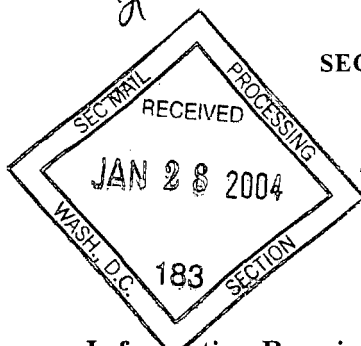




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MISSION

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

|                                                     |                  |
|-----------------------------------------------------|------------------|
| OMB APPROVAL                                        |                  |
| OMB Number:                                         | 3235-0123        |
| Expires:                                            | October 31, 2004 |
| Estimated average burden<br>hours per response..... | 12.00            |

SEC FILE NUMBER

8-21426

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 01/01/03 AND ENDING 12/31/03  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: First Tryon Securities, LLC

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

214 North Tryon Street, Suite 2350

(No. and Street)

Charlotte

(City)

North Carolina

(State)

28202

(Zip Code)

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\*

Cherry, Bekaert & Holland, L.L.P.

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

525 North Tryon Street, Suite 1800, Charlotte, North Carolina 28202

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**

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

PROCESSED

FEB 11 2004

FOR OFFICIAL USE ONLY

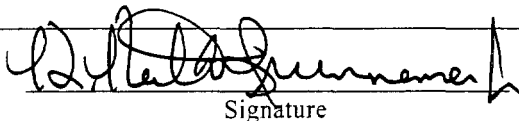
THOMSON  
FINANCIAL

\*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)

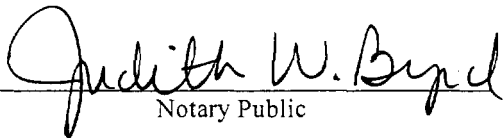
## OATH OR AFFIRMATION

I, H. Keith Brunner, Jr., swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of First Tryon Securities, LLC, as of December 31, 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:

Notary Public, North Carolina  
My Commission Expires January 25, 2008

  
Signature

Member  
Title

  
Notary Public

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss) and Changes in Members' Capital.
- ☒ (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).

**FIRST TRYON SECURITIES, L.L.C.**

Financial Statements  
and  
Accompanying Information  
for the Years Ended  
December 31, 2003 and 2002

## FIRST TRYON SECURITIES, L.L.C.

### Contents

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## Report of Independent Certified Public Accountants

The Members  
First Tryon Securities, L.L.C.  
Charlotte, North Carolina

We have audited the accompanying statements of financial condition of First Tryon Securities, L.L.C. (the "Company") as of December 31, 2003 and 2002, and the related statements of income and changes in members' capital and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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 First Tryon Securities, L.L.C. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Cherry, Bekaert & Holland, L.L.P.*

Charlotte, North Carolina  
January 16, 2004

## First Tryon Securities, L.L.C.

## Statements of Financial Condition

## Assets

|                                                         | December 31,<br>2003 | December 31,<br>2002 |
|---------------------------------------------------------|----------------------|----------------------|
| Cash and cash equivalents                               | \$ 133,473           | \$ 88,414            |
| Cash deposited with clearing agent                      | 50,000               | 50,000               |
| Receivables from brokers and dealers                    | 743,037              | 2,001,005            |
| Marketable securities owned, at market value            | 9,137,916            | 5,124,074            |
| Other investments                                       | 66,885               | 85,100               |
| Interest receivable                                     | 97,791               | 65,797               |
| Property and equipment, net of accumulated depreciation | 134,227              | 55,075               |
| Other assets                                            | 50,866               | 29,723               |
| <b>Total assets</b>                                     | <b>\$ 10,414,195</b> | <b>\$ 7,499,188</b>  |

## Liabilities and Members' Capital

|                                                    |                      |                     |
|----------------------------------------------------|----------------------|---------------------|
| Securities sold not yet purchased, at market value | \$ 3,177,509         | \$ 1,522,680        |
| Accrued compensation                               | 372,744              | 677,104             |
| Distributions payable to members                   | 700,224              | 397,938             |
| Other accrued expenses and liabilities             | 163,718              | 26,466              |
| <b>Total liabilities</b>                           | <b>4,414,195</b>     | <b>2,624,188</b>    |
| Members' capital                                   | 6,000,000            | 4,875,000           |
| <b>Total liabilities and members' capital</b>      | <b>\$ 10,414,195</b> | <b>\$ 7,499,188</b> |

See notes to financial statements.

