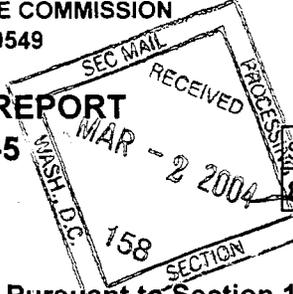


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3/22/04



UNITED STATES  
ID EXCHANGE COMMISSION  
Washington, D.C. 20549

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



U# 3-17-04ae

SEC FILE NUMBER  
8-65717

8-65714

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 1/1/03 AND ENDING 12/31/03  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: ZQEL Capital Management, LLC  
ZQEL

OFFICIAL USE ONLY  
FIRM ID. NO.

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

41 East 11th Street, 11th Floor  
(No. and Street)

New York NY 10003  
(City) (State) (Zip Code)

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

Randall K.C. Kau (212) 909-6000  
(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

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

1177 Avenue of the Americas New York NY 10036  
(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 30 2004

THOMSON FINANCIAL

FOR OFFICIAL USE ONLY

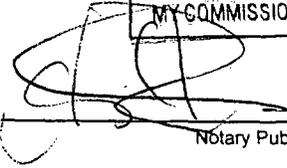
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

093-29  
b7c-29

I, Randall K.C. Kau, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of ZQEL Capital Management LLC, as of December 31, 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

ADRIENNE REIMBEAU  
NOTARY PUBLIC, STATE OF NEW YORK  
No. 01RE6079158  
QUALIFIED IN KINGS COUNTY  
MY COMMISSION EXPIRES AUG. 12, 2006.

  
\_\_\_\_\_  
Notary Public

Randall K.C. Kau  
\_\_\_\_\_  
Signature  
Principal  
\_\_\_\_\_  
Title

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).

**Report of Independent Auditors on Internal Control Required  
By SEC Rule 17a-5**

To the Members of  
ZQEL Capital Management, LLC:

In planning and performing our audit of the financial statements and supplemental schedule of ZQEL Capital Management, LLC (the "Company") for the year ended December 31, 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 the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures, that we considered relevant to the objectives stated in Rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11); and
2. 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 the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13;
2. 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; and
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

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

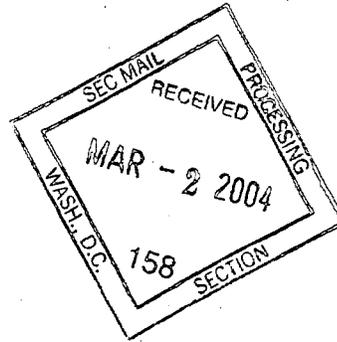
Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more 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 performing their assigned functions. However, we noted no matters involving internal control, including procedures 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.

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.

*PriceWaterhouseCoopers LLP*

February 27, 2004



**ZQEL Capital  
Management, LLC**  
Statement of Financial Condition  
December 31, 2003

**ZQEL Capital Management, LLC**

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**December 31, 2003**

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**Financial Statement**

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**Report of Independent Auditors**

To the Members of  
ZQEL Capital Management, LLC

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of ZQEL Capital Management, LLC (the "Company") at December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by the Company's management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

February 27, 2004

**ZQEL Capital Management, LLC**  
**Statement of Financial Condition**  
**December 31, 2003**

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**Assets**

Cash	\$ 70,330
Fixed assets, net of accumulated depreciation of \$4,840	<u>7,256</u>
	<u>\$ 77,586</u>

**Liabilities and Members' Capital**

Liabilities

Due to affiliates	\$ 2,970
Accounts payable and accrued expenses	<u>30,900</u>
Total liabilities	<u>33,870</u>

Members' capital

	<u>43,716</u>
Total liabilities and members' capital	<u>\$ 77,586</u>

The accompanying notes are an integral part of this statement of financial condition.

**ZQEL Capital Management, LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2003**

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**1. Organization and Nature of Operations**

ZQEL Capital Management, LLC (the "Company"), a Delaware corporation, was granted a limited license by the National Association of Securities Dealers, Inc. (NASD) on June 10, 2003; however, the Company has not conducted any securities business, nor has it solicited any business since the granting of the license. The members are Randall K.C. Kau and Stephen J. Lerner.

The Company is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the NASD.

**2. Summary of Significant Accounting Policies**

**Fixed Assets**

Fixed assets are stated at cost less accumulated depreciation. The balance at December 31, 2003 includes \$7,256 of computer equipment. At December 31, 2003, the Company's depreciation policy is as follows:

Asset	Estimated Useful Life	Principal Method
Computer equipment	5 Years	Straight-line

**Use of Estimates and Indemnifications**

The preparation of this financial statement in conformity with generally accepted accounting principles 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 statement of financial condition. Actual results could differ from these estimates.

In the normal course of its operations, the Company enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company believes the risk of loss is remote.

**Income Taxes**

No provision for federal, state and local income taxes has been made in the accompanying statement of financial condition as the individual members of the Company are responsible for their proportionate share of the Company's taxable income.

**3. Fixed Assets**

Details of fixed assets at December 31, 2003 are as follows:

Computer equipment	\$ 12,096
Less: Accumulated depreciation	4,840
	<u>\$ 7,256</u>

**ZQEL Capital Management, LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2003**

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**4. Commitments**

During the year the Company was obligated under an office lease in Larchmont, New York expiring December 31, 2003. The Company did not renew the lease.

**5. Net Capital Requirements**

The Company is a member of the NASD, and is subject to the SEC Uniform Net Capital Rule 15c3-1 (the "Rule"). This Rule requires the maintenance of minimum net capital which is defined as the greater of 1/8 of aggregate indebtedness or a minimum dollar requirement of \$5,000. At December 31, 2003, the Company's net capital was \$36,460, which was \$31,460 in excess of its minimum requirement of \$5,000. The Company's ratio of aggregate indebtedness to net capital was .93:1 as of December 31, 2003.

**6. Exemption from Rule 15c3-3**

The Company is exempt from the provisions of SEC Rule 15c3-3, as the Company's activities are limited to those set forth in the conditions for exemption appearing in clause (ii) of subparagraph (k)(2).