

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

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

SEC FILE NUMBER	
8-	41386

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 01/01/2012 AND ENDING 12/31/2012  
MM/DD/YY MM/DD/YY

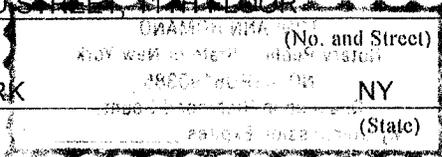
**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: JOSEPH GUNNAR & CO. LLC  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

30 BROAD STREET, 11TH FLOOR

NEW YORK  
(City)



NY  
(State)

10004  
(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
STEPHAN A. STEIN 212 440 9600  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

ROSEN SEYMOUR SHAPSS MARTIN & CO LLP

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

757 THIRD AVENUE

NEW YORK

NY

10017

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

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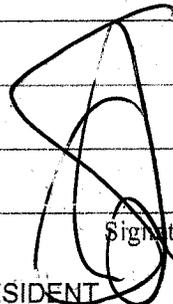
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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

OATH OR AFFIRMATION

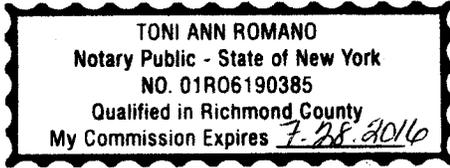
I, STEPAHAN A. STEIN, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of JOSEPH GUNNAR & CO. LLC, as of DECEMBER 31, 20 12, are true and correct. I further swear (or affirm) that neither the company nor 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

PRESIDENT  
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.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' 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.

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

**JOSEPH GUNNAR & CO., LLC**

**FINANCIAL STATEMENT**

**Year Ended December 31, 2012**

**AND**

**INDEPENDENT AUDITORS' REPORT**

**CONTENTS**

December 31, 2012

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## INDEPENDENT AUDITORS' REPORT

To the Members of  
Joseph Gunnar & Co., LLC

### ***Report on the Financial Statements***

We have audited the accompanying statement of financial condition of Joseph Gunnar & Co., LLC (the "Company") as of December 31, 2012.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the statement of financial condition in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statement in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the

overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Joseph Gunnar & Co., LLC as of December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

*Rosen Sugrue Chapss Martin & Company LLP*

CERTIFIED PUBLIC ACCOUNTANTS

New York, New York  
February 12, 2013

**STATEMENT OF FINANCIAL CONDITION**

December 31, 2012

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**Assets**

Cash and cash equivalents	\$ 122,402
Receivables:	
Due from clearing broker (Note 3)	1,318,428
Due from registered representatives (Note 4)	506,775
Clearing deposit (Note 3)	150,000
Other receivables	87,230
Securities owned (Note 7)	421
Prepaid Expenses and other assets	95,642
Property and equipment, net of accumulated depreciation and amortization of \$2,078,339 (Note 5)	73,844
Security deposits	<u>20,274</u>
Total assets	<u>\$ 2,375,016</u>

**Liabilities and Members' Equity**

Liabilities:	
Commissions payable	\$ 830,751
Accounts payable and accrued expenses	497,554
Deferred rent payable (Note 6)	<u>261,647</u>
Total liabilities	1,589,952
Commitments and contingencies (Note 6)	
Members' equity	<u>785,064</u>
Total liabilities and members' equity	<u>\$ 2,375,016</u>

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*The accompanying notes are an integral part of this financial statements.*

**NOTES TO FINANCIAL STATEMENT**

December 31, 2012

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**1. Organization**

Joseph Gunnar & Co., LLC (the "Company") is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority ("FINRA"). As of October 22, 2012, the Company became a registered investment advisor with the SEC. The Company is wholly-owned by Joseph Gunnar Holding Co., LLC ("JGH" or "Parent").

The Company executes principal and agency transactions in listed and over-the-counter securities and engages in investment banking activity. All customer transactions are cleared on a fully disclosed basis through an independent clearing firm. The Company claims exemption from the requirements of SEC Rule 15c3-3 under Section (k)(2)(ii) of the rule, and consequently does not carry securities accounts for customers nor does it perform custodial functions related to their securities.

**2. Summary of Significant Accounting Policies**

Basis of Presentation

The accompanying financial statement has been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents. The Company places its cash with high credit quality financial institutions, which at times may be in excess of FDIC insurance limits. At December 31, 2012, the Company had not exceeded that limit.

