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

SEC FILE NUMBER  
B- **52909**

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 01/01/2003 AND ENDING 12/31/2003  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:  
**Donnelly, Penman, French, Haggarty & Co**  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY  
FIRM I.D. NO.

Donnelly, Penman, French, Haggarty & Co.  
(No. and Street)

17160 Kercheval Avenue, Grosse Pointe, Michigan 48230-1661  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
C. Kirk Haggarty (313) 446-9900  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

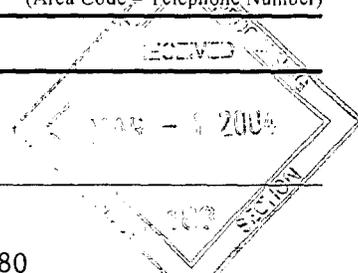
INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Godfrey Hammel, Danneels & Company, P.C.  
(Name - if individual, state last, first, middle name)

21420 Greater Mack Avenue, St. Clair Shores, Michigan 48080  
(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 29 2004**  
THOMSON FINANCIAL

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\*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)

*9/25*

OATH OR AFFIRMATION

I, C. Kirk Haggarty, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Donnelly, Penman, French, Haggarty & Co., 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:

BONNIE SOMERVILLE  
Notary Public, Macomb County, MI  
My Commission Expires 09-17-2008

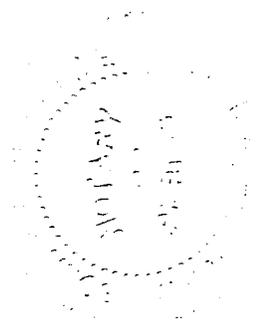
C. Kirk Haggarty  
Signature  
Managing Director  
Title

Bonnie Somerville  
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).



**DONNELLY, PENMAN, FRENCH,  
HAGGARTY & CO.**

**FINANCIAL STATEMENTS**

**Years Ended December 31, 2003 And 2002**

**DONNELLY, PENMAN, FRENCH, HAGGARTY & CO.**

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## INDEPENDENT AUDITOR'S REPORT

To The Board Of Directors And Shareholders

Donnelly, Penman, French, Haggarty & Co.

We have audited the accompanying balance sheets of Donnelly, Penman, French, Haggarty & Co. (an S Corporation) as of December 31, 2003 and 2002, and the related statements of changes in shareholders' equity and accumulated other comprehensive loss, operations, and cash flows for the years ended December 31, 2003 and 2002. 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 audits 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 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 Donnelly, Penman, French, Haggarty & Co. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years ended December 31, 2003 and 2002 in conformity with accounting principles generally accepted in the United States of America.

St. Clair Shores, Michigan  
January 16, 2004

**DONNELLY, PENMAN, FRENCH, HAGGARTY & CO.**  
**BALANCE SHEETS**  
**December 31, 2003 And 2002**

| <u>ASSETS</u>  | <u>2003</u> | <u>2002</u>  |
|--|-------------|--------------|
| Current Assets:                                      |             |              |
| Cash   | \$ 477,091  | \$ 168,477   |
| Accounts receivable                                  | 57,145      | 806,660      |
| Prepaid expense                                      | 38,617      | 33,362       |
| Total Current Assets                                 | 572,853     | 1,008,499    |
| Property And Equipment:                              |             |              |
| Office furniture                                     | 255,758     | 72,093       |
| Less: Accumulated depreciation and amortization      | 40,307      | 21,283       |
| Net Property And Equipment                           | 215,451     | 50,810       |
| Other Assets -                                       |             |              |
| Deposits   | 760         | 1,647        |
|  | \$ 789,064  | \$ 1,060,956 |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>          |             |              |
| Current Liabilities:                                 |             |              |
| Accounts payable                                     | \$ 12,731   | \$ 2,016     |
| Accrued expenses                                     | 178,831     | 100,000      |
| Notes payable - short term portion (Note 3)          | 58,213      | -            |
| Capital lease payable - short term portion (Note 3A) | 29,139      | -            |
| Accrued single business tax                          | 20,757      | 19,590       |
| Accrued city income tax                              | -           | 1,167        |
| Total Current Liabilities                            | 299,671     | 122,773      |
| Notes payable-long-term portion (Note 3)             | 23,113      | -            |
| Capital lease payable-long-term portion (Note 3A)    | 49,329      | -            |
| Total Long Term Portion                              | 72,442      | -            |
| Shareholders' Equity:                                |             |              |
| Common stock (Note 4)                                | 116,100     | 130,209      |
| Paid-in capital                                      | 11,993      | 11,993       |
| Accumulated other comprehensive loss (Note 2)        | (60,000)    | (60,000)     |
| Retained earnings                                    | 348,858     | 855,981      |
| Total Shareholders' Equity                           | 416,951     | 938,183      |
|  | \$ 789,064  | \$ 1,060,956 |

