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

SEC FILE NUMBER
8-17005

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
MAR 1 2004
DIVISION OF MARKET REGULATION

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: Bernard Herold & Co., Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

555 Madison Avenue

(No. and Street)

New York

NY

10022

(City)

(State)

(Zip Code)

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

Larry Herold

212-371-3950

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Citrin Cooperman & Company, LLP

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

529 Fifth Avenue

New York

NY

10017

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

MAR 30 2004

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)

6/1/04

OATH OR AFFIRMATION

I, Larry Herold, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Bernard Herold & Co., Inc., 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:

DAVID S. LOCKER
Notary Public, State of New York
No. 01LO4970053
Qualified in New York County
Commission Expires July 30, 2006

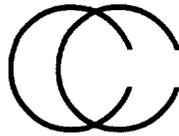
Larry Herold
Signature
PRESIDENT
Title

David S. Locker
Notary Public

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (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).



Citricooperman & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

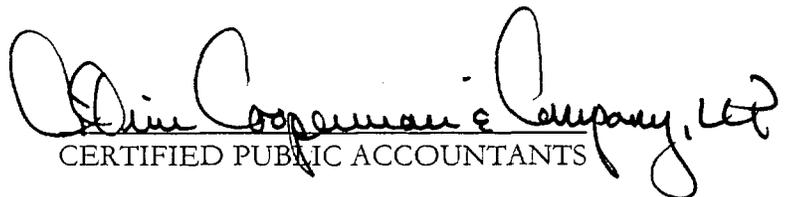
To the Stockholders
Bernard Herold & Co., Inc.

We have audited the accompanying statement of financial condition of Bernard Herold & Co., Inc. as of December 31, 2003, and the related statements of operations, changes in stockholders' equity, changes in subordinated liabilities, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 statements are free of material misstatement. An audit 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 Bernard Herold & Co., Inc. as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the supplemental schedules on pages 12 and 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information either required by Rule 17a-5 under the Securities Exchange Act of 1934 or included for supplementary analysis purposes. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


CITRICOOPERMAN & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

New York, New York
January 30, 2004

BERNARD HEROLD & CO., INC.
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2003

ASSETS

Cash and cash equivalents		\$ <u>235,365</u>
Investments in securities, at fair value		<u>3,706,612</u>
Prepaid expenses		<u>196,317</u>
Property and equipment, at cost, less accumulated depreciation and amortization of \$580,602		<u>51,153</u>
Other assets:		
Exchange membership		268,765
Deferred taxes		47,000
Security deposits		11,407
Other assets		<u>19,243</u>
Total other assets		<u>346,415</u>
TOTAL ASSETS		\$ <u>4,535,862</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:		
Accrued expenses		\$ 423,590
Subordinated notes payable		<u>250,000</u>
Total liabilities		<u>673,590</u>
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock, \$100 par value, authorized 2,000 shares, issued and outstanding 900 shares		90,000
Class "A" Common stock, \$1 par value, authorized 10,000 shares, issued and outstanding 7,307 shares		7,307
Additional paid-in capital		198,229
Retained earnings		<u>3,566,736</u>
Total stockholders' equity		<u>3,862,272</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ <u>4,535,862</u>

See accompanying note to financial statements.

BERNARD HEROLD & CO., INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2003

Income:	
Commissions	\$ 2,477,042
Mutual funds	1,270,567
NYSE floor income	186,835
Trading	75,563
Interest	442,845
Miscellaneous	<u>1,665</u>
Total income	<u>4,454,517</u>
Operating expenses:	
Salaries and benefits	2,751,668
Communications	451,857
Rent and occupancy	521,272
Floor brokerage	428,887
Promotional	73,562
Interest	20,205
Depreciation	23,121
Bad debts	214
Other expenses	<u>621,900</u>
Total expenses	<u>4,892,686</u>
Loss before benefit from income taxes	(438,169)
Benefit from income taxes	<u>70,440</u>
NET LOSS	<u><u>\$ (367,729)</u></u>

See accompanying note to financial statements.

BERNARD HEROLD & CO., INC.
 STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
 FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance - beginning	\$ 90,000	\$ 7,307	\$ 198,229	\$ 3,934,465	\$ 4,230,001
Net loss	-	-	-	(367,729)	(367,729)
BALANCE - ENDING	<u>\$ 90,000</u>	<u>\$ 7,307</u>	<u>\$ 198,229</u>	<u>\$ 3,566,736</u>	<u>\$ 3,862,272</u>

See accompanying note to financial statements.

BERNARD HEROLD & CO., INC.
STATEMENT OF CHANGES IN SUBORDINATED LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

Subordinated notes payable at January 1, 2003	\$ 250,000
Increases:	
Issuance of subordinated notes	-
Decreases:	
Payment of subordinated notes	<u>-</u>
SUBORDINATED NOTES PAYABLE AT DECEMBER 31, 2003	\$ <u>250,000</u>

See accompanying note to financial statements.

