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

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2/8

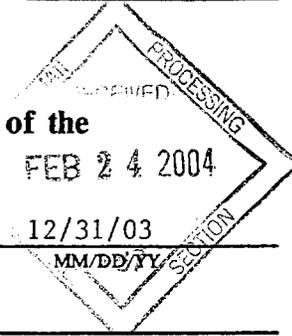
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8- 14286

**FACING PAGE**

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

FEB 24 2004

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: EQUITY SERVICES, INC.

OFFICIAL USE ONLY  
FIRM ID. NO.

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

NATIONAL LIFE DRIVE  
(No. and Street)  
MONTPELIER VT 05604  
(City) (State) (Zip Code)

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

JOHN M. GRAB (802) 229-3097  
(Area Code — Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

PricewaterhouseCoopers, LLP  
(Name — if individual, state last, first, middle name)  
NATIONAL LIFE BUILDING, 4TH FLOOR  
ONE NATIONAL LIFE DRIVE MONTPELIER VT 05604  
(Address) (City) (State) (Zip Code)

**CHECK ONE:**

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

**PROCESSED**  
MAR 17 2004

FOR OFFICIAL USE ONLY  
THOMSON FINANCIAL

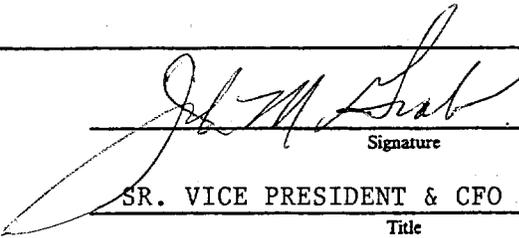
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

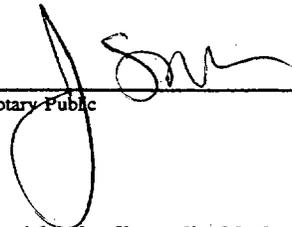
JW

## OATH OR AFFIRMATION

I, JOHN M. GRAB, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of EQUITY SERVICES, INC., as of DECEMBER 31, ~~19~~ 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  
SR. VICE PRESIDENT & CFO  
\_\_\_\_\_  
Title

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

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

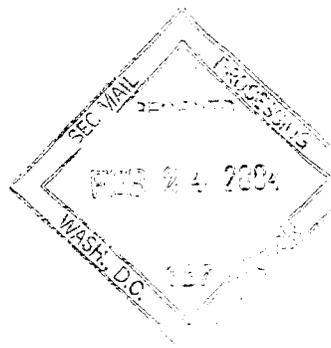
- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

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

# Equity Services, Inc.

(A wholly-owned subsidiary of NL Capital Management, Inc.)

## Consolidated Financial Statements with Supplementary Information December 31, 2003 and 2002



**Report of Independent Auditors**

To the Board of Directors  
and Stockholder of Equity Services, Inc.

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of operations and changes in stockholder's equity and of cash flows that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934 present fairly, in all material respects, the financial position of Equity Services, Inc. (a wholly-owned subsidiary of NL Capital Management, Inc.) and its subsidiary (the Company) at December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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 (Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission at December 31, 2003) 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 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

February 6, 2004

**Equity Services, Inc.**

(A wholly-owned subsidiary of NL Capital Management, Inc.)

**Consolidated Statements of Financial Condition****December 31, 2003 and 2002**

	2003	2002
<b>Assets</b>		
Cash and cash equivalents	\$ 3,150,522	\$ 2,767,063
Restricted cash	1,500,000	-
Other receivables	3,111,182	2,029,664
Furniture and equipment, net of depreciation	226,437	406,039
Prepaid expenses and other assets	368,806	369,270
Deferred tax asset	52,500	-
Total assets	<u>\$ 8,409,447</u>	<u>\$ 5,572,036</u>
<b>Liabilities</b>		
Commissions payable	\$ 2,022,330	\$ 1,807,874
Income taxes payable to Parent	56,982	115,375
Accounts payable and accrued expenses	2,519,013	1,318,549
Total liabilities	<u>4,598,325</u>	<u>3,241,798</u>
Minority interest	279,184	348,370
<b>Stockholder's equity</b>		
Capital stock, \$1 par value - 1,000,000 shares authorized; 197,008 shares issued and outstanding	197,008	197,008
Additional paid-in capital	16,045,111	13,595,111
Accumulated deficit	<u>(12,710,181)</u>	<u>(11,810,251)</u>
Total stockholder's equity	<u>3,531,938</u>	<u>1,981,868</u>
Total liabilities and stockholder's equity	<u>\$ 8,409,447</u>	<u>\$ 5,572,036</u>

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

# Equity Services, Inc.

(A wholly-owned subsidiary of NL Capital Management, Inc.)

