



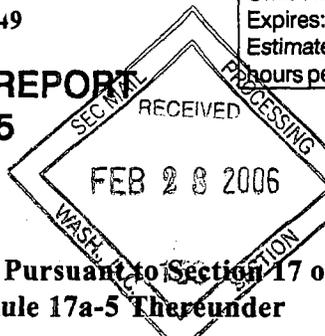
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OMB APPROVAL	
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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**



SEC FILE NUMBER
16818

**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 01/01/05 AND ENDING 12/31/05  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: GORDON & CO.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

63 Pleasant Street

(No. and Street)

Watertown

Massachusetts

02472

(City)

(State)

(Zip Code)

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

Allison D. Salke

(617) 924-7997

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Parent, McLaughlin & Nangle, Certified Public Accountants, Inc.

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

160 Federal Street

Boston

Massachusetts

02110

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED  
JUN 02 2006  
THOMSON FINANCIAL

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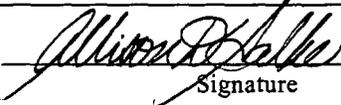
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

OM  
6/1/06

OATH OR AFFIRMATION

I, Allison D. Salke, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Gordon & Co., 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:

None

  
Signature  
Chief Executive Officer  
Title

  
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~~ Cash Flows
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors. N/A
- (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. N/A
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation. N/A
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report. N/A
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit. N/A

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

## TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Statements of financial condition	2
Statements of operations	3
Statements of changes in partners' capital	4
Statements of cash flows	5
Notes to financial statements	6-13
SUPPLEMENTARY INFORMATION:	14
Computation of net capital under Rule 15c3-1	15
Computation for determination of reserve requirements under Rule 15c3-3	16
Information relating to possession or control requirements under Rule 15c3-3	17
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5	18-19



INDEPENDENT AUDITOR'S REPORT

PARTNERS  
GORDON & CO.  
Watertown, Massachusetts

We have audited the accompanying statements of financial condition of Gordon & Co. (the Partnership) as of December 31, 2005 and 2004, and the related statements of operations, changes in partners' capital, and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 audits provide 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 Gordon & Co. at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on Pages 15, 16 and 17 is presented for purposes of additional analysis, and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. 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.

*Parent, McLaughlin & Nangle*

Certified Public Accountants

January 13, 2006

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Parent, McLaughlin & Nangle  
*Certified Public Accountants, Inc.*

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GORDON & CO.

(A Partnership)

STATEMENTS OF FINANCIAL CONDITION

	December 31	
	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 283,984	\$ 421,855
Deposits with clearing organizations	110,756	100,000
Receivables from brokers, dealers and clearing organizations	215,900	68,400
Receivables from customers	24,108	23,950
Notes receivable from customers, net (Note C)	-	-
Securities owned, at market value	5,509,607	4,353,756
Equipment - net	1,394,258	1,199,974
Other assets	2,548	1,373
	<u>\$ 7,541,161</u>	<u>\$ 6,169,308</u>
<u>LIABILITIES AND PARTNERS' CAPITAL</u>		
Liabilities:		
Note payable - line of credit	\$ 1,445,000	\$ 600,000
Payables to customers	120,735	155,801
Payables to brokers, dealers and clearing organizations	358,710	129,513
Securities sold, not yet purchased	209,866	141,206
Accrued expenses and other liabilities	30,964	29,263
	<u>2,165,275</u>	<u>1,055,783</u>
Partners' capital	<u>5,375,886</u>	<u>5,113,525</u>
	<u>\$ 7,541,161</u>	<u>\$ 6,169,308</u>

See notes to financial statements.

GORDON & CO.

(A Partnership)

STATEMENTS OF OPERATIONS

	<u>Year ended December 31</u>	
	<u>2005</u>	<u>2004</u>
REVENUES:		
Net gains on option transactions (including unrealized gain of \$150,736 in 2005 and \$80,877 in 2004)	\$ 887,845	\$ 1,022,182
Interest	72,000	11,501
Other income	206,706	118,510
	<u>1,166,551</u>	<u>1,152,193</u>
EXPENSES:		
Compensation and benefits	401,243	425,531
Other operating costs	854,206	1,104,913
	<u>1,255,449</u>	<u>1,530,444</u>
NET LOSS	( <u>\$ 88,898</u> )	( <u>\$ 378,251</u> )

See notes to financial statements.

