

ROMANO BROTHERS AND COMPANY

**STATEMENT OF FINANCIAL CONDITION
AND SUPPLEMENTARY SCHEDULES
PURSUANT TO SEC RULE 17a-5(d)**

December 31, 2008

AVAILABLE FOR PUBLIC INSPECTION



RYAN & JURASKA

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INDEPENDENT AUDITORS' REPORT

To the Stockholders of
Romano Brothers and Company:

We have audited the accompanying statement of financial condition of Romano Brothers and Company (the "Company") as of December 31, 2008, 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 statement of financial condition is 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 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 Romano Brothers and Company as of December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statement taken as a whole. The information contained in the supplementary schedules is presented for purposes of additional analysis and is not a required part of the basic financial statement, 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 our audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

Ryan & Juraska

Chicago, Illinois
February 23, 2009

ROMANO BROTHERS AND COMPANY
STATEMENT OF FINANCIAL CONDITION
December 31, 2008

ASSETS

Cash and cash equivalents	\$ 348,404
Commissions receivable	238,726
Securities owned, at fair value	1,939,714
Deposits with broker-dealer and clearing organization (cash of \$158,533 and securities with fair value of \$2,083)	160,616
Other receivables	619,082
Furniture, equipment and leasehold improvements (less accumulated depreciation and amortization of \$548,504)	35,060
Other assets	<u>33,826</u>
	\$ <u>3,375,428</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Payable to broker-dealer	\$ 242,781
Accounts payable and accrued expenses	796,352
Income taxes payable, including deferred taxes of \$478,000	<u>606,000</u>
	<u>1,645,133</u>

Stockholders' equity

Common stock, no par value; 500,000 shares authorized; 44,000 shares issued and outstanding	218,687
Retained earnings	2,912,878
Treasury stock, 12,200 shares of common stock in treasury, at cost	<u>(1,401,270)</u>
	<u>1,730,295</u>
	\$ <u>3,375,428</u>

See accompanying notes.

ROMANO BROTHERS AND COMPANY

NOTES TO STATEMENT OF FINANCIAL CONDITION December 31, 2008

1. Nature of Business

Romano Brothers and Company (the "Company") was incorporated in the State of Illinois on October 2, 1968. The Company is a registered securities broker-dealer and a registered investment advisor. Prior to November 2008 the Company was a self-clearing broker-dealer. In November 2008, all customer accounts cleared through the Company were transferred to the client's clearing broker, Mesirow Financial Inc.

The Company's primary source of revenue is management fees derived from investment and cash management services provided to those customers that choose to have their accounts professionally managed. The Company also engages in the proprietary trading of fixed income products and exchange-traded equity securities.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies, which have been followed in preparing the accompanying financial statements, is set forth below.

Income Recognition

Securities transactions and related income and expenses are recorded on settlement date. Generally Accepted Accounting Principles normally require an entity to record securities transactions on a trade date basis, however, a majority of brokers and dealers record most securities transactions on the settlement date rather than on the trade date. The difference between trade date and settlement date accounting is not material to the Company's financial position at December 31, 2008. Management fee income is recorded on an accrual basis.

Furniture, Equipment and Leasehold Improvements

Furniture and equipment are recorded at cost and depreciated by straight-line and various accelerated methods over the estimated useful lives of the assets. Leasehold improvements are amortized by the straight line method over the term of the associated lease.

Income Taxes

The Company provides for taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are recognized based on the difference between the financial statement and tax basis of liabilities and assets using enacted tax rates.

On January 1, 2008, the Company elected to file as a small business corporation under Subchapter S of the Internal Revenue Code. Subsequent to the election taxable income is included in the stockholders' individual income tax returns. The Company is subject to tax imposed by Section 1374 of the Internal Revenue Code ("built-in gains tax"), which requires corporate-level tax on S corporations that dispose of assets that appreciated in value during the period that the corporation filed as a C corporation. S corporations subject to built-in gains tax are required to pay tax at the highest corporate rate on all built-in gains realized during the ten year period following the date of election to file as an S corporation.

