



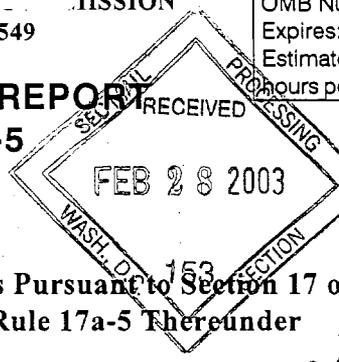
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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

AS SO 3/6/03

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



SEC FILE NUMBER  
8-37085

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 01/01/2002 AND ENDING 12/31/2002  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC.  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
4250 VETERANS MEMORIAL HWAY. 4th Floor East  
HOLBROOK (City) N.Y. (State) 11741 (Zip Code)

OFFICIAL USE ONLY  
FIRM I.D. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
HOLTZ RUBENSTEIN & CO., LLP  
(Name - if individual, state last, first, middle name)  
125 Baylis Rd. (Address) MELVILLE (City) N.Y. (State) 11747 (Zip Code)

CHECK ONE:

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

PROCESSED  
MAR 13 2003

**FOR OFFICIAL USE ONLY** THOMSON 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)

OATH OR AFFIRMATION

I, LON T. DOLBER, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC., as of FEB. 26, 2003, 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]  
Signature  
PRESIDENT  
Title

[Signature]  
**DAVID G. REY**  
**NOTARY PUBLIC, State of New York**  
No. 5010840  
Notary Public  
Qualified in Suffolk County  
Commission Expires April 5, 2003

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~~ CASH FLOWS.
- (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).

AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2002

AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2002

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FINANCIAL STATEMENTS

# HOLTZ RUBENSTEIN & Co., LLP

Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

To the Stockholder of  
American Portfolios Financial Services, Inc.  
Holbrook, New York

We have audited the accompanying statement of financial condition of American Portfolios Financial Services, Inc. as of December 31, 2002 and the related statements of operations, changes in stockholder's equity and cash flows for the year 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 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 American Portfolios Financial Services, 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the accompanying schedule 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, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Holtz Rubenstein & Co., LLP*

February 6, 2003  
Melville, New York

AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC.STATEMENT OF FINANCIAL CONDITIONDECEMBER 31, 2002ASSETS

Cash	\$ 572,886
Deposits with clearing organization	110,047
Receivable from broker-dealer and clearing organizations	347,379
Receivable from account representatives	21,936
Miscellaneous receivable	9,683
Prepaid insurance and other	20,947
Furniture, equipment and leasehold improvements at cost, less accumulated depreciation of \$5,873	1,117
Licenses	100,000
Deferred tax asset	120,143
Goodwill	3,623,272
	<u>\$ 4,927,410</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

## LIABILITIES:

Payable to broker-dealer and clearing organizations	\$ 50,551
Accounts payable and accrued expenses	86,453
Due to affiliate	28,072
Commissions payable	584,867
	<u>749,943</u>

## STOCKHOLDER'S EQUITY:

Common stock, no par value, 1,500 shares authorized: 100 shares issued and outstanding	3,825,001
Additional paid-in capital	778,483
Accumulated deficit	(426,017)
	<u>4,177,467</u>
	<u>\$ 4,927,410</u>

AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC.STATEMENT OF OPERATIONSYEAR ENDED DECEMBER 31, 2002

## REVENUES:

Commission revenue	\$ 10,556,720
Marketing and service fee income	238,773
Interest and dividends	6,761
	<u>10,802,254</u>

## EXPENSES:

Bank charges	\$ 16,526
Commission expense	9,291,901
Continuing education	16,037
Data processing and reporting	313,661
Dues and subscriptions	15,895
Exchange and clearance fees	57,174
Furniture and equipment rentals	41,963
Insurance	57,803
Interest expense	7,243
Legal and professional	86,864
Licensing and registration fees	41,873
Meals, entertainment and travel	10,882
Office expense	78,331
Office salaries	634,001
Officer's salaries	147,602
Payroll taxes	69,012
Rent and occupancy	71,447
Telephone	34,332
	<u>10,992,547</u>

