

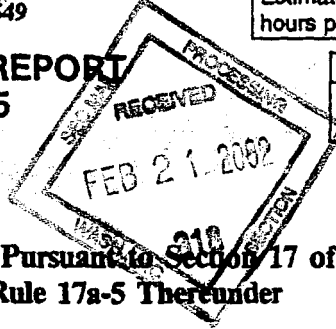


02005666

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

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: September 30, 1998  
Estimated average burden  
hours per response . . . 12.00

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



SEC FILE NUMBER  
8- 49347

**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 January 1, 2001 AND ENDING December 31, 2001  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:  
Mark Stewart Securities, Inc.

OFFICIAL USE ONLY  
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
1100 Quail Street, Suite 209

(No. and Street) (City) (State) (Zip Code)  
Newport Beach California 92660

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Mark Stewart 949-250-0080  
(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
Kevin G. Breard, CPA An Accountancy Corporation

(Name - if individual, state last, first, middle name)  
9010 Corbin Avenue, Suite 7 Northridge California 91324  
(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 21 2002**

**THOMSON  
FINANCIAL**

FOR OFFICIAL USE ONLY

\*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).

*KA*

SEC 1410 (3-91)

Potential persons who are to 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

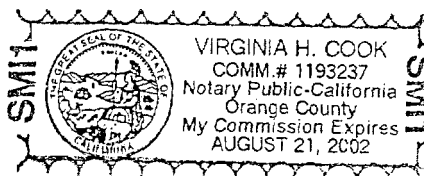
I, Mark Stewart, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Mark Stewart Securities, as of December 31, 2001, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_

State of California  
County of Orange  
Subscribed and sworn (or affirmed) to before me this 17th day of JANUARY 2002

[Signature]  
Signature  
President  
Title

[Signature]  
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~~ Cash Flows
- (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).

Independent Auditor's Report

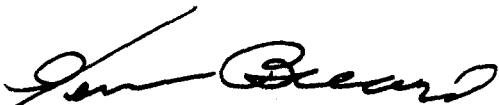
Board of Directors  
Mark Stewart Securities, Inc.

I have audited the accompanying statement of financial condition of Mark Stewart Securities, Inc. (an S Corporation) as of December 31, 2001 and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States. Those standards require that I 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. I believe that my audit provides 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 Mark Stewart Securities, Inc. as of December 31, 2001 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

My examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on Schedules I-III are presented for purposes of additional analysis and is not required as part of the basic financial statements, but as supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subject to the auditing procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated in all material respect in relating to the basic financial statements taken as a whole and in conformity with the rules of the Securities and Exchange Commission.



Kevin G. Breard  
Certified Public Accountant

Northridge, California  
January 17, 2002

NORTHRIDGE OFFICE PLAZA  
9010 CORBIN AVENUE, SUITE 7  
NORTHRIDGE, CALIFORNIA 91324  
(818) 886-0940 • FAX (818) 886-1924  
B r e a r d C P A @ a o l . c o m

**Mark Stewart Securities, Inc.**  
**Statement of Financial Condition**  
**As of December 31, 2001**

**Assets**

Cash and cash equivalents	\$ 164
Receivable from clearing firm	5,811
Deposits at clearing firm	35,635
Furniture and equipment, net of \$5,109 accumulated depreciation	3,636
Investments	3,300
Organization costs, net of \$23,984 accumulated amortization	<u>4,796</u>
<b>Total assets</b>	<u><u>\$ 53,342</u></u>

**Liabilities and Stockholder's Equity**

**Liabilities**

Accounts payable and accrued expenses	\$ 6,801
Income tax payable	863
Loan payable to officer	<u>13,625</u>

**Total liabilities** 21,289

**Stockholder's equity**

Common stock, no par value, 20,000,000 shares authorized, 2,000,000 shares issued and outstanding	5,555
Additional paid-in capital	15,445
Retained earnings	<u>11,053</u>

**Total stockholder's equity** 32,053

**Total liabilities and stockholder's equity** \$ 53,342

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

**Mark Stewart Securities, Inc.**  
**Statement of Income**  
**For the year ended December 31, 2001**

**Revenue**

Commissions	\$ 166,724
Interest income	524
Other income	<u>9,068</u>

**Total revenue** 176,316

**Expenses**

Employee compensation	54,748
Commissions, trading fees and floor brokerage	25,942
Communications	8,075
Occupancy & equipment rental	19,527
Interest expense	1,583
Taxes, other than income taxes	16,315
Other operating expenses	<u>46,794</u>

**Total expenses** 172,984

**Income (loss) before income taxes** 3,332

**Income tax provision**

Income tax provision	<u>800</u>
----------------------	------------

**Total income tax provision** 800

**Net income (loss)** \$ 2,532

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

**Mark Stewart Securities, Inc.**  
**Statement of Changes in Stockholder's Equity**  
**For the year ended December 31, 2001**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance on January 1, 2001	\$ 5,555	\$ 10,445	\$ 8,521	\$ 24,521
Stockholder's contribution of capital	-	5,000	-	5,000
Net income	<u>-</u>	<u>-</u>	<u>2,532</u>	<u>2,532</u>
Balance on December 31, 2001	<u>\$ 5,555</u>	<u>\$ 15,445</u>	<u>\$ 11,053</u>	<u>\$ 32,053</u>

