

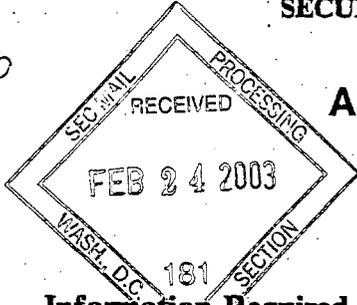


03002783

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

*** AR 3/3/2003*
OMB APPROVAL
OMB Number: 3235-0123
Expires: September 30, 1998
Estimated average burden
hours per response . . . 12.00

UF 3-1-03



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

SEC FILE NUMBER
8-33274

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 January 1, 2002 AND ENDING December 31, 2002
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
K-One Investment Company

OFFICIAL USE ONLY
16156
FIRM ID. NO.

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

218 North 12th Street
(No. and Street)
Fort Smith Arkansas 72901
(City) (State) (Zip Code)

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

James Sloan Altschul 212-370-1880
(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

BKD, LLP
(Name — if individual, state last, first, middle name)
5000 Rogers Avenue, Suite 700 Fort Smith AR 72903
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED
MAR 11 2003

FOR OFFICIAL USE ONLY
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).

OATH OR AFFIRMATION

I, James Sloan Altschul, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of K-One Investment Company, 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:

James Sloan Altschul
Signature
PRESIDENT
Title

Eileen Roller
Notary Public

EILEEN ROLLER
Notary Public, State of New York
No. 01R04906031
Qualified in Kings County
Commission Expires Jan. 11, 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~~ 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).

FORM
X-17A-5

FOCUS REPORT

(Financial and Operational Combined Uniform Single Report)

Part IIA Quarterly 17a-5(a)

INFORMATION REQUIRED OF BROKERS AND DEALERS PURSUANT TO RULE 17

COVER

Select a filing method:

Basic Alternate [0011]

Name of Broker Dealer: K-ONE INVESTMENT COMPANY [0013] SEC File Number: 8- 33274 [0014]
Address of Principal Place of Business: 218 NORTH 12TH STREET [0020]
FT. SMITH AR 72901 Firm ID: 16156 [0015]
[0021] [0022] [0023]

For Period Beginning 01/01/2002 [0024] And Ending 12/31/2002 [0025]

Name and telephone number of person to contact in regard to this report:

Name: James Sloan Altschul, EVP [0030] Phone: (212) 370-1880 [0031]

Name(s) of subsidiaries or affiliates consolidated in this report:

Name: _____ [0032] Phone: _____ [0033]

Name: _____ [0034] Phone: _____ [0035]

Name: _____ [0036] Phone: _____ [0037]

Name: _____ [0038] Phone: _____ [0039]

Does respondent carry its own customer accounts? Yes [0040] No [0041]

Check here if respondent is filing an audited report [0042]

K-One Investment Company

Accountants' Report and Audited Focus Report

December 31, 2002

K-One Investment Company

December 31, 2002

Contents

Independent Accountants' Report	1
---------------------------------------	---

Focus Report

Assets	2
Liabilities and Ownership Equity	4
Ownership Equity	5
Statement of Income (Loss)	6
Exemptive Provisions	8
Computation of Net Capital	9
Computation of Basic Net Capital Requirement	10
Computation of Aggregate Indebtedness	10
Other Ratios	11
Scheduled Withdrawals	12
Statement of Changes	13
Schedule I	14
Statement of Cash Flows	17
Notes to Financial Statements	18
Accountants' Report on Internal Control Required by SEC Rule 17a-5	21



5000 Rogers Avenue, Suite 700
Fort Smith, AR 72903-2079
479 452-1040 Fax 479 452-5542

400 W. Capitol Avenue, Suite 2500
P.O. Box 3667
Little Rock, AR 72203-3667
501 372-1040 Fax 501 372-1250

200 E. 11th Avenue
P.O. Box 8306
Pine Bluff, AR 71611-8306
870 534-9172 Fax 870 534-2146

bkd.com

Independent Accountants' Report

Board of Directors
K-One Investment Company
Fort Smith, Arkansas

We have audited the accompanying statement of financial condition (pages 2 to 5) of K-One Investment Company as of December 31, 2002, and the related income statement (pages 6 and 7), changes in ownership equity (page 13), and cash flows (page 17) for the year 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 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 financial statements referred to above present fairly, in all material respects, the financial position of K-One Investment Company as of December 31, 2002, and the results of its operations and its 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 financial statements taken as a whole. The information contained on pages 10 through 13 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 Exchange Act of 1934. Such information has 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.

