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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

3-18-04 PR

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

SEC FILE NUMBER  
8- 48611

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

OFFICIAL USE ONLY  
FIRM I.D. NO.

**5050 WESTHEIMER**

(No. and Street)

**HOUSTON**

(City)

**TEXAS**

(State)

**77056**

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
**A. J. RINCOHN** **(713) 964-8327**  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

**BDO SEIDMAN, LLP**

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

**333 CLAY STREET, SUITE 4700**

(Address)

**HOUSTON**

(City)

**TEXAS**

(State)

**77002**

(Zip Code)

**CHECK ONE:**

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

**PROCESSED**

**MAR 25 2004**

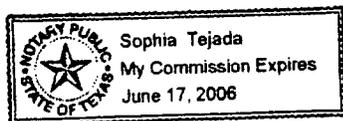
**FOR OFFICIAL USE ONLY** THOMSON FINANCIAL

\*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, A. J. RINCOHN, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of STANFORD GROUP COMPANY, as of FEBRUARY 24, 2004, 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:

DP



[Signature]  
Signature

Executive VP/Chief Financial Officer  
Title

[Signature]  
Notary Public

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- N/ (c) Statement of Income (Loss).
- N/ (d) Statement of Changes in Financial Condition.
- N/ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- N/ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- N/ (g) Computation of Net Capital.
- N/ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- N/ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- N/ (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.
- N/ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- N/ (m) A copy of the SIPC Supplemental Report.
- N/ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- X (o) Independent Auditors' Report on Internal Control

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



**Stanford Group Company  
and Subsidiaries**

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**Consolidated Statement of  
Financial Condition  
and Supplemental Material  
Filed Pursuant to SEC Rule 17a-5(e)(3)  
Under the Securities Exchange Act of 1934  
as a Public Document  
Year Ended December 31, 2003**

# Stanford Group Company and Subsidiaries

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**BDO Seidman, LLP**  
Accountants and Consultants

333 Clay Street, Suite 4700  
Houston, Texas 77002-4180  
Telephone: (713) 659-6551  
Fax: (713) 659-3238

## Independent Auditors' Report

The Board of Directors  
Stanford Group Company  
and Subsidiaries

We have audited the accompanying consolidated statement of financial condition of Stanford Group Company and Subsidiaries as of December 31, 2003. This consolidated financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 consolidated statement of financial condition referred to above presents fairly, in all material respects, the financial position of Stanford Group Company and Subsidiaries, as of December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Houston, Texas  
February 20, 2004

*BDO Seidman, LLP*

# Stanford Group Company and Subsidiaries

## Consolidated Statement of Financial Condition

<i>December 31,</i>	<b>2003</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 20,766,806
Due from broker-dealer (Notes 1 and 10)	117,015
Marketable securities owned (Notes 1, 2 and 10)	3,463,373
Accounts receivable	358,322
Receivables from affiliates (Note 6)	1,143,273
Accrued interest receivable	36,986
Prepaid expenses and other assets (Note 4)	1,563,387
Property, equipment and leasehold improvements, net (Note 3)	1,287,193
Goodwill, less accumulated amortization of \$63,760	129,839
Deferred tax asset (Note 8)	751,000
	<b>\$ 29,617,194</b>
<b>Liabilities and Stockholder's Equity</b>	
<b>Liabilities</b>	
Due to broker-dealer (Notes 1 and 10)	\$ 467,128
Accounts payable and accrued expenses	1,374,444
Interest payable (Note 5)	717,947
Federal income taxes payable	108,000
Payables to affiliates (Note 6)	2,134,533
	<b>4,802,052</b>
Liabilities subordinated to claims of creditors – affiliate (Note 5)	<b>4,000,000</b>
Commitments and contingencies (Notes 9 and 10)	
<b>Stockholder's equity (Note 9)</b>	
Common stock	1,000
Additional paid-in capital	24,299,000
Accumulated deficit	(3,484,858)
Total stockholder's equity	<b>20,815,142</b>
	<b>\$ 29,617,194</b>

