

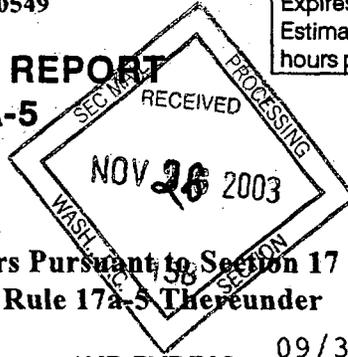


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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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



SEC FILE NUMBER  
8- 30645

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 10/01/2002 AND ENDING 09/30/2003  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Descap Securities, Inc

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

444 Madison Avenue - 4th Floor

New York New York 10022  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Robert M. Fine, President (212) 546-6001

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Kamler, Lewis and Noreman, CPA

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

One Linden Place Great Neck New York 11021  
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

**PROCESSED**  
**DEC 23 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)

8872-114

OATH OR AFFIRMATION

I, Robert Fine, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Descap Securities, Inc., as of September 30, 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]
Notary Public

ANTHONY ADIPIETRO
Notary Public, State of New York
No. 01AD6033089
Qualified in Queens County
Commission Expires Nov. 8, 2005

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.
X (o) A report on the internal control structure.

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

**DESCAP SECURITIES, INC.**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY**  
**INFORMATION REQUIRED BY RULE 17a-5 OF**  
**THE SECURITIES AND EXCHANGE COMMISSION**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**AND REPORT ON**  
**INTERNAL ACCOUNTING CONTROL**  
**SEPTEMBER 30, 2003**

**DESCAP SECURITIES, INC.**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY**  
**INFORMATION REQUIRED BY RULE 17a-5 OF**  
**THE SECURITIES AND EXCHANGE COMMISSION**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**AND REPORT ON**  
**INTERNAL ACCOUNTING CONTROL**  
**SEPTEMBER 30, 2003**

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**KAMLER, LEWIS & NOREMAN LLP**

*Certified Public Accountants*

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors and Stockholders  
Descap Securities, Inc.

We have audited the accompanying statement of financial condition of Descap Securities, Inc. as of September 30, 2003, and the related statements of income, changes in shareholders' equity, changes in subordinated liabilities 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 Descap Securities, Inc. at September 30, 2003 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.

*Kamler, Lewis & Noreman LLP*

Kamler, Lewis & Noreman LLP

Great Neck, New York  
October 28, 2003

**DESCAP SECURITIES, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
**SEPTEMBER 30, 2003**

**ASSETS**

Cash and Cash Equivalents	\$10,792,630
Due from Clearing House	5,639,875
Deposits with Clearing Houses	225,000
Property and Equipment-Net (Note 2)	691,591
Prepaid Expenses and Other Assets	<u>269,247</u>
	<u>\$17,618,343</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Liabilities:

Accounts Payable and Accrued Expenses (Note 3)	\$ <u>4,280,927</u>
--	---------------------

Commitments (Notes 4, 5, 7, 9, 10 and 11)

Shareholders' Equity (Note 6):

Common Stock A, \$.001 par value; 500,000 shares authorized, 175,500 issued and outstanding	176
Common Stock, Class B, \$.001 par value 500,000 shares authorized, 7,400 issues and outstanding	7
Paid-in capital	6,607,346
Retained earnings	<u>6,729,887</u>
	<u>13,337,416</u>
	<u>\$17,618,343</u>

See accompanying notes to financial statements.

**DESCAP SECURITIES, INC.**  
**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2003**

Revenues, Profits and Losses:	
Trading profits realized	\$30,837,900
Unrealized trading gains	109,702
Interest	1,294,160
Placement agent fees	<u>213,091</u>
	<u>32,454,853</u>
Expenses:	
Compensation, payroll taxes and benefits	23,365,223
Clearing charges	1,212,393
Interest	1,139,979
Wire quote services	466,418
Travel and entertainment	294,881
Loss on abandonment of fixed assets	65,533
Rent and occupancy costs	206,116
Insurance	135,940
Professional fees	93,137
Telephone	84,179
Office	38,075
Depreciation	72,494
Regulatory fees	40,933
Local transportation	37,360
Advertising	8,199
Memberships	4,441
Equipment rental	6,808
Professional education	4,730
Automobile expense and leases	26,290
Repairs and maintenance	6,652
Utilities	21,023
Bank charges	3,058
Miscellaneous	<u>74,047</u>
	<u>27,407,909</u>
Income Before Income Taxes	5,046,944
Provision For Income Taxes (Note 8)	<u>2,220,244</u>
Net Income	<u>\$ 2,826,700</u>

See accompanying notes to financial statements.

