



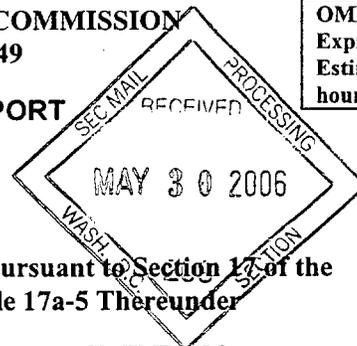
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

OMB APPROVAL
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SEC FILE NUMBER
8-18884



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 April 1, 2005 AND ENDING March 31, 2006
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER DEALER:

J.B. Hanauer & Co. and Subsidiaries

OFFICIAL USE ONLY
FIRM ID. NO.

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

4 Gatehall Drive

(No. and Street)

Parsippany

(City)

New Jersey

(State)

07054

(Zip Code)

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

Virginia Manna

(973) 829-1000

(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

(Address)

New York

(City)

NY

PROCESSED

10017

(Zip Code)

CHECK ONE:

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

AUG 31 2006 E

THOMSON
FINANCIAL

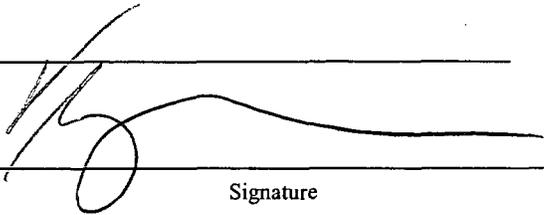
FOR OFFICIAL USE ONLY

*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).

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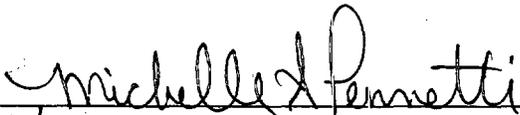
OATH OR AFFIRMATION

I, Virginia Manna, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of J.B. Hanauer & Co. and Subsidiaries, as of March 31, 2006, 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

Executive Vice President
Title


5/26/06 Notary Public
Morris County
New Jersey
Michelle A. Pennetti
Notary Public, State of New Jersey
My Commission Expires, January 5, 2009

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).

J.B. HANAUER & CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
MARCH 31, 2006



Eisner LLP
Accountants and Advisors

750 Third Avenue
New York, NY 10017-2703
Tel 212.949.8700 Fax 212.891.4100
www.eisnerllp.com

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
J.B. Hanauer & Co.
Parsippany, New Jersey

We have audited the accompanying consolidated statement of financial condition of J.B. Hanauer & Co. and subsidiaries (the "Company") as of March 31, 2006 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 Company'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 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 financial statement presentation. We believe that our audit of the consolidated statement of financial condition 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 J.B. Hanauer & Co. and subsidiaries at March 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

New York, New York
May 17, 2006

J.B. HANAUER & CO. AND SUBSIDIARIES

Consolidated Statement of Financial Condition March 31, 2006

ASSETS

| | |
|--|----------------------|
| Cash | \$ 135,000 |
| Receivables from brokers | 11,629,000 |
| Securities owned at market value | 11,256,000 |
| Restricted investments | 9,915,000 |
| Notes receivable | 2,434,000 |
| Other assets | 2,782,000 |
| Furniture, equipment and leasehold improvements - at cost, net of accumulated depreciation and amortization of \$2,825,000 | <u>1,211,000</u> |
| | <u>\$ 39,362,000</u> |

LIABILITIES

| | |
|---|-------------------|
| Securities sold but not yet purchased at market value | \$ 122,000 |
| Deferred compensation liability | 6,597,000 |
| Other accrued expenses | <u>12,821,000</u> |
| Liabilities other than shares | 19,540,000 |
| Shares subject to mandatory redemption | <u>1,550,000</u> |
| Total liabilities | 21,090,000 |
| Commitments and contingencies | |
| Subordinated liabilities | 873,000 |

STOCKHOLDERS' EQUITY

| | |
|--|----------------------|
| | <u>17,399,000</u> |
| | <u>\$ 39,362,000</u> |

J.B. HANAUER & CO. AND SUBSIDIARIES

Notes to Consolidated Statement of Financial Condition March 31, 2006

NOTE A - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- [1] J.B. Hanauer & Co. is a registered broker-dealer engaged primarily in the sale of securities to individual investors. The accompanying financial statement includes the accounts of J.B. Hanauer & Co. and its wholly owned subsidiaries, J.B. Hanauer Agency, Inc., V.S.A. Realty, Inc., Gatehall Financial Corp. and RealityBased Marketing, Inc. (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.
- [2] Security transactions are recorded on a trade date basis.
- [3] Securities are valued at market.
- [4] Depreciation of furniture and equipment (which includes software) is computed on the straight-line method over the estimated useful life of the asset, two to ten years. Leasehold improvements are amortized by the straight-line method over the life of the applicable leases, or the life of the improvement, if shorter.
- [5] The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 B - NOTES RECEIVABLE