*See accompanying independent auditors' report, summary of significant accounting policies and notes to consolidated financial statement.*

# Stanford Group Company and Subsidiaries

## Summary of Significant Accounting Policies

### **Organization and Nature of Business**

Stanford Group Company (the Company) was incorporated in Texas on July 21, 1995. The Company is registered with the Securities and Exchange Commission (SEC) and various state regulatory jurisdictions as a broker-dealer and an investment adviser and is a member of the National Association of Securities Dealers, Inc. (NASD). Further, the Company is registered with the National Futures Association (NFA) and the Commodity Futures Trading Commission (CFTC) as an introducing broker-dealer. The Company is licensed to execute security trades for customers as agent and principal as well as trading for its own accounts.

The Company has an agreement ("Agreement") with Bear Stearns Securities Corp. (Clearing Broker) to clear securities transactions, carry customers' accounts on a fully disclosed basis and perform certain recordkeeping functions. Accordingly, the Company operates under the exemptive provisions of SEC Rule 15c3-3(k)(2)(ii). Pursuant to the Agreement, the Clearing Broker provides investor protection coverage for the net equity of customer funds and securities positions held by the Clearing Broker.

### **Principles of Consolidation**

The consolidated statement of financial condition includes the accounts of the Company and its wholly-owned subsidiaries, Stanford Trust Company, a Louisiana chartered company that offers trust services, and Stanford Agency, Inc., a licensed insurance company that offers variable annuity and life insurance products. All significant intercompany transactions and balances have been eliminated in consolidation.

### **Cash Equivalents**

The Company considers short-term investments with original maturities of three months or less as cash equivalents.

### **Securities Transactions**

Securities transactions and related commission revenues and expenses are recorded on a settlement date basis, which does not materially differ from a trade date basis. Securities listed on a national exchange are valued at the last sales price on the date of valuation. Securities not listed on a national exchange are valued at the last sales price on the date of valuation or, if such price is not available, at the bid price for securities owned and the ask price for securities sold but not yet purchased at the close of business.

# Stanford Group Company and Subsidiaries

## Summary of Significant Accounting Policies

### **Property, Equipment and Leasehold Improvements**

Property, equipment and leasehold improvements are stated at cost. Depreciation is computed for financial reporting purposes by the straight-line method and accelerated methods for income tax purposes over their estimated useful lives. Leasehold improvements are amortized over the shorter of the useful life of the asset or the term of the leased property to which they are attached.

The Company reviews its fixed assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be fully recoverable. The Company has determined that there has been no impairment of its property and equipment, except for an impairment of certain leasehold improvements in 2003 (see Note 3).

### **Goodwill**

Goodwill arose from the acquisition of Stanford Trust Company in 1998. Prior to 2002, goodwill, representing the excess of the purchase price over the estimated fair value of the net assets acquired, was amortized over the period of expected benefit of 10 years. However, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 "*Goodwill and Other Intangible Assets*," which requires that the Company cease amortization of all intangible assets having indefinite useful economic lives. Such assets, including goodwill, are not to be amortized until their lives are determined to be finite; however, a recognized intangible asset with an indefinite useful life should be assessed for impairment annually, or on an interim basis if events or circumstances indicate that the fair value of the asset has declined below carrying value. At December 31, 2003, the Company evaluated its goodwill for impairment and determined that the fair value had not decreased below the carrying value, thus no goodwill impairment was recorded.

### **Income Taxes**

The Company uses an asset and liability method of accounting for income taxes that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, all expected future events are considered other than enactment of changes in the tax law or rates.

The Company adjusts the deferred tax asset valuation allowance based on judgments as to future realization of the deferred tax benefits supported by demonstrated trends in the Company's operating results.

# Stanford Group Company and Subsidiaries

## Summary of Significant Accounting Policies

### **Concentration of Credit Risk**

The Company maintains cash and cash equivalents in bank deposit accounts that, at times, may exceed federally insured limits. At December 31, 2003, the Company's uninsured cash and cash equivalents balances totaled approximately \$5,518,000. The Company has not experienced any losses in such accounts and management believes that the possibility of any credit loss is minimal.

