

VF 3-6-03

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

\*\*\*A# 3/3/03

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



03002782

FACING PAGE

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

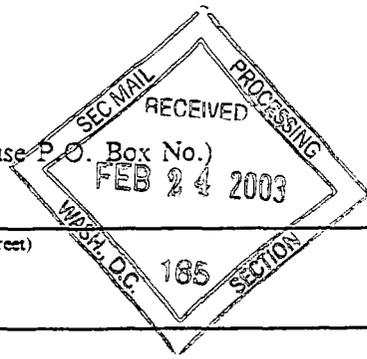
SEC FILE NUMBER  
8 28301

REPORT FOR THE PERIOD BEGINNING 01/01/02 AND ENDING 12/31/02  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:  
Kensington Capital Corp.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
4910 13th Ave



OFFICIAL USE ONLY  
FIRM ID. NO.

BROOKLYN (City) NY (State) 11219 (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Abram Silver 718-436-2111  
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
Benjamin Epstein CPA  
(Name - if individual, state last, first, middle name)

1301 Ave O (Address) BROOKLYN (City) NY (State) 11230 (Zip Code)

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

PROCESSED  
MAR 21 2003  
THOMSON FINANCIAL

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\*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).

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OATH OR AFFIRMATION

I, Abram Silver, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Kensington Capital Corp, as of December 31, 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:

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

**JEROLD SILBERSTEIN**  
NOTARY PUBLIC, State of New York  
No. 01SI5030605  
Qualified in Kings County  
Commission Expires July 18, 2004

Jerold Silberstein  
Notary Public

[Signature]  
Signature  
President & CEO  
Title

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.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

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

BENJAMIN EPSTEIN  
CERTIFIED PUBLIC ACCOUNTANT

TELEPHONE (718) 376-0593

1301 AVENUE O  
BROOKLYN, NEW YORK 11230

To the Stockholders  
Kensington Capital Corp.  
4910 13 Avenue  
Brooklyn, N.Y. 11219

Gentlemen:

I have examined the accompanying Financial Statements (Focus Report) (Form X-17A-5) of Kensington Capital Corp. as of December 31, 2002.

In connection therewith, I have reviewed the system of internal control, including the procedure for safe-guarding securities. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances, and I have observed the audit requirements prescribed by the Securities and Exchange Commission with respect to such examination.

In my opinion, the accompanying Financial Statements (focus report) (Form X-17A-5) present fairly the financial position of Kensington Capital Corp. as of December 31, 2002 in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, and in the form required by the Securities and Exchange Commission.



Benjamin Epstein  
Certified Public Accountant

Brooklyn, NY  
February 5, 2003

FOCUS REPORT (FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT) PART IIA 12

(Please read instructions before preparing Form)

This report is being filed pursuant to (Check Applicable Stock(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 Kensington Capital Corp [13] ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do not use P.O. Box No.) 4910 13th Ave [20] (No. and Street) Brooklyn [21] NY [22] 11219 [23] (City) (State) (Zip Code)

SEC. FILE NO. 8-28301 [14] FIRM ID NO. 1742 [15] FOR PERIOD BEGINNING (MM/DD/YY) 01/01/02 [24] AND ENDING (MM/DD/YY) 12/31/02 [25]

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT (Area code) - Telephone No. Abram Silver 718-436-2111 [30] [31]

NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT OFFICIAL USE [32] [33] [34] [35] [36] [37] [38] [39]

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 21 day of February 2003

Manual Signatures of: 1) [Signature] Principal Executive Officer or Managing Partner 2) [Signature] Principal Financial Officer or Partner 3) 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. 78f (a))