Notes receivable consist of \$2,379,000 of notes issued in connection with the employment of financial advisors bearing interest at a rate of 4%, due quarterly. The aggregate principal repayments are due as follows:

| <u>Year Ending March 31,</u> | |
|----------------------------------|---------------------|
| 2007 | \$ 570,000 |
| 2008 | 221,000 |
| 2009 | 25,000 |
| 2010 | 269,000 |
| 2011 | 776,000 |
| Thereafter | <u>518,000</u> |
| | <u>\$ 2,379,000</u> |

In addition, \$55,000 of notes receivable are due from employees which are collectible throughout 2007.

NOTE C - SUBORDINATED LIABILITIES

The subordinated liabilities at March 31, 2006 consist of borrowings under subordination agreements of \$873,000 bearing interest at an adjustable rate of ½ of one percent above Wachovia Bank's prime commercial lending rate, due in scheduled quarterly installments from May 2006 through November 2008. These liabilities are allowable in computing net capital under Rule 15c3-1 of the Securities and Exchange Commission.

J.B. HANAUER & CO. AND SUBSIDIARIES

Notes to Consolidated Statement of Financial Condition March 31, 2006

NOTE D - STOCKHOLDERS' EQUITY

Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150") provides that common stock that embodies an unconditional obligation requiring the issuer to redeem the stock by transferring its assets at a specified or determinable date or upon an event certain to occur shall be classified as a liability and measured at fair value with changes in fair value recognized in earnings.

Pursuant to the terms of a stockholders' agreement, as amended, the Company is obligated to redeem a portion of its capital stock upon death, permanent disability, retirement, termination of employment or a one-time sale during employment. Accordingly, at March 31, 2006, the redemption value on 22,644 shares of capital stock of \$1,550,000 has been reclassified from stockholders' equity and recognized as a liability.

Stockholders' equity and shares subject to mandatory redemption consist of:

| | <u>Stockholders' Equity</u> | <u>Shares Subject to Mandatory Redemption</u> |
|---|---------------------------------|---|
| Capital stock - no par value, authorized 1,000,000 shares; issued 765,740 shares | \$ 381,000 | \$ 15,000 |
| Additional paid-in-capital | 4,884,000 | 192,000 |
| Retained earnings | <u>30,565,000</u> | <u>1,343,000</u> |
| | 35,830,000 | 1,550,000 |
| Less cost of treasury stock (512,663 shares) | <u>(18,431,000)</u> | <u> </u> |
| | <u>\$ 17,399,000</u> | <u>\$ 1,550,000</u> |

The Company maintains bonus and stock incentive plans and has authorized the issuance of up to 75,000 shares of the Company's stock for this purpose. Pursuant to this program, approximately 56,774 stock bonus shares have been awarded through March 31, 2006 to employees who have met certain productivity requirements, of which 45,697 remain unvested. Of these awards, 3,699 shares vest on April 1, 2006, 11,360 shares vest on April 1, 2007, 10,448 shares vest on April 1, 2008, 10,462 shares vest on April 1, 2009 and 9,728 shares vest on April 1, 2010. In the event of death or disability, all of these awards will vest immediately. Upon retirement the shares will vest 20% for each completed year of service from the date of grant. Compensation expense is being charged to expense ratably over the vesting period. At March 31, 2006, deferred stock compensation expense related to unvested stock awards amounted to \$1,222,000. In April 2006, 8,651 shares have been awarded to financial advisors which will vest April 1, 2011.

In May 2006, the Company's Board of Directors approved the Company's offer to purchase up to \$1 million in common stock and, subsequently, offer to sell up to \$1 million in common stock to both new and existing stockholders who have neither exercised their one-time sale option, nor have tendered common stock since April 1, 2003.

J.B. HANAUER & CO. AND SUBSIDIARIES

Notes to Consolidated Statement of Financial Condition March 31, 2006

NOTE E - COMMITMENTS AND CONTINGENCIES

- [1] The Company has noncancellable leases for office space and various equipment expiring periodically through 2017. The minimum aggregate rentals are as follows:

| <u>Year Ending March 31,</u> | |
|----------------------------------|----------------------|
| 2007 | \$ 2,648,000 |
| 2008 | 2,165,000 |
| 2009 | 1,741,000 |
| 2010 | 1,764,000 |
| 2011 | 1,787,000 |
| Thereafter | <u>10,396,000</u> |
| | <u>\$ 20,501,000</u> |

Certain of these leases contain escalation clauses for increases in real estate taxes and cost of living adjustments based upon the consumer price index. Rent is charged to expense over the entire lease term on a straight-line basis. The cumulative amount charged in excess of the amount paid was \$918,000 at March 31, 2006 and is included in other accrued expenses in the consolidated statement of financial condition.