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

**DONNELLY, PENMAN, FRENCH, HAGGARTY & CO.**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For The Years Ended December 31, 2003 And 2002**

|  | <u>2003</u>                  | <u>2002</u>                  |
|--|------------------------------|------------------------------|
| Common Stock:                              |                              |                              |
| Beginning Balance                          | \$ 130,209                   | \$ 130,209                   |
| Amount Received For Additional Shares      | 5,224                        | -                            |
| Amount (Paid) For Share Redemptions        | <u>(19,333)</u>              | <u>-</u>                     |
| Ending Balance                             | <u>116,100</u>               | <u>130,209</u>               |
| <br>Paid-in Capital -                      |                              |                              |
| Beginning And Ending Balance               | <u>11,993</u>                | <u>11,993</u>                |
| <br>Accumulated Other Comprehensive Loss - |                              |                              |
| Beginning And Ending Balance               | <u>(60,000)</u>              | <u>(60,000)</u>              |
| Retained Earnings:                         |                              |                              |
| Beginning Balance (Deficit)                | 855,981                      | (4,532)                      |
| Net Income (Loss)                          | <u>(507,123)</u>             | <u>860,513</u>               |
| Ending Balance                             | <u>348,858</u>               | <u>855,981</u>               |
| <br>Total Shareholders' Equity             | <br><u><u>\$ 416,951</u></u> | <br><u><u>\$ 938,183</u></u> |

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

**DONNELLY, PENMAN, FRENCH, HAGGARTY & CO.**  
**STATEMENTS OF OPERATIONS**  
For The Years Ended December 31, 2003 And 2002

|   | <u>2003</u>         | <u>2002</u>       |
|---|---------------------|-------------------|
| Michigan Office                         |                     |                   |
| Professional Services Billed            | \$ 2,570,361        | \$ 2,860,618      |
| Expenses:                               |                     |                   |
| Client relations                        | 12,054              | 15,330            |
| Computer supplies                       | 251                 | 1,107             |
| Depreciation                            | 25,223              | 12,938            |
| Dues and subscriptions                  | 17,559              | 29,580            |
| Insurance - health, life and disability | 116,265             | 96,962            |
| Insurance - other                       | 9,745               | 8,479             |
| Interest                                | 3,420               | 110               |
| Leased equipment                        | 30,004              | 42,096            |
| Leased furniture                        | 23,549              | 23,938            |
| Licenses                                | 6,575               | 6,608             |
| Marketing and promotion                 | 71,108              | 94,586            |
| Meals and entertainment                 | 11,211              | 11,464            |
| Office supplies and expense             | 45,405              | 35,089            |
| Outside services                        | 8,482               | 15,578            |
| Automobile expenses                     | 35,918              | 35,528            |
| Parking expense                         | 6,326               | 6,390             |
| Postage and delivery                    | 4,065               | 9,790             |
| Professional services                   | 70,021              | 157,865           |
| Rent                                    | 122,315             | 96,648            |
| Repairs and maintenance                 | 1,019               | 4,330             |
| Research                                | 15,994              | 22,998            |
| Section 125 plan                        | -                   | 1,132             |
| Single business tax and other           | 20,769              | 34,727            |
| Telephone                               | 25,758              | 35,268            |
| Training and continuing education       | 3,601               | 2,207             |
| Travel                                  | 13,760              | 46,953            |
| Utilities                               | 4,467               | 5,001             |
| Wages                                   | 2,162,935           | 1,271,962         |
| Retirement plan expense                 | 183,236             | 114,787           |
| Less: Reimbursed expenses               | (27,067)            | (236,840)         |
| Total Expenses                          | <u>3,023,968</u>    | <u>2,002,611</u>  |
| Michigan Office Operating Income (Loss) | <u>\$ (453,607)</u> | <u>\$ 858,007</u> |