## Consolidated Statements of Operations and Changes in Stockholder's Equity Years Ended December 31, 2003 and 2002

	2003	2002
<b>Revenue</b>		
Commissions	\$ 20,258,427	\$ 19,462,425
Investment advisor fees	5,451,624	4,309,902
Service fees	4,826,882	4,271,781
Custodial fees	326,669	347,773
Investment income	8,347	22,164
Other income	68,572	186,584
Total revenue	<u>30,940,521</u>	<u>28,600,629</u>
<b>Operating expenses</b>		
Commissions	18,001,461	16,950,121
Investment advisor	4,918,235	3,853,092
Salaries	3,308,744	3,230,173
Other	5,585,463	4,608,420
Total operating expenses	<u>31,813,903</u>	<u>28,641,806</u>
Loss before taxes and minority interest	(873,382)	(41,177)
Income tax benefit	<u>(558,527)</u>	<u>(224,011)</u>
(Loss) income before minority interest	(314,855)	182,834
Minority interest in earnings of consolidated affiliate	<u>(585,075)</u>	<u>(559,563)</u>
Net loss	(899,930)	(376,729)
Stockholder's equity, beginning of year	1,981,868	1,858,597
Contributed capital	<u>2,450,000</u>	<u>500,000</u>
Stockholder's equity, end of year	<u>\$ 3,531,938</u>	<u>\$ 1,981,868</u>

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

**Equity Services, Inc.**

(A wholly-owned subsidiary of NL Capital Management, Inc.)

**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2003 and 2002**

	2003	2002
<b>Cash flows from operating activities</b>		
Net loss	\$ (899,930)	\$ (376,729)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Minority interest in earnings of consolidated affiliate	585,075	559,563
Depreciation	218,686	220,335
Deferred federal income tax provision	(52,500)	-
Changes in assets and liabilities		
Income taxes recoverable from Parent	-	57,237
Other receivables	(1,081,518)	(201,759)
Prepaid expenses and other assets	464	(206,932)
Commissions payable	214,456	(47,561)
Income taxes payable to Parent	(58,393)	115,375
Accounts payable and accrued expenses	1,200,464	(323,851)
Net cash provided by (used in) operating activities	<u>126,804</u>	<u>(204,322)</u>
<b>Cash flows from investing activities</b>		
Purchase of furniture and equipment	(39,084)	(83,662)
Increase in restricted cash	(1,500,000)	-
Net cash used in investing activities	<u>(1,539,084)</u>	<u>(83,662)</u>
<b>Cash flows from financing activities</b>		
Minority interest distribution to partners	(654,261)	(454,336)
Contributed capital	2,450,000	500,000
Net cash provided by financing activities	<u>1,795,739</u>	<u>45,664</u>
Net increase (decrease) in cash and cash equivalents	383,459	(242,320)
Cash and cash equivalents		
Beginning of year	<u>2,767,063</u>	<u>3,009,383</u>
End of year	<u>\$ 3,150,522</u>	<u>\$ 2,767,063</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the year for		
Taxes received	\$ 447,634	\$ 396,623

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

# Equity Services, Inc.

(A wholly-owned subsidiary of NL Capital Management, Inc.)

## Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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### 1. Organization and Operations

Equity Services, Inc. (the Company), is a broker-dealer and a wholly-owned subsidiary of NL Capital Management, Inc. (NLCAP), which in turn is a wholly-owned subsidiary of National Life Insurance Company (National Life). The Company earns commissions from the sale of the Sentinel Group Funds, Inc. and Sentinel Pennsylvania Tax-Free Trust (the Funds), and from the sale of other mutual funds, direct placement programs, unit investment trusts and variable insurance contracts.