- [2] The Company is subject to arbitrations in connection with matters which arose during the normal course of its business. It is the opinion of management that it has meritorious defenses to these actions, however, the ultimate outcome of these matters is not presently determinable. The Company believes that these aforementioned actions will result in no material adverse effect on its financial position.
- [3] The Company has severance pay agreements with certain key employees to ensure the continued dedication of these employees in the event there is a Change of Control, as that term is defined in the agreements, and the employee is terminated. These agreements specify a certain agreed upon amount to be paid upon termination at any time during a two-year period following a Change of Control.

In addition, the Company maintains a bonus program whereby certain employees will be paid a quarterly bonus, over a specified period of time, only if employed by the Company on the scheduled dates of payment. In the case of death or disability, the Company will continue to pay this bonus through the scheduled end date. The aggregate bonuses are due as follows:

| <u>Year Ending March 31,</u> | |
|----------------------------------|---------------------|
| 2007 | \$ 1,089,000 |
| 2008 | 519,000 |
| 2009 | 443,000 |
| 2010 | 384,000 |
| 2011 | 274,000 |
| Thereafter | <u>28,000</u> |
| | <u>\$ 2,737,000</u> |

J.B. HANAUER & CO. AND SUBSIDIARIES

Notes to Consolidated Statement of Financial Condition March 31, 2006

NOTE E - COMMITMENTS AND CONTINGENCIES (CONTINUED)

- [4] The Company currently clears its securities transactions through First Clearing, LLC ("FCC"), a non-bank affiliate of Wachovia Corporation, on a fully disclosed basis pursuant to a clearance agreement. Even though the Company clears its transactions through another broker/dealer, nonperformance by its customers in fulfilling their obligations pursuant to securities transactions may expose the Company to risk and potential loss.

The Company's equity in accounts held by FCC, consisting of securities owned, collateralize the margin amounts due to FCC.

NOTE F - INCOME TAXES

Deferred income tax benefits are provided for the temporary differences that arise between financial statement and income tax reporting principally relating to the employee stock compensation program, deferred compensation plans, depreciation and amortization, and other expenses. As of March 31, 2006, the Company has AMT credit carryforwards of \$312,000. Included in other assets are gross deferred tax benefits of \$4,621,000, which have been offset by a valuation allowance of \$3,221,000.

NOTE G - 401(k) SAVINGS AND INVESTMENT PLAN

The Company maintains a 401(k) savings and investment plan. Employees who have attained 21 years of age are eligible to participate in the plan on the first day of the quarter immediately following their date of employment. The Company, at its discretion, may make contributions to the plan equal to 25% of employee contributions with a maximum of 6% of eligible compensation which vests at the end of a three-year period. Employees must complete one year of service to be eligible to receive this Company contribution.

NOTE H - DEFERRED COMPENSATION PLANS/RESTRICTED INVESTMENTS

The Company maintains a non-qualified deferred compensation plan for certain key employees that provides the opportunity to defer a portion of their compensation. The Company funds these deferred compensation liabilities by making contributions to a trust, which is included in the consolidated statement of financial condition. Investments are made in money market and other mutual funds. The employees are fully vested in the trust assets. At March 31, 2006, amounts included in Restricted Investments and Deferred Compensation Liability amounted to \$6,597,000.

The Company also maintains the J.B. Hanauer & Co. Employee Incentive Plan. This is also a non-qualified plan that provides benefits to key employees who meet certain productivity requirements. Contributions are made to a trust, which invests these funds into a money market and a mutual fund. At March 31, 2006, the trust assets amount to \$3,318,000 and the liability pursuant to this program amounts to \$1,559,000. Each of the awards vests after five years of continuous employment with the Company. In the event of death or disability, these awards vest immediately. Upon retirement, these awards will vest 20% for each completed year of service from the date of grant. In April 2006, \$592,000 has been awarded to financial advisors for the fiscal year ending March 31, 2007.

J.B. HANAUER & CO. AND SUBSIDIARIES

Notes to Consolidated Statement of Financial Condition March 31, 2006

NOTE I - NET CAPITAL REQUIREMENTS

The Company is subject to the Uniform Net Capital Rule promulgated by the Securities and Exchange Commission and has elected to comply with the alternative net capital computation provided in the Rule. This Rule requires the Company to maintain net capital equal to the greater of 2% of aggregate debit balances arising from customer transactions, or \$250,000. At March 31, 2006, the Company had net capital of \$10,217,000, which exceeded requirements by approximately \$9,967,000. The net capital computation does not include the accounts of V.S.A. Realty, Inc., Gatehall Financial Corp., and RealityBased Marketing, Inc.