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SECURITIES AND EXCHANGE COMMISSION  
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12/26/02

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

SEC FILE NUMBER  
~~8-00480~~

SECURITIES AND EXCHANGE COMMISSION  
RECEIVED  
8-15023

FACING PAGE

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

DEC 26 2002

DIVISION OF MARKET REGULATION

REPORT FOR THE PERIOD BEGINNING October 27, 2001 AND ENDING October 31, 2002  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER:

Parker/Hunter Incorporated

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

600 Grant Street

(No. and Street)

Pittsburgh

PA

15219

(City)

(State)

(Zip Code)

PROCESSED

FEB 25 2003

THOMSON  
FINANCIAL

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

Mr. John P. Meegan

(412) 562-8217

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

Deloitte & Touche LLP

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

2500 One PPG Place

Pittsburgh

PA

15222

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

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

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).

This report contains (check all applicable boxes):

- |                                     |     |  |
|-------------------------------------|-----|--|
| <input checked="" type="checkbox"/> |     | Independent Auditors' Report.  |
| <input checked="" type="checkbox"/> | (a) | Facing page.   |
| <input checked="" type="checkbox"/> | (b) | Statement of Financial Condition.  |
| <input checked="" type="checkbox"/> | (c) | Statement of Income.   |
| <input checked="" type="checkbox"/> | (d) | Statement of Cash Flows.   |
| <input checked="" type="checkbox"/> | (e) | Statement of Changes in Stockholders' Equity.  |
| <input type="checkbox"/>            | (f) | Statement of Changes in Liabilities Subordinated to Claims of General Creditors. (Not Applicable)  |
| <input checked="" type="checkbox"/> |     | Notes to Consolidated Financial Statements.  |
| <input checked="" type="checkbox"/> | (g) | Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934.  |
| <input checked="" type="checkbox"/> | (h) | Computation for Determination of Reserve Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934.   |
| <input checked="" type="checkbox"/> | (i) | Information Relating to the Possession or Control Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934.  |
| <input type="checkbox"/>            | (j) | A Reconciliation, including Appropriate Explanations, 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. (Not Applicable) |
| <input type="checkbox"/>            | (k) | A Reconciliation between the Audited and Unaudited Statements of Financial Condition with Respect to Methods of Consolidation. (Not Applicable)  |
| <input checked="" type="checkbox"/> | (l) | An Oath or Affirmation.  |
| <input type="checkbox"/>            | (m) | Copy of the SIPC Supplemental Report. (Not Required)   |
| <input checked="" type="checkbox"/> | (n) | Supplemental Report on Internal Control.<br>(A report describing any material inadequacies found to exist or to have existed since the date of the previous audit).  |

See also PUBLIC report filed simultaneously herewith which contains:

- Statement of Financial Condition
- Supplemental Report on Internal Control

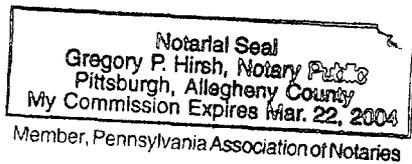
**AFFIRMATION**

We, ROBERT W. KAMPMEINERT AND JOHN MEEGAN affirm that, to the best of our knowledge and belief, the accompanying financial statements and supplemental schedules pertaining to Parker/Hunter Incorporated for the year ended October 31, 2002 are true and correct in all material respects, and such financial statements and supplemental schedules will be made available promptly to all members and allied members of the New York Stock Exchange, Inc. in our organization. We further affirm that neither the Corporation nor any officer or director has any proprietary interest in any account classified solely as that of a customer.

