

KY  
3/14

50  
3/15

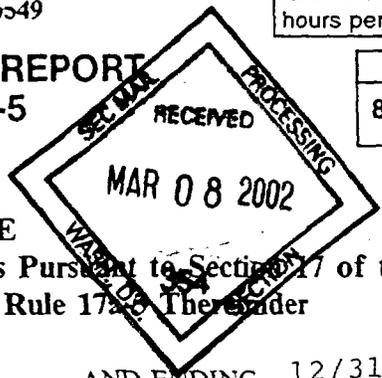
SECURITIES AND COMMISSION  
Washington, D.C. 20549

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: September 30, 1998  
Estimated average burden  
hours per response . . . 12.00

SEC FILE NUMBER  
8-14136



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 01/01/2001 AND ENDING 12/31/2001  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:  
Basil Investment Corporation

OFFICIAL USE ONLY  
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
46 Lark Drive  
(No. and Street)

Holland PA 18954  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Robert Graham (215) 355-5660  
(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

Cunningham, Porter and Phillips  
(Name — if individual, state last, first, middle name)

1077 Rydal Road, Suite 200 Rydal PA 19046  
(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 22 2002

FOR OFFICIAL USE ONLY  
THOMSON FINANCIAL

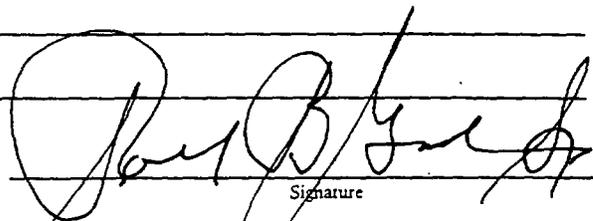
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

RC

## OATH OR AFFIRMATION

I, Robert Graham, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Basil Investment Corporation, as of December 31, 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:

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

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

  
 \_\_\_\_\_  
 Notary Public

5/27/02

Notarial Seal  
 Bernadette E. Decker, Notary Public  
 My Commission Expires Apr. 13, 2002

- This report contains (check all applicable boxes):
- (a) ~~Income Statement~~
  - (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).*

BASIL INVESTMENT CORPORATION

FINANCIAL REPORT

DECEMBER 31, 2001

2001  
12/31/01

BASIL INVESTMENT CORPORATION

TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| Independent Auditors' Report                 | 1           |
| Financial Statements                         |             |
| Statement of Financial Condition             | 2 - 3       |
| Statement of Income                          | 4           |
| Statement of Changes in Shareholders' Equity | 5           |
| Statement of Cash Flows                      | 6           |
| Notes to Financial Statements                | 7 - 9       |
| Supplementary Information                    |             |
| Net Capital Computation                      | 10          |



Cunningham,  
Porter and Phillips

Certified Public Accountants

SUITE 200 · 1077 RYDAL RD. · RYDAL, PA 19046-1793 · TEL (215) 572-7400 · FAX (215) 572-7448

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders  
Basil Investment Corporation

We have audited the accompanying statement of financial condition of Basil Investment Corporation (a subchapter S corporation) as of December 31, 2001, and the related statements of income, changes in shareholders' equity and cash flows for the year then ended. 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 in accordance with generally accepted auditing standards. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly the financial position of Basil Investment Corporation as of December 31, 2000, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on page 10 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Information on page 10 is supplementary information required by Rule 17A-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in our 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.

*Cunningham, Porter & Phillips*

CUNNINGHAM, PORTER AND PHILLIPS  
Certified Public Accountants

January 18, 2002

BASIL INVESTMENT CORPORATION  
STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2001

ASSETS

|                                   |                |                  |
|-----------------------------------|----------------|------------------|
| Cash                              |                | \$ 10,396        |
| Deposit - Trading                 |                | 27,259           |
| Commissions Receivable            |                | 12,470           |
| Investments                       |                | 4,694            |
| Prepaid Expenses                  |                | 6,178            |
| Prepaid Taxes                     |                | 200              |
| Exchange - Officer                |                | 1,000            |
| Furniture, Fixtures and Equipment | \$225,069      |                  |
| Vehicle                           | 6,341          |                  |
| Leasehold Improvements            | <u>58,371</u>  |                  |
|                                   | 289,781        |                  |
| Less: Accumulated Depreciation    | <u>217,953</u> | <u>71,828</u>    |
| <u>TOTAL ASSETS</u>               |                | <u>\$134,025</u> |

