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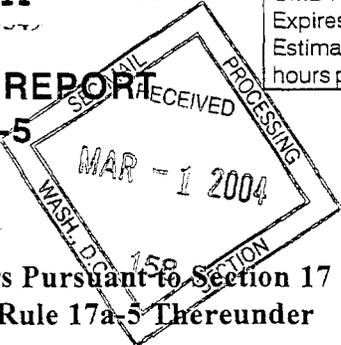


SECURITIES **04004311** ION
Washington, D.C. 20547

23-5

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



SEC FILE NUMBER
8-51488

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 01/01/03 AND ENDING 12/31/03
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **Redstone Consulting, LLC**
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
109 N. Post Oak Lane, Suite 200
(No. and Street)
Houston Texas 77024
(City) (State) (Zip Code)

OFFICIAL USE ONLY
27274
FIRM I.D. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Melinda G. LeGaye (281) 367-0380
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Mann Frankfort Stein & Lipp CPA's, LLP
(Name - if individual, state last, first, middle name)
12 Greenway Plaza, Suite 800 Houston Texas 77046
(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

FOR OFFICIAL USE ONLY THOMSON FINANCIAL

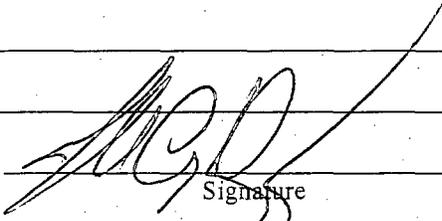
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

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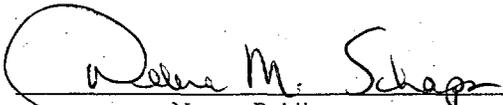
OATH OR AFFIRMATION

I, Melinda G. LeGaye, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Redstone Consulting, 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:

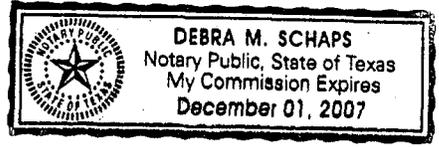


Signature
Melinda G. LeGaye FINOP

Title



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.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors. **N/A**
- (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. **N/A See Note A**
- (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. **N/A See Note A**
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation. **N/A**
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report. **N/A**
- (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).

REDSTONE CONSULTING, LLC

FINANCIAL STATEMENTS

DECEMBER 31, 2003 AND 2002

MANN
FRANKFORT
STEIN &
LIPP

Certified Public Accountants
A Limited Liability Partnership

12 Greenway Plaza, Suite 1202

Houston, Texas 77046-1289

(713) 561-6500

FAX (713) 968-7128

Independent Auditors' Report

To the Board of Directors
Redstone Consulting, LLC

We have audited the accompanying statements of financial condition of Redstone Consulting, LLC as of December 31, 2003 and 2002, and the related statements of operations, member's equity and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits 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 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 Redstone Consulting, LLC as of December 31, 2003 and 2002, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying information included in Schedule I is presented for the purpose of additional analysis and is 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 audit procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mann Frankfort Stein & Lipp CPAs, L.L.P.

Houston, Texas
February 12, 2004

REDSTONE CONSULTING, LLC
FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

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REDSTONE CONSULTING, LLC
STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	<u>2003</u>	<u>2002</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 422,533	\$ 333,390
Fees receivable	522,302	295,347
Prepaid expenses	29,083	41,581
TOTAL CURRENT ASSETS	<u>973,918</u>	<u>670,318</u>
PROPERTY AND EQUIPMENT		
Furniture and fixtures	127,374	127,374
Equipment	21,623	21,623
Computers	41,864	39,337
Software	43,677	43,677
Leasehold improvements	21,606	21,606
	<u>256,144</u>	<u>253,617</u>
Less: accumulated depreciation	158,767	120,817
NET PROPERTY AND EQUIPMENT	<u>97,377</u>	<u>132,800</u>
TOTAL ASSETS	<u>\$ 1,071,295</u>	<u>\$ 803,118</u>
LIABILITIES AND MEMBER'S EQUITY		
LIABILITIES		
Accounts payable	\$ 60,090	\$ 147,065
Accrued expenses	260,867	54,422
TOTAL LIABILITIES	<u>320,957</u>	<u>201,487</u>
MEMBER'S EQUITY	<u>750,338</u>	<u>601,631</u>
TOTAL LIABILITIES AND MEMBER'S EQUITY	<u>\$ 1,071,295</u>	<u>\$ 803,118</u>

