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9/13

At 9/3/2002

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

OMB APPROVAL  
OMB Number: 3235-0123  
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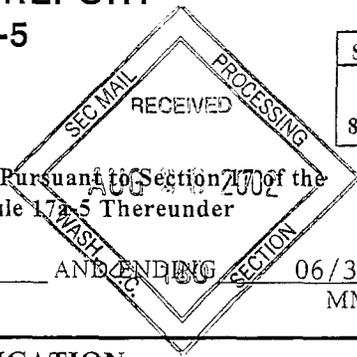
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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

SEC FILE NUMBER  
8- 28114

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 1702 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder



REPORT FOR THE PERIOD BEGINNING 07/01/01 AND ENDING 06/30/02  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

HARDING/HALL, INC.

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

8676 BOW STREET

OFFICIAL USE ONLY

FIRM I.D. NO.

ELK GROVE

(No. and Street)

CALIFORNIA

95624

(City)

(State)

(Zip Code)

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

PATRICIA HALL

(916) 423-3033

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

LOCKWOOD & BORN, AN ACCOUNTANCY CORPORATION

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

2380 PROFESSIONAL DRIVE

ROSEVILLE

CALIFORNIA

95661-7745

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

SEP 19 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)

SEC 1410 (05-01)

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

97-688

OATH OR AFFIRMATION

I, PATRICIA HALL, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of HARDING/HALL, INC., as of

JUNE 30, 2002, 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:

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

Patricia Hall

Signature

PRESIDENT

Title

Diane Sakakihara

Notary Public



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

- (a) Facing Page.
(b) Statement of Financial Condition.
(c) Statement of Income (Loss).
(d) Statement of Changes in Financial Condition. CASH FLOWS.
(e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' 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 15c3-3 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. WAIVED BY NASD NOTICE TO MEMBERS' 89-25.
(n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
(O) AUDITORS REPORT ON INTERNAL CONTROL STRUCTURE.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

# FORM X-17A-5

# FOCUS REPORT

OMB No. 3235-0123  
(5-31-87)

(Financial and Operational Combined Uniform Single Report)

## PART IIA 12

3/91

(Please read instructions before preparing Form.)

This report is being filed pursuant to (Check Applicable Block(s)):

- 1) Rule 17a-5(a)  16      2) Rule 17a-5(b)  17      3) Rule 17a-11  18  
4) Special request by designated examining authority  19      5) Other  25

NAME OF BROKER-DEALER

HARDING/HALL, INC.  13

ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do Not Use P.O. Box No.)

8676 BOW STREET  20

(No. and Street)

ELK GROVE  21

(City)

CA  22

(State)

95624  23

(Zip Code)

SEC FILE NO.

8-28114  14

FIRM ID. NO.

012959  15

FOR PERIOD BEGINNING (MM/DD/YY)

07/01/01  24

AND ENDING (MM/DD/YY)

06/30/02  25

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

PATRICIA HARDING-HALL, PRESIDENT  30

(Area Code)—Telephone No.

(916) 423-3033  31

NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT:

OFFICIAL USE

32

33

34

35

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DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNTS? YES  40 NO  41

CHECK HERE IF RESPONDENT IS FILING AN AUDITED REPORT  42

### EXECUTION:

The registrant/broker or dealer submitting this Form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated the 27<sup>TH</sup> day of AUGUST 19 2002

Manual signatures of:

- 1) Patricia Hall  
Principal Executive Officer or Managing Partner
- 2) Diane Mallick  
Principal Financial Officer or Partner
- 3) Patricia Hall  
Principal Operations Officer or Partner

**ATTENTION**—Intentional misstatements or omissions of facts constitute Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 78:(a))

TO BE COMPLETED WITH THE ANNUAL AUDIT REPORT ONLY:

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report

Name (If individual, state last, first, middle name)

LOCKWOOD & BORN, AN ACCOUNTANCY CORPORATION

70

ADDRESS      Number and Street      City      State      Zip Code

2380 PROFESSIONAL DRIVE    71    ROSEVILLE    72    CA    73    95661-7745    74

Check One

- ( X ) Certified Public Accountant      75
- (   ) Public Accountant      76
- (   ) Accountant not resident in United States or  
any of its possessions      77

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WORK LOCATION	REPORT DATE MM/DD/YY	DOC. SEQ. NO.	CARD				
50	51	52	53				

Independent Auditors' Report

Board of Directors  
Harding/Hall, Inc.

