

SECURITIES AND EXCHANGE COMMISSION  
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EXAMINATIONS  
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ANNUAL REPORT  
FORM X-17A-5  
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

SION

OMB APPROVAL  
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8-27971

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REPORT FOR THE PERIOD BEGINNING 1/1/05 AND ENDING 12/31/05  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER DEALER:

Morgan Joseph & Co. Inc.

OFFICIAL USE ONLY

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

FIRM ID. NO.

600 Fifth Avenue, 19<sup>th</sup> Floor

(No. and Street)

New York

New York

10020-2302

(City)

(State)

(Zip Code)

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

Mary Louise Malanoski

(212) 218 - 3748

(Area Code — Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Eisner LLP

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

750 Third Avenue

New York

New York

10017

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

MAY 30 2006

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).

OATH OR AFFIRMATION

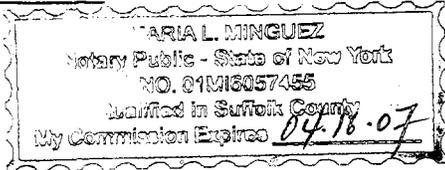
I, Mary Louise Malanoski, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Morgan Joseph & Co. Inc., as of December 31, 2005, are true and correct. I further swear (or affirm) that neither the company 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]  
Signature

Managing Director  
Title

[Signature]  
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 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 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.
- (o) Independent Auditors' Report on internal accounting control required by SEC Rule 17a-5.

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

**MORGAN JOSEPH & CO. INC.**  
(a wholly owned subsidiary of Morgan Joseph Holdings Inc.)

**STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2005**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Morgan Joseph & Co. Inc.  
New York, New York

We have audited the accompanying statement of financial condition of Morgan Joseph & Co. Inc. (the "Company") (a wholly-owned subsidiary of Morgan Joseph Holdings Inc.) as of December 31, 2005, 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 this 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 statement of financial condition presents fairly, in all material respects, the financial position of Morgan Joseph & Co. Inc. as of December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

*Eisner LLP*

New York, New York  
February 15, 2006

**MORGAN JOSEPH & CO. INC.**

**Statement of Financial Condition  
December 31, 2005**

**ASSETS**

Cash and cash equivalents	\$ 22,100,737
Due from broker	4,622,672
Investments at fair value	2,655,314
Accounts receivable, net	2,227,021
Deferred tax benefit	692,000
Other assets	<u>386,922</u>

\$ 32,684,666

**LIABILITIES**

Payable to parent	\$ 674,606
Compensation payable	13,129,243
Deferred rent	1,623,377
Accounts payable and other accrued expenses	<u>5,429,475</u>

20,856,701

Contingency

**STOCKHOLDER'S EQUITY**

Common stock, \$1.00 par value; 1,000 shares authorized; 100 shares issued and outstanding	100
Paid-in capital	7,156,815
Retained earnings	<u>4,671,050</u>

11,827,965

\$ 32,684,666

# MORGAN JOSEPH & CO. INC.

## Notes to Statement of Financial Condition December 31, 2005

### NOTE A - ORGANIZATION AND BUSINESS

Morgan Joseph & Co. Inc. (the "Company"), a wholly owned subsidiary of Morgan Joseph Holdings Inc. ("Holdings" or the "Parent"), is a broker-dealer registered with the Securities and Exchange Commission (the "SEC") and a member of the National Association of Securities Dealers, Inc. (the "NASD"). The Company provides investment banking services and financial advisory and capital raising services, principally related to M&A and restructuring advice and equity and debt private placements. The Company does not carry securities accounts for customers or perform custodial functions relating to customer securities and, accordingly, is exempt, pursuant to paragraph (k)(2)(ii), from the Securities and Exchange Commission ("SEC") Rule 15c3-3. All securities transactions are cleared through clearing brokers pursuant to a clearance agreement or a customer agreement.

### NOTE B - SIGNIFICANT ACCOUNTING POLICIES

#### [1] Cash and cash equivalents:

Cash and cash equivalents consist of cash and money market funds held at major financial institutions.

#### [2] Revenue recognition:

Investment banking fees are recorded when the underlying transaction is consummated. Nonrefundable retainer fees are recognized after the related services are performed or rendered. Commission income, purchases and sales of securities and related expenses are recorded in the financial statements on a trade-date basis.

