



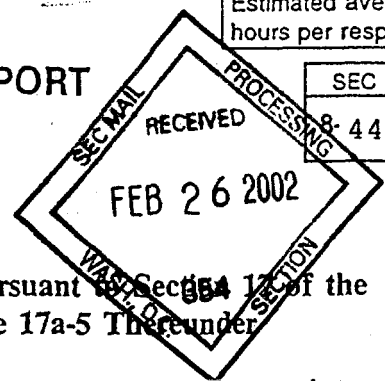
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UNITED STATES  
EXCHANGE COMMISSION  
Washington, D.C. 20549

UF 2-28-02

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



SEC FILE NUMBER  
8-44907

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:

Regional Brokers, Inc.

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

8 Penn Center, 1628 John R. Kennedy Boulevard, Suite 400

(No. and Street)

Philadelphia

Pennsylvania

19103

(City)

(State)

(Zip Code)

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

Anthony J. Boccella

215-979-8960

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

Elko & Associates Ltd.

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

2901 Jolly Road

Plymouth Meeting

Pennsylvania

19462

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

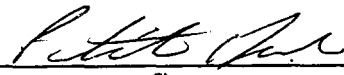
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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

## OATH OR AFFIRMATION

I, Patrick Lubin, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Regional Brokers, Inc., as of December 31, 192001, 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:

  
 \_\_\_\_\_  
 Signature  
  
President  
 \_\_\_\_\_  
 Title



Notary Public  
 NOTARIAL SEAL  
 ANTHONY J. BOCCELLA, Notary Public  
 City of Philadelphia, Phila. County  
 M. Commission Expires May 10, 2003

Sworn to and subscribed before me  
 this 28<sup>th</sup> day of Feb 2002

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

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income ~~(XXX)~~
- (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-~~XXXX~~
- (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) Independent Auditor's report on internal accounting control.

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



REGIONAL BROKERS, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

REGIONAL BROKERS, INC.

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**& Associates Ltd**

Albert L. Elko      Michael Pozielli  
Michael J. Reinking      Gregory D. Stratoti  
Joseph J. Glowacki      Leonard V. Santivasi  
Robert G. Morlock      John J. Nihill  
Marc R. Simmons

A member of The elko Advisory Group LLC

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Regional Brokers, Inc.  
Philadelphia, Pennsylvania

We have audited the accompanying statements of financial condition of Regional Brokers, Inc. as of December 31, 2001 and 2000, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. 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 audits.

We conducted our audits 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 audits provide 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 Regional Brokers, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I 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 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audits 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.

*Elko & Associates Ltd*

January 15, 2002

**BALANCE SHEETS**

REGIONAL BROKERS, INC.  
STATEMENTS OF FINANCIAL CONDITION

ASSETS	DECEMBER 31,	
	2001	2000
<b>CURRENT ASSETS</b>		
Cash	\$ 330,778	\$ 154,341
Marketable securities - available-for-sale	-	155,864
Commissions receivable - clearing broker	183,567	209,269
Receivables - officer and employees	161,875	49,102
Prepaid expenses	18,263	8,737
Total Current Assets	694,483	577,313
FURNITURE AND EQUIPMENT - net of accumulated depreciation of \$165,661 and \$157,499	12,733	20,828
<b>OTHER ASSETS</b>		
Long-term investments	23,350	23,350
Security deposits	180	449
Total Other Assets	23,530	23,799
<b>TOTAL ASSETS</b>	<b>\$ 730,746</b>	<b>\$ 621,940</b>

The accompanying Notes are an integral part of these statements.

## LIABILITIES

## CURRENT LIABILITIES

Securities sold, not yet purchased, at market value	\$ 84,381	\$ -
Accounts payable	44,350	53,436
Accrued expenses	<u>645</u>	<u>572</u>
Total Current Liabilities	<u>129,376</u>	<u>54,008</u>

## STOCKHOLDERS' EQUITY

COMMON STOCK - no par value; stated value \$500 per share, 10,000 shares authorized, 1,010 shares issued, 1,003 shares outstanding - 2001; 10,000 shares authorized, 1,010 shares issued, 1,005 shares outstanding - 2000	505,000	505,000
ADDITIONAL PAID-IN CAPITAL	7,531	10,891
RETAINED EARNINGS	95,838	60,401
LESS: TREASURY STOCK - 7 shares, at cost - 2001; 5 shares, at cost - 2000	<u>(7,000)</u>	<u>(8,360)</u>
Total Stockholders' Equity	<u>601,370</u>	<u>567,932</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 730,746</u>	<u>\$ 621,940</u>

The accompanying Notes are an integral part of these statements.



