u>Unaudited</u>	<u>Audited</u>	<u>Difference</u>	<u>Note</u>
11 Minimum net capital required	\$ 12,238	\$ 10,239	\$ (1,999)	3
14 Excess net capital	70,576	73,849	3,273	3
15 Excess net capital at 1,000%	64,456	68,730	4,274	3

COMPUTATION OF AGGREGATE INDEBTEDNESS

<u>Line Reference #/ Description</u>	<u>Unaudited</u>	<u>Audited</u>	<u>Difference</u>	<u>Note</u>
16 Total liabilities	\$ 183,572	\$ 153,582	\$ (29,990)	1
20 Percentage of agg. indebtedness	222%	183%	-39%	3

Note #1: Original balances included a deposit in transit of \$9,921 as a receivable and outstanding checks of \$29,990 as payables.

Note #2: Rounding differences.

Note #3: Reduction in total liabilities resulted from adjustment noted in Note #1 above. Total audited liabilities of \$153,582 reduced from \$183,572.

Note #4: Certain receivables recognized under generally accepted accounting principles cannot be included in the computation of net capital.

SHONE ASSOCIATES, LTD.
RECONCILIATION OF AUDITED AND UNAUDITED
FOCUS REPORT AMOUNTS FOR DECEMBER 31, 2002
(CONTINUED)

There were no material differences between the audit report and the filing of Form X-17A-5 for the quarter ended December 31, 2002 for the computation of net capital under Rule 15c3-1 and the computation of the reserve requirement under Exhibit A of Rule 15c3-3. In addition, Shone Associates, Ltd. claims an exemption from Rule 15c3-3, paragraph k-2-ii since it is a fully disclosed broker dealer that clears all of its transactions with and for its customers, promptly transmits all customer assets to the clearing broker, and maintains its records in accordance with SEC guidelines.

SHONE ASSOCIATES, LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NATURE OF OPERATIONS

Shone Associates, Ltd. (the Company), a broker dealer in debt and equity securities, is designed to facilitate certain payment arrangements with clients of a related entity, an investment consulting firm, which utilize directed commission (soft dollars) offset against its consulting fees.

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 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.

Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

No allowance for uncollectible accounts has been provided since it is believed that the balance in accounts receivable is fully collectible.

Concentrations of Credit Risk

The Company has one investment firm that accounted for 82% of its revenue in 2002 and 75% in 2001. At December 31, 2002 and 2001, this investment firm accounted for 95% and 80% of accounts receivable respectively.

The Company keeps its cash in a money market fund at a local financial institution. From time to time, in the normal course of business, the amount in this fund may exceed Federally insured limits. The Company believes that the risk of loss is remote.

Income Taxes

In 1995, the Company elected to be taxed as a Subchapter S Corporation in accordance with Sections 1361-1379 of the Internal Revenue Code. This election was effective January 1, 1995. Under these sections, corporate income or loss is allocated to the stockholder for inclusion in his personal income tax return. Taxes expense on the statements of income are not income taxes but are capital stock taxes paid to the Commonwealth of Pennsylvania.

SHONE ASSOCIATES, LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

MINIMUM CAPITAL REQUIREMENTS

Under the rules and regulations of the Securities Exchange Act of 1934, Shone Associates, Ltd. as a broker dealer is required to maintain net capital equivalent to the greater of 6 2/3% of aggregate indebtedness or \$5,000. The Company's net capital exceeded this minimum requirement by \$73,849 at December 31, 2002 and \$5,005 at December 31, 2001. The percentage of aggregate indebtedness to net capital was 183% and 155% on December 31, 2002 and 2001, respectively.

RELATED PARTY TRANSACTIONS

The sole shareholder of Shone Associates, Ltd. is also the sole shareholder of The Peirce Park Group. Shone Associates, Ltd. was formed to facilitate the operations of The Peirce Park Group. Substantially all of Shone Associates, Ltd. revenue will be generated from the operation of The Peirce Park Group. Shone Associates, Ltd. incurred \$20,000 in consulting fees to The Peirce Park Group in both 2002 and 2001.