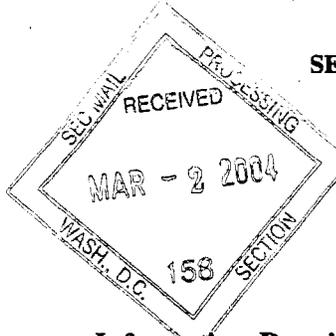


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3/22



BB 3/17



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL
OMB Number: 3235-0123
Expires: September 30, 1998
Estimated average burden
hours per response . . . 12.00

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

SEC FILE NUMBER
8- 33559

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:

Phase II Financial, Ltd.

OFFICIAL USE ONLY
FIRM ID. NO.

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

125 Broad Street

(No. and Street)

New York

NY

10004

(City)

(State)

(Zip Code)

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

Albert G. Lowenthal

(212) 668-5782

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Sullivan, Bleakley & Company, LLP

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

116 W. Baltimore Avenue

Media

PA

19063

(Address)

(City)

(State)

Zip Code

CHECK ONE:

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

PROCESSED

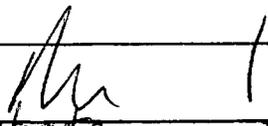
APR 01 2004

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).

OATH OR AFFIRMATION

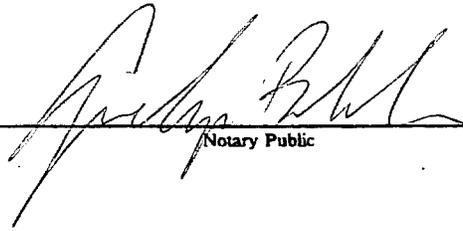
I, Albert G. Lowenthal, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Phase II Financial, Ltd., as of December 31, 2003, are true and correct. I further swear (or affirm) that neither the company 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:



Albert G. Signature Lowenthal

General Partner

Title



Notary Public

EVELYN BUKCHIN, ESQ.
NOTARY PUBLIC, State of New York
No. 02BU6077816
Qualified in Kings County
Commission Expires July 15, 2006

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.

N/A

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

TO BE COMPLETED WITH THE ANNUAL AUDIT REPORT ONLY:

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report

NAME (If Individual, state last, first, middle name)

Sullivan, Bleakley & Company, LLP

70

ADDRESS

116 W. Baltimore Avenue

71

Media

72

PA

73

19063

Number and Street

City

State

Zip Code

CHECK ONE

Certified Public Accountant

75

Public Accountant

76

Accountant not resident in United States
or any of its possessions

77

FOR SEC USE

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DO NOT WRITE UNDER THIS LINE... FOR SEC USE ONLY

WORK LOCATION	REPORT DATE MM/DD/YY	DOC. SEQ. NO.	CARD				
50	51	52	53				

SULLIVAN, BLEAKLEY & COMPANY, LLP

Certified Public Accountants

JOSEPH M. SULLIVAN, CPA
RALPH E. BLEAKLEY, CPA

MEMBERS
PENNA. INSTITUTE OF CPAS
AMERICAN INSTITUTE OF CPAS

116 W. BALTIMORE AVENUE
MEDIA, PA 19063
(610) 565-8810
FAX (610) 565-6074
Email: sbccpa@bigplanet.com

February 11, 2004

To the Partners of
Phase II Financial, Ltd.
New York, New York

We have audited the accompanying Statement of Financial Condition of Phase II Financial, Ltd. as of December 31, 2003 and the related Statements of Income and Expense, Ownership Equity and Statement of Cash Flows for the year then ended. 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 audit in accordance with generally accepted auditing standards 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 Phase II Financial, Ltd. as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles accepted in the United States of America.

Respectfully submitted,

Sullivan, Bleakley & Company, LLP

**FORM
X-17A-5**

FOCUS REPORT

(Financial and Operational Combined Uniform Single Report)

PART IIA 12

3/78

(Please read instructions before preparing Form.)

This report is being filed pursuant to (Check Applicable Block(s):

- 1) Rule 17a-5(a) 16 2) Rule 17a-5(b) 17 3) Rule 17a-11 18
 4) Special request by designated examining authority 19 5) Other 26

NAME OF BROKER-DEALER

Phase II Financial, Ltd. 13

ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do Not Use P.O. Box No.)

125 Broad Street 20

(No. and Street)

New York 21

NY 22

10004 23

(City)

(State)

(Zip Code)

SEC FILE NO.

8-33559 14

FIRM ID. NO.

