

2/5/02  
TC

AM 1-31-2002

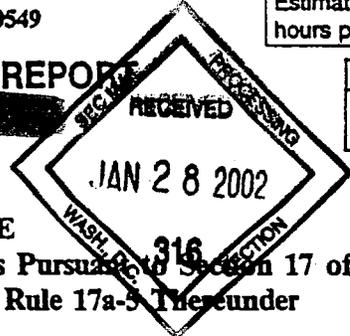
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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



02006008

ANNUAL AUDITED REPORT  
PART III



SEC FILE NUMBER  
8- 51832

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 December 1, 2000 AND ENDING November 30, 2001  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:  
Investment Security Corporation

OFFICIAL USE ONLY  
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
23945 Calabasas Road Suite 113 C

Calabasas California 91302  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Jeff Seargeant (818) 222-1210  
(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  
T FEB 07 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).

OATH OR AFFIRMATION

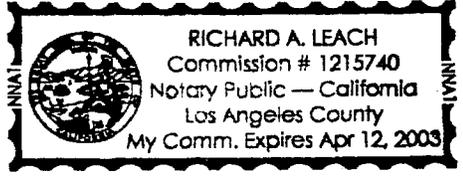
I, Jeff Seargeant, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Investment Security Corporation, as of November 30, 2001, are true and correct. I further swear (or affirm) that neither the company 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 Los Angeles  
Subscribed and sworn (or affirmed) to before me this 25 day of January, 2002

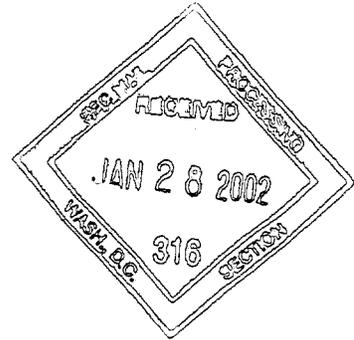
[Signature]  
Signature  
CFO  
Title

[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).



**Investment Security Corporation**  
**Report Pursuant to Rule 17a-5 (d)**  
**Financial Statements**  
**For the Year Ended November 30, 2001**

*Am*

KEVIN G. BREARD, C.P.A.  
AN ACCOUNTANCY CORPORATION

Board of Directors  
Investment Security Corporation

I have audited the accompanying statement of financial condition of Investment Security Corporation as of November 30, 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 financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 Investment Security Corporation as of November 30, 2001, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

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  
December 18, 2001

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

**Investment Security Corporation**  
**Statement of Financial Condition**  
**November 30, 2001**

**Assets**

Cash and cash equivalents	\$ 13,720
Accounts receivable	4,063
Prepaid expenses	6,141
Deferred tax asset	<u>359</u>
<b>Total assets</b>	<b><u>\$ 24,283</u></b>

**Liabilities and Stockholder's Equity**

**Liabilities**

Deferred income	\$ 1,433
Commissions payable	1,861
Income taxes payable	696
Deferred income taxes payable	<u>1,364</u>
<b>Total liabilities</b>	<b><u>5,354</u></b>

**Stockholder's equity**

Common stock, no par value, 100,000 shares authorized, 100 shares issued and outstanding	1,000
Additional paid-in capital	10,000
Retained earnings	<u>7,929</u>
<b>Total stockholder's equity</b>	<b><u>18,929</u></b>
<b>Total liabilities and stockholder's equity</b>	<b><u>\$ 24,283</u></b>

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

**Investment Security Corporation**  
**Statement of Income**  
**For the year ended November 30, 2001**

**Revenue**

Commission income	\$ 435,444
Fees income	57,650
Interest and dividends	41
Other	<u>6,935</u>
<b>Total revenue</b>	<b>500,070</b>

**Expenses**

Commissions and floor brokerage	448,735
Communications	404
Occupancy and equipment rental	439
Taxes, other than income taxes	4,599
Other operating expenses	<u>34,076</u>
<b>Total expenses</b>	<u><b>488,253</b></u>

**Income before income tax provision** 11,817

**Income tax provision**

Income tax provision, including deferred taxes of \$1,484	<u>3,006</u>
<b>Total income tax provision</b>	<u><b>3,006</b></u>

**Net income** **\$ 8,811**

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

**Investment Security Corporation**  
**Statement of Changes of Stockholder's Equity**  
**For the year ended November 30, 2001**

	<u>Common Stock</u>	<u>Additional Paid - in Capital</u>	<u>Retained Earnings (Deficit)</u>	<u>Total</u>
Balance, November 30, 2000	\$ 1,000	\$ 10,000	\$ (882)	\$ 10,118
Net income (loss)	<u>—</u>	<u>—</u>	<u>8,811</u>	<u>8,811</u>
Balance, November 30, 2001	<u>\$ 1,000</u>	<u>\$ 10,000</u>	<u>\$ 7,929</u>	<u>\$ 18,929</u>

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

**Investment Security Corporation**  
**Statement of Changes in Cash Flows**  
**For the year ended November 30, 2001**

**Cash flows from operating activities:**

Net income (loss)		\$ 8,811
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by operating activities:		
(Increase) decrease in:		
Accounts receivable	\$ (3,535)	
Prepaid expenses	(3,461)	
Deferred income asset	120	
(Decrease) increase in:		
Accrued expenses	(182)	
Income tax payable	223	
Commissions payable	1,861	
Unearned income	400	
Deferred income taxes payable	<u>1,364</u>	
Total adjustments		<u>(3,210)</u>
Net cash and cash equivalents provided by operating activities		5,601

**Cash flows from investing activities:**

-

**Cash flows from financing activities:**

-

Net increase in cash and cash equivalents		5,601
Cash and cash equivalents at beginning of year		<u>8,119</u>
Cash and cash equivalents at end of year		<u>\$ 13,720</u>

**Supplemental disclosure of cash flow information:**

Cash paid during the year for		
Income taxes	\$ 1,076	
Interest	\$ -	

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

**Investment Security Corporation**  
**Notes to Financial Statements**  
**For the year ended November 30, 2001**

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

*General*

Investment Security Corporation (the "Company") was incorporated, in California, on January 21, 1999, as a registered broker-dealer under the Securities Exchange Act of 1934. The Company received operating approval from the National Association of Securities Dealers (NASD) on November 29, 1999. The Company operates under a fully-disclosed basis whereby it does not hold customer accounts or securities. The Company is a member of the National Association of Securities Dealers (NASD).