The Company also does business as ESI Financial Advisors, an investment advisor, and its income and expenses are reported as part of the results of Equity Services, Inc. Certain states require separate financial information for ESI Financial Advisors. For the years ended December 31, 2003 and December 31, 2002, ESI Financial Advisors had revenues of \$5,451,624 and \$4,309,902, respectively, and expenses of \$4,918,235 and \$3,853,092, respectively, included in these statements.

ESI Financial Advisors had assets under management of \$696,207,663 and \$476,996,673 at December 31, 2003 and 2002, respectively.

Sentinel Administrative Service Corporation (SAS Corp.) is a wholly-owned subsidiary of the Company. Effective March 1, 1993, SAS Corp. entered into a partnership agreement with Sentinel Management Company and Sigma American Corporation (Sigma), an affiliate of Provident Mutual Life Insurance Company. This partnership, Sentinel Administrative Service Company (SASC), provides transfer agent, investor relations, fund accounting and financial administration services exclusively to the Funds, for a service fee. This agreement was amended effective March 27, 1995 to reflect Penn Mutual Insurance Company's admission to the partnership. On June 28, 2002, NLCAP acquired all of the issued and outstanding capital stock of Sigma, thus acquiring Provident's partnership interest in Sentinel Administrative Services Company (SASC), a wholly-owned subsidiary of SAS Corp. Minority interests reflected in the 2003 consolidated financial statements consist of NLCAP's, Sentinel Management Company's and Penn Mutual Insurance Company's interest in SASC. Minority interest in earnings reflected in the 2002 consolidated statement of operations consists of NLCAP's, Sentinel Management Company's, Provident Mutual Insurance Company's, and Penn Mutual Insurance Company's interests in SASC. Minority interest included in the December 31, 2002 consolidated statement of financial condition consists of NLCAP's, Sentinel Management Company's and Penn Mutual Insurance Company's interest in SASC.

### 2. Significant Accounting Policies

#### **Basis of Presentation**

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

#### **Cash and Cash Equivalents**

Cash and cash equivalents are comprised of funds on deposit and investments in the Sentinel U.S. Treasury Money Market Fund.

# Equity Services, Inc.

(A wholly-owned subsidiary of NL Capital Management, Inc.)

## Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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### Furniture and Equipment

Depreciation is provided on the straight-line method based upon estimated useful lives of the assets ranging principally from three to five years.

### Revenue and Expense Recognition

Customers' security transactions and the related commission income and expenses are recorded on a settlement date basis. Service fees, investment advisor fees and custodial fees are recognized as revenue when earned.

### Income Tax

The Company and its consolidated subsidiary, SAS Corp., participate in the life/non-life consolidated federal income tax return of National Life and subsidiaries and file a consolidated state income tax return with National Life's non-insurance related subsidiaries. The amount of income tax as determined on a consolidated return basis is allocated to each company based on its share of the total liability computed as if each company was filing a separate return. The Company is reimbursed by National Life quarterly for net operating losses utilized by the consolidated group.

### Use of Estimates

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.

### 3. Net Capital and Reserve Information

The Company, as a registered broker-dealer, is subject to the provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, as amended which requires minimum "net capital" of the greater of \$100,000 or 6 2/3 percent of "aggregate indebtedness" subject to a maximum allowable ratio of "aggregate indebtedness" to "net capital" (as the terms are defined) of 15.0 to 1.0.

Aggregate indebtedness, net capital and the ratio of aggregate indebtedness to net capital at December 31, 2003, are as follows:

Aggregate indebtedness	<u>\$ 3,323,301</u>
Net capital	<u>\$ 1,278,408</u>
Ratio of aggregate indebtedness to net capital	<u>2:60</u>

The operations of the Company do not normally include the physical handling of securities or the maintenance of open customer accounts. Such activities are performed by the Company's clearing broker on a fully disclosed basis. Accordingly, the reserve provisions of Rule 15c3-3 of the Act do not apply under the exemption allowed by paragraph (k)(2) of such rule.

# Equity Services, Inc.

(A wholly-owned subsidiary of NL Capital Management, Inc.)

## Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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### 4. Furniture and Equipment

Furniture and equipment owned by the Company at December 31, 2003 and 2002 comprise:

	2003	2002
Furniture and equipment	\$ 1,675,170	\$ 1,636,086
Accumulated depreciation	<u>(1,448,733)</u>	<u>(1,230,047)</u>
Net furniture and equipment	<u>\$ 226,437</u>	<u>\$ 406,039</u>

Depreciation expense for the years ended December 31, 2003 and December 31, 2002 was \$218,686 and \$220,335 respectively.

