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

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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 January 1, 2002 AND ENDING December 31, 2002
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: ROOSEVELT & CROSS, INCORPORATED

OFFICIAL USE ONLY
FIRM I.D. NO.

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

(No. and Street)

NEW YORK

NEW YORK

10005

(City)

(State)

(Zip Code)

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

RAYMOND J. O'SULLIVAN

(212) 344-2500

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

LOUIS STERNBACH & COMPANY, LLP

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

1333 BROADWAY - SUITE 516

NEW YORK

NY

10018

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

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FINANCIAL

Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

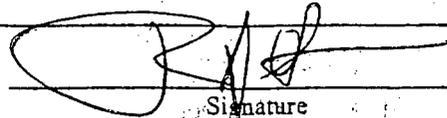
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SEC 1410 (06-02)

OATH OR AFFIRMATION

I, Raymond J. O'Sullivan, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Roosevelt & Cross, Incorporated, 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:

MARIA A. BARREIRO
Notary Public, State of New York
No. 31-4767565
Qualified in New York County
Commission Expires Feb. 28, 2004


Signature

Chief Financial Officer
Title


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 Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (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).

ROOSEVELT & CROSS, INCORPORATED

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2002

ROOSEVELT & CROSS INCORPORATED

FINANCIAL STATEMENTS AND SCHEDULES

Independent Auditors' Report

Statement of Financial Condition as of December 31, 2002

Statement of Income for the year ended December 31, 2002

Statement of Changes in Shareholders' Equity for the year ended December 31, 2002

Statement of Changes in Liabilities Subordinated to Claims of General Creditors

Statement of Cash Flows for the year ended December 31, 2002

Notes to Financial Statements

Schedules:

Computation of Net Capital

Computation of Aggregate Indebtedness

Computation of Basic Net Capital Requirement

Reconciliation of Net Capital to Submitted Unaudited Net Capital

Computation for Determination of Reserve Requirements for Broker Dealers
under Rule 15C3-3

Reconciliation of Computation for Determination of Reserve Requirements for Broker
Dealers under Rule 15C3-3 to Submitted Unaudited Report

Accountants' Report on Internal Control

LOUIS STERNBACH & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors
Roosevelt & Cross Incorporated

We have audited the accompanying statement of financial condition of Roosevelt & Cross Incorporated as of December 31, 2002, and the related statements of income, changes in shareholders' equity, changes in liabilities subordinated to claims of general creditors, 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 Roosevelt & Cross Incorporated 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

February 3, 2003
New York, New York

ROOSEVELT & CROSS INCORPORATED
STATEMENT OF FINANCIAL CONDITION

AS OF DECEMBER 31, 2002

ASSETS

CURRENT ASSETS

Cash in bank	\$ 839,185
Special reserve bank account	100
Due from customers	873,542
Receivables from joint ventures	640,759
Interest receivable - State and Municipal Government Obligations	399,822
State and Municipal Government Obligations, at market value	62,175,202
United States Government Obligations, at market value	1,999,375
Bonds failed to deliver	118,911
Good faith deposits	71,923
Other receivables	13,604
Redemptions receivable	23,600
Miscellaneous current assets	<u>87,300</u>
<u>Total Current Assets</u>	67,243,323

FIXED ASSETS

Office furniture, fixtures and equipment	\$ 618,329
Leasehold improvements	293,699
Computers	<u>840,942</u>
	1,752,970
Less: Accumulated depreciation	<u>1,584,126</u>
<u>Total Fixed Assets</u>	168,844

OTHER ASSETS

Deposits	<u>429,510</u>
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\$67,841,677

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Demand note payable	\$ 40,843,130
Bonds failed to receive	230,289
State and municipal government obligations - at market value	132,489
Due to customers	1,292,005
Accrued expenses and taxes payable	<u>4,215,678</u>
<u>Total Liabilities</u>	46,713,591

COMMITMENTS AND CONTINGENT LIABILITIES

SHAREHOLDERS' EQUITY

Common stock	- \$10 par value	
Authorized	- 500,000 shares	
Issued and outstanding	- 200,369 shares	\$ 2,003,690
Capital in excess of par value		10,536,719
Retained earnings		<u>8,587,677</u>
<u>Total Shareholders' Equity</u>		<u>21,128,086</u>

