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

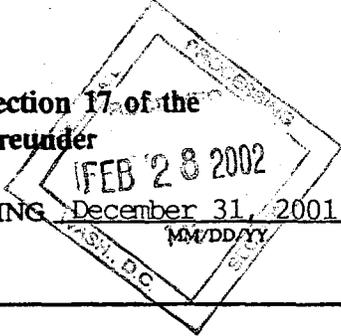
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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

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:

Valley Forge Asset Management Corp.

OFFICIAL USE ONLY
FIRM ID. NO.

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

120 S. Warner Road

(No. and Street)

King of Prussia

PA

19406

(City)

(State)

(Zip Code)

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

Deborah S. Stetter

610-687-6800

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Price Waterhouse Coopers LLP

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

One South Market Square

Harrisburg

PA

17101

(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

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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).

BBB
3/20

OATH OR AFFIRMATION

I, Deborah S. Stetter, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Valley Forge Asset Management Corp., as of December 31, 19 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:

Notarial Seal
Denise A. Schlesinger, Notary Public
Upper Merion Twp., Montgomery County
My Commission Expires May 26, 2003

Deborah S. Stetter
Signature
Assistant Vice President
Title

Denise A. Schlesinger
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.
- (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).

Valley Forge Asset Management Corporation

(A wholly owned subsidiary of Susquehanna Bancshares, Inc.)
Financial Statements and Supplemental Schedules
for the year ended December 31, 2001



Valley Forge Asset Management Corporation

(A wholly owned subsidiary of Susquehanna Bancshares, Inc.)

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for the year ended December 31, 2001

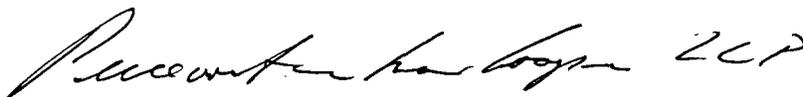
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Report of Independent Accountants

To the Board of Directors and Stockholder of
Valley Forge Asset Management Corporation

In our opinion, the accompanying statement of financial condition and the related statements of income, changes in shareholder's equity, changes in subordinated borrowings, and cash flows present fairly, in all material respects, the financial position of the Valley Forge Asset Management Corporation (a wholly owned subsidiary of Susquehanna Bancshares, Inc.) (the Company) at December 31, 2001, and the results of its operations and its cash flows for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. 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 of these statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the supplemental schedules 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 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.



February 6, 2002

Valley Forge Asset Management Corporation
(A wholly owned subsidiary of Susquehanna Bancshares, Inc.)
Statement of Financial Condition
at December 31, 2001

| Assets | |
|---|----------------------|
| Cash and cash equivalents | \$ 2,288,270 |
| Commissions receivable | 76,852 |
| Advisory fees receivable | 1,413,336 |
| Marketable securities, at market value | 3,300 |
| Prepaid expenses and other assets | 404,030 |
| Furniture and equipment, at cost, less accumulated depreciation of \$333,892 | 83,808 |
| Goodwill, net | 14,720,000 |
| Other assets | <u>23,583</u> |
| Total assets | <u>\$ 19,013,179</u> |
| Liabilities and Shareholder's Equity | |
| Liabilities | |
| Accounts payable, accrued expenses, and other liabilities | \$ 601,464 |
| Income taxes payable | 8,680 |
| Subordinated borrowings | <u>15,000,000</u> |
| Total liabilities | <u>15,610,144</u> |
| Commitments and contingencies (Note 9) | |
| Shareholder's equity | |
| Common stock, \$.01 par value, 100 shares authorized and 100 issued and outstanding | 1 |
| Additional paid-in capital | 1,999,999 |
| Retained earnings | <u>1,403,035</u> |
| Total shareholder's equity | <u>3,403,035</u> |
| Total liabilities and shareholder's equity | <u>\$ 19,013,179</u> |

The accompanying notes are an integral part of these financial statements.

Valley Forge Asset Management Corporation
(A wholly owned subsidiary of Susquehanna Bancshares, Inc.)
Statement of Income
for the year ended December 31, 2001

| | |
|---|-------------------|
| Revenues | |
| Investment advisory fees | \$ 7,397,944 |
| Commissions | 1,377,874 |
| Principal trades | 19,684 |
| Interest and dividends | 133,479 |
| Other income | <u>318,220</u> |
| Total income from operations | <u>9,247,201</u> |
| Expenses | |
| Employee compensation and benefits | 2,839,706 |
| Commissions | 28,039 |
| Regulatory fees and expenses | 73,139 |
| Consulting and professional expenses | 2,277,703 |
| Communications and data processing expenses | 252,719 |
| Occupancy expenses | 118,040 |
| Interest expense | 1,363,333 |
| Other expenses | <u>783,632</u> |
| Total operating expenses | <u>7,736,311</u> |
| Income before provision for income taxes | 1,510,890 |
| Provision for income taxes | <u>731,120</u> |
| Net income | <u>\$ 779,770</u> |

The accompanying notes are an integral part of these financial statements.

