

3/6/03



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

UF 3-5-03

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

SEC FILE NUMBER  
8- 35004

**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 01/01/02 AND ENDING 12/31/02  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

TORREY PINES SECURITIES, INC.

OFFICIAL USE ONLY  
FIRM ID. NO.

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

12626 HIGH BLUFF DRIVE, SUITE 400

(No. and Street)

PROCESSED

MAR 19 2003

SAN DIEGO

CA

THOMSON FINANCIAL 2130

(City)

(State)

(Zip Code)

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

JACK C. SMITH

858.259.9921

(Area Code — Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

MATRANGA & CORREIA, AN ACCOUNTANCY CORPORATION

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

4180 LA JOLLA VILLAGE DR., STE. 470, LA JOLLA, CA 92037

(Address)

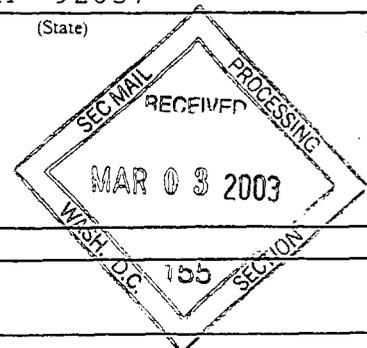
(City)

(State)

(Zip Code)

CHECK ONE:

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



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).

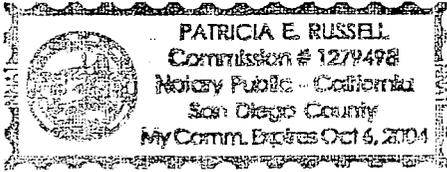
OATH OR AFFIRMATION

I, JACK C. SMITH, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of TORREY PINES SECURITIES, INC., as of DECEMBER 31, 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:

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

*Patricia E Russell*  
\_\_\_\_\_  
Notary Public

*Jack C Smith*  
\_\_\_\_\_  
Signature  
PRESIDENT  
\_\_\_\_\_  
Title



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).

**TORREY PINES SECURITIES, INC.  
AUDIT REPORT IN CONFORMITY WITH  
RULE 17a-5 OF THE  
SECURITIES AND EXCHANGE COMMISSION  
YEARS ENDED DECEMBER 31, 2002 AND 2001**

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Matranga & Correia  
An Accountancy Corporation

Members:  
California Society of  
Certified Public Accountants  
American Institute of  
Certified Public Accountants

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Maurice P. Correia CPA  
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Torrey Pines Securities, Inc.  
San Diego, California

We have audited the accompanying statement of financial condition of Torrey Pines Securities, Inc. as of December 31, 2002 and 2001, and the related statements of income, changes in shareholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Torrey Pines Securities, Inc. as of December 31, 2002 and 2001, and the results of its operations, changes in shareholder's equity, and cash flows for the years 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 financial statements taken as a whole. The information contained in Note 2 and Schedule I - Computation of Net Capital, Schedule II - Computation of Net Capital Requirement, and Schedule III - Computation of Aggregate Indebtedness on pages 18, 19 and 20 are 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. Supplementary Schedule IV - Operating Expenses as well as Schedules I - III have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Matranga & Correia

La Jolla, California  
February 18, 2003

TORREY PINES SECURITIES, INC.  
 STATEMENTS OF FINANCIAL CONDITION  
 DECEMBER 31, 2002 AND 2001

ASSETS

|                                  | 2002         | 2001         |
|----------------------------------|--------------|--------------|
| Current Assets                   |              |              |
| Cash and cash equivalents        | \$ 175,198   | \$ 219,893   |
| Marketable securities (Note 1)   | 515,530      | 625,563      |
| Commissions receivable           | 159,393      | 221,677      |
| Federal income taxes receivable  | 0            | 73,303       |
| Prepaid expenses                 | 21,285       | 19,725       |
| Total Current Assets             | 871,406      | 1,160,161    |
| Property & Equipment (Note 1)    |              |              |
| Furniture and fixtures           | 82,919       | 82,919       |
| Computers and equipment          | 215,215      | 215,215      |
| Total Property & Equipment       | 298,134      | 298,134      |
| Less: Accumulated depreciation   | (254,750)    | (235,873)    |
| Total Property & Equipment - Net | 43,384       | 62,261       |
| Other Assets                     |              |              |
| Notes receivable (Note 11)       | 135,714      | 145,178      |
| Deferred tax asset (Note 9)      | 94,275       | 0            |
| Security deposits                | 18,839       | 18,839       |
| Total Other Assets               | 248,828      | 164,017      |
| Total Assets                     | \$ 1,163,618 | \$ 1,386,439 |