Loss before (benefits) provision for income taxes (190,293)

## (Benefit) provision for income taxes:

Current	5,847
Deferred	(61,222)
	<u>(55,375)</u>

Net loss \$ (134,918)

**AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEAR ENDED DECEMBER 31, 2002**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>
	<u>Shares</u>	<u>Amount</u>		
Balance, December 31, 2001	100	\$ 3,825,001	\$ 454,675	\$ (291,099)
Contributed capital	-	-	323,808	-
Net loss	-	-	-	(134,918)
Balance, December 31, 2002	<u>100</u>	<u>\$ 3,825,001</u>	<u>\$ 778,483</u>	<u>\$ (426,017)</u>

AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC.STATEMENT OF CASH FLOWSYEAR ENDED DECEMBER 31, 2002

## CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	<u>\$ (134,918)</u>
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	972
Deferred tax benefit	(61,222)
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Deposits with clearing organizations	1,137
Receivable from broker-dealer and clearing organizations	(42,043)
Receivable from account representatives	(4,974)
Miscellaneous receivable	36,317
Prepaid insurance	31,542
Increase (decrease) in liabilities:	
Payable to broker-dealer and clearing organizations	(33,686)
Accounts payable and accrued expenses	30,959
Due to affiliate	6,766
Commissions payable	2,257
Total adjustments	<u>(31,975)</u>
Net cash used in operating activities	<u>(166,893)</u>

## CASH FLOWS FROM FINANCING ACTIVITIES:

Contributed capital	323,808
Net cash provided by financing activities	<u>323,808</u>
Net increase in cash and cash equivalents	156,915
Cash and cash equivalents, beginning of year	<u>415,971</u>
Cash and cash equivalents, end of year	<u>\$ 572,886</u>

AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2002

1. Summary of Significant Accounting Policies:

a. Nature of business

American Portfolios Financial Services, Inc. ("APFS") acquired an existing broker-dealer on May 1, 2002 and commenced operations on October 1, 2002 after attaining licensure and registration changes for the company and its network of independent representatives. The company's primary source of revenue is providing brokerage services to its customers, who are predominately small and middle-market businesses and individuals. These services are marketed by independent representatives located in 23 states.

b. 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

c. Basis of presentation

APFS is a wholly-owned subsidiary of American Portfolios Holdings, Inc. ("APH"). The financial statements reflect APFS's business activities.

d. Statement of cash flows

The Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days, that are not held for sale in the ordinary course of business.

e. Securities transactions

Customers' securities transactions are reported on a settlement date basis with related commission income and expenses reported on a trade date basis. Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition.

f. Commissions

Commissions and related expenses are recorded on a trade date basis as securities transactions occur.

g. Advertising costs

Advertising costs, which are expensed as incurred, approximated \$2,000 for the year ended December 31, 2002.

**1. Summary of Significant Accounting Policies: (Cont'd)****h. Income taxes**

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. The Company's federal and New York State tax returns are prepared on a consolidated (combined) basis and accordingly, inclusive in the consolidated group's filings.

**i. Depreciation**

Depreciation is provided on an accelerated basis using estimated useful lives of five to ten years. Leasehold improvements are amortized on a straight-line basis over the lesser of the economic useful life of the improvement or the term of the lease.

**2. Receivable from and Payable to Clearing Organization:**

Amounts receivable from and payable to clearing organizations at December 31, 2002 consist of the following:

	<u>Receivable</u>	<u>Payable</u>
Deposits for securities borrowed/loaned	\$ 110,047	\$ -
Receivable/payable to/from clearing organization	-	50,551
Fees and commissions receivable/payable	<u>347,379</u>	<u>-</u>
	<u>\$ 457,426</u>	<u>\$ 50,551</u>

The Company clears, on an exclusive basis, its customer transactions through another broker-dealer on a fully disclosed basis. The arrangement required the Company to make a \$100,000 deposit with the clearing agent, which is in an interest bearing account. The clearing agent offsets their fees against the Company's commissions on a monthly basis. The amount payable to the clearing broker relates to the aforementioned transactions.

