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# ANNUAL AUDITED REPORT

## FORM X-17A-5

### PART IN APR 26 2002

FACING PAGE

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

SEC FILE NUMBER
8- 15305

REPORT FOR THE PERIOD BEGINNING 03/01/01 AND ENDING 02/28/02  
MM/DD/YY MM/DD/YY

### A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Empire Securities Corporation of Southern California  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

8380 Melrose Avenue Suite 202  
(No. and Street)

Los Angeles, California 90069  
(City) (State) (Zip Code)

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

Jamie Bennett (323) 852-9895  
(Area Code - Telephone Number)

### B. ACCOUNTANT IDENTIFICATION

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

David E. Lazarus  
(Name - if individual, state last, first, middle name)

2566 Overland Avenue Suite 550 Los Angeles, California 90064  
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

## PROCESSED

### MAY 02 2002

### THOMSON FINANCIAL

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\*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)

SEC 1410 (05-01)

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, Arnold W. Morrison, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Empire Securities Corporation of Southern California, as of February 28, 2002, 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:

None

Arnold W. Morrison  
Signature  
President  
Title

Marilynn Searles  
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 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).

**JURAT**

State of California  
County of Los Angeles } ss.

Subscribed and sworn to (or affirmed) before me  
this 25<sup>th</sup> day of April, ~~19~~ 2002, by

(1) Arnold W. Morrison  
Date Month Year  
Name of Signer(s)

(2) \_\_\_\_\_  
Name of Signer(s)

Marilynn Seales  
Signature of Notary Public



**OPTIONAL**

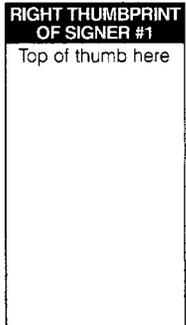
*Though the information in this section is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.*

**Description of Attached Document**

Title or Type of Document: Oath of Affirmation

Document Date: 4/25/02 Number of Pages: 1

Signer(s) Other Than Named Above: \_\_\_\_\_



**EMPIRE SECURITIES CORPORATION  
OF SOUTHERN CALIFORNIA**

**FINANCIAL STATEMENTS**

**FEBRUARY 28, 2002**

Empire Securities Corporation of Southern California

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**DAVID E. LAZARUS**  
CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report

Board of Directors  
Empire Securities Corporation  
of Southern California  
Los Angeles, California

Gentlemen:

I have audited the accompanying balance sheet of Empire Securities Corporation of Southern California as of February 28, 2002, and the related statements of operations and accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain a 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. I believe that my audit provided a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Empire Securities Corporation of Southern California at February 28, 2002, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



David E. Lazarus  
Certified Public Accountant

Los Angeles, California  
April 19, 2002

Empire Securities Corporation of Southern California  
Balance Sheet  
February 28, 2002

ASSETS

Current assets	
Cash	\$ 22,284
Commissions receivable	<u>60,024</u>
Total current assets	82,308
Office furniture and equipment, at cost	-
less accumulated depreciation of \$12,823 (Note 1)	<u>-</u>
	<u>\$ 82,308</u>

LIABILITIES AND SHAREHOLDER'S DEFICIENCY

Current liabilities	
Accounts payable	\$ 3,630
Accrued commissions	53,734
Income taxes payable	<u>5,248</u>
Total current liabilities	62,612
Subordinated debt (Note 2)	10,000
Shareholder's equity	
Common stock	
Class A, \$.50 par value; authorized 50,000 shares; issued and outstanding 20,000 shares	\$ 10,000
Class B, \$.50 par value; authorized 50,000 shares; issued and outstanding 9,000 shares	4,500
Capital in excess of par value	14,500
Accumulated deficit	<u>(19,304)</u>
Total shareholder's equity	<u>9,696</u>
	<u>\$ 82,308</u>

The accompanying notes and independent auditor's report  
are an integral part of these financial statements.

Empire Securities Corporation of Southern California  
Statement of Operations and Accumulated Deficit  
For the Year Ended February 28, 2002

Revenue		
Commissions and other fees – brokerage		\$ 190,524
Commissions and other fees – mutual funds		900,071
Interest		1,348
Miscellaneous income		<u>9,150</u>
 Total revenue		 1,101,093
 Cost and expense		
Commission	\$ 898,740	
Rent	26,100	
Administrative fees	20,011	
Office expense	6,087	
Dues and subscriptions	3,015	
Automobile, travel and promotion	82,579	
Professional fees	13,365	
Telephone and utilities	6,912	
Taxes and licenses	6,177	
Insurance	4,740	
NASD and SPIC fees	4,994	
Miscellaneous	<u>1,753</u>	
Total cost and expense		<u>1,074,473</u>
 Income before provision for state income taxes		 26,620
Provision for incomes taxes		<u>13,753</u>
 Net income		 12,867
 Accumulated deficit, March 1, 2001		 <u>(32,171)</u>
 Accumulated deficit, February 28, 2002		 <u>\$ (19,304)</u>

The accompanying notes and independent auditor's report  
are an integral part of these financial statements.

