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

OMB APPROVAL
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hours per response 12.00

SEC FILE NUMBER
8- 16560

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

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

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: DARWOOD ASSOCIATES INC.

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

40 RECTOR STREET ROOM 15234

(No. and Street)

NEW YORK

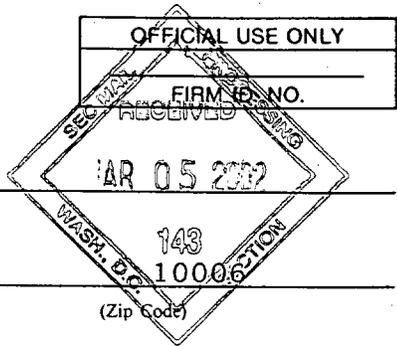
(City)

NEW YORK

(State)

143

(Zip Code)



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

JULIUS RENDINARO

(212) 233-0500

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

BARRY J. CHARLES, CPA

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

ONE NORTH END AVENUE, SUITE 1201, NEW YORK, NEW YORK 10282

(Address)

(City)

(State)

Zip Code

CHECK ONE:

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

PROCESSED

MAR 20 2002

| | |
|-----------------------|------------------------------|
| FOR OFFICIAL USE ONLY | THOMSON FINANCIAL |
|-----------------------|------------------------------|

*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).

BB
3/19

OATH OR AFFIRMATION

I, JULIUS RENDINARO, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of DARWOOD ASSOCIATES INC., as of DECEMBER 31, 2001, ~~XXXXXX~~ 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:

KATYA REKHTMAN
Notary Public, State of New York
No. 5005098
Qualified in Bronx County
Certificate filed in New York County
Commission Expires Nov. 30, 2002

Julius Rendinaro
Signature
President
Title

Katya Rekhtman 02/05/02
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~~ 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.

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

BARRY J. CHARLES

CERTIFIED PUBLIC ACCOUNTANT

ONE NORTH END AVENUE
WORLD FINANCIAL CENTER
SUITE 1201
NEW YORK, NEW YORK 10282-1101
TEL: (212) 845-5050

Darwood Associates Inc.
40 Rector Street Room 1523
New York, New York 10006

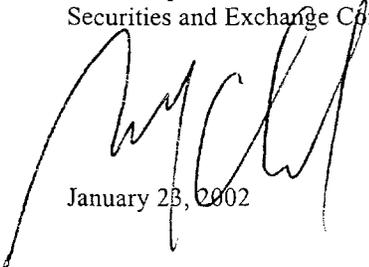
Gentlemen:

I have audited the accompanying Focus Report, Form X-17A-5, of Darwood Associates Inc. as of December 31, 2001 and the related statements of cash flows for the year then ended. The Focus Report is the responsibility of the Company's management. My responsibility is to express an opinion on the Focus Report based on my audit.

I conducted this audit in accordance with generally accepted auditing standards, including a review of the system of internal control and procedures for safeguarding securities. There were no material inadequacies in the internal control of the Company.

Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the accompanying Focus Report, Form X-17A-5, present fairly, in all material respects, the financial position of Darwood Associates Inc. as of December 31, 2001, in the form required by the Securities and Exchange Commission and in conformity with generally accepted accounting principles.



January 23, 2002

**FORM
X-17A-5**

FOCUS REPORT

OMB No. 3235-0123
(5-31-87)

(Financial and Operational Combined Uniform Single Report)

PART IIA 12

3/91

(Please read instructions before preparing Form.)

This report is being filed pursuant to (Check Applicable Block(s)):

1) Rule 17a-5(a) 16

2) Rule 17a-5(b) 17

3) Rule 17a-11 18

4) Special request by designated examining authority 19

5) Other 26

NAME OF BROKER-DEALER

Darwood Associates Inc. 13

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

40 Rector Street Room 1523 20

New York 21 **NY** 22 **10006** 23
(City) (State) (Zip Code)

SEC FILE NO.

8-16560 14

FIRM ID NO.

13-2682784 15

FOR PERIOD BEGINNING (MM/DD/YY)

01/01/01 24

AND ENDING (MM/DD/YY)

12/31/01 25

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

Julius Rendinaro 30

(Area Code) - Telephone No.

