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

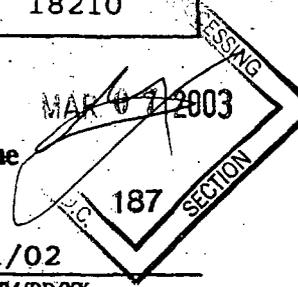
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OMB Number:	3235-0123
Expires:	September 30, 1998
Estimated average burden hours per response . . .	12.00

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**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 01/01/02 AND ENDING 12/31/02  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

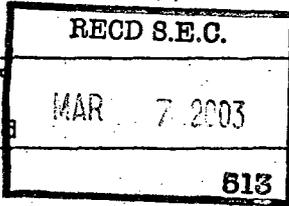
**NAME OF BROKER-DEALER:**

Peremel & Co., Inc.

OFFICIAL USE ONLY
FIRM ID. NO.

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

1829 Reisterstown Road, Suite 120



Baltimore,

(No. and Street)

Maryland

21208

(City)

(State)

(Zip Code)

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

Harold Peremel

410-486-4700

(Area Code - Telephone No.)

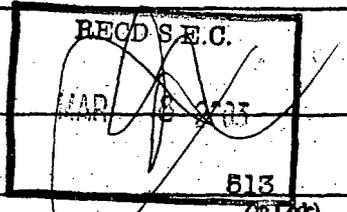
**B. ACCOUNTANT IDENTIFICATION**

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

Glass Jacobson

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

10711 Red Run Blvd., Suite 101, Owings Mills, Maryland 21117



(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 24 2003

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THOMSON FINANCIAL

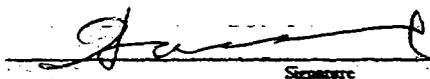
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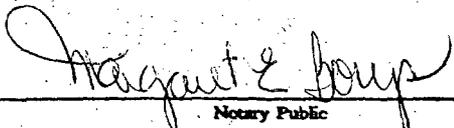
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OATH OR AFFIRMATION

I, Harold Peremel, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Peremel & Co., Inc., 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:

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

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

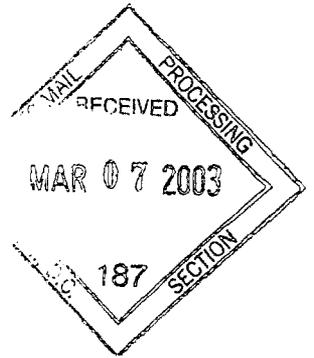
  
\_\_\_\_\_  
Notary Public

My Commission Expires 4/25/06

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).



**PEREMEL & CO., INC.**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002 AND 2001**

PEREMEL & CO., INC.  
FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

TABLE OF CONTENTS

	<u>PAGE</u>
<b>INDEPENDENT AUDITOR'S REPORT</b> .....	1
<b>FINANCIAL STATEMENTS:</b>	
STATEMENTS OF FINANCIAL CONDITION.....	2
STATEMENTS OF INCOME (LOSS).....	3
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY.....	4
STATEMENTS OF CASH FLOWS .....	5
NOTES TO THE FINANCIAL STATEMENTS .....	6 - 13
<b>ADDITIONAL INFORMATION:</b>	
INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION.....	14
SCHEDULES OF OPERATING EXPENSES .....	15
INDEPENDENT AUDITOR'S REPORT ON INTERNAL ACCOUNTING CONTROL .....	16 - 17



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of  
Peremel & Co., Inc.  
Baltimore, Maryland

We have audited the accompanying statements of financial condition of Peremel & Co., Inc. as of December 31, 2002 and 2001, and the related statements of income (loss), changes in stockholders' equity, and cash flows for the years then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. 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 audits.

