



3/27/02  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

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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 1/01/01 AND ENDING 12/31/01  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:  
FIRST SECURITY INVESTMENTS, INC.

OFFICIAL USE ONLY  
FIRM ID. NO.

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

303 MARKET STREET

(No. and Street)

KINGSTON

PA

18704

(City)

(State)

(Zip Code)

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

STEPHEN M. ALINIKOFF

570.287.2663

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

PARENTE RANDOLPH PC

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

46 PUBLIC SQUARE, SUITE 400

WILKES-BARRE

PA

18701

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

APR 01 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).

EC 1410 (3-91)

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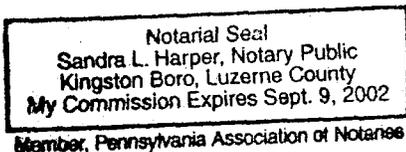
3/27/02

OATH OR AFFIRMATION

I, STEPHEN M. ALINIKOFF, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of FIRST SECURITY INVESTMENTS, INC., as of

DECEMBER 31, ~~XX~~ 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:

NO EXCEPTIONS



Stephen M. Alinikoff  
Signature  
PRESIDENT  
Title

Sandra L. Harper  
Notary Public

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

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of ~~Income (Loss)~~ OPERATIONS.
- (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 15c3-1 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).

**FIRST SECURITY INVESTMENTS, INC.**

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**FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2001 AND 2000  
&  
INDEPENDENT AUDITORS' REPORT  
&  
ADDITIONAL INFORMATION  
&  
INTERNAL CONTROL REPORT**

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**INDEPENDENT AUDITORS' REPORT**

To the Stockholders of  
First Security Investments, Inc.:

We have audited the accompanying statement of financial condition of First Security Investments, Inc. (the "Company") as of December 31, 2001 and 2000, and the related statements of operations, 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 First Security Investments, 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 the accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information, as listed in the accompanying table of contents, 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.



Wilkes-Barre, Pennsylvania  
February 14, 2002

FIRST SECURITY INVESTMENTS, INC.

STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2001 AND 2000

	2001	2000
<u>ASSETS</u>		
CASH AND CASH EQUIVALENTS	\$ 29,406	\$ 107,110
MARKETABLE SECURITIES, At market value	1,885,606	2,121,446
COMMISSIONS RECEIVABLE	113,802	139,149
ACCRUED INTEREST INCOME	20,088	20,103
OTHER RECEIVABLES	10,000	36,778
DUE FROM AFFILIATE (Net of estimated allowance for doubtful collections of \$525,305 in 2001)	-	1,137,362
TOTAL	<u>\$2,058,902</u>	<u>\$3,561,948</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
COMMISSIONS PAYABLE	\$ 111,868	\$ 444,489
PAYABLE TO CLEARING BROKER	1,086,536	1,223,057
ACCOUNTS PAYABLE	<u>155,086</u>	<u>134,599</u>
Total liabilities	1,353,490	1,802,145
STOCKHOLDERS' EQUITY	<u>705,412</u>	<u>1,759,803</u>
TOTAL	<u>\$2,058,902</u>	<u>\$3,561,948</u>

See Notes to Financial Statements

**FIRST SECURITY INVESTMENTS, INC.**

**STATEMENT OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	2001	2000
<b>REVENUES:</b>		
Commissions, net	\$ 4,076,345	\$10,448,436
Interest income	76,640	62,187
Dividend income	10,647	15,438
Other revenues	4,250	182,500
Net investment losses	<u>(72,729)</u>	<u>(368,602)</u>
Total revenues	<u>4,095,153</u>	<u>10,339,959</u>
<b>EXPENSES:</b>		
Commissions	3,006,647	7,666,398
Management fees	998,000	2,812,517
Provision for doubtful collections	525,305	-
Licenses and fees	186,491	139,324
Settlement expense	105,500	-
Professional fees	94,951	96,676
Insurance	90,862	111,315
Interest expense	85,930	127,943
Other expenses	53,280	29,704
Other taxes	<u>2,578</u>	<u>11,560</u>
Total expenses	<u>5,149,544</u>	<u>10,995,437</u>
LOSS BEFORE INCOME TAXES	(1,054,391)	(655,478)
CREDIT FOR INCOME TAXES	<u>-</u>	<u>(55,000)</u>
NET LOSS	<u><u>\$(1,054,391)</u></u>	<u><u>\$ (600,478)</u></u>

See Notes to Financial Statements

**FIRST SECURITY INVESTMENTS, INC.**

**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TREASURY STOCK (b)	TOTAL
	SHARES (a)	AMOUNT				
BALANCES, DECEMBER 31, 1999	100,000	\$1,000	\$ 1,426,006	\$ 254,379	\$(38,600)	\$1,642,785
ADDITIONAL PAID-IN CAPITAL			717,496			717,496
NET LOSS				(600,478)		(600,478)
BALANCES, DECEMBER 31, 2000	100,000	1,000	2,143,502	(346,099)	(38,600)	1,759,803
NET LOSS				(1,054,391)		(1,054,391)
BALANCES, DECEMBER 31, 2001	<u>100,000</u>	<u>\$1,000</u>	<u>\$ 2,143,502</u>	<u>\$(1,400,490)</u>	<u>\$(38,600)</u>	<u>\$ 705,412</u>

(a) Authorized 1,000,000 shares at \$.01 par value each, 100,000 shares issued.