REGIONAL BROKERS, INC.  
STATEMENTS OF INCOME

	FOR THE YEAR ENDED	
	DECEMBER 31,	
	<u>2001</u>	<u>2000</u>
COMMISSION INCOME	\$ 3,229,471	\$ 3,198,903
OPERATING EXPENSES		
Clearance fees	213,678	260,526
Salaries	1,912,678	1,729,656
Payroll taxes	91,112	93,717
Employee benefits	121,221	130,577
Telephone	68,561	88,475
Insurance	740	544
Trading software expense	56,625	60,600
Total Operating Expenses	<u>2,464,615</u>	<u>2,364,095</u>
GENERAL AND ADMINISTRATIVE EXPENSES	<u>726,703</u>	<u>690,012</u>
INCOME FROM OPERATIONS	<u>38,153</u>	<u>144,796</u>
OTHER INCOME (EXPENSE)		
Dividend income	281	5,486
Interest income	12,477	18,490
Realized loss on sale of marketable securities	(21,586)	-
Unrealized gain (loss) on investments	4,034	(5,460)
Investment loss	(5,081)	(122,500)
Miscellaneous income	7,160	-
Total Other Income (Expense)	<u>(2,715)</u>	<u>(103,984)</u>
NET INCOME	<u>\$ 35,437</u>	<u>\$ 40,812</u>

The accompanying Notes are an integral part of these statements.

REGIONAL BROKERS, INC.  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	TOTAL
BALANCE - JANUARY 1, 2000	\$ 502,000	\$ 5,081	\$ 19,589	\$ -	\$ 526,670
ISSUANCE OF 6 SHARES OF COMMON STOCK	3,000	5,810	-	-	8,810
PURCHASE OF 5 SHARES OF TREASURY STOCK	-	-	-	(8,360)	(8,360)
NET INCOME	-	-	40,812	-	40,812
BALANCE - DECEMBER 31, 2000	505,000	10,891	60,401	(8,360)	567,932
PURCHASE OF 552 SHARES OF TREASURY STOCK	-	-	-	(552,000)	(552,000)
SALE OF 550 SHARES OF TREASURY STOCK	-	(3,360)	-	553,360	550,000
NET INCOME	-	-	35,437	-	35,437
BALANCE - DECEMBER 31, 2001	\$ 505,000	\$ 7,531	\$ 95,838	\$ (7,000)	\$ 601,369

The accompanying Notes are an integral part of these statements.

REGIONAL BROKERS, INC.  
STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED	
	DECEMBER 31,	
	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 35,437	\$ 40,812
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,850	13,744
Realized loss on sale of marketable securities	21,586	-
Unrealized gain on investments	(4,034)	5,460
(Increase) decrease in assets		
Commissions receivable - clearing broker	25,702	(33,136)
Prepaid expenses	(9,526)	255
Security deposit	269	135
Increase (decrease) in liabilities		
Accounts payable	(9,084)	(9,999)
Accrued expenses	73	(9)
	<u>70,273</u>	<u>17,262</u>
Net Cash Provided by Operating Activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of securities	244,277	-
Purchase of furniture and equipment	(1,756)	(7,314)
Receivables - officers and employees	(112,773)	99,545
Purchase of marketable securities - available-for-sale	(21,584)	(50,518)
Purchase of long-term investments	-	(23,350)
	<u>108,164</u>	<u>18,363</u>
Net Cash Provided (Used) by Investing Activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of common stock	-	8,810
Sale of treasury stock	550,000	-
Purchase of treasury stock	(552,000)	(8,360)
	<u>(2,000)</u>	<u>450</u>
Net Cash Provided (Used) by Financing Activities		
<b>NET INCREASE IN CASH</b>	176,437	36,075
<b>CASH - BEGINNING OF YEAR</b>	<u>154,341</u>	<u>118,266</u>
<b>CASH - END OF YEAR</b>	<u>\$ 330,778</u>	<u>\$ 154,341</u>

The accompanying Notes are an integral part of these financial statement.

