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

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7/25

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

SEC File Number  
8-23904

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 04/01/11 and ending 03/31/12

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:  
Cantella & Co., Inc.

Official Use Only  
Firm ID No.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do not use P.O. Box No.):  
101 Federal Street, 13<sup>th</sup> Floor

(No. and Street)

Boston  
(City)

MA  
(State)

02110  
(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS  
REPORT: Jonathan Lanstein (617)521-8630

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
DeMarco Sciacotta Wilkens & Dunleavy, LLP

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

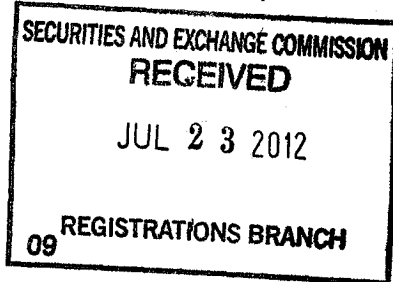
1211 W. 22<sup>nd</sup> Street, Suite 110

(No. and Street)

Oak Brook  
(City)

Illinois  
(State)

60523  
(Zip Code)



CHECK ONE:

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

FOR OFFICIAL USE ONLY

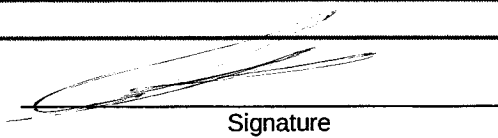
\*Claims for exemption from the requirement that the annual report covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2)

July 23/12

**OATH OR AFFIRMATION**

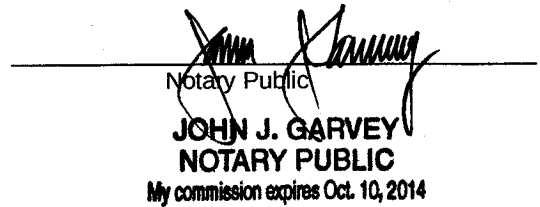
I, **Jonathan Lanstein**, swear (or affirm) that, to the best of my knowledge and belief, the accompanying financial statement and supporting schedules pertaining to the firm of Cantella & Co., Inc. as of March 31, 2012, are true and correct. I further swear (or affirm) that neither the Company nor any 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  
**JOHN J. GARVEY**  
**NOTARY PUBLIC**  
My commission expires Oct. 10, 2014

This report\*\* contains (check all applicable boxes):

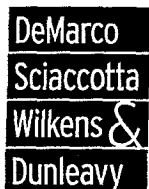
- X (a) Facing Page.
- X (b) Statement of Financial Condition.
- X (c) Statement of Income (Loss).
- X (d) Statement of Cash Flows.
- X (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- X (g) Computation of Net Capital.
- X (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c-3-3.
- X (i) Information Relating to the Possession or Control Requirements Under Rule 15c-3-3.
- (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 audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- X (l) An Oath or Affirmation.
- X (m) A copy of the SIPC Supplemental Report.
- X (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).

CANTELLA & CO., INC.

STATEMENT OF  
FINANCIAL CONDITION AND  
INDEPENDENT AUDITORS' REPORT

MARCH 31, 2012



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Cantella & Co., Inc.

We have audited the accompanying statement of financial condition of Cantella & Co., Inc. (the Company) as of March 31, 2012 that you are filing pursuant to rule 17a-5 under the Securities and 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 attain reasonable assurance about whether the financial statements are 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 Company'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 statements, 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 statement referred to above present fairly, in all material respects, the financial position of Cantella & Co., Inc. as of March 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

*DeMarco Sciacotta Wilkens & Dunleavy LLP*

Oak Brook, Illinois  
May 29, 2012

CANTELLA & CO., INC.

STATEMENT OF FINANCIAL CONDITION

MARCH 31, 2012

**ASSETS**

Cash and cash equivalents	\$ 1,101,783
Receivable from broker/dealers	3,206,870
Securities owned, at fair value	4,277,426
Other receivables	176,890
Furniture, equipment, software and leasehold improvements, at cost (net of \$520,462 accumulated depreciation)	126,949
Other assets	<u>181,350</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 9,071,268</u></b>

**LIABILITIES AND SHAREHOLDER'S EQUITY**

**LIABILITIES**

Payable to brokers/dealers and clearing organizations	\$ 542,528
Commissions payable	1,821,646
Securities sold, not yet purchased	90,994
Other liabilities	<u>5,251,854</u>
<b>Total Liabilities</b>	<b><u>\$ 7,707,022</u></b>

**SHAREHOLDER'S EQUITY**

Common stock, no par value; 12,500 shares authorized, 10,003 shares issued, 5,505 shares outstanding	\$ 891,053
Additional paid-in capital	4,738,386
Retained earnings (deficit)	<u>(4,265,193)</u>
<b>Total Shareholder's Equity</b>	<b><u>\$ 1,364,246</u></b>

**TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY** **\$ 9,071,268**

The accompanying notes are an integral part of this financial statement.