(b) 25,000 shares in treasury, at cost.

See Notes to Financial Statements

**FIRST SECURITY INVESTMENTS, INC.**

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	<u>\$(1,054,391)</u>	<u>\$ (600,478)</u>
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for doubtful collections	525,305	-
Deferred income taxes	-	(52,000)
Changes in assets and liabilities:		
Marketable securities	235,840	661,086
Commissions receivable	25,347	54,024
Accrued interest income	15	(15,715)
Other receivables	26,778	(36,778)
Due from affiliate	612,057	(566,482)
Commissions payable	(332,621)	(870,736)
Payable to clearing broker	(136,521)	982,532
Accounts payable	20,487	85,056
Taxes payable	-	(3,000)
	<u>976,687</u>	<u>237,987</u>
Total adjustments		
Net cash used in operating activities	<u>(77,704)</u>	<u>(362,491)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(77,704)</b>	<b>(362,491)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<b><u>107,110</u></b>	<b><u>469,601</u></b>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<b><u>\$ 29,406</u></b>	<b><u>\$ 107,110</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION,</b>		
Interest paid	<u>\$ 85,930</u>	<u>\$ 127,943</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES,</b>		
A stockholder transferred marketable securities into the Company in the amount of \$717,496 as additional paid-in capital in 2000.		

See Notes to Financial Statements

# FIRST SECURITY INVESTMENTS, INC.

## NOTES TO FINANCIAL STATEMENTS

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### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### NATURE OF OPERATIONS

First Security Investments, Inc. (the "Company") operates in the brokerage and investment advisory industry primarily in the Eastern United States and is registered with the Securities and Exchange Commission, the National Association of Securities Dealers and various 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.

#### CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

#### MARKETABLE SECURITIES

Marketable securities are valued at market value. The resulting difference between cost and market is included in net investment losses. Profit and loss arising from all marketable security transactions are recorded on a trade date basis and reported as net investment losses.

### INCOME TAXES

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for net operating losses that are available to offset future taxable income.

### COMMISSION INCOME AND EXPENSES

Commission income and expenses on securities transactions are recorded on a trade date basis.

### RECLASSIFICATION

Certain items in 2000 have been reclassified to conform to the 2001 format.

## 2. MARKETABLE SECURITIES

Marketable securities owned at December 31, 2001 and 2000 consist of trading and investment securities at market value, as follows:

	<u>2001</u>	<u>2000</u>
State and municipal obligations	\$1,310,449	\$1,466,869
Corporate stocks	474,636	612,328
Unit investment trust	100,521	-
Other securities	<u>-</u>	<u>42,249</u>
Total	<u>\$1,885,606</u>	<u>\$2,121,446</u>

### **3. COMMISSIONS RECEIVABLE**

The Company utilizes the services of a clearing broker to execute securities transactions for the Company's customers. The Company is paid commissions by the clearing broker for all transactions executed on behalf of the Company's customers. The Company has commissions receivable at December 31, 2001 and 2000 in the amount of \$113,802 and \$139,149, respectively.

### **4. RELATED PARTY TRANSACTIONS**

Management services are purchased from an affiliated company. Management fees incurred for the years ended December 31, 2001 and 2000 amounted to \$998,000 and \$2,812,517, respectively.

Due from affiliate represents the balance due from an affiliated company. There are no repayment terms nor is interest charged on the outstanding balance. At December 31, 2001, an allowance for doubtful collections equal to the outstanding balance was provided due to the financial condition of the affiliate.

A stockholder transferred marketable securities of \$717,496 to the Company as additional paid-in capital in 2000.

### **5. NET 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. At December 31, 2001, the Company had net capital of \$469,269, which was \$369,269 in excess of its required net capital of \$100,000. The Company's net capital ratio was .57 to 1.0 at December 31, 2001.

### **6. EXEMPTIVE PROVISIONS OF RULE 15c3-3**

The Company is exempt from the reporting requirements of SEC Rule 15c3-3 under Section (k)(2)(ii), which states that the provisions of this rule shall not be applicable to a broker or dealer who, as an introducing broker or dealer, clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and who promptly transmits all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of Rules 17a-3 and 17a-4, as are customarily made and kept by a clearing broker or dealer.