Empire Securities Corporation of Southern California  
Statement of Cash Flows  
For the Year Ended February 28, 2002

Cash flow from operating activities:	
Net income	\$ 12,867
Adjustments	
(Increase) in accounts receivable	(1,151)
(Decrease) in accounts payable	(9,925)
Increase in accrued commission	2,400
Increase in income taxes payable	<u>4,330</u>
Net cash flow from operating activities	8,521
Cash flow from investing activities	
None	-
Cash flow from financing activities:	
None	<u>-</u>
Increase in cash	8,521
Cash balance – March 1, 2001	<u>13,763</u>
Cash balance - February 28, 2002	<u>\$22,284</u>
Interest paid during year	<u>None</u>
Income taxes paid during year	<u>\$ 9,423</u>

The accompanying notes and independent auditor's report  
are an integral part of these financial statements.

Empire Securities Corporation of Southern California  
Notes to Financial Statements  
February 28, 2002

Note 1. Significant Accounting Policies

- A. The Company is a registered broker/dealer selling investments in mutual funds, stocks, bonds and insurance products. In connection with the sale of stocks and bonds, the Company uses another securities dealer as a clearinghouse for these transactions. For these services, the Company receives commissions from either the mutual fund distributor, the clearinghouse securities dealer or insurance carrier.
- B. Office furniture and equipment is stated at cost. Depreciation is provided for on a straight-line basis at rates determined by the estimated useful lives of the respective assets. Expenditures for major renewals and betterments that extend the useful lives of office furniture and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.
- C. For purposes of the Statement of Cash Flows, the Company considers all short-term investments with a maturity at the date of purchase of three months or less to be a cash equivalent.
- D. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2. Subordinated Debt

Subordinated debt consists of two notes, which are to the sole shareholder of the company. These notes, which are subordinated to all current and future indebtedness, are summarized as follows:

A.	5% Note, due April 30, 2004	\$ 5,000
B.	10% Note, due June 30, 2004	<u>5,000</u>
	Total subordinated debt	<u>\$ 10,000</u>

Empire Securities Corporation of Southern California  
Notes to Financial Statements  
February 28, 2002

Note 3. Net Capital Requirement

The Company, as a registered broker/dealer, is required to maintain a minimum net capital, as defined by rule 15(c)3-1 of the Securities and Exchange Act of 1934. As of February 28, 2002, the computed net capital and the required net capital, computed under rule 15(c)3-1, were \$19,696 and \$5,000, respectively.

Note 4. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of commissions receivable. Concentrations of credit risk with respect to commissions receivable are limited due to the credit worthiness of the payors, which consist of various mutual funds, insurance carriers and brokerage houses. Accordingly, at February 28, 2002, the Company had no significant concentrations of credit risk.

Note 5. Uncertainties

The Company's sole shareholder has filed a petition for bankruptcy under Chapter 7 of the United States Bankruptcy Code. The impact of this petition on the Company and its operations is unknown as of the date of this report.

Note 6. Income Taxes

The Company's provision for income taxes does not bear the normal relationship to pre-tax income. This variance is due to the fact that fifty (50%) percent of the entertainment and business meal expenses incurred by the Company are nondeductible for Federal and California income tax purposes.

Note 7. Leases

The Company leases certain office space on a month-to-month basis. On July 14, 1999, the Company entered into a lease that expires December 31, 2001. During the fiscal year ended February 28, 2002, the Company incurred rent expense under these leases of \$26,100.

Empire Securities Corporation of Southern California  
Statement of Changes in Shareholder's Equity (Deficiency)  
For the Year Ended February 28, 2002

	Class A Common Stock \$.50 Par Value Authorized 50,000 Shares; Issued and Outstanding <u>20,000 Shares</u>	Class B Common Stock \$.50 Par Value Authorized 50,000 Shares; Issued and Outstanding <u>9,000 Shares</u>	Capital In Excess of Par Value	Accumulated Deficit	Total
Balance – March 1, 2001	\$ 10,000	\$ 4,500	\$14,500	\$ (32,171)	\$ (3,171)
Net income for year	_____	_____	_____	<u>12,867</u>	<u>12,867</u>
Balance – February 28, 2002	<u>\$ 10,000</u>	<u>\$ 4,500</u>	<u>\$14,500</u>	<u>\$ (19,304)</u>	<u>\$ 9,696</u>