*Subsequent Event:* Effective March 1, 2003, the Company has entered into a second clearing arrangement through another broker-dealer on a full disclosure basis. This arrangement will require the Company to make a \$50,000 deposit, which will be in an interest bearing account, with the clearing agent. The clearing agent will offset their fees against the Company's commissions.

APFS is a clearing member of National Securities Clearing Corporation ("NSCC"). The primary purpose for this arrangement is the Company's participation in NSCC's commission settlement program. The Company receives daily information downloads, and together with information provided from their clearing agent, prepares detailed commission statements for their independent registered representatives. The Company was required to deposit \$10,000 in an interest bearing account with NSCC.

**3. Receivable from and Payable to Customers:**

Amounts receivable from and payable to customers include amounts due on cash and margin transactions. Securities owned by customers are held as collateral for receivables. Such collateral is not reflected in the financial statements.

**4. Commissions Payable and Independent Representative Transactions:**

The Company conducts business through a network of independent representatives who receive commissions for their services according to the Company's "Pay-out Grid". As of December 31, 2002 the Company owed its independent representatives approximately \$585,000.

In addition, APFS charges the independent representatives maintenance fees for access to certain computer information and customer support services. Fees charged for the year ended December 31, 2002 amounted to \$433,000 of which \$22,000 was receivable at year end.

**5. Concentration of Credit Risk:**

The Company is engaged in various brokerage activities, in which customer transactions are cleared through unrelated vendors. In the event that these parties do not fulfill their obligations, the Company may be exposed to risk inclusive of disrupted operations. To reduce this risk, the Company periodically monitors these functions.

The Company's revenue is dependent upon economic and market conditions, as well as its ability to process voluminous customer transactions. The Company is vulnerable to risk if economic and market conditions weaken.

The Company has several cash accounts in a financial institution that are in excess of the amount insured by the Federal Depository Insurance Corporation (FDIC). At December 31, 2002 the excess was approximately \$355,000. The risk is managed by maintaining all deposits in high quality institutions.

**6. Operating Leases and Related Party:**

The Company leases its office facility, equipment and furnishings under a "turn-key" sublease arrangement from its parent company. APFS is obligated to reimburse all expenses, at cost, inclusive of utilities, repairs and insurance. Under this arrangement rent expense was \$58,000 and office equipment rentals were \$15,000. A portion of these facilities are sublet to the Company's independent representatives. The independent representatives reimbursed the Company \$98,000 in rent and \$7,000 in equipment rental for the year ended December 31, 2002.

The Company is currently expected to make payments to its parent for the leasing of the Holbrook office space in the amount of \$9,700 per month. This payment will increase 4% cumulatively as of November each year.

The Company is also expected to make payments to its parent for the leasing of office furniture equipment in the amount of \$3,700 per month.

*Subsequent Event:* Effective January 1, 2003, the Company and its parent revised their office overhead arrangement by consolidating all the expenses under one monthly reimbursement amount which will be determined based on a calculation of the Company's overhead. This reimbursement will be reviewed on a quarterly basis to determine its adequacy in reimbursing expenses at the appropriate level.

**7. Commitments:**

The Company leases a portion of its computer software under an open-ended operating lease which can be terminated by either party upon its anniversary date. In addition to paying a base monthly fee of \$4,500, APFS is responsible for a usage fee. Lease expense amounted to \$60,000 for the year ended December 31, 2002.

On January 17, 2002 the Company entered into a Registered Representative Recruiting Agreement. The recruiter is to receive five-percent (5%) for the first year and four-percent (4%) for years two through six of any gross concessions APFS derives from independent representatives that register with the Company as a direct result of the recruiters' efforts. The Company, in their sole discretion, has the right to approve or disapprove registration without any obligation to the recruiter.

**8. Employment Agreements:**

The Company has entered into employment contracts with 4 employees. The agreements are in effect for 3 years ending at various times in 2004 and 2005 and provide annual aggregate salaries of \$350,000, \$638,000 and \$52,000 in 2003, 2004, and 2005, respectively.