16249 15

FOR PERIOD BEGINNING (MM/DD/YY,

1/1/2003 24

AND ENDING (MM/DD/YY)

12/31/2003 25

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

Albert G. Lowenthal, General Partner 30

(Area Code)—Telephone No.

(212) 668-5782 31

NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT:

32

34

36

38

OFFICIAL USE

33

35

37

39

DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNTS? YES 40 NO 41

CHECK HERE IF RESPONDENT IS FILING AN AUDITED REPORT 42

EXECUTION:

The registrant/broker or dealer submitting this Form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated the 24th day of February 19 2004

Manual signatures of

1) [Signature]
Principal Executive Officer or Managing Partner

2) _____
Principal Financial Officer or Partner

3) _____
Principal Operations Officer or Partner

ATTENTION—Intentional misstatements or omissions of facts constitute Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 78:(a))

WORKING COPY

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER

Phase II Financial, Ltd.

N3

100

**STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING AND
CERTAIN OTHER BROKERS OR DEALERS**

as of (MM/DD/YY) 12/31/2003 99
 SEC FILE NO. 8-33559 98
 Consolidated 198
 Unconsolidated 199

ASSETS

Allowable

Non-Allowable

Total

	\$	250	200		\$	250	750
1. Cash							
2. Receivables from brokers or dealers:							
A. Clearance account	▼	3,901,744	295			3,901,744	810
B. Other			300	\$	550		810
3. Receivables from non-customers			355	\$	94 600 ▼	94	830
4. Securities and spot commodities owned, at market value:							
A. Exempted securities			418				
B. Debt securities		2,019,190	419				
C. Options			420				
D. Other securities		927,515	424				
E. Spot commodities	▼		430			2,946,705	850
5. Securities and/or other investments not readily marketable:							
A. At cost ▼ \$ 14,621,759			130				
B. At estimated fair value			440	\$	88,357,858 610	88,357,858	860
6. Securities borrowed under subordination agree- ments and partners' individual and capital securities accounts, at market value:			460			630	880
A. Exempted securities \$			150				
B. Other securities \$			160				
7. Secured demand notes			470			640	890
market value of collateral:							
A. Exempted securities \$			170				
B. Other securities \$			180				
8. Memberships in exchanges:							
A. Owned, at market \$			190				
B. Owned, at cost					650		
C. Contributed for use of the company, at market value				▼	660		900
9. Investment in and receivables from affiliates, subsidiaries and associated partnerships			480			670	910
10. Property, furniture, equipment, leasehold improvements and rights under lease agreements, at cost-net of accumulated depreciation and amortization			490			680 ▼	920
11. Other assets			535			735	930
12. TOTAL ASSETS	▼	\$ 6,848,699	540	\$	88,357,952 740	\$ 95,206,651	940

OMIT PENNIES

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER

Phase II Financial, Ltd.

as of 12/31/03

**STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING
AND CERTAIN OTHER BROKERS OR DEALERS**

LIABILITIES AND OWNERSHIP EQUITY

<u>Liabilities</u>	<u>A.I. Liabilities</u>	<u>Non-A.I. Liabilities</u>	<u>Total</u>
13. Bank loans payable.....	\$ 1045	\$ 1255	\$ 1470
14. Payable to brokers or dealers:			
A. Clearance account.....	1114	1315	1560
B. Other.....	1115	1305	1540
15. Payable to non-customers.....	1155	1355	1610
16. Securities sold not yet purchased, at market value.....		1360	1620
17. Accounts payable, accrued liabilities, expenses and other.....	7,500 1205	1385	7,500 1685
18. Notes and mortgages payable:			
A. Unsecured.....	1210		1690
B. Secured.....	1211	1390	1700
19. Liabilities subordinated to claims of general creditors:			
A. Cash borrowings:			
1. from outsiders \$.....	970		
2. Includes equity subordination (15c3-1 (d)) of \$.....	980		
B. Securities borrowings, at market value:...		1410	1720
from outsiders \$.....	990		
C. Pursuant to secured demand note collateral agreements:.....		1420	1730
1. from outsider: \$.....	1000		
2. -Includes equity subordination (15c3-1 (d)) of \$.....	1010		
D. Exchange memberships contributed for use of company, at market value.....		1430	1740
E. Accounts and other borrowings not qualified for net capital purposes.....	1220	1440	1750
20. TOTAL LIABILITIES	\$ 7,500 1230	\$ 1450	\$ 7,500 1760