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

BASIL INVESTMENT CORPORATION  
STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2001

LIABILITIES AND SHAREHOLDERS' EQUITY

|                          |              |           |
|--------------------------|--------------|-----------|
| Commissions Payable      | \$10,283     |           |
| Accrued Expenses         | <u>7,761</u> |           |
| <u>TOTAL LIABILITIES</u> |              | \$ 18,044 |

SHAREHOLDERS' EQUITY

|   |               |                  |
|---|---------------|------------------|
| <u>Common Stock</u>                               |               |                  |
| Authorized 10,000 Shares                          |               |                  |
| No Par Value, 10,000 Shares                       |               |                  |
| Issued, and 9,208 Outstanding                     | 25,000        |                  |
| <u>Treasury Stock</u>                             |               |                  |
| 792 Shares  | (16,166)      |                  |
| <u>Additional Paid in Capital</u>                 | 12,192        |                  |
| <u>Retained Earnings</u>                          | <u>94,955</u> |                  |
| <u>TOTAL SHAREHOLDERS' EQUITY</u>                 |               | <u>115,981</u>   |
| <u>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</u> |               | <u>\$134,025</u> |

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

BASIL INVESTMENT CORPORATION

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2001

REVENUES

|                                  |              |
|----------------------------------|--------------|
| Commission Income - Mutual Funds | \$308,432    |
| Commission Income - Securities   | 90,501       |
| Other Income                     | 3,000        |
| Dividends and Interest           | <u>1,342</u> |

TOTAL REVENUES

\$403,275

EXPENSES

|                                   |              |
|-----------------------------------|--------------|
| Commission Expense - Sales Agents | 182,413      |
| Commission Expense - Officer      | 75,027       |
| Office Expenses and Supplies      | 41,096       |
| Rent                              | 36,000       |
| Part-time Services                | 35,280       |
| Telephone                         | 7,832        |
| Group Insurance                   | 23,025       |
| Depreciation                      | 12,178       |
| Advertising                       | 1,157        |
| Travel and Entertainment          | 12,542       |
| Utilities                         | 5,652        |
| Auto Expenses                     | 27,274       |
| Insurance                         | 4,657        |
| Taxes                             | (200)        |
| Postage                           | 2,837        |
| Professional Fees                 | 5,199        |
| Recruiting and Training           | 292          |
| Licenses and Fees                 | 2,195        |
| Dues and Subscriptions            | 445          |
| Maintenance                       | 8,616        |
| Other                             | <u>2,769</u> |

TOTAL EXPENSES

486,286

NET (LOSS)

\$(83,011)

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

BASIL INVESTMENT CORPORATION  
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2001

|  | <u>Common<br/>Stock</u> | <u>Treasury<br/>Stock</u> | <u>Capital Paid<br/>In Excess<br/>of Par Value</u> | <u>Retained<br/>Earnings</u> | <u>Total</u>     |
|--|-------------------------|---------------------------|--|------------------------------|------------------|
| Balance, January 1, 2001                           | \$25,000                | \$ (7,833)                | \$12,192   | \$177,966                    | \$207,325        |
| Purchase of Company's Stock                        |                         | (8,333)                   |  |                              | (8,333)          |
| Net (Loss) for the Year<br>Ended December 31, 2001 | _____                   | _____                     | _____  | (83,011)                     | (83,011)         |
| Balance, December 31, 2001                         | <u>\$25,000</u>         | <u>\$(16,166)</u>         | <u>\$12,192</u>                                    | <u>\$ 94,955</u>             | <u>\$115,981</u> |

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

BASIL INVESTMENT CORPORATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2001

