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

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

SEC FILE NUMBER  
8- 41386

**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 January 1, 2003 AND ENDING December 31, 2003  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:  
Joseph Gunnar & Co., LLC  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
Thirty Broad Street, 11th Floor

OFFICIAL USE ONLY  
FIRM I.D. NO.

(No. and Street)

New York New York 10004  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Gene Stice (212) 440-9625  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

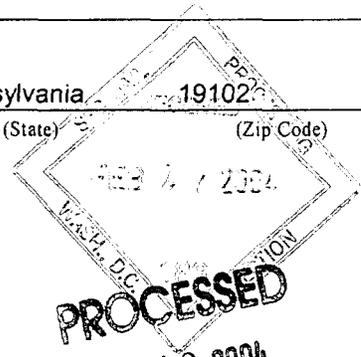
Romeo & Chiaverelli LLC

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

1601 Walnut Street - Suite 815 Philadelphia Pennsylvania 19102  
(Address) (City) (State) (Zip Code)

**CHECK ONE:**

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



**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)

SW

OATH OR AFFIRMATION

I, Gene Stice, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Joseph Gunnar & Co., LLC, as of December 31, 20 03, 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:

ABNER J. ZALAZNICK

Notary Public, State of New York
No. 31-01ZA4853922
Qualified in New York County
Commission Expires Feb. 24, 2006

[Handwritten Signature]

Signature

Chief Financial Officer

Title

[Handwritten Signature]
Notary Public

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~~ 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).

JOSEPH GUNNAR & CO., LLC  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
AS OF DECEMBER 31, 2003

JOSEPH GUNNAR & CO., LLC  
DECEMBER 31, 2003

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# ROMEO & CHIAVERELLI LLC

Certified Public Accountants

Joseph A. Romeo, CPA  
Medford, NJ  
(609) 268-9781

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Philadelphia, PA 19102  
(215) 569-2113  
FAX (215) 972-0787

Anthony Chiaverelli, CPA  
Horsham, PA  
(215) 542-7544

## INDEPENDENT AUDITORS' REPORT

To the Members  
Joseph Gunnar & Co., LLC

We have audited the accompanying statements of financial condition of Joseph Gunnar & Co., LLC as of December 31, 2003 and the related statements of operations and member's equity, cash flows and changes in liabilities subordinated to claims of creditors 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 auditing standards generally accepted in the United States of America. These 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 Joseph Gunnar & Co., LLC as at December 31, 2003, and the results of its' operations and member's equity, cash flows and changes in liabilities subordinated to claims of creditors for the year then ended in conformity with accounting principals generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of computation of net capital for the year ended December 31, 2003 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but 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 for the year ended December 31, 2003 and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Romeo & Chiaverelli, LLC  
Certified Public Accountants  
February 23, 2004

JOSEPH GUNNAR & CO., LLC  
STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2003

ASSETS

Cash	\$ 589,937
Securities owned at market value	76,115
Receivables	
Due from registered representatives	103,335
Due from clearing broker	844,757
Other Receivables	8,743
Prepaid expenses	75,307
Security Deposits	15,000
Equipment and leasehold improvements, net of accumulated depreciation and amortization of \$962,558	<u>537,107</u>
 TOTAL ASSETS	 <u>\$ 2,250,301</u>

LIABILITIES AND MEMBER'S EQUITY

Liabilities:	
Commissions payable	\$ 738,616
Accounts payable and accrued expenses	449,549
Securities short	<u>122,827</u>
 TOTAL LIABILITIES	 <u>1,310,992</u>
 Member's Equity	 <u>939,309</u>
 TOTAL LIABILITIES AND MEMBER'S EQUITY	 <u>\$ 2,250,301</u>

The accompanying notes are an integral part of these financial statements

JOSEPH GUNNAR & CO., LLC  
STATEMENT OF OPERATIONS AND MEMBER'S EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2003