Solutions
for
Success

Fort Smith, Arkansas
January 21, 2003

BKD, LLP

ASSETS

Consolidated [0198]		Unconsolidated [0199]			
		Allowable	Non-Allowable	Total	
1.	Cash	10,246		10,246	
		[0200]		[0750]	
2.	Receivables from brokers or dealers:				
	A. Clearance account	[0295]			
	B. Other	[0300]	[0550]	[0810]	0
3.	Receivables from non-customers	[0355]	[0600]	[0830]	0
4.	Securities and spot commodities owned, at market value:				
	A. Exempted securities	[0418]			
	B. Debt securities	[0419]			
	C. Options	[0420]			
	D. Other securities	[0424]			
	E. Spot commodities	[0430]		[0850]	0
5.	Securities and/or other investments not readily marketable:				
	A. At cost				
		18,900			
		[0130]			
	B. At estimated fair value	[0440]	18,900	18,900	[0860]
6.	Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:				
	A. Exempted securities				
		[0150]			
	B. Other securities				
		[0160]			
7.	Secured demand notes market value of collateral:				
		[0470]	[0640]	[0890]	0
	A. Exempted securities				

		[0170]		
B.	Other securities			
		[0180]		
8.	Memberships in exchanges:			
A.	Owned, at market			
		[0190]		
B.	Owned, at cost		[0650]	
C.	Contributed for use of the company, at market value		[0660]	0 [0900]
9.	Investment in and receivables from affiliates, subsidiaries and associated partnerships	[0480]	[0670]	0 [0910]
10.	Property, furniture, equipment, leasehold improvements and rights under lease agreements, at cost-net of accumulated depreciation and amortization	[0490]	86 [0680]	86 [0920]
11.	Other assets	[0535]	2,905 [0735]	2,905 [0930]
12.	TOTAL ASSETS	10,246 [0540]	21,891 [0740]	32,137 [0940]

LIABILITIES AND OWNERSHIP EQUITY

	Liabilities	A.I. Liabilities	Non-A.I. Liabilities	Total
13.	Bank loans payable	[1045]	[1255]	[1470]
14.	Payable to brokers or dealers:			0
	A. Clearance account	[1114]	[1315]	[1560]
	B. Other	[1115]	[1305]	[1540]
15.	Payable to non-customers	[1155]	[1355]	[1610]
16.	Securities sold not yet purchased, at market value		[1360]	[1620]
17.	Accounts payable, accrued liabilities, expenses and other	0 [1205]	[1385]	0 [1685]
18.	Notes and mortgages payable:			0
	A. Unsecured	[1210]		[1690]
	B. Secured	[1211]	[1390]	[1700]
19.	Liabilities subordinated to claims of general creditors:			0
	A. Cash borrowings:			0
	1. from outsiders		[1400]	[1710]
		[0970]		
	2. Includes equity subordination (15c3-1(d)) of			
		[0980]		
	B. Securities borrowings, at market value: from outsiders		[1410]	[1720]
		[0990]		
	C. Pursuant to secured demand note collateral agreements:			0
	1. from outsiders		[1420]	[1730]
		[1000]		

	2.	Includes equity subordination (15c3-1(d)) of			
					[1010]
D.		Exchange memberships contributed for use of company, at market value		[1430]	0 [1740]
E.		Accounts and other borrowings not qualified for net capital purposes	[1220]	[1440]	0 [1750]
20.			0	0	0
		TOTAL LIABILITIES	[1230]	[1450]	[1760]

Ownership Equity

		Total
21.	Sole proprietorship	[1770]
22.	Partnership (limited partners [1020])	[1780]
23.	Corporations:	
A.	Preferred stock	[1791]
B.	Common stock	19,607 [1792]
C.	Additional paid-in capital	42,672 [1793]
D.	Retained earnings	-30,142 [1794]
E.	Total	32,137 [1795]
F.	Less capital stock in treasury	[1796]
24.	TOTAL OWNERSHIP EQUITY	32,137 [1800]
25.	TOTAL LIABILITIES AND OWNERSHIP EQUITY	32,137 [1810]