\$67,841,677

ROOSEVELT & CROSS INCORPORATED

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2002

INCOME

Trading profits	\$20,988,506
Interest	1,539,519
Other income	<u>5,562,572</u>
<u>Total Income</u>	28,090,597

EXPENSES

Salaries	\$20,397,417
Interest	212,379
Rent	411,412
Clearance charges	499,504
Payroll and other taxes	605,139
Promotional and travel expenses	542,736
Advertising	59,376
Telephone and telegraph	232,278
Printing, stationery and office supplies	161,875
Postage and delivery	139,834
Administrative expenses	148,125
Professional fees	186,374
Books and periodicals	21,743
Depreciation and amortization	85,405
Miscellaneous expenses	165,678
Fees and assessments	109,011
Insurance	189,066
Equipment rental and servicing	136,457
Employee benefits	429,351
Contributions	195,582
Computer expenses	766,933
Profit sharing expense	<u>1,028,237</u>
<u>Total Expenses</u>	<u>26,723,912</u>

<u>INCOME BEFORE PROVISION FOR INCOME TAXES</u>	1,366,685
<u>PROVISION FOR INCOME TAXES</u>	<u>159,997</u>
<u>NET INCOME</u>	<u>\$ 1,206,688</u>

See accompanying notes.

ROOSEVELT & CROSS INCORPORATED
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2002

<u>BALANCE - JANUARY 1, 2002</u>		\$17,963,886
Add: Net income	\$1,206,688	
Proceeds from issuance of 20,889 shares of common stock	<u>2,076,993</u>	<u>3,283,681</u>
		21,247,567
Less: Retirement of 1,193 shares of common stock		<u>119,481</u>
<u>BALANCE - DECEMBER 31, 2002</u>		<u>\$21,128,086</u>

See accompanying notes.

ROOSEVELT & CROSS INCORPORATED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2002

CASH FLOW FROM OPERATING ACTIVITIES

Net Income	\$1,206,688
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	85,405
Increase in operating assets and liabilities, detailed below	<u>(3,033,551)</u>
<u>Net Cash (Used in) Operating Activities</u>	<u>(1,741,458)</u>

CASH FLOW (USED IN) INVESTING ACTIVITIES

Capital expenditures, net of retirements	(77,873)
Increase in security deposits	<u>(14,041)</u>
<u>Net Cash (Used in) Investing Activities</u>	<u>(91,914)</u>

CASH FLOW FROM FINANCING ACTIVITIES

Issuance of common stock	2,076,993
Retirement of common stock	<u>(119,481)</u>
<u>Net Cash Provided By Financing Activities</u>	<u>\$ 1,957,512</u>

INCREASE IN CASH 124,140

CASH - BEGINNING OF YEAR 715,045

CASH - END OF YEAR \$ 839,185

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for:	
Interest	<u>\$ 212,452</u>
Income taxes	<u>\$ 86,195</u>

See accompanying notes.

ROOSEVELT & CROSS INCORPORATED

STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

FOR THE YEAR ENDED DECEMBER 31, 2002

SUBORDINATED LIABILITIES - JANUARY 1, 2002 \$ -0-

SUBORDINATED LIABILITIES - DECEMBER 31, 2002 \$ -0-

See accompanying notes.

ROOSEVELT & CROSS INCORPORATED

STATEMENT OF CASH FLOWS - Continued

FOR THE YEAR ENDED DECEMBER 31, 2002

OPERATING ASSETS AND LIABILITIES

(Increase) decrease - Due from customers	\$ 1,004,573
(Increase) decrease - Receivables from joint ventures	3,493,422
(Increase) decrease - Interest receivable - State and Municipal Government Obligations	(39,356)
(Increase) decrease - Interest receivable - United States Government Obligations	12,231
(Increase) decrease - State and Municipal Government Obligations, at market value	(15,344,951)
(Increase) decrease - United States Government Obligations, at market value	(471,250)
(Increase) decrease - Bonds failed to deliver	98,210
(Increase) decrease - Good faith deposits	95,901
(Increase) decrease - Other receivables	51,812
(Increase) decrease - Redemptions receivable	378,200
(Increase) decrease - Miscellaneous current assets	17,412
Increase (decrease) - Demand note payable	6,117,730
Increase (decrease) - Bonds failed to receive	3,239
Increase (decrease) - Due to customers	(1,196,677)
Increase (decrease) - Short positions - State and Municipal Government Obligations, at market value	132,489
Increase (decrease) - Accrued expenses and taxes payable	<u>2,613,464</u>