See accompanying notes to the financial statements

TORREY PINES SECURITIES, INC.  
 STATEMENTS OF FINANCIAL CONDITION  
 DECEMBER 31, 2002 AND 2001

LIABILITIES AND SHAREHOLDERS' EQUITY

|  | 2002         | 2001         |
|--|--------------|--------------|
| Current Liabilities:   |              |              |
| Margin debt account (Note 6)   | \$ 357       | \$ 84        |
| Commission payable   | 186,349      | 147,045      |
| Accounts payable and accrued expenses  | 0            | 1,485        |
| Deferred income taxes (Note 9)   | 0            | 22,925       |
| Total Current Liabilities  | 186,706      | 171,539      |
| Shareholders' Equity:  |              |              |
| Common stock, 2,000,000 shares<br>authorized, 100,000 shares issued and<br>outstanding | 25,000       | 25,000       |
| Additional paid-in capital   | 20,000       | 20,000       |
| Retained earnings  | 931,912      | 1,169,900    |
| Total Shareholders' Equity   | 976,912      | 1,214,900    |
| Total Liabilities and Shareholders' Equity   | \$ 1,163,618 | \$ 1,386,439 |

See accompanying notes to the financial statements

TORREY PINES SECURITIES, INC.  
STATEMENT OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

|                                   | 2002         | 2001         |
|-----------------------------------|--------------|--------------|
| Commission earned                 | \$ 3,304,113 | \$ 4,121,511 |
| Interest and dividends earned     | 44,369       | 45,106       |
| Gain (loss) on sale of securities | (181,841)    | 96,624       |
| Total income                      | 3,166,641    | 4,263,241    |
| Operating expenses (Schedule IV)  | 3,521,029    | 4,536,872    |
| Income (loss) before income taxes | (354,388)    | (273,631)    |
| Income tax benefit (Note 9)       | 116,400      | 7,895        |
| Income tax refund                 | 0            | 73,303       |
| Net income (loss)                 | \$ (237,988) | \$ (192,433) |

See accompanying notes to the financial statements

TORREY PINES SECURITIES, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

|  | <u>2002</u>       | <u>2001</u>       |
|--|-------------------|-------------------|
| Cash flows from operating activities:  |                   |                   |
| Net income (loss)  | \$ (237,988)      | \$ (192,433)      |
| Adjustments to reconcile net (loss) to net cash provided (used) by operating activities: |                   |                   |
| Depreciation   | 18,877            | 35,887            |
| (Increase) decrease in assets:   |                   |                   |
| Commission receivable  | 62,284            | 75,676            |
| Prepaid expenses   | (1,560)           | (19,725)          |
| Prepaid income taxes   | 73,303            | 4,650             |
| Other assets   | (84,811)          | (142,549)         |
| Increase (decrease) in liabilities:  |                   |                   |
| Margin debt account  | 273               | (350,936)         |
| Commission payable   | 39,304            | 147,045           |
| Accounts payable and accrued expenses  | (1,485)           | (23,299)          |
| Deferred income tax  | (22,925)          | (8,695)           |
| Net cash provided (used) by operating activities   | <u>(154,728)</u>  | <u>(474,379)</u>  |
| Cash flows from investing activities:  |                   |                   |
| Purchase of property and equipment   | <u>0</u>          | <u>(11,141)</u>   |
| Net cash (used) by investing activities  | <u>0</u>          | <u>(11,141)</u>   |
| Net increase (decrease) in cash and cash equivalents                                     | (154,728)         | (485,520)         |
| Cash and cash equivalents, beginning of year   | <u>845,456</u>    | <u>1,330,976</u>  |
| Cash and cash equivalents, end of year   | <u>\$ 690,728</u> | <u>\$ 845,456</u> |