SEND TO PUBLIC ACCOUNTANT whose opinion is contained in this Report

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

Benjamin Epstein

70

ADDRESS

1301 Ave O

Number and Street

Brooklyn

City

72

NY

State

73

11230

Zip Code

CHECK ONE

Certified Public Accountant

75

Public Accountant

76

Accountant not resident in United States or any of its possessions

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FOR SEC USE

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DO NOT WRITE UNDER THIS LINE... FOR SEC USE ONLY

WORK LOCATION	REPORT DATE MM/DD/YY	SEC. SEC. NO.	CARD		

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BROKER OR DEALER

Kensington Capital Corp

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

as of (MM/DD/YY) 12/31/02 99

SEC FILE NO. 38

Consolidated 138

Unconsolidated X 139

ASSETS

Allowable

Non-Allowable

Total

Table with 4 columns: Description, Allowable, Non-Allowable, Total. Rows include Cash, Receivables from brokers or dealers, Receivables from non-customers, Securities and spot commodities owned, Securities and/or other investments not readily marketable, Securities borrowed under subordination agreements, Secured demand notes, Memberships in exchanges, Investment in and receivables from affiliates, Property, furniture, equipment, and Other assets.

Kensington Capital Corp

as of

12/31/02

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>
Bank loans payable	\$ 1045	\$ 1255	\$ 1470
Payable to brokers or dealers:			
A. Clearance account	6361 1114	1318	6361 1560
B. Other	1115	1305	1540
Payable to non-customers	1155	1355	1610
Securities sold not yet purchased, at market value:		18834 1360	18834 1520
Accounts payable, accrued liabilities, expenses and other	31046 1205	1395	31046 1565
Notes and mortgages payable:			
A. Unsecured	1210		1590
B. Secured	1210	1390	1700
Liabilities subordinated to claims of general creditors:			
A. Cash borrowings:		1400	1710
1. from outsiders \$ 970			
2. Includes equity subordination (15c3-1(d)) of \$ 980			
B. Securities borrowings, at market value from outsiders \$ 990		1410	1720
C. Pursuant to secured demand note collateral agreements		1420	1730
1. from outsiders \$ 1000			
2. Includes equity subordination (15c3-1(d)) of \$ 1010			
D. Exchange memberships contributed for use of company, at market value		1430	1740
E. Accounts and other borrowings not qualified for net capital purposes	1220	1440	1750
20. TOTAL LIABILITIES	\$ 37407 1230	\$ 18834 1450	\$ 56241 1760

Ownership Equity

21. Sole proprietorship			1770
22. Partnership (limited partners)	\$ 1020		1780
23. Corporation:			
A. Preferred stock			1790
B. Common stock		40000	1792
C. Additional paid-in capital		271738	1793
D. Retained earnings		214860	1794
E. Total		526598	1795
F. Less capital stock in treasury			(1795)
24. TOTAL OWNERSHIP EQUITY			\$ 526598 1800
25. TOTAL LIABILITIES AND OWNERSHIP EQUITY			\$ 582839 1810

OMIT PENNIES

BROKER OR DEALER

Kensington Capital Corp

as of

12/31/02

COMPUTATION OF NET CAPITAL

Total ownership equity from Statement of Financial Condition		\$	526598	3480
Deduct ownership equity not allowable for Net Capital		(		3490
Total ownership equity qualified for Net Capital			526598	3500
Add:				
A. 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		\$		3630
Deductions and/or charges:				
A. Total non-allowable assets from				
Statement of Financial Condition (Notes B and C)	\$	91677	3540	
B. Secured demand note deficiency			3550	
C. Commodity futures contracts and spot commodities-proprietary capital charges			3600	
D. Other deductions and/or charges			3610	
		(	91677	3620
7. Other additions and/or allowable credits (List)				3630
8. Net Capital before haircuts on securities positions		\$	434921	3640
9. Haircuts on securities (computed, where applicable, pursuant to 15c3-1(f)):				
A. Contractual securities commitments	\$		3650	
B. Subordinated securities borrowings			3670	
C. Trading and investment securities:				
1. Exempted securities			3735	
2. Debt securities			3735	
3. Options			3730	
4. Other securities		24896	3734	
D. Undue concentration		2860	3650	
E. Other (List)			3735	
		(	27756	3740
10. Net Capital		\$	407165	3750