Empire Securities Corporation of Southern California  
Statement of Changes in Liabilities Subordinated to Claims of Creditors  
For the Year Ended February 28, 2002

Balance – March 1, 2001	\$ 10,000
Additions:	<u>          -</u>
	10,000
Reductions	<u>          -</u>
Balance – February 28, 2002	<u><u>\$ 10,000</u></u>

Empire Securities Corporation of Southern California  
 Comparative Computation of Net Capital  
 February 28, 2002

Differences in the computation of net capital were due to adjustments made during the audit. A summary of the net capital computation is shown below:

	<u>Audited</u>	<u>Per Company</u>	<u>Difference</u>
Shareholder's equity (deficiency)	\$ 9,696	\$ 12,306	\$ (2,610)
Subordinated liabilities	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Total capital	19,696	22,306	(2,610)
Non-allowable assets	<u>-</u>	<u>-</u>	<u>-</u>
Net capital	<u>\$ 19,696</u>	<u>\$ 22,306</u>	<u>\$ (2,610)</u>
Aggregate indebtedness	<u>\$ 62,612</u>	<u>\$ 285</u>	<u>\$ 62,327</u>
Ratio of aggregated indebtedness to net capital	<u>3.18 to 1</u>	<u>.01 to 1</u>	

Empire Securities Corporation of Southern California  
Possession and Control Requirements of Customer Funds  
February 28, 2002

Empire Securities Corporation of Southern California, as a registered broker/dealer, is subject to quarterly filings of Part IIA of Form X-17A-5 (the Focus Report). The Company claims exemption from Rule 15c3-3 provision under Section (K)(2)(B) of that rule in that all transactions are handled and all monies and securities, if received directly, are promptly transmitted to the clearing broker.

A reconciliation of this computation is not necessary because of the Company's claimed exemption.

The Company does not handle securities as all transactions are on a fully disclosed basis. As such, they claim exemption from the possession or control requirements under rule 15c3-3.

Empire Securities Corporation of Southern California  
Reconciliation Between Audited and Unaudited Financial Statements  
For the Year Ended February 28, 2002

The following is a reconciliation of net worth between the Company's audited and unaudited financial statements at February 28, 2002.

Net worth per unaudited financial statements	\$ 12,306
Increase in accrued commission income	59,706
Increase in accrued commission expense	(53,449)
Current year accounts payable accruals	(3,630)
Accrual of current year income taxes	(5,248)
Miscellaneous adjustments	<u>1</u>
	<u>\$ 9,686</u>

Empire Securities Corporation of Southern California  
Report on Internal Control Structure and Material Inadequacies  
Year Ended February 28, 2002

In planning and performing my audit of the financial statements of Empire Securities Corporation of Southern California for the year ended February 28, 2002, I considered its internal control structure, including procedures for safeguarding securities, in order to determine my auditing procedures for the purposes of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission, I have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by Empire Securities Corporation of Southern California that I considered relevant to the objectives stated in rule 17a-5(g)(1) in making the periodic computation of aggregate indebtedness and net capital under rule 17a-3(a)(1), (1) and the reserve required by rule 15c3-3(e); (2) in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of difference required by rule 17a-13 (if applicable); (3) in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System (if applicable); and (4) in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by rule 15C3-3 (if applicable).

The management of the Company is responsible for establishing and maintaining an internal control structure 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 internal control structure policies and procedures 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 an internal control structure 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 generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Empire Securities Corporation of Southern California  
Report on Internal Control Structure and Material Inadequacies  
Year Ended February 28, 2002

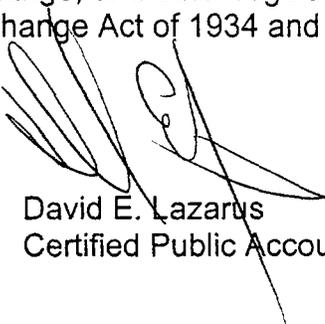
(continued)

Because of the inherent limitations in any internal control structure or the practices and procedures referred to above, errors and irregularities may occur and not be detected. In addition, projection of any evaluation of them in future periods is subject to risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under the 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 structure elements does not reduce to a relatively low level the risk that errors or irregularities 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, I noted no matters involving the internal control structure, including procedures for safeguarding securities that I consider to be material weaknesses as defined above.

I 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 my study, I believe that the company's practices and procedures were adequate at February 28, 2002 to meet the Commission's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, the New York Stock Exchange, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.



David E. Lazarus  
Certified Public Accountant