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 Peremel & Co., Inc., as of December 31, 2002 and 2001, and the results of their operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

  
Owings Mills, Maryland  
February 6, 2003

PEREMEL & CO., INC.  
 STATEMENTS OF FINANCIAL CONDITION  
 DECEMBER 31, 2002 AND 2001

	2002	2001
<b>ASSETS</b>		
Cash and cash equivalents	\$ 537,249	\$ 206,178
Deposits with clearing organization	50,000	50,000
Investments	511,908	754,192
Receivables - stockholder	25,000	25,000
- other	1,012	412
Prepaid expenses	21,215	19,155
Income taxes receivable	-	23,662
Property and equipment, net	57,634	42,975
Deferred income taxes	-	2,500
Deposits	6,000	6,000
<b>TOTAL ASSETS</b>	<b>\$ 1,210,018</b>	<b>\$ 1,130,074</b>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Line of credit	\$ 29,000	\$ 20,000
Accounts payable	94,988	88,167
Accrued expenses	50,482	78,265
Total liabilities	174,470	186,432
<b>STOCKHOLDERS' EQUITY</b>	1,035,548	943,642
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 1,210,018</b>	<b>\$ 1,130,074</b>

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

PEREMEL & CO., INC.  
 STATEMENTS OF INCOME (LOSS)  
 FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
<b>NET REVENUES</b>		
Commissions - securities	\$ 1,787,589	\$ 1,986,222
- mutual funds	159,268	64,795
Interest income	64,770	102,720
Dividend income	24,094	21,183
Net (loss) on investments	<u>(97,576)</u>	<u>(32,388)</u>
 Total net revenues	 1,938,145	 2,142,532
<b>OPERATING EXPENSES</b>	<u>1,843,571</u>	<u>2,144,645</u>
 <b>INCOME (LOSS) BEFORE INCOME TAXES</b>	 <u>94,574</u>	 <u>(2,113)</u>
 <b>PROVISION (BENEFIT) FOR INCOME TAXES</b>		
Current	168	65,795
Deferred	<u>2,500</u>	<u>(1,500)</u>
	<u>2,668</u>	<u>64,295</u>
 <b>NET INCOME (LOSS)</b>	 <u>\$ 91,906</u>	 <u>\$ (66,408)</u>

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

PEREMEL & CO., INC.  
 STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
 FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Common Stock	Additional Paid-In Capital	Retained Earnings	Total
BALANCE AT DECEMBER 31, 2000	\$ 15,000	\$ 5,000	\$ 990,050	\$ 1,010,050
NET (LOSS) FOR THE YEAR ENDED DECEMBER 31, 2001	-	-	(66,408)	(66,408)
BALANCE AT DECEMBER 31, 2001	15,000	5,000	923,642	943,642
NET INCOME FOR THE YEAR ENDED DECEMBER 31, 2002	-	-	91,906	91,906
BALANCE AT DECEMBER 31, 2002	<u>\$ 15,000</u>	<u>\$ 5,000</u>	<u>\$ 1,015,548</u>	<u>\$ 1,035,548</u>

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

PEREMEL & CO., INC.  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 91,906	\$ (66,408)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,691	15,018
Unrealized loss (gain) on marketable equity securities	68,972	(190,532)
Deferred income taxes	2,500	(1,500)
 (Increase) decrease in assets:		
Receivables	(600)	(252)
Prepaid expenses	(2,060)	(42)
Investments	173,312	135,176
 Increase (decrease) in liabilities:		
Accounts payable	6,822	(28,421)
Accrued expenses	(27,783)	35,633
Income taxes payable	23,662	(40,012)
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	351,422	(141,340)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(29,351)	(786)
 NET CASH (USED) BY INVESTING ACTIVITIES	(29,351)	(786)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds (repayments) under line of credit	9,000	9,000
Repayment of debt	-	(1,985)
 NET CASH PROVIDED BY FINANCING ACTIVITIES	9,000	7,015
 NET INCREASE (DECREASE) IN CASH	331,071	(135,111)
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	206,178	341,289
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 537,249	\$ 206,178
 Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 3,543	\$ 4,466
 Cash paid during the year for taxes	\$ -	\$ 105,807

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

PEREMEL & CO., INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

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

**Description of Business**

Peremel & Co., Inc. is an introducing broker-dealer registered with the Securities and Exchange Commission and is a member of the National Association of Securities Dealers. The Company has one office located in Baltimore, Maryland. The Company's customer base, while solicited nationwide, consists primarily of those located in the Mid-Atlantic region. The Company uses a national clearing house for all of its transactions and for customers on a fully disclosed basis. The receivables from individuals exist only on the books of the clearing house. The Company in turn, only books receivables that the clearing house has collected. The Company has never encountered a collection problem.