(212) 233-0500 31

NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT:

32
34
36
38

OFFICIAL USE

33
35
37
39

DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNTS?

YES 40 NO 41

CHECK HERE IF RESPONDENT IS FILING AN AUDITED REPORT

42

Execution:

The registrant/broker or dealer submitting this Form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated this 5th day of Feb 2002

Manual signatures of:

1) *Julius Rendinaro*
Principal Executive Officer or Managing Partner

2) _____
Principal Financial Officer or Partner

3) _____
Principal Operations Officer or Partner

ATTENTION - Intentional misstatements or omissions of facts constitute
Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 78f(a))

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER

Darwood Associates Inc.

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STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING AND
CERTAIN OTHER BROKERS OR DEALERS

as of (MM/DD/YY)

12/31/01

99

SEC FILE NO.

8-16560

98

Consolidated

198

Unconsolidated

199

ASSETS

| | Allowable | Non-Allowable | Total |
|--|-----------|---------------|-----------|
| 1. Cash | \$ 42,676 | | \$ 42,676 |
| 2. Receivables from brokers or dealers: | | | |
| A. Clearance account | 295 | 1,149 | |
| B. Other | 300 | 550 | 1,149 |
| 3. Receivables from non-customers | 355 | 442 | 442 |
| 4. Securities and spot commodities owned, at market value: | | | |
| A. Exempted securities | 418 | | |
| B. Debt securities | 419 | | |
| C. Options | 420 | | |
| D. Other securities | - | | |
| E. Spot commodities | 430 | | 850 |
| 5. Securities and/or other investments not readily marketable: | | | |
| A. At cost \$ 3,300 | 130 | | |
| B. At estimated fair value | 440 | 3,300 | 3,300 |
| 6. Securities borrowed under subordination agreement's and partners' individual and capital securities accounts, at market value: | 460 | 630 | 880 |
| A. Exempted securities \$ | 150 | | |
| B. Other securities \$ | 160 | | |
| 7. Secured demand notes market value of collateral: | 470 | 640 | 890 |
| A. Exempted securities \$ | 170 | | |
| B. Other securities \$ | 180 | | |
| 8. Memberships in exchanges: | | | |
| A. Owned, at market \$ | 190 | | |
| B. Owned, at cost | | 650 | |
| C. Contributed for use of the company, at market value | | 660 | 900 |
| 9. Investment in and receivables from affiliates, subsidiaries and associated partnerships | 480 | 670 | 910 |
| 10. Property, furniture, equipment, leasehold improvements and rights under lease agreements, at cost-net of accumulated depreciation and amortization | 490 | 680 | 920 |
| 11. Other assets SECURITY DEPOSIT | 535 | 1,441 | 1,441 |
| 12. TOTAL ASSETS | \$ 42,676 | \$ 6,332 | \$ 49,008 |

OMIT PENNIES

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER

Darwood Associates Inc.