## 7. CREDIT FOR INCOME TAXES

The credit for income taxes for the years ended December 31, 2001 and 2000 is comprised of:

	<u>2001</u>	<u>2000</u>
Current	\$ -	\$ (3,000)
Deferred	<u>-</u>	<u>(52,000)</u>
Total	<u>\$ -</u>	<u>\$(55,000)</u>

The Company's credit for income taxes in 2001 and 2000 differs from applying the statutory U.S. federal income tax rate to the loss before income taxes primarily as a result of the state tax benefit, certain non-taxable investment income and related valuation allowance.

The major deferred tax asset (liability) items at December 31, 2001 and 2000 are as follows:

	<u>2001</u>	<u>2000</u>
Capital loss carryforwards	\$130,400	\$ 146,200
Allowance for doubtful collections	213,300	-
Net operating loss carryforwards	357,300	143,800
Unrealized gains on investments	(39,800)	(94,000)
Valuation allowance	<u>(661,200)</u>	<u>(196,000)</u>
Deferred income taxes	<u>\$ -</u>	<u>\$ -</u>

The Company recognized a deferred tax asset related to its net operating loss carryforward and established a valuation allowance for the deferred tax asset since the deferred tax asset may not be realized in the near term. The Company also recognized a valuation allowance to the extent the deferred tax asset related to its capital loss carryforwards and allowance for doubtful collections exceeded the deferred tax liability related to its unrealized gains on investments since the net deferred tax asset may not be realized in the near term.

Approximately \$898,000 of loss carryforwards are available at December 31, 2001 for federal purposes and \$790,000 for state purposes. The federal carryforwards begin to expire in 2015 and the state carryforwards begin to expire in 2010.

**8. CONCENTRATION OF CREDIT RISK**

The Company maintains substantially all of its cash and cash equivalent accounts with one investment company. Total cash and cash equivalent balances are insured up to \$100,000 by the Securities Investor Protection Corporation.

**9. CONTINGENCY**

The Company is involved in certain claims and legal proceedings in the normal course of business in which monetary damages are sought. The Company is vigorously contesting these claims. Management, after consultation with outside legal counsel, believes that the resolution of these claims will not result in any material adverse effect on the Company's financial condition.

FIRST SECURITY INVESTMENTS, INC.

COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1  
OF THE SECURITIES AND EXCHANGE COMMISSION  
AS OF DECEMBER 31, 2001

COMPUTATION OF NET CAPITAL

TOTAL STOCKHOLDERS' EQUITY QUALIFIED FOR NET CAPITAL	<u>\$ 705,412</u>
DEDUCTIONS AND/OR CHARGES:	
Nonallowable assets:	
Cash and cash equivalents	4,117
Marketable securities	60,100
Commissions receivable	4,148
Other receivables	<u>10,000</u>
Total nonallowable assets	<u>78,365</u>
Excess fidelity bond charge	<u>23,000</u>
NET CAPITAL BEFORE HAIRCUTS ON SECURITIES POSITIONS	<u>604,047</u>
HAIRCUTS ON SECURITIES:	
Trading and investment securities	69,217
State and municipal government obligations	59,065
Undue concentrations	<u>6,496</u>
Total	<u>134,778</u>
NET CAPITAL	<u>\$ 469,269</u>

COMPUTATION OF AGGREGATE INDEBTEDNESS

TOTAL AGGREGATE INDEBTEDNESS LIABILITIES:	
Commissions payable	\$ 111,868
Accounts payable	<u>155,086</u>
TOTAL AGGREGATE INDEBTEDNESS	<u>\$ 266,954</u>

COMPUTATION OF BASIC NET CAPITAL REQUIREMENTS

REGULATORY MINIMUM	<u>\$ 100,000</u>
CALCULATED MINIMUM BASED ON AGGREGATE INDEBTEDNESS	<u>\$ 17,797</u>
REQUIRED CAPITAL	<u>\$ 100,000</u>
NET CAPITAL IN EXCESS OF REQUIREMENT	<u>\$ 369,269</u>
RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	<u>.57 to 1</u>

RECONCILIATION WITH COMPANY'S COMPUTATION

INCLUDED IN PART II OF FORM X-17A-5 AS OF DECEMBER 31, 2001:	
Net capital, as reported in Company's Part II (unaudited) FOCUS report	\$ 592,177
NASD adjustments	(86,511)
Net audit adjustments	<u>(36,397)</u>
NET CAPITAL, PER ABOVE	<u>\$ 469,269</u>

See Notes to Financial Statements

**INDEPENDENT AUDITORS' REPORT  
ON INTERNAL CONTROL  
REQUIRED BY SEC RULE 17a-5  
FOR A BROKER-DEALER CLAIMING AN EXEMPTION  
FROM SEC RULE 15c3-3**

To the Stockholders of  
First Security Investments, Inc.:

In planning and performing our audit of the financial statements and additional information of First Security Investments, 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 internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company 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 and net capital under Rule 17a-3(a)(11) and for 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 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 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 conformity 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, error 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 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 stockholders, management, others within the organization, the SEC, 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.

*Parente Randolph, PC*

Wilkes-Barre, Pennsylvania  
February 14, 2002