See accompanying notes to the financial statements

TORREY PINES SECURITIES, INC.  
STATEMENTS OF CASH FLOWS (Cont.)  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

|                  | <u>2002</u> | <u>2001</u> |
|------------------|-------------|-------------|
| Interest expense | \$ 0        | \$ 5,375    |
| Income taxes     | 800         | 800         |

See accompanying notes to the financial statements

TORREY PINES SECURITIES, INC.  
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

|                                 | Number of<br>Common<br>Shares<br>Outstanding | Common<br>Stock  | Paid-in<br>Capital | Retained<br>Earnings | Total             |
|---------------------------------|--|------------------|--------------------|----------------------|-------------------|
| Balance at<br>January 1, 2001   | 100,000                                      | \$ 25,000        | \$ 20,000          | \$ 1,362,333         | \$ 1,407,333      |
| Net income (loss)               |  |                  |                    | (192,433)            | (192,433)         |
| Balance at<br>January 1, 2002   | 100,000                                      | 25,000           | 20,000             | 1,169,900            | 1,214,900         |
| Net income (loss)               |  |                  |                    | (237,988)            | (237,988)         |
| Balance at<br>December 31, 2002 | <u>100,000</u>                               | <u>\$ 25,000</u> | <u>\$ 20,000</u>   | <u>\$ 931,912</u>    | <u>\$ 976,912</u> |

See accompanying notes to the financial statements

TORREY PINES SECURITIES, INC.  
STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED  
TO CLAIM OF GENERAL CREDITORS  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

There were no liabilities subordinated to the claim of general creditors as of December 31, 2002 and 2001.

See accompanying notes to the financial statements

TORREY PINES SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

NOTE 1- NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies of Torrey Pines Securities, Inc., ("the Company"), consistently applied in the preparation of the accompanying financial statements follows:

Business Activity

Torrey Pines Securities, Inc. was incorporated on January 31, 1983, under the laws of the State of California. The Company is a licensed broker-dealer under the jurisdiction of the National Association of Securities Dealers, Inc. (NASD). The Company sells to their clients different investments which are called products. Each product generates a commission to the Company based on the sales. The Company's principal market is the United States.

The Company entered into an agreement in March of 1996, with Correspondent Services Corporation, whereby all security transactions are cleared through Correspondent Services Corporation. During 1992 Torrey Pines Securities, Inc. acquired technology to place orders on the wholesale market. These transactions are also cleared through Correspondent Services Corporation. Under the terms of the agreement, all orders are executed and all customer accounts carried by Correspondent Services Corporation are on a fully-disclosed basis.

Revenue Recognition

The Company uses the accrual basis of accounting. Accordingly, revenues from securities transactions are recorded in the period in which they are earned and expenses are recorded in the period in which they are incurred. Securities transactions are recorded on a settlement date basis. The effect of events on the business is recognized as services are rendered or consumed rather than when cash is received or paid.

Reclassifications

Certain amounts in the 2001 financial statements have been reclassified to conform with the 2002 classifications. These reclassifications have no effect on reported net income.

See accompanying notes to the financial statements

TORREY PINES SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

NOTE 1- NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, demand deposits with financial institutions, and highly liquid debt and equity instruments with original maturities of 90 days or less.

Marketable Securities

Marketable securities are carried at fair market value in accordance with Statement of Financial Accounting Standards No. 115. All of the securities are classified as trading securities. Realized gains and losses on securities are determined by using the average cost method.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed using the straight-line method of depreciation over the estimated useful lives of the respective assets, ranging from five to seven years. Repairs and maintenance that do not extend the useful life of the assets are charged to the expense as incurred; major renewals and betterments are capitalized. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is included in income.

Deferred taxes

The Company has adopted Statement of Financial Accounting Standards No. 109 (SFAS 109), Accounting for Income Taxes. SFAS 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, SFAS 109 generally considers all expected future events other than enactments of changes in the tax law or rates.