BERNARD HEROLD & CO., INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003

Cash flows from operating activities:

Net loss \$ (367,729)

Adjustments to reconcile net loss to net cash used in operating activities:

Depreciation and amortization 23,121

Changes in operating assets and liabilities:

Receivable from broker-dealer 36,653

Investment in securities, at fair value 106,538

Prepaid expenses 205,958

Deferred taxes (10,000)

Other assets (328)

Accrued expenses 216,488

Net cash provided by operating activities 210,701

Cash used in investing activities:

Purchase of property and equipment (7,730)

Net increase in cash 202,971

Cash and cash equivalents - beginning 32,394

CASH AND CASH EQUIVALENTS - ENDING **\$ 235,365**

Supplemental disclosure of cash flow information:

Interest \$ 20,205

Income tax refund received \$ 92,920

See accompanying note to financial statements.

BERNARD HEROLD & CO., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Bernard Herold & Co., Inc. (the "Company") was formed in 1972 under the laws of the State of New York to manage and operate a registered securities broker-dealer and engage in the securities and brokerage business. As such, the Company is registered with the Securities and Exchange Commission as a broker-dealer. Additionally, the Company is a member of the National Association of Securities Dealers, the New York Stock Exchange, the New York Futures Exchange and is an associate member of the American Stock Exchange. The Company provides brokerage services to both institutional and individual investors and clears its securities transactions on a fully-disclosed basis through another broker-dealer.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company's 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Securities Transactions

Proprietary securities transactions are recorded on the trade date, as if they settled. Profit and loss arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade date basis. Customers' securities transactions are reported on a settlement date basis with related commission income and expense reported on a trade date basis.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition.

Marketable securities are stated at fair value as determined by quoted market prices. Securities not readily marketable are valued at fair value as determined by management.

Concentrations of Credit Risk

The Company's cash balances are held in accounts at three financial institutions. At December 31, 2003 there were no uninsured cash balances.

Exchange Membership

The New York Stock Exchange membership is carried at cost. The estimated current market value of the membership is \$1,350,000.

BERNARD HEROLD & CO., INC.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents consist primarily of cash on deposit, certificates of deposit, money market accounts, and investment grade commercial paper that are readily convertible into cash and purchased with original maturities of three months or less.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided on a straight-line and double-declining basis over the estimated useful life of the assets ranging from five to seven years. For leasehold improvements, depreciation is provided over the terms of the related leases.

NOTE 2. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2003 consists of the following:

Furniture and equipment	\$ 382,239
Computer equipment	136,557
Leasehold improvements	<u>112,959</u>
	631,755
Less: Accumulated depreciation	<u>580,602</u>
Net property and equipment	<u>\$ 51,153</u>

Depreciation expense for the year ended December 31, 2003 amounted to \$23,121.

NOTE 3. INVESTMENT IN SECURITIES

Investments in securities carried at fair value consist of the following:

State and municipal obligations	\$ 2,985,537
Closed-end mutual funds	645,475
Equities	<u>75,600</u>
Investments in securities, at fair value	<u>\$ 3,706,612</u>

NOTE 4. SUBORDINATED NOTES PAYABLE

Notes payable to three stockholders are subordinated to the claims of the Company's general creditors. Interest on the subordinated loans is payable at 8% per annum. For the year ended December 31, 2003, interest paid on the notes amounted to \$20,000. The subordinated notes qualify to be included in the calculation of the Company's net capital requirements (Note 6).

BERNARD HEROLD & CO., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 5. INCOME TAXES

The following is a summary of the Company's tax benefit recorded for the year ended December 31, 2003.

Current:	
Federal	\$ (85,920)
State	15,409
City	<u>10,071</u>
Total current	<u>(60,440)</u>
Deferred:	
Federal	(6,000)
State	(2,300)
City	<u>(1,700)</u>
Total deferred	<u>(10,000)</u>
Total tax benefit	<u>\$ (70,440)</u>

The Company has a net operating loss carry forward of approximately \$212,000, that begins to expire in 2023. The related deferred tax asset in the amount of approximately \$72,000 has been fully reserved by a valuation allowance since management can not conclude that realization of the tax benefit is probable.

Deferred income taxes are recorded based on temporary differences between assets and liabilities reported for financial statement and income tax purposes. Temporary differences relate principally to deferred rent.

NOTE 6. NET CAPITAL REQUIREMENTS

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. As of December 31, 2003, the Company was in compliance with these requirements. At December 31, 2003, the Company had net capital of \$3,389,877 which exceeds the Company's minimum net capital of \$100,000. The Company's ratio of aggregate indebtedness to net capital was 0.12 to 1 as of December 31, 2003.