Revenues:	
Commissions	\$ 9,759,409
Gains on principal trading	18,791
Investment banking	405,172
Interest and dividends	57,292
Service Fees and other	<u>473,766</u>
 Total revenue	 <u>\$10,714,430</u>
Expenses:	
Employees' compensation and benefits	\$ 7,861,809
Communications	380,839
Occupancy and equipment rental	250,500
Depreciation and Amortization	175,342
Interest	1,541
Other operating expenses	<u>2,019,274</u>
 Total expenses	 <u>\$10,689,305</u>
 Net Profit	 25,125
 Member's equity at beginning of year	 1,164,398
 Member's capital withdrawals	 <u>(250,214)</u>
 Member's equity at end of year	 <u>\$ 939,309</u>

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

JOSEPH GUNNAR & CO., LLC  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER, 31, 2003

Cash flows from operating activities:	
Net Profit	\$ 25,125
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	175,342
(Increase) decrease in operating assets and liabilities:	
Receivable from clearing broker	(268,904)
Securities owned at market value	(75,718)
Security deposits	(15,000)
Other assets	(27,433)
Commission payable	375,451
Securities sold not yet purchased	122,581
Accounts payable, accrued expenses and other liabilities	<u>146,694</u>
Total adjustments	<u>433,013</u>
Net cash used in operating activities	<u>458,138</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(16,044)</u>
Net cash used in investing activities	(16,044)
Cash flows from financing activities:	
Member capital contribution	<u>(250,214)</u>
Net cash provided by (used in) financing activities	<u>(250,214)</u>
Net increase in cash	191,880
Cash at beginning of year	<u>398,057</u>
Cash at end of year	<u>\$ 589,937</u>

Supplemental Cash Flows Disclosure:

Interest paid \$ 1,541

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

JOSEPH GUNNAR & CO., LLC  
STATEMENT OF CHANGES IN LIABILITIES  
SUBORDINATED TO CLAIMS OF CREDITORS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>For the Year Ended</u> <u>December 31, 2003</u>
Subordinated debt at the beginning of year	\$ 0
Increase:	
Temporary subordinated debt effective November 2003	\$ 1,700,000
Decrease:	
Temporary subordinated debt repaid November 2003	<u>\$(1,700,000)</u>
Subordinated debt at end of year	<u>\$ 0</u>

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

JOSEPH GUNNAR & CO., LLC  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

(a) Organization and Nature of Business:

Joseph Gunnar & Co., LLC, (the "Company"), is a securities broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers, Inc. (NASD). The Company is a Delaware limited liability company that is a wholly owned subsidiary of Joseph Gunnar Holding Co., LLC (the "Parent").

(b) Basis Presentation:

The accompanying combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

(c) Use of Estimates:

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(d) Securities:

All proprietary securities and option transactions, and the applicable profits and losses arising from these transactions are reported on a trade date basis. Marketable securities are stated at market ("marked to market") value, and securities not readily marketable are stated at fair values determined by management. The resulting unrealized gain or loss is included in operations.

The Company acts as an introducing broker and forwards all transactions for its customers to another NASD member firm on a fully disclosed basis. Commission income and expenses, and related clearing expenses on customer transactions are reported on a trade date basis.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Furniture, Equipment and Leasehold Improvements:

Furniture, equipment and leasehold improvements are stated at cost. Depreciation is provided using either straight-line or double declining balance methods over the estimated useful lives of related assets, ranging between 3 and 10 years. Leasehold improvements are amortized over the term of the related lease.

(f) Organization Costs:

At December 31, 2003, organization costs were fully amortized.

NOTE 2 – FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Furniture, equipment and leasehold improvements consisted of the following:

	<u>December 31, 2003</u>
Machinery and equipment	\$ 235,592
Furniture and fixtures	580,182
Computer equipment	168,923
Leasehold improvements	510,256
Construction in progress	<u>4,712</u>
	1,499,665
Less: Accumulated depreciation and amortization	<u>(962,558)</u>
	<u>\$ 537,107</u>

NOTE 3 – INCOME TAXES

The Company is treated as a partnership for income tax purposes and, as such, is not subject to income taxes by federal and state authorities. The member is responsible for reporting the partnership income (loss) and deductions on its income tax returns and is liable for all taxes thereon. Accordingly, the accompanying financial statements do not include provisions for federal and state income taxes.