### 5. Income Taxes

The Company's income tax benefit includes amounts for federal and state income taxes of \$(474,623) and \$(31,404) for 2003 and \$(210,570) and \$(13,441) for 2002. Income taxes payable to National Life at December 31, 2003 and 2002 were \$56,982 and \$115,375, respectively. Total federal taxes differ from amounts computed using the nominal federal income tax rate of 35 percent because of state taxes and nondeductible meals and entertainment expenses.

The net deferred tax asset recorded on the statement of financial condition at December 31, 2003 is related to the allowance for doubtful accounts. The deferred tax asset amounts to \$52,500 at December 31, 2003. The change in deferred tax asset during 2003 is \$52,500. There are no deferred tax liabilities recorded at December 31, 2003 and 2002. The Company had no timing differences which would give rise to deferred taxes at December 31, 2002 or for the year then ended.

In accordance with the Company's tax sharing agreement with NLCAP, the Company is reimbursed for net operating loss carryforwards and tax credits utilized in the consolidated tax return. Accordingly, management believes it is more likely than not that the Company will realize the benefit of deferred tax assets.

### 6. Related Party Transactions

Commissions earned by the Company relating to sales of Sentinel Group Funds shares and variable annuity products sponsored by National Life were \$6,163,128 and \$7,233,466 and for the years ended December 31, 2003 and 2002, respectively. Other receivables include \$170,675 and \$83,386 at December 31, 2003 and 2002, respectively, related to these commissions and other miscellaneous revenues and expense reimbursements.

National Life provides the Company with occupancy, administrative services and access to its distribution network. The charges for these services are determined by National Life's cost allocation system. Charges for these costs allocated to the Company for the years ended December

# Equity Services, Inc.

(A wholly-owned subsidiary of NL Capital Management, Inc.)

## Notes to Consolidated Financial Statements

December 31, 2003 and 2002

31, 2003 and 2002 were \$1,226,712 and \$1,298,409, respectively. Accounts payable and accrued expenses include \$503,947 and \$45,295 at December 31, 2003 and 2002, respectively, for such allocated costs. The Company is reimbursed for a portion of such allocated costs by affiliated companies, Sentinel Financial Services Company and Sentinel Management Company. Such reimbursements were \$237,455 and \$232,032 for the years ended December 31, 2003 and 2002, respectively. Other receivables include \$9,768 and \$14,241, respectively, at December 31, 2003 and 2002 related to these reimbursements.

The Company also shares employees and facilities with affiliated companies. The Company is billed for administrative and computer support charges by Sentinel Management Company. Such charges were \$312,017 and \$274,749 for the years ended December 31, 2003 and 2002. Accounts payable and accrued expenses include \$22,002 and \$22,896 at December 31, 2003 and 2002, respectively, related to these costs.

The Company's cash equivalents include \$1,776,675 and \$704,650 at December 31, 2003 and 2002, respectively, of the Sentinel U.S. Treasury Money Market Fund.

The Company has experienced losses from operations for twenty-two of the past twenty-four years and has an accumulated deficit of \$(12,710,181) at December 31, 2003. The Company has received sufficient equity contributions from its parent, NLCAP, to enable it to meet its contractual obligations as they become due. NLCAP has committed to continue such equity contributions as necessary.

In 2003 and 2002, the Company's parent, NLCAP, contributed capital of \$2,450,000 and \$500,000, respectively.

### 7. Contingencies and Commitments

The Company clears all of its securities transactions through a clearing broker on a fully disclosed basis. Pursuant to the terms of the agreement between the Company and the clearing broker, the clearing broker has the right to charge the Company for losses that result from a counterparty's failure to fulfill its contractual obligations.

As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing broker, the Company believes there is no maximum amount assignable to this right. At December 31, 2003, the Company has recorded no liabilities with regard to the right.

In addition, the Company has the right to pursue collection or performance from the counterparties who do not perform under their contractual obligations. The Company monitors the credit standing of the clearing broker and all counterparties with which it conducts business.