CASH FLOWS FROM OPERATING ACTIVITIES

|  |            |
|--|------------|
| Net (Loss)                                       | \$(83,011) |
| Adjustments to Reconcile Net (Loss) to Net       |            |
| Cash Provided By (Used By) Operating Activities: |            |
| Depreciation                                     | 12,178     |
| Changes in Operating Assets and Liabilities      |            |
| (Increase) Decrease In:                          |            |
| Commissions Receivable                           | 45,227     |
| Prepaid Expenses                                 | (143)      |
| Prepaid Taxes                                    | 100        |
| Exchange - Officer                               | 1,400      |
| Increase (Decrease) In:                          |            |
| Commissions Payable                              | (13,444)   |
| Accrued Expenses                                 | <u>56</u>  |

NET CASH (USED BY) OPERATING ACTIVITIES \$(37,637)

CASH FLOWS FROM INVESTING ACTIVITIES

|                                    |              |
|------------------------------------|--------------|
| Purchase of Property and Equipment | (2,548)      |
| Net Decrease in Investments        | 39,579       |
| Net (Increase) in Deposits         | <u>(922)</u> |

NET CASH PROVIDED BY INVESTING ACTIVITIES 36,109

CASH FLOWS FROM FINANCING ACTIVITIES

|                                    |                |
|------------------------------------|----------------|
| Purchase of Company's Common Stock | <u>(8,333)</u> |
|------------------------------------|----------------|

NET (DECREASE) IN CASH (9,861)

CASH - JANUARY 1, 2001 20,257

CASH - DECEMBER 31, 2001 \$10,396

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

BASIL INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Basil Investment Company was incorporated on July 23, 1967, and operates as a registered broker-dealer in Holland, Pennsylvania dealing primarily in the sales of investment company shares and insurance products.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash is defined as demand deposits with financial institutions.

Commissions Receivable

Commissions receivable are commissions due from mutual funds and insurance companies and are collectible within thirty days of December 31, 2001.

Investments

The Company classifies its marketable securities, which consist of investments in marketable equity securities and a dollar per share mutual fund, as "Available for Sale." Securities classified as "Available for Sale" are carried in the financial statements at fair value. At December 31, 2001, fair value equals the cost of the securities.

Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of the assets are capitalized.

Depreciation is computed for financial statement purposes on a straight-line basis over the estimated useful life of the related assets.

When properties are retired or sold, the asset values and related reserves are eliminated from the accounts and any resultant gain or loss is included in earnings.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

BASIL INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Advertising

The Company expenses advertising as incurred. Advertising expense was \$1,157 for the year ended December 31, 2001.

2. DEPOSITS

The Company paid a deposit under a one year agreement with a clearing services company. The initial \$25,000 deposit is fully refundable upon the termination of the agreement. Interest on the deposit is paid monthly to the Company.

3. INCOME TAXES

The Company has elected by unanimous consent of its shareholders to be taxed under the provisions of subchapter S of the Internal Revenue Code and the Pennsylvania State Revenue Code. Under those provisions, the Company does not pay federal or state corporate income taxes on its taxable income. Instead, the shareholders are liable for individual federal and state income taxes on their respective shares of the Company's taxable income.

4. NET CAPITAL

As a registered broker-dealer, the Company is subject to the requirements of Rule 15c3-1 under the Securities Exchange Act of 1934. The rule prohibits a broker-dealer's "aggregate indebtedness" to exceed fifteen times "net capital" as those items are defined. On December 31, 2001, the Company's "aggregate indebtedness" and "net capital" were \$18,043 and \$34,600, respectively, a ratio of .52 to 1. The Company's required capital as of December 31, 2001, was \$5,000.

The Company has at all times during the past year been in compliance with the requirements of Rule 15c3-1.

The Company has available at its office a copy of their most recent annual report Form X-17A-5 Focus Report - Part IIA audited and certified by independent public accountants to be examined or copied.

5. RELATED PARTY TRANSACTIONS

The Company leases its business facility on a month to month basis from the Company's principal shareholders. These lease payments totaled \$36,000 for the year ended December 31, 2001.

Substantially all commissions paid during 2001, and payable as of December 31, 2001, were to shareholders.

BASIL INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

6. LEASES

The Company leases an automobile under a 36 month lease effective October 8, 1999. Total rental expense for this operating lease was \$16,772 for the year ending December 31, 2001. The non-cancellable lease contains a milage allowance that if exceeded would require additional payments to be made based upon the excess milage.

