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Washington, D.C. 20549

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

| |
|-----------------|
| SEC FILE NUMBER |
| 8-42167 |

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the **SEC D.S.E.C.**
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

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REPORT FOR THE PERIOD BEGINNING 1/1/01 AND ENDING 12/31/01
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Correspondent Services Corporation (CSC)

| |
|--------------------------|
| OFFICIAL USE ONLY |
| _____ FIRM ID. NO. _____ |

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

120 Broadway 8th Floor

New York New York 10271
(City) (No. and Street) (State) (Zip Code)

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

Anthony Castella (212) 713-2743

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Ernst & Young LLP

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

787 Seventh Avenue New York NY 10019
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED

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

Handwritten signature/initials

*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, _____, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of _____, as of _____, 20_____, 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:

See attached Oath or Affirmation

Signature

Title

Notary Public


This report** contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Operations.
- (d) Statement of 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 or 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 or 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.
- (o) Schedule of Segregation Requirements and Funds in Segregation for Customers Trading on U.S. Commodity Exchanges.
- (p) Statement of Secured Amount and Funds Held in Separate Accounts for Foreign Futures and Options Customers Pursuant to Commission Regulation 30.7.

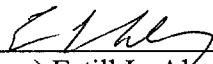
**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

OATH OR AFFIRMATION

To the best of our knowledge and belief, the accompanying statement of financial condition pertaining to the firm of Correspondent Services Corporation [csc] at December 31, 2001, is true and correct. Based upon information available to the undersigned, neither the Company nor any principal officer or director thereof has any proprietary interest in any account classified solely as that of a client.



(Name) Gregory Jeddiss
(Title) Chief Operations Officer



(Name) Estill L. Alvey
(Title) Chief Financial Officer

STATE OF NEW YORK:
COUNTY OF NEW YORK:

Sworn to before me this
28 day of February 2002



RICHARD P. BOROVOY
Notary Public, State of New York
No. 01BO4630102
Qualified in New York County
Commission Expires Feb. 28, 20 03

STATEMENT OF FINANCIAL CONDITION
Correspondent Services Corporation [csc]
(a subsidiary of UBS PaineWebber Inc.)

December 31, 2001
with Report of Independent Auditors

Report of Independent Auditors

The Board of Directors
Correspondent Services Corporation [csc]

We have audited the accompanying statement of financial condition of Correspondent Services Corporation [csc] (the "Company") as of December 31, 2001. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 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 statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of the Company at December 31, 2001 in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

February 4, 2002

Correspondent Services Corporation [csc]

Statement of Financial Condition

December 31, 2001

(in thousands of dollars except share and per share amounts)

Assets

| | |
|---------------------------------------------------------------------------------------------------------|--------------------|
| Cash and cash equivalents | \$ 93,956 |
| Cash and securities segregated and on deposit for federal and other regulations | 103,035 |
| Receivables from clients (net of reserve of \$6,688) | 854,364 |
| Receivables from brokers and dealers | 41,863 |
| Office equipment and leasehold improvements (net of accumulated depreciation and amortization of \$449) | 2,019 |
| Other assets | 294 |
| | <u>\$1,095,531</u> |

Liabilities and stockholder's equity

| | |
|-------------------------------------------------------------------|--------------------|
| Payables to clients (including free credit balances of \$243,467) | \$ 589,541 |
| Payables to UBS PaineWebber Inc. and affiliates | 121,267 |
| Payables to brokers and dealers | 148,258 |
| Other liabilities | 19,506 |
| | <u>878,572</u> |
| Stockholder's equity | 216,959 |
| | <u>\$1,095,531</u> |

See notes to statement of financial condition.

Correspondent Services Corporation [csc]

Notes to Statement of Financial Condition

December 31, 2001
(in thousands of dollars)

1. General

Correspondent Services Company [csc] (the "Company") is a wholly-owned subsidiary of UBS PaineWebber Inc. ("PWI"). PWI is a wholly-owned subsidiary of UBS Americas Inc. ("UBS Americas") which in turn is a wholly-owned subsidiary of UBS AG ("UBS"). The Company has material transactions with its affiliates.

The Company is a broker-dealer in securities and provides security execution and clearing services for its clients both on a fully disclosed and omnibus basis.

2. Summary of Significant Accounting Policies

The Company depreciates office equipment using the straight-line method over estimated useful lives of three to ten years. Leasehold improvements are amortized over the lesser of 10 years, the estimated useful life of the asset or the remaining term of the lease.

The Company is included in the consolidated federal income tax return and certain combined state and local tax returns of UBS Americas. Federal, state and local income taxes are provided for on a separate return basis.

Substantially all of the Company's financial instruments are recorded at amounts approximating fair value.

Cash equivalents are defined as highly liquid investments not held for resale, with a maturity of three months or less when purchased. Cash equivalents totaling \$76,085 consisted exclusively of commercial paper of one issuer at December 31, 2001.

Securities purchased under agreements to resell (U.S. government and government guaranteed securities) are accounted for as financing transactions and are recorded at their contractual amounts, plus accrued interest. Included in Cash and securities segregated and on deposit for federal and other regulations in the statement of financial condition are securities purchased under agreements to resell with an affiliate, UBS Warburg LLC, with a fair value of \$105,406, maintained in a special reserve bank account pursuant to Securities and Exchange Commission ("SEC") Rule 15c3-3. The Company monitors the fair value of the securities daily. Should the fair value of the securities decline below the principal amount loaned, plus accrued interest, additional collateral is requested as deemed appropriate.

