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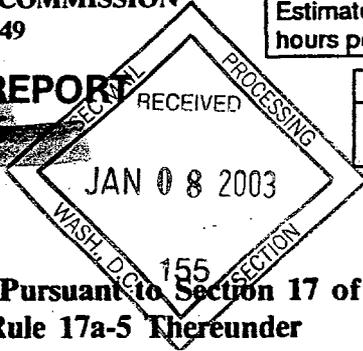


UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

BB 1/24/03

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ANNUAL AUDITED REPORT
PART III



SEC FILE NUMBER
8-20109

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 November 1, 2001 AND ENDING October 31, 2002
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Kious & Co., Incorporated
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM ID. NO.

320 Gold Street SW Suite 1210
(No. and Street)
Albuquerque New Mexico 87102
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Harold Kious 505-243-3703
(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Neff & Ricci LLP
(Name — if individual, state last, first, middle name)
6100 Uptown Blvd NE Suite 400 Albuquerque, New Mexico 87110
(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 27 2003

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THOMSON FINANCIAL

*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).

PA

OATH OR AFFIRMATION

I, Harold E. Kious, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Kious & Co., Incorporated, 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:

Gregory L. ...
Signature

Principal
Title

Michael L. Kious
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).

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Independent Auditors' Report

Board of Directors
Kious & Company, Incorporated
Albuquerque, New Mexico

We have audited the accompanying statements of financial condition of Kious & Company, Incorporated as of October 31, 2002 and 2001, and the related statements of income and comprehensive income, changes in stockholders' 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 audits 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 Kious & Company, Incorporated at October 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the accompanying supplementary schedules is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplementary information required by Rule 17a-5 under the Securities and Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in our 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.

Neff + Ricci LLP

Albuquerque, New Mexico
December 12, 2002

KIOUS & COMPANY, INCORPORATED
STATEMENTS OF FINANCIAL CONDITION
October 31, 2002 and 2001

ASSETS

	2002	2001
Cash and cash equivalents	\$ 718,709	531,426
Cash on deposit with clearing agent	280,959	337,403
Restricted cash	2,760	2,728
Trading securities, at market (cost, 2002 - \$145,119; 2001 - \$91,327)	142,052	93,290
2001 - \$159,714)	47,258	93,553
Receivables:		
Brokers/dealers	91,513	17,781
Employee	40,000	40,600
Accrued interest receivable	904	1,265
Furniture and equipment, at cost less allowances for depreciation (2002 - \$130,797; 2001 - \$126,529)	5,901	10,169
Investment in real estate, at cost	56,808	56,808
Other assets	37,659	88,757
	<u>\$ 1,424,523</u>	<u>1,273,780</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Payable to clearing agent	\$ 116,656	91,152
Reserve for benefit of customers	1	1
Other liabilities	118,841	62,322
	<u>235,498</u>	<u>153,475</u>
Commitments	-	-
Common stock, par value \$1.00 per share; authorized 500,000 shares; issued and outstanding 15,000 shares	15,000	15,000
Retained earnings	1,245,967	1,171,466
Accumulated other comprehensive loss	(71,942)	(66,161)
	<u>1,189,025</u>	<u>1,120,305</u>
	<u>\$ 1,424,523</u>	<u>1,273,780</u>

See Notes to Financial Statements.

KIOUS & COMPANY, INCORPORATED
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)
Years Ended October 31, 2002 and 2001

	2002	2001
Revenues		
Underwriting income	\$ 169,224	33,363
Trading income	108,960	88,335
Consulting income	772	1,491
Realized (loss) gain on sale of available for-sale-securities	(7,094)	5,693
Interest, taxable	14,195	34,254
Interest, tax-exempt	17,257	32,839
	<u>303,314</u>	<u>195,975</u>
Operating expenses		
Automotive	2,802	3,109
Bank fees	15,572	11,023
Depreciation	4,268	10,977
General and administrative	86,795	74,649
Insurance	3,997	3,447
Interest	18,002	34,535
Professional fees	7,333	8,333
Promotion and education	996	3,770
Salaries	65,862	90,577
Subscriptions and dues	4,650	8,387
	<u>210,277</u>	<u>248,807</u>
Income (loss) before income taxes	93,037	(52,832)
Income tax expense	18,536	50
Net income (loss)	74,501	(52,882)
Other comprehensive loss		
Unrealized loss on securities available-for-sale, net of deferred taxes	(5,781)	(42,570)
Net comprehensive income (loss)	\$ 68,720	(95,452)

See Notes to Financial Statements.