OMIT PENNIES

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

**BROKER OR DEALER**

*Kensington Capital Corp*

as of

12/31/02

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

Part A

Minimum net capital required (6-2/3% of line 19)	\$	<u>2493</u>	<u>3758</u>
Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	<u>100000</u>	<u>3758</u>
Net capital requirement (greater of line 11 or 12)	\$	<u>100000</u>	<u>3770</u>
Excess net capital (line 10 less 13)	\$	<u>307165</u>	<u>3770</u>
Excess net capital at 1000% (line 10 less 10% of line 13)	\$	<u>403424</u>	<u>3770</u>

**COMPUTATION OF AGGREGATE INDEBTEDNESS**

6. Total A.I. liabilities from Statement of Financial Condition	\$	<u>37407</u>	<u>3799</u>
7. Add:			
A. Drafts for immediate credit	\$	<u>3200</u>	
B. Market value of securities borrowed for which no equivalent value is paid or credited	\$	<u>3613</u>	
C. Other unrecorded amounts (List)	\$	<u>3820</u>	<u>3330</u>
9. Total aggregate indebtedness	\$	<u>37407</u>	<u>3349</u>
10. Percentage of aggregate indebtedness to net capital (line 13 divided by line 10)	%	<u>9</u>	<u>3350</u>
11. Percentage of debt to debt-equity total computed in accordance with Rule 15c-3-1(d)	%		<u>3360</u>

**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 net capital computation including both brokers or dealers and consolidated subsidiaries' debits	\$	<u>3370</u>
23. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	<u>3360</u>
24. Net capital requirement (greater of line 22 or 23)	\$	<u>3750</u>
25. Excess net capital (line 10 less 24)	\$	<u>3310</u>
26. Net capital in excess of the greater of: 5% of combined aggregate debit items or 120% of minimum net capital requirement	\$	<u>3320</u>

**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 4% of aggregate debits if alternative method is used.
- (B) Do not deduct the value of securities borrowed under subordination agreements or secured demand notes covered by subordination agreements not in satisfactory form and the market values of the 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.

BROKER OR DEALER

Kensington Capital Corp

For the period (MMDDYY) from 01/01/02 3932 to 12/31/07 3933  
 Number of months included in this statement 12 3937

REVENUE

STATEMENT OF INCOME (LOSS)

Commissions:			
a. Commissions on transactions in exchange listed equity securities executed on an exchange	.....	\$ 645714	3939
b. Commissions on listed option transactions	.....		3939
c. All other securities commissions	.....		3939
d. Total securities commissions	.....	645714	3940
Gains or losses on firm securities trading accounts			
a. From market making in options on a national securities exchange	.....		3949
b. From all other trading	.....	193559	3949
c. Total gain (loss)	.....	193559	3950
Gains or losses on firm securities investment accounts			3952
Profits (losses) from underwriting and selling groups			3955
Revenue from sale of investment company shares			3970
Commodities revenue			3990
Fees for account supervision, investment advisory and administrative services			3973
Other revenue		103697	3995
e. Total revenue	.....	\$ 942970	4030

EXPENSES

10. Salaries and other employment costs for general partners and voting stockholder officers	.....	212366	4120
11. Other employee compensation and benefits	.....	150672	4125
12. Commissions paid to other brokers-dealers	.....		4148
13. Interest expense	.....		4075
a. Includes interest on accounts subject to subordination agreements	.....	4070	
14. Regulatory fees and expenses	.....	66647	4138
15. Other expenses	.....	466475	4133
16. Total expenses	.....	\$ 896160	4200

NET INCOME

17. Net income (loss) before Federal income taxes and items below (Item 9 less item 16)	.....	\$ 46810	4210
18. Provision for Federal income taxes (for parent only)	.....		4220
19. Equity in earnings (losses) of unconsolidated subsidiaries not included above	.....		4222
a. After Federal income taxes of	.....	4236	
20. Extraordinary gains (losses)	.....		4224
a. After Federal income taxes of	.....	4236	
21. Cumulative effect of changes in accounting principles	.....		4225
22. Net income (loss) after Federal income taxes and extraordinary items	.....	\$	4230

