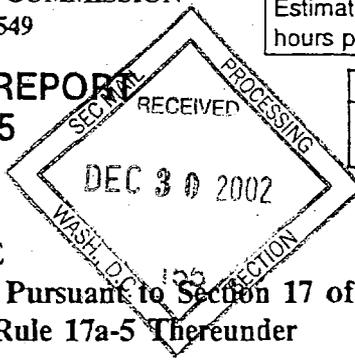


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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

VFH5-032A  
OMB APPROVAL  
OMB Number: 3235-0123  
Estimated average burden  
hours per response . . . 12.00

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



SEC FILE NUMBER  
8 23395

**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 11/1/2001 AND ENDING 10/31/2002  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

TD WATERHOUSE INVESTOR SERVICES INC.

OFFICIAL USE ONLY  
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

100 WALL STREET

(No. and Street)

NEW YORK

NY

10005

(City)

(State)

(Zip Code)

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

B. KEVIN STERNS

212-908-7301

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

PRICEWATERHOUSECOOPERS LLP

(Name - if individual, state last, first, middle name)

1177 AVENUE OF THE MAERICAS

NEW YORK

NY

10036

(Address)

(City)

(State)

Zip Code)

CHECK ONE:

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

**PROCESSED**

JAN 17 2003

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, R. KEVIN STERNS, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of TD WATERHOUSE INVESTOR SERVICES, INC., as of

October 31, ~~19~~ 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:

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

*B Kevin Sterns*

Signature

CHIEF FINANCIAL OFFICER

Title

*Douglas Badstein*

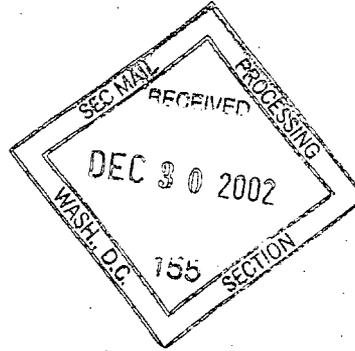
December 18<sup>th</sup>, 2002

**DOUGLAS BADSTEIN**  
Notary Public, State of New York  
No. 01BA6072953  
Qualified in Rockland County  
Commission Expires April 15, 2006

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).



**TD Waterhouse Investor  
Services, Inc.**

Statement of Financial Condition  
October 31, 2002

**Report of Independent Accountants**

To the Board of Directors  
and Stockholder of  
TD Waterhouse Investor Services, Inc.

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of TD Waterhouse Investor Services, Inc. at October 31, 2002 in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, and evaluating the overall statement of financial condition presentation. We believe that our audit of the statement of financial condition provides a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

November 25, 2002

**TD Waterhouse Investor Services, Inc.**  
**Statement of Financial Condition**  
**October 31, 2002**  
**(In thousands)**

2

**Assets**

Cash	\$	2,032
Securities owned, at market value		73,941
Receivable from brokers and dealers		200
Receivable from affiliates		5,156
Furniture, equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$54,312		84,858
Capitalized software, at cost, less accumulated amortization of \$21,451		25,212
Memberships in exchanges, at cost (market value \$2,500)		620
Other assets		28,003

**Total assets** **\$ 220,022**

**Liabilities and stockholder's equity**

**Liabilities**

Securities sold, not yet purchased, at market value	\$	2,607
Payable to clearing broker		3,788
Accounts payable, accrued expenses and other liabilities		57,966

64,361

Commitments and contingent liabilities (Notes 4 and 7)

Stockholder's equity 155,661

**Total liabilities and stockholder's equity** **\$ 220,022**

The accompanying notes are an integral part of this financial statement.

**TD Waterhouse Investor Services, Inc.**  
**Notes to Statement of Financial Condition**  
**(In thousands)**

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**1. Organization and Significant Accounting Policies**

TD Waterhouse Investor Services, Inc. (the "Company"), formerly Waterhouse Securities, Inc., is a securities brokerage firm registered with the Securities and Exchange Commission (the "SEC") and is a member firm of the New York Stock Exchange, Inc. (the "NYSE"). The Company's primary business is providing discount brokerage and mutual fund services to individual investors. The Company is a wholly owned subsidiary of TD Waterhouse Group, Inc. ("the Parent"). The Parent is a wholly owned subsidiary of TD Bank.

Securities owned, primarily government debt instruments, and securities sold, not yet purchased, are recorded at market value based on quoted market prices, with gains and losses recorded in income currently.

Depreciation is provided on a straight-line basis generally using estimated useful lives of two to five years. Amortization is provided on a straight-line basis over the lesser of the lease term or the estimated economic life of the improvement.

In accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," the Company capitalizes certain costs incurred for the development of internal use software. These costs include the cost associated with coding software, configuration, upgrades and enhancements. Amortization is provided on a straight-line basis generally using estimated useful lives of 2 to 7 years. At October 31, 2002, these capitalized costs had a book value of \$25,212, including \$21,451 of accumulated amortization.

The memberships in exchanges are carried at cost.

Management estimates that the fair value of financial instruments recognized on the Statement of Financial Condition (including receivables, payables and borrowings) approximates their carrying value, as such financial instruments are either reported at market value, are short term in nature or bear interest at current market rates.

The preparation 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 statement. Actual results could differ from those estimates.

**TD Waterhouse Investor Services, Inc.**  
**Notes to Statement of Financial Condition**  
**(In thousands)**

4

**2. Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements comprise the following:

Computer equipment	\$	34,294
Communications equipment		8,276
Furniture and fixtures		15,056
Leasehold improvements		71,059
Office equipment		5,684
Other		4,801
		<u>139,170</u>
Less: accumulated depreciation and amortization		<u>(54,312)</u>
	\$	<u>84,858</u>

**3. Related Party Transactions**

**Transactions with affiliated clearing broker**

The Company clears its customers' securities transactions through an affiliated clearing broker on a fully disclosed basis.

The affiliated clearing broker remits to the Company, in the form of a fee, a portion of the net interest spread that it earns on customer accounts introduced by the Company.

The affiliated clearing broker is responsible for collecting commissions and related fees from customers and generally remits such amounts, net of clearing fees charged, to the Company within thirty days. The net amount payable to the affiliated clearing broker of \$3,788 at October 31, 2002 represents the net of the prior month's activity, including advances of commissions from the affiliated clearing broker during the month.

The Company leases some of its space to the affiliated broker-dealer as described in Note 4.

**Other transactions**

The Company earns fees from an affiliated investment advisor for services provided.

The Company earns certain fees from mutual funds, managed by an affiliated investment advisor for services provided.

The Parent offers a profit-sharing plan to eligible employees of the Company. The Parent also offers a 401(k) plan to eligible employees of the Company.

**4. Commitments and Contingent Liabilities**

The Company leases office space under noncancelable operating leases extending for periods in excess of one year. Future minimum rental commitments under such leases are as follows:

**TD Waterhouse Investor Services, Inc.**  
**Notes to Statement of Financial Condition**  
**(In thousands)**

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Year ending October 31,	
2003	\$ 35,212
2004	33,244
2005	31,241
2006	27,102
2007	22,717
Thereafter and through 2015	<u>93,473</u>
	<u>\$ 242,989</u>

The Company is obligated under a noncancelable lease for office space used by an affiliate. While the affiliate has not formally assumed this lease obligation nor entered into a sublease with the Company, the affiliate intends to fulfill the Company's obligations under such lease, which approximates \$1.7 million per year through 2007.

In the normal course of conducting its securities business, the Company has been named as a defendant in certain lawsuits, claims and legal actions. In the opinion of management, after consultation with outside legal counsel, the ultimate outcome of pending litigation and inquiries will not have a material adverse effect on the financial condition or results of operations of the Company.

**5. Net Capital Requirements**

As a registered broker-dealer and a NYSE member, the Company is subject to the SEC's Uniform Net Capital Rule (the "Rule") which requires the maintenance of minimum net capital. The Company has elected to use the basic method, permitted by the Rule, which requires that the Company maintain minimum net capital equal to the greater of \$250 or 6 2/3% of aggregate indebtedness.

At October 31, 2002, the Company had net capital of \$16,546 which was \$12,422 in excess of required net capital.

**6. Income Taxes**

The Company files a consolidated Federal income tax return with the Parent. The consolidated tax expense is allocated between the Parent, the Company and its affiliates based on their respective contributions to consolidated taxable income.

The Parent requires payment from the Company on a current basis for deferred tax liabilities and reimburses the Company on a current basis for deferred tax assets. As of October 31, 2002, all amounts due to or from the Parent for income taxes, including deferred taxes, have been satisfied through the intercompany account.

**7. Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk**

The Company has a nationwide retail customer base. In the normal course of business, securities transactions for brokerage customers are introduced by the Company and cleared through an affiliated clearing broker on a fully disclosed basis. The Company engages in various brokerage activities with counterparties. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. Pursuant to an agreement between the Company and the clearing broker, the clearing broker has the right to charge the Company for unsecured losses that result from a customer's failure to complete such transactions.

Securities sold, but not yet purchased represent obligations of the Company to deliver the specified security at the contracted price and thereby create a liability to repurchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance-sheet risk, as the Company's ultimate obligation to satisfy the sale of securities sold, but not yet purchased may exceed the amount recognized in the statement of financial condition. Securities positions are monitored on a daily basis.