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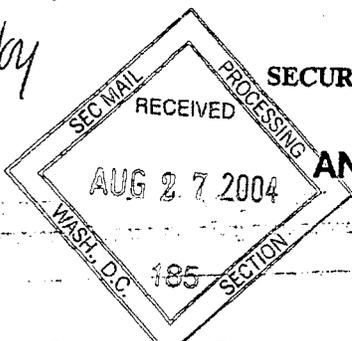


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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Att 831-2004\*

OMB APPROVAL  
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hours per response . . . 12.00



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

SEC FILE NUMBER  
8-45285

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, 2003 AND ENDING June 30, 2004  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

Lantern Investments, Inc.

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

35 Pinelawn Road, Suite 101E

OFFICIAL USE ONLY  
FIRM ID. NO.

(No. and Street)

Melville

New York

11747

(City)

(State)

(Zip Code)

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

Mark Eisenberg

516-374-0002

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Halpern & Associates

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

143 Weston Road

Weston

CT

06883

(Address)

(City)

(State)

Zip Code

PROCESS

CHECK ONE:

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

SEP 03 2004

THOMSON  
FINANCIAL

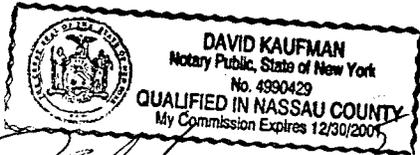
FOR OFFICIAL USE ONLY

\*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)

Handwritten initials/signature

OATH OR AFFIRMATION

I, Mark Eisenberg, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Lantern Investments, Inc., as of June 30, 2004 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 of Mark Eisenberg, Signature, President, Title

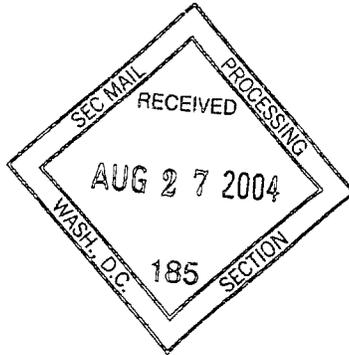
Notary Public

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 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).

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LANTERN INVESTMENTS, INC.

STATEMENT OF FINANCIAL CONDITION

JUNE 30, 2004

# ***Halpern & Associates, LLC***

Certified Public Accountants and Consultants

143 Weston Road • Weston, CT 06883 • (203)227-0313 • FAX (203)226-6909 • Info@Halpernassoc.com

## INDEPENDENT AUDITORS' REPORT

To the President of  
Lantern Investments, Inc.

We have audited the accompanying statement of financial condition of Lantern Investments, Inc. (the "Company") as of June 30, 2004. 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 in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether this financial statement is 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 statement referred to above presents fairly, in all material respects, the financial position of Lantern Investments, Inc. as of June 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

*Halpern & Associates, LLC*

Weston, Connecticut  
August 17, 2004

LANTERN INVESTMENTS, INC.

STATEMENT OF FINANCIAL CONDITION

JUNE 30, 2004

ASSETS

Cash and cash equivalents	\$ 74,246
Receivable from clearing broker	341,477
Securities owned, at market value	398,414
Investment in non-marketable securities, at cost	27,400
Furniture, equipment and leasehold improvements, at cost, net of accumulated depreciation of \$50,824	21,511
Other assets	54,111
Goodwill	30,000
Deferred tax asset	13,500
	<hr/>
TOTAL ASSETS	<u>\$ 960,659</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES

Accrued expenses and other liabilities	\$ 232,897
Securities sold not yet purchased, at market value	28,138
Payroll taxes payable	22,303
Deferred rent	15,077
	<hr/>

TOTAL LIABILITIES 298,415

SUBORDINATED LIABILITY AND SHAREHOLDERS' EQUITY

Liability subordinated to claims of general creditors	25,000
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SHAREHOLDERS' EQUITY

Preferred stock, \$.01 par value; 10,000 shares authorized, -0- shares issued and outstanding	-
Common stock, \$.05 par value; 30,000 shares authorized, 10,000 issued and 9,340 shares outstanding	500
Additional paid-in capital	363,588
Retained earnings	309,756
Treasury stock, at cost, 660 shares	(36,600)
	<hr/>

TOTAL SHAREHOLDERS' EQUITY 637,244

TOTAL SUBORDINATED LIABILITY AND  
SHAREHOLDERS' EQUITY 662,244

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY \$ 960,659

The accompanying notes are an integral part of this statement.

# LANTERN INVESTMENTS, INC.

## NOTES TO STATEMENT OF FINANCIAL CONDITION

JUNE 30, 2004

### 1. NOTES ON SIGNIFICANT BUSINESS ACTIVITIES

Lantern Investments, Inc. (the "Company") was incorporated in the State of Delaware in 1993. The Company is registered as a broker-dealer with the Securities and Exchange Commission (the "SEC") and is a member of the National Association of Securities Dealers, Inc (the "NASD"), the Municipal Securities Rulemaking Board (the "MSRB") and the Securities Investor Protection Corporation ("SIPC"). In this capacity, it executes both principal and agency transactions for itself and its customers. The Company does not hold funds or securities for, nor owe funds or securities to customers. Any funds or securities received by the Company are promptly transmitted to the clearing broker.

In the normal course of business, the Company enters into financial transactions where the risk of potential loss due to the changes in market or failures of the other party to the transaction to perform exceeds the amounts recorded for the transactions.

The Company's policy is to continuously monitor its exposure to market and counter-party risk through the use of a variety of financial, position and credit exposure reporting and control procedures. In addition, the Company has a policy of reviewing the customer and/or other counter-party with which it conducts its business.

