

Rec'd  
3/14/02  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549



02021499

SEC FILE NUMBER  
8-38761

ANNUAL AUDITED REPORT

REC'D S.E.C.  
MAR 14 2002

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

3/29/02

REPORT FOR THE PERIOD BEGINNING 1/1/01 AND ENDING 12/31/01  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: PILOT CAPITAL CORPORATION

OFFICIAL USE ONLY  
FIRM ID. NO.

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

444 Madison Avenue, Suite 2103

(No. and Street)

New York

NY

10990

(City)

(State)

(Zip Code)

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

Robert McCabe

212-888-2200

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

BORGMEIER & ALARIO, PLLC

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

28 Railroad Avenue

Warwick

NY

10990

(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 04 2002  
THOMSON  
FINANCIAL

FOR OFFICIAL USE ONLY

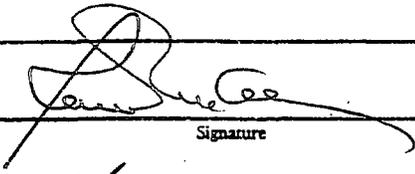
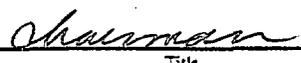
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

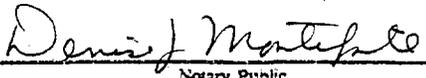
OATH OR AFFIRMATION

I, ROBERT MC CABE, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of PILOT CAPITAL CORPORATION, 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:

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

Denise J. Monteforte  
Notary Public, State of New York  
01M05053971  
Qualified in Orange County  
Commission Expires Jan. 2, 2006

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

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

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

- (a) Facing page.
- (b) ~~Statements of Financial Condition~~ Balance Sheet
- (c) Statement of Income (Loss) and Accumulated Deficit
- (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.
- Independent Auditor's Supplementary Report on Internal Control

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

**PILOT CAPITAL CORPORATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2001**

**PILOT CAPITAL CORPORATION**

**Contents to Financial Statements**

**December 31, 2001**

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for the year ended December 31, 2001.....5

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Internal Control.....15-17

# BORGMEIER & ALARIO, PLLC

Certified Public Accountants

28 Railroad Avenue  
Warwick, New York 10990  
(845) 986-8717  
Fax (845) 986-1771

82 Newark Pompton Tpke  
Riverdale, NJ 07457  
(973) 835-8549  
E-mail : cpa@warwick.net

## Independent Auditor's Report

The Board of Directors  
Pilot Capital Corporation  
New York, New York

We have audited the accompanying balance sheet of Pilot Capital Corporation at December 31, 2001 and the related statements of Income (Loss) and accumulated deficit 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 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 audit provides 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 Pilot Capital Corporation as of December 31, 2001 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional information 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 of the Securities and Exchange Commission. Such additional information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Warwick, New York.  
February 5, 2002

*Borgmeier & Alario, PLLC*

**Pilot Capital Corporation**  
**Balance Sheet**  
**December 31, 2001**

**ASSETS**

**CURRENT ASSETS:**

|                               |                |
|-------------------------------|----------------|
| Cash and Cash Equivalents     | \$ 86,460      |
| Marketable Securities         | 3,300          |
| Accounts Receivable-Trade     | .              |
| Shareholders' Loan Receivable | 15,862         |
| Prepaid Expenses              | 517            |
| <b>TOTAL CURRENT ASSETS</b>   | <u>106,139</u> |

**FURNITURE AND EQUIPMENT, AT COST**

|                                    |                |
|------------------------------------|----------------|
| Office Furniture                   | 26,470         |
| Office Equipment                   | 100,865        |
|                                    | <u>127,335</u> |
| Less: Accumulated Depreciation     | 101,310        |
| <b>NET FURNITURE AND EQUIPMENT</b> | <u>26,025</u>  |

**OTHER ASSETS:**

|                                |                          |
|--------------------------------|--------------------------|
| Investment in restricted stock | 85,000                   |
| Security Deposits              | 6,642                    |
|                                | <u>91,642</u>            |
| <b>TOTAL ASSETS</b>            | <u><u>\$ 223,806</u></u> |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**CURRENT LIABILITIES**

|                                       |               |
|---------------------------------------|---------------|
| Accounts Payable and Accrued Expenses | \$ 23,670     |
| Franchise tax payable                 | 400           |
| <b>Total current liabilities</b>      | <u>24,070</u> |

Commitment (Note 3)

|                          |               |
|--------------------------|---------------|
| <b>TOTAL LIABILITIES</b> | <u>24,070</u> |
|--------------------------|---------------|