(INCREASE) IN OPERATING ASSETS AND LIABILITIES (\$3,033,551)

See accompanying notes.

ROOSEVELT & CROSS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 1 - ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed by the Company in the preparation of these financial statements.

TRANSACTIONS

Federal, State and Municipal Obligation transactions are recorded on a settlement date basis, generally the third business day following the transaction date, unless the difference between settlement and trade date is significant to the Company's financial statements.

INVENTORY VALUATION

Federal, State and Municipal Obligations are stated at market value and the resultant gain or loss is reflected in the Statement of Income.

FIXED ASSETS

Depreciation has been provided primarily by the use of the straight line and accelerated depreciation methods over the estimated useful life of the assets.

Maintenance and repair costs are charged to operations as incurred, renewals and betterments are charged to the appropriate asset accounts.

On retirement or sale of the property, the respective property accounts are reduced by cost of the property retired or sold and accumulated depreciation thereon is eliminated, and the resulting profits and losses are credited or charged to operations.

NOTE 2 - CUSTOMER ACCOUNTS

Accounts receivable from customers include amounts due on incomplete transactions. Securities held for customers as collateral for these receivables or for safekeeping are not reflected in the financial statements.

ROOSEVELT & CROSS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 3 - RECEIVABLES FROM JOINT VENTURES

The Company is the manager of various joint ventures in the purchase and sale of State and Municipal Obligations. The Company as manager of these joint ventures advances the funds for the purchase of these bonds and in turn uses the bonds as collateral for their demand loan to provide such funds. At December 31, 2002, the amount advanced on behalf of joint venture participants is \$640,759.

NOTE 4 - DEMAND NOTES PAYABLE

At December 31, 2002, the Company was indebted to banks for demand loans in the amount of \$40,843,130. The aforementioned loans are collateralized by State, Municipal and Government Obligations. (See Note 1).

NOTE 5 - COMMITMENTS AND CONTINGENT LIABILITIES

The Company at December 31, 2002 had a contingent liability in the amount of \$9,345,000 for the State or Municipal bonds purchased on a when-issued basis and not settled as of December 31, 2002.

The Company's future minimum lease commitments under real estate leases are as follows:

YEAR ENDED

December 31, 2003	\$392,133
December 31, 2004	125,076
December 31, 2005	112,579
December 31, 2006	89,940
December 31, 2007	41,879

Several leases require cost of living increases and increases in real estate taxes over the base year.

ROOSEVELT & CROSS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

NOTE 5 - COMMITMENTS AND CONTINGENT LIABILITIES - Continued

As of December 31, 2002, except as noted above, the Company had no financial instruments with off balance sheet risk of a material nature.

Counsel for the Company advises that there is no litigation of a material nature pending against the Company.

NOTE 6 - POSSESSION AND CONTROL REQUIREMENTS UNDER RULE 15C3-3

The Company at December 31, 2002 had possession and control of all fully paid securities.

NOTE 7 - NET CAPITAL REQUIREMENTS

As a registered municipal securities broker and member of the National Association of Securities Dealers, Inc., the Company is subject to the Securities and Exchanges Commissions Uniform Net Capital Rule which requires that the Company maintain minimum net capital, as defined, of 6 2/3% of aggregate indebtedness, as defined, or \$250,000, whichever is greater. At December 31, 2002, the Company had net capital of \$16,711,890 which exceeded the requirements by \$16,344,693.

NOTE 8 - FAIR VALUE

The carrying amounts reflected in the balance sheet for all Current Assets, Other Assets, Current Liabilities and Liabilities Subordinated to Claims of General Creditors approximate their fair values.

