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

**A. REGISTRANT IDENTIFICATION**

**NAME OF BROKER-DEALER:**

WEXFORD CLEARING SERVICES CORPORATION

OFFICIAL USE ONLY

FIRM ID. NO.

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

ONE NEW YORK PLAZA

NEW YORK	NEW YORK	10292-2011
(City)	(State)	(Zip Code)

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

MR. JOHN VALENTI

212-214-7490

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

PricewaterhouseCoopers LLP

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

1177 Avenue of the Americas	New York	NY	10036
(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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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).

3/21/02

# **Wexford Clearing Services Corporation**

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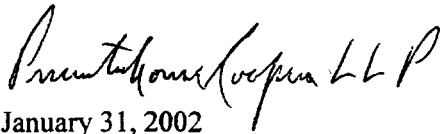
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**Report of Independent Accountants**

To the Board of Directors  
and Stockholder of  
Wexford Clearing Services Corporation

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of Wexford Clearing Services Corporation (the "Company") at December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

  
January 31, 2002

# Wexford Clearing Services Corporation

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## Statement of Financial Condition December 31, 2001 (in thousands)

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### Assets

Cash	\$ 43,031
Cash segregated under federal regulations	12,000
Securities purchased under agreements to resell	125,029
Receivable from Parent	93,856
Receivable from brokers and dealers	84,661
Receivable from clients	1,112,228
Other assets	<u>5,156</u>
	<u>\$1,475,961</u>

### Liabilities and Stockholder's Equity

#### Liabilities

Payable to brokers and dealers	\$ 63,831
Payable to clients	1,074,979
Accrued expenses and other liabilities	<u>88,663</u>
	<u>1,227,473</u>

#### Subordinated Liabilities

75,000

#### Stockholder's Equity

173,488

\$1,475,961

The accompanying notes are an integral part of this financial statement.

## Notes to Statement of Financial Condition December 31, 2001 (in thousands, except where noted)

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### 1. Summary of Significant Accounting Policies

Wexford Clearing Services Corporation (the "Company") is a wholly-owned guaranteed subsidiary of Prudential Securities Incorporated ("PSI" or the "Parent"). PSI is a subsidiary of Prudential Securities Group Inc. ("PSG"). In connection with the demutualization and related corporate reorganization of the Prudential Insurance Company of America, which occurred on December 18, 2001, PSG was divided into Prudential Financial, Inc. ("Prudential") and became an indirect wholly-owned subsidiary of Prudential. Prior to December 18, 2001, PSG was an indirect wholly-owned subsidiary of The Prudential Company of America. The Company provides securities execution, clearance and operational services for introducing brokers and dealers' ("correspondents") customer and proprietary trading accounts on a fully disclosed basis.

Client transactions are recorded on a settlement date basis. Commissions and related expenses for transactions executed are accrued on a trade date basis.

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 the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Substantially all assets and liabilities are carried at fair value or at contracted amounts which approximate fair value.

In the normal course of business, the Company extends margin credit to its clients, collateralized by securities in the clients' accounts. At December 31, 2001, the fair value of collateral pledged to the Company to secure such loans was approximately \$1 billion. Since the Company clears all transactions through PSI on an omnibus basis, such amounts were available for PSI to sell or repledge.

### 2. Related Party Transactions

The Company reimburses PSI for services relating to the execution, clearance and settlement of securities transactions on an omnibus basis under the terms of a clearing agreement. The Company also pays PSI a service fee and reimbursement for accounting, cash management, office space, equipment, systems development and other services. Additionally, the Company enters into securities purchased under agreements to resell with its Parent. All of the Company's employees are covered under the employee benefit plans of its Parent.

### 3. Cash Segregated Under Federal Regulations

At December 31, 2001, the Company computed the reserve requirement for proprietary accounts of introducing broker-dealers ("PAIB"). The reserve requirement and amount held on deposit in the Company's PAIB reserve bank account were \$0 and \$12,000, respectively.

**Notes to Statement of Financial Condition  
December 31, 2001 (in thousands, except where noted)**

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**4. Resale Agreements**

Securities purchased under agreements to resell are accounted for as collateralized financing transactions and are carried at their contract amounts plus accrued interest.

It is Company policy to take possession or control of securities purchased under agreements to resell and to value the securities daily. To ensure the market value of the underlying collateral remains sufficient to protect against credit risk, additional collateral is obtained when deemed appropriate.