Income Recognition/Business Activities

The Company records securities transactions, including gains from securities trading and commission revenue and expense, on a trade-date basis. Investment banking revenues include gains, losses and fees arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking revenues also include fees earned from providing financial consulting

**NOTES TO FINANCIAL STATEMENT (Continued)**

December 31, 2012

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services. Revenue earned from private placements is based on the percentage of money raised and is recognized according to contractual arrangements. For managed accounts, the Company earns revenue based on a percentage of assets under management. Clients are charged on a quarterly basis and the income is recognized ratably over the period.

Furniture and Equipment

Depreciation of equipment is provided on a straight-line basis over the estimated useful lives of the respective assets. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Deferred Rent

Deferred rent represents the excess of rent expense on a straight-line basis over the annual rent payable.

Advertising Costs

Advertising costs are charged to operations as incurred and are included in other operating expenses on the Company's statement of operations and members' equity.

Income Taxes

The Company has elected to be treated as a partnership for federal and state tax purposes and is responsible for New York City Unincorporated Business Taxes.

FASB ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statement. As of December 31, 2012, the Company has no uncertain tax positions that qualify for either recognition or disclosure in the financial statement.

The Company's income tax returns for the years ended December 31, 2009 through 2011 can still be examined by the taxing authorities.

**3. Due From Clearing Broker**

The Company has a clearing agreement with a brokerage firm to carry its accounts. The clearing broker has custody of the Company's securities and cash balances. These securities and/or cash positions serve as collateral for any amounts due to the clearing broker and as collateral for potential defaults of the Company's customers which are carried on the books and records of the clearing

**NOTES TO FINANCIAL STATEMENT (Continued)**

December 31, 2012

broker. The Company is also subject to credit risk if the clearing broker is unable to repay balances due or deliver securities in their custody.

The clearing agreement requires the Company to maintain a deposit account with the clearing broker equal to 150% of its net capital requirement.

**4. Due From Registered Representatives**

Due from registered representatives represents amounts advanced to employees as incentives. The unsecured loans are non-interest bearing and have no specific repayment terms. The loans are amortized over the lives of the loans and included as compensation to the respective employees. The loans are completely forgiven once the employees have met their length of service obligations. If an employee fails to meet the requirement and is terminated, the balance is written off as a bad debt. The balance of the loans receivable at December 31, 2012 was \$506,775. The Company has not taken a reserve for possible write-downs.

**5. Property and Equipment**

Property and equipment consists of the following:

Machinery & equipment	\$ 1,364,217
Leasehold improvements	<u>787,966</u>
	2,152,183
Less accumulated depreciation	<u>(2,078,339)</u>
	<u>\$ 73,844</u>

Depreciation and amortization expense was \$38,775 for the year.

**6. Commitments and Contingencies****Operating Leases**

The Company leases its office space under an operating lease that was due to expire in September 2010. In 2010, the Company signed an amendment to the lease extending its term until January 2021. Per the amendment agreement, the Company incurs rent escalations on a yearly basis. The agreement also stipulates that the Company is allowed a credit to fixed rent for 4 months. The Company accounts for rent on a straight-line basis. As a result, the Company recognized approx-

**NOTES TO FINANCIAL STATEMENT (Continued)**

December 31, 2012

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imately \$63,000 in deferred rent for the year ended December 31, 2012. Deferred rent payable as of December 31, 2012 is \$261,647.

Pursuant to the office lease, the Company is responsible for its annual share of real property taxes and other operating expenses. The Company's CEO/managing member has issued a limited personal guarantee of certain office lease obligations.

Following is a summary of future minimum lease payments:

<u>Year ending December 31,</u>	
2013	\$ 403,238
2014	448,523
2015	465,061
2016	493,675
2017	506,017
Thereafter	<u>1,641,481</u>
	<u><u>\$ 3,957,995</u></u>

In 2011 and 2012, the Company also entered into several equipment leases with expiration dates ranging from December 2013 to October 2017.

Following is a summary of future minimum lease payments for the leases:

<u>Year ending December 31,</u>	
2013	\$ 30,110
2014	17,426
2015	6,062
2016	<u>2,905</u>
	<u><u>\$ 56,503</u></u>

**NOTES TO FINANCIAL STATEMENT (Continued)**December 31, 2012

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Legal Matters

The Company is a respondent in various legal actions incidental to its securities business. These cases allege violations of various securities rules, and claim damages plus the recovery of legal fees and other costs. While litigation is subject to many uncertainties, and the ultimate resolution, range of loss, and impact on operating results and financial condition cannot be reasonably estimated, management believes, based upon its understanding of the facts and circumstances of each matter in consultation with defense counsel, that it has meritorious defenses in all cases and intends to defend such cases vigorously. The Company has established a reserve of \$100,000 against the settlement of pending litigation.