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

**DONNELLY, PENMAN, FRENCH, HAGGARTY & CO.**  
**STATEMENTS OF OPERATIONS**  
**For The Years Ended December 31, 2003 And 2002**

|                                      | <u>2003</u>                | <u>2002</u>              |
|--------------------------------------|----------------------------|--------------------------|
| Ohio Office                          |                            |                          |
| Professional Services Billed         | \$ -                       | \$ -                     |
| Expenses:                            |                            |                          |
| Trading benefits                     | 368                        | -                        |
| Equipment                            | 889                        | -                        |
| Insurance                            | 548                        | -                        |
| Lease                                | 956                        | -                        |
| Legal                                | 1,585                      | -                        |
| NASD fees                            | 928                        | -                        |
| Outside services                     | 329                        | -                        |
| Postage                              | 78                         | -                        |
| Salary                               | 40,128                     | -                        |
| Supplies                             | 712                        | -                        |
| Telephone and cable                  | 1,111                      | -                        |
| Travel and entertainment             | 3,705                      | -                        |
| Total Expenses                       | <u>51,337</u>              | <u>-</u>                 |
| Ohio Office Operating Loss           | <u>(51,337)</u>            | <u>-</u>                 |
| Total Office Operating Income (Loss) | (504,944)                  | 858,007                  |
| Interest Income                      | 1,621                      | 2,506                    |
| Loss On Sale Of Fixed Assets         | <u>(3,800)</u>             | <u>-</u>                 |
| Net Income (Loss)                    | <u><u>\$ (507,123)</u></u> | <u><u>\$ 860,513</u></u> |

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

**DONNELLY, PENMAN, FRENCH, HAGGARTY & CO.**  
**STATEMENTS OF CASH FLOWS**  
**For The Years Ended December 31, 2003 And 2002**

|  | <b>2003</b>  | <b>2002</b> |
|--|--------------|-------------|
| <b>Cash Flows From Operating Activities:</b>   |              |             |
| Net income (loss)  | \$ (507,123) | \$ 860,513  |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |              |             |
| Depreciation   | 25,223       | 12,938      |
| Loss on disposal of fixed asset  | 3,800        | -           |
| (Increase) decrease in:  |              |             |
| Accounts receivable  | 749,515      | (788,679)   |
| Prepaid expenses   | (5,255)      | (6,330)     |
| Deposits   | 887          | 19,287      |
| Increase (decrease) in:  |              |             |
| Accounts payable   | 10,715       | (9,273)     |
| Accrued expenses   | 78,831       | 58,084      |
| Expense advance  | -            | (10,000)    |
| Accrued income and other taxes   | -            | 20,757      |
| Net Cash Provided By Operating Activities  | 356,593      | 157,297     |
| <b>Cash Flows Used By Investing Activities -</b>   |              |             |
| Purchase of fixed assets   | (65,547)     | (16,601)    |
| <b>Cash Flows From Financing Activities:</b>   |              |             |
| Proceeds from debt   | 50,000       | -           |
| Payments on debt   | (18,323)     | (86,000)    |
| Common stock issued (redeemed) - net   | (14,109)     | -           |
| Net Cash Provided (Used) By Financing Activities   | 17,568       | (86,000)    |
| Net Increase In Cash And Cash Equivalents  | 308,614      | 54,696      |
| Cash And Cash Equivalents At Inception Date  | 168,477      | 113,781     |
| Cash And Cash Equivalents At End Of Year   | \$ 477,091   | \$ 168,477  |
| <b>Supplemental Disclosures Of Cash Flow Information:</b>                                |              |             |
| Cash paid during the year for:   |              |             |
|  | <b>2003</b>  | <b>2002</b> |
| Interest   | \$ 3,420     | \$ 110      |
| Income taxes   | \$ 316       | \$ 4,429    |
| <b>Non-cash financing transactions</b>   |              |             |
| Purchase of fixed assets   | \$ 195,665   | \$ 16,601   |
| Less trade-in allowance granted  | (2,000)      | -           |
| Less amounts paid by lenders   | (128,118)    | -           |
| Cash paid for purchases of fixed assets  | \$ 65,547    | \$ 16,601   |

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

**DONNELLY, PENMAN, FRENCH, HAGGARTY & CO.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2003 And 2002**

**Note 1 - SIGNIFICANT ACCOUNTING POLICIES**

Nature Of Business

The Company is a closely-held corporation based in Detroit, Michigan, and is a full-service investment banking firm providing comprehensive financial advisory services to both public and private companies, which are organized into industry groups, with particular emphasis in manufacturing, financial services, technology, distribution, services and retail.

Depreciation

Depreciation is charged against operations over the estimated useful lives of the assets under the straight-line method. Amortization of assets acquired under a capital lease is computed under the same method as depreciation.