We have audited the accompanying statement of financial condition of Harding/Hall, Inc. as of June 30, 2002, and the related statements of income(loss), cash flows, changes in stockholders' equity, and changes in liabilities subordinated to claims of creditors 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 U.S. 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, in all material respects, the financial position of Harding/Hall, Inc. as of June 30, 2002, and the results of its operations, cash flows, changes in stockholders' equity and changes in liabilities subordinated to claims of creditors for the year then ended in conformity with U.S. 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 in Schedules 1 and 2 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 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.



Roseville, California  
August 16, 2002



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

**BROKER OR DEALER**     **HARDING/HALL, INC.**

as of 06/30/02

**STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING  
AND CERTAIN OTHER BROKERS OR DEALERS**

**LIABILITIES AND OWNERSHIP EQUITY**

<u>Liabilities</u>	<u>A.I. Liabilities</u>	<u>Non-A.I. Liabilities</u>	<u>Total</u>
13. Bank loans payable .....	\$ 1045	\$ 1255	\$ 0 1470
14. Payable to brokers or dealers:			
A. Clearance account .....	1114	1315	0 1560
B. Other .....	1115	1305	0 1540
15. Payable to non-customers .....	1155	1365	0 1610
16. Securities sold not yet purchased, at market value .....		1360	0 1620
17. Accounts payable, accrued liabilities, expenses and other .....	15,601 1205	1385	15,601 1685
18. Notes and mortgages payable:			
A. Unsecured .....	1210		0 1690
B. Secured .....	1211	1390	0 1700
19. Liabilities subordinated to claims of general creditors:			
A. Cash borrowings:		1400	0 1710
1. from outsiders \$ 970			
2. Includes equity subordination (15c3-1 (d)) of .... \$ 980			
B. Securities borrowings, at market value: ... from outsiders \$ 980		1410	0 1720
C. Pursuant to secured demand note collateral agreements: .....		1420	0 1730
1. from outsider: \$ 1000			
2. Includes equity subordination (15c3-1 (d)) of .... \$ 1010			
D. Exchange memberships contributed for use of company, at market value .....		1430	0 1740
E. Accounts and other borrowings not qualified for net capital purposes .....	1220	1440	0 1750
20. <b>TOTAL LIABILITIES</b> .....	\$ 15,601 1230	\$ 0 1450	\$ 15,601 1760

**Ownership Equity**

21. Sole proprietorship .....	\$ 1770
22. Partnership (limited partners .....	\$ 1020 1780
23. Corporation:	
A. Preferred stock .....	1791
B. Common stock .....	11,250 1792
C. Additional paid-in capital .....	18,663 1793
D. Retained earnings .....	254,695 1794
E. Total .....	284,608 1795
F. Less capital stock in treasury .....	1796
24. <b>TOTAL OWNERSHIP EQUITY</b> .....	\$ 284,608 1800
25. <b>TOTAL LIABILITIES AND OWNERSHIP EQUITY</b> .....	\$ 300,209 1810

OMIT PENNIES

NOTE: SEE THE ACCOMPANYING AUDIT OPINION AND NOTES TO THE FINANCIAL STATEMENTS.