Ownership Equity

21. Sole proprietorship.....		\$ 1770
22. Partnership (limited partners.....)	\$ 32,267,374 1920	\$ 95,199,151 1780
23. Corporation:		
A. Preferred stock.....		1791
B. Common stock.....		1792
C. Additional paid-in capital.....		1793
D. Retained earnings.....		1794
E. Total.....		1795
F. Less capital stock in treasury.....		1796
24. TOTAL OWNERSHIP EQUITY		\$ 95,199,151 1800
25. TOTAL LIABILITIES AND OWNERSHIP EQUITY		\$ 95,206,651 1810

OMIT PENNIES

**FINANCIAL AND OPERATION COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER Phase II Financial, Ltd. as of 12/31/03

COMPUTATION OF NET CAPITAL

1. Total ownership equity from Statement of Financial Condition.....	\$	95,199,151		3480
2. Deduct ownership equity not allowable for Net Capital.....	∇			3490
3. Total ownership equity qualified for Net Capital.....		95,199,151		3500
4. Add:				
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital.....				3520
B. Other (deductions) or allowable credits (List).....				3525
5. Total capital and allowable subordinated liabilities.....	\$	95,199,151		3530
6. Deductions and/or charges:				
A. Total nonallowable assets from Statement of Financial Condition (Notes B and C).....	\$	88,357,952		3540
B. Secured demand note deficiency.....				3590
C. Commodity futures contracts and spot commodities: proprietary capital charges.....				3600
D. Other deductions and/or charges.....				3610
7. Other additions and/or allowable credits (List).....		88,357,952		3620
8. Net capital before haircuts on securities positions.....	∇	6,841,199		3630
9. Haircuts on securities (computed, where applicable, pursuant to 15c3-1 (f)):				
A. Contractual securities commitments.....	\$			3660
B. Subordinated securities borrowings.....				3670
C. Trading and investment securities:				
1. Exempted securities.....	∇			3735
2. Debt securities.....		2,019,190		3733
3. Options.....				3730
4. Other securities.....		139,127		3734
D. Undue Concentration.....				3650
E. Other (List)..... Money Fund		78,035		3736
10. Net Capital.....	\$	4,604,847		3740
				3750

OMIT PENNIES

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER	Phase II Financial, Ltd.	as of <u>12/31/03</u>
-------------------------	--------------------------	-----------------------

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A

11. Minimum net capital required (6-2/3% of line 19)	\$ 500	3756
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$ 100,000	3758
13. Net capital requirement (greater of line 11 or 12)	\$ 100,000	3760
14. Excess net capital (line 10 less 13)	\$ 4,504,847	3770
15. Excess net capital at 1000% (line 10 less 10% of line 19)	\$ 4,604,097	3780

COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.L. liabilities from Statement of Financial Condition	\$ 7,500	3790
17. Add:		
A. Drafts for immediate credit	\$ 3800	
B. Market value of securities borrowed for which no equivalent value is paid or credited	\$ 3810	
C. Other unrecorded amounts (List)	\$ 3820	3830
19. Total aggregate indebtedness	\$ 7,500	3840
20. Percentage of aggregate indebtedness to net capital (line 19 ÷ by line 10)	%	0 3850
21. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1 (d)	%	0 3860

COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT

Part B

22. 4% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits	\$	3870
23. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$ N	3880
24. Net capital requirement (greater of line 22 or 23)	\$ /	3760
25. Excess net capital (line 10 less 24)	\$ A	3910
26. Net capital in excess of the greater of:		
A. 6% of combined aggregate debit items or \$120,000	\$	3920
B. 7% of combined aggregate debit items or \$120,000	\$	3930

OMIT PENNIES

NOTES:

- (A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
1. Minimum dollar net capital requirement, or
 2. 6-2/3% of aggregate indebtedness or 4% of aggregate debits if alternative method is used.
- (B) Do not deduct the value of securities borrowed under subordination agreements or secured demand note covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.
- (C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER Phase II Financial, Ltd.