as of 12/31/01

**STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING
AND CERTAIN OTHER BROKERS OR DEALERS**

LIABILITIES AND OWNERSHIP EQUITY

| | <u>Liabilities</u> | <u>Non-A.I. Liabilities</u> | <u>Total</u> |
|--|--------------------|---------------------------------|----------------|
| 13. Bank loans payable | \$ 1045 | \$ 1255 | \$ 1470 |
| 14. Payable to brokers or dealers: | | | |
| A. Clearance account | 1114 | 1315 | 1560 |
| B. Other | 1115 | 1305 | 1540 |
| 15. Payable to non-customers | 1155 | 1355 | 1610 |
| 16. Securities sold not yet purchased, at market value: | | 1360 | 1620 |
| 17. Accounts payable, accrued liabilities, expenses and other | 22,089 1205 | 1385 | 22,089 1685 |
| 18. Notes and mortgages payable: | | | |
| A. Unsecured | 1210 | | 1690 |
| B. Secured | 1211 | 1390 | 1700 |
| 19. Liabilities subordinated to claims of general creditors: | | | |
| A. Cash borrowings | | 1400 | 1710 |
| 1. from outsiders \$ | 970 | | |
| 2. Includes equity subordination (15c3-1 (d)) of \$ | 980 | | |
| B. Securities borrowings, at market value: from outsiders \$ | 990 | 1410 | 1720 |
| C. Pursuant to secured demand note collateral agreements | | | |
| 1. from outsiders \$ | 1000 | | |
| 2. Includes equity subordination (15c3-1 (d)) of \$ | 1010 | 1420 | 1730 |
| D. Exchange memberships contributed for use of company, at market value | | 1430 | 1740 |
| E. Accounts and other borrowings not qualified for net capital purposes | 1220 | 1440 | 1750 |
| 20. TOTAL LIABILITIES | \$ 22,089 1230 | \$ 1450 | \$ 22,089 1760 |
| <u>Ownership Equity</u> | | | |
| 21. Sole Proprietorship | | | \$ 1770 |
| 22. Partnership (limited partners) | \$ 1020 | | 1780 |
| 23. Corporation: | | | |
| A. Preferred stock | | | 1791 |
| B. Common Stock | | 50,000 | 1792 |
| C. Additional paid-in capital | | | 1793 |
| D. Retained earnings | | (23,082) | 1794 |
| E. Total | | 26,918 | 1795 |
| F. Less capital stock in treasury | | () | 1796 |
| 24. TOTAL OWNERSHIP EQUITY | | \$ 26,918 | 1800 |
| 25. TOTAL LIABILITIES AND OWNERSHIP EQUITY | | \$ 49,008 | 1810 |

OMIT PENNIES

**FINANCIAL AND OPERATION COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER

Darwood Associates Inc.

as of 12/31/01

COMPUTATION OF NET CAPITAL

| | | | | |
|--|----|-------|--------|------|
| 1. Total ownership equity from Statement of Financial Condition | | \$ | 26,918 | 3480 |
| 2. Deduct ownership equity not allowable for Net Capital | | (| | 3490 |
| 3. Total ownership equity qualified for Net Capital | | | 26,918 | 3500 |
| 4. Add: | | | | |
| A. Liabilities subordinated to claims of general creditors allowable in computation of net capital | | | | 3520 |
| B. Other (deductions) or allowable credits (List) | | | | 3525 |
| 5. Total capital and allowable subordinated liabilities | | \$ | 26,918 | 3530 |
| 6. Deductions and/or charges | | | | |
| A. Total nonallowable assets from Statement of Financial Condition (Notes B and C) | \$ | 6,332 | | 3540 |
| B. Secured demand note deficiency | | | | 3590 |
| C. Commodity futures contracts and spot commodities-proprietary capital charges | | | | 3600 |
| D. Other (deductions) and/or charges | | | | 3610 |
| | | (| 6,332 | 3620 |
| 7. Other additions and/or allowable credits (List) | | | | 3630 |
| 8. Net capital before haircuts on securities positions | | \$ | 20,587 | 3640 |
| 9. Haircuts on securities (computed, where applicable, pursuant to 15c3-1 (f)): | | | | |
| A. Contractual securities commitments | | | | 3660 |
| B. Subordinated securities borrowings | | | | 3670 |
| C. Trading and investment securities: | | | | |
| 1. Exempted securities | | | | 3735 |
| 2. Debt securities | | | | 3733 |
| 3. Options | | | | 3730 |
| 4. Other securities | | | | 3734 |
| D. Undue Concentration | | | | 3650 |
| E. Other (List) | | | | 3736 |
| | | (| | 3740 |
| 10. Net capital | | \$ | 20,587 | 3750 |

OMIT PENNIES

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

| | | |
|------------------|--------------------------------|-----------------------|
| BROKER OR DEALER | Darwood Associates Inc. | as of <u>12/31/01</u> |
|------------------|--------------------------------|-----------------------|

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A

| | | | |
|---|----|--------|------|
| 11. Minimum net capital required (6-2/3% of line 19) | \$ | 1,473 | 3756 |
| 12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A) | \$ | 5,000 | 3758 |
| 13. Net capital requirement (greater of line 11 or 12) | \$ | 5,000 | 3760 |
| 14. Excess net capital (line 10 less 13) | \$ | 15,587 | 3770 |
| 15. Excess net capital at 1000% (line 10 less 10% of line 19) | \$ | 18,377 | 3780 |

