

AKJ  
8-29-03



03051749

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

RECEIVED OMB APPROVAL  
 OMB Number: 3235-0123  
 Expires: 2003 October 31, 2004  
 Estimated average burden  
 hours per response..... 12.00

AUG 27 2003  
 SEC MAIL  
 WASH, D.C. 188  
 SEC FILE NUMBER  
 8-28694

UF 8-29-03

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

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 July 1, 2002 AND ENDING June 30, 2003  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Lamon & Stern, Inc.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

1950 North Park Place, Suite 100

(No. and Street)

Atlanta

(City)

Georgia

(State)

30339

(Zip Code)

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

Hollis M. Lamon

(770) 951-8411

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Windham Brannon, P.C.

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

1355 Peachtree Street, NE Suite 200 Atlanta, Georgia

(Address)

(City)

30309

(Zip Code)

CHECK ONE:

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

REC'D S.E.C.  
 AUG 27 2003  
 535  
 PROCESSED  
 SEP 03 2003

**FOR OFFICIAL USE ONLY**

Empty box 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)

08952

AM

OATH OR AFFIRMATION

I, Hollis M. Lamon, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Lamon & Stern, Inc., as of June 30, 2003, 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:

[Handwritten Signature]
Signature:
President
Title

Michelle D. Farmer
Notary Public
My Commission Expires June 24, 2006

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
(b) Statement of Financial Condition.
(c) Statement of Income (Loss).
(d) Statement of Cash Flows.
(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).

**LAMON & STERN, INC.**

**FINANCIAL STATEMENTS**  
**June 30, 2003**

DM



W I N D H A M   B R A N N O N ,   P . C .

C E R T I F I E D   P U B L I C   A C C O U N T A N T S

**INDEPENDENT AUDITOR'S REPORT**

To The Board of Directors  
Lamon & Stern, Inc.

We have audited the statement of financial condition of **Lamon & Stern, Inc.** as of June 30, 2003, and the related statements of income, changes in stockholder's 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. 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 Lamon & Stern, Inc. as of June 30, 2003, 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.

*Windham Brannon, P.C.*

Certified Public Accountants

August 1, 2003

LAMON & STERN, INC.

STATEMENT OF FINANCIAL CONDITION

June 30, 2003

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 409,467
Commissions receivable	376,550
Other receivables	25,500
Prepaid expenses	<u>6,012</u>
Total Current Assets	<u>817,529</u>

INVESTMENTS

20,100

PROPERTY AND EQUIPMENT:

Furniture and equipment	47,016
Leasehold improvements	6,935
Accumulated depreciation	<u>(44,596)</u>
Remaining Cost	<u>9,355</u>

DEPOSIT WITH CLEARING AGENT

25,000

DEFERRED INCOME TAXES

35,549

Total Assets

\$ 907,533

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES:

Accounts payable and accruals	\$ 50,000
Accrued commissions	122,633
Accrued soft dollar commissions	<u>320,852</u>
Total Current Liabilities	<u>493,485</u>

STOCKHOLDER'S EQUITY:

Common stock, \$1 par value, 100,000 shares authorized, 500 shares issued and outstanding	500
Paid-in capital	6,149
Retained earnings	<u>407,399</u>
Total Stockholder's Equity	<u>414,048</u>
Total Liabilities and Stockholder's Equity	<u><u>\$ 907,533</u></u>

The accompanying notes are an integral part of these financial statements.

**LAMON & STERN, INC.**

**STATEMENT OF INCOME**  
**For The Year Ended June 30, 2003**

---

COMMISSION INCOME:

Commission income	\$ 2,376,051
Soft dollar commission income	<u>2,029,736</u>

Total Commission Income	<u>4,405,787</u>
-------------------------	------------------

OPERATING EXPENSE:

Bonds and insurance	27,967
Commission expense	2,364,658
Soft dollar commission expense	181,907
Commission recapture	6,834
Soft dollar expense	789,132
Depreciation	1,626
Dues and subscriptions	350
Janitorial services	1,800
Legal and accounting	17,520
Management fees	479,818
Miscellaneous	8,343
Office supplies and postage	30,928
Payroll taxes	7,440
Quotation services	12,504
Rent	16,000
Salaries	593,224
Taxes and licenses	21,713
Telephone	14,685
Travel and entertainment	7,172
Utilities	<u>4,149</u>

Total Operating Expense	<u>4,587,770</u>
-------------------------	------------------

TOTAL OPERATING LOSS	<u>(181,983)</u>
----------------------	------------------

(Continued)

LAMON & STERN, INC.