**First Tryon Securities, L.L.C.**

Statements of Income and Changes in Members' Capital

|                                    | <b>Year Ended<br/>December 31,<br/>2003</b> | <b>Year Ended<br/>December 31,<br/>2002</b> |
|------------------------------------|---------------------------------------------|---------------------------------------------|
| <b>Revenues</b>                    |                                             |                                             |
| Net trading revenue                | \$ 12,496,994                               | \$ 14,126,580                               |
| Interest income                    | 542,591                                     | 309,789                                     |
| Net unrealized gains on securities | 72,955                                      | -                                           |
| Other income                       | <u>125,554</u>                              | <u>750</u>                                  |
| <b>Total revenues</b>              | <u>13,238,094</u>                           | <u>14,437,119</u>                           |
| <b>Expenses</b>                    |                                             |                                             |
| Compensation and benefits          | 6,271,987                                   | 6,921,987                                   |
| Occupancy                          | 83,413                                      | 58,387                                      |
| Depreciation                       | 32,365                                      | 18,161                                      |
| Clearing fees                      | 657,017                                     | 509,253                                     |
| Other operating expenses           | <u>631,019</u>                              | <u>406,393</u>                              |
| <b>Total expenses</b>              | <u>7,675,801</u>                            | <u>7,914,181</u>                            |
| <b>Net income</b>                  | 5,562,293                                   | 6,522,938                                   |
| <b>Members' capital</b>            |                                             |                                             |
| Beginning balance                  | 4,875,000                                   | 3,168,750                                   |
| Contributions                      | 612,500                                     | 81,250                                      |
| Distributions                      | <u>(5,049,793)</u>                          | <u>(4,897,938)</u>                          |
| Ending balance                     | \$ <u><u>6,000,000</u></u>                  | \$ <u><u>4,875,000</u></u>                  |

See notes to financial statements.

## First Tryon Securities, L.L.C.

## Statements of Cash Flows

|                                                                                      | Year Ended<br>December 31,<br>2003 | Year Ended<br>December 31,<br>2002 |
|--------------------------------------------------------------------------------------|------------------------------------|------------------------------------|
| <b>Cash flows from operating activities</b>                                          |                                    |                                    |
| Net income                                                                           | \$ 5,562,293                       | \$ 6,522,938                       |
| Adjustments to reconcile net income to net cash provided<br>by operating activities: |                                    |                                    |
| Depreciation                                                                         | 32,365                             | 18,161                             |
| Net unrealized gains on securities                                                   | (72,955)                           | -                                  |
| Loss on sale of equipment                                                            | 551                                | -                                  |
| Decrease in receivables from brokers and dealers                                     | 1,257,968                          | 771,662                            |
| (Increase) in marketable securities owned                                            | (2,267,843)                        | (2,817,781)                        |
| (Increase) in interest receivable                                                    | (31,994)                           | (22,423)                           |
| (Increase) in other assets                                                           | (21,143)                           | (17,742)                           |
| Increase in accounts payable and accrued expenses                                    | 135,178                            | 443,722                            |
| Net cash provided by operating activities                                            | <u>4,594,420</u>                   | <u>4,898,537</u>                   |
| <b>Cash flows from investing activities</b>                                          |                                    |                                    |
| Purchases of property and equipment                                                  | <u>(112,068)</u>                   | <u>(45,960)</u>                    |
| Net cash used in investing activities                                                | <u>(112,068)</u>                   | <u>(45,960)</u>                    |
| <b>Cash flows from financing activities</b>                                          |                                    |                                    |
| Members' distributions                                                               | (5,049,793)                        | (4,897,938)                        |
| Members' contributions                                                               | <u>612,500</u>                     | <u>81,250</u>                      |
| Net cash used in financing activities                                                | <u>(4,437,293)</u>                 | <u>(4,816,688)</u>                 |
| Net increase in cash and cash equivalents                                            | <u>45,059</u>                      | <u>35,889</u>                      |
| Cash and cash equivalents at beginning of year                                       | <u>88,414</u>                      | <u>52,525</u>                      |
| Cash and cash equivalents at end of year                                             | <u>\$ 133,473</u>                  | <u>\$ 88,414</u>                   |

