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SECURITIES AND EXCHANGE COMMISSION  
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Information Required of Brokers and Dealers Pursuant to Section 17 of the  
BRANCH OF REGISTRATIONS  
AND Securities Exchange Act of 1934 and Rule 17a-5 Thereunder  
EXAMINATIONS

ANNUAL AUDITED REPORT

FORM X-17A-5

PART III

FACING PAGE

SEC FILE NUMBER

8-42913

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REPORT FOR THE PERIOD BEGINNING January 1, 2005 AND ENDING December 31, 2005  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER - DEALER:

**PUNK, ZIEGEL & COMPANY, L.P. AND SUBSIDIARY**

OFFICIAL USE ONLY

FIRM ID. NO.

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

520 Madison Avenue, 4th Floor  
(No. and Street)

New York,  
(City)

NY  
(State)

10022  
(Zip Code)

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

Mr. John L. Bligh (212) 308-9494  
(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

**Deloitte & Touche LLP**

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

Two World Financial Center  
(Address)

New York  
(City)

New York  
(State)

10281  
(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

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

PROCESSED

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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).

SEC 1410 (06-02)

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PUNK, ZIEGEL & COMPANY, L.P. AND SUBSIDIARY  
(SEC ID. No. 8-42913)

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION  
AS OF DECEMBER 31, 2005  
AND  
INDEPENDENT AUDITORS' REPORT  
AND  
SUPPLEMENTAL REPORT ON INTERNAL CONTROL

\* \* \* \* \*

Filed pursuant to Rule 17a-5(e)(3) under the Securities Exchange  
Act of 1934 as a Public Document.

## INDEPENDENT AUDITORS' REPORT

Punk, Ziegel & Company, L.P. and Subsidiary  
New York, NY

We have audited the accompanying consolidated statement of financial condition of Punk, Ziegel & Company, L.P. and Subsidiary (the "Partnership") as of December 31, 2005, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This consolidated financial statement is the responsibility of the Partnership's management. Our responsibility is to express an opinion on this consolidated 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, 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, such consolidated statement of financial condition presents fairly, in all material respects, the financial position of Punk, Ziegel & Company L.P. and Subsidiary at December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

*Deloitte - Touche LLP*

February 28, 2006

# PUNK, ZIEGEL & COMPANY, L.P. AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2005

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### ASSETS

Cash	\$ 998,919
Securities owned, at fair value (held at clearing broker)	720,356
Nonmarketable securities, at estimated fair value	112,342
Receivable from broker and dealer	2,124,586
Furniture and equipment, net of accumulated depreciation of \$168,831	326,142
Leasehold improvements, net of accumulated amortization of \$132,758	1,161,635
Accrued income receivable	723,204
Other assets	<u>498,493</u>

TOTAL ASSETS \$ 6,665,677

### LIABILITIES AND PARTNERS' CAPITAL

#### LIABILITIES:

Securities sold, but not yet purchased, at fair value	\$ 2,894
Accounts payable, accrued expenses and other liabilities	1,167,852
Deferred lease and rent credit	1,061,977
Taxes payable	<u>48,254</u>

Total liabilities 2,280,977

PARTNERS' CAPITAL (Units outstanding of 438,547 and  
718,607 for General and Limited Partners, respectively) 4,384,700

TOTAL LIABILITIES AND PARTNERS' CAPITAL \$ 6,665,677

See notes to consolidated statement of financial condition.

# PUNK, ZIEGEL & COMPANY, L.P. AND SUBSIDIARY

## NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2005

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### 1. ORGANIZATION AND NATURE OF BUSINESS

Punk, Ziegel and Company, L.P. and Subsidiary (the "Partnership") is a specialty investment bank providing a full range of research, equity market-making and corporate finance services to institutional investors, small to mid-size companies and high net worth clients. The Partnership devotes its resources toward generating high quality, in-depth investment analysis in a limited number of high growth industries. The Partnership is a limited partnership formed under the laws of the state of Delaware. PZK, Inc. is the General Partner of the Partnership. The Partnership is a registered broker-dealer under the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. ("NASD"). The Partnership is also the sole shareholder of its subsidiary, Punk, Ziegel Asset Management L.L.C. ("PZAM"), an inactive limited liability corporation registered in the state of Delaware. All intercompany balances have been eliminated.

The Partnership does not hold cash or securities on behalf of customers. All customer securities transactions are introduced to another broker-dealer who carries such accounts and clears such transactions on a fully disclosed basis. National Financial Services LLC, a Fidelity Investments Company, is the Partnership's clearing broker.