Robert W. Kampmeiner 12/19/02  
Signature Date  
Chairman & CEO  
Title  
J.P. May 12/19/02  
Signature Date  
CFO  
Title

Subscribed and sworn before me,  
this 19<sup>th</sup> day of December, 2002

Gregory P. Hirsh  
Notary Public



SECURITIES AND EXCHANGE COMMISSION  
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DEC 26 2002

DIVISION OF MARKET REGULATION

***PARKER/HUNTER INCORPORATED***  
***SEC I.D. NO. (8-15023)***

*Statement of Financial Condition as of  
October 31, 2002, and  
Independent Auditors' Report and  
Supplemental Report on  
Internal Control*

Filed in accordance with Rule 17a-5(e)(3) under the  
Securities Exchange Act of 1934 as a PUBLIC document.

Deloitte & Touche LLP  
2500 One PPG Place  
Pittsburgh, Pennsylvania 15222-5401

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**Deloitte  
& Touche**

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Parker/Hunter Incorporated

We have audited the accompanying statement of financial condition of Parker/Hunter Incorporated (the "Firm") as of October 31, 2002 that the Firm is filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Firm's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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, such statement of financial condition presents fairly, in all material respects, the financial position of Parker/Hunter Incorporated at October 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

*DELOITTE & TOUCHE LLP*

December 13, 2002

# PARKER/HUNTER INCORPORATED

STATEMENT OF FINANCIAL CONDITION  
OCTOBER 31, 2002

## ASSETS

ASSETS:	
Cash	\$ 1,085,436
Receivable from brokers or dealers and clearing organizations	1,431,071
Receivable from customers	24,139,449
Securities owned, at market value:	
State and municipal obligations	763,787
Corporate stocks	3,206,302
Corporate bonds, debentures and notes	<u>9,730</u>

Total securities owned, at market value

3,979,819

Other investments, at estimated fair value

850,330

Exchange membership, at cost (latest contracted sales price, \$2,300,000)

333,333

Furniture, equipment and leasehold improvements, at cost less accumulated depreciation and amortization of \$5,681,392

1,403,616

Other assets

2,844,075

TOTAL

\$ 36,067,129

## LIABILITIES AND STOCKHOLDERS' EQUITY

### LIABILITIES:

Demand notes payable to bank, secured	\$ 1,210,206
Payable to brokers or dealers and clearing organizations	809,211
Payable to customers	4,802,859
Securities sold, not yet purchased	20,678
Accounts payable and other accrued expenses	<u>6,552,403</u>
Total liabilities	<u>13,395,357</u>

### STOCKHOLDERS' EQUITY:

Common stock, \$.0417 par value - authorized, 24,000,000 shares; issued, 4,149,600 shares	172,900
Paid-in capital	6,417,940
Retained earnings	<u>31,970,698</u>
	38,561,538
Less: Treasury stock - at cost, 2,964,309 common shares	<u>15,889,766</u>
Total stockholders' equity	<u>22,671,772</u>
TOTAL	<u>\$ 36,067,129</u>

See notes to Statement of Financial Condition.

# PARKER/HUNTER INCORPORATED

## NOTES TO STATEMENT OF FINANCIAL CONDITION OCTOBER 31, 2002

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Parker/Hunter Incorporated (the "Firm") is a registered broker and dealer in securities under the Securities Exchange Act of 1934 and a member of The New York Stock Exchange, Inc. The Firm is the largest independently owned stock brokerage and investment banking firm headquartered in Pennsylvania and operates 21 offices in Pennsylvania, Ohio and West Virginia. The following is a summary of significant accounting policies followed by the Firm in the preparation of its statement of financial condition:

- a. *Securities Transactions* - Securities transactions are recorded on a settlement date basis, generally the third business day after the trade date. Recordation on a settlement date basis does not materially differ from that of trade date.
- b. *Securities Valuation* - Securities held in Firm trading and investment accounts are valued at market value and securities not readily marketable are valued at fair value as determined by management.
- c. *Exchange Membership* - Exchange membership is carried at cost.
- d. *Depreciation* - Depreciation on furniture and equipment is provided on accelerated methods over the estimated useful lives of the assets. Leasehold improvements are amortized on accelerated methods over the estimated useful lives of the assets or the lease term.
- e. *Cash* - Items described as cash include amounts on deposit with commercial banks.
- f. *Income Taxes* - The Firm uses the asset and liability method of accounting for income taxes as required by Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*.
- g. *Use of Estimates* - The preparation of a statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the carrying amounts and disclosure of assets and liabilities. Management considers its significant estimates to be the fair value of investments and the accruals for litigation, income taxes and other reserves. Actual results could differ from those estimates.