Future minimum lease payments under this lease are as follows:

|                     |                 |
|---------------------|-----------------|
| 2002                | \$12,578        |
| 2003 and Thereafter | <u>    0</u>    |
|                     | <u>\$12,578</u> |

7. TREASURY STOCK

During the year the Company purchased 396 shares of stock.

SUPPLEMENTARY INFORMATION

BASIL INVESTMENT CORPORATION

SUPPLEMENTARY INFORMATION

NET CAPITAL COMPUTATION

DECEMBER 31, 2001

|   |              |                  |
|---|--------------|------------------|
| <u>SHAREHOLDERS' EQUITY</u>                                   |              | \$115,981        |
| <u>NON-ALLOWABLE ASSETS</u>                                   |              |                  |
| Net Property and Equipment                                    | \$71,828     |                  |
| Prepaid Expenses  | 6,178        |                  |
| Prepaid Taxes   | 200          |                  |
| Exchange - Officer  | 1,000        |                  |
| Commissions Receivable  | <u>1,652</u> |                  |
| <u>TOTAL NON-ALLOWABLE ASSETS</u>                             |              | <u>80,858</u>    |
| <u>NET CAPITAL BEFORE HAIRCUT<br/>ON SECURITIES POSITIONS</u> |              | 35,123           |
| <u>HAIRCUTS</u>   |              | <u>523</u>       |
| <u>NET CAPITAL</u>  |              | <u>\$ 34,600</u> |
| <u>AGGREGATE INDEBTEDNESS</u>                                 |              | <u>\$ 18,044</u> |
| <u>MINIMUM NET CAPITAL REQUIRED</u>                           |              | <u>\$ 5,000</u>  |
| <u>EXCESS NET CAPITAL AT 1,000 PERCENT</u>                    |              | <u>\$ 32,796</u> |
| <u>RATIO: AGGREGATE INDEBTEDNESS TO NET CAPITAL</u>           |              | <u>.52</u>       |

Statement Pursuant to Paragraph (d)(4) of Rule 17a-5

There are no material differences between this computation of net capital pursuant to Rule 15c3-1 and the corresponding computation prepared and included in the Company's unaudited Part II Focus Report filing as of the same date.

# FOCUS REPORT

FORM  
X-17A-5

(Financial and Operational Combined Uniform Single Report)

## Part IIA Quarterly 17a-5(a)

INFORMATION REQUIRED OF BROKERS AND DEALERS PURSUANT TO RULE 17

### COVER

Select a filing method:

Basic  Alternate  [0011]

Name of Broker Dealer: BASIL INVESTMENT CORPORATION [0013] SEC File Number: 8- 14136 [0014]  
Address of Principal Place of Business: P.O. BOX 1776 [0020]  
RICHBORO PA 18954 [0021] [0022] [0023] Firm ID: 1188 [0015]

For Period Beginning \_\_\_\_\_ [0024] And Ending \_\_\_\_\_ [0025]

Name and telephone number of person to contact in regard to this report:

Name: ELIZABETH R. GRAHAM [0030] Phone: 215-355-5660 [0031]

Name(s) of subsidiaries or affiliates consolidated in this report:

Name: \_\_\_\_\_ [0032] Phone: \_\_\_\_\_ [0033]

Name: \_\_\_\_\_ [0034] Phone: \_\_\_\_\_ [0035]

Name: \_\_\_\_\_ [0036] Phone: \_\_\_\_\_ [0037]

Name: \_\_\_\_\_ [0038] Phone: \_\_\_\_\_ [0039]

Does respondent carry its own customer accounts? Yes  [0040] No  [0041]

Check here if respondent is filing an audited report  [0042]