GORDON & CO.

(A Partnership)

STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>General Partner</u>	<u>Limited Partners</u>	<u>Total</u>
BALANCE, December 31, 2003	\$ 3,079,114	\$ 1,868,140	\$ 4,947,254
Capital contributions	1,793,867	205,369	1,999,236
Net loss	( 409,476 )	31,225	( 378,251 )
Federal and state taxes paid on behalf of partners	( 6,715 )	( 15,079 )	( 21,794 )
Capital withdrawals	( <u>900,183</u> )	( <u>532,737</u> )	( <u>1,432,920</u> )
BALANCE, December 31, 2004	3,556,607	1,556,918	5,113,525
Capital contributions	1,627,037	5,833	1,632,870
Net loss	( 117,285 )	28,387	( 88,898 )
Federal and state taxes paid on behalf of partners	( 4,050 )	( 22,478 )	( 26,528 )
Capital withdrawals	( <u>1,206,430</u> )	( <u>48,653</u> )	( <u>1,255,083</u> )
BALANCE, December 31, 2005	<u>\$ 3,855,879</u>	<u>\$ 1,520,007</u>	<u>\$ 5,375,886</u>

See notes to financial statements.

GORDON & CO.

(A Partnership)

STATEMENTS OF CASH FLOWS

	Year ended December 31	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	( \$ 88,898 )	( \$ 378,251 )
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	17,160	24,651
Provision for doubtful accounts	( 127,776 )	-
(Increase) decrease in operating assets:		
Deposits with clearing organizations	( 10,756 )	20,000
Receivables from brokers, dealers and clearing organizations	( 147,500 )	4,118,380
Receivables from customers	( 158 )	( 8,022 )
Notes receivable from customers	127,776	-
Securities owned	( 1,155,851 )	( 2,369,004 )
Other assets	( 1,175 )	51,397
Increase (decrease) in operating liabilities:		
Payables to customers	( 35,066 )	( 4,382,016 )
Payables to brokers, dealers and clearing organizations	229,197	129,513
Securities sold, not yet purchased	68,660	122,779
Accrued expenses and other liabilities	1,701	9,370
Total adjustments	( <u>1,033,788</u> )	( <u>2,282,952</u> )
Net cash used by operating activities	( <u>1,122,686</u> )	( <u>2,661,203</u> )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to equipment	( <u>211,444</u> )	( <u>221,653</u> )
Net cash used by investing activities	( <u>211,444</u> )	( <u>221,653</u> )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from note payable - line of credit	845,000	600,000
Proceeds from capital contributions	1,632,870	1,999,236
Capital withdrawals	( <u>1,281,611</u> )	( <u>1,454,714</u> )
Net cash provided by financing activities	( <u>1,196,259</u> )	( <u>1,144,522</u> )
NET DECREASE IN CASH AND CASH EQUIVALENTS	( 137,871 )	( 1,738,334 )
CASH AND CASH EQUIVALENTS, beginning of year	421,855	2,160,189
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 283,984</u>	<u>\$ 421,855</u>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Interest expense paid	<u>\$ 3,687</u>	<u>\$ 2,529</u>

See notes to financial statements.



GORDON & CO.

(A Partnership)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

A. Summary of Significant Accounting Policies:

Description of business:

Gordon & Co. (the Partnership), a Massachusetts limited partnership, is a registered broker/dealer engaged primarily in the writing of limited price put and call options. Under the terms of such options, expiration prices are established. If the market price of the underlying security falls to or below (call options) or rises to or above (put options) the expiration price, the option expires. Upon issuance of each option, Gordon & Co. agrees to repurchase the option prior to expiration for certain specified prices. An option may be exercised; but, if it is not exercised, modified or repurchased, it expires at the end of the term of the option, as determined either by the expiration price or the expiration date of the option. The expiration price provision limits the off-balance sheet market risk, should there be an unfavorable change in the price of the underlying financial instrument. If a put option expires, Gordon & Co.'s policy is to immediately purchase the underlying security to cover its short position.