COMPUTATION OF AGGREGATE INDEBTEDNESS

| | | | |
|--|----|----------|------|
| 16. Total A.I. Liabilities from Statement to Financial Condition | \$ | 22,089 | 3790 |
| 17. Add: | | | |
| A. Drafts for immediate credit | \$ | | 3800 |
| B. Market value of securities borrowed for which no equivalent value is paid or credited | \$ | | 3810 |
| C. Other unrecorded amounts (List) | \$ | | 3820 |
| 19. Total aggregate indebtedness | \$ | 22,089 | 3840 |
| 20. Percentage of aggregate indebtedness to net capital (line 19 / line 10) | % | 107.298% | 3850 |
| 21. Percentage of debt to debt-equity total computed in accordance with rule 15c3-1 (d) | % | | 3860 |

COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT

Part B

| | | | |
|---|----|--|------|
| 22. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15 c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits | | | 3870 |
| 23. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A) | \$ | | 3880 |
| 24. Net capital requirement (greater of line 22 or 23) | \$ | | 3760 |
| 25. Excess net capital (line 10 less 24) | \$ | | 3910 |
| 26. Net capital in excess of: 5% of combined aggregate debit items or \$120,000 | \$ | | 3920 |

OMIT PENNIES

NOTES:

- (A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
1. Minimum dollar net capital requirement, or
 2. 6-2/3% of aggregate indebtedness or 2% of aggregate debits if alternative method is used
- (B) Do not deduct the value of securities borrowed under subordination agreements or secured demand note covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.
- (C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER

Darwood Associates Inc.

For the period (MMDDYY) from 01/01/01 to 12/31/01
Number of months included in this statement 12

Part A

STATEMENT OF INCOME (LOSS)

REVENUE

| | | |
|---|------------|------|
| 1. Commissions: | | |
| a. Commissions on transactions in exchange listed equity securities executed on an exchange | \$ 40,876 | 3935 |
| b. Commissions on listed option transactions | 4,360 | 3938 |
| c. All other securities commissions | 373,706 | 3939 |
| d. Total securities commissions | 418,942 | 3940 |
| 2. Gains or losses on firm securities trading accounts | | |
| a. From market making in options on a national securities exchange | | 3945 |
| b. From all other trading | | 3949 |
| c. Total gain (loss) | - | 3950 |
| 3. Gains or losses on firm securities investment accounts | | 3952 |
| 4. Profit value is paid or credited | | 3955 |
| 5. Revenue from sale of investment company shares | | 3970 |
| 6. Commodities revenue | | 3990 |
| 7. Fees for account supervision, investment advisory and administrative services | | 3975 |
| 8. Other revenue | 26,177 | 3995 |
| 9. Total revenue | \$ 445,118 | 4030 |

EXPENSES

| | | |
|--|------------|------|
| 10. Salaries and other employment costs for general partners and voting stockholder officers | \$ 7,000 | 4120 |
| 11. Other employee compensation and benefits | 284,864 | 4115 |
| 12. Commissions paid to other broker dealers | | 4140 |
| 13. Interest expense | | 4075 |
| a. Includes interest on accounts subject to subordination agreements | 4070 | |
| 14. Regulatory fees and expenses | 3,756 | 4195 |
| 15. Other expenses | 147,023 | 4100 |
| 16. Total expenses | \$ 442,643 | 4200 |

NET INCOME

| | | |
|--|----------|------|
| 17. Net income (loss) before Federal income taxes and items below (item 9 less 16) | \$ 2,474 | 4210 |
| 18. Provision for Federal income taxes (for parent only) | 678 | 4220 |
| 19. Equity in earnings (losses) of unconsolidated subsidiaries not included above | | 4222 |
| a. After Federal income taxes of | 4238 | |
| 20. Extraordinary gains (losses) | | 4224 |
| a. After Federal income taxes of | 4239 | |
| 21. Cumulative effect of changes in accounting principles | | 4225 |
| 22. Net income (loss) after Federal income taxes and extraordinary items | \$ 1,796 | 4230 |

MONTHLY INCOME

| | | |
|---|----|------|
| 23. Income (current month only) before provision for Federal income taxes and extraordinary items | \$ | 4211 |
|---|----|------|

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER

Darwood Associates Inc.