See notes to financial statements.



**FIRST TRYON SECURITIES, L.L.C.**

Notes to Financial Statements  
December 31, 2003 and 2002

**Note 1 - Nature of operations**

First Tryon Securities, L.L.C. is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers, Inc. (NASD). The Company's purpose of operations is to engage as an introducing broker-dealer on a fully disclosed basis in the purchase and sale of fixed income securities with other brokers and dealers. The Company was approved by the National Association of Securities Dealers to initiate trading operations as of October 21, 1996.

First Tryon Securities, L.L.C. is a North Carolina limited liability company, organized on September 1, 1996 and currently operating under the third amended and restated operating agreement dated January 1, 2003 and the subsequent amendment dated July 1, 2003. The Company shall continue until it is set to expire on December 31, 2046. Members are not ultimately liable for any debts, liabilities or obligations of the Company losses of capital nor losses of profits solely for acting as an equity owner and not beyond the respective capital contributions of each member. Withdrawing members' ownership interests are transferable, with no management rights, upon the lapse of the term for the Company's option to purchase same ownership interests. Ownership interests are transferable in accordance with the terms of the operating agreement.

**Note 2 - Summary of significant accounting policies****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.

**Securities owned**

Marketable securities consist of fixed income securities and are valued at quoted market values. If a quoted market value is not available, market value is determined using quoted market prices for similar investment securities. Security transactions and any related gains or losses are recognized on the trade date. Cost is determined by the specific identification method for the purpose of computing realized gains or losses on investment securities.

**Property and equipment**

Furniture, equipment, and leasehold improvements are carried at cost. Depreciation is charged to operations over the estimated useful lives of the assets using the 200% declining balance method and amortization is charged using the straight-line method. The costs of maintenance and repairs, which do not improve or extend the life of the respective asset, are expensed as incurred. The cost and accumulated depreciation and amortization of property are eliminated from the accounts upon disposal, and any resulting gain or loss is included in the determination of net income.

**FIRST TRYON SECURITIES, L.L.C.**

Notes to Financial Statements  
December 31, 2003 and 2002

**Note 2 - Summary of significant accounting policies (continued)****Use of estimates in the preparation of financial statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**Income taxes**

Limited liability corporations are essentially taxed as partnerships, with the net income or loss flowing through to the members' individual income tax returns. Accordingly, no provision for income taxes is reflected on the Company's financial statements.

**Allocations and distributions to Members**

Allocation of income and losses and distributions of cash are made to the members in accordance with the terms of the operating agreement and amendments entered into by the members. The allocations are based on the members' ownership interests.

**Reclassifications**

Certain 2002 amounts have been reclassified, where appropriate, to correspond with the 2003 financial statement presentation.

**Note 3 - Clearing broker and related receivable**

The Company has a clearing agreement with Pershing, LLC ("Pershing"), a BNY Securities Group Company to clear all trade transactions. The Company is required to maintain a cash balance of \$50,000 on deposit with Pershing in accordance with the terms of the clearing agreement.

