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DIVISION OF MARKET REGULATION

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

SEC FILE NUMBER
8 48196

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 1/1/04 AND ENDING 12/31/04  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Garnet Fund, L.P.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
500 North Franklin Turnpike  
(No. and Street)

Ramsey NJ 10005  
(City) (State) (Zip Code)

OFFICIAL USE ONLY
FIRM I.D. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Thomas A. Saunders (201) 236-2500 x218  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Robert L. Messa, CPA  
(Name - if individual, state last, first, middle name)

20 Crossways Park North, Ste 412 Woodbury NY 11797  
(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 23 2005  
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)

3/14/05  
SS

OATH OR AFFIRMATION

I, Thomas A. Saunders, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Garnet Fund LP, as of December 31, 2004, 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:

Thomas A. Saunders

Signature

CFO

Title

Kathrine G. Coletta  
Notary Public

KATHRINE G. COLETTA  
NOTARY PUBLIC OF NEW JERSEY  
My Commission Expires Oct. 17, 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 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).

GARNET FUND, L.P.  
**FINANCIAL STATEMENTS**  
DECEMBER 31, 2004

GARNET FUND L.P.

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**R.L.MESSA**  
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT**

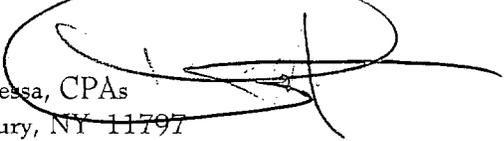
To the Partners of  
**GARNET FUND L.P.**

We have audited the accompanying balance sheet of **GARNET FUND L.P.**, (a New York Partnership) as of December 31, 2004, and the related statements of income, partner's equity and 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. 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 **GARNET FUND L.P.**, as of December 31, 2004 and results of its operations and its cash flow for the year then ended in conformity with generally accepted accounting principles.

Our examination was made for the purpose of forming a reasonable basis for an opinion on the basic financial statements taken as a whole. The information contained on pages 12-13, is presented for purposes of additional analysis and is not required as part of the basic financial statements but as supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subject to the auditing procedures applied in the examination 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 and in conformity with the rules of the Securities and Exchange Commission.

  
R.L. MESSA, CPAs  
Woodbury, NY 11797  
February 24, 2005

GARNET FUND L.P.

**Comparative Balance Sheet**

For the Year Ended December 31,

**ASSETS**

	<u>2004</u>	<u>2003</u>
<b>Current Assets</b>		
Cash in Bank	\$ 49,186	\$ 46,526
Cash and Cash Equivalents at Bear Stearns	1,853,261	1,981,560
Due From Investec	45,098	10,832
Marketable Securities-(Note 2)	2,409,177	1,060,484
Non-Marketable Securities	<u>15,000</u>	<u>15,000</u>
 Total Current Assets	 \$ <u>4,371,722</u>	 \$ <u>3,114,402</u>
 Total Assets	 \$ <u>4,371,722</u>	 \$ <u>3,114,402</u>

**LIABILITIES AND PARTNERS' CAPITAL**

<b>Current Liabilities</b>		
Accrued Expenses	\$ 174,551	\$ 184,310
Securities Sold and Not Yet Purchased (Note 4)	<u>2,276,875</u>	<u>1,059,610</u>
 Total Current Liabilities	 2,451,426	 1,243,920
 Partners' Capital	 <u>1,920,296</u>	 <u>1,870,482</u>
 <b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	 \$ <u>4,371,722</u>	 \$ <u>3,114,402</u>

See accountant's report and accompanying notes

# GARNET FUND L.P.

## Comparative Statement of Income

For the Year Ended December 31,

### NET TRADING REVENUE

	<u>2004</u>	<u>2003</u>
Net realized and unrealized gain		
on firm investments	\$ 2,544,244	\$ 474,615
Interest and dividends	13,090	19,531
Other income	781	2,354
Rebate income	12,192	18,257
<b>Less Transactional Expenses:</b>		
Clearing charges	47,565	61,080
Dividend expense	11,447	24,266
Interest expense	-0-	10,912
Facilities & financing fees	2,071,049	338,563
Trader consulting fees	<u>158,082</u>	<u>39,838</u>
<b>Total Net Trading Revenue (Loss)</b>	<b>\$ <u>282,164</u></b>	<b>\$ <u>40,098</u></b>