**STOCKHOLDERS' EQUITY**

|  |                |
|--|----------------|
| Common Stock, \$1 Par Value, 1000 Shares     |                |
| Authorized 100 Shares Issued and Outstanding | 100            |
| Additional Paid-In Capital                   | 1,907,770      |
| Accumulated Deficit                          | (1,708,134)    |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>            | <u>199,736</u> |

|   |                          |
|---|--------------------------|
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> | <u><u>\$ 223,806</u></u> |
|---|--------------------------|

See notes to financial statements

Borgmeier & Alario, PLLC

**Pilot Capital Corporation**  
**Statement of Income (Loss) and Accumulated Deficit**  
**For the year ended December 31, 2001**

**REVENUES:**

|                    |    |              |
|--------------------|----|--------------|
| Consulting Fees    | \$ |              |
| Interest and Other |    | 1,034        |
|                    |    | <u>1,034</u> |

**Expenses:**

|  |                              |
|--|------------------------------|
| Employee Compensation and Related Benefits | 70,213                       |
| Occupancy expenses                         | 49,636                       |
| Telephone & Internet                       | 18,855                       |
| Depreciation                               | 16,808                       |
| Other General and Administrative Expenses  | 82,666                       |
| Total Expenses                             | <u>238,178</u>               |
| Loss Before Provision for Income Taxes     | (237,144)                    |
| Provision for Income Taxes (Note 2)        | 537                          |
| Net Loss                                   | (237,681)                    |
| Accumulated Deficit at Beginning of Year   | <u>(1,470,453)</u>           |
| Accumulated Deficit at End of Year         | <u><u>\$ (1,708,134)</u></u> |

See notes to financial statements

Borgmeier & Alario, PLLC  
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**Pilot Capital Corporation**  
**Statement of Cash Flows**  
**For the year ended December 31, 2001**

**Cash Flows From Operating Activities:**

|   |                  |
|---|------------------|
| Net Loss  | \$(237,681)      |
| Adjustments to reconcile net loss to net cash used by operating activities: |                  |
| Depreciation  | 16,808           |
| <br><b><u>Changes in Operating Assets and Liabilities:</u></b>              |                  |
| Increase in prepaid expenses  | (517)            |
| Increase in accounts payable and accrued expenses                           | 10,990           |
| Decrease in payroll taxes payable   | <u>(4,766)</u>   |
| Total Adjustments   | <u>22,515</u>    |
| Net Cash Used In Operating Activities                                       | <u>(215,166)</u> |

**Cash Flows From Investing Activities:**

|   |                 |
|---|-----------------|
| Purchases of office Furniture and Equipment | (2,046)         |
| Investment in Securities                    |                 |
| Loan to shareholder                         | <u>(9,775)</u>  |
| Net cash from investing activities          | <u>(11,821)</u> |

**Cash Flows From Financing Activities:**

|  |                         |
|--|-------------------------|
| Contributions to paid in capital               | <u>271,000</u>          |
| Net Increase in cash                           | 44,013                  |
| Cash and Cash Equivalents at beginning of year | <u>42,447</u>           |
| Cash and Cash Equivalents at end of year       | <u><u>\$ 86,460</u></u> |

**Supplemental Information:**

|                   |  |       |
|-------------------|--|-------|
| Income taxes paid |  | \$400 |
| Interest paid     |  | Nil   |

See notes to financial statements

PILOT CAPITAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS

December 31, 2001

Note 1: Summary of Significant Accounting Policies

A. Organization

Pilot Capital Corporation (the "Company") was incorporated in the State of New York in April 1987.

In November 1987, the company was granted by the Securities and Exchange Commission ("SEC") registration as a broker/dealer pursuant to Section 15(b) of the Securities Exchange Act of 1934. In May 1988, the Company's membership in the National Association of Securities and dealers was approved.

B. Nature of business

The Company's business is to provide merger and acquisition consulting services to buyers and sellers of businesses, as well as provide corporate finance consulting services.

C. Basis of Financial Statement Preparation

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 at the reporting period. Actual results could differ from those estimates.

D. Revenue recognition

The company recognizes consulting revenue as services are performed in accordance with the terms of the related contracts.

E. Property and Equipment

All property, plant and equipment is recorded at cost and depreciated over their estimated useful lives, using the straight-line method. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the results of operations. Repairs and maintenance charges, which do not increase the useful lives of the assets, are charged to operations as incurred. Depreciation expense for the year ended December 31, 2001, amounted to \$ 16,808.

PILOT CAPITAL CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

F. Cash equivalents

The company considers all highly liquid financial instruments with an original maturity of three months or less to be cash equivalents.