### 2. SUMMARY OF SIGNIFICANT FINANCIAL ACCOUNTING POLICIES

**Basis of Presentation-** The consolidated statement of financial condition is prepared in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions, including those related to the valuation of nonmarketable securities, that affect the related amounts reported in the consolidated statement of financial condition and accompanying notes. Actual results could differ materially from these estimates.

**Securities Owned and Securities Sold, but Not Yet Purchased-** Proprietary securities transactions are recorded on a trade date basis. Securities owned and securities sold, but not yet purchased consist of corporate equity securities, which are accounted for at fair value. Fair value is based upon quoted market prices.

**Investment Banking-** Expenses related to underwritings are deferred until the related revenue is recognized.

**Furniture, Equipment and Leasehold Improvements-** Management reviews furniture, equipment, and leasehold improvements whenever events or changes indicate the carrying amount of the asset may not be recovered.

**Income Taxes-** The Partnership accounts for income taxes in accordance with Statement of Financial Accounting Standard ("SFAS") No. 109, *Accounting for Income Taxes*. Deferred income taxes are recorded by applying enacted statutory tax rates to temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

### 3. NONMARKETABLE SECURITIES

Nonmarketable securities, consisting of warrants, and common and preferred stock have been estimated at fair value as determined by management in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation, those estimated values may differ materially from the values that would have been used had a ready market for the investments existed.

### 4. RECEIVABLE FROM BROKER AND DEALER

The Partnership has entered into an agreement with its clearing broker that allows the Partnership to include its proprietary assets as allowable assets in its net capital computation. This agreement conforms to the requirements related to the capital treatment of assets in the proprietary account of a correspondent ("PAIB") and to permit the correspondent to use PAIB in its capital computations. The amount of \$2,124,586 receivable represents cash on deposit at the clearing broker.

### 5. PARTNERS' CAPITAL

Partners' capital and the distribution of profits and losses are allocated through the ownership of Partnership units. At December 31, 2005, Partners' capital consisted of 1,157,154 units of which 438,547 and 718,607 units were held by the General Partner and Limited Partners, respectively.

### 6. RELATED PARTY TRANSACTIONS

The Partnership is the General Partner of Argyle Capital Partners, L.P. (the "Investment Company"). The Partnership had \$14,572 recorded in *Accrued income receivable* at December 31, 2005.

Sunrise Partners Inc., an S Corporation, holds the employees and ex-employees capital interests in the Partnership.

### 7. DEFINED CONTRIBUTION PLAN

The Partnership provides a 401(k) plan (the "Plan") for all full-time employees who have completed at least six consecutive months of service and have attained the age of 18. Employees may elect to invest a percentage of their gross pay, up to a maximum amount established by the IRS. The Partnership may, at the sole discretion of management, match a percentage of the contribution an employee makes to the Plan.

### 8. UNINCORPORATED BUSINESS TAX

The Partnership is subject to the New York City Unincorporated Business Tax ("UBT"). The consolidated statement of financial condition reflects a deferred tax asset of \$18,010 which is included in *Other assets*. This deferred balance is primarily attributable to book/tax differences in depreciation and the unrealized profit or loss related to investments. No valuation allowance has been established as it is more likely than not, in the opinion of management, that such asset will be realized.

## 9. COMMITMENTS AND CONTINGENCIES

On January 22, 2003, the Partnership entered into a ten year noncancelable lease agreement with 520 Madison Owners, L.L.C. (the "Landlord"). In connection with this lease agreement the Partnership deposited a letter of credit collateralized by \$400,000, which is recorded in *Other assets*. The commencement date of the lease is defined to be the date the Landlord tendered possession of the premises to the Partnership which was in September 2004. On September 7, 2004 the Partnership and the Landlord agreed to amend the lease agreement to provide for additional space which was also tendered to the Partnership in September 2004.

Pursuant to the conditions of the lease agreements, the Partnership is entitled to having lease payments abated for selected months. Additionally, the lease agreements permit for the reimbursement by the Landlord to the Partnership of \$895,840 relating to improvements made by the Partnership to the leased premises. In December 2004 the Partnership received the first reimbursement payment of \$179,075. The remaining reimbursement payments of \$716,765 were received in 2005. The Partnership recognizes these lease incentives, when received, over the life of the lease agreement as a reduction to rent expense.

At December 31, 2005 the future minimum aggregate annual commitments under the lease agreements are as follows:

Year Ended	
2006	993,550
2007	993,550
2008	964,705
2009	1,012,859
2010	1,065,150
Thereafter	<u>4,311,281</u>
	<u>\$ 9,341,095</u>

## 10. NET CAPITAL REQUIREMENTS

The Partnership is subject to the Uniform Net Capital Rule (the "Rule") under the Securities Exchange Act of 1934, 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. The Rule also requires that equity capital may not be withdrawn if the Partnership's resulting net capital ratio would exceed 10 to 1. At December 31, 2005, the Partnership had net capital of \$2,774,163 which was \$2,632,163 in excess of required net capital. The Partnership's net capital ratio was 0.53 to 1.

