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

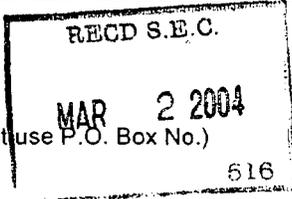
SEC FILE NUMBER  
8-42036

**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 January 1, 2003 AND ENDING December 31, 2003  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:  
**GAM Services Inc.**



OFFICIAL USE ONLY  
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
135 East 57<sup>th</sup> Street

**New York NY 10022**  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
**Kevin J. Blanchfield (212) 407-4600**  
(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
**Ernst & Young LLP**

**5 Times Square New York NY 10036**  
(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 31 2004**

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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, Kevin J. Blanchfield, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of GAM Services 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

  
Signature

Treasurer \_\_\_\_\_

Title

  
Notary Public

SUSAN SORRENTINO CAPARELLI  
Notary Public, State of New York  
No. 0106006000  
Qualified in New York County  
Commission Expires March 9, 2004

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

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims or 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 or 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) Schedule of Segregation Requirements and Funds in Segregation for Customers Trading on U.S. Commodity Exchanges.
- (p) Statement of Secured Amount and Funds Held in Separate Accounts for Foreign Futures and Options Customers Pursuant to Commission Regulation 30.7.

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

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

GAM Services Inc. and Subsidiary

December 31, 2003

with Report of Independent Auditors

GAM Services Inc. and Subsidiary  
Consolidated Statement of Financial Condition

December 31, 2003

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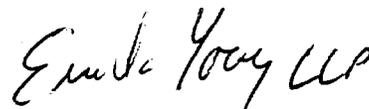
## Report of Independent Auditors

To the Stockholder of  
GAM Services Inc. and Subsidiary

We have audited the accompanying consolidated statement of financial condition of GAM Services Inc. and Subsidiary (the "Company") as of December 31, 2003. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated statement of financial condition referred to above presents fairly, in all material respects, the consolidated financial position of GAM Services Inc. and Subsidiary at December 31, 2003, in conformity with accounting principles generally accepted in the United States.



January 16, 2004

GAM Services Inc. and Subsidiary  
Consolidated Statement of Financial Condition

December 31, 2003

<b>Assets</b>	
Cash and cash equivalents	\$ 882,307
Due from Parent	878,982
Accounts receivable	148,142
Prepaid expenses	68,736
Deferred tax asset	<u>222,765</u>
Total assets	<u><u>\$ 2,200,933</u></u>
<b>Liabilities and stockholder's equity</b>	
Liabilities:	
Accounts payable and accrued expenses	\$ 722,687
Due to Parent	<u>56,636</u>
Total liabilities	<u><u>779,323</u></u>
Stockholder's equity:	
Common stock, par value \$1 per share; 3,000 authorized shares; issued and outstanding 100 shares	100
Additional paid-in capital	259,563
Retained earnings	<u>1,161,947</u>
Total stockholder's equity	<u><u>1,421,610</u></u>
Total liabilities and stockholder's equity	<u><u>\$ 2,200,933</u></u>

*See notes to consolidated statement of financial condition.*

## GAM Services Inc. and Subsidiary

### Notes to Consolidated Statement of Financial Condition

December 31, 2003

#### **1. Organization**

GAM Services Inc. (the "Company"), a Delaware corporation, was organized on October 3, 1989. The Company is the distributor and principal underwriter of GAM Funds, Inc. (the "Funds"), and the selling agent for GAM Avalon Galahad LLC, GAM Avalon Lancelot, LLC, GAM Avalon Dinadan, LLC and GAM Avalon Palemedes, LLC (the "Avalon Funds") and is a registered broker-dealer with the Securities and Exchange Commission. The Company is a wholly owned subsidiary of GAM USA Inc. (the "Parent"). On December 17, 1999, GAM Admin B.V., the parent of the Parent, was acquired by UBS AG ("UBS").

The Company owns all of the outstanding common stock of GAM Funding Inc. ("GAM Funding"). GAM Funding is a Delaware Corporation which commenced operations in May 1998.

#### **2. Summary of Significant Accounting Policies**

##### *Basis of Presentation and Principles of Consolidation*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, GAM Funding. All significant intercompany accounts and transactions have been eliminated in consolidation.