**5. Subordinated Liabilities**

Subordinated liabilities consist of the following amounts due to Prudential Securities Group Inc., an indirect parent of the Company, as of December 31, 2001:

Liability due July 15, 2002 related to a subordinated loan agreement with interest based on LIBOR	\$25,000
Liability due July 15, 2003 related to a subordinated loan agreement with interest based on LIBOR	25,000
Liability due September 16, 2003 related to a subordinated loan agreement with interest based on indirect parent's cost of funds but not to exceed 250 basis points above higher of Federal Funds Rate or one year LIBOR	<u>25,000</u>
	<u>\$75,000</u>

These liabilities are subordinated to the claims of general creditors and are available in computing net capital pursuant to the Uniform Net Capital Rule under the Securities Exchange Act of 1934.

**6. Income Taxes**

The Company and its Parent are members of a group of affiliated companies which join in filing a consolidated federal income tax return and certain combined and unitary state and local tax returns. In addition, the Company also files separate state and local tax returns.

Pursuant to the tax allocation arrangements, total federal and state and local tax expense is determined on a separate company basis. Members with losses record tax benefits to the extent such losses are recognized in the consolidated federal and state and local tax provisions. Total allocated federal, state and local taxes are paid to, or received from, an affiliated company and therefore deferred taxes are not provided. At December 31, 2001, the Company has taxes receivable from the affiliate of approximately \$1,250.

**Notes to Statement of Financial Condition  
December 31, 2001 (in thousands, except where noted)**

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**7. Net Capital Requirements**

The Company is subject to the Uniform Net Capital Rule under the Securities Exchange Act of 1934. Under this Rule, the Company is required to maintain net capital, as defined, of not less than 2% of aggregate debit items arising from customer transactions. At December 31, 2001, the Company has net capital of \$225,691, which is 18.4% of aggregate debit items and \$201,222 in excess of the minimum required net capital.

The Company's ability to pay dividends and other capital distributions is subject to the rules and regulations of various exchanges and other regulatory agencies.

**8. Risk Management****Credit Risk in Client Activities**

Client transactions are entered into on either a cash or margin basis. In a margin transaction, the Company extends credit to a client which is collateralized by cash and securities in the client's account. Amounts loaned are limited by margin regulations of the Federal Reserve Board and other regulatory authorities and are subject to the Company's credit review and daily monitoring procedures. Pursuant to such procedures and guidelines, the Company requires clients to deposit additional collateral or reduce positions when necessary. 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 order to minimize risk, correspondents are required to guarantee the performance of their clients.

In the normal course of business, the Company's activities include execution, settlement, and financing of various client securities transactions. Although these activities are performed by PSI under the clearing agreement, the Company remains primarily liable for client transactions which, therefore, may expose the Company to off-balance sheet risk in the event clients are unable to fulfill their contractual obligations.

In accordance with industry practice, client trades are recorded on a settlement date basis, which is generally three business days after trade date. Should either the client or the counterparty fail to perform, the Company may be required to complete the transaction at prevailing market prices.

**Concentrations of Credit Risk**

Concentrations of credit risk 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. As a securities broker, the Company is engaged in various securities brokerage activities servicing a diverse group of counterparties.

**Notes to Statement of Financial Condition  
December 31, 2001 (in thousands, except where noted)**

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The Company's exposure to credit risk associated with the nonperformance of these counterparties in fulfilling their contractual obligations can be directly impacted by volatile trading markets which may impair the counterparties' ability to satisfy their obligations to the Company. In connection with these activities, the Company seeks to minimize credit risk by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with the Company when deemed necessary.



**Report of Independent Accountants  
On Internal Control Required by SEC Rule 17a-5**

To the Board of Directors  
and Stockholder of  
Wexford Clearing Services Corporation

In planning and performing our audit of the financial statements and supplemental schedules of Wexford Clearing Services Corporation (the "Company") 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 (the "SEC"), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures, that we considered relevant to the objectives stated in Rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate debits and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e);
2. Making the quarterly securities examinations, counts, verifications, and comparisons, and the 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; and
4. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

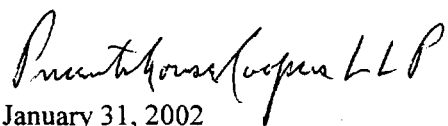
The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control 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 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 the 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 internal control to future periods is subject to the risk that controls 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 one or more of the specific internal control components does not reduce to a relatively low level the risk that error or fraud 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 procedures 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 SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the New York Stock Exchange, Inc., the National Association of Securities Dealers, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

  
January 31, 2002