# ASSETS

|  | Consolidated [0198] | Unconsolidated [0199] |                             |  |
|--|---------------------|-----------------------|-----------------------------|--|
|  |                     |                       | Allowable                   | Non-Allowable                                  |
|  |                     |                       |                             |  |
|  |                     |                       |                             | Total  |
| 1. Cash  |                     |                       | <u>10,396</u><br>[0200]     | <u>10,396</u><br>[0750]                        |
| 2. Receivables from brokers or dealers:  |                     |                       |                             |  |
| A. Clearance account   |                     |                       | <u>          </u><br>[0295] |  |
| B. Other   |                     |                       | <u>          </u><br>[0300] | <u>          </u><br>[0550] [0810]             |
| 3. Receivables from non-customers  |                     |                       | <u>10,818</u><br>[0355]     | <u>1,652</u><br>[0600] <u>12,470</u><br>[0830] |
| 4. Securities and spot commodities owned, at market value:   |                     |                       |                             |  |
| A. Exempted securities   |                     |                       | <u>          </u><br>[0418] |  |
| B. Debt securities   |                     |                       | <u>          </u><br>[0419] |  |
| C. Options   |                     |                       | <u>          </u><br>[0420] |  |
| D. Other securities  |                     |                       | <u>4,694</u><br>[0424]      |  |
| E. Spot commodities  |                     |                       | <u>          </u><br>[0430] | <u>4,694</u><br>[0850]                         |
| 5. Securities and/or other investments not readily marketable:   |                     |                       |                             |  |
| A. At cost   |                     |                       | <u>          </u><br>[0130] |  |
| B. At estimated fair value   |                     |                       | <u>          </u><br>[0440] | <u>          </u><br>[0610] [0860]             |
| 6. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value: |                     |                       | <u>          </u><br>[0460] | <u>          </u><br>[0630] [0880]             |
| A. Exempted securities   |                     |                       | <u>          </u><br>[0150] |  |





C. Pursuant to secured demand note collateral agreements:

|    |                |        |        |
|----|----------------|--------|--------|
|    |                | [1420] | [1730] |
| 1. | from outsiders |        |        |

|    |  |  |  |
|----|--|--|--|
|    | [1000]                                       |  |  |
| 2. | Includes equity subordination (15c3-1(d)) of |  |  |

|    |  |  |  |
|----|--|--|--|
|    | [1010]   |  |  |
| D. | Exchange memberships contributed for use of company, at market value |  |  |

|    |  |  |  |
|----|--|--|--|
| E. | Accounts and other borrowings not qualified for net capital purposes |  |  |
|----|--|--|--|

|     |                          |               |               |
|-----|--------------------------|---------------|---------------|
|     | [1220]                   | [1430]        | [1740]        |
| 20. | <b>TOTAL LIABILITIES</b> | <u>18,044</u> | <u>18,044</u> |
|     | [1230]                   | [1440]        | [1750]        |
|     |                          | <u>18,044</u> | <u>18,044</u> |
|     |                          | [1450]        | [1760]        |

**Ownership Equity**

|   | <b>Total</b>          |
|---|-----------------------|
| 21. Sole proprietorship                   | [1770]                |
| 22. Partnership (limited partners [1020]) | [1780]                |
| 23. Corporations:                         |                       |
| A. Preferred stock                        | [1791]                |
| B. Common stock                           | 25,000 [1792]         |
| C. Additional paid-in capital             | 12,192 [1793]         |
| D. Retained earnings                      | 94,955 [1794]         |
| E. Total                                  | <u>132,147</u> [1795] |
| F. Less capital stock in treasury         | (16,166) [1796]       |

|     |  |         |        |
|-----|--|---------|--------|
| 24. | TOTAL OWNERSHIP EQUITY                 | 115,981 | [1800] |
| 25. | TOTAL LIABILITIES AND OWNERSHIP EQUITY | 134,025 | [1810] |



|     |                              |                |        |
|-----|------------------------------|----------------|--------|
| 14. | Regulatory fees and expenses | <u>170,541</u> | [4195] |
| 15. | Other expenses               | <u>486,286</u> | [4100] |
| 16. | Total expenses               | <u>486,286</u> | [4200] |

