

UNITED SECURITIES AND EXC Washington



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

SEC FILE NUMBER 8-41403

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 01/01/04 AND ENDING 12/31/04 MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER DEALER:

C.E. Unterberg, Towbin, LLC

OFFICIAL USE ONLY FIRM ID. NO.

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

350 Madison Avenue

(No. and Street)

New York

New York

10017

(City)

(State)

(Zip Code)

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

Bob Thompson

(212) 389-8040

(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

New York

New York

10017

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED 3 MAR 31 2005

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).

Handwritten signature

OATH OR AFFIRMATION

I, Bob Thompson, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of C.E. Unterberg, Towbin, LLC, as of December 31, 2004, 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:

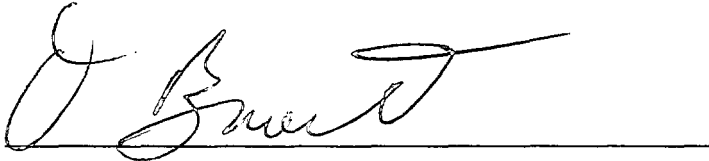
No exceptions



Signature

CFO

Title



Notary Public

DAVID M. BARRETT
Notary Public, State of New York
No. 01BA6015691
Qualified in Suffolk County
Commission Expires Nov. 2, 2006

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 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.

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

C.E. UNTERBERG, TOWBIN LLC
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2004



Eisner LLP
Accountants and Advisors
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New York, NY 10017-2703
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INDEPENDENT AUDITORS' REPORT

To the Member
C.E. Unterberg, Towbin LLC
New York, New York

We have audited the accompanying statement of financial condition of C.E. Unterberg, Towbin LLC (the "Company") as of December 31, 2004, that you are filing pursuant to Rule 17a-5 under the Securities 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 obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of C.E. Unterberg, Towbin LLC as of December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

New York, New York
February 10, 2005

With respect to Note G
February 25, 2005

C.E. UNTERBERG, TOWBIN LLC

**Statement of Financial Condition
December 31, 2004**

ASSETS

Cash and cash equivalents	\$ 15,151,460
Securities owned, corporate stocks:	
Marketable - at market value	6,808,177
Not readily marketable - at estimated fair value	4,556,144
Due from broker	2,641,348
Investment banking receivables	1,467,900
Due from affiliates	63,563
Employee loans and advances	342,735
Deposits and prepaid expenses	420,233
Furniture, equipment and leasehold improvements, at cost - net of accumulated depreciation and amortization of \$6,897,737	<u>2,095,126</u>
	<u>\$ 33,546,686</u>

LIABILITIES

Marketable securities sold, but not yet purchased - at market value	\$ 3,963,787
Accounts payable and accrued expenses	2,620,076
Deferred rent	1,001,022
Due to broker	193,715
Accrued compensation	<u>8,178,474</u>
	15,957,074

Commitments and contingencies

MEMBER'S EQUITY

<u>17,589,612</u>
<u>\$ 33,546,686</u>

**Notes to Statement of Financial Condition
December 31, 2004**

NOTE A - ORGANIZATION

C.E. Unterberg, Towbin was formed in California on May 23, 1989 under the California Revised Limited Partnership Acts and is registered as a broker/dealer with the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934. On November 25, 2003, C.E. Unterberg, Towbin converted from a California Limited Partnership to a Delaware limited liability company and changed its name to C.E. Unterberg, Towbin LLC (the "Company") and will continue until December 31, 2025. Effective January 1, 2004, the Company entered into a reorganization agreement whereby its members exchanged their respective membership interests in the Company amounting to approximately \$16,994,000 for shares of common stock in C.E. Unterberg, Towbin Holdings, Inc. ("CEUT Holdings") and amended their operating agreement making CEUT Holdings the sole member of the Company. In addition, the Company transferred approximately \$894,000 of receivables from an affiliate to CEUT Holdings in connection with the restructuring.

The Company primarily acts as a broker/dealer engaging in general securities activities. The Company renders underwriting, investment banking, research and consulting services and engages in market making activities in equities. It clears all transactions through another broker/dealer on a fully disclosed basis.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] 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 and disclosure of contingent assets and liabilities, at the date of the financial statements. Actual results could differ from those estimates.

