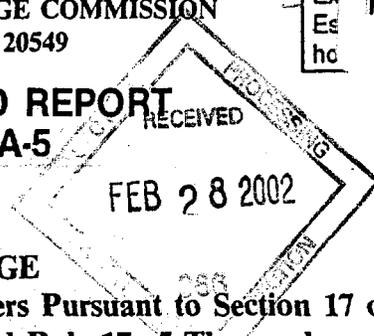


UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549



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



SEC FILE NUMBER  
8- 19363

3/6/02

**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 January 1, 2001 AND ENDING December 31, 2001  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

Roosevelt & Cross, Incorporated

OFFICIAL USE ONLY  
FIRM ID. NO.

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

20 Exchange Place

(No. and Street)

New York

New York

10005

(City)

(State)

(Zip Code)

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

Raymond J. O' Sullivan

212-344-2500

(Area Code -- Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Louis Sternbach & Company, LLP

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

1333 Broadway - Suite 516 New York

New York

10018

(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 1 8 2002

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, Raymond J. O' Sullivan, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Roosevelt & Cross, Incorporated, as of December 31, 2001, 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

MARY F. RODRIGUEZ  
Notary Public, State of New York  
No. 01RO6021739  
Qualified in Queens County  
Commission Expires March 22, 2003

Mary F. Rodriguez  
Notary Public

[Signature]  
Signature

CFO  
Title

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).

ROOSEVELT & CROSS INCORPORATED

FINANCIAL STATEMENTS AND SCHEDULES

Independent Auditors' Report

Statement of Financial Condition as of December 31, 2001

Statement of Income for the year ended December 31, 2001

Statement of Changes in Shareholders' Equity for the year ended December 31, 2001

Statement of Changes in Liabilities Subordinated to Claims of General Creditors

Statement of Cash Flows for the year ended December 31, 2001

Notes to Financial Statements

Schedules:

Computation of Net Capital

Computation of Aggregate Indebtedness

Computation of Basic Net Capital Requirement

Reconciliation of Net Capital to Submitted Unaudited Net Capital

Computation for Determination of Reserve Requirements for Broker Dealers  
under Rule 15C3-3

Reconciliation of Computation for Determination of Reserve Requirements for Broker  
Dealers under Rule 15C3-3 to Submitted Unaudited Report

Accountants' Report on Internal Control

LOUIS STERNBACH & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors  
Roosevelt & Cross Incorporated

We have audited the accompanying statement of financial condition of Roosevelt & Cross Incorporated as of December 31, 2001, and the related statements of income, changes in shareholders' equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Roosevelt & Cross Incorporated as of December 31, 2001, and the results of its operations and its cash flows for the year then ended 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 statements taken as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Louis Sternbach & Company LLP*

Certified Public Accountants

February 4, 2002  
New York, New York

ROOSEVELT & CROSS INCORPORATED  
STATEMENT OF FINANCIAL CONDITION  
AS OF DECEMBER 31, 2001

ASSETS

CURRENT ASSETS

Cash in bank	\$ 715,045
Special reserve bank account	100
Due from customers	1,878,115
Receivables from joint ventures	4,134,181
Interest receivable - State and Municipal Government Obligations	360,466
Interest receivable - United States Government Obligations	12,231
State and Municipal Government Obligations, at market value	46,830,251
United States Government Obligations, at market value	1,528,125
Bonds failed to deliver	217,121
Good faith deposits	167,824
Other receivables	65,416
Redemptions receivable	401,800
Miscellaneous current assets	<u>104,712</u>
<u>Total Current Assets</u>	<u>56,415,387</u>

FIXED ASSETS

Office furniture, fixtures and equipment	\$ 584,002
Leasehold improvements	293,699
Computers	<u>792,888</u>
	1,670,589
Less: Accumulated depreciation	<u>1,494,213</u>
<u>Total Fixed Assets</u>	<u>176,376</u>

OTHER ASSETS

Deposits	<u>415,469</u>
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\$57,007,232