Note 2: Income taxes

The company has elected to be treated as a Subchapter S Corporation for Federal and New York State income tax purposes. Accordingly, net income or loss passes through directly to its stockholders and no provision or (benefit) for federal and New York State income taxes, other than a minimum amount due New York State under Subchapter S status, has been made in the accompanying financial statements. New York City does not recognize Subchapter S status. The accompanying financial statements reflect a provision based on minimum taxes payable to New York State and City for the year ended December 31, 2001.

Note 3: Commitment

The Company is obligated under a non-cancelable operating lease on its office space. The extended lease expired in October 31, 2001. Effective November 1, 2001 the lease has been amended so that the term now ends on October 31, 2003. In 2001, \$49,636 in rent expense has been included in occupancy costs.

The future minimum lease payments are as follows:

| <u>Year Ending</u>              | <u>Base Rent Payable</u> |
|---------------------------------|--------------------------|
| 12/31/02                        | \$ 69,588                |
| 12/31/03                        | 59,190                   |
| Thereafter                      | <u>0</u>                 |
| Total Future<br>Lease Payments: | <u>\$ 128,778</u>        |

PILOT CAPITAL CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

Note 4: Capital requirements

The Company is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires that aggregate indebtedness (as defined) shall not exceed fifteen times net capital (as defined). The Company is also required to maintain minimum net capital of \$5,000. At December 31, 2001 the Company's net capital (as defined) was approximately \$63,000 or \$58,000 in excess of the required net capital, and the Company' aggregate indebtedness-to-net-capital ratio was .38 to 1.

Note 5: Changes in Stockholders' Equity:

During 2001 the 100 percent shareholder made additional contributions to paid-in-capital. The stockholder will continue to make additional contributions as necessary in order to meet and maintain capital requirements and to continue as a going concern. The contributions amounted to \$ 271,000 in 2001.

Note 6: Investment in Marketable Securities:

The company records unrealized gains and losses on marketable securities available for in sale in the stockholder's equity section of its balance sheet as "accumulated other comprehensive income" Book value represents tax basis. Included in securities available for sale are as follows:

A: Investment in Restricted Stock:

In 1999, the company provided consulting services to a client in exchange for 10,000 shares of the client's restricted stock, at 10% of fair market value. As provided in APB 29, the client accounted for this transaction at fair market value. The fair market value of stock received was \$85,000. As of December 31, 2001 the fair market value was unchanged.

B: Investment in Warrants (\$3,300) with a cost equal to the fair market value.

ADDITIONAL INFORMATION

FINANCIAL AND OPERATION COMBINED UNIFORM SINGLE REPORT  
PART IIA

BOOKER OR DEALER Pilot Capital Corporation

as of 12/31/01

COMPUTATION OF NET CAPITAL

|  |             |      |
|--|-------------|------|
| Total ownership equity from Statement of Financial Condition.....                                    | \$ 199,737  | 3480 |
| Product ownership equity not allowable for Net Capital.....  | 19          | 3490 |
| Total ownership equity qualified for Net Capital.....  | 199,737     | 3500 |
| Add:   |             |      |
| Liabilities subordinated to claims of general creditors allowable in computation of net capital..... |             | 3520 |
| B. Other (deductions) or allowable credits (List).....   |             | 3525 |
| Total capital and allowable subordinated liabilities.....  | \$          | 3530 |
| Deductions and/or charges:   |             |      |
| Total nonallowable assets from Statement of Financial Condition (Notes B and C).....                 | \$ *136,829 | 3540 |
| B. Secured demand note deficiency.....   |             | 3590 |
| C. Commodity futures contracts and spot commodities-proprietary capital charges.....                 |             | 3600 |
| D. Other deductions and/or charges.....  |             | 3610 |
| Other additions and/or allowable credits (List).....   |             | 3630 |
| Net capital before haircuts on securities positions.....   | \$ 62,908   | 3640 |
| Haircuts on securities (computed, where applicable, pursuant to 15c3-1 (f)):                         |             |      |
| Contractual securities commitments.....  | \$          | 3660 |
| Subordinated securities borrowings.....  |             | 3670 |
| C. Trading and investment securities:  |             |      |
| 1. Exempted securities.....  | \$          | 3735 |
| 2. Debt securities.....  |             | 3733 |
| 3. Options.....  |             | 3730 |
| 4. Other securities.....   |             | 3734 |
| Undue Concentration.....   |             | 3650 |
| Other (List).....  |             | 3736 |
| Net Capital.....   | \$ 62,908   | 3750 |