### EXPENSES

#### Non-Transactional Expenses

Management fee - General Partner (Note 7)	28,737	28,830
Legal and audit	18,160	15,666
Regulatory and other fees	1,345	2,170
Filing Fees	600	6,015
Overhead expenses (Note 5)	<u>27,791</u>	<u>24,299</u>
<b>Total Non-Transactional Expenses</b>	<b><u>76,633</u></b>	<b><u>76,980</u></b>
<b>Total Expenses</b>	<b><u>76,633</u></b>	<b><u>76,980</u></b>

<b>NET INCOME (LOSS)</b>	<b>\$ <u>205,531</u></b>	<b>\$ <u>(36,882)</u></b>
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See accountant's report and accompanying notes

# GARNET FUND L.P.

## Statement of Changes in Partners' Capital

For the Period Ended December 31, 2004

Partners' Capital January 1, 2003	\$ 1,870,482
Withdrawal of Capital	(155,717)
Net Income	<u>205,531</u>
Partners' Capital December 31, 2004	<u>\$ 1,920,296</u>

See accountant's report and accompanying notes

# GARNET FUND L.P.

## Statement of Cash Flow

For the Year Ended December 31, 2004

### CASH FLOWS FROM OPERATING ACTIVITIES

Net Income from Statement of Income	\$	205,531
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Decrease in Accrued Expenses		(9,759)
Decrease Due from Broker Dealers		128,298
Increase in Due from Investec		(34,265)
Increase in Marketable Securities		(1,348,693)
Increase in Securities Sold and Not Yet Purchased		1,217,265
Net Cash Provided by Operations		158,377

### CASH FLOWS FROM INVESTING ACTIVITIES

Distributions of Partners' Capital	<u>(155,717)</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS	2,660
CASH and CASH EQUIVALENTS at BEGINNING of PERIOD	<u>46,526</u>
CASH and CASH EQUIVALENTS at END of PERIOD	<u>\$ 49,186</u>

See accountant's report and accompanying notes

## GARNET FUND L.P.

### Reconciliation and Computation of Net Capital (Rule 15c3-1)

Pursuant to Rule 17a-5(d)(4)

December 31, 2004

There are no differences between the Company's computation of net capital under Rule 15c3-1 and as shown on the schedule below.

Net Capital per Unaudited Focus report	\$	1,920,296
Adjustments to Net Capital:		
Non-Allowable Assets		(15,000)
Net Capital before haircuts on Securities Positions	\$	1,905,296
	Unaudited Focus <u>12/31/04</u>	Audited Focus <u>12/31/04</u>
Haircut on Securities (computed, where applicable, Pursuant to SEC Rule 15c3-1):		
Other securities	\$	612,564
Undue Concentration		<u>28,112</u>
Total Haircuts	\$	640,676
Minimum Net Capital – Note 6	\$	100,000
Excess Net Capital		1,164,620
Excess Net Capital @ 1,000%		1,247,164
Total Aggregate Indebtedness	\$	174,551
Percentage of AI to Net Capital		15%

Pursuant to SEC Rule 17a-5(d)(4) no differences exist between this audited computation of net capital and the Fund's corresponding computation as reported on the unaudited FOCUS Part II(A).

See accountant's report and accompanying notes

# GARNET FUND L.P.

## Notes to Financial Statements

December 31, 2004

### Note 1 - GENERAL BUSINESS

The sources of revenue are income from firm investment accounts. GARNET FUND L.P. (the "Partnership") primarily clears its brokerage activity through Bear, Stearns Securities Corp., a New York Stock Exchange member and secondarily through Investec Bank (UK) Limited (Irish branch) ("Investec"), a member of the London Stock Exchange and the Irish Stock Exchange. Effective November 13, 1995, the Company is a registered broker/dealer with the National Association of Securities Dealers and a member of the Securities Investor Protection Corporation.

### Note 2 - SIGNIFICANT ACCOUNTING POLICES

#### Cash and Cash Equivalents

For the Statement of Cash Flows, the Partnership includes cash on deposit and money market funds with maturities less than three months to be cash.

#### Investments

The Partnership carries all marketable securities at market value. Cost basis of marketable securities at December 31, 2004 and 2003 are marked up to market value pursuant to NASD rules.