**NET INCOME**

|     |  |                   |        |
|-----|--|-------------------|--------|
| 17. | Net Income(loss) before Federal Income taxes and items below (Item 9 less Item 16) | <u>(83,011)</u>   | [4210] |
| 18. | Provision for Federal Income taxes (for parent only)                               | <u>          </u> | [4220] |
| 19. | Equity in earnings (losses) of unconsolidated subsidiaries not included above      | <u>          </u> | [4222] |
|     | a. After Federal income taxes of   | <u>          </u> | [4238] |
| 20. | Extraordinary gains (losses)   | <u>          </u> | [4224] |
|     | a. After Federal income taxes of   | <u>          </u> | [4239] |
| 21. | Cumulative effect of changes in accounting principles                              | <u>          </u> | [4225] |
| 22. | Net income (loss) after Federal income taxes and extraordinary items               | <u>(83,011)</u>   | [4230] |

**MONTHLY INCOME**

|     |   |                |        |
|-----|---|----------------|--------|
| 23. | Income (current monthly only) before provision for Federal income taxes and extraordinary items | <u>(8,580)</u> | [4211] |
|-----|---|----------------|--------|

# EXEMPTIVE PROVISIONS

25. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based

- A. (k) (1)—Limited business (mutual funds and/or variable annuities only)  [4550]
- B. (k) (2)(A)—"Special Account for the Exclusive Benefit of customers" maintained  [4560]
- C. (k) (2)(B)—All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm(s)  [4570]

| Clearing Firm SEC#s       | Name                                       | Product Code            |
|---------------------------|--|-------------------------|
| 8- <u>1523</u><br>[4335A] | <u>FIRST SOUTHWEST COMPANY</u><br>[4335A2] | <u>Equities</u> [4335B] |
| 8- <u>1523</u><br>[4335C] | <u>FIRST SOUTHWEST COMPANY</u><br>[4335C2] | <u>Options</u> [4335D]  |
| 8- _____<br>[4335E]       | _____ [4335E2]                             | _____ [4335F]           |
| 8- _____<br>[4335G]       | _____ [4335G2]                             | _____ [4335H]           |
| 8- _____<br>[4335I]       | _____ [4335I2]                             | _____ [4335J]           |

- D. (k) (3)—Exempted by order of the Commission  [4580]



|     |                                    |         |         |        |
|-----|------------------------------------|---------|---------|--------|
| A.  | Contractual securities commitments |         | [3660]  |        |
| B.  | Subordinated securities borrowings |         | [3670]  |        |
| C.  | Trading and investment securities: |         |         |        |
| 1.  | Exempted securities                |         | [3735]  |        |
| 2.  | Debt securities                    |         | [3733]  |        |
| 3.  | Options                            |         | [3730]  |        |
| 4.  | Other securities                   | 523     | [3734]  |        |
| D.  | Undue Concentration                |         | [3650]  |        |
| E.  | Other (List)                       |         |         |        |
|     |                                    | [3736A] | [3736B] |        |
|     |                                    | [3736C] | [3736D] |        |
|     |                                    | [3736E] | [3736F] |        |
|     |                                    |         |         | (523)  |
|     |                                    |         | [3736]  | [3740] |
| 10. | Net Capital                        |         | 34,600  | [3750] |

### COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

|               |   |        |        |
|---------------|---|--------|--------|
| <b>Part A</b> |   |        |        |
| 11.           | Minimum net capital required (6-2/3% of line 19)  | 1,202  | [3756] |
| 12.           | Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with <u>Note(A)</u> | 5,000  | [3758] |
| 13.           | Net capital requirement (greater of line 11 or 12)  | 5,000  | [3760] |
| 14.           | Excess net capital (line 10 less 13)  | 29,600 | [3770] |
| 15.           | Excess net capital at 1000% (line 10 less 10% of line 19)   | 32,796 | [3780] |

### COMPUTATION OF AGGREGATE INDEBTEDNESS



## SCHEDULED WITHDRAWALS

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.