#### NOTE 4 – SECURITIES

Securities short, represent obligations of the Company to deliver specified securities at predetermined prices (short sale). The Company is obligated to acquire the securities sold short at prevailing market prices in the future to satisfy these obligations.

Securities sold not yet purchased, consist of corporate equities in the amount of \$122,827 for the year ended December 31, 2003.

#### NOTE 5 – LEASE OBLIATIONS

In 2003 the Parent assigned its lease for certain office space in New York City to the Company. The Company utilizes this space and makes monthly payments to the Leassor. In 2003, rent expense for these premises was \$180,000. Future minimum commitments under the lease at December 31, 2003 are as follows:

##### Years Ending December 31,

2004	\$ 274,894
2005	464,682
2006	464,682
2007	471,682
2008	492,682
2009	492,682
2010	<u>369,512</u>
Total minimum annual rentals	<u>\$ 3,030,816</u>

#### NOTE 6 – NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of the aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2003, the Company had total net capital of \$151,043 which exceeded its minimum net capital requirement of \$100,000 by \$51,043. In addition, its ratio of aggregate indebtedness to net capital was 7.87 to 1 at December 31, 2003.

#### NOTE 7 – 401(k) PLAN

The Company offers a 401(k) retirement plan, which allows eligible employees to allocate up to 15% of their pre-tax earnings to the plan. The Company, at its option, may make matching contributions of up to \$500 per participant during the plan year. Company matching contributions were \$10,514.69 during the year ended December 31, 2003.

## NOTE 8 – LITIGATION

The Company is a defendant in various legal actions arising out of its activities as a broker-dealer, underwriter or employer. While predicting the outcome of litigation is inherently very difficult, and the ultimate resolution, range of loss, and impact on operating results cannot be reliably estimated, management believes based upon its understanding of the facts and the advice of applicable legal counsel, that it has meritorious defenses for all such actions and it intends to defend each of these vigorously. A loss contingency of \$92,500 has been established which represents potential losses on several matters as opined by counsel. Management has also elected to exercise its judgment and take an additional charge of \$132,500 against possible negative awards or settlements, bringing the total loss contingency as at December 31, 2003 to \$225,000

Subsequent to December 31, 2003, the Company entered into settlement agreements with claimants that required payments totaling of \$60,000. Such payments were made in February 2004.

## NOTE 9 – CONCENTRATIONS OF CREDIT RISK AND OTHER MATTERS

The Company keeps its cash with high credit quality financial institutions. The account balances often exceed the FDIC insurance limit.

The Company clears its introduced transactions through another broker-dealer, which is highly capitalized, and a member of all major securities exchanges. Nonperformance by its clearing broker in fulfilling its contractual obligations pursuant to securities transactions may expose the Company to risk and potential loss.

## NOTE 10 – LIABILITIES SUBORDINATED TO CLAIMS OF CREDITORS

At December 31, 2003, the Company had no liabilities subordinated to the claims of general creditors. In November 2003, the Company borrowed \$1,700,000 from its clearing firm on a temporary basis to ensure the Company was adequately capitalized to underwrite the initial public offering of an American Stock Exchange listed company. Upon the successful completion of the offering, the Company promptly repaid this obligation to its clearing firm.

JOSEPH GUNNAR & CO., LLC  
COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS  
UNDER RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION  
YEAR ENDED DECEMBER 31, 2003

Joseph Gunnar & Co., LLC claims an exemption from Rule 15c3-3 based on Section 15c3-3(k)(2)(ii) who, as an introducing broker or dealer, clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and who promptly transmits all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of Rules 17a-3 and 17a-4, as are customarily made and kept by a clearing broker or dealer. The clearing broker is Correspondent Services Corporation.

INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS  
UNDER RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION  
AS OF DECEMBER 31, 2003

Joseph Gunnar & Co., LLC claims an exemption from Rule 15c3-3 based on Section 15c3-3 (k)(2)(ii) who, as an introducing broker or dealer, clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and who promptly transmits all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of Rule 17a-3 and 17a-4, as are customarily made and kept by a clearing broker or dealer.

1  
JOSPEH GUNNAR & CO., LLC  
COMPUTATION OF NET CAPITAL UNDER  
RULE 15c3-1 OF THE COMMISSION  
DECEMBER 31, 2003

NET CAPITAL

Total Member's equity qualified for Net Capital	\$ 939,309
Add:	
Liabilities subordinated to claims of general creditors allowable in computation of net capital	<u>0</u>
Total capital and allowable subordinated liabilities	\$ 939,309
Deductions for non-allowable assets:	
Receivable from registered representatives	(103,335)
Other receivables	(8,743)
Prepaid expenses	(75,307)
Security deposits	(15,000)
Equipment and leasehold improvements, net	<u>(537,107)</u>
Total deductions for non-allowable assets	<u>(739,492)</u>
Net capital before haircuts on securities positions	199,817
Less:	
Haircuts on securities, computed, where applicable, pursuant to 15c3-1(f)	(25,375)
Undue Concentration	<u>(23,399)</u>
Net Capital	<u>\$ 151,043</u>

JOSEPH GUNNAR & CO., LLC  
COMPUTATION OF NET CAPITAL UNDER  
RULE 15c3-1 OF THE COMMISSION  
DECEMBER 31, 2003

AGGREGATE INDEBTEDNESS

Items included in Statement of Financial Condition

Commissions payable	\$ 738,616
Accounts payable and accrued expenses	<u>449,549</u>
Total aggregate indebtedness	<u>\$1,188,165</u>

COMPUTATION OF BASIC NET CAPITAL REQUIREMENTS

Minimum net capital required or \$100,000 if greater	<u>\$ 100,000</u>
Excess net capital at 1500%	<u>\$ 51,043</u>
Excess net capital at 1000%	<u>\$ 32,226</u>
Ratio: aggregate indebtedness to net capital	<u>7.87 to 1</u>

There are no differences between the above calculations and the Company computation in Part IIA of Form X-17a-5.

See independent accountant's report.

# ROMEO & CHIAVERELLI LLC

Certified Public Accountants

Joseph A. Romeo, CPA  
Medford, NJ  
(609) 268-9781

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Anthony Chiaverelli, CPA  
Horsham, PA  
(215) 542-7544

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE REQUIRED BY SEC RULE 17Aa-5

To the Members  
Joseph Gunnar & Co., LLC

In planning and performing our audit of the financial statements for the year ended December 31, 2003 and supplementary schedule of Joseph Gunnar & Co., LLC, for the year ended December 31, 2003, we considered its internal controls, including procedures 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 the internal controls.

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 or aggregate debits 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 controls 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 objectives of internal controls 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 management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principals 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.

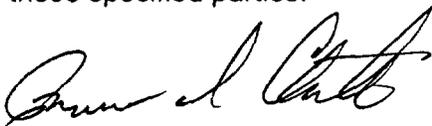
Because of inherent limitations in internal controls or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal controls 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 one or more 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 business involving their assigned functions. However, we noted no matters involving internal controls, 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, 2003 to meet the SEC's objectives.

Our opinion recognizes that it is not practicable in a company the size of Joseph Gunnar & Co., LLC to achieve all the divisions of duties and crosschecks generally included in a system of internal accounting controls, and alternatively, greater reliance must be placed on surveillance by management.

This report is intended solely for the information and use of management, the SEC, the National Association of Securities Dealers, Inc. (NASD) 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.



Romeo and Chiaverelli, LLC  
Certified Public Accountants  
February 23, 2004