### **Management's Estimates and Assumptions**

The preparation of the statement of financial condition 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 statement of financial condition. The actual results could differ from these estimates.

# Stanford Group Company and Subsidiaries

## Notes to Consolidated Financial Statement

- 1. Due to or from Broker-Dealer** Pursuant to an agreement for securities clearance services with the Clearing Broker, the Company records amounts due to or from broker-dealer. Due from broker-dealer at December 31, 2003 consisted of receivables of \$117,015, and due to broker-dealer consisted of margin loans of \$345,856 and payables of \$121,272. The Agreement with the Clearing Broker provides the Broker with liens on all the Company's property held by the Broker including, but not limited to, securities, deposits, monies and receivables. These liens secure the Company's liabilities and obligations to the Broker.

- 2. Marketable Securities Owned** Marketable securities owned are stated at market values and consist of the following at December 31, 2003:

		Amount
Obligations of U.S. government	\$	26,944
Coins & Bullion		339,058
Corporate bonds, debentures, and notes		546,414
Corporate equities		1,020,957
Certificates of deposit		1,530,000
	\$	3,463,373

- 3. Property, Equipment and Leasehold Improvements** Property, equipment and leasehold improvements consist of the following at December 31, 2003:

	Useful Lives (Years)		Amount
Furniture and fixtures	10	\$	91,999
Office art work	5-7		130,798
Equipment	7-10		315,794
Computer equipment and software	3-5		1,791,030
Leasehold improvements	10		1,482,334
Total property and equipment			3,811,955
Less accumulated depreciation and amortization			(2,524,762)
			\$ 1,287,193

# Stanford Group Company and Subsidiaries

## Notes to Consolidated Financial Statement

During the year the Company closed one of its operating locations held under operating lease. Accordingly, the Company wrote off the remaining net book value of the related leasehold improvements. (See Note 10.)

#### 4. Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist of the following at December 31, 2003:

	Amount
Advanced compensation arrangements, net	\$ 949,504
Prepaid expenses	319,125
Prepaid rent	174,899
Prepaid insurance	43,123
Other assets	76,736
	<u>\$ 1,563,387</u>

Advanced compensation arrangements represent "upfront payments" to Company brokers and employees, which are subject to conditions set forth in promissory note agreements. Upfront payments are earned and, therefore, not repayable by the note holder upon their continued employment with the Company for periods of generally five years. Accordingly, these upfront payments are amortized and charged to amortization of advanced compensation arrangements expense by the Company in accordance with such employment terms. In circumstances where the brokers/employees terminate prior to the expiration of their agreements, the noteholder is obligated to repay any unearned balance due to the Company. The Company maintains reserves for estimated unrecoverable amounts due under these arrangements. At December 31, 2003, the Company had reserves of \$683,000 for estimated unrecoverable amounts. (See Note 10.)

# Stanford Group Company and Subsidiaries

## Notes to Consolidated Financial Statement

**5. Liabilities  
Subordinated to  
Claims of Creditors**

On May 31, 2000, the Company entered into a loan agreement with an entity related through common ownership, for a total of \$4,000,000. This note payable matures on or before May 31, 2010. The interest rate is 4.94%, which is based on the Applicable Federal Rate prescribed by the I.R.S. at the date of the agreement. The principal and all interest accrued thereon is payable any time prior to or upon maturity.

The loan agreement was approved by the NASD as a satisfactory subordinated loan agreement for equity capital pursuant to the provisions of 17 CFR 240.15c3-d. In accordance with Appendix D of SEC Rule 15c3-1, the Company is required to obtain written approval of the NASD before any principal or interest repayment of the subordinated loan agreement can be made. Additionally, pursuant to the provisions of 17 CFR 240.15c3-1(e), no equity capital of the Company or its subsidiaries may be withdrawn or distributed if it would cause certain ratios of aggregate indebtedness to net capital, as defined, to not be met.