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Demand note payable	\$ 34,725,400
Bonds failed to receive	227,050
Due to customers	2,488,682
Accrued expenses and taxes payable	<u>1,602,214</u>
<u>Total Liabilities</u>	39,043,346

COMMITMENTS AND CONTINGENT LIABILITIES

SHAREHOLDERS' EQUITY

Common stock	- \$10 par value	
Authorized	- 500,000 shares	
Issued and outstanding	- 180,673 shares	\$ 1,806,730
Capital in excess of par value		8,743,254
Retained earnings		<u>7,413,902</u>
<u>Total Shareholders' Equity</u>		<u>17,963,886</u>

\$57,007,232

ROOSEVELT & CROSS INCORPORATED

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2001

INCOME

Trading profits	\$13,898,683
Interest	1,547,659
Other income	<u>3,531,554</u>
<u>Total Income</u>	18,977,896

EXPENSES

Salaries	\$12,127,257
Interest	464,960
Rent	402,257
Clearance charges	426,271
Payroll and other taxes	436,039
Promotional and travel expenses	586,447
Advertising	19,602
Telephone and telegraph	176,624
Printing, stationery and office supplies	143,826
Postage and delivery	121,163
Administrative expenses	40,903
Professional fees	183,683
Books and periodicals	32,481
Depreciation and amortization	110,450
Miscellaneous expenses	214,138
Fees and assessments	51,675
Insurance	125,963
Equipment rental and servicing	367,148
Employee benefits	415,553
Contributions	236,852
Computer expenses	485,506
Profit sharing expense	<u>825,032</u>
<u>Total Expenses</u>	<u>17,993,830</u>

INCOME BEFORE PROVISION FOR INCOME TAXES

984,066

PROVISION FOR INCOME TAXES

115,930

NET INCOME

\$ 868,136

See accompanying notes.

ROOSEVELT & CROSS INCORPORATED  
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2001

<u>BALANCE - JANUARY 1, 2001</u>		\$16,199,654
Add: Net income	\$ 868,136	
Proceeds from issuance of 9,621 shares of common stock	<u>911,235</u>	<u>1,779,371</u>
		17,979,025
Less: Retirement of 160 shares of common stock		<u>15,139</u>
<u>BALANCE - DECEMBER 31, 2001</u>		<u>\$17,963,886</u>

See accompanying notes.

ROOSEVELT & CROSS INCORPORATED

STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

FOR THE YEAR ENDED DECEMBER 31, 2001

SUBORDINATED LIABILITIES - JANUARY 1, 2001 \$ -0-

SUBORDINATED LIABILITIES - DECEMBER 31, 2001 \$ -0-

See accompanying notes.

ROOSEVELT & CROSS INCORPORATED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2001

CASH FLOW FROM OPERATING ACTIVITIES

Net Income	\$ 868,136
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	110,450
Increase in operating assets and liabilities, detailed below	( 1,789,485)
<u>Net Cash Provided By Operating Activities</u>	<u>( 810,899)</u>

CASH FLOW (USED IN) INVESTING ACTIVITIES

Capital expenditures, net of retirements	( 25,981)
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CASH FLOW FROM FINANCING ACTIVITIES

Issuance of common stock	911,235
Retirement of common stock	( 15,139)
<u>Net Cash Provided By Financing Activities</u>	<u>896,096</u>

INCREASE IN CASH 59,216

CASH - BEGINNING OF YEAR 655,829

CASH - END OF YEAR \$ 715,045

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for:	
Interest	\$ 515,948
Income taxes	\$ 84,210

See accompanying notes.