REDSTONE CONSULTING, LLC
STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2003	2002
REVENUES		
Placement fees	\$ 2,658,370	\$ 1,562,207
Investment advisory fees	2,381,758	3,655,995
Commissions	367,934	607,933
Gain on trading account	49,610	10,164
Interest income	197,396	301,011
Miscellaneous	13,554	4,609
TOTAL REVENUES	<u>5,668,622</u>	<u>6,141,919</u>
EXPENSES		
Management fees	1,951,500	2,759,714
Salaries	1,651,837	1,789,319
Clearance fees	491,614	832,536
Other operating expenses	476,113	581,880
Occupancy and equipment rental	248,251	275,701
Professional and consulting fees	40,645	50,315
Payroll taxes	103,094	113,411
Subscriptions and dues	109,964	168,372
Travel	59,160	88,478
Insurance	133,587	134,390
Licensing and registration fees	11,887	36,313
Telephone	77,263	75,816
TOTAL EXPENSES	<u>5,354,915</u>	<u>6,906,245</u>
NET INCOME (LOSS)	<u>\$ 313,707</u>	<u>\$ (764,326)</u>

See notes to financial statements.

INFORMATION ON THIS PAGE IS CONSIDERED CONFIDENTIAL.

REDSTONE CONSULTING, LLC
STATEMENTS OF MEMBER'S EQUITY
YEARS ENDED DECEMBER 31, 2003 AND 2002

Balance at January 1, 2002	\$ 1,540,957
Contributions	625,000
Distributions	(800,000)
Net loss	<u>(764,326)</u>
Balance at December 31, 2002	601,631
Contributions	285,000
Distributions	(450,000)
Net income	<u>313,707</u>
Balance at December 31, 2003	<u><u>\$ 750,338</u></u>

See notes to financial statements.

INFORMATION ON THIS PAGE IS CONSIDERED CONFIDENTIAL.

REDSTONE CONSULTING, LLC
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 313,707	\$ (764,326)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	37,950	47,784
Changes in operating assets and liabilities:		
Fees receivable	(226,955)	976,971
Prepaid expenses	12,498	(24,821)
Accounts payable	(86,975)	(30,806)
Accrued expenses	206,445	39,422
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>256,670</u>	<u>244,224</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,527)	(32,144)
NET CASH USED IN INVESTING ACTIVITIES	<u>(2,527)</u>	<u>(32,144)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions	285,000	625,000
Distributions	(450,000)	(800,000)
NET CASH USED IN FINANCING ACTIVITIES	<u>(165,000)</u>	<u>(175,000)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	89,143	37,080
CASH AND CASH EQUIVALENTS - beginning of year	<u>333,390</u>	<u>296,310</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 422,533</u>	<u>\$ 333,390</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 28</u>	<u>\$ 994</u>

See notes to financial statements.

INFORMATION ON THIS PAGE IS CONSIDERED CONFIDENTIAL.

REDSTONE CONSULTING, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Redstone Consulting, LLC (the "Company"), is a wholly-owned limited liability company subsidiary of The Redstone Companies, L.P. ("TRC"). The Company operates as an introducing broker on a fully disclosed basis and forwards all transactions to its clearing broker. Accordingly, the Company operates under the exemptive provisions of the Securities and Exchange Commission's (SEC) Rule 15c3-3(k)(2)(ii). The Company has offices located in Houston and San Antonio, Texas with customers located throughout the United States. The Company issues financial statements on the accrual method of accounting in accordance with accounting principles generally accepted in the United States. Accounting principles followed by the Company and the methods of applying those principles which materially affect the determination of financial position, results of operations and cash flows are summarized below:

Revenue Recognition: Securities transactions are recorded on a trade date basis. The Company also generates revenues earned from investment referrals based on various contracts it has with investment companies. Revenues are recognized on an accrual basis and based on terms defined in these agreements.

Cash and Cash Equivalents: The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Federal Income Taxes: The net income or loss of the Company flows through to its member. Accordingly, no federal income taxes are included in the accompanying financial statements.