For the period (MMDDYY) from 1/1/03 2002 to 12/31/03 2003
 Number of months included in this statement 12 2003

STATEMENT OF INCOME (LOSS)

REVENUE

1. Commissions:		
a. Commissions on transactions in exchange listed equity securities executed on an exchange	\$	3935
b. Commissions on listed option transactions	✓	3938
c. All other securities commissions		3939
d. Total securities commissions		3940
2. Gains or losses on firm securities trading accounts		
a. From market making in options on a national securities exchange		3945
b. From all other trading	791,357	3949
c. Total gain (loss)	791,357	3950
3. Gains or losses on firm securities investment accounts	22,643,128	3952
4. Profit (loss) from underwriting and selling groups	✓	3955
5. Revenue from sale of investment company shares		3970
6. Commodities revenue		3990
7. Fees for account supervision, investment advisory and administrative services		3975
8. Other revenue	1,028,316	3995
9. Total revenue	\$	24,462,801

EXPENSES

10. Salaries and other employment costs for general partners and voting stockholder officers	\$	4120
11. Other employee compensation and benefits	✓	4115
12. Commissions paid to other broker-dealers		4140
13. Interest expense		368
a. Includes interest on accounts subject to subordination agreements	4070	
14. Regulatory fees and expenses		820
15. Other expenses		162,158
16. Total expenses	\$	163,346

NET INCOME

17. Net income (loss) before Federal income taxes and items below (Item 9 less Item 16)	\$	24,299,455	4210
18. Provision for Federal income taxes (for parent only)	✓		4220
19. Equity in earnings (losses) of unconsolidated subsidiaries not included above			4222
a. After Federal income taxes of	4238		
20. Extraordinary gains (losses)			4224
a. After Federal income taxes of	4238		
21. Cumulative effect of changes in accounting principles			4225
22. Net income (loss) after Federal income taxes and extraordinary items	\$	24,299,455	4230

MONTHLY INCOME

23. Income (current month only) before provision for Federal income taxes and extraordinary items	\$	(2,866,416)	4211
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**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER Phase II Financial, Ltd.

For the period (MMDDYY) from 1/1/03 to 12/31/03

**STATEMENT OF CHANGES IN OWNERSHIP EQUITY
(SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)**

1. Balance, beginning of period	\$	67,337,680	4240
A. Net income (loss)		24,299,455	4250
B. Additions (Includes non-conforming capital of	\$	4262	4260
C. Deductions (Includes non-conforming capital of	\$	4272	4270
2. Balance, end of period (From item 1800)	\$	95,199,151	4290

**STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED
TO CLAIMS OF GENERAL CREDITORS**

3. Balance, beginning of period	\$	-0-	4300
A. Increases			4310
B. Decreases			4320
4. Balance, end of period (From item 3520)	\$	-0-	4330

OMIT PENNIES

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER	as of _____
-------------------------	-------------

Exemptive Provision Under Rule 15c3-3

25. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based (check one only)

- | | | |
|---|------|------|
| A. (k) (1)—\$2,500 capital category as per Rule 15c3-1 | | 4550 |
| B. (k) (2)(A)—"Special Account for the Exclusive Benefit of customers" maintained | | 4560 |
| C. (k) (2)(B)—All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm: <u>Oppenheimer & Co., Inc. #P-4077</u> | 4335 | X |
| D. (k) (3)—Exempted by order of the Commission | | 4580 |

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.

Type of Proposed withdrawal or Accrual See below for code to enter	Name of Lender or Contributor	Insider or Outsider? (In or Out)	Amount to be With- drawn (cash amount and/or Net Capital Value of Securities)	(MMDDYY) Withdrawal or Maturity Date	Expect to Renew (yes or no)
4600	4601	4602	4603	4604	4605
4610	4611	4612	4613	4614	4615
4620	4621	4622	4623	4624	4625
4630	4631	4632	4633	4634	4635
4640	4641	4642	4643	4644	4645
4650	4651	4652	4653	4654	4655
4660	4661	4662	4663	4664	4665
4670	4671	4672	4673	4674	4675
4680	4681	4682	4683	4684	4685
4690	4691	4692	4693	4694	4695
TOTAL \$			-0-	4699	

OMIT PENNIES

Instructions: Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c)(2)(iv), which could be required by the lender on demand or in less than six months.