ROOSEVELT & CROSS INCORPORATED

STATEMENT OF CASH FLOWS - Continued

FOR THE YEAR ENDED DECEMBER 31, 2001

OPERATING ASSETS AND LIABILITIES

(Increase) decrease - Due from customers	(\$ 1,670,165)
(Increase) decrease - Receivables from joint ventures	( 2,270,045)
(Increase) decrease - Interest receivable - State and Municipal Government Obligations	( 78,130)
(Increase) decrease - Interest receivable - United States Government Obligations	761
(Increase) decrease - State and Municipal Government Obligations, at market value	( 1,770,129)
(Increase) decrease - United States Government Obligations, at market value	2,491,875
(Increase) decrease - Bonds failed to deliver	( 193,607)
(Increase) decrease - Good faith deposits	200,259
(Increase) decrease - Other receivables	189,269
(Increase) decrease - Redemptions receivable	( 256,540)
(Increase) decrease - Miscellaneous current assets	( 92,100)
Increase (decrease) - Demand note payable	( 1,096,591)
Increase (decrease) - Bonds failed to receive	67,437
Increase (decrease) - Due to customers	2,054,009
Increase (decrease) - Short positions - State and Municipal Government Obligations, at market value	( 5,300)
Increase (decrease) - Accrued expenses and taxes payable	<u>639,512</u>

(INCREASE) IN OPERATING ASSETS AND LIABILITIES (\$1,789,485)

See accompanying notes.

ROOSEVELT & CROSS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 1 - ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed by the Company in the preparation of these financial statements.

TRANSACTIONS

Federal, State and Municipal Obligation transactions are recorded on a settlement date basis, generally the third business day following the transaction date, unless the difference between settlement and trade date is significant to the Company's financial statements.

INVENTORY VALUATION

Federal, State and Municipal Obligations are stated at market value and the resultant gain or loss is reflected in the Statement of Income.

FIXED ASSETS

Depreciation has been provided primarily by the use of the straight line and accelerated depreciation methods over the estimated useful life of the assets.

Maintenance and repair costs are charged to operations as incurred, renewals and betterments are charged to the appropriate asset accounts.

On retirement or sale of the property, the respective property accounts are reduced by cost of the property retired or sold and accumulated depreciation thereon is eliminated, and the resulting profits and losses are credited or charged to operations.

NOTE 2 - CUSTOMER ACCOUNTS

Accounts receivable from customers include amounts due on incomplete transactions. Securities held for customers as collateral for these receivables or for safekeeping are not reflected in the financial statements.

ROOSEVELT & CROSS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 3 - RECEIVABLES FROM JOINT VENTURES

The Company is the manager of various joint ventures in the purchase and sale of State and Municipal Obligations. The Company as manager of these joint ventures advances the funds for the purchase of these bonds and in turn uses the bonds as collateral for their demand loan to provide such funds. At December 31, 2001, the amount advanced on behalf of joint venture participants is \$4,134,181.

NOTE 4 - DEMAND NOTES PAYABLE

At December 31, 2001, the Company was indebted to banks for demand loans in the amount of \$34,725,400. The aforementioned loans are collateralized by State, Municipal and Government Obligations. (See Note 1).

NOTE 5 - COMMITMENTS AND CONTINGENT LIABILITIES

The Company at December 31, 2001 had a contingent liability in the amount of \$920,000 for the State or Municipal bonds purchased on a when-issued basis and not settled as of December 31, 2001.

The Company's future minimum lease commitments under real estate leases are as follows:

YEAR ENDED

December 31, 2002	\$383,614
December 31, 2003	283,882
December 31, 2004	36,672
December 31, 2005	21,783

Several leases require cost of living increases and increases in real estate taxes over the base year.

ROOSEVELT & CROSS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2001

NOTE 5 - COMMITMENTS AND CONTINGENT LIABILITIES - Continued

As of December 31, 2001, except as noted above, the Company had no financial instruments with off balance sheet risk of a material nature.

NOTE 6 - POSSESSION AND CONTROL REQUIREMENTS UNDER RULE 15C3-3

The Company at December 31, 2001 had possession and control of all fully paid securities.

NOTE 7 - NET CAPITAL REQUIREMENTS

As a registered municipal securities broker and member of the National Association of Securities Dealers, Inc., the Company is subject to the Securities and Exchanges Commissions Uniform Net Capital Rule which requires that the Company maintain minimum net capital, as defined, of 6 2/3% of aggregate indebtedness, as defined, or \$250,000, whichever is greater. At December 31, 2001, the Company had net capital of \$14,489,888 which exceeded the requirements by \$14,217,148

NOTE 8 - FAIR VALUE

The carrying amounts reflected in the balance sheet for all Current Assets, Other Assets, Current Liabilities and Liabilities Subordinated to Claims of General Creditors approximate their fair values.