NOTE 9 - USE OF ESTIMATES

The preparation of financial statements in conformity with 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.

ROOSEVELT & CROSS INCORPORATEDCOMPUTATION OF NET CAPITALAS OF DECEMBER 31, 2002

<u>TOTAL SHAREHOLDERS' EQUITY</u>		<u>\$21,128,086</u>
<u>TOTAL SHAREHOLDERS' EQUITY QUALIFIED FOR NET CAPITAL</u>		\$21,128,086
<u>DEDUCTIONS OR CHARGES:</u>		
Non-allowable assets:		
Net book value of fixed assets	\$168,844	
Loans and exchanges	45,000	
Miscellaneous receivables	82,369	
Customer unsecured debit balances	<u>100,000</u>	
<u>Total Non-Allowable Assets</u>	396,213	
Other deductions and/or charges	<u>65,000</u>	
<u>Total Deductions Or Charges</u>		<u>461,213</u>
<u>NET CAPITAL BEFORE HAIRCUTS ON SECURITIES POSITIONS</u>		20,666,873
<u>HAIRCUTS</u>		
Contractual securities	607,425	
State and Municipal Government Obligations	3,247,558	
Other	<u>100,000</u>	
<u>Total Haircuts</u>		<u>3,954,983</u>
<u>NET CAPITAL</u>		<u>\$16,711,890</u>

ROOSEVELT & CROSS INCORPORATEDCOMPUTATION OF AGGREGATE INDEBTEDNESSAS OF DECEMBER 31, 2002AGGREGATE INDEBTEDNESS LIABILITIES

Due to customers	\$1,292,005
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Accrued expenses and taxes payable	<u>4,215,678</u>
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<u>TOTAL AGGREGATE INDEBTEDNESS</u>	<u>\$5,507,683</u>
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<u>PERCENTAGE OF AGGREGATE INDEBTEDNESS TO NET CAPITAL</u>	<u>32.96%</u>
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<u>PERCENTAGE OF AGGREGATE INDEBTEDNESS TO NET CAPITAL AFTER ANTICIPATED CAPITAL WITHDRAWALS</u>	<u>32.96%</u>
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ROOSEVELT & CROSS INCORPORATEDCOMPUTATION OF BASIC NET CAPITAL REQUIREMENTAS OF DECEMBER 31, 2002

<u>MINIMUM NET CAPITAL REQUIRED - 6 2/3% OF TOTAL AGGREGATE INDEBTEDNESS</u>	<u>\$ 367,197</u>
<u>MINIMUM DOLLAR NET CAPITAL REQUIREMENT OF REPORTING DEALER</u>	<u>\$ 250,000</u>
<u>NET CAPITAL REQUIREMENT</u>	<u>\$ 367,197</u>
<u>EXCESS NET CAPITAL</u>	
(Net capital less net capital requirement)	<u>\$16,344,693</u>
<u>EXCESS NET CAPITAL AT 1000%</u>	
(Net capital less 10% of aggregate indebtedness)	<u>\$16,161,122</u>

ROOSEVELT & CROSS INCORPORATED

RECONCILIATION OF NET CAPITAL TO SUBMITTED UNAUDITED NET CAPITAL

AS OF DECEMBER 31, 2002

<u>NET CAPITAL PER UNAUDITED X17A-5</u>	<u>\$16,711,890</u>
<u>NET CAPITAL PER AUDITED REPORT</u>	<u>\$16,711,890</u>

ROOSEVELT & CROSS INCORPORATEDCOMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
FOR BROKERS-DEALERS UNDER RULE 15C3-3AS OF DECEMBER 31, 2002CREDIT BALANCES

Free credit balances and other balances in customers' accounts	\$1,292,005
Monies borrowed collateralized by securities carried for accounts of customers	53,049
Customers' securities failed to receive	50,457
Credit balances in firm accounts which are attributable to principal sales to customers	<u>130,000</u>
<u>Total Credits</u>	<u>1,525,511</u>