REGIONAL BROKERS, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE A - Summary of Significant Accounting Policies

**Business Activity** – Regional Brokers, Inc. (the "Company"), incorporated under the laws of the Commonwealth of Pennsylvania on May 18, 1992, is registered with the Securities and Exchange Commission as a Municipal Securities Broker/Dealer as defined in Rule 15c3-1(k)(2)(ii) under the Securities Exchange Act of 1934. A municipal securities broker/dealer acts as an undisclosed agent in the purchase or sale of municipal securities for a registered broker or dealer or registered municipal securities dealer, has no "customers" as defined in SEC Reg. §240.15c3-1 and may effect transactions on their own behalf. The Company's customers are located mostly in the Northeast Region of the United States.

**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.

**Basis of Accounting** - The Company maintains its records on the accrual basis of accounting.

**Accounts Receivable** - The Company charges income for doubtful accounts when they are considered uncollectible. Management considers the receivables to be fully collectible at the balance sheet dates, and no provision for uncollectible accounts has been made in these statements.

**Furniture and Equipment** - Furniture and equipment are stated at cost. Maintenance, repairs and minor renewals are charged to operations as incurred. Depreciation is provided over the estimated useful lives of the assets on an accelerated method. The estimated useful lives of the various classes of assets are:

	<u>Range in Years</u>
Office equipment	5
Furniture and fixtures	5 - 7
Computer equipment	3 - 5

**Income Taxes** - The Company has elected to be an S corporation for federal and state income tax purposes. Profits or losses pass through to the stockholders to be included in their individual income tax returns. Therefore, no provision or liability for federal and state income taxes has been included in these financial statements.

**Advertising Costs** – The Company expenses advertising costs as incurred. Advertising costs were \$3,990 and \$4,100 for the years ended December 31, 2001 and 2000, respectively.

- continued -

REGIONAL BROKERS, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

## NOTE A - Summary of Significant Accounting Policies - continued

Reclassifications – Certain of the amounts previously reported in the financial statements for the prior year have been reclassified to conform with the current year classifications.

Reporting of Comprehensive Income – FASB issued SFAS 130, *Reporting Comprehensive Income* which established standards for reporting and display of comprehensive income and its components in the financial statements.

## NOTE B – Marketable Securities

A summary of aggregate fair value and other information by security type at the current balance sheet dates is as follows:

	<u>Cost</u>	<u>Net Unrealized Loss</u>	<u>Fair Market Value</u>
<u>December 31, 2001</u>			
Municipal Bonds	\$ 84,381	\$ (1,426)	\$82,955
<u>December 31, 2000</u>			
Mutual Funds	\$161,324	\$ (5,460)	\$155,864

The net unrealized loss consists of the following at December 31:

	<u>2001</u>	<u>2000</u>
Gross unrealized gains	\$ 5,460	\$ 5,518
Gross unrealized losses	<u>\$(1,426)</u>	<u>(10,978)</u>
	<u>\$ 4,034</u>	<u>\$ (5,460)</u>

At December 31, 2001, marketable securities owned and sold, not yet purchased, consist of investments at market value as follows:

	<u>Sold Not Yet Purchased</u>
Municipal Bonds	\$84,381

## NOTE C - Property and Equipment

Property and equipment are summarized by major classifications as follows at December 31:

- continued -

REGIONAL BROKERS, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

## NOTE C – Property and Equipment – continued

	<u>2001</u>	<u>2000</u>
Furniture and fixtures	\$ 39,302	\$ 39,302
Office equipment	9,807	9,807
Computer equipment	<u>129,286</u>	<u>129,218</u>
Total	178,395	178,327
Accumulated depreciation	<u>(165,661)</u>	<u>(157,499)</u>
 Total Property and Equipment	 <u>\$ 12,734</u>	 <u>\$ 20,828</u>

## NOTE D – Line of Credit

In September 2000, the Company entered into a \$200,000 line of credit agreement with a bank. The credit agreement expires June 30, 2002, and is collateralized by the assets of the Company. Interest on borrowings is at a fluctuating rate per annum equal to the prime rate plus 0.5%.