Concentration Of Credit Risk

The Company maintains cash balances at a financial institution located in southeast Michigan. Accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$100,000 per financial institution and the Securities Investor Protection Corporation up to \$100,000 for money market funds. At December 31, 2003 and 2002, the Company had \$381,236 and \$104,819 of uninsured cash.

The Company extends credit to its customers in the ordinary course of business and generally requires no collateral.

Definition Of Cash

For purposes of the balance sheets and the statements of cash flows, the Company considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. These include the Company's investments in money market funds.

Advertising Costs

Advertising costs are expensed as incurred.

Use Of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Although actual results may differ from those estimates, management periodically evaluates the relationship between actual and estimated information to monitor the reliability of the estimated information used.

**DONNELLY, PENMAN, FRENCH, HAGGARTY & CO.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2003 And 2002**

**Note 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Accounts Receivable

The Company uses the reserve for bad debt method of valuing doubtful accounts receivable which is based on historical experience, coupled with a review of the current status of existing receivables. For 2003 and 2002, all accounts were believed to be collectible. No reserve was therefore deemed necessary.

Income Taxes

The Company, with the consent of its shareholders, has elected to have its income taxed under the provisions of Subchapter S of the Internal Revenue Code, which provides that in lieu of corporation income taxes, the shareholders are taxed on the Company's taxable income. Therefore, no provision or liability for federal income tax is reflected in these financial statements. This election became effective August 11, 2000.

**Note 2 - INVESTMENTS**

The Company holds 60,000 shares of common stock of the Center For American Jobs, Inc. (a Michigan corporation), which was issued in November 2000 as payment for services performed. The shares are considered to have no current market value as of December 31, 2003 and 2002, and the unrealized holding loss has been charged to Other Comprehensive Income.

**Note 3 - NOTES PAYABLE**

|   | 2003      | 2002 |
|---|-----------|------|
| Bank loan - monthly payments of \$794 including interest at 4.75%; matures in July, 2007; collateralized by a vehicle with a book value of \$33,582 at December 31, 2003. | \$ 31,326 | \$ - |

**DONNELLY, PENMAN, FRENCH, HAGGARTY & CO.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2003 And 2002**

**Note 3 - NOTES PAYABLE (CONTINUED)**

|   | <u>2003</u>      | <u>2002</u> |
|---|------------------|-------------|
| Note payable due on demand after July 1, 2004;<br>interest payable at 6%. | <u>50,000</u>    | <u>-</u>    |
| Total notes payable   | 81,326           | -           |
| Less current portion  | <u>58,213</u>    | <u>-</u>    |
| Long-term portion   | <u>\$ 23,113</u> | <u>\$ -</u> |
| Maturities in each of the next four years are as follows:                 |                  |             |
| Year ended December 31, 2004  | \$ 58,213        |             |
| 2005  | 8,613            |             |
| 2006  | 9,031            |             |
| 2007  | <u>5,469</u>     |             |
|   | <u>\$ 81,326</u> |             |

**Note 3A - CAPITAL LEASE PAYABLE**

|  | <u>2003</u>      | <u>2002</u> |
|--|------------------|-------------|
| Capital lease - monthly payments of \$2,955 including<br>Interest imputed at 9.682%; matures in May, 2006;<br>Collateralized by furniture and equipment with a total<br>Book value of \$86,696 at December 31, 2003. | \$ 78,468        | \$ -        |
| Less current portion   | <u>29,139</u>    | <u>-</u>    |
| Long-term portion  | <u>\$ 49,329</u> | <u>\$ -</u> |

**DONNELLY, PENMAN, FRENCH, HAGGARTY & CO.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2003 And 2002**

**Note 3A - CAPITAL LEASE PAYABLE (CONTINUED)**

Amortization of the capital lease assets for 2003 and 2002 is \$6,786 and \$-0-, and is included in depreciation expense in the financial statements.

Maturities in each of the next four years are as follows:

|                              |                  |
|------------------------------|------------------|
| Year ended December 31, 2004 | \$ 29,138        |
| 2005                         | 32,087           |
| 2006                         | 17,243           |
| 2007                         | <u>-</u>         |
|                              | <u>\$ 78,468</u> |

**Note 4 - COMMON STOCK**

\$5.00 stated value, 60,000 shares authorized; 9,675 and 10,850 shares issued and outstanding at December 31, 2003 and 2002.

During 2002, 452 shares were issued to new shareholders and 1,628 shares were redeemed from one shareholder.