**Method of Accounting**

The financial statements are prepared on the accrual basis of accounting.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**Investments**

Investments in marketable securities are stated at fair market value. Realized and unrealized gains are included in income.

**Depreciation**

Property and equipment are stated at historical cost, less accumulated depreciation. Depreciation is computed over the estimated useful lives of the depreciable assets using the straight-line method. The estimated useful lives of the assets are as follows:

Computer equipment	5 years
Furniture and fixtures	5 – 10 years
Leasehold improvements	10 years

**Income Taxes**

The Company with the consent of its shareholders, has elected under the Internal Revenue Code to be an S Corporation effective January 1, 2002. In lieu of corporation income taxes, the shareholders of an S Corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no liability for income taxes has been provided.

PEREMEL & CO., INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue and Expense Recognition**

Securities transactions and related revenues and expenses are recorded on a settlement date basis, generally the third business day following the transaction date.

**Reserve Requirements**

Computation of 15c3-3 reserve requirements is not necessary for Peremel & Co., Inc. The Company qualifies under the Exemptive Provision of Rule 15c3-3. The qualifying section that applies is (k)(2)(ii).

**Estimates and Assumptions**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

**NOTE 2- CASH**

The Company maintains cash balances at a bank and a brokerage firm which exceeds the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) insurance limits for the fiscal years ended December 31, 2002 and 2001. The following is a summary of these balances at December 31,

	<b>2002</b>	<b>2001</b>
Company's cash balance	\$ 537,249	\$ 206,178
Plus: Outstanding reconciling items	846	1,988
Bank's and brokerage firm's cash balance	538,095	208,166
Less: FDIC insurance limit	( 100,000)	( 100,000)
Less: SIPC insurance limit	( 370,350)	( 56,119)
<b>Amounts in excess of insurance limits</b>	<b>\$ 67,745</b>	<b>\$ 52,047</b>

PEREMEL & CO., INC.  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2002 AND 2001

**NOTE 3- INVESTMENTS**

As a broker-dealer, the Company is excluded from accounting for marketable securities under SFAS 115, Accounting for Certain Investments in Debt and Equity Securities. Marketable equity securities owned are shown in the balance sheet at their fair market value.

At December 31, market values of investments were as follows:

	<b>2002</b>	<b>2001</b>
Aggregate cost	\$ 662,070	\$ 796,193
Gross unrealized (loss)	( 150,162)	( 42,001)
<b>Market value</b>	<b>\$ 511,908</b>	<b>\$ 754,192</b>

Net realized (losses) from the sale of marketable equity securities in the amount \$(28,605) and \$(146,400) are included in net income for the years ended December 31, 2002 and 2001, respectively. For the years ended December 31, 2002 and 2001, the investments incurred \$1,799 and \$2,029, respectively, in margin interest expense.

**NOTE 4- PROPERTY AND EQUIPMENT, NET**

At December 31, property and equipment consists of the following:

	<b>2002</b>	<b>2001</b>
Computer equipment	\$ 71,094	\$ 41,743
Furniture and fixtures	59,094	59,094
Leasehold improvements	20,756	20,756
	150,944	121,593
Less: accumulated depreciation	93,310	78,618
<b>Property and equipment, net</b>	<b>\$ 57,634</b>	<b>\$ 42,975</b>

Depreciation expense was \$14,691 and \$15,018 for the years ended December 31, 2002 and 2001, respectively.

PEREMEL & CO., INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

**NOTE 5- LINE OF CREDIT**

The Company has a \$90,000 revolving line of credit due upon demand. Draws on the line amount to \$29,000 and \$20,000 as of December 31, 2002 and 2001. The line is secured by assets on deposit at the bank. The line bears interest at the bank's prime rate. Interest expense was \$1,744 and \$2,430 for the years ending December 31, 2002 and 2001, respectively.