The unused available borrowings under the line of credit agreement at December 31, 2001 were \$200,000.

The line of credit has the following financial covenants which are required to be maintained throughout the term of the line:

- Minimum net worth of \$500,000
- Debt to worth ratio not to exceed 0.75

The Company met these covenants for the year ended December 31, 2001.

## NOTE E – Long-Term Investments

Long-term investments consist of common stock subscriptions and warrants in a company. The warrants entitle the holder to purchase four shares of common stock equally over a four-year period beginning in June 2002. The subscriptions and warrants are classified as long-term investments until the common stock is issued. At December 31, 2001 and 2000, long-term investments consist of the following:

	<u>2001</u>	<u>2000</u>
Warrants	\$20,100	\$20,100
Common stock subscriptions	<u>3,250</u>	<u>3,250</u>
 Total	 <u>\$23,350</u>	 <u>\$23,350</u>

## NOTE F – Derivative Instruments

The Company adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133). In accordance with FAS 133, gains and losses on derivative instruments not designated as hedging instruments are recognized in earnings in the period of the change in fair value.

- continued -

REGIONAL BROKERS, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE F – Derivative Instruments – continued

The Company had an open futures contract in United States Treasury Bonds, for investment purposes, at December 31, 2000. The loss on the open futures contract was recorded in investment income for the year ended December 31, 2000. There is a margin requirement of \$17,550 on the contract. The Company has satisfied the margin requirement at December 31, 2000.

NOTE G – Common Stock

In March 2000, the Company issued 6 shares of common stock to an existing stockholder for \$8,810.

NOTE H – Treasury Stock

In November 2000, the Company purchased 5 shares of treasury stock for \$8,360. Treasury stock is shown at cost.

In September 2001, the Company purchased 552 shares of treasury stock for \$552,000.

During the year ended December 31, 2001, the Company sold 550 shares of treasury stock for \$550,000.

NOTE I – Investment Income

Investment income consists of net gains or losses arising from municipal bonds and future contracts in U.S. Treasury Bonds.

NOTE J - Operating Lease Commitments

The Company is obligated under a noncancelable lease for office space which expires in October 2002. The lease is accounted for as an operating lease in accordance with Statement of Financial Accounting Standards No. 13. Rent expense for the years ended December 31, 2001 and 2000 was \$68,839 and \$67,770, respectively.

Minimum annual rental commitments under noncancelable leases with initial or remaining terms of one year or more are as follows:

2002	\$50,625
------	----------

NOTE K- Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 and equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1.

- continued -

REGIONAL BROKERS, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

NOTE K- Capital Requirements - continued

At December 31, 2001 and 2000, the Company's "Aggregate Indebtedness" was \$129,378 and \$54,008, respectively, and "Net Capital" was \$379,596 and \$415,137, respectively, and its percent of aggregate indebtedness to net capital was 34.08% and 13.01%, respectively. Net capital exceeded minimum capital requirements by \$279,596 and \$315,137 at December 31, 2001 and 2000, respectively.

NOTE L - Related Party Transactions

During 1993, the Company entered into a consulting agreement with an affiliated company, which provided financial and advisory services. The Company incurred and paid consulting fees in the amount of \$92,800 and \$50,000 in 2001 and 2000, respectively. The consulting agreement was terminated in September 2001.

NOTE M - Profit Sharing Plan

The Company maintains a defined contribution 401(k) profit sharing plan. The Plan covers substantially all full-time employees. Company contributions are determined annually by the Board of Directors, and there is no requirement to match the employee contribution. No contribution had been made by the Company for the years ended December 31, 2001 or 2000.

NOTE N – Concentration of Credit Risk

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

NOTE O – Retained Earnings Restatement

Retained earnings at December 31, 2000 was restated to reflect the change in recognizing unrealized gains and losses in the balance sheet to the statement of income. This restatement did not result in any change to stockholders' equity at December 31, 2000.