## 11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Substantially all of the Partnership's financial assets and liabilities are carried at fair value or contracted amounts, which approximate fair value.

## **12. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

As a securities broker, the Partnership is engaged in buying and selling securities for a diverse group of institutional and individual investors. The Partnership introduces these transactions for clearance to a New York Stock Exchange Inc. member firm on a fully disclosed basis.

The agreement between the Partnership and its clearing broker provides that the Partnership is obligated to assume any exposure related to nonperformance by its customers. The Partnership seeks to control the risk associated with nonperformance by requiring customers to maintain margin collateral in compliance with various regulatory requirements and the clearing broker's internal guidelines. The Partnership monitors its customer activity by reviewing information it receives from its clearing broker on a daily basis, requiring customers to deposit additional collateral, or reduce positions when necessary, and reserving for doubtful accounts when necessary.

Securities sold, but not yet purchased represent obligations of the Partnership to deliver securities, creating a liability to repurchase these securities in the market at prevailing prices. Accordingly, these transactions result in off-balance sheet risk, as the Partnership's ultimate obligation may exceed the amount recognized in the consolidated statement of financial condition. The risk is the amount by which future market values exceed the amount reflected in the consolidated statement of financial condition. The Partnership may, at its discretion, buy in the securities at prevailing market prices at any time.

Substantially all cash is on deposit with two major money center banks.

Securities owned, at fair value, are in the custody of the Partnership's clearing broker. The clearing broker has the ability to pledge these securities. Nonmarketable securities are in the custody of the Partnership.

## **13. SUBORDINATED DEBT**

Effective April 29, 2005, the Partnership entered into a Revolving Subordinated Loan Agreement (the "Agreement") with a financial institution expiring April 29, 2006. The Agreement has been approved by the NASD and allows the Partnership to borrow amounts not in excess of \$3,000,000. Amounts borrowed under the Agreement are available to the Partnership in computing net capital under the Securities and Exchange Commission's Uniform Net Capital Rule. The Partnership has agreed to pay a commitment fee of .15% of the unused amount of the commitment. Interest on the amounts borrowed is based on the PRIME rate plus 1% for the period the balance is outstanding. There were no borrowings under the Agreement during the year or at December 31, 2005.

#### **14. DERIVATIVE FINANCIAL INSTRUMENTS**

The Partnership, in the normal course of its investing and trading activities, may enter into transactions in derivative financial instruments including equity and interest rate instruments based on expectations of future market movements and conditions. These transactions have market and credit risks.

Market risk is the potential adverse change in value caused by unfavorable movements in interest rates, foreign exchange rates, or market prices of other financial instruments. In certain cases, the Partnership may use derivative financial instruments to hedge the market value of other positions.

Credit risk arises from the failure of the counterparty to perform according to the terms of the contract.

Derivatives used for trading purposes are carried at fair value. At December 31, 2005, the Partnership had no open derivative contracts or balances and no derivative contracts were traded during 2005.

#### **15. DISTRIBUTION OF CAPITAL**

The Partnership anticipates partner distributions of \$200,000 during the first six months of 2006.

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February 28, 2006

Punk, Ziegel & Company, L.P. and Subsidiary  
520 Madison Avenue  
New York, New York, 10022

Ladies and Gentlemen:

In planning and performing our audit of the consolidated financial statements of Punk, Ziegel & Company L.P. (the "Partnership") and Subsidiary, for the year ended December 31, 2005 (on which we issued our report dated February 28, 2006), we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements and not to provide assurance on the Partnership's internal control.

Also, as required by Rule 17a-5(g)(1) under the Securities Exchange Act of 1934, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by the Partnership 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)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Partnership in making the 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 Partnership does not carry securities accounts for customers or perform custodial functions relating to customer securities.

The management of the Partnership 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 internal control 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 Securities and Exchange Commission's (the "Commission") 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 Partnership has responsibility are safeguarded against loss from unauthorized acquisition, 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 conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control or the practices and procedures referred to above, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control or of such practices and procedures to future periods are subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with the practices or procedures may deteriorate.

Our consideration of the Partnership's internal control would not necessarily disclose all matters in the Partnership's 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 one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the consolidated 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 the Partnership's internal control and its operation, 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 their 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, 2005, to meet the Commission's objectives.

This report is intended solely for the information and use of management, the Securities and Exchange Commission, the National Association of Securities Dealers, Inc. and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

*Deloitte + Touche LLP*