### 2. CHANGE IN FISCAL YEAR-END

During the current year, the Firm changed its fiscal year-end from the last Friday of October to October 31, which resulted in an additional four days of operations in the current fiscal year. This change did not have a material impact on the financial position of the Firm.

### **3. DEMAND NOTES PAYABLE TO BANK**

Demand notes payable to bank at October 31, 2002 consists of a demand note payable in the amount of \$1,210,206, fully collateralized by \$16,831,733 of customer margin account securities. The interest rate was 2.6% at October 31, 2002.

### **4. NET CAPITAL REQUIREMENT**

The Firm, as a registered broker and dealer in securities, is subject to the Uniform Net Capital Rule (Rule 15c3-1) (the "Rule") under the Securities Exchange Act of 1934. Under the computation provided for in the Rule, the Firm is required to maintain "net capital" equal to the greater of \$250,000 or 6 2/3% of "aggregate indebtedness," as those terms are defined in the Rule. At October 31, 2002, the Firm had net capital and a net capital requirement of \$16,431,670 and \$875,434, respectively, and a ratio of aggregate indebtedness to net capital of .80 to 1.

### **5. COMMITMENTS**

The Firm is committed to lease office space, certain furniture and equipment, and certain telecommunication services under operating lease agreements. Minimum rental commitments are as follows: 2003 - \$1,753,959; 2004 - \$1,487,613; 2005 - \$1,231,582; 2006 - \$1,134,136 and \$6,551,766, thereafter.

Subsequent to year end, the Firm signed a six year commitment with a third party information systems service provider. Monthly payments under this commitment are charged primarily based on usage. There is no minimum monthly fee. If the Firm terminates this agreement, the Firm would be required to pay a monthly amount equal to the average of the last three monthly fees for the remainder of the contract.

### **6. INCOME TAXES**

A net deferred income tax liability of \$234,000 existed at October 31, 2002, consisting of \$330,000 in deferred tax assets and \$564,000 in deferred tax liabilities, reflecting the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the basis used for income tax purposes. Principal temporary differences relate to deferred compensation, contingency reserves, differences in book and tax basis of fixed assets and unrealized investment gains.

### **7. EMPLOYEE BENEFIT PLANS**

The Firm sponsors both an Employee Stock Ownership Plan and a 401(k) plan. The Employee Stock Ownership Plan is a noncontributory defined contribution stock bonus plan. The 401(k) plan is a defined contribution plan. These plans are extended to all eligible employees. Contributions to the plans by the Firm are at the discretion of the Board of Directors.

The Firm administers a book value stock purchase program for certain key employees. Under the program, the employees are permitted to purchase a certain number of shares as determined by the Firm at the then current book value. Upon retirement/termination, the Firm has the right to purchase the stock at the current book value. The employee also has the right to require the Firm to purchase the stock in such an event.

## 8. CONTINGENCIES

The Firm is involved in various legal actions arising in the normal course of business. While it is not possible to determine with certainty the outcome of these matters, in the opinion of management, the eventual resolution of these actions will not have a material adverse effect on the Firm's financial position.

Additionally, there are certain lawsuits pending against underwriting groups involving securities offerings in which the Firm may have participated in the ordinary course of its business and in which the Firm may be required to participate in paying settlement fees and costs in amounts that would be material to the Firm's results of operations and financial position. In view of the number and diversity of these claims against the Firm and the inherent difficulty of predicting the outcome of litigation and other claims, the Firm cannot state with certainty what the outcome of pending litigation or other claims will be. The Firm provides for costs relating to these matters when a loss is probable and the amount is reasonably estimable. The effect of the outcome of these matters on the Firm's future results of operations cannot be predicted because any such effect depends on the amount and timing of the resolution of such matters. While it is not possible to predict with certainty, management believes that the ultimate resolution of such matters will not have a material adverse effect on the financial position of the Firm.