**DESCAP SECURITIES, INC.**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2003**

	<u>Common Stock</u> Class A .001 Par Value		<u>Common Stock</u> Class B .001 Par Value		<u>Paid-In</u> <u>Capital</u>	<u>Retained</u> <u>Earnings</u>	<u>Shareholders'</u> <u>Equity</u>
	<u>Shares</u>	<u>Amounts</u>	<u>Shares</u>	<u>Amounts</u>			
Balance, October 1, 2002	175,500	\$176	8,400	\$8	\$278,716	\$3,903,187	\$4,182,087
Net Income						2,826,700	2,826,700
Purchase of 1,500 Class B Shares (Note 6)			(1,500)	(2)	(56,239)		(56,241)
Sale of 500 Class B Shares (Note 6)			500	1	4,500		4,501
Contributions of Capital (Note 6)					6,380,369		6,380,369
Balance, September 30, 2003	<u>175,500</u>	<u>\$176</u>	<u>7,400</u>	<u>\$7</u>	<u>\$6,607,346</u>	<u>\$6,729,887</u>	<u>\$13,337,416</u>

See accompanying notes to financial statements.

**DESCAP SECURITIES, INC.**  
**STATEMENT OF CHANGES IN SUBORDINATED LIABILITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2003**

Subordinated liabilities at October 1, 2002	\$ 300,000
Payment of subordinated notes	<u>(300,000)</u>
Subordinated liabilities at September 30, 2003	<u>\$ 0</u>

See accompanying notes to financial statements.

**DESCAP SECURITIES, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2003**

Cash Flows From Operating Activities:		
Net Income		\$ 2,826,700
Adjustments to reconcile net income to cash:		
Depreciation		72,494
Unrealized gains on trading positions		(109,702)
Loss on abandonment of fixed assets		65,533
Changes in assets and liabilities:		
Decrease in marketable security long positions		1,004,688
Increase in due from clearing houses		(1,894,738)
Increase in prepaid expenses and other assets		(119,339)
Increase in accounts payable and accrued liabilities		<u>2,209,335</u>
Net Cash Provided By Operating Activities		<u>4,054,971</u>
Cash Flows From Investing Activities:		
Acquisition of property and equipment		<u>(675,086)</u>
Net Cash Used By Investing Activities		<u>(675,086)</u>
Cash Flows From Financing Activities:		
Sale of Class B Common Stock		4,501
Capital Contributions		6,380,369
Payment of Subordinated Loans		(300,000)
Purchase of Class B Common Stock		<u>(56,241)</u>
Net Cash Provided By Financing Activities		<u>6,028,629</u>
Net Increase in Cash		9,408,514
Cash, beginning of year		<u>1,384,116</u>
Cash, end of year		<u>\$10,792,630</u>
Supplemental Disclosure of Cash Flows Information:		
Cash Paid During the Year For:		
Interest		<u>\$ 1,139,979</u>
Taxes		<u>\$ 2,875,474</u>

See accompanying notes to financial statements.

**DESCAP SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2003**

Note 1 - Summary of Significant Accounting Policies

Business Organization and Description

On March 31, 1985, Descap Securities, Inc. (the "Company") began operations in the State of New York. The Company is a broker-dealer registered under the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers ("NASD"). The Company does not carry customer accounts and does not process or safe-keep customer funds or securities and is therefore exempt from Rule 15c3-3 of the Securities and Exchange Commission.

In 1999, the Company expanded its operations by establishing a structured finance services group. The business activities of this group include placement agent and underwriting services, subordinate financing, the arrangement of warehouse lines of credit and small and start-up specialty finance company consulting. The activities described above have been reviewed by the NASD and are within the scope of the business activities allowable accordingly to the Company's NASD "Membership Agreement" dated March 29, 1999.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with maturities of less than three months at the date of purchase to be cash equivalents.

Fair Value of Financial Instruments

The carrying amounts of the Company's cash, marketable securities, accounts payable and accrued expenses approximate their respective fair values at September 30, 2003.

Marketable Security Positions - Marked to Market

Marketable security positions, which consist primarily of institutional mortgage-backed securities and asset-backed securities, are valued at the lower of cost or market.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed using the straight-line method at rates adequate to allocate the cost of applicable assets over their expected useful lives. The cost of maintenance and repairs is charged to income as incurred. Significant renewals and betterments are capitalized.