The Company has not made repayments of principal or interest as of December 31, 2003. (See Note 7.)

**6. Related Party  
Transactions**

Pursuant to joint marketing agreements, the Company and an affiliated foreign financial institution agreed to jointly market and offer fixed income and trust products to their respective customers. In connection therewith, the Company is entitled to referral fees based upon percentages of the referred portfolio as defined in the respective agreements. These agreements are automatically renewable for successive one year periods unless terminated by either party on thirty days prior written notice. For the year ended December 31, 2003, the Company earned \$31,967,592 in fees from such referrals, of which \$876,460 is in receivable from affiliates at December 31, 2003. Additionally, the company has approximately \$267,000 in receivables from affiliates primarily related to certain cost allocations to related parties.

For the year ended December 31, 2003, the Company incurred operating expenses with affiliates totaling \$14,289,071, of which \$2,134,333 was payable at December 31, 2003. The expenses incurred were primarily for leasing of furniture, computers and computer related equipments, advertising, business promotion, rent, insurance, telecommunication and commission expenses.

# Stanford Group Company and Subsidiaries

## Notes to Consolidated Financial Statement

### 7. Fair Value of Financial Instruments

The financial instruments of the Company are reported in the consolidated statement of financial condition at market or fair values, or at carrying amounts that approximate fair values.

The Company's subordinated loan agreement with an affiliate, included in liabilities subordinated to claims of creditors in the consolidated statement of financial condition, is recorded at its original carrying amount. The fair value of the loan is estimated based on the current market rate that could be obtained by the related party lender for the same or similar debt with the same remaining maturity. The carrying amount and estimated fair value of the subordinated loan at December 31, 2003 is \$4,000,000 and \$5,304,000 respectively.

### 8. Income Taxes

Deferred taxes are determined based on temporary differences between the financial statement and income tax bases of assets and liabilities as measured by enacted tax rates, which will be in effect when these differences are expected to reverse.

Deferred income taxes consist of the following at December 31, 2003:

	Amount
Capital loss carryover	\$ 266,000
Reserve for advanced compensation arrangements	283,000
Property and equipment	129,000
Net operating loss carryforward	47,000
Other, net	56,000
Gross deferred tax asset	781,000
Valuation allowance	(30,000)
Net deferred tax asset	\$ 751,000

At December 31, 2003, the Company had a net operating loss carryforward of approximately \$137,000 for income tax reporting purposes, available to offset future years' taxable income through 2018.

# Stanford Group Company and Subsidiaries

## Notes to Consolidated Financial Statement

At December 31, 2003, the Company had charitable contributions and capital loss carryforwards for tax reporting purposes totaling approximately \$41,000 and \$782,000, respectively, which are available to offset future taxable income and income tax through the year 2006. At December 31, 2003, the Company provided a valuation allowance against a portion of the capital loss carryover since the future realizability of capital losses of \$212,000 expiring in 2004 is not reasonably assured.

### 9. Regulatory Net Capital Requirements

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum regulatory net capital. The Company has elected to use the alternative method, permitted by the rule, which requires the Company to maintain minimum regulatory net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit balances arising from customer transactions, as defined. Regulatory net capital may fluctuate on a daily basis. At December 31, 2003, the Company had regulatory net capital, as defined under SEC Rule 15c3-1, of \$12,405,941, which was \$12,155,941 in excess of its required regulatory net capital of \$250,000.

The Company is also subject to the Commodity Futures Trading Commission's Net Capital Rule in accordance with Section 1.10 of the Commodity Exchange Act, which requires the maintenance of a minimum regulatory net capital amount of \$30,000.

Stanford Trust Company is subject to the State of Louisiana Office of Financial Institutions ("OFI") minimum net capital requirements, which requires the maintenance of a minimum \$2,000,000 regulatory net capital. At December 31, 2003, Stanford Trust Company had regulatory net capital of \$5,312,740, which was \$3,312,740 in excess of its required minimum.