DEBIT BALANCES

Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection net deductions pursuant to Rule 15c3-3	864,807
Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver	50,000
Customer securities not older than 30 days failed to deliver	<u>53,049</u>
<u>Total Debits</u>	<u>967,856</u>

EXCESS OF TOTAL CREDITS OVER TOTAL DEBITS \$ 557,655

COLLATERAL HELD AS DEPOSITS FOR RESERVE REQUIREMENTS

Cash on deposit in reserve bank account	\$ 100
\$1,500,000 U.S. Treasury Bills 0% due 01/02/03, at market value	1,500,000
\$ 500,000 U.S. Treasury Bills 0% due 02/06/03, at market value	<u>499,375</u>
	<u>\$1,999,745</u>

ROOSEVELT & CROSS INCORPORATED

RECONCILIATION OF COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
FOR BROKERS-DEALERS UNDER RULE 15C3-3
TO SUBMITTED UNAUDITED REPORT

AS OF DECEMBER 31, 2002

	PER UNAUDITED <u>X 17A-5</u>	PER AUDITED <u>REPORT</u>
<u>CREDIT BALANCES</u>		
Free credit balances and other balances in customers' accounts	\$1,292,005	\$1,292,005
Monies borrowed collateralized by securities carried for accounts of customers	53,049	53,049
Customers' securities failed to receive	50,457	50,457
Credit balances in firm accounts which are attributable to principal sales to customers	<u>130,000</u>	<u>130,000</u>
<u>Total Credits</u>	<u>1,525,511</u>	<u>1,525,511</u>
<u>DEBIT BALANCES</u>		
Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection net of deductions pursuant to Rule 15c3-3	864,807	864,807
Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver	50,000	50,000
Customer securities not older than 30 days failed to deliver	<u>53,049</u>	<u>53,049</u>
<u>Total Debits</u>	<u>967,856</u>	<u>967,856</u>
<u>EXCESS OF TOTAL DEBITS OVER TOTAL CREDITS</u>	<u>\$ 557,655</u>	<u>\$ 557,655</u>
<u>COLLATERAL HELD AS DEPOSITS FOR RESERVE REQUIREMENTS</u>		
Cash on deposit in reserve bank account	\$ 100	\$ 100
\$1,500,000 U.S. Treasury Bills 0% due 01/02/03, at market value	1,500,000	1,500,000
\$ 500,000 U.S. Treasury Bills 0% due 02/06/03, at market value	<u>499,375</u>	<u>499,375</u>
	<u>\$1,999,475</u>	<u>\$1,999,475</u>

LOUIS STERNBACH & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Roosevelt & Cross Incorporated

We have examined the financial statements of Roosevelt & Cross Incorporated for the year ended December 31, 2002 and have issued our report thereon dated February 3, 2003. As part of our examination, we made a study and evaluation of the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and Rule 17a-5 of the Securities and Exchange Commission. This study and evaluation included the accounting system, the procedures for safeguarding securities and the practice and procedures followed by the client 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); in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13; in complying with the requirements for prompt payment for securities of Section 4(c) of Regulation T of the Board of Governors of the Federal Reserve System; and in obtaining and maintaining physical possession or control of all fully paid securities of customers as required by Rule 15c3-3. Rule 17a-5 states that the scope of the study and evaluation should be sufficient to provide reasonable assurance that any material weakness existing at the date of our examination would be disclosed. Under accepted auditing standards and Rule 17a-5, the purposes of such study and evaluation are to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures necessary for expressing an opinion on the financial statements and to provide a basis for reporting material weaknesses in internal accounting control.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance concerning the safeguarding of assets against loss from unauthorized use or disposition and concerning the reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management. However, for the purposes of this report under Rule 17a-5, the determination of weaknesses to be reported was made without considering the practicability of corrective action by management within the framework of a cost/benefit relationship.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Control procedures whose effectiveness depends on segregation of duties can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgment required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting control for the year ended December 31, 2002, which was made for the purposes set forth in the first paragraph above and would not necessarily disclose all weaknesses in the system that may have existed during the period, disclosed no weaknesses that we believe to be material.

Louis Sternbach & Company, LLP

Certified Public Accountants

February 3, 2003
New York, New York