| <u>Type of Proposed Withdrawal or Accrual</u> | Name of Lender or Contributor | Insider or Outsider | Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities) | Withdrawal or Expect Maturity Date to (MMDDYYYY) Renew |
|---|-------------------------------|---------------------|---|--|
| — [4600]                                      |                               | [4601]              | [4602]  | [4603] [4604] [4605]                                   |
| — [4610]                                      |                               | [4611]              | [4612]  | [4613] [4614] [4615]                                   |
| — [4620]                                      |                               | [4621]              | [4622]  | [4623] [4624] [4625]                                   |
| — [4630]                                      |                               | [4631]              | [4632]  | [4633] [4634] [4635]                                   |
| — [4640]                                      |                               | [4641]              | [4642]  | [4643] [4644] [4645]                                   |
| — [4650]                                      |                               | [4651]              | [4652]  | [4653] [4654] [4655]                                   |
| — [4660]                                      |                               | [4661]              | [4662]  | [4663] [4664] [4665]                                   |
| — [4670]                                      |                               | [4671]              | [4672]  | [4673] [4674] [4675]                                   |
| — [4680]                                      |                               | [4681]              | [4682]  | [4683] [4684] [4685]                                   |
| — [4690]                                      |                               | [4691]              | [4692]  | [4693] [4694] [4695]                                   |
|   |                               | TOTAL               | 0   |  |
|   |                               | \$                  | [4699]  |  |

Omit Pennies

**Instructions** Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c)(2)(iv)), which could be required by the lender on demand or in less than six months.

| Withdrawal Code | Description                  |
|-----------------|------------------------------|
| 1               | Equity Capital               |
| 2               | Subordinated Liabilities     |
| 3               | Accruals                     |
| 4               | 15c3-1(c)(2)(iv) Liabilities |

# STATEMENT OF CHANGES

## STATEMENT OF CHANGES IN OWNERSHIP EQUITY (SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)

|    |   |                   |                   |        |
|----|---|-------------------|-------------------|--------|
| 1. | Balance, beginning of period                  |                   | 207,325           |        |
|    |   |                   | <u>          </u> | [4240] |
| A. | Net income (loss)                             |                   | (83,011)          |        |
|    |   |                   | <u>          </u> | [4250] |
| B. | Additions (includes non-conforming capital of | <u>          </u> |                   |        |
|    |   | [4262] )          |                   | [4260] |
| C. | Deductions (includes non-conforming capital   | <u>          </u> | (8,333)           |        |
|    | of  | [4272] )          |                   | [4270] |
| 2. | Balance, end of period (From item 1800)       |                   | 115,981           |        |
|    |   |                   | <u>          </u> | [4290] |

## STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

|    |   |  |                   |        |
|----|---|--|-------------------|--------|
| 3. | Balance, beginning of period            |  | <u>          </u> | [4300] |
| A. | Increases                               |  | <u>          </u> | [4310] |
| B. | Decreases                               |  | <u>          </u> | [4320] |
| 4. | Balance, end of period (From item 3520) |  | <u>          </u> | [4330] |



**Cunningham,  
Porter and Phillips**

Certified Public Accountants

---

SUITE 200 · 1077 RYDAL RD. · RYDAL, PA 19046-1793 · TEL (215) 572-7400 · FAX (215) 572-7448

Board of Directors and Shareholders  
Basil Investment Corporation

In planning and performing our audit of the financial statements of Basil Investment Corporation for the year ended December 31, 2001, we considered its internal control 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, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by Basil Investment Corporation that we considered relevant to the objectives stated in rule 17a-5(g), (1) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and (2) in complying with the requirements for prompt payment for securities under section 8 of regulation T of the Board of Governors of the Federal Reserve System. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13 because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining the 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 the internal control policies and procedures 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 Commission's above-mentioned objectives. Two of the objectives of the 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 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 any internal control or the practices and procedures referred to above, errors or irregularities 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 or that the degree of compliance with the policies or procedures may deteriorate.

Our consideration of the internal control would not necessarily disclose all matters of internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material 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 the internal control 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 Commission 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 Securities and Exchange Commission and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.



CUNNINGHAM, PORTER AND PHILLIPS  
Certified Public Accountants

January 18, 2002

BASIL INVESTMENT CORPORATION

REPORT CONTAINING FINANCIAL STATEMENTS

AND SUPPORTING SCHEDULE

for the year ended December 31, 2001

AND

ACCOUNTANTS' REPORT THEREON PURSUANT TO RULE 17a-5

OF THE SECURITIES AND EXCHANGE COMMISSION