**Note 5 - QUALIFIED RETIREMENT PLAN**

Effective January 1, 2001, the Company adopted a Money Purchase Plan and Trust, for the exclusive benefit of all eligible employees and their beneficiaries who have attained the age of twenty-one with one year of service and have worked at least 1,000 hours during a plan year. Each year the Company will make contributions to the Plan in the amount of 3.7% of each eligible employee's compensation. Also, if the Plan is considered to be top-heavy, the Company will be required to change the amount of the contribution to the Plan to conform with IRS regulations. The Company's contribution's were \$-0- for 2003 and 2002. In 2002, this plan was merged into the profit-sharing plan, so no contribution was required.

**DONNELLY, PENMAN, FRENCH, HAGGARTY & CO.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2003 And 2002**

**Note 5 - QUALIFIED RETIREMENT PLAN (CONTINUED)**

The Company has also adopted a Profit Sharing Plan and Trust effective January 1, 2001, for the exclusive benefit of all eligible employees and their beneficiaries who have attained the age of twenty-one with one year of service and have worked at least 1,000 hours during a plan year. Each year the Company may make a contribution to the Plan at the discretion of the Board of Directors. The Company's contribution's were \$178,831 and \$100,000 for 2003 and 2002, respectively.

**Note 6 - LEASES**

The Company is leasing various office and computer equipment, and furniture and office space (See Note 8) under leases expiring at various dates through July, 2008. Minimum future rental payments under these non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2003 for each of the next five years and in the aggregate are:

|                                      |                   |
|--------------------------------------|-------------------|
| Year Ended December 31, 2004         | \$ 146,352        |
| 2005                                 | 143,382           |
| 2006                                 | 138,892           |
| 2007                                 | 135,852           |
| 2008                                 | <u>79,247</u>     |
| Total minimum future rental payments | <u>\$ 643,725</u> |

**Note 7 - REGULATORY REQUIREMENTS**

The Company is subject to a minimum net capital rule under the Securities and Exchange Act of 1934 (the Rule) and computes its net capital under the alternative method permitted by this Rule, which requires the maintenance of minimum net capital, as defined, of the greater of 6-2/3% of aggregate indebtedness or a minimum amount that is based on the type of business conducted by the Company (\$100,000). At December 31, 2003 net capital was \$190,539, which was \$90,539 in excess of its minimum dollar amount.

**DONNELLY, PENMAN, FRENCH, HAGGARTY & CO.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2003 And 2002**

**Note 7 - REGULATORY REQUIREMENTS (CONTINUED)**

The Company was also in compliance at December 31, 2002. At December 31, 2002 the Company's net capital requirement was \$5,000. Net capital exceeded this minimum by approximately \$37,000.

**Note 8 - RELATED PARTIES**

The Company leases office space from a Michigan LLC whose members are shareholders of the Company. The lease is considered to be at market rates, and is accounted for as an operating lease. Monthly payments of \$11,321 are due through July, 2008 and are included in the schedule of lease obligations in Note 6.

Certain Company shareholders have joined in an LLC for purposes of management of a mutual fund. The Company has advanced capital for start-up expenses, to be repaid as shares of the fund are sold to investors. The amount included in accounts receivable is approximately \$31,700 and is classified as current for GAAP purposes. The amount is classified as a non-allowable asset for purposes of Note 7.

**SUPPLEMENTARY INFORMATION**



## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To The Board Of Directors And Shareholders

Donnelly, Penman, French, Haggarty & Co.

Our report on our audits of the financial statements of Donnelly, Penman, French, Haggarty & Co. for the years ended December 31, 2003 and December 31, 2002 appears on page 2. Those audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information contained in the Computation of Net Capital, the Report Required by SEC Rule 17a-5j, and the Reconciliation of Part IIA for the year ended December 31, 2002 is presented for purposes of additional analysis of the financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Godfrey Hammel, Danneels & Company P.C.*

