

50  
415



04015326

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: October 31, 2004  
Estimated average burden  
hours per response..... 12.00

4/12

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

SEC MAIL RECEIVED  
MAR 30 2004  
158  
SECTION 17A-5  
WASHINGTON, D.C. PROCESSING

SEC FILE NUMBER  
8-33033

50520

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: CAPITAL RESOURCE FINANCIAL SERVICES LLC

OFFICIAL USE ONLY

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

FIRM I.D. NO.

200 WEST ADAMS STREET, SUITE 1800

(No. and Street)

CHICAGO

IL

60606

(City)

(State)

(Zip Code)

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

MATTHEW REYNOLDS

(312) 575-1815

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

KAUFMANN, GALLUCCI & GRUMER LLP

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

ONE BATTERY PARK PLAZA

NEW YORK

NY

10004

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

APR 07 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.

SEC 1410 (06-02)

Handwritten signature and '2A' mark

OATH OR AFFIRMATION

I, MATTHEW REYNOLDS, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CAPITAL RESOURCE FINANCIAL SERVICES 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:

ROSLYN S. HARPER
NOTARY PUBLIC, STATE OF NEW YORK
No. 01HA6070734
QUALIFIED IN KINGS COUNTY
MY COMMISSION EXPIRES MARCH 11, 2006

Roslyn S. Harper
Notary Public

Matthew Reynolds
Signature
PRESIDENT
Title

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
(b) Statement of Financial Condition.
(c) Statement of Operations.
(d) Statement of 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.
(o) Independent auditor's report on internal control.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



**CAPITAL RESOURCE FINANCIAL SERVICES LLC**

**REPORT ON STATEMENT OF  
FINANCIAL CONDITION**

**AS OF DECEMBER 31, 2003**

CAPITAL RESOURCE FINANCIAL SERVICES LLC

INDEX

	<u>Page</u>
Independent Auditor's Report	2
Statement of financial condition	3
Notes to financial statement	4-5



**KAUFMANN,  
GALLUCCI &  
GRUMER LLP**

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Member of Capital Resource Financial Services LLC:

We have audited the accompanying statement of financial condition of Capital Resource Financial Services LLC (the "Company") as of December 31, that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the 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 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. 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 Capital Resource Financial Services LLC as of December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

March 4, 2004

*Kaufmann Gallucci & Grumer LLP*

**CAPITAL RESOURCE FINANCIAL SERVICES LLC**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2003**

ASSETS

Cash and cash equivalents	\$ 81,965
Cash segregated under federal regulations	10,004
Due from broker dealers	229,528
Prepaid expenses and other assets	<u>19,921</u>
	<u>\$ 341,418</u>

MEMBER'S EQUITY

Member's equity	<u>\$ 341,418</u>
-----------------	-------------------

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

**CAPITAL RESOURCE FINANCIAL SERVICES LLC**  
**NOTES TO FINANCIAL STATEMENT**  
**DECEMBER 31, 2003**

**NOTE 1 - ORGANIZATION**

Capital Resource Financial Services LLC (the Company) was formed during August 1997 as Capital Resource Investments III, a limited liability company. Its name was subsequently changed to Capital Resource Financial Services LLC in 1998. The Company is a wholly-owned subsidiary of CR Holdings, LLC (the Parent) and is economically dependent on the Parent and its affiliates.

The Company is a broker-dealer in securities, which is regulated by industry rules developed through the Securities Exchange Act of 1934 and rules and regulations of the National Association of Securities Dealers. Until March 2003, the Company cleared all securities transactions through clearing brokers on a fully disclosed basis. The Company has no direct trading activities as a dealer, rather it acted as an introducing broker. During 2003, the Parent sold substantially all of the assets of the Company to a major bank (see also Note 2).

**NOTE 2 - RELATED PARTY TRANSACTIONS AND NATURE OF THE BUSINESS**

An affiliate provided investment performance evaluation, consulting, research, and related services to employee benefit plan sponsors and investment advisors throughout the United States. The affiliate's investment performance services were paid on a soft-dollar basis (see next paragraph) from commissions on trades conducted through the Company. Most of the Company's commission volume was from these customers. During 2003, the Company incurred \$406,967 for the affiliate's services.

Payment for the above services and other costs incurred on behalf of the Company's clients were funded by the allocation of an agreed upon portion of its commission revenue for these purposes ("commission recapture") from its customers. Commission recapture expense was recorded simultaneously with the recognition of commission income. Consulting fees were recognized as a reduction of commission recapture when the affiliate presents its charge for services rendered to the Company.

Certain research recipients have chosen to continue the relationship that existed before the transfer. As a result, the Company continues to earn commissions related to services that are being rendered as the business winds down.

The above transactions were recorded on a trade date basis.

The Company has agreed to pay management fees to the Parent to cover administrative support, salaries, office space, and utilities. The Company recorded expense of \$381,652 in 2003 for such support. Additionally, the Company recognized in other operating expense a charge to the affiliate in the amount of \$557,396. This expense is related to transition investment portfolios and other activities for consulting clients of the affiliate. The charge is equal to these revenues.

**CAPITAL RESOURCE FINANCIAL SERVICES LLC**  
**NOTES TO FINANCIAL STATEMENT**  
**DECEMBER 31, 2003**

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES**

The preparation of financial statements in conformity with accounting principles generally accepted 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, and the reported amounts of revenues and expenses during the year then ended. Actual results could differ from those estimates.

As more fully described in Note 2, the Company records commission income and related consulting and commission recapture expense on a trade date basis.

Substantially all of the Company's financial assets and liabilities are carried at fair value or at amounts which, because of the short-term nature of the financial instruments, approximate current fair value.

Cash and cash equivalents consists of cash and highly liquid investments with maturities of 90 days or less.

The Company maintains its cash in bank accounts which, at times, may exceed federally insured limits.

Under the applicable provisions of the Internal Revenue Code, the Company is generally not subject to federal corporate income taxes, nor is the Parent. Instead, the members of the Parent are liable for individual federal income taxes on their respective shares of the Parent's taxable income, which includes the Company's income. The tax bases of assets and liabilities are consistent with the current reported bases.

**NOTE 4 - NET CAPITAL REQUIREMENT**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC 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. Net capital and aggregate indebtedness change from day to day. At December 31, 2003, the Company had net capital of \$321,497 which was \$71,497 in excess of the required minimum net capital at that date of \$250,000.

Effective January 14, 2004, the Company applied to and received approval from its self-regulatory authority for a reduction in the required minimum net capital of the Company from \$250,000 to \$5,000.