Other

In October 2011, the Company entered into an Amendment to its Fully Disclosed Clearing Agreement (the "Agreement") with its clearing broker. Upon execution of this Amendment, and provided that the Company is at all times in material compliance with the terms and conditions of the Agreement, as defined, the clearing broker agrees to issue three (3) annual Correspondent Business Development Credits of \$100,000 to the Company (totaling \$300,000). During October 2012, \$100,000 was available and used as a reduction to clearing and execution expenses on the Company's statement of operations and members' equity. In the event that the Agreement is terminated within an initial 5-year period by either the Company or its clearing broker, as defined, the Company would be held liable for the pro-rated portion of the credit to be remitted back to the clearing broker.

In addition, if the Agreement is terminated by either party for non-compliance with the terms and conditions stipulated in the Agreement, the Company is liable to pay a termination fee based on the following schedule:

Year 1	\$	750,000
Year 2		650,000
Year 3		550,000
Year 4		350,000
Year 5		250,000

**7. Fair Value Measurements**

FASB ASC 820-10 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3

**NOTES TO FINANCIAL STATEMENT (Continued)**

December 31, 2012

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measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value.

*Investments in equity securities:* Investments in equity securities that are classified as trading securities are recorded at fair value on a recurring basis. When quoted market prices are unobservable, management uses quotes from independent pricing vendors based on independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating and other factors such as credit loss assumptions. The pricing vendors may provide the Company with valuations that are based on significant unobservable inputs, and in those circumstances the Company classifies the fair value measurements of the investment securities as Level 3. Management conducted a review of its pricing vendor to validate that the inputs used in that vendor's pricing process are deemed to be market observable or unobservable as defined in the standard. Based on the review performed, management believes that the valuations used in its financial statement are reasonable and are appropriately classified in the fair value hierarchy. There were no instances in which unobservable inputs were used as of December 31, 2012.

**NOTES TO FINANCIAL STATEMENT (Continued)**

December 31, 2012

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2012:

*Assets at Fair Value as of December 31, 2012*

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities	\$ 421	\$ -	\$ -	\$ 421
Total assets at fair value	<u>\$ 421</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 421</u>

**8. Subordinated Loan**

Pursuant to a Subordinated Loan Agreement effective June 23, 2009, the Company borrowed \$300,000 from its clearing broker. As the Fully Disclosed Clearing Agreement between the Company and the clearing broker dated April 27, 2007 was not terminated prior to April 27, 2012, the prior loan balance of \$100,000 was forgiven. As of December 31, 2012, the subordinated loan balance is zero.

**9. Related Party Transaction**

During 2012, the Company paid management fees totaling \$595,000 to its parent. Additionally, the Company acted as investment advisor and placement agent to the Buttonwood Social Network and Buttonwood Select Opportunities Funds (The "Funds"). Some of the members of the Company own Buttonwood Management Associates, LLC, the general partner and manager of the Funds. During 2012, the Company earned approximately \$2,500,000 in placement agent fees from the Funds.

**10. Financial Instruments With Off-Balance Sheet Risk and Concentration of Credit Risk**

The Company executes, as principal and agent, securities transactions on behalf of its customers. If either the customer or a counterparty fails to perform, the Company may be required to discharge the

**NOTES TO FINANCIAL STATEMENT (Continued)**

December 31, 2012

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obligations of the non-performing party. In such circumstances, the Company may sustain a loss if the market value of the security is different from the contract value of the transaction.

The Company is engaged in trading and brokerage activities with customers, other broker dealers and other counterparties. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the credit worthiness of the counterparty. It is the Company's policy to review, as necessary, the credit standing of each of its counterparties.

The Company places its cash in commercial bank checking accounts and uninsured money market funds. Bank balances may from time to time exceed federally insured limits.

**11. 401(K) Plan**

The Company sponsors a 401(k) retirement plan which allows eligible employees to contribute up to 15% of their pre-tax earnings to the plan. The Company, at its option, may make matching contributions of up to \$500 per participant during the plan year. There were no matching contributions during the year ended December 31, 2012.

**12. Net Capital Requirement**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum regulatory net capital, and requires that the ratio of aggregate indebtedness to regulatory net capital, both as defined, shall not exceed 15 to 1. At December 31, 2012, the Company had regulatory net capital of \$317,732, which exceeded its requirement of \$105,997 by \$211,735. The ratio of aggregate indebtedness to net capital was 5.00 to 1.

**13. Subsequent Events**

The Company has evaluated its subsequent events through February 12, 2013, the date that the accompanying financial statement was available to be issued. There were no subsequent events requiring disclosure.