See accompanying notes to the financial statements

TORREY PINES SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

NOTE 1- NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Leases

Leases are classified as either capital or operating leases. Leases that substantially transfer all of the benefits and risks of ownership of property to the Company are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with its related long-term obligation to reflect the acquisition and financing. Rental payments under operating leases are expensed as incurred. As of December 31, 2002 and 2001, all of the Company's lease agreements have been properly classified as operating leases.

Concentration of Credit Risk

The Company performs ongoing evaluations of its customers and generally does not require collateral.

Use of estimates

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 asset and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission 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. Net capital and the related net capital ratio may fluctuate on a daily basis.

See accompanying notes to the financial statements

TORREY PINES SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

NOTE 2 - NET CAPITAL REQUIREMENTS (Cont.)

At December 31, 2002 and 2001, the Company's net capital ratio was approximately 0.29 to 1 and 0.23 to 1, respectively. At December 31, 2002 and 2001, the Company had net capital of \$647,238 and \$719,635, respectively, and net capital requirements of \$250,000. Aggregate indebtedness was \$186,706 and \$171,539, respectively, for the years then ended. The net capital rules may effectively restrict the withdrawal of equity capital, such as cash dividends.

NOTE 3 - HAIRCUTS ON SECURITIES

Pursuant to Rule 15c-3-1(f), haircuts were computed as follows for December 31, 2002

|   | <u>Computation<br/>Value</u> | <u>Haircuts</u>  |
|---|------------------------------|------------------|
| 7 1/2% on non-convertible debt securities | \$ 114,769                   | \$ 8,608         |
| 15% on long equity position               | 400,761                      | 60,114           |
| 15% on undue concentration                | 40,916                       | 6,137            |
| 40% on options                            | 350                          | 140              |
| 85% on blockage concentration             | <u>19,164</u>                | <u>16,289</u>    |
|   | <u>\$ 575,960</u>            | <u>\$ 91,288</u> |

Pursuant to Rule 15c-3-1(f), haircuts were computed as follows for December 31, 2001:

|                               | <u>Computation<br/>Value</u> | <u>Haircuts</u>   |
|-------------------------------|------------------------------|-------------------|
| 15% on long equity position   | \$ 625,563                   | \$ 93,834         |
| 15% on undue concentration    | 212,979                      | 31,947            |
| 85% on blockage concentration | <u>27,123</u>                | <u>23,055</u>     |
|                               | <u>\$ 865,665</u>            | <u>\$ 148,836</u> |

See accompanying notes to the financial statements

TORREY PINES SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

NOTE 4 - SECURITIES INVESTOR PROTECTION CORPORATION MEMBERSHIP

The Company is a member in good standing of the Securities Investor Protection Corporation.

NOTE 5 - PROFIT SHARING PLAN

The Company sponsors a 401(k) profit sharing plan covering all eligible employees. Participants may elect to defer a percentage of their compensation by making contributions to the plan. The Company may match (at its discretion) the employee contributions according to the terms of the plan. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Company's contributions for the years ended December 31, 2002 and 2001 were \$16,870 and \$22,580, respectively.

NOTE 6 - MARGIN DEBT ACCOUNT

The Company entered into an ongoing agreement in March of 1996, with Correspondent Services Corporation, whereby the Company may borrow against the securities in its accounts, which secure the debt. Interest is charged monthly to the Company's account on the outstanding balance of margin debt at a variable rate. The rate of interest charged has approximated 9% during the years ended December 31, 2002 and 2001. Interest incurred on margin debt was \$0 and \$5,375 for the years ended December 31, 2002 and 2001, respectively.

See accompanying notes to the financial statements

TORREY PINES SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

NOTE 7 - COMMITMENTS

The Company has commitments under operating leases with remaining non-cancelable terms in excess of one year at December 31, 2002, pertaining to the rental of office. The lease for office space expires in the year 2008 and maintains an option to extend the lease for an additional five years. The minimum lease payments exclusive of taxes, insurance and maintenance, for the following five years are:

| <u>Year ending December 31,</u> | <u>Total</u>        |
|---------------------------------|---------------------|
| 2003                            | \$ 248,048          |
| 2004                            | 253,431             |
| 2005                            | 258,813             |
| 2006                            | 264,195             |
| 2007                            | <u>269,579</u>      |
|                                 | <u>\$ 1,294,066</u> |

Rent expense for premises for the years ended December 31, 2002 and 2001 were \$263,766 and \$272,490, respectively.