# Stanford Group Company and Subsidiaries

## Notes to Consolidated Financial Statement

### 10. Commitments and Contingencies

#### *Customer Transactions*

In the normal course of business, the Company executes, as agent, securities transactions on behalf of its customers. If the agency transactions do not settle because of failure to perform by either the customer or the counterparty, the Company may be obligated to discharge the obligation of the nonperforming party and, as a result, is subject to market risk if the market value of the securities is different from the contract amount of the transactions.

The Company does not anticipate nonperformance by customers or counterparties in the above situations. The Company's policy is to monitor its market exposure and counterparty risk. In addition, the Company has a policy of reviewing, as considered necessary, the credit standing of each counterparty and customer with which it conducts business.

#### *Legal Matters*

The Company is involved in various legal actions and other claims arising in the ordinary course of business. The Company believes it is unlikely that the final outcome of any claim or litigation to which the Company is a party will have a material adverse effect on the Company's financial position or results of operations; however due to uncertainty of litigation, there can be no assurance that the resolution of any particular claim would not have a material adverse effect on the Company's results of operations.

During the year the Company was involved in various matters with former brokers and employees, which, in some cases, were arbitrated by an NASD panel, seeking to recover amounts due the Company under advanced compensation arrangements. At December 31, 2003, the Company has similar matters pending under arbitration. Management believes, based on the opinion of its legal council, that the final disposition of these matters will not have a material adverse effect on the Company's financial condition.

#### *Self-Insurance*

The Company has a self-insured program for medical and dental benefits for its employees. The program is administered by a third party insurance company, which in addition to charging an administrative fee, also provides insurance for claims in excess of an individual stop-loss of \$75,000 per participant per year, and an aggregate stop-loss of \$950,769 per year.

# Stanford Group Company and Subsidiaries

## Notes to Consolidated Financial Statement

### *Operating Leases*

The Company leases office space and certain equipment under operating lease agreements (some of which are month-to-month) expiring through 2015. At December 31, 2003, the future minimum rental payments required under these leases were as follows:

<i>Year Ending December 31,</i>		<i>Amount</i>
2004	\$	1,591,492
2005		1,509,868
2006		1,318,059
2007		1,443,447
2008		1,450,031
Thereafter		7,134,674
<b>Total</b>	<b>\$</b>	<b>14,447,571</b>

### *Office Restructuring*

During the year the Company closed one of its operating locations held under operating lease. In connection therewith, management recognized an impairment loss of \$153,000, including leasehold improvement write-off of \$98,000, for the year ended December 31, 2003.

**Supplemental Material**

**Independent Auditors' Report  
on Internal Control Required  
By SEC Rule 17a-5 and Section 1.16 of  
the Commodity Exchange Act**

**The Board of Directors  
Stanford Group Company  
and Subsidiaries**

In planning and performing our audit of the consolidated statement of financial condition of Stanford Group Company and Subsidiaries as of December 31, 2003, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing control activities for the purpose of expressing our opinion on the statement of financial condition as of December 31, 2003, and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission ("SEC") and Section 1.16 of the Commodity Exchange Act ("CEA"), 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 SEC Rule 17a-5(g) and Commodity Futures Trading Commission ("CFTC") Section 1.16, in making the periodic computations of aggregate indebtedness and net capital under SEC Rule 17a-3(a)(11) and Section 1.18 of the CEA, in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining exemptive provision 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. 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 preparation of financial statements in accordance with generally accepted accounting principles. SEC Rule 17a-5(g) and Section 1.12 of the CEA list 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 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 statement 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 and the CFTC ("the Commissions") to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, as well as the CEA 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 Commissions' objectives.

This report is intended solely for the information and use of the Board of Directors, of management, the SEC, the National Association of Securities Dealers, Inc. and other state and federal regulatory agencies which rely on SEC Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and should not be used for any other purpose. Further, this report is intended for the use of the National Futures Association and the CFTC which rely on Section 1.16 and 1.18 of the CEA.

*BDO Seidman, LLP*

Houston, Texas  
February 20, 2004