ROMANO BROTHERS AND COMPANY

NOTES TO STATEMENT OF FINANCIAL CONDITION, Continued December 31, 2008

2. **Summary of Significant Accounting Policies, continued**

Cash Equivalents

Cash equivalents consist of money market deposits with maturities of less than three months.

Reclassifications

For the statement of cash flows certain prior year balances have been reclassified to conform to the current year presentations.

Use of Estimates

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

3. **Profit Sharing Plan**

The Company has a profit sharing plan covering substantially all eligible employees. The Company's contribution is discretionary.

4. **Credit Concentration**

At December 31, 2008, a significant credit concentration consisted of approximately \$1.7 million, representing the market value of the Company's accounts carried by its clearing broker, Mesirow Financial Inc. Management does not consider any credit risk associated with this net receivable to be significant.

5. **Off-Balance Sheet Risk**

Customer transactions are introduced and cleared through the Company's broker on a fully disclosed basis. Under the terms of its clearing agreements, the Company is required to guarantee the performance of its customers in meeting contracted obligations. In conjunction with the broker, the Company seeks to control the risks associated with its customer activities by requiring customers to maintain collateral in compliance with various regulatory and internal guidelines. Customers may be required to deposit additional collateral, or reduce positions, where necessary.

The Company engages in various transactions with broker-dealers and clearing organizations. In the event the counterparties do not fulfill their obligations, the Company may be exposed to credit risk. The risk of default depends on the creditworthiness of the counterparties to these transactions. It is the Company's policy to monitor the creditworthiness of each party with which it conducts business.

ROMANO BROTHERS AND COMPANY

NOTES TO STATEMENT OF FINANCIAL CONDITION, Continued December 31, 2008

6. Commitments

The Company conducts its operations in leased office facilities and annual rentals are charged to current operations. The lease is subject to an escalation clause based on the operating expenses of the lessor.

The approximate minimum annual rental commitments under non-cancelable operating leases are as follows:

<u>Period Ending December 31,</u>	<u>Amount</u>
2009	\$ 164,000
2010	166,000
2011	167,000
2012	<u>169,000</u>
	\$ <u>666,000</u>

In accordance with the stockholders' agreement, the Company may be required to purchase shares of stock under certain conditions, as defined in the agreement.

7. Net Capital Requirements

The Company is a broker-dealer subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1). Under this rule, the Company is required to maintain "net capital" equivalent to \$250,000 or 6 and 2/3 percent of "aggregate indebtedness", whichever is greater, as these terms are defined.

At December 31, 2008, the Company had net capital and net capital requirements of \$748,245 and \$250,000, respectively.

8. Fair Value Disclosure

The Company adopted Statement of Financial Accounting Standards No. 157 ("SFAS No. 157"), which requires, among other things, enhanced disclosures about investments that are measured and reported at fair value. SFAS No. 157 establishes a hierarchy that 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. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 Inputs - quoted prices in active markets for identical assets or liabilities at the reporting date.

ROMANO BROTHERS AND COMPANY

NOTES TO STATEMENT OF FINANCIAL CONDITION, Continued
December 31, 2008

8. Fair Value Disclosure, continued

Level 2 Inputs - other than quoted prices included with Level 1 that are observable for substantially the full term of the asset or liability, either directly or indirectly. Level 2 assets include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and inputs other than quoted prices that are observable, such as models or other valuation methodologies.

Level 3 Inputs - unobservable inputs for the valuation of the asset or liability. Level 3 assets include investments for which there is little, if any, market activity. These inputs require significant management judgment or estimation.

The following table presents the Company's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2008:

	Level 1	Level 2	Total
Assets			
Securities owned			
Corporate stocks	\$ 1,136,243	\$ -	\$ 1,136,243
Certificates of deposit	124,320	-	124,320
State and municipal deposits	-	679,151	679,151
Total securities owned	\$ 1,260,563	\$ 679,151	\$ 1,939,714
Deposit with clearing organization			
Preferred stock	\$ 2,083	\$ -	\$ 2,083
Total deposits with clearing organization	\$ 2,083	\$ -	\$ 2,083