

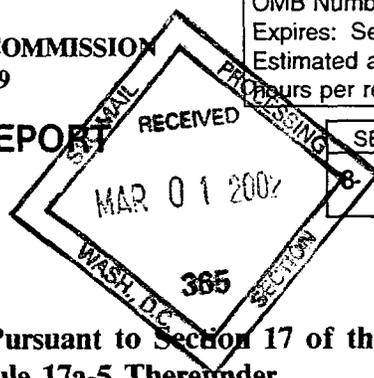
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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



OMB APPROVAL	
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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 1/1/2001 AND ENDING 12/31/2001
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
GBS Financial Corporation

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
15233 Ventura Blvd., Suite 404
(No. and Street)
Sherman Oaks, CA 91403-2218
(City) (State) (Zip Code)

OFFICIAL USE ONLY
FIRM ID. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Donald G. Gloisten 818 / 788-6210
(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
Hovik M. Khaloian
(Name — if individual, state last, first, middle name)
520 N. Central Ave., Suite 650, Glendale CA 91203
(Address) (City) (State) (Zip Code)

CHECK ONE:
 Certified Public Accountant
 Public Accountant
 Accountant not resident in United States or any of its possessions.

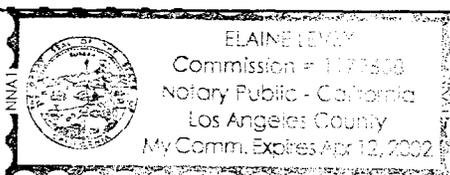
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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

OATH OR AFFIRMATION

I, Donald G. Gloisten, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of GBS Financial Corporation, as of December 31, ~~19~~ 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:



Donald Gloisten
Signature
President
Title

Elaine Levy
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).

GBS FINANCIAL CORP.
FINANCIAL REPORT
DECEMBER 31, 2001



HOVIK M. KHALOIAN
CERTIFIED PUBLIC ACCOUNTANT

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HOVIK M. KHALOIAN
CERTIFIED PUBLIC ACCOUNTANT

Board of Directors
GBS Financial Corp.
Sherman Oaks, California

Members of the Board:

I have audited the accompanying statement of financial condition of GBS Financial Corp. as of December 31, 2001 and the related statements of income, changes in stockholders' equity 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 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 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 GBS Financial Corp. as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

My audit was conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The information contained in Schedules I, II and III is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hovik M. Khaloian

February 20, 2002

GBS FINANCIAL CORP.
STATEMENT OF FINANCIAL CONDITION
As of December 31, 2001

ASSETS

Cash and cash equivalents (Note 1)	\$ 353,423
Deposit with clearing broker	104,818
Commissions receivable (Note 1)	204,971
Receivable from non-customers	10,000
Securities owned, at market (Note 1)	92,730
Prepaid income taxes	4,120
Deferred income taxes (Note 3)	6,100
Other assets (Note 1)	22,414
Property and equipment at cost, less accumulated depreciation of \$82,857 (Note 1)	<u>28,090</u>
TOTAL ASSETS	<u>\$ 826,666</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable and accrued expenses	\$ 41,539
Commissions payable	342,957
Deferred income Taxes (Note 3)	<u>8,400</u>
	392,896
COMMITMENTS AND CONTINGENCIES (Note 4)	-
STOCKHOLDERS' EQUITY	
Common stock, no par value; 1000 shares authorized, 30 shares issued and outstanding stated at	4,500
Additional paid-in capital	62,386
Retained earnings	<u>366,884</u>
TOTAL STOCKHOLDERS' EQUITY	<u>433,770</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 826,666</u>

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

GBS FINANCIAL CORP.
STATEMENT OF INCOME
For the Year Ended December 31, 2001

REVENUES

Commissions	\$ 3,457,157
Net investment gains (losses)	13,459
Interest and dividends	213,426
Consulting revenue	<u>65,010</u>
	<u>3,749,052</u>

EXPENSES

Commissions and brokerage costs	2,808,306
Employee compensation and benefits	475,933
Occupancy and equipment rental	89,447
Taxes, other than income taxes	35,917
Other operating expenses	<u>313,765</u>
	<u>3,723,368</u>

INCOME BEFORE INCOME TAXES 25,684

INCOME TAXES (Note 3)

Current	7,800
Deferred	<u>3,300</u>
	<u>11,100</u>

NET INCOME \$ 14,584

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

GBS FINANCIAL CORP.
 STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
 For the Year Ended December 31, 2001

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Number of Shares Outstanding	Amount			
Balance at January 1, 2001	30	\$ 4,500	\$ 62,386	\$352,300	\$419,186
Net income	-	-	-	14,584	14,584
Balance at December 31, 2001	<u>30</u>	<u>\$ 4,500</u>	<u>\$ 62,386</u>	<u>\$366,884</u>	<u>\$433,770</u>