Valley Forge Asset Management Corporation

(A wholly owned subsidiary of Susquehanna Bancshares, Inc.)

Statement of Changes in Shareholder's Equity

for the year ended December 31, 2001

| | Common Stock | | Additional Paid-in Capital | Retained Earnings |
|---------------------------------|-----------------------|--------|----------------------------------|----------------------|
| | Shares Outstanding | Amount | | |
| Balance as of December 31, 2000 | 100 | \$ 1 | \$ 1,999,999 | \$ 623,265 |
| Net income | | | | 779,770 |
| Balance as of December 31, 2001 | 100 | \$ 1 | \$ 1,999,999 | \$ 1,403,035 |

The accompanying notes are an integral part of these financial statements.

Valley Forge Asset Management Corporation
(A wholly owned subsidiary of Susquehanna Bancshares, Inc.)
Statement of Changes in Subordinated Borrowings
for the year ended December 31, 2001

| | |
|--|----------------------|
| Subordinated borrowings at December 31, 2000 | \$ 9,000,000 |
| Additional subordinated borrowings during the year | <u>6,000,000</u> |
| Subordinated borrowings at December 31, 2001 | <u>\$ 15,000,000</u> |

The accompanying notes are an integral part of these financial statements.

Valley Forge Asset Management Corporation
 (A wholly owned subsidiary of Susquehanna Bancshares, Inc.)
Statement of Cash Flows
for the year ended December 31, 2001

| | |
|--|---------------------|
| Cash flows from operating activities | |
| Net income | \$ 779,770 |
| Adjustments to reconcile net income to cash provided by operating activities | |
| Depreciation and amortization | 455,230 |
| (Increase) decrease in operating assets | |
| Commissions receivable | 68,167 |
| Advisory fees receivable | (121,915) |
| Marketable securities | 1,461,449 |
| Prepaid expenses and other assets | (291,451) |
| Decrease in operating liabilities | |
| Accounts payable, accrued expenses and other liabilities | (862,518) |
| Income tax liability | (748,657) |
| Net cash provided by operating activities | <u>740,075</u> |
| Cash flows from investing activities | |
| Purchases of furniture and equipment | <u>(645)</u> |
| Net cash provided by investing activities | <u>(645)</u> |
| Cash flows from financing activities | |
| Payment of contingent earn out to previous owners | (6,000,000) |
| Proceeds from subordinated borrowings | <u>6,000,000</u> |
| Net cash used in financing activities | <u>-</u> |
| Increase in cash | 739,430 |
| Cash, beginning of period | <u>1,548,840</u> |
| Cash, end of period | <u>\$ 2,288,270</u> |
| Supplemental disclosure of cash flow information | |
| Cash paid during the period for | |
| Income taxes | <u>\$ 1,479,777</u> |
| Interest expense | <u>\$ 1,782,692</u> |

The accompanying notes are an integral part of these financial statements.

Valley Forge Asset Management Corporation

(A wholly owned subsidiary of Susquehanna Bancshares, Inc.)

Notes to Financial Statements

for the year ended December 31, 2001

1. The Company

Valley Forge Asset Management Corporation (the Company) was incorporated on October 10, 1973. The Company is a broker-dealer and investment advisor registered with the Securities and Exchange Commission (SEC), and is a member of the National Association of Securities Dealers (NASD). The Company clears all transactions through an unaffiliated broker-dealer on a fully disclosed basis. In February 2000, Susquehanna Bancshares, Inc. (the Parent), a super-community bank holding company headquartered in Lititz, Pennsylvania, formed SBI Central (SBIC), a merger subsidiary, by contributing \$2 million in capital and receiving 100 shares of \$0.01 per share in SBIC. On March 1, 2000, SBIC acquired Valley Forge Asset Management Corporation and its parent company, Valley Forge Investment Companies, Inc. (VFICO) and simultaneously merged SBIC and VFICO into Valley Forge Asset Management Corporation. In connection with the transaction, which was accounted for under the purchase method, all of the purchased shares of Valley Forge Asset Management Corporation and VFICO were retired.

2. Summary of Significant Accounting Policies

Method of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this basis, revenues are recognized in the year in which they are earned and become measurable, and expenses are recognized in the year they are incurred. The Company's revenues consist primarily of individual and institutional advisory fees and commissions on customer trades and private placements. Advisory fees and commissions in private placements are recognized as income when earned under the accrual basis of accounting. Securities transactions and commissions revenue and related expenses are recorded on a trade date basis.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash and short-term investments having an original maturity of three months or less.