OMIT PENNIES

\* See Schedule One

PILOT CAPITAL CORPORATION  
STATEMENT OF ASSETS DEEMED NOT ALLOWABLE  
IN COMPUTING NET CAPITAL UNDER RULE 15c3-1

December 31, 2001

|   |                   |
|---|-------------------|
| Shareholders' Loan Receivable   | \$ 15,862         |
| Investment in Restricted Stock  | 85,000            |
| Investment in Warrants  | 3,300             |
| Office Furniture And Equipment, At Cost, Net Of<br>Accumulated Depreciation | 26,025            |
| Security deposit  | <u>6,642</u>      |
| Total Assets Deemed Not allowable   | <u>\$ 136,829</u> |

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART IIA**

**ROKER OR DEALER**

as of 12/31/01

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

|  |    |        |      |
|--|----|--------|------|
| 1. Minimum net capital required (6-2/3% of line 19)  | \$ | 1,605  | 3756 |
| 2. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A) | \$ | 5,000  | 3758 |
| 3. Net capital requirement (greater of line 11 or 12)  | \$ | 5,000  | 3760 |
| 4. Excess net capital (line 10 less 13)  | \$ | 57,908 | 3770 |
| 5. Excess net capital at 1000% (line 10 less 10% of line 19)   | \$ |        | 3780 |

**COMPUTATION OF AGGREGATE INDEBTEDNESS**

|  |    |        |      |
|--|----|--------|------|
| 16. Total A.L. liabilities from Statement of Financial Condition                         | \$ | 24,070 | 3790 |
| 17. Add:   |    |        |      |
| A. Drafts for immediate credit   | \$ | 3800   |      |
| B. Market value of securities borrowed for which no equivalent value is paid or credited | \$ | 3810   |      |
| C. Other unrecorded amounts (List)   | \$ | 3820   | 3830 |
| 19. Total aggregate indebtedness   | \$ | 24,070 | 3840 |
| 20. Percentage of aggregate indebtedness to net capital (line 19 ÷ by line 10)           | %  | 38     | 3850 |
| 21. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1 (d)  | %  | 38     | 3860 |

**COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT**

**Part B**

|   |    |  |      |
|---|----|--|------|
| 22. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debts | \$ |  | 3870 |
| 23. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)   | \$ |  | 3880 |
| 24. Net capital requirement (greater of line 22 or 23)  | \$ |  | 3760 |
| 25. Excess net capital (line 10 less 24)  | \$ |  | 3910 |
| 26. Net capital in excess of:<br>5% of combined aggregate debit items or \$120,000  | \$ |  | 3920 |

OMIT PENNIES

There were no material differences between the above computations and the corresponding unaudited Part II A Filing.

**NOTES:**  
The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:

1. Minimum dollar net capital requirement, or
2. 6-2/3% of aggregate indebtedness or 2% of aggregate debts if alternative method is used.

(B) Do not deduct the value of securities borrowed under subordination agreements or secured demand note covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.

(C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART IIA**

ROKER OR DEALER

PILOT CAPITAL CORPORATION

as of 12/31/01

**Exemptive Provision Under Rule 15c3-3**

If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based (check one only)

- A. (k) (1)—\$2,500 capital category as per Rule 15c3-1 (Limited Business)  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 Y  4570  
4335  4570
- D. (k) (3)—Exempted by order of the Commission  4580

**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.**

Type of Proposed withdrawal or Accrual  
See below for code to enter

| Type of Proposed withdrawal or Accrual | Name of Lender or Contributor | Insider or Outsider? (In or Out) | Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities) | (MMDDYY) Withdrawal or Maturity Date | Expect to Renew (yes or no) |
|--|-------------------------------|----------------------------------|---|--------------------------------------|-----------------------------|
| 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 \$ 4899

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

SUPPLEMENTARY REPORT OF INDEPENDENT AUDITOR

INDEPENDENT AUDITORS' SUPPLEMENTARY REPORT  
ON INTERNAL CONTROL STRUCTURE  
REQUIRED BY SEC RULE 17 A-5

The Board of Directors  
Pilot Capital Corporation

In planning and performing our audit of the financial statements of Pilot Capital Corporation for the year ended December 31, 2001, we considered its internal control structure, including procedures for safeguarding securities, in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

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 Pilot Capital Corporation 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(11) and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3. 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 or 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, because the Company does not carry security for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining an internal control structure 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 internal control structure 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 an internal control structure 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 structure 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 and operation may deteriorate.

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

The Company is a small company; essentially all of its operational and record keeping procedures are performed by one individual. Consequently, the segregation of duties typically present in an internal accounting control structure is not practicable. The Company, which has not acted as principal in any securities transactions and does not hold securities for its own account or for the account of customers, has no plans to change operational and record keeping procedures.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the financial statements; this report does not affect our report on these financial statements dated February 5, 2002.

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 National Association of Securities Dealers, Inc., and the Securities and Exchange Commission and should not be used for any other purpose.

Warwick, New York  
February 5, 2002