On November 3, 2003, the Securities and Exchange Commission (SEC) and National Association of Securities Dealers (NASD) announced a series of actions in connection with overcharges to customers on their mutual fund purchases. The NASD directed several firms, including ESI, to

# Equity Services, Inc.

(A wholly-owned subsidiary of NL Capital Management, Inc.)

## Notes to Consolidated Financial Statements

**December 31, 2003 and 2002**

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complete a comprehensive review of Class A mutual fund purchases since the beginning of 2001 to determine if they delivered appropriate breakpoint discounts. Firms must refund to customers the amount of any sales load overcharge including accrued interest thereon. The NASD requires firms to take appropriate actions to segregate and protect the funds necessary to satisfy their refund liability.

During 2003, ESI recorded accounts payable and accrued expenses of \$1,500,000 for estimated refunds due to customers and \$975,000 of other receivables due from registered representatives for these sales load overcharges, net of a \$150,000 allowance for uncollectible commissions. Restricted cash at December 31, 2003 includes \$1,500,000 for the benefit of customers to satisfy the breakpoint liability.

### 8. Summarized Information on Consolidated Subsidiary

The following is a summary of certain financial information of SAS Corp. consolidated in the accompanying financial statements at December 31, 2003 and 2002:

	2003	2002
Total assets	\$ 2,181,667	\$ 3,008,542
Stockholder's equity	<u>\$ 480,273</u>	<u>\$ 729,171</u>

The \$480,273 of stockholder's equity is not included as capital in the computation of the Company's net capital, because the assets of the subsidiary are not readily available for the protection of the Company's customers, broker-dealers and other creditors, as permitted by rule 15c3-1.

**SCHEDULE I – SUPPLEMENTARY INFORMATION**  
**EQUITY SERVICES, INC.**  
(A wholly-owned subsidiary of  
NL Capital Management, Inc.)

**COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE**  
**SECURITIES AND EXCHANGE COMMISSION**  
**DECEMBER 31, 2003**

Net capital	
Total consolidated stockholder's equity	\$ 3,531,938
Deduct stockholder's equity not allowable for net capital	480,273
Total stockholder's equity qualified for net capital	<u>3,051,665</u>
Deduct	
Other receivables	1,250,776
Furniture and equipment, net of accumulated depreciation	180,973
Prepaid expenses and other assets	301,198
	<u>1,732,947</u>
Net capital before haircuts on securities position	1,318,718
Haircut on cash equivalents	40,310
Net capital	<u>\$ 1,278,408</u>
Aggregate indebtedness	
Commissions payable	\$ 1,474,345
Accounts payable - trade	-
Other accounts payable and accrued expenses	1,848,956
Total aggregate indebtedness	<u>\$ 3,323,301</u>
Computation of basic net capital requirement	
Minimum net capital requirement (greater of \$100,000 or 6 2/3 percent of aggregate indebtedness of \$3,323,301)	\$ 221,553
Excess net capital	<u>\$ 1,056,855</u>
Excess net capital at 1,000 percent	<u>\$ 946,078</u>
Ratio of aggregate indebtedness to net capital	<u>2:60 to 1.0</u>

There are no material differences between the amounts presented above and the amounts reported on the Company's unaudited amended Focus Report as of December 31, 2003, which are presented on a parent company only basis.

# **Equity Services, Inc.**

**Report of Independent Accountants  
on Internal Control Required  
By SEC Rule 17a-5 - Broker/Dealer  
December 31, 2003**

**Report of Independent Auditors on Internal Control Required  
By SEC Rule 17a-5 – Broker/Dealer**

To the Board of Directors  
and Stockholder of Equity Services, Inc.:

In planning and performing our audit of the consolidated financial statements and supplemental schedules of Equity Services, Inc. (the “Company”) for the year ended December 31, 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 the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the “SEC”), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures, that we considered relevant to the objectives stated in Rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11); and
2. Determining compliance with the exemptive provisions of Rule 15c3-3.

Because the Company conducts business in accordance with the exemptive provisions of paragraph (k)(2)(ii) under Rule 15c3-3, 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, and the recordation of differences required by Rule 17a-13;
2. 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; and
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3;

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 control and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to

achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

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 internal control to future periods is subject to the risk that controls 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 one or more 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 procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 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, the National Association of Securities Dealers, 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.

*PricewaterhouseCoopers LLP*

February 6, 2004