BASIC FILERS ONLY

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

**BROKER OR DEALER**      **HARDING/HALL, INC.**

For the period (MMDDYY) from 07/01/01 3932 to 06/30/02 3931  
 Number of months included in this statement 12 3931

**STATEMENT OF INCOME (LOSS)**

**REVENUE**

<b>1. Commissions:</b>		
a. Commissions on transactions in exchange listed equity securities executed on an exchange .....	\$ 16,506	3935
b. Commissions on listed option transactions .....		3938
c. All other securities commissions .....		3939
d. Total securities commissions .....	16,506	3940
<b>2. Gains or losses on firm securities trading accounts</b>		
a. From market making in options on a national securities exchange .....		3945
b. From all other trading .....		3948
c. Total gain (loss) .....	0	3950
<b>3. Gains or losses on firm securities investment accounts</b> .....	(44,209)	3952
<b>4. Profit (loss) from underwriting and selling groups</b> .....		3955
<b>5. Revenue from sale of investment company shares</b> .....	123,210	3970
<b>6. Commodities revenue</b> .....		3980
<b>7. Fees for account supervision, investment advisory and administrative services</b> .....	24,668	3975
<b>8. Other revenue</b> .....	522	3985
<b>9. Total revenue</b> .....	\$ 120,697	4030

**EXPENSES**

<b>10. Salaries and other employment costs for general partners and voting stockholder officers</b> .....	\$ 47,400	4120
<b>11. Other employee compensation and benefits</b> .....	24,943	4115
<b>12. Commissions paid to other broker-dealers</b> .....		4140
<b>13. Interest expense</b> .....		4075
a. Includes interest on accounts subject to subordination agreements .....	4070	
<b>14. Regulatory fees and expenses</b> .....	5,123	4185
<b>15. Other expenses</b> .....	113,530	4100
<b>16. Total expenses</b> .....	\$ 190,996	4200

**NET INCOME**

<b>17. Net income (loss) before Federal income taxes and items below (Item 9 less Item 16)</b> .....	\$ (70,299)	4210
<b>18. Provision for Federal income taxes (for parent only)</b> .....	NOL BENEFIT	4220
<b>19. Equally in earnings (losses) of unconsolidated subsidiaries not included above</b> .....		4222
a. After Federal income taxes of .....	4238	
<b>20. Extraordinary gains (losses)</b> .....		4224
a. After Federal income taxes of .....	4239	
<b>21. Cumulative effect of changes in accounting principles</b> .....		4225
<b>22. Net income (loss) after Federal income taxes and extraordinary items</b> .....	\$ (66,503)	4230

**MONTHLY INCOME**

<b>23. Income (current month only) before provision for Federal income taxes and extraordinary items</b> .....	\$ 17,799	4211
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**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART IIA**

**BROKER OR DEALER**     HARDING/HALL, INC.

as of 06/30/02

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

25. 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 .....  |  | 455   |
| B. (k) (2)(A)—"Special Account for the Exclusive Benefit of customers" maintained .....   |  | 456   |
| C. (k) (2)(B)—All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm <input type="checkbox"/> 8-11922; EMMETT A. LARKIN COMPANY, INC.; ALL <input type="checkbox"/> 4335 |  | X 457 |
| D. (k) (3)—Exempted by order of the Commission .....  |  | 458   |

NOTE: SEE THE ACCOMPANYING AUDIT OPINION AND NOTES TO THE FINANCIAL STATEMENTS.

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

**BROKER OR DEALER**     HARDING/HALL, INC.

as of 06/30/02

**COMPUTATION OF NET CAPITAL**

1. Total ownership equity from Statement of Financial Condition.....	\$	284,608		3480
2. Deduct ownership equity not allowable for Net Capital.....	▼ <sup>19</sup>			3490
3. Total ownership equity qualified for Net Capital.....		284,608		3500
4. Add:				
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital.....		0		3520
B. Other (deductions) or allowable credits (List).....		0		3525
5. Total capital and allowable subordinated liabilities.....	\$	284,608		3530
6. Deductions and/or charges:				
A. Total nonallowable assets from Statement of Financial Condition (Notes B and C).....	▼ <sup>17</sup>	28,875		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
7. Other additions and/or allowable credits (List).....			( 28,875 )	3620
8. Net capital before haircuts on securities positions.....	▼ <sup>20</sup>			3630
9. Haircuts on securities (computed, where applicable, pursuant to 15c3-1 (f)):				3640
A. Contractual securities commitments.....	\$			3660
B. Subordinated securities borrowings.....				3670
C. Trading and investment securities:				
1. Exempted securities.....	▼ <sup>18</sup>	2,235		3735
2. Debt securities.....				3733
3. Options.....				3730
4. Other securities.....		21,207		3734
D. Undue Concentration.....				3650
E. Other (List).....				3736
10. Net Capital.....	\$		( 23,442 )	3740
		232,291		3750