Impairment of Long-Lived Assets

The Company investigates potential impairments of its long-lived assets when evidence exists that events or changes in circumstances may have made recovery of an asset's carrying value unlikely. An impairment loss is recognized when the sum of the expected undiscounted future net cash flows is less than the carrying amount of the asset. No such losses have been identified.

Revenue and Expenses From Security Transactions

Generally accepted accounting principles require that trading profits and losses, commission income and related expenses be recorded on a trade date basis unless the difference between trade date and settlement date is immaterial.

**DESCAP SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(CONTINUED)**  
**SEPTEMBER 30, 2003**

Note 1 - Summary of Significant Accounting Policies (continued)

Receivable From Clearing Houses

Since the Company maintains their trading account on a margined basis, there is no receivable from the Clearing Houses. Profits and losses on trades occur directly in the Company's trading account and are included in the Due from Clearing Houses balance which represents the net assets of the Company's trading account.

Income Taxes

Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

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 amounts reported in the financial statements and related notes to financial statements. Changes in such estimates may affect amounts reported in future periods.

Note 2 - Property and Equipment - Net

Property and equipment consist of the following at September 30, 2003:

Furniture and fixtures	\$ 89,505
Office equipment	105,630
Computer equipment and software	133,081
Leasehold improvements	<u>459,121</u>
	787,337
Less: Accumulated depreciation	<u>95,746</u>
	<u>\$691,591</u>

During the year ended September 30, 2003, the Company moved its main office. In conjunction with the move, the Company abandoned \$327,079 of fixed assets and incurred a loss of \$65,533.

Depreciation charged to income was \$ 72,494 during the year ended September 30, 2003.

Note 3 - Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following at September 30, 2003:

Compensation and payroll taxes	\$3,674,381
Income taxes payable	469,600
Profit sharing and money purchase plans (Note 4)	82,169
Professional fees	20,000
Other	<u>34,777</u>
	<u>\$4,280,927</u>

**DESCAP SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(CONTINUED)**  
**SEPTEMBER 30, 2003**

Note 4 - Retirement Plans

The Company has a qualified non-contributory profit sharing plan, the funding of which is subject to the discretion of the Board of Directors. There was a Money Purchase Plan which was merged into the Profit Sharing Plan, effective November 15, 2002. Total contributions for the year ended September 30, 2003 of \$ 82,169 are to be paid by the due date of the Company's federal corporate income tax return.

Note 5 - Subordinated Loans Payable-Shareholders

The subordinated loans were payable to the shareholders with interest at 14% per annum, which is payable annually. The loans were to mature on September 17, 2004. However the Company had an option to prepay the loans under certain conditions subject to the company's net capital requirement. This option was exercised on September 17, 2003, when the loans were repaid. During the year ended September 30, 2003, the Company paid interest of \$40,483 for these loans.

Note 6 - Shareholders' Equity

During the year ended September 30, 2003, the Company purchased and retired 1,500 shares of its class B stock for an aggregate amount of \$56,241. These shares were purchased from former employees. The Company sold 500 shares of its class B stock for \$4,501 to an employee. In addition, the three majority shareholders contributed an aggregate of \$6,380,369 during the year ended September 30, 2003.

Note 7 - Leases

The Company entered into an amended operating lease for its office space in New York City which commenced in June 2003 and expires in June 2009. Under this amended lease, the Company increased its space and rent. The lease requires minimum annual rentals and escalations for increases in real estate taxes. In addition, the Company entered into a lease for office space in Great Neck, NY, which expires in March 2006. The Company terminated its lease for office space in Stamford, CT in February 2003. Future minimum annual rentals under these leases are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2004	\$ 196,200
2005	180,000
2006	182,400
2007	184,800
2008	187,200
Thereafter	<u>94,400</u>
	<u>\$ 1,025,000</u>

Rent expense, including occupancy costs, for the year ended September 30, 2003 was \$206,116.

**DESCAP SECURITIES, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**(CONTINUED)**  
**SEPTEMBER 30, 2003**

**Note 8 - Provision For Income Taxes**

The current and deferred portions of the income tax expense (benefit) included in the statement of income as determined in accordance with FASB Statement No. 109, Accounting for Income Taxes, are as follows:

The provision for income taxes consists of:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ 1,503,587	\$ (26,000)	\$ 1,477,587
New York State and other states	323,402	( 7,000)	316,402
New York City	<u>434,255</u>	<u>( 8,000)</u>	<u>426,255</u>
	<u>\$ 2,261,244</u>	<u>\$ (41,000)</u>	<u>\$ 2,220,244</u>

The deferred income tax benefits arise from tax depreciation in excess of book depreciation.