Principal customers are individuals located throughout the United States who are familiar with the type of risk associated with these investments, and who satisfy the options disclosure and suitability requirements imposed by the NASD.

Accounting for option income:

Option income is recognized over the term of the option, measured by the difference between the premiums received for writing and/or modifying the option and the amount of the Partnership's obligation to repurchase the option. For covered options, the amount of the repurchase obligation is considered in determining the realizable value of the underlying securities.

Cash equivalents:

For purposes of the statements of cash flows, the Partnership considers money market mutual funds, commercial paper and all highly liquid debt instruments with maturity of three months or less when purchased to be cash equivalents.

GORDON & CO.

(A Partnership)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

(Continued)

A. Summary of Significant Accounting Policies - (continued):

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

Receivables from customers:

Receivables from customers are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables from customers.

Securities transactions and valuation of securities:

Securities transactions are recorded on a trade date basis. Securities, most of which are subject to outstanding put or call options, are recorded at realizable value, taking into account the repurchase provisions included in the options. Changes in the realizable value of securities are included in income.

Receivables from brokers, dealers and clearing organizations are collateralized in part by securities borrowed or sold. Receivables from customers are partially collateralized by securities owned by customers which are not reflected in the financial statements.

GORDON & CO.

(A Partnership)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

(Continued)

A. Summary of Significant Accounting Policies - (continued):

Securities-lending activities:

Securities borrowed are generally reported as collateralized financings, except where letters of credit or other securities are used as collateral. Securities-borrowed transactions require the Partnership to deposit cash, letters of credit, or other collateral with the lender. The Partnership monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

Fair value of financial instruments:

The Partnership's financial instruments, except as discussed elsewhere, are recorded at carrying amounts which approximate fair value.

Equipment:

Equipment is reported at cost, less accumulated depreciation. Depreciation is computed by use of accelerated methods over the estimated useful lives of the related assets. Maintenance and repairs are charged to expense as incurred.

Allocation of partnership income:

Class B limited partners receive a guaranteed payment equal to 7-1/2% of their average capital in the limited partnership. The special limited partners receive the lesser of their allocated share of the partnership's net income or a guaranteed payment equal to 10% of their average capital in the limited partnership.

GORDON & CO.

(A Partnership)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

(Continued)

A. Summary of Significant Accounting Policies - (continued):

Allocation of partnership income – (continued):

Net income of the Partnership remaining after the guaranteed payments to the limited partners is allocated to the general partner.

Income taxes:

Federal and state income taxes are not payable or provided for by the Partnership, as individual partners are liable for income taxes on their distributive share of Partnership taxable income.

B. Cash Segregated Under Federal Regulations:

Cash of \$180,000 and \$195,000, at December 31, 2005 and 2004, respectively, was segregated in special reserve bank accounts for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission. No additional deposit was necessary to meet the required reserve computed as of December 31, 2005 and 2004.

C. Notes Receivable From Customers:

The Partnership has a note receivable from a customer amounting to \$1,367,873 at December 31, 2005 and had two notes receivable from customers totaling \$1,495,649 at December 31, 2004. An allowance was established for the full amounts because the amounts were doubtful of collection. The accrual of interest on these notes was discontinued.

GORDON & CO.

(A Partnership)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

(Continued)

D. Equipment:

Equipment is summarized as follows:

	December 31	
	2005	2004
Automobile	\$ 49,586	\$ 49,586
Furniture and fixtures	46,165	46,165
Office equipment	66,568	66,568
Software	1,392,919	1,181,475
	<u>1,555,238</u>	<u>1,343,794</u>
Less accumulated depreciation	( <u>160,980</u> )	( <u>143,820</u> )
	<u>\$ 1,394,258</u>	<u>\$ 1,199,974</u>

Included with software at December 31, 2005 and 2004 is \$1,329,121 and \$1,117,676, respectively, of customized software costs for the design of new trading and back office software. The software is not operational and, thus, is not being amortized.

E. Payables to Brokers, Dealers and Clearing Organizations:

Payables to brokers, dealers and clearing organizations are collateralized by securities purchased.

GORDON & CO.