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

**Mark Stewart Securities, Inc.**  
**Statement of Cash Flows**  
**For the year ended December 31, 2001**

**Cash flows from operating activities:**

Net income		\$ 2,532
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation	\$ 1,716	
Amortization	1,919	
(Increase) decrease in:		
Accounts receivable	8,084	
(Decrease) increase		
Accounts payable	285	
Income taxes payable	(1,212)	
Payroll taxes payable	<u>(5,202)</u>	
Total adjustments		<u>5,590</u>
Net cash and cash equivalent provided by operating activities		8,122

**Cash flows from investing activities:**

Increase in deposits at clearing firm	<u>(26,999)</u>	
Net cash and cash equivalent used in investing activities		(26,999)

**Cash flows from financing activities:**

Proceeds from short term loan payable-related party	13,625	
Proceeds from issuance of additional paid-in capital	<u>5,000</u>	
Net cash and cash equivalent provided in financing activities		<u>18,625</u>

Net decrease in cash and cash equivalents		(252)
Cash and cash equivalents at beginning of year		<u>416</u>
Cash and cash equivalents at end of year		<u>\$ 164</u>

**Additional disclosures:**

Taxes paid	\$ 2,075	
Interest paid	\$ 1,583	

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

**Mark Stewart Securities, Inc.**  
**Notes to Financial Statements**  
**For the year ended December 31, 2001**

**Note 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General*

Mark Stewart Securities, Inc. (the "Company"), an S Corporation, was originally incorporated under the name "Trademark Investments, Inc.", on May 15th, 1996 in the state of California. On November 19, 2000, the Company changed its name to Mark Stewart Securities, Inc. The Company operates, a general securities business, specializing in Orange County stocks, including options, on a fully disclosed basis whereby it does not hold customer funds or securities, and Regulation D offerings on a best efforts basis.

The Company is a member of the National Association of Securities Dealers, Inc. (NASD) and the Securities Investor Protection Corporation (SIPC) and Municipal Securities Rulemaking Board (MSRB).

The Company has 275 clients, most in the Orange County area. About twenty five to thirty (25-30) of these clients generate 25% of the Company's revenue.

*Summary of Significant Accounting Principles*

The presentation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Securities transactions are recorded on a settlement date basis with related commission income and expenses also recorded on a settlement date basis. Generally Accepted Accounting Principles (GAAP) requires securities transactions to be recorded on a trade basis. There is no material difference between trade date and settlement date accounting.

For purposes relating to 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. The Company also includes money market accounts as cash equivalents.

Marketable securities are valued at market value. Mark to market accounting is used for purposes of determining unrealized gain/loss on security positions in proprietary trading and investment accounts. The securities are sold on a first in first out basis; however, certain securities are inventoried on a specific identification basis.

The Company has elected to amortize its organization costs over a five (5) year period. The amortization expense for the year ended December 31, 2001 was \$1,919.



**Mark Stewart Securities, Inc.**  
**Notes to Financial Statements**  
**For the year ended December 31, 2001**

**Note 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

The Company, with the consent of its stockholders, has elected to be an S Corporation and accordingly has its income taxed under Section 1372 of the Internal Revenue Code, which provides that in lieu of corporate income taxes, the stockholder is taxed on the Company's taxable income. Therefore, no provision or liability for Federal Income Taxes is included in these financial statements. The State of California has similar regulations, although there exists a provision for a minimum Franchise Tax and a tax rate of 1.5% over the minimum Franchise Fee of \$800.

The Company has elected to report the statement of changes in stockholder's equity without disclosing the accumulated adjustment account and other equity accounts pertinent to a S Corporation. There is no financial impact to these financial statements.

**Note 2: INVESTMENTS**

Investments consists of not readily marketable securities and are valued at cost. These securities were offered primarily to NASD members and purchased through a Private Placement Memorandum.

**Note 3: DEPOSITS WITH CLEARING ORGANIZATION**

The Company has deposited \$35,000 with Wedbush Morgan Securities as security for its transactions with them. Interest is paid monthly on the deposit at the average overnight repurchase agreement rate. The balances at December 31, 2001 include interest earned for a deposit total of \$35,635.

**Mark Stewart Securities, Inc.**  
**Notes to Financial Statements**  
**For the year ended December 31, 2001**

**Note 4: FURNITURE AND EQUIPMENT, NET**

The furniture and equipment are recorded at cost.

		<u>Depreciable Life Years</u>
Furniture & equipment	\$ 8,745	5-7
Less accumulated depreciation	<u>(5,109)</u>	
	<u>\$ 3,636</u>	

Depreciation expense for the year ended December 31, 2001 was \$1,716.