MONTHLY INCOME

23. Income (current month only) before provision for Federal income taxes and extraordinary items	.....	5639	4211
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FINANCIAL AND OPERATIONAL COMBINED UNIT OR SINGLE REPORT  
PART IIA

BROKER OR DEALER

*Kensington Capital Corp*

For the period (MMDDYY) from 01/01/09 to 12/31/09

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

1. Balance, beginning of period	.....	\$	<u>489,788</u>	<u>4240</u>
A. Net income (loss)	.....		<u>46,810</u>	<u>4250</u>
B. Additions (includes non-conforming capital of	.....	\$	<u>4252</u>	<u>4250</u>
C. Deductions (includes non-conforming capital of	.....	\$	<u>4272</u>	<u>4270</u>
2. Balance, end of period (from item 1300)	.....	\$	<u>526,598</u>	<u>4290</u>

STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED  
TO CLAIMS OF GENERAL CREDITORS

3. Balance, beginning of period	.....	\$	<u>4300</u>
A. Increases	.....		<u>4310</u>
B. Decreases	.....		<u>4300</u>
4. Balance, end of period (from item 3520)	.....	\$	<u>4310</u>

OMIT PENNIES

BROKER OR DEALER

Kensington Capital Corp

as of

12/31/02

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 ..... 4550
- B. (k) (2) (A) - "Special Account for the Exclusive Benefit of customers" maintained ..... 4550
- C. (k) (2) (B) - All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm Southwest Securities Inc. 4335 ..... 4570
- D. (k) (3)-Exempted by order of the Commission ..... 4530

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)
4600		4601	4603	4604	4605
4610		4611	4613	4614	4615
4620		4621	4623	4624	4625
4630		4631	4633	4634	4635
4640		4641	4643	4644	4645
4650		4651	4653	4654	4655
4660		4661	4663	4664	4665
4670		4671	4673	4674	4675
4680		4681	4683	4684	4685
4690		4691	4693	4694	4695
TOTAL			\$ 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

BENJAMIN EPSTEIN  
CERTIFIED PUBLIC ACCOUNTANT

TELEPHONE (718) 376-0593

1301 AVENUE O  
BROOKLYN, NEW YORK 11230

To the Stockholders  
**KENSINGTON CAPITAL CORP.**  
Brooklyn, New York

I have examined the accompanying financial statements of KENSINGTON CAPITAL CORP. for the year ended December 31, 2002, and have issued my report thereon dated February 5, 2003. As part of my examination, I made a study and evaluation of the Company's system of internal accounting control to the extent I considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of my study and evaluation, which included obtaining an understanding of the accounting system, was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements.

I also made a study of the practices and procedures followed by the Company under Rule 17a-5(g)(1) and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3. I 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 Governor of the Federal Reserve System because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining a system of internal accounting control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control 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. The objectives of a system and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

.../..

To the Stockholders  
KENSINGTON CAPITAL CORP.

Because of inherent limitations in any internal accounting control procedures or the practices and procedures referred to above, errors or irregularities may, nevertheless, 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 degree of compliance with them may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of internal accounting control of KENSINGTON CAPITAL CORP. taken as a whole. However, my study and evaluation disclosed no condition that we believed to be a material weakness.

I 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, I believe that the Company's practices and procedures were adequate at December 31, 2002 to meet the Commission's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission and the New York Stock Exchange and should not be used for any other purpose.