**9. Net Capital Requirements:**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC 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. In addition, the rule also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1.

At December 31, 2002, the Company had net capital of \$279,762, which was \$229,762 in excess of its required net capital of \$50,000. The Company's aggregate indebtedness to net capital ratio was 2.7 to 1.

**10. Income Taxes:**

The Company is included in the consolidated federal income tax and the combined New York State tax returns filed by its parent. In addition, APFS is required to file returns in several other states.

Tax liabilities, for financial statement reporting purposes, are calculated as if the Company filed separate income tax returns. The current and deferred portions of the income tax expense (benefit) included in the statement of operations are as follows:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ -	\$ (48,978)	\$ (48,978)
State	<u>5,847</u>	<u>(12,244)</u>	<u>(6,397)</u>
	<u>\$ 5,847</u>	<u>\$ (61,222)</u>	<u>\$ (55,375)</u>

**10. Income Taxes:** (Cont'd)

A deferred tax benefit has been recorded on the statement of financial condition as a result of the Company's net operating losses and difference in the tax treatment of organization costs.

The company's net operating loss carryforwards as of December 31, 2002, which are available in future years are as follows:

	<u>Net Operating Loss</u>	<u>Begin to Expire</u>
Federal	\$ 490,744	12/31/21
State	481,544	12/31/21

**11. Common Stock:**

The Company is authorized to issue up to 1,500 shares of no par value common stock. As of December 31, 2002 100 shares were issued and outstanding, which represent a 100% ownership, to American Portfolios Holdings, Inc. (the "Parent").

**12. Supplemental Information - Statement of Cash Flows:**

Cash paid for interest during the year ended December 31, 2002 for interest was \$7,243.

Taxes paid during the year ended December 31, 2002 were \$5,047.

SUPPLEMENTARY INFORMATION

AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC.SUPPLEMENTARY INFORMATION - PURSUANT TO RULE 17a-5  
OF THE SECURITIES EXCHANGE ACT OF 1934DECEMBER 31, 2002**SCHEDULE 1 - COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1:**

## NET CAPITAL

Total stockholder's equity	\$ 4,177,467
Non-allowable assets:	
Clearing organization deposits in excess of required balances	47
Miscellaneous receivable	11,638
Prepaid expenses	48,885
Furniture, equipment and leasehold improvements	1,117
Licenses	100,000
Deferred tax	120,143
Goodwill	3,623,272
Haircut on securities held	560
	<u>3,905,662</u>
	<u>\$ 271,805</u>
<b>RATIO:</b> Aggregate indebtedness to net capital (\$749,943/\$271,805)	2.8 to 1

**RECONCILIATION WITH COMPUTATION INCLUDED IN PART II OF FORM X-  
17a-5 AS OF DECEMBER 31, 2002**

Variations between this computation of net capital under Paragraph F of Rule 15c3-1 and the Registrant's computation filed with Part II. Form X-17A-5 are not material in amount. Accordingly, no reconciliation is deemed necessary.

**SCHEDULE 2 - COMPUTATION OF DETERMINATION OF RESERVE PURSUANT  
TO RULE 15c3-3:**

NOT APPLICABLE

# HOLTZ RUBENSTEIN & Co., LLP

Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT ON INTERNAL ACCOUNTING CONTROL

To the Stockholder of  
American Portfolios Financial Services, Inc.  
Holbrook, New York

In planning and performing our audit of the financial statements and supplemental schedule of American Portfolios Financial Services, Inc. (the "Company") for the year ended December 31, 2002, we considered its internal control, including control activities 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 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 American Portfolios Financial Services, 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 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 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 controls 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 accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may 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 effectiveness of their design and operation may deteriorate.

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

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the 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, to meet the SEC's objectives.

This report is intended solely for the use of Board of Directors, management, the Securities and Exchange Commission, 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 or by anyone other than these specified parties.

*Holtz Rubenstein & Co., LLP*

February 6, 2003  
Melville, New York