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

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ANNUAL AUDITED REPORT FORM X-17A-5 PART III NOV 27 2002 533

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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 10/01/2001 AND ENDING 09/30/2002 MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: First Southwest Company

OFFICIAL USE ONLY FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.) 325 North St. Paul Street, Suite 800 (No. and Street)

Dallas Texas 75201 (City) (State) (Zip Code)

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

John R. Muschalek (214) 953-4000 (Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG LLP (Name - if individual, state last, first, middle name) 301 Commerce St., 2500 City Center Tower II, Fort Worth, Texas 76102 (Address) (City) (State) (Zip Code)

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

PROCESSED DEC 23 2002 THOMSON FINANCIAL

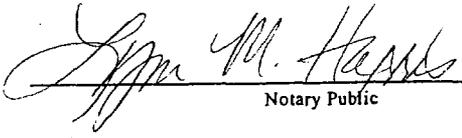
FOR OFFICIAL USE ONLY

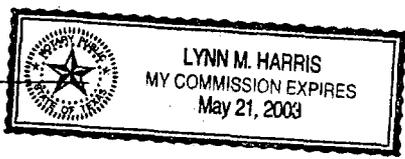
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

OATH OR AFFIRMATION

I, John R. Muschalek, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of First Southwest Company, as of September 30, 2002 ~~19~~, 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:


Signature
Senior Vice President
Title


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 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).



2500 City Center Tower II
301 Commerce Street
Fort Worth, TX 76102

INDEPENDENT AUDITORS' REPORT

**The Board of Directors
First Southwest Company:**

We have audited the accompanying consolidated statement of financial condition of First Southwest Company (a wholly owned subsidiary of First Southwest Holdings, Inc.) and subsidiaries as of September 30, 2002, and the related consolidated 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 consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Southwest Company and subsidiaries as of September 30, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated 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 consolidated financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

October 28, 2002

FIRST SOUTHWEST COMPANY AND SUBSIDIARIES

Consolidated Statement of Financial Condition

September 30, 2002

Assets

Cash and cash equivalents	\$ 17,102,138
Cash and securities segregated for regulatory purposes	35,000,000
Receivable from broker-dealers and clearing organizations	51,036,986
Receivable from customers - secured	53,016,007
Securities:	
Marketable	20,952,015
Not readily marketable	22,084
Furniture, equipment, and leaseholds, net	3,516,832
Goodwill, net	3,558,112
Other assets and deferred charges, net	7,962,363
Deferred income taxes	2,775,111
	<u>\$194,941,648</u>

Liabilities and Stockholder's Equity

Liabilities:	
Drafts payable	\$ 7,675,997
Payable to broker-dealers and clearing organizations	50,082,221
Payable to customers	70,739,705
Other liabilities and deferred credits	24,919,502
	<u>153,417,425</u>
Commitments and contingent liabilities	—
Stockholder's equity:	
Common stock at \$.01 par value. Authorized 1,000,000 shares; issued and outstanding 200,007 shares	2,000
Additional paid-in capital	24,698,671
Retained earnings	16,823,552
Total stockholder's equity	<u>41,524,223</u>
	<u>\$194,941,648</u>