- WITHDRAWAL CODE: DESCRIPTION**
1. Equity Capital
 2. Subordinated Liabilities
 3. Accruals
 4. 15c3-1(c)(2)(iv) Liabilities

Phase II Financial, Ltd.
Income & Expense Reconciliation With Company's Computation
December 31, 2003

Net Income as Reported by Company's Unaudited Focus Reports	24,439,702
LESS : Foreign tax withheld on dividend income at source (Canada) and carried as receivable on unaudited balance sheet	(140,247)
Net Income per Audited Focus Report	<u>24,299,455</u>

Phase II Financial, Ltd.
Net Capital Reconciliation with Company's Computation
December 31, 2003

Net Capital as Reported on Company's unaudited Part II Focus Reports	4,604,847
ADD: Reduction in nonallowable assets	140,247
LESS: Additional expense - foreign tax withheld	(140,247)
Net Capital per Audited Focus Report	<u><u>4,604,847</u></u>

Phase II Financial, Ltd.
Statement of Cash Flows
For the Calendar Year Ended December 31, 2003

Net income or (Loss)	24,299,455
Decrease in Receivables from Brokers	881,434
Net securities purchased and Change in Market Value	(28,753,296)
Capital Contributions	3,562,016
Increase in Cash and Cash Equivalents	<u>(10,391)</u>
Cash and Cash Equivalents at Beginning of Year	10,641
Cash and Cash Equivalents at End of Year	<u><u>250</u></u>

NOTES TO FINANCIAL STATEMENTS
PHASE II FINANCIAL, LTD.
DECEMBER 31, 2003

1. **ACCOUNTING METHOD**

The statements are prepared on the accrual method of accounting. For cash flow purposes, only the checking account balances are considered as cash and cash equivalents.

2. **INVESTMENTS**

Investments are stated at market value, with unrealized gain or loss recognized in income.

3. **INCOME TAXES**

The Company is a partnership and both Federal and New York income taxes are applicable credits flow-through to the partners.

4. **RESERVE REQUIREMENTS**

The Company does not carry any customer accounts or handle any securities. All customer accounts are cleared on an introducing fully disclosed basis with Fahnestock & Co. Inc. Therefore, the computation for determination of reserve requirements, and information relating to the possession or control requirements under Rule 15C 3-3 are not applicable.

5. **SAFEGUARDING PROCEDURES**

The Company does not carry customer accounts or handle securities and, therefore, there are no safeguarding procedures to review.

6. **MATERIAL INADEQUACIES**

No material inadequacies were found to exist at December 31, 2003, nor to have existed during the year ended December 31, 2003.

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	January 31, 1993
Estimated average burden hours per response	12.00

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FOCUS REPORT FORM X-17A-5 SCHEDULE I

(To be filed annually as of the end of calendar year)

Contents

Schedule I **INFORMATION REQUIRED OF ALL BROKERS
AND DEALERS PURSUANT TO RULE 17a-5**

* * * * *

Phase II Financial, Ltd.

Name of Respondent

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	January 31, 1993
Estimated average burden hours per response 12.00

Form
X-17A-5

FOCUS REPORT

(Financial and Operational Combined Uniform Single Report)

Schedule I

INFORMATION REQUIRED OF BROKERS AND DEALERS PURSUANT TO RULE 17a-5

Report for the Calendar Year 19²⁰⁰³
or if less than 12 months

Report for the period beginning and ending

SEC FILE NUMBER
B-33559 <input type="text" value="8011"/>

1. NAME OF BROKER DEALER Phase II Financial, Ltd.	<input type="text" value="8020"/>	N 9	OFFICIAL USE ONLY				<input type="text" value="8021"/>
			Firm No.	M	M	Y	

2. Name(s) of broker-dealer(s) merging with respondent during reporting period:

NAME:	<input type="text" value="8053"/>	OFFICIAL USE ONLY				<input type="text" value="8057"/>
NAME:	<input type="text" value="8054"/>	T40				<input type="text" value="8058"/>
NAME:	<input type="text" value="8055"/>					<input type="text" value="8059"/>
NAME:	<input type="text" value="8056"/>					<input type="text" value="8060"/>

3. Respondent conducts a securities business exclusively with registered broker-dealers:
(enter applicable code: 1 = Yes 2 = No)

4. Respondent is registered as a specialist on a national securities exchange:
(enter applicable code: 1 = Yes 2 = No)

5. Respondent makes markets in the following securities:

(a) equity securities	(enter applicable code: 1 = Yes 2 = No)	<input type="text" value="2"/>	<input type="text" value="8075"/>
(b) municipals	(enter applicable code: 1 = Yes 2 = No)	<input type="text" value="2"/>	<input type="text" value="8076"/>
(c) other debt instruments	(enter applicable code: 1 = Yes 2 = No)	<input type="text" value="2"/>	<input type="text" value="8077"/>