17.	Net Income(loss) before Federal Income taxes and items below (Item 9 less Item 16)	-1,873 [4210]
18.	Provision for Federal Income taxes (for parent only)	-309 [4220]
19.	Equity in earnings (losses) of unconsolidated subsidiaries not included above	[4222]
	a. After Federal income taxes of	[4238]
20.	Extraordinary gains (losses)	[4224]
	a. After Federal income taxes of	[4239]
21.	Cumulative effect of changes in accounting principles	[4225]
22.	Net income (loss) after Federal income taxes and extraordinary items	-1,564 [4230]
MONTHLY INCOME		
23.	Income (current monthly only) before provision for Federal income taxes and extraordinary items	-1,263 [4211]

EXEMPTIVE PROVISIONS

25. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based

- A. (k) (1)–Limited business (mutual funds and/or variable annuities only) [4550]
- B. (k) (2)(i)–“Special Account for the Exclusive Benefit of customers” maintained [4560]
- C. (k) (2)(ii)–All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm(s) [4570]

Clearing Firm SEC#s	Name	Product Code
8- _____ [4335A]	_____	_____ [4335B]
8- _____ [4335C]	_____	_____ [4335D]
8- _____ [4335E]	_____	_____ [4335F]
8- _____ [4335G]	_____	_____ [4335H]
8- _____ [4335I]	_____	_____ [4335J]
	[4335A2]	
	[4335C2]	
	[4335E2]	
	[4335G2]	
	[4335I2]	

- D. (k) (3)–Exempted by order of the Commission [4580]

COMPUTATION OF NET CAPITAL

1.	Total ownership equity from Statement of Financial Condition		<u>32,137</u>
			[3480]
2.	Deduct ownership equity not allowable for Net Capital		<u>[3490]</u>
3.	Total ownership equity qualified for Net Capital		<u>32,137</u>
			[3500]
4.	Add:		
A.	Liabilities subordinated to claims of general creditors allowable in computation of net capital		<u>0</u>
			[3520]
B.	Other (deductions) or allowable credits (List)		
		<u>[3525A]</u>	<u>[3525B]</u>
		<u>[3525C]</u>	<u>[3525D]</u>
		<u>[3525E]</u>	<u>[3525F]</u>
			<u>0</u>
			[3525]
5.	Total capital and allowable subordinated liabilities		<u>32,137</u>
			[3530]
6.	Deductions and/or charges:		
A.	Total nonallowable assets from Statement of Financial Condition (Notes B and C)	<u>21,891</u>	<u>[3540]</u>
B.	Secured demand note deficiency		<u>[3590]</u>
C.	Commodity futures contracts and spot commodities - proprietary capital charges		<u>[3600]</u>
D.	Other deductions and/or charges		<u>-21,891</u>
		<u>[3610]</u>	<u>[3620]</u>
7.	Other additions and/or credits (List)		
		<u>[3630A]</u>	<u>[3630B]</u>
		<u>[3630C]</u>	<u>[3630D]</u>
		<u>[3630E]</u>	<u>[3630F]</u>
			<u>0</u>
			[3630]
8.	Net capital before haircuts on securities positions		<u>10,246</u>
			[3640]
9.	Haircuts on securities (computed, where applicable, pursuant to 15c3-1(f)):		
A.	Contractual securities commitments		<u>[3660]</u>
B.	Subordinated securities borrowings		<u>[3670]</u>
C.	Trading and investment securities:		
1.	Exempted securities		<u>[3735]</u>
2.	Debt securities		<u>[3733]</u>
3.	Options		<u>[3730]</u>
4.	Other securities		<u>[3734]</u>

D.	Undue Concentration			
			[3650]	
E.	Other (List)			
		[3736A]	[3736B]	
		[3736C]	[3736D]	
		[3736E]	[3736F]	
			0	0
			[3736]	[3740]
10.	Net Capital			10,246
				[3750]

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A

11.	Minimum net capital required (6-2/3% of line 19)			0
				[3756]
12.	Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with <u>Note(A)</u>			5,000
				[3758]
13.	Net capital requirement (greater of line 11 or 12)			5,000
				[3760]
14.	Excess net capital (line 10 less 13)			5,246
				[3770]
15.	Excess net capital at 1000% (line 10 less 10% of line 19)			10,246
				[3780]

COMPUTATION OF AGGREGATE INDEBTEDNESS

16.	Total A.I. liabilities from Statement of Financial Condition			0
				[3790]
17.	Add:			
A.	Drafts for immediate credit			
			[3800]	
B.	Market value of securities borrowed for which no equivalent value is paid or credited			
			[3810]	
C.	Other unrecorded amounts(List)			
		[3820A]	[3820B]	
		[3820C]	[3820D]	
		[3820E]	[3820F]	
			0	0
			[3820]	[3830]
19.	Total aggregate indebtedness			0
				[3840]
20.	Percentage of aggregate indebtedness to net capital (line 19 / line 10)		%	0
				[3850]

OTHER RATIOS

21. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)

% $\frac{0}{[3860]}$

SCHEDULED WITHDRAWALS

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.