Benjamin Epstein  
Certified Public Accountant

Brooklyn, NY  
February 5, 2003

**KENSINGTON CAPITAL CORP.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2002**

BENJAMIN EPSTEIN  
CERTIFIED PUBLIC ACCOUNTANT

TELEPHONE (718) 376-0593

1301 AVENUE O  
BROOKLYN, NEW YORK 11230

INDEPENDENT AUDITOR'S REPORT

To the Stockholders  
**KENSINGTON CAPITAL CORP.**  
Brooklyn, New York

I have audited the accompanying statement of financial condition of **KENSINGTON CAPITAL CORP.** as of December 31, 2002 and the related statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on the audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **KENSINGTON CAPITAL CORP.** as of December 31, 2002 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.

  
Benjamin Epstein  
Certified Public Accountant

Brooklyn, NY  
February 5, 2003

KENSINGTON CAPITAL CORP.  
Statement of Financial Condition  
December 31, 2002

ASSETS

Cash	\$	86,414
Money Market Account		211,274
Due from Broker		55,671
Prepaid Expenses and Other Receivables		87,206
Prepaid Corporate Taxes		
Securities - Long		137,803
Furniture, Fixtures and Equipment, at cost, less accumulated depreciation of \$139,633		1,239
Security Deposit		3,232
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>582,839</b>

LIABILITIES AND STOCKHOLDERS' EQUITY

Accrued Expenses and Payroll Taxes	\$	20,435
Accrued Salaries		10,611
Due to Broker		6,361
Securities Sold - Not Yet Purchased		18,834
<b>Total Liabilities</b>		<b>56,241</b>
Stockholders' Equity		
Common Stock - no par value; authorized, issued and outstanding, 200 shares		40,000
Additional Paid-in Capital		271,738
Retained Earnings		214,860
<b>Total Stockholder's Equity</b>		<b>526,598</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$</b>	<b>582,839</b>

See Accountants' Report and Notes to Financial Statements

KENSINGTON CAPITAL CORP.  
 Statements of Income and Retained Earnings  
 For the Year Ended December 31, 2002

INCOME	
Commission Revenue	\$ 645,714
Profit on Securities Trading (Note 9)	193,559
Interest and Dividend Income	51,672
Other Income	52,025
	<hr/>
Total Income	942,970
OPERATING EXPENSES	
Salaries - Officers	212,366
Salaries - Other	150,672
Clearance Charges	114,968
Professional Fees	26,020
Rent	20,022
Registration & Filing Fees	66,647
Telephone	18,279
Interest and Bank Charges	78
Travel Expenses	40,978
Office Expense	12,300
Insurance	89,132
Auto Expenses	23,108
Depreciation	15,211
Miscellaneous Taxes	31,949
Advertising and Promotion	51,050
Customer writeoff	10,851
Miscellaneous Expenses	7,510
Repairs and Maintenance	851
	<hr/>
Total Operating Expenses	891,992
	<hr/>
Operating Income	50,978
Provision for Income Taxes	4,168
	<hr/>
Net Income	46,810
Retained Earnings - Beginning of Year	178,050
Less: Shareholder Distributions	( 10,000)
	<hr/>
Retained Earnings - End of Year	\$ 214,860
	<hr/> <hr/>

See Accountants' Report and Notes to Financial Statements

KENSINGTON CAPITAL CORP.  
Statement of Cash Flows  
For the Year Ended December 31, 2002

Cash flows from operating activities:

Net income	<u>\$ 46,810</u>
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	15,211
Changes in Assets and Liabilities:	
Securities	128,399
Due to/from Broker	(173,489)
Loans & Exchanges	14,864
Accrued Expenses & Payroll Taxes	3,862
Accrued Salaries	( 22,561)
Securities Sold-Not Yet Purchased	15,666
Total adjustments	<u>( 18,048)</u>
Net cash provided (used) by operating activities	<u>28,762</u>

Cash flows from investing activities:

Purchase Fixed Assets	<u>( 3,000)</u>
Net cash provided (used) by investing activities	<u>( 3,000)</u>

Cash flows from financing activities:

Distributions to Shareholders	( 10,000)
Net cash provided (used) by financing activities	<u>( 10,000)</u>

Net increase (decrease) in cash and equivalents	15,762
Cash and equivalents, beginning	<u>70,652</u>
Cash and equivalents, ending	<u>\$ 86,414</u>

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Income taxes	225
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See accountant's report and notes to financial statements

**KENSINGTON CAPITAL CORP.**

**Notes to Financial Statements**

**December 31, 2002**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

For financial statement purposes and income tax purposes, KENSINGTON CAPITAL CORP. (the "Company") records revenues and expenditures on the accrual basis of accounting.