**NOTE 6- STOCKHOLDERS' EQUITY**

The Company is authorized to issue 50,000 shares of \$1 par value Class A common stock with voting rights, of which 15,000 shares were issued and outstanding as of December 31, 2002 and 2001.

The Company is authorized to issue 50,000 shares of \$1 par value Class B common stock with no voting rights, of which no shares were issued and outstanding as of December 31, 2002 and 2001.

**NOTE 7- INCOME TAXES**

At December 31, the provision for income taxes consists of the following:

	<u>2002</u>	<u>2001</u>
Income taxes currently due		
Federal	\$ -	\$ (26,241)
State	-	2,579
(Over)/under accrual from previous year	168	89,457
Deferred taxes	<u>2,500</u>	<u>(1,500)</u>
<b>Provision (benefit) for income taxes</b>	<u>\$ 2,668</u>	<u>\$ 64,295</u>

PEREMEL & CO., INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

**NOTE 7- INCOME TAXES (CONTINUED)**

At December 31, deferred tax assets (liabilities) consists of the following:

	<b>2002</b>	<b>2001</b>
Amortization	\$ -	\$ 8,090
Depreciation	-	(5,590)
Unrealized gain (loss) on investments	-	(42,001)
	-	(39,501)
<b>Gross deferred tax asset (liability)</b>	-	(39,501)
<b>Valuation allowance</b>	-	42,001
	-	42,001
<b>Net deferred tax asset (liability)</b>	\$ -	\$ 2,500

The amount of deferred tax asset (liability) is disclosed in the financial statements as follows:

	<b>2002</b>	<b>2001</b>
Currently deferred tax asset	\$ -	\$ 900
Long-term deferred tax asset	-	1,600
	-	2,500
<b>Market value</b>	\$ -	\$ 2,500

Due to uncertainty regarding the levels of future capital gains, the Company has recorded a valuation allowance to reflect the estimated amount of deferred tax assets which may not be realized. As of December 31, 2001, a valuation allowance has been recorded in the amount of \$ 42,001.

PEREMEL & CO., INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

**NOTE 8- ADVERTISING**

Advertising costs, which are principally included in operating expenses, are expensed as incurred. Advertising expense was \$59,156 and \$198,321 for the years ended December 31, 2002 and 2001, respectively.

**NOTE 9- COMMITMENTS**

Leases

The Company exercised its lease renewal option for office space commencing on May 1, 2000 and expiring on April 30, 2004. In addition to a base rent, the lease includes annual cost of living increases and common area expenses. Annual minimum rentals for future years are as follows:

December 31, 2003	\$ 76,246
2004	<u>25,572</u>
	<u>\$ 101,818</u>

Total rent expense charged to operations was \$87,435 and \$87,220 for the years ended December 31, 2002 and 2001, respectively.

**NOTE 10- NET CAPITAL RULE**

As a registered broker-dealer, the Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires that the Company maintain minimum net capital, as defined, of \$100,000 and that aggregate indebtedness, as defined, shall not exceed fifteen times net capital. The Company may declare dividends or acquire certain non-liquid assets only to the extent of net capital in excess of such requirements.

PEREMEL & CO., INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

**NOTE 10- NET CAPITAL RULE (CONTINUED)**

A computation as of December 31, 2002 of the Company's aggregate indebtedness and net capital under the Securities and Exchange Commission Uniform Net Capital Rule is as follows:

Aggregate indebtedness		<u>\$ 174,470</u>
Net capital:		
Stockholders' equity:		
Common stock		15,000
Additional paid in capital		5,000
Retained earnings		<u>1,015,548</u>
Total stockholders' equity qualified for net capital		1,035,548
Non-allowable assets:		
Cash securing line of credit	29,000	
Receivables	26,012	
Prepaid expenses	21,215	
Property and equipment, net	57,634	
Deposits	<u>6,000</u>	<u>(139,861)</u>
Net capital before haircuts on securities positions		895,687
Haircuts on securities		<u>(84,258)</u>
Net capital		<u>\$ 811,429</u>
Percentage of aggregate indebtedness to net capital		<u>21.5%</u>