CANTELLA & CO., INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

YEAR ENDED MARCH 31, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Organization - Cantella & Co., Inc. (the "Company"), a wholly owned subsidiary of Cantella Management Corp., was incorporated under the laws of the state of Massachusetts on May 22, 1979. The Company is registered as a broker/dealer with the Securities and Exchange Commission and is also a member of the Financial Industry Regulatory Authority (FINRA). The Company's principal business activity is the sale of securities.

Securities Transactions - Commission revenue and related expense arising from securities transactions are recorded on a trade date basis. In addition, included in income are commissions on transactions introduced by other fully disclosed broker/dealers.

Securities Owned and Sold, Not Yet Purchased - Securities are recorded at fair value in accordance with FASB ASC 820, Fair Value Measurements and Disclosures.

Concentrations of Credit Risk - The Company is engaged in various trading and brokerage activities in which the counterparties primarily include broker/dealers, banks, other financial institutions and the Company's own customers. In the event the counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

In addition, most of the Company's cash is on deposit at one financial institution and the balance at times may exceed the federally insured limit. The Company believes it is not exposed to any significant credit risk to cash.

Cash Equivalents - For purposes of the Statement of Cash Flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than three months that are not held for sale in the ordinary course of business.

Depreciation - Depreciation of furniture, equipment, software and leasehold improvements is provided using the straight-line method over estimated useful lives of three, five and ten years.

CANTELLA & CO., INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

YEAR ENDED MARCH 31, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES - *(Continued)*

Rent Expense - The Company recognizes nonlevel rent payments using the straight-line method over the term of the lease in accordance with FASB ASC 840, Leases.

Subsequent Events - The Company evaluated all significant events or transactions that occurred through the audit report date, the date these financial statements were available to be issued.

Estimates - 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 statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - FAIR VALUE MEASUREMENT

FASB ASC 820 defines fair value, creates a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.

CANTELLA & CO., INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

YEAR ENDED MARCH 31, 2012

NOTE 2 - FAIR VALUE MEASUREMENT - *(Continued)*

- Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. *(The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.)*

Level 1 inputs have been applied to value cash equivalents on the statement of financial condition. In addition, Level 1 inputs have been used to value securities owned and sold not yet repurchased, which consist of trading and investment securities as listed hereafter.

	<u>Owned</u>	<u>Sold, Not Yet Purchased</u>
Municipal Bonds	\$ 3,639,007	\$ -
Equity securities	<u>638,419</u>	<u>90,994</u>
Total	<u>\$ 4,277,426</u>	<u>\$ 90,994</u>

No valuation techniques have been applied to all other assets and liabilities included in the statement of financial condition. Due to the nature of these items, all have been recorded at their historical values.

NOTE 3 - CASH AND SECURITIES SEGREGATED UNDER FEDERAL AND OTHER REGULATIONS

Included in cash and cash equivalents is cash of \$5,645 which has been segregated in a special reserve bank account for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission.

NOTE 4 - RELATED PARTIES

As previously mentioned, the Company is wholly owned by Cantella Management Corp. (CMC). The Company is also affiliated through common ownership and management with Cantella Insurance Agency, Inc.

During the year ended March 31, 2012, the Company incurred management fees of \$514,000 to CMC. No amount was owed to CMC at March 31, 2012.



CANTELLA & CO., INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

YEAR ENDED MARCH 31, 2012

NOTE 5 - INCOME TAXES

The Company reports its income for federal income tax purposes on a consolidated basis with the income of its Parent company, CMC, which files on a calendar year basis. The Parent assumes all liability for the income tax expense of the consolidated group. As of December 31, 2011, the Parent had a net operating loss carryforward of \$836,167.

The Company accounts for any potential interest or penalties related to possible future liabilities for unrecognized income tax benefits as interest/other expense. The Company is no longer subject to examination by tax authorities for federal, state or local income taxes for periods before 2008.

NOTE 6 - 401(k) PLAN

The Company has adopted a deferred compensation plan commonly referred to as a profit sharing plan with provisions under IRS code section 401(k) whereby employees may contribute up to 100% of their compensation within specified legal limits. The Company may make matching and additional discretionary contributions to the plan. To be eligible under the plan, employees must attain 21 years of age or older, work a minimum of 1000 hours per year and be employed by the Company on the last day of plan year. Company contributions to the plan for the year ended March 31, 2012 were \$33,000. The plan is based on a calendar year.

NOTE 7 - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (rule 15c3-1), which requires the Company to maintain the greater of minimum net capital of \$250,000 or two percent of "aggregate debit items," as these terms are defined. Net capital and aggregate debit items change from day to day, but at March 31, 2012, the Company had net capital of \$576,667 and a net capital requirement of \$250,000.

CANTELLA & CO., INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

YEAR ENDED MARCH 31, 2012

NOTE 8 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Company enters into various transactions involving derivatives and other off-balance sheet financial instruments. These financial instruments include exchange-traded options, mortgage-backed to-be-announced securities (TBA's) and securities purchased and sold on a when-issued basis (when-issued securities). These financial instruments are used to meet the needs of customers, conduct trading and investment activities and manage market risks and are, therefore, subject to varying degrees of market and credit risk. Derivative transactions are entered into for trading purposes or to economically hedge other positions or transactions.