#### Certain Significant Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and reported revenue and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

### Note 3 - INCOME TAXES

The Partnership prepares its income tax returns on the accrual basis of accounting. As a result of differences in income tax law and financial statement presentation, various items of revenue and expenses may be recognized in different periods for book and tax accounting purposes. Since the entity does not pay income tax as an entity, rather the individual partners report their pro-rata share of taxable income on their respective income tax returns; these differences do not have any effect on these financial statements.

# GARNET FUND L.P.

## Notes to Financial Statements

December 31, 2004

### Note 4 – MARKETABLE SECURITIES

The partnership carries all long and short positions at market value and are accounted for using the same methods as Investments described in Note 2.

At December 31, 2004 the following are the positions held by the Company:

	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain (Loss)</u>
Securities owned at Market Value	\$ 2,217,016	\$ 2,409,177	\$ 192,161
Securities sold but not yet Purchased	\$ 2,117,527	\$ 2,276,875	<u>\$(159,348)</u>
Total Unrealized Gain at December 31, 2004			<u>\$ 32,813</u>

### Note 5 - OVERHEAD EXPENSES

Overhead expenses have been charged to the Partnership in accordance with the Limited Partnership Agreement at the rate of 0.2083% of monthly Partnership Net Asset Value.

### Note 6 - MINIMUM NET CAPITAL

As a registered broker-dealer, the Partnership is required to maintain minimum "net capital" defined as the greater of 1) a computation, whereby "required net capital" consists of 6-2/3% of "aggregate indebtedness" as these terms are defined in accordance with the provisions of Rule 15c3-1 of the Securities Exchange Commission or 2) a minimum net capital of \$100,000.

At December 31, 2004 the partnership had "excess net capital" in the amount of \$ 1,164,620.

Partners' Capital may be restricted as to the availability for the payment of returns of capital. Operations may be restricted in order to maintain the required "net capital".

Should the partnership fail to maintain such capital requirements, it could be subject to sanction or possible suspension.

# GARNET FUND L.P.

## Notes to Financial Statements

December 31, 2004

### Note 7 - RELATED PARTY TRANSACTIONS

The General Partner, Garnet Capital Management LLC, receives a monthly management fee equal to 0.125% of the Net Asset Value of each Limited Partner's Book Capital Account as defined and adjusted in the Limited Partnership Agreement as well as reimbursement of non-transactional expenses as described in Note 5.

### Note 8 - SEC RULE 15C3-3 Exemption

The Company has claimed exemption from rule 15c3-3 based on the fact that all transactions are cleared through Bear, Stearns Securities Corp. on a fully disclosed basis. In the opinion of the management of **GARNET FUND L.P.** the conditions of the Company's exemption from Rule 15c3-3 were complied with throughout the period January 1, 2004 to December 31, 2004.

# R.L. MESSA

CERTIFIED PUBLIC ACCOUNTANTS

20 Crossways Park North., Suite 412, Woodbury, NY 11797

TELEPHONE: (516) 364-4000 • FACSIMILE: (516) 364-4060

## Report on System of Internal Accounting Control

To the Partners of  
GARNET FUND L.P.

We have examined the financial statements of GARNET FUND L.P. for the year ended December 31, 2004 and have issued our report thereon. As part of our examination, we made a study and evaluation of the Partnership's system of internal accounting control (which includes the procedures for safeguarding securities) to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation, which included obtaining an understanding of the accounting system, was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements.

We also made a study of the practices and procedures followed by the Partnership in making the periodic computations of aggregated indebtedness and net capital under Rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of Rule 15c3(b)(3). We did not review the practices and 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 Partnership does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Partnership is responsible for establishing and maintaining a system of internal accounting control and 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 control procedures and the practices and procedures can be expected to achieve the Commission's above-mentioned objectives. The objectives of a system and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Partnership 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 any internal accounting control procedures or the practices and procedures referred to above, errors or irregularities may nevertheless 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 degree of compliance with them may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of **GARNET FUND L.P.**, taken as a whole. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

We understand that practices and procedures that accomplish the objective 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 on our study, we believe that the Partnership's practices and procedures were adequate at December 31, 2004 to meet the Commission's objectives.

This report is intended solely for the use of management and the Securities and Exchange Commission and should not be used for any other purpose.

A handwritten signature in black ink, consisting of a large, stylized loop followed by a horizontal line extending to the right.

February 24, 2005