The Company's principal business is to serve in the capacity as the broker dealer for the offering and selling of mutual funds and variable insurance products at the retail level.

*Summary of Significant Accounting Policies*

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.

Cash and cash equivalents consists of bank accounts and money market accounts.

Current income taxes are provided for estimated taxes payable or refundable based on tax returns filed on the cash basis of accounting. Deferred income taxes are recognized for the estimated future tax effects attributable to temporary differences in the basis of assets and liabilities for financial and tax reporting purposes. Measurement of current and deferred tax assets and liabilities is based on provisions of enacted federal and state tax laws.

The Company accounts for its income taxes using the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 109, "Accounting for income taxes", which requires the establishment of a deferred tax asset or liability for the recognition of the future deductible or taxable amounts and operating loss and tax credit carry forwards. Deferred tax expenses or benefits are recognized as a result of the changes in the assets and liabilities during the year.

Commissions and fee income are recognized when earned, with related commission expenses accrued concurrently.

**Investment Security Corporation**  
**Notes to Financial Statements**  
**For the year ended November 30, 2001**

**Note 2: INCOME TAXES**

The income tax provision consists of the following:

Federal taxes	\$ 722
State taxes	<u>800</u>
Current tax provision	1,522
Federal deferred taxes	1,169
State deferred taxes	<u>315</u>
Deferred tax provision	<u>1,484</u>
Total income tax expense	<u>\$ 3,006</u>

The deferred income asset arises at a result of temporary differences in the capitalization of start-up expenses and organization costs for income tax purposes in the amount of \$3,990. The deferred tax asset of \$359 represents the unamortized portion of this difference.

Deferred income taxes payable are recognized for the estimated future tax effects attributable to temporary differences in the basis of assets and liabilities for financial and tax reporting purposes.

**Note 3: NET CAPITAL REQUIREMENTS**

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 November 30, 2001, the Company's net capital of \$12,622 exceeded the minimum net capital requirement by \$7,622; and the Company's ratio of aggregate indebtedness (\$3,990) to net capital was 0.32 to 1, which is less than the 15 to 1 maximum ratio required of a Broker/Dealer.

**Investment Security Corporation**  
**Schedule I - Computation of Net Capital Requirements**  
**Pursuant to Rule 15c3-1**  
**For the year ended November 30, 2001**

**Computation of net capital:**

Stockholder's equity

Common stock	\$ 1,000	
Additional paid-in capital	10,000	
Retained earnings	<u>7,929</u>	
Total stockholder's equity		\$ 18,929
Add: Deferred income taxes payable	1,364	
Less: Non allowable assets		
Accounts receivable greater than 30 days	(1,050)	
Prepaid expenses	(6,141)	
Deferred tax asset	<u>(359)</u>	
Total adjustments		<u>(6,186)</u>
Net capital before haircuts		12,743
Less: Haircuts		
Money Market	<u>(121)</u>	
Total Haircuts		<u>(121)</u>
<b>Net Capital</b>		<b>12,622</b>

**Computation of net capital requirements:**

Minimum net capital requirements		
6 2/3 percent of aggregate indebtedness	\$ 266	
Minimum dollar net capital required	<u>5,000</u>	
Net capital required, greater of above		<u>5,000</u>
Excess net capital		<u><u>\$ 7,622</u></u>

Ratio of aggregate indebtedness to net capital 0.32:1

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 November 30, 2001.

See independent auditor's report.

**Investment Security Corporation**  
**Schedule II - Computation for Determination of Reserve Requirements**  
**Pursuant to Rule 15c3-3**  
**For the year ended November 30, 2001**

A computation of reserve requirements is not applicable to Investment Security Corporation as the Company qualifies for exemption under Rule 15c3-3 (k) (2).

See independent auditor's report.

**Investment Security Corporation**  
**Schedule III - Information Relating to Possession or Control Requirements**  
**Under Rule 15c3-3**  
**For the year ended November 30, 2001**

Information relating to possession or control requirements is not applicable to Investment Security Corporation as the Company qualifies for exemption under Rule 15c3-3 (k) (2).

See independent auditor's report.

**Investment Security Corporation**  
**Supplementary Accountant's Report**  
**on Internal Accounting Control**  
**Report Pursuant to 17a-5**  
**for the Year Ended November 30, 2001**

KEVIN G. BREARD, C.P.A.  
AN ACCOUNTANCY CORPORATION

Board of Directors  
Investment Security Corporation

In planning and performing my audit of the financial statements of Investment Security Corporation for the year ended November 30, 2001, I considered its internal control structure, for the purpose for safeguarding securities, in order to determine our 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 (including tests of compliance with such practices and procedures) followed by Investment Security Corporation that I considered relevant to objectives stated in rule 17a-5(g), (1) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3-3(e). I did not review the practices and procedures followed by the Company (i) in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13, or (ii) in complying with the requirements for prompt payment for securities of Section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

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.

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 and on my study, I believe that the Company's practices and procedures were adequate at November 30, 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  
December 18, 2001