An account is maintained with Pershing that is composed of funds to settle securities traded but not yet settled and the proceeds from all trade transactions. The funds in this account are available for the daily trading transactions initiated by the Company that are cleared through Pershing. This account is also used by the Company to transfer funds to correspondent bank accounts for the administrative operations of the Company. Commissions receivable are also recorded in this account.

Although at December 31, 2003 and 2002 there were no payables to Pershing, the Company does have a margin account with Pershing. Securities owned by the Company are pledged as collateral for any outstanding payables, which accrue interest at a base variable rate determined as described in the Pershing agreement. Interest expense on the margin account for the years ended December 31, 2003 and 2002 was \$45,229 and \$40,150, respectively.

# **FIRST TRYON SECURITIES, L.L.C.**

Notes to Financial Statements  
December 31, 2003 and 2002

## **Note 4 – Fixed Income securities sold not yet purchased**

During the normal course of business, the Company may sell fixed income securities not yet purchased. Since the Company will eventually purchase these securities at prevailing market prices, a risk exists due to the nature of fluctuating market prices for the securities.

## **Note 5 – Other investments**

During 2000, the Company invested in the common stock and warrants of NASDAQ Stock Market, Inc., and has classified the investments as available-for-sale. The Company determined during 2003 that an other-than-temporary impairment existed with respect to their investment in the stock of NASDAQ Stock Market, Inc. since the stock had been in a continuous unrealized loss position for more than 2 years. The Company adjusted the value of the stock by approximately \$18,000 to its fair value at December 31, 2003 and recorded the loss in the income statement. The fair value of the stock at December 31, 2003 represents its new cost basis.

## **Note 6 - Property and equipment**

Property and equipment as of December 31, 2003 and 2002 are summarized as follows:

|                                | <u>2003</u>       | <u>2002</u>      |
|--------------------------------|-------------------|------------------|
| Furniture and equipment        | \$ 162,875        | \$ 145,029       |
| Leasehold Improvements         | 93,360            | -                |
| Less: accumulated depreciation | <u>(122,008)</u>  | <u>(89,954)</u>  |
|                                | <u>\$ 134,227</u> | <u>\$ 55,075</u> |

Depreciation expense for the years ended December 31, 2003 and 2002 was \$32,365 and \$18,161, respectively.

## **Note 7 - Capital requirements**

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital of \$100,000 and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. The net capital and net capital ratio, which agree with our Focus Report as of December 31, 2003 and 2002, were as follows:

|                                                      | <u>2003</u>  | <u>2002</u>  |
|------------------------------------------------------|--------------|--------------|
| Net capital                                          | \$ 4,893,879 | \$ 4,317,252 |
| Net capital ratio (ratio of indebtedness to capital) | 0.237 to 1   | 0.255 to 1   |

# **FIRST TRYON SECURITIES, L.L.C.**

Notes to Financial Statements  
December 31, 2003 and 2002

## **Note 8 - Part I, Form X-17a-5:**

The most recent annual report of the Company is available for examination and copying at the office of the Company and at the Atlanta Regional Office of the Securities and Exchange Commission.

## **Note 9 - Profit sharing plan**

Effective June 15, 2000, the Company adopted its 401(k) profit sharing plan available to all employees. Participants can contribute up to 15% of their compensation and the Company may make a discretionary contribution equal to the lesser of 6% of eligible compensation or the amount deferred. The Company made a discretionary contribution of \$75,654 to the profit sharing plan for the year ended December 31, 2003. The Company elected not to make such a contribution in 2002, however a top heavy contribution of \$4,443 was made.

## **Note 10 - Supplemental cash flow information**

Amounts paid for interest totaled \$45,229 and \$40,150 during 2003 and 2002, respectively.

## **Note 11 - Operating lease**

The Company leases space in a building under a five-year operating lease that is renewable in August 2008. Future minimum lease payments at December 31, 2003 are as follows:

|                     |                   |
|---------------------|-------------------|
| 2004                | \$ 102,720        |
| 2005                | 105,937           |
| 2006                | 109,224           |
| 2007                | 112,631           |
| 2008 and thereafter | 70,976            |
|                     | <u>\$ 501,488</u> |

Lease expense was \$79,081 and \$51,203 for the years ended December 31, 2003 and 2002.