NOTE 8 - CONTINGENT LIABILITIES

The Company is a party to various legal matters arising in the normal course of their business. The Company believes that the disposition of such matters will not have a material adverse effect on the Company's financial position or results of operations.

See accompanying notes to the financial statements

TORREY PINES SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

NOTE 9 - INCOME TAXES

The provision for income taxes at December 31, 2002 and 2001 is as follows:

|  |         | 2002    |              |              |
|--|---------|---------|--------------|--------------|
|  |         | Current | Deferred     | Total        |
|  | Federal | \$ 0    | \$ (117,200) | \$ (117,200) |
|  | State   | 800     | 0            | 800          |
|  |         | \$ 800  | \$ (117,200) | \$ (116,400) |
|  |         | 2001    |              |              |
|  |         | Current | Deferred     | Total        |
|  | Federal | \$ 0    | \$ (6,086)   | \$ (6,086)   |
|  | State   | 800     | (2,609)      | (1,809)      |
|  |         | \$ 800  | \$ (8,695)   | \$ (7,895)   |

The Company's total deferred tax assets, deferred tax liabilities, and deferred tax asset valuation allowances at December 31, 2002 and 2001 are as follows:

|                                    | 2002      | 2001        |
|------------------------------------|-----------|-------------|
| Total deferred tax (liabilities)   | \$ 0      | \$ (22,925) |
| Total deferred tax assets          | 124,275   | 23,491      |
| Less: valuation allowance          | (30,000)  | (23,491)    |
|                                    | 94,275    | 0           |
| Net deferred tax asset (liability) | \$ 94,275 | \$ (22,925) |

See accompanying notes to the financial statements

TORREY PINES SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

NOTE 9 - INCOME TAXES (Cont.)

During 1998 the Company changed its method of calculating its current income tax provision from the cash basis to the accrual basis, to conform with the Internal Revenue Service requirements. The Company is recognizing the income effect for tax purposes prospectively over four years. At December 31, 2002, deferred income taxes primarily represent the difference in book and tax depreciations and federal net operating losses. The Company suffered three years of consecutive losses and, therefore, realization of deferred tax assets arising from state net operating loss carry-forward is unlikely. At December 31, 2001, deferred income taxes primarily represent the estimated amount of federal and state taxes to be paid in future years as the balance of the accounting change is recognized for tax purposes.

NOTE 10 - ANNUAL AUDITOR'S REPORT FORM X-17A-5

The Statements of Financial Condition and related statements of the annual audit pursuant to Rule 17a-5 are available for examination at the principal office of Torrey Pines Securities, Inc., 12626 High Bluff Drive, Suite 400, San Diego, California 92130, and the regional office of the Securities and Exchange Commission located at 5670 Wilshire Blvd., 11th Floor, Los Angeles, California 90036.

NOTE 11 - NOTES RECEIVABLE

The Company has uncollateralized demand notes receivable of \$135,714 and \$145,178 at December 31, 2002 and 2001. These notes had been classified as other assets in the accompanying financial statements and have various rates of interest.

See accompanying notes to the financial statements

**SUPPLEMENTARY INFORMATION**

TORREY PINES SECURITIES, INC.  
SCHEDULE I – COMPUTATION OF NET CAPITAL  
DECEMBER 31, 2002 AND 2001

|  | 2002       | 2001         |
|--|------------|--------------|
| Total shareholder's equity                         | \$ 976,912 | \$ 1,214,900 |
| Less non-allowable assets:                         |            |              |
| Securities not readily marketable                  | (19,164)   | (27,123)     |
| Fixed assets                                       | (43,384)   | (62,261)     |
| Deposits   | (18,839)   | (18,839)     |
| Prepaid expenses                                   | (21,285)   | (19,725)     |
| Receivables from non-customers                     | (135,714)  | (218,481)    |
| Total non-allowable assets                         | (238,386)  | (346,429)    |
| Net capital before haircuts on securities position | 738,526    | 868,471      |
| Less: haircuts on securities (Note 3)              | (91,288)   | (148,836)    |
| Net capital  | \$ 647,238 | \$ 719,635   |