NOTE 7. PENDING LITIGATION

In November 2003, the Company became involved in a New York Stock Exchange arbitration with a former independent contractor ("claimant"). In the matter, the claimant alleges, among other things, wrongful termination. The claimant is seeking compensatory damages, interest and costs aggregating at least \$500,000. At December 31, 2003, the Company's outside counsel handling the matter has advised the Company that because of the preliminary status of the matter, it is not possible to determine the result of the proceeding. Based on information presently available to the Company, management

BERNARD HEROLD & CO., INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 7. PENDING LITIGATION (CONTINUED)

believes that the ultimate outcome of this matter will not have a material adverse affect on the Company's financial position or results of operations. As a result of the current status of the matter, no amount has been provided for it in the accompanying financial statements.

The Company is involved other matters incidental to its business. Management believes that the resolution of these matters will not have material adverse affect on the Company's financial position or results of operations.

NOTE 8 RELATED PARTY TRANSACTIONS

The Company rents space on a month to month basis to an investment advisor. One of the stockholders of the Company is an officer of this investment advisor. Rental income for 2003 totaled \$33,000. In addition, the Company receives reimbursements of approximately \$162,000 from this entity for payroll paid by the Company on its behalf.

NOTE 9. LEASE COMMITMENTS

The Company has entered into three operating leases for office facilities expiring in various years through 2008. The minimum annual rental commitments under these leases are as follows:

<u>Year ending December 31</u>	
2004	\$ 499,000
2005	481,259
2006	457,999
2007	457,999
2008	<u>457,999</u>
	<u>\$ 2,354,256</u>

Rent expense net of rental income of \$148,402 for the year amounted to \$475,809.

One of the Company's leases provided for a free rent period during its term. Pursuant to Statement of Financial Accounting Standards No. 13, "Accounting for Leases," the aggregate of the total minimum lease payments under the lease is being amortized on the straight-line basis over the lease term. The difference between rent expense calculated on the straight-line basis and amounts paid in accordance with the terms of the lease have been reflected as deferred rent in the accompanying balance sheet and included in accrued expenses.

SUPPLEMENTARY INFORMATION

BERNARD HEROLD & CO., INC.
SCHEDULE OF OTHER EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2003

Office expense	\$	224,040
Payroll taxes		129,244
Dues and fees		96,174
Professional fees		142,623
Christmas expense		12,796
Contributions		3,468
Miscellaneous		5,086
Bank charges		4,381
Automobile expense		<u>4,088</u>
TOTAL OTHER EXPENSES	\$	<u><u>621,900</u></u>

See independent auditors' report.

BERNARD HEROLD & CO., INC.
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1
OF THE SECURITIES AND EXCHANGE COMMISSION
AS OF DECEMBER 31, 2003

Net capital

Capital and allowable subordinated liabilities:

Total stockholders' equity	\$ 3,862,272
Subordinated liabilities allowable in computation of net capital	<u>250,000</u>
Total capital and allowable subordinated liabilities	<u>4,112,272</u>

Non-allowable assets:

Property and equipment	(51,153)
Exchange membership	(268,765)
Deferred taxes	(47,000)
Other assets	<u>(128,055)</u>
Total non-allowable assets	<u>(494,973)</u>

Net capital before haircuts on securities positions 3,617,299

Haircuts on securities:

Debt securities	124,973
Other securities	68,740
Undue concentration	29,822
Other	3,887
Haircuts on securities positions	<u>227,422</u>

Net capital \$ 3,389,877

Aggregate indebtedness:

Accrued expenses	\$ <u>423,590</u>
Total aggregate indebtedness	\$ <u>423,590</u>

Computation of basic net capital requirement:

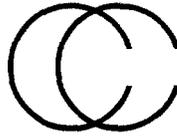
Minimum net capital requirement of 6-2/3% of aggregate indebtedness	\$ <u>28,238</u>
Minimum net capital required	\$ <u>100,000</u>
Excess net capital	\$ <u>3,289,877</u>
Excess net capital at 1000%	\$ <u>3,347,518</u>

Ratio: Aggregate indebtedness to net capital 0.12 to 1

Reconciliation with Company's computation (included in Part II of Form x-17A-5 as of December 31, 2003)

Net capital as reported in Company's Part II (unaudited) FOCUS report	\$ 3,360,063
Net effect of audit adjustments	<u>29,814</u>
NET CAPITAL, AS ADJUSTED	<u>\$ 3,389,877</u>

See independent auditors' report.



Citrin Cooperman & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL ACCOUNTING CONTROL REQUIRED BY SEC RULE 17A-5

Board of Directors
Bernard Herold & Co., Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Bernard Herold & Co., Inc. (the "Company") for the year ended December 31, 2003, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (the "Commission"), we have made a study of the practices and procedures followed by the Company, including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(II) and for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13 or in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the Commission's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.



Citrin Cooperman & Company, LLP

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and our study, we believe that the Company's practices and procedures were adequate at December 31, 2003, to meet the Commission's objectives.

This report is intended solely for the use of the Board of Directors, management, the Securities and Exchange Commission, the National Association of Security Dealers, Inc. and other regulatory agencies which rely on rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used by anyone other than the specified parties.


CERTIFIED PUBLIC ACCOUNTANTS

New York, New York
January 30, 2004