Marketable Securities

The Company's marketable securities are classified as "trading securities." Trading securities, consisting of actively traded equity securities, are stated at fair value. Realized and unrealized gains and losses are included in income. The cost of securities sold is determined using the specific identification method and realized gains or losses are reflected in income.

Furniture and Equipment

Office and computer equipment are recorded at cost. Depreciation is provided on an accelerated method. When items of furniture and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income. Depreciable lives of the items included at December 31, 2001 are as follows:

| | |
|--------------------|---------|
| Computer equipment | 5 years |
| Office equipment | 7 years |

Goodwill

Goodwill in the amount of \$9,414,786 was recorded as a result of the purchase of the Company by the Parent on March 1, 2000. An additional \$6,000,000 was recorded as goodwill on March 31, 2001

Valley Forge Asset Management Corporation
(A wholly owned subsidiary of Susquehanna Bancshares, Inc.)
Notes to Financial Statements
for the year ended December 31, 2001

as a result of an earnings based contingent earn out paid by the Company pursuant to acquisition agreement.

The Company amortized goodwill on a straight-line basis over 25 years through March 31, 2001. On March 31, 2001, the Company changed its policy to amortize the remaining goodwill over 39 years, which the Company's management felt was more reflective of the actual useful life of the asset. At December 31, 2001, the accumulated amortization of goodwill amounted to \$694,786. Management periodically evaluates goodwill for impairment.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets." SFAS 142 addresses financial accounting and reporting for intangible assets and goodwill. The Statement requires that goodwill and intangible assets having indefinite useful lives not be amortized, but rather be tested at least annually for impairment. The Company has not yet tested goodwill for impairment pursuant to this new pronouncement. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. As required by SFAS 142, the Company will adopt this new accounting standard on January 1, 2002. The \$14,720,000 in goodwill outstanding at December 31, 2001 will no longer be amortized going forward pursuant to the new pronouncement.

Fair Value of Financial Instruments

Financial instruments are reported in the financial statements either at fair value or amounts which approximate fair value.

Income Taxes

The Company is included in the consolidated federal income tax return for the Parent. The Company's method of accounting for income taxes conforms with Statement of Financial Accounting Standards Statement No. 109, "Accounting for Income Taxes." This Statement utilizes the liability method and deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of the enacted tax laws. Management has determined that there are no material temporary differences for the year ended December 31, 2001.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amount of revenues and expenses during the reported period. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments which subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable. The Company deposits its cash with its principal bank, which is a high-credit quality institution. The Company has not required collateral for its accounts receivable.

3. Marketable Securities Owned

At December 31, 2001, the Company's marketable trading securities were recorded at their fair value of \$3,300. These securities had a cost basis of \$3,300.

Valley Forge Asset Management Corporation
(A wholly owned subsidiary of Susquehanna Bancshares, Inc.)
Notes to Financial Statements
for the year ended December 31, 2001

4. Subordinated Borrowings

On March 3, 2000, the Company entered into an agreement with Conestoga Management Company, a subsidiary of the Parent, to borrow \$9,000,000 through a subordinated note. In March 2001, the Company borrowed \$15,000,000 under a subordinated note agreement with the Parent. \$9,000,000 of the proceeds were used to repay the entire amount due to Conestoga Management Company. The borrowing was approved by the NASD and bears interest at a rate of 10% per annum and is due on May 31, 2004. The subordinated note is available in computing net capital under the SEC's uniform net capital rule (SEC Rule 15c3-1). To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

5. Income Taxes

The components of the provision for income taxes for the year ended December 31, 2001 are as follows:

| | |
|---------|-------------------|
| Current | |
| Federal | \$ 510,941 |
| State | <u>220,179</u> |
| | <u>\$ 731,120</u> |

The differences between income tax expenses at statutory U.S. federal income tax rates and the Company's effective income tax rates are as follows:

| | |
|---|-------------------|
| Tax on pre-tax income at statutory Federal rate | \$ 451,749 |
| Amortization expense, nondeductible | 58,170 |
| Other | <u>1,022</u> |
| | <u>\$ 510,941</u> |

6. 401(k) Plan

Effective July 1, 2000, all eligible employees of the Company became eligible to participate in the 401(k) plan of the Parent. Under the Parent's plan, employee contributions are required to be at least 1% of eligible compensation, and are not to exceed 15% of eligible compensation. Employer matching contributions under the Parent's plan represent 100% of the first 3% of base compensation. The employer's matching contribution made to the Parent's plan was \$41,656 for the year ended December 31, 2001.