**Note 5: INCOME TAXES**

As discussed in the Summary of Significant Accounting Policies (Note 1), the Company has elected the S Corporate tax status, therefore no federal income tax provision is provided.

The tax provision of \$800 represents the California state minimum tax . Similar to the Federal Rules, the net income passes through to the stockholders so that both federal and state taxes are primarily paid on the individual level.

**Note 6: NET CAPITAL**

The Company is subject to the uniform net capital rule (Rule 15c3-1) of the Securities and Exchange Commission, which requires both the maintenance of minimum net capital and the maintenance of a maximum ratio of aggregate indebtedness to net capital. Net capital and aggregate indebtedness change day to day, but on December 31, 2001, the Company's net capital of \$19,686 exceeded the minimum net capital requirement by \$14,686; and the Company's ratio of aggregate indebtedness (\$21,289) to net capital was 1:08 to 1, which is less than the 15 to 1 maximum ratio required of a Broker/Dealer.

**Mark Stewart Securities, Inc.**  
**Schedule I - Computation of Net Capital Requirements**  
**Pursuant to Rule 15c3-1**  
**As of December 31, 2001**

**Computation of net capital**

Stockholder's equity		
Common stock	\$ 5,555	
Additional paid-in capital	15,445	
Retained earnings	<u>11,053</u>	
Total stockholder's equity		\$ 32,053
Less: Non-allowable assets		
Interest paid on deposits at clearing firm	(635)	
Fixed assets, net	(3,636)	
Investments	(3,300)	
Organization costs, net	<u>(4,796)</u>	
Total non-allowable assets		<u>(12,367)</u>
<b>Net capital before haircuts</b>		19,686
Less: Adjustments to net capital		
Haircuts on securities	<u>—</u>	
Total adjustments to net capital		<u>—</u>
<b>Net Capital</b>		19,686

**Computation of net capital requirements**

Minimum net capital requirements		
6 2/3 percent of net aggregate indebtedness	\$ 1,419	
Minimum dollar net capital required	<u>5,000</u>	
Net capital required (greater of above)		<u>(5,000)</u>
<b>Excess net capital</b>		<u>\$ 14,686</u>

Ratio of aggregate indebtedness to net capital 1.08 : 1

There was no material difference between net capital shown here and net capital as reported on the Company's unaudited Form X-17A-5 report dated December 31, 2001.

See independent auditor's report.

**Mark Stewart Securities, Inc.**  
**Schedule II - Computation for Determination of Reserve**  
**Requirements Pursuant to Rule 15c3-3**  
**As of December 31, 2001**

A computation of reserve requirement is not applicable to Mark Stewart Securities, Inc. as the Company qualifies for exemption under Rule 15c3-3 (k) (2) (ii).

See independent auditor's report.

**Mark Stewart Securities, Inc.**  
**Schedule III - Information Relating to Possession or Control**  
**Requirements Under Rule 15c3-3**  
**As of December 31, 2001**

Information relating to possession or control requirements is not applicable to Mark Stewart Securities, Inc. as the Company qualifies for exemption under Rule 15c3-3 (k) (2) (ii).

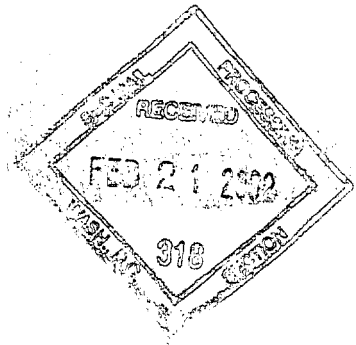
See independent auditor's report.

**Mark Stewart Securities, Inc.**

**Report Pursuant to Rule 17a-5 (d)**

**Financial Statements**

**For the Year Ended December 31, 2001**



**Mark Stewart Securities, Inc.**  
**Supplementary Accountant's Report**  
**on Internal Accounting Control**  
**Report Pursuant to 17a-5**  
**For the Year Ended December 31, 2001**

Board of Directors  
Mark Stewart Securities, Inc.

In planning and performing my audit of the financial statements of Mark Stewart Securities, Inc. for the year ended December 31, 2001, I considered its internal control structure, for the purpose for safeguarding securities, in order to determine my auditing procedures for the purpose 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 followed by Mark Stewart Securities, Inc. including tests of such practices and procedures that I considered relevant to objectives stated in rule 17a-5(g), in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities, I 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 structure and the practice and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements 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 17-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

NORTHRIDGE OFFICE PLAZA  
9010 CORBIN AVENUE, SUITE 7  
NORTHRIDGE, CALIFORNIA 91324  
(818) 886-0940 • FAX (818) 886-1924  
B r e a r d C P A @ a o l . c o m



Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk 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 that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which 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 considered to be material weakness 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 purpose 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 material inadequacy for such purposes. Based on this understanding on my study, I believe that the Company's practices and procedures were adequate at December 31, 2001 to meet the Commission's objectives.

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



Kevin G. Breard  
Certified Public Accountant

Northridge, California  
January 17, 2002