The Company executes all of its customer trades through New York Stock Exchange member firms as an introducing broker and earns commission on its introduced customers. The Company has an agreement with a clearing broker to clear securities transactions, carry customers' accounts on a fully disclosed basis and perform certain recordkeeping functions. In connection therewith, the Company has agreed to indemnify its clearing broker for losses that the clearing broker may sustain related to the Company's customers. At June 30, 2004, the receivable from clearing broker reflected on the statement of financial condition was substantially in cash.

In the course of its normal trading activities, the Company is a party to financial instruments that involve, to indeterminable degrees, market risks in excess of that presented in the statement of financial condition. These instruments include puts and calls written on stock, and obligations arising from securities sold, but not yet purchased. The Company's activities include the purchase and sale of derivative financial instruments in the form of equity and index options. These derivatives are used for trading purposes and for managing risks associated with the portfolio of securities. The Company's core trading positions involve risk-defined hedged strategies. Accordingly, management believes that any risk is significantly minimized through its hedging strategies. All positions are reported at market value and any change in market value is reflected in the accompanying statement of income as gain or loss as it occurs. All derivative gain or loss resulting from equity positions is reported in net trading income.

LANTERN INVESTMENTS, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION (CONTINUED)

JUNE 30, 2004

2. SIGNIFICANT ACCOUNTING POLICIES

Securities transactions and related commission revenues and expenses are recorded on a trade date basis.

Investments in non-marketable securities are carried at cost.

Securities transactions and financing with the clearing broker are classified as operating activities on the statement of cash flows since this is the Company's principal business.

The Company maintains its books and records on an accrual basis in accordance with accounting principles generally accepted in the United States of America. This requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

The Company files their federal and state corporate income tax returns using the cash basis of accounting.

Depreciation of property and equipment is provided for based upon the provisions of the Internal Revenue Code (the "Code"). Such depreciation does not differ materially from that which would be recorded under generally accepted accounting principles. Amortization of leasehold improvements is provided for by the straight-line method over the term of the lease.

3. CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments and other short-term investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents include \$15,370 in a money market fund at a bank.

4. GOODWILL

In June 2004, the Company purchased certain intangible assets of Tradex Brokerage Service, Inc., under an asset purchase agreement. The Company has adopted FASB Statement No. 142 ("SFAS 142") "Goodwill and Other Intangible Assets". Under SFAS 142, goodwill will be assessed annually to determine whenever events or circumstances have occurred which would indicate that goodwill might be impaired. The financials do not include any charge for impairment for the year ended June 30, 2004.

LANTERN INVESTMENTS, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION (CONTINUED)

JUNE 30, 2004

5. PROVISION FOR INCOME TAXES

The Company is recognized as a Corporation by the Internal Revenue Service. As a result of the operating loss for the period, the financial statements reflect the New York State tax minimum.

Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. These differences are based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce the deferred income tax assets to the amount expected to be realized. At June 30, 2004, the differences totaled approximately \$51,000.

In addition, the Company has available loss carryforwards of approximately \$133,000, which will expire in 2017.

The deferred tax asset of approximately \$69,000 relating to these two items has been partially offset by a valuation allowance of \$55,500 due to the uncertainty about the realization of the carryforwards. The deferred tax asset included in the financial statements as of June 30, 2004 is \$13,500.

6. COMMITMENTS

The Company leases office space in Melville, Lawrence, and New York City under non-cancelable lease agreements. The leases expire at in 2010, 2005, and 2009 respectively. The leases contain provisions for escalations based on increases in certain costs incurred by the lessor. Future minimum rent payments on the leases are as follows:

Year Ended June 30,

2005	\$123,071
2006	126,411
2007	116,520
2008	118,878
Thereafter	<u>199,227</u>
Total	<u>\$684,107</u>

LANTERN INVESTMENTS, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION (CONTINUED)

JUNE 30, 2004

7. DEFERRED RENT

The lease for the Company's office space in Melville and New York provides for rent abatements as well as scheduled increases in base rent. Rent expense is charged to operations ratably over the term of the lease, which results in deferred rent payable. This represents cumulative rent expense charged to operations from inception of the lease in excess of required lease payments.

8. LIABILITY SUBORDINATED TO THE CLAIMS OF GENERAL CREDITORS

The Company has a subordinated loan payable with a lender, which became effective on August 1, 2000 for \$25,000. The loan bears interest at a rate of ten percent (10%) per annum. The loan matures on August 31, 2006

The subordinated liability has been contributed under an agreement pursuant to the rules and regulations of the National Association of Securities Dealers, Inc. and the Securities and Exchange Commission.

The subordinated loan agreement can be withdrawn by the lender only at the stated maturity dates or may be prepaid under limited circumstances. Any subordinated debt can be repaid only if, after giving effect to such repayment, the Company meets net capital requirements governing withdrawal of subordinated debt. Interest expense on the subordinated liability was \$2,500 for the year ended June 30, 2004.

9. EMPLOYEE BENEFITS

The Company has a SIMPLE-IRA plan with a December 31 year-end. The Board of Directors has elected to contribute an amount equal to 3 percent of eligible employee compensation, subject to statutory limitations. The expense included in the financial statements related to this plan is approximately \$33,000 for the year ending June 30, 2004.

10. NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission's Net Capital 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 June 30, 2004, the Company had net capital of \$462,154, which exceeded the minimum requirement of \$100,000 by \$362,154. The Company's net capital ratio was .58 to 1.

LANTERN INVESTMENTS, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION (CONTINUED)

JUNE 30, 2004

11. RULE 15C3-3

The Company is exempt from the provisions of Rule 15c3-3 under paragraph (k)(2)(ii) in that the Company carries no margin accounts, promptly transmits all customer funds and delivers all securities received, does not otherwise hold funds or securities for or owe money or securities to customers and effectuates all financial transactions on behalf of customers on a fully disclosed basis