(A Partnership)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

(Continued)

F. Securities Owned and Sold, Not Yet Purchased:

	<u>2005</u>	<u>2004</u>
Market value of securities owned	\$ 6,731,530	\$ 6,344,019
Less reduction of securities valuation to reflect the repurchase provisions of options sold (Note A)	<u>1,221,923</u>	<u>1,990,263</u>
	<u>\$ 5,509,607</u>	<u>\$ 4,353,756</u>
Cost of securities owned	<u>\$ 10,401,705</u>	<u>\$ 9,380,999</u>
Market value of securities sold, not yet purchased	\$ 181,868	\$ 125,855
Plus increase in securities valuation to reflect the purchase provisions of options sold (Note A)	<u>27,998</u>	<u>15,351</u>
	<u>\$ 209,866</u>	<u>141,206</u>
Cost of securities sold, not yet purchased	<u>\$ 163,072</u>	<u>\$ 124,764</u>

At December 31, 2005 and 2004, six and twelve securities accounted for approximately 56% and 57% of the market value of securities owned, respectively.

At December 31, 2005 and 2004, all outstanding put and call options were covered.

G. Note Payable - Line of Credit:

The Partnership has available a line of credit, expiring March 31, 2006, which permits the Partnership to borrow the lesser of \$10,000,000 or 70% of eligible current market value of securities, with interest at the bank's prime rate. The Partnership had borrowings of \$1,445,000 and \$600,000 that were outstanding as of December 31, 2005 and 2004, respectively. All securities and investment property of the Partnership are pledged as collateral.

GORDON & CO.

(A Partnership)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

(Continued)

H. Employee Benefits:

The Partnership sponsors a 401(K) plan which entitles all full-time employees to make voluntary contributions to the plan. Contributions cannot exceed the maximum amount under applicable provisions of the Internal Revenue Code. The Partnership is obligated to contribute 3% of an employee's salary to the plan on an annual basis. Partnership contributions to this plan amounted to \$11,687 and \$9,804 in 2005 and 2004, respectively.

I. Concentration of Credit Risk:

The Partnership maintains its cash balances at several financial institutions, and invests excess funds in money market mutual funds. Balances deposited in commercial banks are insured by the Federal Deposit Insurance Corporation, up to \$100,000, while the balances invested in money market mutual funds are not insured. As of December 31, 2005 and 2004, the uninsured balances aggregated approximately \$166,000 and \$337,000, respectively.

J. Lease Commitments:

During 2003, the Partnership entered into a non-cancelable operating lease with a related party for office space. The lease expires in March, 2008, and contains escalating clauses for operating expenses and real estate taxes. The following is a schedule, by years, of future minimum rental payments, without regard to escalation clauses, on this operating lease as of December 31, 2005:

<u>Year ending December 31:</u>	
2006	\$ 44,948
2007	46,117
2008	<u>11,700</u>
Total minimum payments required	<u>\$ 102,765</u>

Rent expense for the years ended December 31, 2005 and 2004 amounted to \$45,359 and \$43,792 respectively.

GORDON & CO.

(A Partnership)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

(Continued)

K. Net Capital Requirements:

The Partnership 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. At December 31, 2005, the Partnership had net capital of \$3,040,856, which was \$2,790,856 in excess of its required net capital of \$250,000. The Partnership's net capital ratio was .05 to 1, at December 31, 2005.

L. Related Party Transactions:

The Partnership has entered into an agreement with a computer consulting company for monthly computer maintenance, and has contracted with this company to design new trading and back office software. This company is partly owned by the Partnership's chief executive officer who is also a limited partner in the Partnership.

Computer maintenance expense and related software design amounted to \$451,445 and \$460,859 for the years ended December 31, 2005 and 2004, respectively.

During 2002, the Partnership entered into a consulting agreement with a company which is owned by a party who is a limited partner in the general partner of the Partnership. Consulting expense under this agreement amounted to \$-0- and \$210,339 for the years ended December 31, 2005 and 2004, respectively.

During 2003, the partnership entered into a lease agreement for office space with an entity in which the general partner and several limited partners of the Partnership hold interests. Lease payments under this agreement totaled \$45,359 and \$43,792 for the years ended December 31, 2005 and 2004, respectively. (Reference is made to Note J.)