Depreciation:

Depreciation is computed using the straight-line method over the estimated useful life.

Cash and Cash Equivalents:

The Company considers all short term investments with an original maturity of three months or less to be cash equivalents.

**NOTE 2- DUE FROM BROKER**

The Company's securities transactions are cleared through Southwest Securities, and all the Company's trading accounts and customer's accounts are carried by Southwest Securities. Southwest Securities remits to the Company all profit on the Company's trading accounts and all commissions due net of clearance charges, trading errors and miscellaneous related charges, at the end of the month.

**NOTE 3 - SECURITIES**

Securities consist of marketable equity securities at quoted market values.

**NOTE 4 - SECURITIES SOLD - NOT YET PURCHASED**

Securities Sold-Not Yet Purchased consist of marketable equity securities at quoted market values.

**NOTE 5 - FIXED ASSETS**

Fixed assets consist of the following:

	<u>Accumulated</u>	<u>Net Book</u>			
			<u>Cost</u>	<u>Depreciation</u>	<u>Value</u>
Furniture & Fixtures			\$ 75,051	\$ 75,051	\$ -0-
Computer Equipment			63,321	63,282	39
Automobile			<u>2,500</u>	<u>1,300</u>	<u>1,200</u>
		Total	<u>\$140,872</u>	<u>\$139,633</u>	<u>\$ 1,239</u>

See Accountants' Report

**KENSINGTON CAPITAL CORP.**  
**Notes to Financial Statements**  
**December 31, 2002**  
**(continued)**

**NOTE 6 - PROFIT ON TRADING**

This amount includes unrealized gains (losses) on securities, as follows:

Securities	\$5,446
Securities Sold Not Yet Purchased (Short Sales)	5,414

**NOTE 7 - INCOME TAXES**

The Company has elected, by unanimous consent of its shareholders to be taxed under the provisions of sub-Chapter S of the Internal Revenue Code. Accordingly, no provisions or liability for Federal income taxes is reflected in the accompanying statements. Instead, the shareholders are liable for individual income taxes on their respective share of the Company's taxable income.

Provision for income taxes consists of the following:

New York State Corporation Tax	\$ 193
New York City Corporation Tax	<u>3,750</u>
Total	\$3,943

**NOTE 8 - INTERNAL CONTROL**

No material inadequacies were found to exist.

**NOTE 9 - NET CAPITAL**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). The following data has been excerpted from the Company's Focus Report for the year ended:

Net Capital	\$407,165
Required Net Capital	\$100,000
Excess Net Capital	\$307,165
Ratio of Aggregate Indebtedness to Net Capital	.09

See Accountants' Report

**KENSINGTON CAPITAL CORP.**  
**Notes to Financial Statements**  
**December 31, 2002**  
**(continued)**

**NOTE 10 - DISTRIBUTIONS TO SHAREHOLDERS**

In accordance with the loan agreements and shareholders' employment agreement, the shareholders are entitled to receive corporation distributions or shareholder/officer bonuses equal to the additional individual income taxes incurred for their proportionate share of the Company's taxable income.

During the twelve (12) months ended December 31, 2002, the Company distributed to the shareholders from retained earnings, \$10,000.

See Accountants' Report

**KENSINGTON CAPITAL CORP.**  
**RECONCILIATION BETWEEN UNAUDITED AND AUDITED FOCUS REPORTS**  
**DECEMBER 31, 2002**

There were no differences between audited and unaudited focus reports.