#### [3] Financial instruments:

Securities owned are valued at quoted market price. Securities owned for which exchange quotations are not readily available are valued using estimated fair values as determined by management in good faith using consistently applied methods and procedures established by management.

#### [4] Income taxes:

The Company's results from operations will be included in the Parent's federal, state and local tax returns, which are filed on a consolidated basis. It is the Parent's policy to allocate a provision for taxes to the Company based on the tax that would have been determined on a separate tax return basis. Payable to the Parent includes \$1,051,000, representing the Company's current tax provision for the year ended December 31, 2005.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for net operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled or recovered. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

**MORGAN JOSEPH & CO. INC.**

**Notes to Statement of Financial Condition  
December 31, 2005**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**[5] Use of estimates:**

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

**NOTE C - LEASE COMMITMENTS**

The Company has a noncancelable lease for office space which expires in 2007. The annual minimum lease payment is \$254,000 and in addition, the Company is also charged escalation costs. The Company has subleased this space to an affiliated entity under the same terms stated in the lease agreement.

**NOTE D - INCOME TAXES**

The significant components of the Company's deferred tax asset, as of December 31, 2005, are as follows:

Deferred tax asset:	
NOL carryforward	\$ 46,000
Deferred rent payable	444,000
Compensation payable	<u>226,000</u>
Net deferred tax asset	716,000
Deferred tax liabilities:	
Other	<u>(24,000)</u>
Net deferred tax asset	<u>\$ 692,000</u>

During the year, the Company utilized approximately \$7,000 of their tax net operating loss carryforwards. As of December 31, 2005, the Company has tax net operating loss carryforwards of approximately \$103,000 which will expire in 2021 and are subject to an annual limitation in accordance with Section 382 of the Internal Revenue Code.

# MORGAN JOSEPH & CO. INC.

## Notes to Statement of Financial Condition December 31, 2005

### NOTE E - RELATED PARTY TRANSACTIONS

Holdings has entered into noncancelable leases for office space expiring on various dates through 2016. The Company occupies all of the leased space and pays all of the lease cost and expects to occupy this space for the full term of the leases. The lease agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. The minimum rental commitments under the lease of the Parent are set forth below:

2006	\$ 1,673,000
2007	1,642,000
2008	1,682,000
2009	1,696,000
2010	1,721,000
Thereafter	<u>5,872,000</u>
	<u>\$ 14,286,000</u>

The leases provide for free rent periods and rent increases over the lease terms. Since the Company records rent expenses on a straight-line basis, the difference between expenses and actual payments is recorded as deferred rent.

### NOTE F - NET CAPITAL REQUIREMENT

The Company is subject to the SEC Uniform Net Capital Rule 15c3-1 which requires the maintenance of minimum net capital, as defined. At December 31, 2005, the Company under the alternative standard method had net capital of \$7,529,948 or \$7,279,948 in excess of its required net capital of \$250,000 or 2% of Rule 15c3-3 reserve formula debits.

The Company has a \$5 million revolving line of credit facility with an entity affiliated with its clearing broker that expires on March 16, 2006. If any amounts are borrowed under such a facility, the amount borrowed will bear interest at a variable rate based on the federal funds rate.

In 2005, the Company entered into a \$10,000,000 Temporary Subordinated Loan Agreement with Southwest Securities, Inc. On July 26, 2005 the Company drew down a \$10,000,000 Subordinated Loan and, subsequently, the prepayment was made on August 19, 2005.

### NOTE G - CONTINGENCY

The Company has been named as a defendant in a civil action, re Friedman's Inc ("Friedman's"). In September 2003, the Company acted as co-lead underwriter in a follow-on offering of common stock of Friedman's. Plaintiffs have filed a purported class action suit against Friedman's and its directors, senior officers and outside accountant as well as Friedman's underwriters in the United States District Court for the Northern District of Georgia. The essence of the complaint is that Friedman's financial statements were false and misleading, this information was known by Friedman's and was concealed from the market. As to the Company and the other underwriters, the complaint asserts claims under Sections 11 and 12(a)(2) of the Securities Act on the basis that the registration statement and prospectus for the offering were false and misleading for failing to disclose the true financial circumstances of Friedman's. Friedman's is currently operating its business in bankruptcy. The Company has denied liability in connection with this matter. A consolidated amended complaint has been filed in this matter. On September 7, 2005, the court denied the underwriters' motion to dismiss. The Company believes the underwriters have meritorious defenses to these actions and the underwriters are defending such actions vigorously.