**SUPPLEMENTARY INFORMATION**

REGIONAL BROKERS, INC.  
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

	FOR THE YEAR ENDED	
	DECEMBER 31,	
	<u>2001</u>	<u>2000</u>
Advertising	\$ 3,990	\$ 4,100
Bad debts	15,908	-
Business use and occupancy tax	18,435	18,958
Capital stock tax	1,205	2,160
Consulting	92,800	50,000
Depreciation	9,850	13,744
Dues and subscriptions	63,206	31,243
Insurance	9,788	8,347
Insurance - officer's life	2,765	4,073
Internet expense	27,982	28,560
Legal and accounting fees	103,520	159,556
Office expense	24,375	12,948
Office supplies	6,454	6,905
Payroll taxes	6,646	6,164
Regulatory fees	19,135	18,711
Rent	68,839	67,770
Repairs and maintenance	1,801	5,074
Salaries	100,934	85,000
Travel and entertainment	<u>149,072</u>	<u>166,699</u>
 TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	 <u>\$ 726,703</u>	 <u>\$ 690,012</u>

REGIONAL BROKERS, INC.  
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF  
THE SECURITIES AND EXCHANGE COMMISSION

	<u>DECEMBER 31,</u>	
	<u>2001</u>	<u>2000</u>
<b>NET CAPITAL</b>		
Total Stockholders' Equity	\$601,369	\$567,932
<b>Deductions and/or Charges</b>		
Nonallowable assets		
Funds in excess of required clearing deposits	308	624
Open futures contract	-	26,325
Receivables - stockholders, officers, employees and other	161,875	49,102
Prepaid expenses	18,263	8,737
Property and equipment	12,734	20,828
Long-term investments	23,350	23,350
Security deposit	<u>180</u>	<u>449</u>
Net capital before haircuts on securities positions	384,659	438,517
Haircut on securities	<u>5,063</u>	<u>23,380</u>
 Net Capital	 <u>\$379,596</u>	 <u>\$415,137</u>
 <b>AGGREGATE INDEBTEDNESS</b>		
Items Included in Statements of Financial Condition		
Accounts payable	\$ 44,352	\$ 53,436
Accrued expenses	645	572
Securities sold, not yet purchased	<u>84,381</u>	<u>-</u>
 Total Aggregate Indebtedness	 <u>\$129,378</u>	 <u>\$ 54,008</u>
 <b>COMPUTATION OF BASIC NET CAPITAL REQUIREMENT</b>		
Minimum Net Capital Required by Company	<u>\$100,000</u>	<u>\$100,000</u>
Excess Net Capital at 1500%	<u>\$279,596</u>	<u>\$315,137</u>
Excess Net Capital at 1000%	<u>\$279,596</u>	<u>\$315,137</u>
Ratio: Aggregate Indebtedness to Net Capital	<u>.34 to 1</u>	<u>.13 to 1</u>
 <b>RECONCILIATION WITH COMPANY'S COMPUTATION</b> (included in Part II of Form X-17A-5 as of December 31, 2001 and 2000)		
Net capital as reported in Company's Part II (Unaudited) Focus Report	\$378,862	\$415,561
Net audit adjustments	<u>734</u>	<u>(424)</u>
 Net Capital	 <u>\$379,596</u>	 <u>\$415,137</u>



**& Associates Ltd**

Albert L. Elko      Michael Pozielli  
Michael J. Reinking      Gregory D. Stratoti  
Joseph J. Glowacki      Leonard V. Santivasi  
Robert G. Morlock      John J. Nihill  
Marc R. Simmons

A member of The elko Advisory Group LLC

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL ACCOUNTING CONTROLS**

**Board of Directors  
Regional Brokers, Inc.  
Philadelphia, Pennsylvania**

In planning and performing our audit of the financial statements of Regional Brokers, Inc. for the year ended December 31, 2001, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by Regional Brokers, Inc. including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3(e). Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by Rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of an internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2001 to meet the Commission's objectives.

This report is intended solely for the use of management, the SEC and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and should not be used by anyone other than these specified parties.

*Elko & Associates Ltd*

January 15, 2002