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

HOVIK M. KHALOIAN
 CERTIFIED PUBLIC ACCOUNTANT

GBS FINANCIAL CORP
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2001

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,556,894
Cash paid to suppliers and employees	(3,693,218)
Interest received	213,426
Interest paid	(1,429)
Income tax refunds received	9,861
Income taxes paid	<u>(34,233)</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>51,301</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Decrease in deposit with clearing broker	45,936
Increase in due from non-customers	(10,000)
Increase in other assets	(16,053)
Purchase of property and equipment	<u>(12,075)</u>
NET CASH PROVIDED FROM INVESTING ACTIVITIES	<u>7,808</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payment of note payable	<u>(50,000)</u>
NET CASH (USED) BY FINANCING ACTIVITIES	<u>(50,000)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,109
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>344,314</u>
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 353,423</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES	
Net income	\$ 14,584
Non-cash expenses included in net income:	
Depreciation and amortization	14,571
Deferred income taxes	3,300
Changes in assets and liabilities:	
Decrease in commissions receivable	21,268
(Increase) in securities owned	(10,861)
(Increase) in prepaid income taxes	(4,120)
(Decrease) in accounts payable and accrued expense	(49,619)
Increase in commissions payable	74,608
(Decrease) in income taxes payable	<u>(12,430)</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>\$ 51,301</u>

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

GBS FINANCIAL CORP.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Company is a securities broker/dealer engaged in the sale of securities to the general public.

Securities

Securities owned are valued at market with unrealized gains and losses recognized currently in results of operations.

Income and Expense Recognition

Securities transactions and related revenue and expense are recorded on a settlement date basis, generally the third business day following the transaction date.

Concentration of Credit Risk For Cash Held at Banks

The Company maintains cash balances at a bank. Accounts at the Institution are insured by the Federal Deposit Insurance Corporation up to \$100,000.

Policy of Cash Equivalents

The Company considers money market funds as cash equivalents.

Property and Equipment

The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the modified accelerated cost recovery systems based on the estimated useful lives of the assets, which range from five to seven years.

Use of Estimates

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.

Other Assets

Other assets consist of prepaid expenses of \$21,517, deposits of \$897 and organization costs net of amortization of \$3,270. The Company has fully amortized organization costs on a straight-line basis over five years.

GBS FINANCIAL CORP.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2001

NOTE 2 - 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 net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Since the Company does not carry customer accounts, it is permitted under Rule 15c3-1(a)(2) to maintain minimum net capital, as defined, equal to the greater of \$100,000 or 6 2/3 percent of aggregate indebtedness. At December 31, 2001, the Company had net capital of \$309,032 which was \$209,032 in excess of its required net capital of \$100,000. The Company's aggregate indebtedness to net capital ratio was 1.3 to 1.

NOTE 3 - INCOME TAXES

Deferred income taxes arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or noncurrent, depending on the classification of the assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or noncurrent depending on the periods in which the temporary differences are expected to reverse.

The deferred tax assets and deferred tax liabilities comprised of the following at December 31, 2001:

Deferred Tax assets:	
Salary accruals	\$ 5,000
State income Taxes	<u>1,100</u>
	6,100
Valuation allowance	<u>-</u>
	<u>\$ 6,100</u>
Deferred tax liabilities:	
Depreciation	<u>\$ 8,400</u>

GBS FINANCIAL CORP.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2001

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Leases Commitment

The Company leases its facilities under non-cancelable operating lease agreements expiring through December 31, 2003. Future minimum lease payments required under these operating leases for the years ending December 31, are as follows:

<u>Year ending December 31,</u>	
2002	\$ 24,797
2003	<u>25,540</u>
Total	<u>\$ 50,337</u>

Total rent expense amounted to \$88,447 for the year ended December 31, 2001.

Retirements Plans

The Company has a profit sharing plan that covers substantially all of its employees. The funding of the profit sharing plan is discretionary (maximum is 15% of total eligible compensation) and is determined annually by the Board of Directors. No contributions to the profit sharing plan were made for the year ended December 31, 2001.

The Company also sponsors a defined contribution plan covering substantially all employees who have satisfied a service requirement of one hour. Plan participants may contribute up to 15% of their annual eligible compensation, subject to limitations imposed by the Internal Revenue Service. The Company matches up to 100% of participant contributions to a maximum of 4% of their annual eligible compensation. The Company's total expense under this plan for the year ended December 31, 2001 amounted to \$17,601.

During the year ended December 31, 2001, the Company terminated its money purchase pension plan.

NASD Investigation

As a result of a routine examination by the United States Securities and Exchange Commission (SEC), the National Association of Securities Dealers, Inc. (NASD) is conducting an investigation of the activities of the Company in the area of fair Dealings with customers and use of class B shares. While the Company believes that its activities are justifiable, the management is unable to determine the outcome of the investigation and its ultimate impact on the financial position of the Company and its operations.

GBS FINANCIAL CORP.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2001

NOTE 4 - COMMITMENTS AND CONTINGENCIES (continued)

Litigations

The Company is a defendant in an arbitration before the National Association of Securities Dealers, Inc. (NASD) in connection with a claim filed by two former registered representatives alleging improper termination. Although the Company is vigorously defending itself, the ultimate outcome of the action cannot be presently determined and no provision for liability has been made in the accompanying financial statements.