M. Other Income:

During 2005 and 2004, the Partnership recovered approximately \$129,000 and \$12,000, respectively, of amounts due from customers which had been previously written off as uncollectible. These amounts are included in Other Income in the Statements of Operations.

SUPPLEMENTARY INFORMATION

GORDON & CO.

(A Partnership)

COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1

AS OF DECEMBER 31, 2005

COMPUTATION OF NET CAPITAL:

Total Partners' capital qualified for net capital		\$	5,375,886
Deductions and/or charges:			
Non-allowable assets:			
Equipment and improvements - net	\$	1,394,258	
Other assets		2,548	( 1,396,806 )
			<u>3,979,080</u>
Net capital before haircuts on securities positions			3,979,080
Haircuts on securities:			
Trading and investment securities:			
Stocks and warrants		721,593	
Other securities		861	
Undue concentration		215,770	( 938,224 )
			<u>3,040,856</u>
NET CAPITAL		\$	<u>3,040,856</u>

COMPUTATION OF AGGREGATE INDEBTEDNESS:

Items included in statement of financial condition:			
Payables to customers		\$	120,735
Accrued expenses and other liabilities			30,964
			<u>151,699</u>
TOTAL AGGREGATE INDEBTEDNESS		\$	<u>151,699</u>

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT:

Minimum net capital required (6-2/3% of aggregate indebtedness)		\$	<u>10,113</u>
Minimum dollar net capital requirement of reporting broker/dealer		\$	<u>250,000</u>
Net capital requirement (greater of minimum dollar net capital requirement of reporting broker/dealer or minimum net capital required)		\$	<u>250,000</u>
Excess net capital		\$	<u>2,790,856</u>
Excess net capital at 1000%		\$	<u>3,025,686</u>
Ratio of aggregate indebtedness to net capital			<u>.05 to 1</u>

RECONCILIATION WITH PARTNERSHIP'S COMPUTATION:

There are no differences between the amounts reported by the Partnership in Part II of the unaudited Form X-17A-5 as of December 31, 2005 and the amounts above.

GORDON & CO.

(A Partnership)

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS  
UNDER RULE 15c3-3

AS OF DECEMBER 31, 2005

CREDIT BALANCES:

Free credit balances and other credit balances in customers' securities accounts	\$ <u>118,061</u>
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DEBIT BALANCES:

Debit balances in customers' cash and margin accounts, excluding unsecured accounts and accounts doubtful of collection, net of deductions pursuant to Rule 15c3-3	\$ <u>23,867</u>
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RESERVE COMPUTATION:

Excess of total credits over total debits	\$ <u>94,194</u>
Required reserve (105% of excess of total credits over total debits)	\$ <u>98,904</u>
Amount held on deposit in reserve bank accounts, as of December 31, 2005	\$ <u>180,000</u>

RECONCILIATION WITH PARTNERSHIP'S COMPUTATION:

There are no differences between the amounts reported by the Partnership in Part II of the unaudited Form X-17A-5 as of December 31, 2005 and the amounts above.

GORDON & CO.

(A Partnership)

INFORMATION RELATING TO POSSESSION OR CONTROL  
REQUIREMENTS UNDER RULE 15c3-3

AS OF DECEMBER 31, 2005

Customers' fully paid and excess margin securities are in respondent's possession or control as of the report date.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
REQUIRED BY SEC RULE 17a-5

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GORDON & CO.  
Watertown, Massachusetts

In planning and performing our audit of the financial statements of Gordon & Co. (the Partnership) for the year ended December 31, 2005, 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 the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Partnership, including tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in the following:

- 1) Making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e)
- 2) Making the quarterly securities examinations, counts, verifications, and comparisons; and the recordation of differences required by Rule 17a-13
- 3) Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System
- 4) Obtaining and maintaining physical possession or control of all fully-paid and excess margin securities of customers as required by Rule 15c3-3

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 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 SEC's above-mentioned objectives.

- 18 -

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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 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 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, error 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. 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 SEC 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, 2005 to meet the SEC's objectives.

This report is intended solely for the information and use of the Partners, management, the SEC, the National Association of Security 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.

*Parent, McLaughlin + Nangle*

Certified Public Accountants

January 13, 2006