OMIT PENNIES

NOTE: SEE THE ACCOMPANYING AUDIT OPINION AND NOTES TO THE FINANCIAL STATEMENTS.

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

BROKER OR DEALER **HARDING/HALL, INC.**

as of 06/30/02

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

**Part A**

11. Minimum net capital required (6-2/3% of line 19)	\$	1,041	3756
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	50,000	3758
13. Net capital requirement (greater of line 11 or 12)	\$	50,000	3760
14. Excess net capital (line 10 less 13)	\$	182,291	3770
15. Excess net capital at 1000% (line 10 less 10% of line 19)	¥	\$ 230,731	3780

**COMPUTATION OF AGGREGATE INDEBTEDNESS**

16. Total A.I. liabilities from Statement of Financial Condition	\$	15,601	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)	\$	0	3820
19. Total aggregate indebtedness	\$	15,601	3840
20. Percentage of aggregate indebtedness to net capital (line 19 ÷ by line 10)	%	6.716%	3850
21. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1 (d)	%	0	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' debits	\$		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:			
5% of combined aggregate debit items or \$120,000	\$		3920

OMIT PENNIES

**NOTES:**

- (A) 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 debits 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.

NOTE: SEE THE ACCOMPANYING AUDIT OPINION AND NOTES TO THE FINANCIAL STATEMENTS.

**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	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)
32 4600	NONE	4601	4602	4603	4604 4605
32 4610		4611	4612	4613	4614 4615
34 4620		4621	4622	4623	4624 4625
35 4630		4631	4632	4633	4634 4635
36 4640		4641	4642	4643	4644 4645
37 4650		4651	4652	4653	4654 4655
38 4660		4661	4662	4663	4664 4665
39 4670		4671	4672	4673	4674 4675
40 4680		4681	4682	4683	4684 4685
41 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

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

**BROKER OR DEALER**

**HARDING/HALL, INC.**

For the period (MMDDYY) from 07/01/01 to 06/30/02

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

1. Balance, beginning of period .....		\$	351,111	4240
A. Net income (loss) .....			(66,503)	4250
B. Additions (Includes non-conforming capital of .....	" \$		4262	4260
C. Deductions (Includes non-conforming capital of .....	\$		4272	4270
2. Balance, end of period (From item 1800) .....		\$	284,608	4290

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

3. Balance, beginning of period .....		\$		4300
A. Increases .....				4310
B. Decreases .....				4320
4. Balance, end of period (From item 3520) .....		\$	0	4330

OMIT PENNIES

NOTE: SEE THE ACCOMPANYING AUDIT OPINION AND NOTES TO THE FINANCIAL STATEMENTS.

EXHIBIT C

HARDING/HALL, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEAR ENDED JUNE 30, 2002

	<u>Common Stock</u>	<u>Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
<u>Balances, July 1, 2001</u>	\$11,250	\$18,663	\$321,198	\$351,111
Net Income for period	<u>0</u>	<u>0</u>	<u>(66,503)</u>	<u>(66,503)</u>
BALANCES, JUNE 30, 2002	<u>\$11,250</u>	<u>\$18,663</u>	<u>\$254,695</u>	<u>\$284,608</u>

See the accompanying Audit Opinion.  
The accompanying notes are an  
integral part of these financial statements.