**Reconciliation With Company's Computation** (included in Part II  
of Form X-17a-5 as of December 31, 2002 and 2001)

|   |            |            |
|---|------------|------------|
| Net Capital, as reported in Company's Part II<br>(Unaudited FOCUS report) | \$ 523,619 | \$ 737,933 |
| Allowable assets erroneously expensed                                     |            |            |
| Capitalized fixed assets  | 0          | 11,140     |
| Overstatement of non-allowable assets                                     | 18,877     | 0          |
| Unrecorded depreciation expense   | (18,877)   | (35,887)   |
| Unrecorded change in deferred tax asset                                   | 94,275     | 0          |
| Unrecorded change in deferred tax liability                               | 22,925     | 8,695      |
| Difference in haircut on securities, net                                  | 6,419      | 26,993     |
| Other items, net  | 0          | (29,239)   |
| NET CAPITAL PER ABOVE   | \$ 647,238 | \$ 719,635 |

See accompanying notes to financial statements

TORREY PINES SECURITIES, INC.  
SCHEDULE II – COMPUTATION OF BASIC NET CAPITAL REQUIREMENT  
DECEMBER 31, 2002 AND 2001

|  | <u>2002</u>              | <u>2001</u>              |
|--|--------------------------|--------------------------|
| Minimum capital required<br>(1/15th of aggregate indebtedness)   | <u>\$ 12,447</u>         | <u>\$ 11,436</u>         |
| Minimum dollar net capital required  | <u>\$ 250,000</u>        | <u>\$ 250,000</u>        |
| Net capital requirement<br>(the larger of the required net capital)  | <u>\$ 250,000</u>        | <u>\$ 250,000</u>        |
| Net capital  | \$ 647,238               | \$ 719,635               |
| Net capital requirement  | <u>250,000</u>           | <u>250,000</u>           |
| Excess net capital   | <u>\$ 397,238</u>        | <u>\$ 469,635</u>        |
| Excess net capital at 1000% (net capital<br>less 10% of aggregate indebtedness)  | <u>\$ 628,567</u>        | <u>\$ 702,481</u>        |
| <b>Reconciliation With Company's Computation</b> (included in Part II<br>of Form X-17a-5 as of December 31, 2002 and 2001) |                          |                          |
| Excess net capital, as reported in Company's Part II<br>(Unaudited FOCUS report)   | \$ 502,691               | \$ 719,918               |
| Allowable assets erroneously expensed  |                          |                          |
| Capitalized fixed assets   | 0                        | 11,140                   |
| Overstatement of non-allowable assets  | 18,877                   | 0                        |
| Unrecorded depreciation expense  | (18,877)                 | (35,887)                 |
| Unrecorded change in deferred tax asset  | 94,275                   | 0                        |
| Unrecorded change in deferred tax liability  | 22,925                   | 8,695                    |
| Difference in haircut on securities, net   | 6,419                    | 26,993                   |
| Other items, net   | 1,900                    | (29,239)                 |
| Difference in total aggregate indebtedness   | <u>357</u>               | <u>861</u>               |
| <b>NET CAPITAL PER ABOVE REQUIREMENT</b>   | <u><b>\$ 628,567</b></u> | <u><b>\$ 702,481</b></u> |

See accompanying notes to financial statements

TORREY PINES SECURITIES, INC.  
SCHEDULE III – COMPUTATION OF AGGREGATE INDEBTEDNESS  
DECEMBER 31, 2002 AND 2001

|  | 2002           | 2001           |
|--|----------------|----------------|
| Total liabilities from statement of financial condition  | \$ 186,706     | \$ 171,539     |
| Total aggregate indebtedness   | \$ 186,706     | \$ 171,539     |
| Percentage of aggregate indebtedness to net capital  | 29%            | 23%            |
| <br><b>Reconciliation With Company's Computation</b> (included in Part II<br>of Form X-17a-5 as of December 31, 2002 and 2001) |                |                |
| Total aggregate indebtedness, as reported in Company's Part II<br>(Unaudited FOCUS report)                                     | \$ 209,631     | \$ 180,150     |
| Other items, net   | 0              | (8,611)        |
| Unrecorded change in deferred tax liability  | (22,925)       | 0              |
| <br>TOTAL AGGREGATE INDEBTEDNESS<br>AS PER ABOVE   | <br>\$ 186,706 | <br>\$ 171,539 |