St. Clair Shores, Michigan  
January 16, 2004

**DONNELLY, PENMAN, FRENCH, HAGGARTY & CO.**  
**COMPUTATION OF NET CAPITAL**  
**DEC. 31, 2003**

**Net Capital Computation Under Sec Rule 15c3-1**

|      |  |            |
|------|--|------------|
| 1    | Total Ownership Equity from Statement of Financial Condition (Balance Sheet)                             | \$ 416,952 |
| 2    | Deduct ownership equity not allowable for Net Capital  | -          |
| 3    | Total Ownership Equity For Net Capital   | 416,952    |
|      | Add:   |            |
| 4.A. | Liabilities subordinated to claims of general creditors allowable in computation of net capital          | -          |
| 5    | Total capital and allowable subordinated liabilities   | 416,952    |
| 6.A. | Deduct:  |            |
|      | Fixed assets in excess of debt secured thereby   | 136,984    |
|      | Prepays  | 38,617     |
|      | Miscellaneous receivables  | 0          |
|      | Deposits   | 761        |
|      | Unsecured accrued income   | 57,145     |
|      |  | (233,507)  |
| 7    | Other additions and/or credits   | -          |
| 8    | Net capital before Haircuts on Securities positions  | 183,445    |
| 9    | Haircuts   | -          |
| 10   | Net Capital  | 183,445    |
|      | <b>Computation of Basic Net Capital Requirement</b>  |            |
|      | Part A   |            |
| 11   | Minimum net capital required (6-2/3% of Aggreg. Indebt.)   | 24,809     |
| 12   | Minimum dollar net capital requirement of reporting broker of dealer and min net cap req of subsidiaries | 100,000    |
| 13   | Net Capital Requirement (Larger of 11 or 12)   | 100,000    |
| 14   | Excess net capital (line 10 - line 13)   | 83,445     |
| 15   | Excess net capital at 1000% (line 10 less 10% of AI)   | 146,234    |
|      | Percentage of aggregate indebtedness to net capital (AI / line 10)                                       | 202.85%    |

See auditor's report on supplemental information.



**Report required by SEC Rule 17a-5j**

SEC Rule 17a-5j requires a description of material inadequacies found to exist, or if none exist, a statement so stating.

Our audit of the Balance Sheets as of December 31, 2003 and 2002, and the related statements of retained earnings and accumulated comprehensive income, income and comprehensive income, and cash flows for the years then ended, disclosed no material inadequacies.

St. Clair Shores, Michigan  
January 16, 2004

See auditor's report on supplemental information.

**DONNELLY, PENMAN, FRENCH, HAGGARTY & CO.**  
**RECONCILIATION OF PART IIA**  
**December 31, 2003**

| ASSETS   | Allowable         | Non-Allowable     | Total             |
|--|-------------------|-------------------|-------------------|
| Total Assets per DPFH report                       | \$ 555,558        | \$ 233,506        | \$ 789,064        |
| Adjustments (reconciling items);                   |                   |                   |                   |
| Add trade accounts receivable                      | -                 | -                 | -                 |
| Add net fixed assets                               | -                 | -                 | -                 |
| Reclassify time deposit                            | -                 | -                 | -                 |
| Decline in market value of investment              | -                 | -                 | -                 |
| Add accrued interest on time deposit               | -                 | -                 | -                 |
| Add prepaids and security deposits                 | -                 | -                 | -                 |
| Adjusted total per Financial Statement             | <u>\$ 555,558</u> | <u>\$ 233,506</u> | <u>\$ 789,064</u> |
|  | AI Liab           | Non-AI Liab       | Total             |
| <b>LIABILITIES AND CAPITAL</b>                     |                   |                   |                   |
| Total Liabilities per DPFH report                  | \$ 365,019        | \$ -              | \$ 365,019        |
| Adjustments (reconciling items);                   |                   |                   |                   |
| Add trade accounts payable<br>and accrued expenses | -                 | -                 | -                 |
| Accrued State Business Tax                         | -                 | -                 | -                 |
| Accrued Deferred Compensation                      | 7,094             | -                 | 7,094             |
| Total liabilities                                  | <u>372,113</u>    | <u>-</u>          | <u>372,113</u>    |
| Common stock                                       |                   |                   | 116,100           |
| Additional paid in capital                         |                   |                   | 11,993            |
| Retained earnings                                  |                   |                   | 348,858           |
|  |                   |                   | <u>(60,000)</u>   |
| Total ownership equity                             |                   |                   | <u>416,951</u>    |
|  | <u>\$ 372,113</u> | <u>\$ -</u>       | <u>\$ 789,064</u> |
| Net capital per DPFH report                        | \$ 190,539        |                   |                   |
| Adjustments:                                       |                   |                   |                   |
| Increases  | -                 |                   |                   |
| Decreases  | <u>(7,094)</u>    |                   |                   |
| Net capital, adjusted                              | <u>\$ 183,445</u> |                   |                   |

Explanation of reconciling items:

Accrued deferred compensation was increased to the maximum allowable per the actuary's calculation.

See auditor's report on supplemental information.