For the period (MMDDYY) from 01/01/01 to 12/31/01

**STATEMENT OF CHANGES IN OWNERSHIP EQUITY
(SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)**

| | | | | |
|---|----|------|--------|------|
| 1. Balance, beginning of period | | \$ | 25,123 | 4240 |
| A. Net income (loss) | | | 1,796 | 4250 |
| B. Additions (Includes non-conforming capital of | \$ | | | 4260 |
| C. Deductions (Includes non-conforming capital of | \$ | 4262 | | 4270 |
| 2. Balance, end of period (From item 1800) | | \$ | 26,919 | 4290 |

**STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED
TO CLAIMS OF GENERAL CREDITORS**

| | | | | |
|--|--|----|--|------|
| 3. Balance, beginning of period | | \$ | | 4300 |
| A. Increases | | | | 4310 |
| B. Decreases | | | | 4320 |
| 4. Balance, end of period (From item 3520) | | \$ | | 4330 |

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**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

| | | |
|---------------------------------------|--------------------------------|-----------------------|
| BROKER OR DEALER | Darwood Associates Inc. | as of <u>12/31/01</u> |
| Exemptive Provision Under Rule 15c3-3 | | |

If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based (check one only)

- A. (k) (1)--\$2500 capital category as per Rule 15c3-1 4550
- B. (k) (2)(A)--"Special Account for the Exclusive Benefit of customers" maintained 4560
- C. (k) (2)(B)--All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm Wexford Clearing 4335 4570
- D. (k) (3)--Exempted by order of the Commission 4580

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.

| Type of Proposed withdrawal or Accrual See below for code to enter | Name of Lender or Contributor | Insider or Outsider? (In or Out) | Amount to be With- drawn (cash amount and/or Net Capital Value of Securities) | (MMDDYY) Withdrawal or Maturity Date | Expect to Renew (yes or no) |
|---|-------------------------------|-------------------------------------|--|---|--------------------------------------|
| 4600 | 4601 | 4602 | 4603 | 4604 | 4605 |
| 4610 | 4611 | 4612 | 4613 | 4614 | 4615 |
| 4620 | 4621 | 4622 | 4623 | 4624 | 4625 |
| 4630 | 4631 | 4632 | 4633 | 4634 | 4635 |
| 4640 | 4641 | 4642 | 4643 | 4644 | 4645 |
| 4650 | 4651 | 4652 | 4653 | 4654 | 4655 |
| 4660 | 4661 | 4662 | 4663 | 4664 | 4665 |
| 4670 | 4671 | 4672 | 4673 | 4674 | 4675 |
| 4680 | 4681 | 4682 | 4683 | 4684 | 4685 |
| 4690 | 4691 | 4692 | 4693 | 4694 | 4695 |
| TOTAL \$ | | | 4699 | | |

OMIT PENNIES

Instructions: Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c)(2)(iv)), which could be required by the lender on demand or in less than six months.

- | | |
|------------------|------------------------------|
| WITHDRAWAL CODE: | DESCRIPTION |
| 1. | Equity Capital |
| 2. | Subordinated Liabilities |
| 3. | Accruals |
| 4. | 15c3-1(c)(2)(iv) Liabilities |

BARRY J. CHARLES

CERTIFIED PUBLIC ACCOUNTANT

DARWOOD ASSOCIATES INC.

Statement of Cash Flows
For the Year Ended December 31, 2001

| | |
|---|------------------------|
| NET INCOME | \$1,795 |
| ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| Increase in Accounts Receivable | (1,071) |
| Increase in Loans Receivable | (442) |
| Increase in Other Assets | (850) |
| Decrease in Accounts Payable | <u>(1,913)</u> |
| Total Adjustments | (4,276) |
| INCREASE IN CASH | (2,481) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>45,157</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u><u>\$42,676</u></u> |

See accountant's audit report

BARRY J. CHARLES

CERTIFIED PUBLIC ACCOUNTANT

DARWOOD ASSOCIATES INC.

Reconciliation of Net Capital
For the Year Ended December 31, 2001

| | |
|----------------------------------|------------------------|
| Net Capital Per Unaudited Report | \$31,268 |
| Additional accrued income | 1,178 |
| Additional accrued expenses | <u>(11,860)</u> |
| Net Capital Per Audited Report | <u><u>\$20,587</u></u> |

See accountant's audit report