6. Respondent is registered solely as a municipal bond dealer:
(enter applicable code: 1 = Yes 2 = No)

7. Respondent is an insurance company or an affiliate of an insurance company:
(enter applicable code: 1 = Yes 2 = No)

8. Respondent carries its own public customer accounts:
(enter applicable code: 1 = Yes 2 = No)

9. Respondent's total number of public customer accounts:
(carrying firms filing X-17A-5 Part II only)

(a) Public customer accounts	<input type="text" value="0"/>	<input type="text" value="8080"/>
(b) Omnibus accounts	<input type="text" value="0"/>	<input type="text" value="8081"/>

10. Respondent clears its public customer and/or proprietary accounts:
(enter applicable code: 1 = Yes 2 = No)

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11. Respondent clears its public customer accounts in the following manner:

(enter a "1" in appropriate boxes)

- | | | |
|--|------|------|
| (a) Direct Mail (New York Stock Exchange Members Only) | 8086 | 8086 |
| (b) Self-Clearing | 8087 | 8087 |
| (c) Omnibus | 8088 | 8088 |
| (d) Introducing | 1 | 8089 |
| (e) Other | 8090 | 8090 |
| If Other please describe: | | |
| (f) Not applicable | 8091 | 8091 |

12. (a) Respondent maintains membership(s) on national securities exchange(s):

(enter applicable code: 1 = Yes 2 = No)

- | | | |
|---|---|------|
| (a) Respondent maintains membership(s) on national securities exchange(s) | 2 | 8100 |
|---|---|------|

(b) Names of national securities exchange(s) in which respondent maintains memberships:

(enter a "1" in appropriate boxes)

- | | | |
|-------------------------|------|------|
| (1) American | 8120 | 8120 |
| (2) Boston | 8121 | 8121 |
| (3) CBOE | 8122 | 8122 |
| (4) Midwest | 1 | 8123 |
| (5) New York | 8124 | 8124 |
| (6) Philadelphia | 8125 | 8125 |
| (7) Pacific Coast | 8126 | 8126 |
| (8) Other | 8129 | 8129 |

13. Employees:

- | | | |
|---|---|------|
| (a) Number of full-time employees | 0 | 8101 |
|---|---|------|

- | | | |
|---|---|------|
| (b) Number of full-time registered representatives employed by respondent included in 13(a) | 0 | 8102 |
|---|---|------|

- | | | |
|---|---|------|
| 14. Number of NASDAQ stocks respondent makes market | 0 | 8103 |
|---|---|------|

- | | | |
|---|---|------|
| 15. Total number of underwriting syndicates respondent was a member | 0 | 8104 |
|---|---|------|

(Carrying or clearing firms filing X-17A-5 Part II)

- | | | |
|--|------|------|
| 16. Number of respondent's public customer transactions: | 8105 | 8105 |
| Actual | 8106 | 8106 |
| Estimate | | |

- | | | |
|---|------|------|
| (a) equity securities transactions effected on a national securities exchange | 8107 | 8107 |
|---|------|------|

- | | | |
|--|------|------|
| (b) equity securities transactions effected other than on a national securities exchange | 8108 | 8108 |
|--|------|------|

- | | | |
|---|------|------|
| (c) commodity, bond, option, and other transactions effected on or off a national securities exchange | 8109 | 8109 |
|---|------|------|

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17. Respondent is a member of the Securities Investor Protection Corporation
 (enter applicable code: 1=Yes 2=No) 1¹³ 1 8111
-
18. Number of branch offices operated by respondent 0 8112
-
19. (a) Respondent directly or indirectly controls, is controlled by, or is under
 common control with, a U.S. bank
 (enter applicable code: 1=Yes 2=No) 2 8130
- (b) Name of parent or affiliate 8131
- (c) Type of Institution 8132
-
20. Respondent is an affiliate or subsidiary of a foreign broker-dealer or bank
 (enter applicable code: 1=Yes 2=No) 2 8113
-
21. (a) Respondent is a subsidiary of a registered broker-dealer
 (enter applicable code: 1=Yes 2=No) 2 8114
- (b) Name of parent ¹² 8116
-
22. Respondent is a subsidiary of a parent which is not a registered broker or dealer
 (enter applicable code: 1=Yes 2=No) 2 8115
-
23. Respondent sends quarterly statements to customers pursuant to
 10b-10(b) in lieu of daily or immediate confirmations:
 (enter applicable code: 1=Yes 2=No)* 2 8117
-
24. Aggregate Dollar Amount of Non-Exempted OTC Sales of Exchange-Listed
 Securities Done by Respondent During the Reporting Period \$ 0 8118

*Required in any Schedule I filed for the calendar year 1978 and succeeding years