## EXHIBIT D

## HARDING/HALL, INC.

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2002

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Net Loss (Exhibit B)	\$( 66,503)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	1,076
Provision for Deferred Income Taxes	( 10,190)
Realized Gain on Firm Investment	( 4,224)
Reinvested Stock Dividends	( 2,735)
Unrealized Gains on Firm Investments	54,830
Decrease in Commissions Receivable	17,807
Decrease in Prepaid Expenses	755
Decrease in Other Assets	702
Decrease in Commissions Payable	( 19,426)
Increase in Accrued Liabilities	509
Total adjustments	<u>39,104</u>
Net cash provided (used) by operating activities	<u>\$( 27,399)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Proceeds from Sale of Marketable Securities	12,324
Net cash provided (used) by investing activities	<u>\$ 12,324</u>
Net increase (decrease) in cash and equivalents	\$( 15,075)
Cash and Cash Equivalents, July 1, 2001	143,883
Cash and Cash Equivalents, June 30, 2002	<u>\$ 128,808</u>

Supplemental disclosures of cash flow information

The Company acquired investments of \$2,736 in non-cash transactions resulting from dividend reinvestments.

See the accompanying Audit Opinion.  
The accompanying notes are an  
integral part of these financial statements.

HARDING/HALL, INC.

Notes to Financial Statements  
JUNE 30, 2002

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Nature of Business:

Harding/Hall, Inc. was incorporated under the laws of the State of California on July 2, 1981. On November 1, 1982, the Company registered as an over-the-counter broker/dealer pursuant to Section 15(b) of the Securities Act of 1934.

Accounting Methods:

Harding/Hall, Inc. employs the accounting practices and policies required by the Securities and Exchange Commission for Brokers and Dealers in securities for this financial statement presentation. The accrual method is used for Federal and State income tax reporting purposes.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those assumptions.

Cash and cash equivalents used in reporting cash flows include cash on hand, cash in banks, and cash in short-term money market funds.

Marketable Securities are valued at market value and securities not readily marketable are valued at fair value as determined by the Board of Directors. The resulting difference between cost and market (or fair value) is included in income.

Deferred income taxes are provided when income and expenses, principally relating to the valuation of investment securities, are recognized in different years for financial and tax reporting purposes.

Depreciation is provided on a straight-line basis over an estimated useful life of seven years for financial statement presentation and state income tax reporting. For federal tax reporting, depreciation is computed using accelerated methods in accordance with current tax regulations.

The Company holds no customers' securities on account.

See the accompanying Audit Opinion.

Page 1 of 3

HARDING/HALL, INC.

Notes to Financial Statements  
JUNE 30, 2002

NOTE 2: INVESTMENT IN MARKETABLE SECURITIES

Marketable securities are reported at market values as required by the Securities and Exchange Commission for Brokers and Dealers. Exempt securities of \$111,765 consist entirely of a short-term investment in Franklin Money Fund and are considered cash equivalents. Other marketable securities held for investment and their respective values at June 30, 2002 are as follows:

Putnam Vista Fund	10,044 Shares	\$ 69,908
Putnam Voyager Fund	3,630 Shares	52,348
WPS Resources Corporation	360 Shares	14,699
Sempra Energy	200 Shares	4,426
Nasdaq Stock Market, Inc.	500 Shares	5,900
		-----
Total Fair Market Value		\$147,281
		=====

Unrealized losses on marketable securities total \$11,260 at June 30, 2002. Unrealized losses of \$54,830 have been charged to current year income as losses on firm investments.

NOTE 3: INCOME TAX EXPENSE

Income tax for the year ended June 30, 2002 is composed of the following:

Federal Income Tax Benefit	\$- 3,796
California Franchise Tax	800
Provision for Deferred Income Tax	-10,190
	-----
Total Income Tax Benefit	\$-13,186
	=====

See the accompanying Audit Opinion.

HARDING/HALL, INC.