Furniture and Equipment: Furniture and equipment are stated at cost. Depreciation is computed at rates considered sufficient to amortize the cost of the assets over three to seven years using accelerated methods.

Use of Estimates: 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.

NOTE B - CLEARING BROKER

The Company has an agreement with Bear Stearns Securities Corporation ("Clearing Broker") to perform various securities clearance services. The agreement with the Clearing Broker requires the Company to maintain net capital equal to the greater of the amount required by the SEC net capital rules or \$150,000. Subsequent to year end, the Company's net capital was in excess of \$150,000, thereby curing this breach of covenant.

NOTE C - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (rule 15c3-1) which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2003, the Company had net capital of \$126,084, which was \$26,084 in excess of its minimum required net capital of \$100,000.

REDSTONE CONSULTING, LLC
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE D - OPERATING LEASE

The Company leases office space and certain equipment under the terms of operating leases which expire at various times through January 2007. In addition, the Company leases office space from a related party on an informal basis. Approximate future minimum lease payments under non-cancelable lease agreements are as follows:

<u>Year Ending December 31,</u>	
2004	\$ 69,958
2005	69,858
2006	69,858
2007	<u>5,093</u>
	<u>\$ 214,767</u>

Total rent expense for 2003 and 2002 was \$234,644 and \$275,701, respectively, of which \$168,361 and \$189,625 was charged by the related party in 2003 and 2002, respectively.

NOTE E - CONCENTRATIONS OF CREDIT RISK

The Company is engaged in various trading and brokerage activities whose counterparties primarily include sophisticated financial institutions and individuals. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

The Company maintains cash in bank deposit accounts which, at times, exceed federally insured limits. The Company has experienced no losses associated with these accounts.

NOTE F - RELATED PARTY TRANSACTIONS

The Company has entered into a management agreement with TRC whereby the Company pays a monthly fee in return for use of TRC's employees, facilities, and other administrative resources. During 2003 and 2002, the Company was charged \$825,000 and \$1,425,000, respectively, in such fees to TRC. Such fees are included in management fee expense.

SUPPLEMENTARY INFORMATION

REDSTONE CONSULTING, LLC
SCHEDULE I - COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE
SECURITIES AND EXCHANGE COMMISSION
DECEMBER 31, 2003

TOTAL MEMBER'S EQUITY		\$	750,338
Deductions for nonallowable assets			
Non customer and aged receivables	\$	484,794	
Furniture and equipment, net		97,377	
Prepaid expenses		29,083	611,254
Other deductions			13,000
			<u>126,084</u>
NET CAPITAL BEFORE HAIRCUTS ON SECURITIES POSITIONS			
Haircuts on securities			<u>-</u>
NET CAPITAL		\$	<u>126,084</u>
AGGREGATE INDEBTEDNESS			
Items included in statement of financial condition			
Accounts payable		\$	60,090
Accrued expenses			260,867
			<u>320,957</u>
TOTAL AGGREGATE INDEBTEDNESS		\$	<u>320,957</u>
COMPUTATION OF BASIC NET CAPITAL REQUIREMENTS			
Minimum net capital required (15:1 of total aggregate indebtedness)		\$	<u>21,397</u>
Minimum dollar net capital requirement		\$	<u>100,000</u>
Net capital requirement (greater of above two minimum requirement amounts)		\$	<u>100,000</u>
EXCESS NET CAPITAL		\$	<u>26,084</u>
Ratio: aggregate indebtedness to net capital			<u>2.55 to 1</u>

There is no material difference between the above computation and the Company's computation of net capital as reported in Company's Part II of Form X-17A-5 (amended) as of December 31, 2003.

REDSTONE CONSULTING, LLC

**INDEPENDENT AUDITORS' SUPPLEMENTARY
REPORT ON INTERNAL CONTROL**

DECEMBER 31, 2003

**Independent Auditors' Report on the Internal
Control Required by SEC Rule 17a-5**

Board of Directors
Redstone Consulting, LLC

In planning and performing our audit of the financial statements and supplemental schedules of Redstone Consulting, LLC 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 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 (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 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 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 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 December 31, 2003, to meet the SEC's objectives.

This report is intended solely for the use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc., 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.

Mann Frankfort Stein & Lipp CPAs, L.L.P.

Houston, Texas
February 12, 2004