##### *Cash and cash equivalents*

The Company considers money market funds and other short term investment with maturities at acquisition of less than three months to be cash equivalents.

## GAM Services Inc. and Subsidiary

### Notes to Consolidated Statement of Financial Condition

December 31, 2003

#### 2. Summary of Significant Accounting Policies (continued)

##### *Revenue Recognition*

Pursuant to distribution agreements, the Company acts as principal underwriter for the Funds. The Company may bear the fees payable to Securities Dealers and Shareholder Service Agents ("Dealers") for which it has entered into dealer and shareholder service agreements.

For providing such services and payments, the Company receives distribution fees. The Company receives distribution fees at an annual rate of up to .30%, 1% and .50% of each applicable Fund's daily net assets attributable to Class A, C and D shares, respectively. A substantial amount of these fees are used to make payments to Dealers. Effective January 1, 2003, the Company suspended the distribution of Class B shares. All of the distribution fees earned on Class B shares are paid to an unrelated third party and UBS.

Commissions and underwriting fees are recorded on a trade-date basis.

##### *Fixed Assets*

Furniture, fixtures, office and computer equipment are carried at cost. Depreciation of furniture, fixtures, office and computer equipment is computed by the straight-line method, using estimated useful lives of three and four years.

##### *Foreign Currency Transactions*

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the closing rates of exchange at year end. Transactions during the year are translated at the rate of exchange prevailing on the date of the transaction. There were no foreign currency transactions for the year end December 31, 2003.

##### *Income Taxes*

The Company is included in the consolidated federal and combined state and local tax returns of the Parent. In accordance with the inter-company tax sharing agreement, the Company computes its income taxes on a stand-alone basis.

GAM Services Inc. and Subsidiary

Notes to Consolidated Statement of Financial Condition

December 31, 2003

**2. Summary of Significant Accounting Policies (continued)**

Deferred taxes are provided on a liability method as prescribed by FAS 109, "Accounting for Income Taxes," whereby deferred tax assets and liabilities are recognized for temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

**3. Income Taxes**

On a separate company basis, the Company generated federal, state and local net operating losses for the year ended December 31, 2003, which will be utilized under the Company's tax sharing agreement to offset taxable income of the Parent and its subsidiaries for federal, state and local tax purposes. The Company has recorded an intercompany receivable from the Parent of \$532,387 related to the Parent's utilization of the Company's federal net operating losses utilized during the current year. The Company has recorded a deferred tax asset of \$222,765 related to the unused state and city net operating loss carryforwards in the consolidated statement of financial condition. This deferred tax assets will be recognized on a consolidated basis pursuant to the intercompany tax sharing agreement.

The deferred tax asset relates to state and local net operating losses of \$2,350,944 and \$2,350,944, respectively which will begin to expire in the tax year ending December 31, 2021.

**4. Net Capital Requirement**

The Company is subject to the Uniform Net Capital Rule 15c3-1 (the "Rule") of the Securities and Exchange Commission ("SEC"). The Company's minimum net capital requirement is the greater of 6-2/3% of the aggregate indebtedness, as defined, or \$25,000. In addition, certain advances, payments of dividends and other equity withdrawals are subject to certain provisions of the Rule. At December 21, 2003, the Company had net capital, as defined, of \$147,247 exceeding the requirements by \$95,292. The Company's aggregate indebtedness to net capital ratio was 529% at December 31, 2003.

## GAM Services Inc. and Subsidiary

### Notes to Consolidated Statement of Financial Condition

December 31, 2003

#### **5. Concentration of Credit Risk**

Substantially all of the Company's cash and cash equivalents are on deposit with two major financial institutions.

#### **6. Related Party Transactions**

The Company shares office space, personnel and other common administrative expenses with its Parent. Administrative expenses are allocated to the Company as determined by the Board of Directors of the Parent.

The Company has an agreement with its Parent whereby the Company receives fees for distribution of the Funds and the Avalon Funds.

Included in the Due from Parent account is \$532,387 resulting from the Parent's utilization of the Company's net operating losses for tax purposes and \$346,595 receivable from the Parent for distribution fees of the Funds and the Avalon Funds at December 31, 2003.

#### **7. Subsequent Events**

Effective February 3, 2004, the Company ceased offering Class D shares as well as all classes of GAM Global Fund and GAM Japan Capital Fund, each a portfolio of the Funds.