## 9. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET CREDIT RISK

SFAS No. 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*, requires disclosure of certain financial instruments with potential off-balance-sheet credit risk. The Firm has not experienced non-performance by customers or counterparties in the situations discussed below.

In the normal course of business, the Firm has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Firm has recorded these obligations in the financial statements at October 31, 2002, at market values of the related securities and will incur a loss if the market value of the securities increases subsequent to October 31, 2002.

In the normal course of business, the Firm executes, as agent, transactions on behalf of customers. If the agency transactions do not settle because of failure to perform by either the customer or the counterparty, the Firm may be obligated to discharge the obligation of the nonperforming party and as a result, may incur a loss if the market value of the security is different from the contract amount of the transaction.

The Firm's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Firm extends credit to the customer, subject to various regulatory and internal margin requirements, collateralized by cash and securities in a customer's account. In connection with these activities, the Firm executes and clears customer transactions involving the sale of securities not yet purchased ("short sales") and the writing of option contracts. Such transactions may expose the Firm to off-balance-sheet credit risk in the event collateral is not sufficient to fully cover losses which customers may incur. In the event the customer fails to satisfy its obligations, the Firm may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's obligations.

The Firm seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Firm monitors required margin levels daily and, pursuant to such guidelines, requires the customers to deposit additional collateral, or reduce positions, when necessary.

At October 31, 2002, customer margin securities of \$31,332,795 and stock borrowings of approximately \$13,000 were available to the Firm to utilize as collateral on various borrowings or other purposes. The Firm had utilized a portion of these available securities as collateral for bank loans (\$16,831,733) and OCC margin requirements (\$716,636).

**10. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Substantially all financial instrument assets and liabilities are carried at fair value or at amounts which approximate fair value. Such instruments include cash and cash equivalents, receivables from brokers or dealers, customers, securities borrowed and loaned, short-term borrowings, liabilities to customers and brokers and dealers, accrued interest and other liabilities.

\* \* \* \* \*



December 13, 2002

Parker/Hunter Incorporated  
600 Grant Street  
Pittsburgh, PA 15219

Dear Sirs:

In planning and performing our audit of the financial statements of Parker/Hunter Incorporated (the "Firm") for the year ended October 31, 2002 (on which we issued our report dated December 13, 2002) we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the Firm's internal control.

Also, as required by Rule 17a-5(g)(1) under the Securities Exchange Act of 1934, we have made a study of the practices and procedures followed by the Firm (including tests of compliance with such practices and procedures) that we considered relevant to the objectives stated in Rule 17a-5(g):

- (1) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e) (including the practices and procedures followed by the Firm in making the periodic computations for proprietary accounts of introducing brokers ("PAIB"));
- (2) in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13;
- (3) 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; and
- (4) in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Firm is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control and of the practices and procedures, and to assess whether those practices and procedures can be expected to achieve the Securities and Exchange Commission's (the "Commission") above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Firm has responsibility are safeguarded against loss from unauthorized acquisition, use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

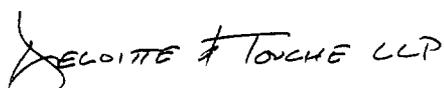
Because of inherent limitations in internal control or the practices and procedures referred to above, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control or such practices and procedures to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with the practices or procedures may deteriorate.

Our consideration of the Firm's internal control would not necessarily disclose all matters in the Firm's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the Firm's internal control and its operation, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the 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 Firm's practices and procedures were adequate at October 31, 2002 to meet the Commission's objectives.

This report is intended solely for the information and use of management, the Securities and Exchange Commission, the New York Stock Exchange and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

 DELOITTE & TOUCHE LLP