[2] Securities transactions:

Transactions in securities and related revenues and expenses are recorded on a trade date basis.

Securities owned and securities sold, not yet purchased which are readily marketable are valued on the last business day of the year at the last available reported price. Securities not readily marketable are valued at fair value as determined by the managing member. Factors considered in valuing individual securities include the purchase cost, prices of recent significant private placements of securities of the same issuer, changes in the financial condition, prospects of the issuer, and estimates of liquidation value. For listed securities that are restricted for sale, a discount has been taken in accordance with pricing policies determined by the managing member. The resulting unrealized gains and losses are reflected in the statement of operations. Because of the inherent uncertainty of valuation, the estimated values may differ significantly from the values that would have been used had a ready market for investments existed, and the differences could be material.

[3] Depreciation and amortization:

Depreciation is provided using an accelerated method over estimated useful lives of five to seven years. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the related assets.

[4] Cash and cash equivalents:

Cash equivalents consist of operating cash and money market funds purchased with an original maturity of three months or less.

C.E. UNTERBERG, TOWBIN LLC

Notes to Statement of Financial Condition December 31, 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[5] Income taxes:

As a single-member limited liability company, the member is individually responsible for income taxes that result from the Company's operations. Therefore, no provision for income taxes is included in the accompanying financial statements.

[6] Due from broker:

Due from broker includes cash and amounts receivable for securities transactions that have not yet settled.

NOTE C - DERIVATIVE FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK

In the normal course of its business, the Company enters into transactions in various financial instruments, including derivatives held or issued for trading purposes. These transactions include securities sold, but not yet purchased and the purchase and writing of equity and index option contracts. Securities sold, but not yet purchased represent obligations of the Company to deliver the underlying securities sold and option contracts written represent obligations of the Company to purchase or deliver the specified security at the contracted price. The Company's ultimate obligation to repurchase the security may exceed the amount recognized in the statement of financial condition. The Company monitors its positions continuously to reduce the risk of potential loss due to changes in market value.

All securities transactions are cleared on a fully disclosed basis through and held in custody by a member firm of the New York Stock Exchange, Inc. The Company has agreed to indemnify its clearing broker for losses that the clearing broker may sustain from the customer accounts introduced by the Company. In the event the customer is unable to fulfill its contracted obligation to the clearing broker/dealer, the Company may be exposed to off-balance sheet risk. In addition, at December 31, 2004, substantially all of the money market funds, securities owned and due from broker are held by the clearing broker. Recognizing the credit risk that this implies the Company continually monitors the credit standing of each broker/dealer and customer with which it conducts business.

At December 31, 2004, the Company had cash deposits in excess of federally insured limits of approximately \$14,951,000. The Company maintains cash deposits in highly capitalized institutions to mitigate its exposure.

NOTE D - BENEFIT PLAN

The Company's 401(k) plan provides eligible employees with retirement benefits. Employees are eligible on the first day of the month following their hire date and if they have reached 21 years of age.

The employees may elect to defer a portion of their salaries up to certain limits. A discretionary amount may also be contributed by the Company as determined by the managing member at the end of each year. The discretionary contribution is allocated among all eligible participants pro rata on the basis of the total of their compensation. Plan benefits related to the employee and employer contributions vest immediately. There were no discretionary contributions made by the Company for the year ended December 31, 2004.

C.E. UNTERBERG, TOWBIN LLC

Notes to Statement of Financial Condition December 31, 2004

NOTE E - FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Furniture, equipment and leasehold improvements consist of the following:

Furniture and fixtures	\$ 1,549,186
Equipment	5,175,262
Leasehold improvements	<u>2,268,415</u>
	8,992,863
Less: accumulated depreciation and amortization	<u>(6,897,737)</u>
	<u>\$ 2,095,126</u>

NOTE F - COMMITMENTS AND CONTINGENCIES

[1] Leases:

The Company leases its office space under various noncancellable operating lease agreements, with remaining lease terms in excess of one year. In addition, the Company leases the furniture and fixtures, leasehold improvements and equipment utilized in its New York Office under an operating lease, which extends through February 2007.