**STATEMENT OF INCOME**  
**For The Year Ended June 30, 2003**

---

OTHER INCOME (EXPENSE):	
Interest income	7,170
Interest expense	<u>(489)</u>
Total Other Income	<u>6,681</u>
LOSS BEFORE INCOME TAXES	<u>(175,302)</u>
PROVISION FOR INCOME TAXES:	
Deferred benefit	<u>31,599</u>
NET LOSS	<u>\$ (143,703)</u>
NET LOSS PER SHARE	<u>\$ (287.41)</u>

The accompanying notes are an integral part of these financial statements.

LAMON & STERN, INC.

**STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY**  
**For The Year Ended June 30, 2003**

---

	<u>Common Stock</u>		<u>Paid-In</u>	<u>Retained</u>
	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Earnings</u>
BALANCE, June 30, 2002	500	\$ 500	\$ 6,149	\$ 551,102
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>(143,703)</u>
BALANCE, June 30, 2003	<u>500</u>	<u>\$ 500</u>	<u>\$ 6,149</u>	<u>\$ 407,399</u>

The accompanying notes are an integral part of these financial statements.

**LAMON & STERN, INC.**

**STATEMENT OF CASH FLOWS  
For The Year Ended June 30, 2003**

---

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from brokerage commissions	\$ 4,348,749
Cash paid for commissions and other expenses	(4,499,360)
Income tax refunds	68,448
Interest received	7,170
Interest paid	<u>(489)</u>

Net Cash Used In Operating Activities (75,482)

DECREASE IN CASH AND CASH EQUIVALENTS (75,482)

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 484,949

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 409,467

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

Net loss	\$ (143,703)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	1,626
Deferred tax benefit	31,599
Increase in commissions receivable	(153,424)
Decrease in other receivables	96,386
Decrease in prepaid expenses	160
Increase in accounts payable	328,102
Decrease in accrued commissions	<u>(236,228)</u>

Net Cash Used In Operating Activities \$ (75,482)

The accompanying notes are an integral part of these financial statements.

**LAMON & STERN, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

---

**1. GENERAL**

The Company is incorporated under the laws of the State of Georgia. It operates as a broker of securities and is a member of the National Association of Securities Dealers.

The Company clears all transactions with and for customers on a fully disclosed basis with a national clearing broker/dealer and promptly transmits all customer funds and securities to the clearing broker/dealer, and, as such, is exempt from the computation for determination of reserve requirements pursuant to SEC Rule 15c3-3 and information relating to the possession or control requirements under SEC Rule 15c3-3.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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. Material estimates that are particularly susceptible to significant change relate to the determination of soft dollar commissions payable.

The Company maintains its cash accounts in a commercial bank in Atlanta, Georgia. For purposes of the statement of cash flows, the Company considers all short-term liquid investments with original maturities of three months or less to be cash equivalents.

Furniture and equipment and leasehold improvements are carried at cost. Furniture and equipment are depreciated over three to seven years and leasehold improvements over thirty-one and one-half years using the straight-line method.

Commission income and related commission expenses are recognized on the trade date. All securities transactions are handled by a clearing agent, who remits commissions to the Company monthly.

Soft dollar commission income is derived from soft dollar trading. Soft dollar trading pays expenses on behalf of the fund instead of paying regular commission.

Soft dollar commission income is accounted for on the trade date. An estimate of soft dollar commission expense payable is recorded monthly.

**LAMON & STERN, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

---

Income taxes are recognized during the year in which transactions enter into the determination of financial statement income, with deferred taxes being provided for temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws.

**3. INVESTMENTS**

Investments consist of warrants of the National Association of Securities Dealers, Inc. The warrants are not readily marketable and are carried at cost. These warrants expire on various dates ranging from June 28, 2004 through June 28, 2006.

**4. NET CAPITAL REQUIREMENT**

The Company is subject to the Securities and Exchange Commission's Net Capital Rule (Rule 15c3-1), which requires that the ratio of aggregate indebtedness to net capital (as these terms are defined in the Rule) shall not exceed fifteen to one. Net capital and the net capital ratio fluctuate on a daily basis; however, as of June 30, 2003, the net capital ratio was 2.35 to 1, and net capital was \$209,665, which exceeded the minimum capital requirements by \$159,665.