## **Note 12 - Concentrations of credit risk and other business concentrations**

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the security. The Company evaluates each counterparty's financial condition and creditworthiness before making a decision to conduct business with that counterparty and on an on-going periodic basis.

Additionally, the Company places its cash and cash equivalents on deposit with North Carolina financial institutions and with Pershing. The balances at the financial institutions are insured by the Federal Deposit Insurance Corporation up to \$100,000. From time to time, the Company may have balances on deposit in excess of the FDIC insured limits. The balances with Pershing are not insured, however Pershing is a reputable, well-known entity and the risk of loss for the deposits held at Pershing is considered to be remote by the Company.

**ACCOMPANYING INFORMATION**



**Report of Independent Certified Public Accountants  
on Accompanying Information**

The Members  
First Tryon Securities, L.L.C.  
Charlotte, North Carolina

We have audited the accompanying financial statements of First Tryon Securities, L.L.C. as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated January 16, 2004. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information on pages eleven and twelve 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 audits 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.

*Cherry, Bekaert & Holland, L.L.P.*

Charlotte, North Carolina  
January 16, 2004

**First Tryon Securities, L.L.C.**

## Computation of Net Capital and Net Capital Ratio

Rule 15c3-1

|                                                                                                            | <u>Year Ended<br/>December 31,<br/>2003</u> | <u>Year Ended<br/>December 31,<br/>2002</u> |
|------------------------------------------------------------------------------------------------------------|---------------------------------------------|---------------------------------------------|
| Members' Capital                                                                                           | \$ <u>6,000,000</u>                         | \$ <u>4,875,000</u>                         |
| Less:                                                                                                      |                                             |                                             |
| Property and equipment, net of<br>accumulated depreciation                                                 | 134,227                                     | 55,075                                      |
| Other unsecured investments                                                                                | 16,800                                      | 85,100                                      |
| Discount on concentrated portion                                                                           | 73,864                                      | 531                                         |
| Specified percentage reduction in market value of securities<br>in Company trading and investment accounts | 830,165                                     | 387,319                                     |
| Other nonallowable assets                                                                                  | 51,065                                      | 29,723                                      |
|                                                                                                            | <u>1,106,121</u>                            | <u>557,748</u>                              |
| Net capital                                                                                                | \$ <u><u>4,893,879</u></u>                  | \$ <u><u>4,317,252</u></u>                  |
| Aggregate indebtedness                                                                                     | \$ <u><u>1,161,032</u></u>                  | \$ <u><u>1,101,508</u></u>                  |
| Ratio of indebtedness to capital                                                                           | <u><u>0.237 to 1</u></u>                    | <u><u>0.255 to 1</u></u>                    |

**FIRST TRYON SECURITIES, L.L.C.**

Material Inadequacies - Rule 17a-5(j)

Years Ended December 31, 2003 and 2002

Material Inadequacy

None

Corrective Action Taken or Proposed

Not applicable





## Report on Internal Control Required by SEC Rule 17a-5

The Members  
First Tryon Securities, L.L.C.  
Charlotte, North Carolina

In planning and performing our audits of the financial statements of First Tryon Securities, L.L.C. for the years ended December 31, 2003 and 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 (the "Commission"), we have made a study of the practices and procedures followed by First Tryon Securities, L.L.C. 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 the quarterly securities examinations, counts, verifications and comparisons
2. Recording 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.

Management 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 Commission'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 preparation of financial statements in conformity 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, errors 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 errors 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 Commission 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, 2003, to meet the Commission's objectives.

This report is intended solely for the use of the Company's member-managers, the Securities and Exchange Commission, and other regulatory agencies which 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.

*Cherry, Belknap & Holland, L.L.P.*

Charlotte, North Carolina  
January 16, 2004