KIOUS & COMPANY, INCORPORATED
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended October 31, 2002 and 2001

	Common Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance, October 31, 2000	\$ 15,000	(23,591)	1,224,348	1,215,757
Comprehensive income:				
Net loss	-	-	(52,882)	(52,882)
Unrealized loss on available- for-sale securities	-	(42,570)	-	(42,570)
Balance, October 31, 2001	15,000	(66,161)	1,171,466	1,120,305
Comprehensive income:				
Net income	-	-	74,501	74,501
Unrealized loss on available- for-sale securities	-	(5,781)	-	(5,781)
Balance, October 31, 2002	\$ 15,000	(71,942)	1,245,967	1,189,025

See Notes to Financial Statements.

KIOUS & COMPANY, INCORPORATED
STATEMENTS OF CASH FLOWS
Years Ended October 31, 2002 and 2001

	2002	2001
Cash Flows From Operating Activities		
Net income (loss)	\$ 74,501	(52,882)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for deferred taxes	18,486	-
Provision for depreciation	4,268	10,977
Loss (gain) on sale of available-for-sale securities	7,094	(5,693)
Purchase of trading securities	(54,424,282)	(15,011,706)
Sales of trading securities	54,376,120	15,475,339
Changes in assets and liabilities:		
Cash on deposit with clearing agent	56,444	88,075
Restricted cash	(32)	(52)
Customer receivables	(73,732)	(15,395)
Employee receivables	600	(578)
Other assets	32,011	(19,553)
Accrued interest receivable	361	9,610
Accounts payable	3,734	(829)
Other liabilities	52,787	(14,454)
Total adjustments	53,859	515,741
Net cash provided by operating activities	128,360	462,859
Cash Flows From Investing Activities		
Purchase of furniture and equipment	-	(3,847)
Proceeds from sale of available-for-sale securities	48,599	80,032
Purchase of available-for-sale securities	(15,180)	(120,166)
Net cash provided (used) by investing activities	33,419	(43,981)
Cash Flows From Financing Activities		
Net proceeds (repayment) of short-term borrowings from clearing agent	25,504	(210,266)
Purchase of repurchase agreements	(38,696,190)	(29,056,252)
Maturities of repurchase agreements	38,696,190	29,056,252
Net cash provided (used) by financing activities	25,504	(210,266)
Net increase in cash and cash equivalents	187,283	208,612
Cash and cash equivalents at beginning of year	531,426	322,814
Cash and cash equivalents at end of year	\$ 718,709	531,426
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 18,002	34,535
Change in unrealized loss, net of deferred taxes on available-for-sale-securities (other comprehensive income)	(5,781)	(42,570)

See Notes to Financial Statements.

KIOUS & COMPANY, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
October 31, 2002

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations. Kious & Company (Company) engages in the purchase and selling of municipal bonds in both the primary and secondary markets. The Company also provides financial advisory services to cities, counties, schools, and other New Mexico governmental agencies. The Company's customers are located mainly in New Mexico and include financial institutions, individual investors, mutual funds, insurance companies and governmental agencies.

Customers' Securities. Customers' securities transactions and the related commission income and expenses are recorded on a trade date basis. Underwriting fees are recorded at the time the underwriting is completed and the income is reasonably determinable.

Investment Securities. Investment securities are comprised of municipal and other bonds and publicly traded stocks.

Gains and losses on the sale of investment securities are determined using the specific identification method.

Investments in equity securities that have readily determinable fair values and all investments in debt securities are to be classified in three categories and accounted for as follows:

- *Held-to-maturity.* Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost.
- *Trading securities.* Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized holding gains and losses included in earnings.
- *Available-for-sale.* Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized holding gains and losses excluded from earnings and reported as a separate component of stockholder's equity, net of applicable deferred income taxes. All available-for-sale securities at October 31, 2002 and 2001, are invested in equity securities.

Repurchase Agreements. Repurchase and resell agreements are treated as financing transactions and are carried at the amounts at which the securities will be subsequently reacquired or resold as specified in the respective agreements.