During the audit, various audit adjustments were made relating to accruals for commission revenue and expense. Reconciliation is as follows:

**RECONCILIATION OF NET CAPITAL UNDER RULE 15c3-1**

Net capital, Form X-17A-5, Part IIA	\$ 225,086
Audit adjustments that affect net capital:	
Increase in accounts receivable	37,356
Adjustment of commission payable to actual	(51,757)
Adjustment of income taxes	<u>(1,020)</u>
 Net Capital Per Above Computation	 <u>\$ 209,665</u>

**5. RELATED PARTIES**

The Company leases its office space on a month to month basis for \$1,333 a month from the father of the stockholder. The Company shares office space with other entities owned by the stockholder.

**LAMON & STERN, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

---

**6. MANAGEMENT FEES**

The Company paid management fees totaling \$479,818 to its stockholder during the year. The management fees paid are determined on a discretionary basis by the stockholder.

**7. INCOME TAXES**

The Company's deferred income tax asset at June 30, 2003 consists primarily of the estimated income tax benefit from a net operating loss carryforward of approximately \$144,000, which expires June 30, 2023. No valuation allowance for the realization of this asset is considered to be necessary.

The total income tax credit differs from the amount expected at statutory rates because of the effect of tax brackets.



W I N D H A M   B R A N N O N ,   P . C .

C E R T I F I E D   P U B L I C   A C C O U N T A N T S

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY DATA**

To The Board of Directors  
Lamon & Stern, Inc.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The computation of net capital, reconciliation of net capital, reconciliation of stockholder's equity, computation of aggregate indebtedness, and computation for determination of reserve requirements at June 30, 2003 are presented for purposes of additional analysis and are not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 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.

*Windham Brannon, P.C.*

Certified Public Accountants

August 1, 2003

LAMON & STERN, INC.

**SUPPLEMENTARY DATA**

**June 30, 2003**

---

COMPUTATION OF NET CAPITAL

Stockholder's equity, June 30, 2003	\$ 414,048
Less non-allowable assets	<u>204,383</u>
Net Capital	<u>\$ 209,665</u>

RECONCILIATION OF STOCKHOLDER'S EQUITY

Stockholder's equity, Form X-17A-5 Part IIA	\$ 428,449
Audit adjustments that affect stockholder's equity:	
Increase in accounts receivable	37,356
Adjustment of commission payable to actual	<u>(51,757)</u>
Stockholder's Equity Per Audited Financial Statements	<u>\$ 414,048</u>

COMPUTATION OF AGGREGATE INDEBTEDNESS  
AS DEFINED UNDER RULE 15c3-1

Accounts payable and accruals	\$ 50,000
Accrued commissions	<u>443,485</u>
Total Aggregate Indebtedness	<u>\$ 493,485</u>
Ratio of Aggregate Indebtedness to Net Capital	<u>2.35 to 1</u>

COMPUTATION FOR DETERMINATION OF RESERVE  
REQUIREMENTS PURSUANT TO RULE 15c3-3 AND  
INFORMATION RELATING TO THE POSSESSION  
OR CONTROL REQUIREMENTS UNDER RULE 15c3-3

The provisions of the aforementioned rule are not applicable to Lamon & Stern, Inc. because the Company carries no margin accounts, does not hold funds or securities for, or owe money or securities to, customers. All securities transactions are handled through a clearing agent who deals directly with the Company's customers. Lamon & Stern, Inc. is therefore exempt under the provisions of Rule 15c3-3(k)(2)(ii).



W I N D H A M   B R A N N O N ,   P . C .  
C E R T I F I E D   P U B L I C   A C C O U N T A N T S

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL**

To The Board of Directors  
Lamon & Stern, Inc.

In planning and performing our audit of the financial statements of **Lamon & Stern, Inc.** (the Company), for the year ended June 30, 2003, 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 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 4(c) 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. 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 errors 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 June 30, 2003, to meet the SEC's objectives.

This report is intended solely for the 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 should not be used for any other purpose.

*William Brennan, P.C.*

Certified Public Accountants

August 1, 2003