Correspondent Services Corporation [csc]

Notes to Statement of Financial Condition (continued)

December 31, 2001
(in thousands of dollars)

2. Summary of Significant Accounting Policies (continued)

The statement of financial condition is prepared in conformity with accounting principles generally accepted in the United States which require management to make estimates and assumptions that affect the amounts reported in the statement of financial condition and accompanying notes. Actual results could differ from those estimates.

3. Related Party Transactions

PWI serves as the Company's clearing and executing broker and, as such, is responsible for maintaining possession and control and custody of client assets. Clearing and execution services are performed on an omnibus basis by PWI.

In its capacity as clearing broker for the Company, PWI engages in security lending and borrowing transactions to finance customer margin accounts and cover customer short positions.

Employees of the Company are provided with certain employee benefits under plans maintained by UBS Americas.

The Company rents office space and equipment from PWI, and reimbursed PWI for rendering accounting, cash management, computer, operations and other administrative services in accordance with the terms of a services agreement between PWI and the Company.

PWI guarantees the commitments and obligations of the Company.

Correspondent Services Corporation [csc]

Notes to Statement of Financial Condition (continued)

December 31, 2001
(in thousands of dollars)

4. Risk Management

Credit Risk in Client Activities

Client transactions are entered on either a cash or margin basis. In a margin transaction, the Company extends credit to a client for the purchase of securities, using the securities purchased and/or other securities in the client's account as collateral for amounts loaned. Amounts loaned are limited by margin regulations of the Federal Reserve Board and the New York Stock Exchange ("NYSE") and are subject to the Company's credit review and daily monitoring procedures. Market declines could, however, reduce the value of any collateral below the principal amount loaned, plus accrued interest, before the collateral can be sold.

In addition, client positions can include trading liabilities and written options for which collateral is maintained. To the extent clients are unable to meet their commitments to the Company and margin deposits are insufficient to cover outstanding liabilities, the Company may take market action and credit losses could be realized.

Client trades are recorded on a settlement date basis. Should the client fail to perform, the Company may be required to complete the transaction at prevailing market prices. Client trades pending at December 31, 2001 were settled without material adverse effect on the Company's statement of financial condition, taken as a whole.

Concentrations of Credit Risk

Concentrations of credit risk that arise from financial instruments (whether on or off balance sheet) exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet obligations to be similarly affected by economic, industry or geographic factors. The Company engages in activities with a broad range of retail and institutional broker-dealers. The Company has no significant exposure to any individual counterparty. The Company seeks to control its credit risk and the potential for risk concentration through a variety of reporting and control procedures.

Correspondent Services Corporation [csc]

Notes to Statement of Financial Condition (continued)

December 31, 2001
(in thousands of dollars)

5. Other Commitments and Contingent Liabilities

The Company has been named as a defendant in certain legal actions in the ordinary course of business. While the outcome of such matters cannot be predicted with certainty, in the opinion of management of the Company, after consultation with various counsel handling such matters, these actions will be resolved with no material adverse effect on the Company's statement of financial condition.

6. Regulatory Requirements

The Company is subject to the SEC Uniform Net Capital Rule and the NYSE Growth and Business Reduction capital requirements. Under the method of computing capital requirements adopted by the Company, minimum net capital shall not be less than 2% of combined aggregate debit items arising from client transactions. A reduction of business is required if net capital is less than 4% of such aggregate debit items. Business may not be expanded if net capital is less than 5% of such aggregate debit items. As of December 31, 2001, the Company's net capital of \$167,901 was 19.91% of aggregate debit items and its net capital in excess of the minimum required was \$151,032.

The Company has elected to compute a reserve requirement for Proprietary Accounts of Introducing Broker/Dealers ("PAIB calculation"), as defined. The PAIB calculation is completed in order for each correspondent firm that uses the Company as its clearing broker-dealer to classify its assets held by the Company as allowable assets in the correspondents' net capital calculations. At December 31, 2001, the Company had no reserve deposit requirement pursuant to its PAIB calculation.

Correspondent Services Corporation [csc]

Notes to Statement of Financial Condition (continued)

December 31, 2001
(in thousands of dollars)

7. Employee Incentive Awards

Employees of the Company are covered under the various UBS Stock Option and Award Plans which provide for the granting of nonqualified stock options, cash and restricted stock awards, and other stock based awards. Officers and other key employees are granted nonqualified stock options to purchase shares of UBS common stock at a price not less than the fair market value of the stock on the date the option is granted. The rights generally expire within seven to ten years after the date of grant.

Restricted stock awards are granted to key employees whereby shares of UBS common stock are awarded in the name of the employee, who has all rights of a stockholder, subject to certain sale and transfer restrictions. The awards generally contain restrictions on sales and transfers ranging from three to five years. The restricted stock awards are subject to forfeiture if the employee terminates prior to the end of the prescribed restriction period. Also, included as a direct increase to stockholder's equity is the tax benefit resulting from the exercise and vesting of employees' UBS stock options and restricted stock.

8. Employee Benefit Plans

Eligible employees of the Company were included in the defined benefit plan of UBS Americas which was frozen in 1998.

Additionally, employees of the Company are eligible to participate in the UBS Americas 401(k) Plus Plan, which includes an employee savings investment plan and a defined contribution pension plan.

UBS Americas also provided life insurance and health care benefits to employees of the Company.

9. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. For financial reporting purposes, deferred tax assets are reflected without reduction for a valuation allowance. Net deferred tax liabilities of \$3 are included in Other liabilities in the statement of financial condition.