Cash and Cash Equivalents. For purposes of the statements of cash flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days, that are not held for sale in an ordinary course of business.

KIOUS & COMPANY, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
October 31, 2002

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At year end and throughout the year, there were deposits in excess of federally insured limits. Management believes the Company is not exposed to any significant credit risks on cash and cash equivalents.

Restricted Cash. Restricted cash is available for scholarship grants made to the Don C. Rider Memorial Scholarship Fund.

Furniture and Equipment. Depreciation of furniture and equipment is provided on a straight-line basis using estimated useful lives of three to ten years.

Income Taxes. The Company accounts for its income taxes in accordance with Financial Accounting Standards Statement No. 109, *Accounting for Income Taxes* (SFAS 109). The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. PROFIT SHARING PLAN

The Company has a profit sharing plan that covers all employees. Contributions to the plan are made at the discretion of the Board of Directors but may not exceed the maximum amount deductible for income tax purposes. There were no contributions to the plan for the years ended October 31, 2002 and October 31, 2001.

KIOUS & COMPANY, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
October 31, 2002

NOTE 3. NET CAPITAL REQUIREMENTS

The Company is subject to the Uniform Net Capital requirements of the Securities and Exchange Commission under Rule 15c3-1, which requires that aggregate indebtedness, as defined, shall not exceed 15 times net capital, as defined (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the aggregate indebtedness would exceed ten times the net capital, as defined). At October 31, 2002, the Company had net capital of \$1,040,592, which was in excess of required net capital by \$940,592, and had a ratio of aggregate indebtedness to net capital of .23 to 1.

NOTE 4. INCOME TAXES

The provision for income taxes consists of the following at October 31:

	2001	2000
Current expense		
Federal	\$ -	-
State	50	50
Deferred expense		
Federal	13,898	(8,504)
State	4,588	(2,269)
Valuation allowance	-	10,773
	<u>\$ 18,536</u>	<u>50</u>

Deferred income taxes are principally applicable to use of net operating loss carry forwards in 2002 and recognition of net operating loss carryforwards (offset by a valuation allowance) in 2001. Net operating loss carryforwards of \$229,459, for tax purposes, expire in the years 2016 to 2021. The deferred tax asset, net of valuation allowance, at October 31, 2002, is \$17,762 and is included in other assets.

NOTE 5. LIABILITIES SUBORDINATED TO CLAIMS OF CREDITORS

At October 31, 2002 and 2001, there were no liabilities subordinated to claims of creditors, nor were there any such liabilities during those years.

NOTE 6. RENTAL COMMITMENT

The Company's rental expense for 2002 and 2001 was \$23,162 and \$23,665, respectively. The Company currently rents office space on a month-to-month basis.

KIOUS & COMPANY, INCORPORATED
COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1
OF THE SECURITIES AND EXCHANGE COMMISSION
October 31, 2002

Computation of Net Capital

Total stockholders' equity (qualified for net capital)	<u>\$1,189,025</u>
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Deductions:

Non-allowable assets:

Furniture and equipment, less allowances for depreciation	5,901
Investment in real estate	56,808
Other assets	<u>77,660</u>
	<u>140,369</u>

Net Capital Before Haircuts on Security positions	1,048,656
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Haircuts on security positions:

Trading securities (municipal bonds and governmental securities)	<u>8,064</u>
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Net Capital	1,040,592
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Computation of Basic Net Capital Requirement

Net capital requirement (6-2/3% of aggregate indebtedness or \$100,000, whichever is greater)	<u>100,000</u>
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Excess net capital	<u>\$ 940,592</u>
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Computation of Aggregate Indebtedness

Total liabilities	<u>\$ 235,498</u>
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Percentage of aggregate indebtedness to net capital	<u>23%</u>
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Net capital less 10% of aggregate indebtedness	<u>\$ 1,017,040</u>
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KIOUS & COMPANY, INCORPORATED
COMPUTATION FOR DETERMINATION OF RESERVE
REQUIREMENTS PURSUANT TO RULE 15c3-3
OF THE SECURITIES AND EXCHANGE COMMISSION
October 31, 2002

The Company has a special reserve account for the benefit of its customers. However, under Rule 15c3-3(k), exemption (2)(A), the company is exempt from the computation for determination of reserve requirements pursuant to Rule 15c3-3(e)(1).