NOTE 9 - USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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.

ROOSEVELT & CROSS INCORPORATEDCOMPUTATION OF NET CAPITALAS OF DECEMBER 31, 2001

<u>TOTAL SHAREHOLDERS' EQUITY</u>		<u>\$17,963,886</u>
<u>TOTAL SHAREHOLDERS' EQUITY QUALIFIED FOR NET CAPITAL</u>		<u>\$17,963,886</u>
<u>DEDUCTIONS OR CHARGES:</u>		
Non-allowable assets:		
Net book value of fixed assets	\$ 176,376	
Loans and exchanges	168,556	
Miscellaneous receivables	3,479	
Customer unsecured debit balances	<u>100,000</u>	
<u>Total Non-Allowable Assets</u>	448,411	
Other deductions and/or charges	<u>65,000</u>	
<u>Total Deductions Or Charges</u>		<u>513,411</u>
<u>NET CAPITAL BEFORE HAIRCUTS ON SECURITIES POSITIONS</u>		<u>17,450,475</u>
<u>HAIRCUTS</u>		
Contractual securities	59,800	
United States Government Obligations	56,319	
State and Municipal Government Obligations	2,744,468	
Other	<u>100,000</u>	
<u>Total Haircuts</u>		<u>2,960,587</u>
<u>NET CAPITAL</u>		<u>\$14,489,888</u>

ROOSEVELT & CROSS INCORPORATEDCOMPUTATION OF AGGREGATE INDEBTEDNESSAS OF DECEMBER 31, 2001AGGREGATE INDEBTEDNESS LIABILITIES

Due to customers	\$2,488,682
Accrued expenses and taxes payable	<u>1,602,214</u>
<u>TOTAL AGGREGATE INDEBTEDNESS</u>	<u>\$4,090,896</u>
<u>PERCENTAGE OF AGGREGATE INDEBTEDNESS TO NET CAPITAL</u>	<u>28.23%</u>
<u>PERCENTAGE OF AGGREGATE INDEBTEDNESS TO NET CAPITAL AFTER ANTICIPATED CAPITAL WITHDRAWALS</u>	<u>28.23%</u>

ROOSEVELT & CROSS INCORPORATEDCOMPUTATION OF BASIC NET CAPITAL REQUIREMENTAS OF DECEMBER 31, 2001

<u>MINIMUM NET CAPITAL REQUIRED - 6 2/3% OF TOTAL AGGREGATE INDEBTEDNESS</u>	<u>\$ 272,740</u>
<u>MINIMUM DOLLAR NET CAPITAL REQUIREMENT OF REPORTING DEALER</u>	<u>\$ 250,000</u>
<u>NET CAPITAL REQUIREMENT</u>	<u>\$ 272,740</u>
<u>EXCESS NET CAPITAL</u>	
(Net capital less net capital requirement)	<u>\$14,217,148</u>
<u>EXCESS NET CAPITAL AT 1000%</u>	
(Net capital less 10% of aggregate indebtedness)	<u>\$14,080,798</u>

ROOSEVELT & CROSS INCORPORATED

RECONCILIATION OF NET CAPITAL TO SUBMITTED UNAUDITED NET CAPITAL

AS OF DECEMBER 31, 2001

<u>NET CAPITAL PER UNAUDITED X17A-5</u>	<u>\$14,489,888</u>
<u>NET CAPITAL PER AUDITED REPORT</u>	<u>\$14,489,888</u>

ROOSEVELT & CROSS INCORPORATEDCOMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS  
FOR BROKERS-DEALERS UNDER RULE 15C3-3AS OF DECEMBER 31, 2001CREDIT BALANCES