TBA's and when-issued securities provide for the delayed delivery of the underlying instrument. As a writer (seller) of options, the Company's customer receives a premium in exchange for giving the counterparty the right to buy or sell the security at a future date at a contracted price. The contractual or notational amount related to these financial instruments reflects the volume and activity and does not reflect the amounts of risk.

The credit risk for TBA's, options and when-issued securities is limited to the unrealized market valuation gains recorded in the statement of financial condition. Market risk is substantially dependent upon the value of the underlying financial instruments and is affected by market forces such as volatility and changes in interest and foreign exchange rates.

In addition, the Company and its customers sell securities that they do not currently own and will therefore be obligated to purchase such securities at a future date. For Company sales, they record these obligations in the financial statements at the market values of the related securities and will incur a loss if the market value of the securities increases subsequent to the sale date.

To facilitate securities transactions, including the aforementioned transactions, the Company has entered into agreements with other broker/dealers (Clearing Broker/dealers) whereby the Company forwards (introduces) customer securities transactions to the Clearing Broker/dealers, fully disclosing the customer name and other information. The processing and, if applicable, any financing pertaining to the introduced securities transactions are performed by the Clearing Broker/dealers.

CANTELLA & CO., INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

YEAR ENDED MARCH 31, 2012

NOTE 8 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK - *(Continued)*

The customer account is therefore maintained and recorded in the books and records of the Clearing Broker/dealers on the Company's behalf. In consideration for introducing customers to the Clearing Broker/dealers, the Company receives commissions and other consideration, less the processing and other charges of the Clearing Broker/dealers. As part of the terms of the agreements between the Company and Clearing Broker/dealers, the Company is held responsible for any losses arising when the customers introduced by the Company to the Clearing Broker/dealers fail to meet their contractual commitments pertaining to the purchase, sale and possible financing of securities transactions. The Company may therefore be exposed to off-balance-sheet risk in the event the customer is unable to fulfill its contracted obligations and it is necessary for the Clearing Broker/dealers to purchase or sell the securities at a loss. The Company's exposure to risk would consist of the amount of the loss realized and any additional expenses incurred pertaining to the transaction or other customer activity.

Under the terms of two of the Clearing Broker/dealer agreements, the Company is prohibited from entering into similar agreements with other Clearing Broker/dealers without prior written consent from these Clearing Broker/dealers. One of these agreements also provides that prior written notification be made if any additional representatives of the Company (after effective date of agreement) establish and introduce customers through any other Clearing Broker/dealer.

All of the Clearing Broker/dealer agreements provide for minimum net capital requirements, insurance coverage, deposit requirements and other miscellaneous provisions.

NOTE 9 - COMMITMENT

Sublease Commitment - Minimum annual rentals under a noncancellable sublease for office space, expiring February 28, 2015, exclusive of additional payments which may be required for certain increases in operating and maintenance costs, are as follows:

CANTELLA & CO., INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

YEAR ENDED MARCH 31, 2012

NOTE 9 - COMMITMENT - *(Continued)*

<u>Year Ending March 31,</u>	<u>Amount</u>
2013	\$ 317,883
2014	317,883
2015	<u>291,393</u>
<b>Total</b>	<b><u>\$ 927,159</u></b>

Office rent expense resulting from this lease for the year ended March 31, 2012 was \$292,885. Included in other liabilities on the statement of financial condition is deferred rent of \$55,629.

NOTE 10 - CONTINGENCIES

The Company, from time to time, is involved in certain claims and arbitrations incidental to its business. Based on the consultation with legal counsel, management is of the opinion that any claims, either individually or in the aggregate, to which the Company is a party will not have a material adverse effect on the Company's financial position or operations, except for the following:

Thirteen customers of the Company had been identified as victims, regarding misappropriation of funds by a former registered representative of the Company, of which twelve had previously settled claims with the Company. The Company agreed to settle the final claim for \$700,000, without admitting liability, which is accrued in other liabilities in the statement of financial condition. The arbitration proceedings were dismissed and the claim was paid in April 2012.

CANTELLA & CO., INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

YEAR ENDED MARCH 31, 2012

NOTE 10 - CONTINGENCIES - *(Continued)*

In actions filed in the State Court of Hawaii in 2004, 2006 and 2010, the Company was named a defendant in suits alleging the Company and others were responsible for losses. The Company has denied liability in response to each of these cases. In 2012, the Company negotiated a resolution of all the claims asserted against the Company and its representatives for \$1,000,000, without admitting liability, which is accrued in other liabilities in the statement of financial condition. However, payment of that, or any amount, is subject to completion of a settlement agreement and approval by the Court. Until such steps are completed, the Company is not bound by the tentative agreement reached in mediation.

In December 2011, the Company was named as respondent in an arbitration case seeking a substantial damage claim. The Company has denied any wrongdoing and has denied having any liability to the claimant. A final arbitration hearing in the matter is currently scheduled to take place in December 2012. At this time, the Company's legal counsel is unable to evaluate the likelihood of an unfavorable outcome or estimate the amount of any potential loss.