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UNITED STATES  
SECURITIES AND EXCHANGE  
COMMISSION  
Washington, DC 20549



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

SEC FILE NUMBER  
8-21817

**FACING PAGE**

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

REPORT FOR THE PERIOD BEGINNING January 1, 2002 AND ENDING December 31, 2002  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

Federal Street Capital, Inc.

OFFICIAL USE ONLY  
FIRM ID. NO.

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

50 Federal Street

(No. and Street)

Boston

Massachusetts

02110

(City)

(State)

(Zip Code)

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

Andrew D. Clapp, President

(617) 451-2450

(Area Code — Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Darmody, Merlino & Co., LLP

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

75 Federal Street

Boston

Massachusetts

02110

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

**PROCESSED**

**MAR 11 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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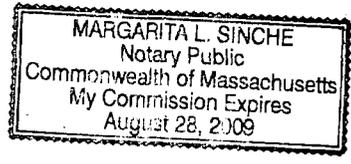
OATH OR AFFIRMATION

Andrew D. Clapp, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of \_\_\_\_\_, as of December 31, 2002, are true and correct. I further swear (or affirm) that neither the company or any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of customer, except as follows:

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

*Andrew D. Clapp*  
Signature  
President  
Title

*Margarita L. Sinche*  
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.
  - (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.
  - (o) Independent Auditor's Report on Internal Accounting Control.

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

FEDERAL STREET CAPITAL, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2002

FEDERAL STREET CAPITAL, INC.

FINANCIAL STATEMENTS  
DECEMBER 31, 2002

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# Darmody, Merlino & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS

75 Federal Street, Boston, Massachusetts 02110-1997

JOHN P. DARMODY, CPA - 1938 - 1961  
PHILIP P. MCDONNELL, CPA - 1962 - 1995

RANK A. MERLINO, CPA  
GEORGE J. McDONALD, CPA  
ROBERT J. BOYLE, CPA  
D. DENNIS BARBO, CPA  
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(617) 426-7300  
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<http://www.darmodymerlino.com>

## Independent Auditor's Report

To the Board of Directors  
Federal Street Capital, Inc.  
Boston, Massachusetts

We have audited the accompanying balance sheet of Federal Street Capital, Inc. as of December 31, 2002, and the related statements of operations and deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federal Street Capital, Inc. 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.

***Darmody, Merlino & Co., LLP***

January 23, 2003

FEDERAL STREET CAPITAL, INC.BALANCE SHEET - DECEMBER 31, 2002ASSETS

## CURRENT ASSETS:

Cash and cash equivalents	\$ 19,792	
Prepaid expenses	<u>5,504</u>	
Total current assets		<u>\$25,296</u>
		<u>\$25,296</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

## CURRENT LIABILITIES:

Accrued expenses		\$ 3,150
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## STOCKHOLDERS' EQUITY:

Common stock, par value \$0.01 per share, authorized and issued 2,000 shares, 666 shares in the treasury, 1,334 shares outstanding	\$ 5,000	
Additional paid-in capital	43,752	
Deficit - EXHIBIT B	<u>(26,606)</u>	
Total stockholders' equity		<u>22,146</u>
Total liabilities and stock- holders' equity		<u>\$25,296</u>

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

FEDERAL STREET CAPITAL, INC.STATEMENT OF OPERATIONS AND DEFICIT  
FOR THE YEAR ENDED DECEMBER 31, 2002

OPERATING REVENUES:		
Placement fees		\$ 210,684
OPERATING EXPENSES:		
Commission expense	\$ 113,268	
Administrative services	40,950	
Rent expense	24,787	
Legal fees	9,601	
Office expense	6,318	
Regulatory fees and licenses	5,380	
Accounting and auditing	4,400	
Consulting expense	3,037	
Travel	1,858	
Training expense	609	
Taxes	<u>541</u>	
Total operating expenses		<u>210,749</u>
OPERATING LOSS		( 65)
OTHER INCOME (LOSS):		
Loss on disposal of investments	( 2,800)	
Miscellaneous income	402	
Interest income	<u>337</u>	
Total other income (loss)		<u>( 2,061)</u>
NET LOSS		( 2,126)
DEFICIT, JANUARY 1, 2002		<u>( 24,480)</u>
DEFICIT, DECEMBER 31, 2002 - EXHIBIT A		<u><u>\$ ( 26,606)</u></u>

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

FEDERAL STREET CAPITAL, INC.STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2002INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	\$( 2,126)
Adjustment to reconcile net income to net cash provided by operating activities:	
Loss on sale of investment security	\$ 2,800
Increase in:	
Prepaid expenses	(3,463)
Accrued expense	<u>3,150</u>
Total adjustments	<u>2,487</u>
Net cash provided by operating activities	361
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of investment security	500
CASH FLOWS FROM FINANCING ACTIVITIES:	
Return of capital to shareholders	<u>(16,430)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(15,569)
CASH AND CASH EQUIVALENTS, JANUARY 1, 2002	<u>35,361</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31, 2002	<u>\$ 19,792</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

CASH PAID DURING THE YEAR FOR:	
Income taxes	\$ 456

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

FEDERAL STREET CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002

Note 1: SUMMARY OF BUSINESS OPERATIONS AND SIGNIFICANT ACCOUNTING  
POLICIES

Organization:

The Company is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers (NASD).

The Company's operations consist of selling private venture capital interests in various investments.

During 2001, the stock of the Company was sold to an investor group and the Company changed its name from Bradford Gordon, Inc. to Federal Street Capital, Inc.

Cash and Cash Equivalents:

The Corporation considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Income Taxes:

The Company, with the consent of its stockholders, filed an election with the Internal Revenue Service to be classified as an S corporation for Federal and state income tax purposes. Consequently, the stockholders are generally taxed on their proportionate share of the Company's taxable income. These financial statements reflect only a minimum state income tax provision.

Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FEDERAL STREET CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2002

Note 2: NET CAPITAL REQUIREMENTS

As a member of the National Association of Security Dealers and under Rule 15c3-1 of the Securities and Exchange Act of 1934, the Corporation is required to maintain net capital of \$5,000 or 1/5 of the aggregate indebtedness, whichever is greater. Aggregate indebtedness must not exceed net capital, as those terms are defined by a ratio of more than 15 to 1. At December 31, 2002, the Corporation had net capital and required net capital of \$16,642 and \$5,000, respectively, and its ratio of aggregate indebtedness to net capital was .19 to 1.

Note 3: RELATED PARTY TRANSACTIONS

Placement fees are derived from the sale of venture capital interests in investments which the shareholders of the Corporation are also investors and managers. During the year ended December 31, 2002, the Company received \$210,684 in commissions from the sale of these interests. The Company also paid \$84,688 in commissions to officers and shareholders for their part in the placement and managing of these investments.

During the year, the Company entered into an agreement to rent office space from this entity for \$23,560 per year. For the year ended December 31, 2002, rental expense was \$24,787. Additionally, Federal Street Capital, Inc. has agreed to pay administrative and consulting fees to this related party. For the year ending December 31, 2002, these fees included:

Consulting	\$ 3,037
Administrative expense	<u>40,950</u>
	<u>\$43,987</u>

Note 4: DISCLOSURE OF SIGNIFICANT RISKS AND UNCERTAINTIES

Concentrations:

The Company operates principally in a single industry and geographical location. The Company had revenue of \$210,864 during 2002 from the sale of interests in venture capital.