The Company is a defendant in two lawsuits for alleged breach of fiduciary duty in its capacity as an investment advisor. The suits seek compensatory damages in unspecified amounts. Although the Company intends to vigorously contest the allegations, the ultimate outcome of the actions cannot be presently determined and no provision for liabilities have been made in the accompanying financial statements.

SUPPLEMENTARY INFORMATION
PURSUANT TO RULE 17a-5 OF
THE SECURITIES EXCHANGE ACT OF 1934

HOVIK M. KHALOIAN
CERTIFIED PUBLIC ACCOUNTANT

SCHEDULE I
 GBS FINANCIAL CORP.
 COMPUTATION OF NET CAPITAL, AGGREGATE INDEBTEDNESS
 AND BASIC NET CAPITAL REQUIREMENT
 UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION
 As of December 31, 2001

NET CAPITAL		
Total stockholders' equity		\$ 433,770
Deductions and/or charges		
Non-allowable assets:		
Commissions receivable		
Net of commissions payable	\$ 5,482	
Receivable from non-customers	10,000	
Securities not readily marketable	40,900	
Prepaid income taxes	4,120	
Deferred income taxes	6,100	
Other assets	22,414	
Property and equipment	<u>28,090</u>	<u>117,106</u>
Net capital before haircuts on securities positions		316,664
Haircuts on securities (computed, where applicable, pursuant to Rule 15c3-1(c)(2):		
Trading and investment securities:		
Common stocks	3,018	
Preferred stocks	1,013	
Money market mutual funds	2,307	
Other	<u>1,294</u>	<u>7,632</u>
NET CAPITAL		<u>\$ 309,032</u>
AGGREGATE INDEBTEDNESS		
Items included in statement of financial condition:		
Accounts payable and accrued expenses		\$ 41,539
Commissions payable		342,957
Deferred income taxes		<u>8,400</u>
TOTAL AGGREGATE INDEBTEDNESS		<u>\$ 392,896</u>
COMPUTATION OF BASIC NET CAPITAL REQUIREMENT		
Minimum net capital required, 6 2/3% of aggregate indebtedness or \$100,000 if greater		<u>\$ 100,000</u>
Excess net capital		<u>\$ 209,032</u>
Ratio: Aggregate indebtedness to net capital		<u>1.3 to 1</u>

SCHEDULE II
 GBS FINANCIAL CORP.
 RECONCILIATION OF NET CAPITAL AND AGGREGATE INDEBTEDNESS
 TO AMOUNTS AS REPORTED BY THE COMPANY IN PART IIA OF FORM X-17A-5
 As of December 31, 2001

	<u>Aggregate Indebtedness</u>	<u>Net Capital</u>
As reported in company's Part IIA (unaudited) FOCUS report	\$ 361,044	\$ 310,992
Increase in commissions receivable	-	35,512
Decrease in prepaid income taxes	-	(1,389)
Decrease in other assets	-	(12,853)
Decrease in non-allowable assets	-	8,532
Increase in haircuts on securities	-	(138)
Increase in commissions payable	30,185	(30,185)
Increase in accounts payable and accrued expenses	1,667	(1,667)
Other Audit adjustments	<u>-</u>	<u>228</u>
Per Schedule I	<u>\$ 392,896</u>	<u>\$ 309,032</u>

SCHEDULE III
GBS FINANCIAL CORP.
EXEMPTION FROM DETERMINATION OF RESERVE REQUIREMENTS
UNDER RULE 15c3-3 AND INFORMATION RELATING TO POSSESSION OR
CONTROL REQUIREMENTS UNDER RULE 15c3-3
As of December 31, 2001

The Company is exempt from Rule 15c3-3 under the exemptive provisions of paragraph (k)(2)(ii) of that rule and, therefore, has no reserve requirements since it clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer.

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL ACCOUNTING CONTROL REQUIRED BY
SECURITIES AND EXCHANGE COMMISSION RULE 17a-5

Board of Directors
GBS Financial Corp.
Sherman Oaks, California

Members of the Board:

In planning and performing my audit of the GBS Financial Corp. for the year ended December 31, 2001, I considered its internal control structure, including procedures 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.

I also made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by the company in making the periodic computations of aggregate indebtedness and net capital under Rule 17a3(a)(11) and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3 of the Securities and Exchange Commission. The company is exempt from the requirements of Rule 15c3-3 pursuant to Rule 15c3-3(k)(2)(b) and was in compliance with the conditions of the exemption and no facts came to my attention indicating that such conditions had not been complied with during the period. 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 did not carry security accounts for customers or perform custodial functions relating to customer funds or securities during the year ended December 31, 2001.

The management of the company is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures 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 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 and 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 December 31, 2001, to meet the Commission's objectives.

This report is intended solely for the use of management and the Securities and Exchange Commission and other regulatory agencies pursuant to their requirements and should not be used for any other purpose.

Hovik M. Khaloian

February 20, 2002