Valley Forge Asset Management Corporation
(A wholly owned subsidiary of Susquehanna Bancshares, Inc.)
Notes to Financial Statements
for the year ended December 31, 2001

7. Related Party Transaction

The Company's office is leased from Warner Road Associates which was partially owned by the previous majority shareholder of the Company. The Company also leases computer equipment from the Company's clearing broker-dealer. Minimum future lease payments under which the Company is obligated are as follows:

| | |
|------|-------------------|
| 2002 | \$ 168,771 |
| 2003 | <u>21,456</u> |
| | <u>\$ 190,227</u> |

Rent expense for office space leased from Warner Road Associates and computer lease expense from the Company's clearing broker-dealer was \$113,940 and \$90,753, respectively, for the year ended December 31, 2001.

See Note 4 for information on the subordinated borrowings with the Parent and Conestoga Management Company, a subsidiary of the Parent. Total interest expense from related party borrowings amounted to \$1,363,333 for the year ended December 31, 2001.

Additionally, the Company maintains noninterest bearing deposit accounts with Founders' Bank, an affiliate of the Parent. These deposits amounted to \$44,294 at December 31, 2001.

8. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC 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. At December 31, 2001, the Company had net capital of \$1,709,768, which exceeded the minimum net capital requirement by \$1,459,768. The Company's ratio of aggregate indebtedness to net capital was .36 to 1 at December 31, 2001.

9. Commitments and Contingencies

In the normal course of business, the Company's customer activities involve the execution and settlement of various customer securities transactions. The Company uses a clearing broker to execute certain customer transactions. Such transactions may expose the Company and the clearing broker-dealer to significant off balance sheet risk in the event margin requirements are not sufficient to fully cover losses which customers may incur.

Supplemental Schedules

Valley Forge Asset Management Corporation

(A wholly owned subsidiary of Susquehanna Bancshares, Inc.)

Computation of Net Capital and Aggregate Indebtedness Pursuant to SEC Rule 15c3-1 at December 31, 2001

| | |
|---|---------------------|
| Net capital and allowable subordinated borrowings | |
| Total stockholder's equity | \$ 3,403,035 |
| Allowable subordinated borrowings | <u>15,000,000</u> |
| Total capital and allowable subordinated borrowings | <u>18,403,035</u> |
| Less nonallowable assets | |
| Unsecured receivables | 1,414,838 |
| Deposits | 400 |
| Prepaid expenses | 404,030 |
| Furniture and equipment, net | 83,808 |
| Goodwill, net | 14,720,000 |
| CSV - DIP insurance | <u>22,081</u> |
| Total deductions and other charges | <u>16,645,157</u> |
| Net capital before hair-cut on securities | 1,757,878 |
| Less hair-cuts on securities owned | |
| Prime cash series (2%) | 44,811 |
| Firm investment account | <u>3,300</u> |
| Total haircuts | 48,111 |
| Net capital | 1,709,767 |
| Net capital requirement | |
| Greater of 6.667% of aggregate indebtedness or \$250,000 | <u>250,000</u> |
| Excess net capital | <u>\$ 1,459,767</u> |
| Aggregate indebtedness | |
| Accounts payable, accrued expenses, and other liabilities | \$ 601,464 |
| Income taxes payable | <u>8,680</u> |
| Total aggregate indebtedness | <u>\$ 610,144</u> |
| Ratio of aggregate indebtedness to net capital | <u>.36</u> |

There are no material differences between the amounts presented above and the amounts as reported in the Company's unaudited FOCUS report as of December 31, 2001.

Valley Forge Asset Management Corporation
(A wholly owned subsidiary of Susquehanna Bancshares, Inc.)
**Computation for Reserve Requirements and Information Relating to Possession
or Control Requirements Pursuant to SEC Rule 15c3-3
at December 31, 2001**

The Company has complied with the exemptive provisions of Rule 15c3-3 under subparagraph (k)(2)(ii) as of December 31, 2001.

**Valley Forge Asset
Management Corporation**

(A wholly owned subsidiary of Susquehanna Bancshares, Inc.)

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

December 31, 2001

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

To the Board of Directors and Stockholder of
Valley Forge Asset Management Corporation

In planning and performing our audit of the financial statements and supplemental schedules of Valley Forge Asset Management Corporation (a wholly owned subsidiary of Susquehanna Bancshares, Inc.) (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 indebtedness and net capital under Rule 17a-3(a)(11); and
2. Determining compliance with the exemptive provisions of Rule 15c3-3.

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 the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13;
2. 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
3. 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 accounting principles generally accepted in the United States of America. 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 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 SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, 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.

Handwritten signature of Robert H. Cooper in cursive script.

February 6, 2002