See accompanying notes to financial statements

TORREY PINES SECURITIES, INC.  
SCHEDULE IV – OPERATING EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

|                                   | 2002         | 2001         |
|-----------------------------------|--------------|--------------|
| Salary - Officer                  | \$ 200,000   | \$ 285,000   |
| Salary - Office                   | 358,317      | 381,847      |
| Accounting and legal              | 172,856      | 53,058       |
| Auto expense                      | 23,985       | 31,883       |
| Bank charges                      | 0            | 12           |
| Clearing agency fees              | 255,673      | 321,161      |
| Commissions                       | 1,578,544    | 2,222,277    |
| Contributions                     | 0            | 1,324        |
| Depreciation                      | 18,877       | 35,887       |
| Dues, subscriptions and licenses  | 85,731       | 74,800       |
| Entertainment                     | 5,002        | 2,853        |
| Equipment rental                  | 146,533      | 220,823      |
| Exchange fees                     | 40,001       | 129,086      |
| General advertising and promotion | 48,736       | 106,290      |
| Insurance                         | 57,559       | 68,771       |
| Interest                          | 0            | 5,375        |
| Office expense                    | 62,406       | 68,828       |
| Outside services                  | 4,000        | 0            |
| Payroll taxes                     | 85,719       | 111,665      |
| Pension expense                   | 16,870       | 22,580       |
| Postage                           | 13,714       | 17,881       |
| Printing                          | 0            | 2,638        |
| Rent expense                      | 263,766      | 272,490      |
| Taxes - other                     | 871          | 1,120        |
| Telephone                         | 50,718       | 50,996       |
| Training and seminars             | 5,132        | 8,502        |
| Travel                            | 26,019       | 39,725       |
|                                   | \$ 3,521,029 | \$ 4,536,872 |
| Total operating expenses          |              |              |

See accompanying notes to financial statements



Matranga & Correia  
An Accountancy Corporation

Members:  
California Society of  
Certified Public Accountants  
American Institute of  
Certified Public Accountants

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SUPPLEMENTARY REPORT ON INTERNAL ACCOUNTING CONTROL

To the Board of Directors  
Torrey Pines Securities, Inc.  
San Diego, California

We have examined the financial statements of Torrey Pines Securities, Inc. for the years ended December 31, 2002 and 2001, and have issued our report thereon dated February 18, 2003. The Company does not clear transactions or carry customer accounts, therefore, the following procedures for safeguarding securities were omitted: (i) the reserve required by Rule 15c3-3; (ii) making the quarterly securities examination, counts, verifications and comparisons and the recordation of differences required by Rule 17a-13; (iii) complying with the requirements for prompt payment for securities of Section 4(c) of Regulation T of the Board of Governors of the Federal Reserve System; and (iv) obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

As part of our examination, we reviewed and tested the system of internal accounting control. The practices and procedures following in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) were tested to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and by Rule 17a-5 of the Securities and Exchange Commission. Rule 17a-5 contemplates that the scope of the review and tests should be sufficient to provide reasonable assurance that any material weakness existing at the date of our examination would be disclosed. Under these standards and that Rule the purposes of such evaluation are to establish a basis for reliance thereon in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to provide a basis for reporting material weaknesses in internal accounting control.

The objective of internal accounting control is to provide reasonable, but not absolute, assurances as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessary requires estimates and judgments by management. However, for the purposes of this report under Rule 17a-5, the cost benefit relationship has been disregarded in determining weaknesses to be reported.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect either to the estimates and judgments of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting control for the years ended December 31, 2002 and 2001, which was made for the purposes set forth in the second paragraph above and would not necessarily disclose all weaknesses in the system which may have existed during the period under review, disclosed no weaknesses that we believe to be material.

This report is intended solely for the use of management, the Securities and Exchange Commission, the New York Stock Exchange 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.



Matraga & Correia

La Jolla, California  
February 18, 2003