PEREMEL & CO., INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

**NOTE 11- FOCUS REPORT RECONCILIATION**

There are no material differences between the net capital computation as set forth in Note 10 and the computation originally filed by the Company on Securities and Exchange Commission Form X-17a-5 (Focus Report-Part IIA) as of December 31, 2002, dated January 23, 2003 except as follows:

Balance as previously reported		\$ 864,708
Adjustments: (Increase) in operating expenses	\$ (19,036)	
(Increase) in non-allowable assets	<u>(34,243)</u>	<u>(53,279)</u>
Balance as set forth in Note 10		<u>\$ 811,429</u>

**NOTE 12- RETIREMENT PLANS**

The Company has instituted, as of 1999, a 401(k) Retirement Plan which covers substantially all employees. The Company has agreed to match half of the employees' salary reduction, up to a maximum of 3.0% of each employee's salary annually. The Company may also make discretionary contributions to the plan. Contributions to the plan were \$14,323 and \$15,590 for the years ended December 31, 2002 and 2001, respectively.

**NOTE 13- SUBSEQUENT EVENTS**

Subsequent to year-end the stockholders of the Company have entered into an agreement to sell all of the outstanding stock of the Company to a third party. The transaction is currently expected to close during the first calendar quarter of 2003.



**INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION  
REQUIRED BY RULE 17a-5 OF THE SECURITIES AND EXCHANGE COMMISSION**

To the Board of Directors  
Peremel & Co., Inc.  
Baltimore, Maryland

We have audited the accompanying financial statements of Peremel & Co., Inc. as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated February 6, 2003. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the accompanying schedules is presented for purposes of additional analyses and is not a required part of the basic financial statements, but is additional information required by rule 17a-5 under the Securities Exchange Act of 1934. 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.

  
Owings Mills, Maryland  
February 6, 2003

PEREMEL & CO., INC.  
SCHEDULES OF OPERATING EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
Salaries - officers	\$ 512,200	\$ 523,300
- others	645,231	727,188
Payroll taxes	65,036	70,030
Advertising	59,156	198,321
Computer expenses	13,752	18,191
Conferences	270	-
Contributions	1,050	150
Depreciation	14,691	15,018
Entertainment	11,955	10,378
Gifts	50	1,372
Insurance	43,836	76,027
Interest	3,543	4,466
Office expenses	70,383	63,251
Pension contributions and expenses	17,679	18,383
Professional fees	59,822	63,161
Rent and utilities	87,435	87,220
Research	25,562	37,140
Service fees	14,296	18,083
Stationary and printing	9,684	14,443
Taxes and licenses	13,339	15,012
Telephone	20,881	30,946
Travel	19,487	22,444
Wire services, communications and internet	134,233	130,121
	<u>\$ 1,843,571</u>	<u>\$ 2,144,645</u>

See independent auditor's report on additional information.



## INDEPENDENT AUDITOR'S REPORT ON INTERNAL ACCOUNTING CONTROL

Board of Directors and Stockholders  
Peremel & Co., Inc.  
Baltimore, Maryland

In planning and performing our audit of the financial statements of Peremel & Co., Inc., for the years ended December 31, 2002 and 2001, we considered its internal control, 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.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by Peremel & Co., Inc., 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 (or aggregate debits) 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 securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following: (1) making the quarterly securities examinations, counts, verifications and comparisons; (2) recordation of differences required by rule 17a-13; (3) complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company 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 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 SEC's 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 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.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL ACCOUNTING CONTROL**  
**(Continued)**

Because of inherent limitations in any internal control or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation 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 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 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, including procedures 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 SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2002 and 2001 to meet the SEC's objectives.

This report is intended solely for the use of the Board of Directors, management, the SEC, 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 should not be used for any other purpose.

  
Owings Mills, Maryland  
February 6, 2003