Aggregate minimum future rentals under the terms of such agreements are as follows:

<u>Year Ending December 31,</u>	<u>Gross Amount</u>	<u>Sublease Income</u>	<u>Net of Sublease Income</u>
2005	\$ 6,132,000	\$ 738,000	\$ 5,394,000
2006	6,222,000	390,000	5,832,000
2007	3,580,000	390,000	3,190,000
2008	3,485,000	390,000	3,095,000
2009	3,471,000	390,000	3,081,000
Thereafter (2010 - 2016)	<u>23,069,000</u>	<u>2,730,000</u>	<u>20,339,000</u>
	<u>\$45,959,000</u>	<u>\$ 5,028,000</u>	<u>\$ 40,931,000</u>

The Company and an affiliated partnership entered into a lease agreement which commenced in April of 2000, later amended, which is due to expire on May 7, 2007 where they did not pay the monthly rent on this lease but were responsible for the full amount upon default of the affiliated partnership. Effective December 2003, the Company assumed this lease and all the obligations of the original terms as well as the premises.

The office leases are subject to escalation charges based upon increases in real estate taxes and operating costs incurred by landlords. In lieu of a rent security deposit on its New York Office lease, the Company maintains an irrevocable standby letter of credit in favor of its landlord in the amount of \$5,000,000 collateralized by the Company's cash and securities held at its clearing broker.

As of December 31, 2004, the Company received proceeds of \$400,000 from a security deposit with a tenant. The Company and the tenant are in the process of renegotiating the current lease and the \$400,000 is recorded in accounts payable and accrued expenses as of December 31, 2004.

C.E. UNTERBERG, TOWBIN LLC

Notes to Statement of Financial Condition December 31, 2004

NOTE F - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[2] Litigation:

The Company is involved in various litigation matters, including those arising out of activities as an investment banker. In the opinion of management, upon the advice of counsel the ultimate resolution of these matters will not have a material adverse effect on the Company's financial position.

NOTE G - REGULATORY REQUIREMENTS

As a broker/dealer registered with the SEC and the National Association of Securities Dealers, Inc. (the "NASD"), the Company is subject to the SEC Uniform Net Capital Rule 15c3-1 (the "Rule") and has elected to compute its net capital based upon aggregate indebtedness. As a broker/dealer engaged in market making activities, the Rule requires the Company to maintain minimum net capital equal to the greater of \$767,000 or 6 2/3% of aggregate indebtedness, both as defined by the Rule. At December 31, 2004, the Company had net qualifying capital of approximately \$3,477,000 which was approximately \$2,692,000 in excess of its required net capital of approximately \$786,000. The Company's ratio of aggregate indebtedness to net capital was 3.39 to 1.

The Company is exempt from the provisions of Rule 15c3-3 per paragraph (k)2(ii).

NOTE H - SUBORDINATED BORROWINGS

On February 17, 2004, the Company entered into a revolving subordinated credit agreement with a bank (the "Agreement") that expires on February 17, 2005. Under the Agreement, the Company may borrow up to \$10,000,000 at an interest rate of the adjusted London Interbank Offered Rate ("LIBOR") plus 2% for the first thirty days that such loan is outstanding and LIBOR plus 5% thereafter. At December 31, 2004, and during the year then ended, no amounts were drawn pursuant to the Agreement. In January 2005, the Company borrowed approximately \$3,000,000 pursuant to the Agreement.

Any balances drawn pursuant to the Agreement are covered by agreements approved by NASD and are available to the Company in computing its net capital pursuant to the Rule. To the extent that balances outstanding on such loans are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

NOTE I - RELATED PARTY TRANSACTIONS

The Company shares office space, services and common personnel with affiliates. The Company initially pays for such expenses and is reimbursed by the affiliates for allocable costs.

Included in employee loans and advances at December 31, 2004 are notes of approximately \$226,000, for which the Company will expense 25% of the principal and related interest on each anniversary date of the respective note so long as the employee remains employed by the Company.