KIOUS & COMPANY, INCORPORATED
INFORMATION RELATING TO THE POSSESSION OR
CONTROL REQUIREMENTS UNDER RULE 15c3-3
OF THE SECURITIES AND EXCHANGE COMMISSION
October 31, 2002

1. Customers' fully-paid and excess margin securities not in the respondent's possession and control as of the report date (for which instructions to reduce to possession or control had been issued as of the report date but for which the required action was not taken by respondent within time frames specified under Rule 15c3-3):

\$ _____ -

Number of items

None

2. Customers' fully-paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of the report date, excluding items arising from "temporary lags that result from normal business operations" as permitted under Rule 15c3-3:

\$ _____ -

Number of items

None

KIOUS & COMPANY, INCORPORATED
STATEMENT PURSUANT TO RULE 17a-5(d)(4)
OF THE SECURITIES AND EXCHANGE COMMISSION
October 31, 2002

There are certain differences between the computation of Net Capital Under Rule 15c3-1, as included in this audited report and the computations included in the Company's unaudited Form X-17A-5, Part II, filing. Such differences arose principally because of year end adjustments for accrual of income and expense.

	As Reported On Form X-17A-5	Adjustments	As Included Herein
Total stockholders' equity	\$ 1,233,565	(44,540)	1,189,025
Deductions, non-allowable assets	175,149	(34,780)	140,369
Net capital before haircuts	1,058,416	(9,760)	1,048,656
Haircuts	8,064	-	8,064
Net capital	<u>\$ 1,050,352</u>	<u>(9,760)</u>	<u>1,040,592</u>
Net capital requirement	<u>\$ 100,000</u>	<u>-</u>	<u>100,000</u>
Excess net capital	<u>\$ 950,352</u>	<u>(9,760)</u>	<u>940,592</u>
Total liabilities	<u>\$ 225,738</u>	<u>(9,760)</u>	<u>235,498</u>
Percent of aggregate indebtedness to net capital	21%		23%

NEFF + RICCI LLP

CERTIFIED PUBLIC ACCOUNTANTS
6100 UPTOWN BLVD NE SUITE 400
ALBUQUERQUE, NM 87110

Independent Auditors' Supplementary Report On Internal Control

To the Board of Directors
Kious & Company, Incorporated

In planning and performing our audit of the financial statements of Kious & Company, Incorporated for the year ended October 31, 2002, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by Kious & Company, Incorporated that we considered relevant to the objectives stated in Rule 17a-5(g), (i) 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); (ii) in making the quarterly securities examinations, counts, verifications, and comparisons and the recordation of differences required by Rule 17a-13;(iii) in complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve System Regulation T of the Board of Governors of the Federal Reserve System; and (iv) in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of Kious & Company, Incorporated is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls 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 SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance

To the Board of Directors
Kious & Company, Incorporated

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 conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may 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 effectiveness of their design and operation may deteriorate. Our consideration of internal control would not necessarily disclose all matters in 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 the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud 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, we noted no matters involving internal control, including control activities for safeguarding securities, that we believe to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes 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 a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at October 31, 2002, to meet the SEC's objectives.

This report is intended solely for the information and use of management, the National Association of Securities Dealers, the SEC and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers and is not intended to be and should not be used by anyone other than these specified parties.

Neff + Ricci LLP

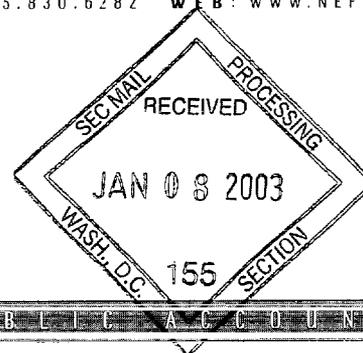
Albuquerque, New Mexico
December 12, 2002

NEFF + RICCI LLP



6100 UPTOWN BLVD NE · SUITE 400 · ALBUQUERQUE, NM 87110

TEL: 505.830.6200 FAX: 505.830.6282 WEB: WWW.NEFFCPA.COM



CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

**KIOUS & COMPANY,
INCORPORATED**

FINANCIAL STATEMENTS

OCTOBER 31, 2002