Free credit balances and other balances in customers' accounts \$ 384,255

Total Credits 384,255DEBIT BALANCESDebit balances in customers' cash and margin accounts excluding unsecured accounts and  
accounts doubtful of collection net deductions pursuant to Rule 15c3-3 1,844,187Customer securities not older than 30 days failed to deliver 90,000Total Debits 1,934,187EXCESS OF TOTAL DEBITS OVER TOTAL CREDITS \$1,549,932COLLATERAL HELD AS DEPOSITS FOR RESERVE REQUIREMENTS

Cash on deposit in reserve bank account \$ 100

\$1,000,000 U.S. Treasury Bonds 7.875% due 11/15/07, at market value 1,047,500

\$ 500,000 U.S. Treasury Notes 3.5% due 11/15/06, at market value 480,625\$1,528,225

ROOSEVELT & CROSS INCORPORATEDRECONCILIATION OF COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS  
FOR BROKERS-DEALERS UNDER RULE 15C3-3  
TO SUBMITTED UNAUDITED REPORTAS OF DECEMBER 31, 2001

	<u>PER UNAUDITED X 17A-5</u>	<u>PER AUDITED REPORT</u>
<u>CREDIT BALANCES</u>		
Free credit balances and other balances in customers' accounts	\$ 384,255	\$ 384,255
<u>Total Credits</u>	<u>384,255</u>	<u>384,255</u>
<u>DEBIT BALANCES</u>		
Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection net of deductions pursuant to Rule 15c3-3	1,844,187	1,844,187
Customer securities not older than 30 days failed to deliver	<u>90,000</u>	<u>90,000</u>
<u>Total Debits</u>	<u>1,934,187</u>	<u>1,934,187</u>
<u>EXCESS OF TOTAL DEBITS OVER TOTAL CREDITS</u>	<u>\$1,549,932</u>	<u>\$1,549,932</u>
<u>COLLATERAL HELD AS DEPOSITS FOR RESERVE REQUIREMENTS</u>		
Cash on deposit in reserve bank account	\$ 100	\$ 100
\$1,000,000 U.S. Treasury Bonds 7.875% due 11/15/07, at market value	1,047,500	1,047,500
\$ 500,000 U.S. Treasury Notes 3.5% due 11/15/06, at market value	<u>480,625</u>	<u>480,625</u>
	<u>\$1,528,225</u>	<u>\$1,528,225</u>

LOUIS STERNBACH & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors  
Roosevelt & Cross Incorporated

We have examined the financial statements of Roosevelt & Cross Incorporated for the year ended December 31, 2001 and have issued our report thereon dated February 4, 2002. As part of our examination, we made a study and evaluation of the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and Rule 17a-5 of the Securities and Exchange Commission. This study and evaluation included the accounting system, the procedures for safeguarding securities and the practice and procedures followed by the client in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e); in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13; in complying with the requirements for prompt payment for securities of Section 4(c) of Regulation T of the Board of Governors of the Federal Reserve System; and in obtaining and maintaining physical possession or control of all fully paid securities of customers as required by Rule 15c3-3. Rule 17a-5 states that the scope of the study and evaluation should be sufficient to provide reasonable assurance that any material weakness existing at the date of our examination would be disclosed. Under accepted auditing standards and Rule 17a-5, the purposes of such study and evaluation are to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures necessary for expressing an opinion on the financial statements and to provide a basis for reporting material weaknesses in internal accounting control.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance concerning the safeguarding of assets against loss from unauthorized use or disposition and concerning the reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management. However, for the purposes of this report under Rule 17a-5, the determination of weaknesses to be reported was made without considering the practicability of corrective action by management within the framework of a cost/benefit relationship.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Control procedures whose effectiveness depends on segregation of duties can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgment required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting control for the year ended December 31, 2001, which was made for the purposes set forth in the first paragraph above and would not necessarily disclose all weaknesses in the system that may have existed during the period, disclosed no weaknesses that we believe to be material.

*Louis Sternbach + Company LLP*

Certified Public Accountants

February 4, 2002  
New York, New York