The provision for income taxes is different than the amount computed using the applicable statutory federal income tax, with the difference arising basically from over accruals in prior years.

**Note 9- Concentrations of Credit Risk**

As a securities broker and dealer, the Company is engaged in various securities trading and brokerage activities servicing a diverse group of domestic and foreign corporations, institutional and individual investors. A substantial portion of the Company's transactions are executed with and on behalf of institutional investors including other brokers and dealers, mortgage brokers, commercial banks, U.S. governmental agencies, mutual funds and other financial institutions. The Company's exposure to credit risk associated with the nonperformance of these customers in fulfilling their contractual obligations pursuant to securities transactions, can be directly impacted by volatile securities markets, credit markets and regulatory changes.

**Note 10 - Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (15c3-1), which requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15:1. The rule also provides that capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10:1. At September 30, 2003, the Company had net capital of \$12,376,578, which was \$12,091,183 in excess of its required net capital of \$285,395. The Company's ratio of Aggregate Indebtedness to Net Capital was to .35 to 1.

**Note 11 - Clearing Broker**

In addition, the Company has a minimum \$3,000,000 net capital requirements with it's clearing broker as well as certain other requirements. If the Company is subject to an Event of Default (as defined in the agreement), the agreement will be terminated.

**Note 12 - Contingencies**

The Company is a party to various claims in the ordinary course of business. Management believes that the aggregate impact of such claims, if any, will not have a material impact on the financial position, results of operations, or liquidity of the Company.



**KAMLER, LEWIS & NOREMAN LLP**

*Certified Public Accountants*

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

Board of Directors  
Descap Securities, Inc.

We have audited the accompanying financial statements of Descap Securities, Inc. for the year ended September 30, 2003 and have issued our report thereon dated October 28, 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 Schedule I on the following page is presented for purposes of additional analysis, and is supplementary information required by Rule 17a-5 of 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 financial statements taken as a whole.

*Kamler, Lewis & Noreman LLP*

Kamler, Lewis & Noreman LLP

Great Neck, New York  
October 28, 2003

**DESCAP SECURITIES, INC.**  
**COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1**  
**OF THE SECURITIES AND EXCHANGE COMMISSION**  
**SEPTEMBER 30, 2003**

**Schedule I**

Net Capital:	
Total shareholders' equity per statement of financial condition	<u>\$13,337,416</u>
Deductions - nonallowable assets:	
Property and equipment, net	691,591
Other assets	<u>269,247</u>
Total Nonallowable assets	<u>960,838</u>
Total Net Capital (Note 10)	<u>\$12,376,578</u>
Aggregate Indebtedness:	
Accounts payable and accrued expenses	<u>\$ 4,280,927</u>
Total Aggregate Indebtedness	<u>\$ 4,280,927</u>
Computation of Basic Net Capital Requirement:	
Minimum net capital required (6-2/3% of \$4,280,927)	<u>\$ 285,395</u>
Minimum dollar net capital requirement	<u>\$ 100,000</u>
Net capital requirement	<u>\$ 285,395</u>
Excess net capital (Note 10)	<u>\$12,091,183</u>
Ratio of aggregate indebtedness to net capital (Note 10)	<u>.35 to 1</u>

The reconciliation of net capital as reported in the Company's September 30, 2003 Part III (audited) FOCUS Report has not been included in these financial statements as such amount is immaterial.



**KAMLER, LEWIS & NOREMAN LLP**

*Certified Public Accountants*

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL ACCOUNTING  
CONTROL REQUIRED BY SEC RULE 17a-5**

Board of Directors  
Descap Securities, Inc.

In planning and performing our audit of the financial statements and supplemental schedule of Descap Securities, Inc. for the year ended September 30, 2003, 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 consolidated 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 Descap Securities, 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 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 conformity with generally accepted accounting principles. 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.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL ACCOUNTING  
CONTROL REQUIRED BY SEC RULE 17a-5  
(CONTINUED)**

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 September 30, 2003 to meet the SEC's objectives.

This report is intended solely for the information and 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 is not intended to be and should not be used by anyone other than these specified parties.

Kamler, Lewis & Noreman LLP

Great Neck, New York  
October 28, 2003