Notes to Financial Statements  
JUNE 30, 2002

NOTE 3: INCOME TAX EXPENSE (continued)

Deferred Income Taxes at June 30, 2002, resulting from timing differences in the reporting of unrealized gains from firm investments and accelerated depreciation methods, are as follows:

Deferred Federal Income Taxes	\$ 0
Deferred California Franchise Taxes	0
Total Deferred Taxes	\$ 0

Income taxes for the year include a tentative refund of \$3,796 resulting from the carryback of the current year net operating loss.

NOTE 4: RELATED PARTY TRANSACTIONS

The Company rents office space on a month-to-month basis from a partnership in which Patricia Harding Hall, an officer and shareholder of the Company, is a partner. The statement of income includes \$22,500 of rent expense paid to this partnership during the year.

The Company expensed \$12,324 in commissions to Hall's Financial Services, a sole-proprietorship of shareholder Patricia Hall, during the year.

See the accompanying Audit Opinion.

SCHEDULE 1

HARDING/HALL, INC.

COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1  
SECURITIES AND EXCHANGE COMMISSION  
JUNE 30, 2002

Total Stockholders' Equity (Exhibit A)		\$ 284,608
Less: Non-Allowable Assets:		
Office Equipment	\$ ( 1,460)	
Other Assets - Prepaid Expenses	( 4,106)	
Concessions Receivable over 30 days	( 17,409)	
Non-Marketable Securities	( 5,900)	
Total Non-Allowable Assets		<u>( 28,875)</u>
Net Capital before Haircuts on Securities		\$ 255,733
<u>Haircuts on Securities</u>		
Trading and Investment Securities:		
Exempted Securities	\$ ( 2,235)	
Other Securities	( 21,207)	
Total Haircuts		<u>( 23,442)</u>
AUDITED NET CAPITAL, JUNE 30, 2002		<u>\$ 232,291</u>
<u>AGGREGATE INDEBTEDNESS</u>		<u>\$ 15,601</u>
<u>MINIMUM NET CAPITAL REQUIREMENT</u>		<u>\$ 50,000</u>
<u>EXCESS NET CAPITAL AT 1000%</u>		<u>\$ 230,731</u>
PERCENTAGE OF AGGREGATE INDEBTEDNESS TO NET CAPITAL		.067161

See the accompanying Audit Opinion.  
The accompanying notes are an  
integral part of these financial statements.

SCHEDULE 2

HARDING/HALL, INC.

RECONCILIATION OF BROKER/DEALER NET CAPITAL  
TO AUDITED NET CAPITAL  
JUNE 30, 2002

BROKER/DEALER NET CAPITAL, JUNE 30, 2002 \$ 234,931

Changes effecting Stockholders' Equity:

1. Decrease in current and deferred income tax benefits	\$( 1,522)	
2. Increase in Concession Income	12,785	
3. Increase in Commission Expense	<u>( 2,640)</u>	
Total changes effecting Stockholders' Equity		8,623

Changes effecting Allowable Credits and Non-Allowable Assets:

1. Decrease in Income Tax Refund Receivable	\$ 1,522	
2. Increase in Receivables from Brokers or Dealers over 30 days	<u>( 12,785)</u>	
Total changes effecting Allowable Credits and Non-Allowable Assets		<u>( 11,263)</u>

AUDITED NET CAPITAL, JUNE 30, 2002 \$ 232,291

See the accompanying Audit Opinion.  
The accompanying notes are an  
integral part of these financial statements.

INDEPENDENT AUDITORS' REPORT  
ON INTERNAL CONTROL STRUCTURE

Board of Directors  
Harding/Hall, Inc.

In planning and performing our audit of the financial statements of Harding/Hall, Inc. (the Company) for the year ended June 30, 2002, we considered its internal control structure, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (the Commission), 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 security accounts for customers or perform custodial functions relating to customer accounts, we did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, 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.

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. However, we noted no matters involving the internal control structure, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that the 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 the 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 June 30, 2002 to meet the Commission's objectives, and that the Company was in compliance with the exemptive provisions of rule 15c3-3 during the year then ended.

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 in their regulation of registered brokers and dealers, and should not be used for any other purpose.



Roseville, California  
August 16, 2002