Type of Proposed Withdrawal or Accrual	Name of Lender or Contributor	Insider or Outsider	Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities)	Withdrawal or Maturity Date (MMDDYYYY)	Expect to Renew
[4600]	[4601]	[4602]	[4603]	[4604]	[4605]
[4610]	[4611]	[4612]	[4613]	[4614]	[4615]
[4620]	[4621]	[4622]	[4623]	[4624]	[4625]
[4630]	[4631]	[4632]	[4633]	[4634]	[4635]
[4640]	[4641]	[4642]	[4643]	[4644]	[4645]
[4650]	[4651]	[4652]	[4653]	[4654]	[4655]
[4660]	[4661]	[4662]	[4663]	[4664]	[4665]
[4670]	[4671]	[4672]	[4673]	[4674]	[4675]
[4680]	[4681]	[4682]	[4683]	[4684]	[4685]
[4690]	[4691]	[4692]	[4693]	[4694]	[4695]
TOTAL			0		
\$					

[4699]
Omit Pennies

Instructions Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c)(2)(iv)), which could be required by the lender on demand or in less than six months.

Withdrawal Code	Description
1	Equity Capital
2	Subordinated Liabilities
3	Accruals
4	15c3-1(c)(2)(iv) Liabilities

FORM X-17A-5	<h1 style="margin: 0;">FOCUS REPORT</h1> <p style="margin: 0;">(Financial and Operational Combined Uniform Single Report)</p> <h2 style="margin: 0;">Schedule I</h2> <p style="margin: 0; font-size: small;">INFORMATION REQUIRED OF BROKERS AND DEALERS PURSUANT TO RULE 17</p>
-------------------------	--

Report for period beginning 01/01/2002 and ending 12/31/2002
[8005] [8006]

SEC File Number: 33274
[8011]

Firm ID: 16156

1. Name of Broker Dealer: K-ONE INVESTMENT COMPANY
[8020]

2. Name(s) of broker-dealer(s) merging with respondent during reporting period:

Name: _____	Phone: _____	
[8053]	[8057]	
Name: _____	Phone: _____	
[8054]	[8058]	
Name: _____	Phone: _____	
[8055]	[8059]	
Name: _____	Phone: _____	
[8056]	[8060]	

3. Respondent conducts a securities business exclusively with registered broker-dealers: Yes No [8073]

4. Respondent is registered as a specialist on a national securities exchange: Yes No [8074]

5. Respondent makes markets in the following securities:

(a) equity securities	Yes <input type="radio"/>	No <input checked="" type="radio"/>	[8075]
(b) municipals	Yes <input type="radio"/>	No <input checked="" type="radio"/>	[8076]
(c) other debt instruments	Yes <input type="radio"/>	No <input checked="" type="radio"/>	[8077]

6. Respondent is registered solely as a municipal bond dealer: Yes No [8078]

7. Respondent is an insurance company or an affiliate of an insurance company: Yes No [8079]

8. Respondent carries its own public accounts: Yes No [8084]

9. Respondent's total number of public customer accounts:

(carrying firms filing X-17A-5 Part II only)

- (a) Public customer accounts _____ [8080]
- (b) Omnibus accounts _____ [8081]

10. Respondent clears its public customer and/or proprietary accounts: Yes No [8085]

11. Respondent clears its public customer accounts in the following manner:
- (a) Direct Mail (New York Stock Exchange Members Only) [8086]
 - (b) Self Clearing [8087]
 - (c) Omnibus [8088]
 - (d) Introducing [8089]
 - (e) Other [8090]
 - (f) Not Applicable [8091]

12. Yes No [8100]
- (a) Respondent maintains membership(s) on national securities exchange(s):
 - (b) Names of national securities exchange(s) in which respondent maintains memberships:
 - (1) American [8120]
 - (2) Boston [8121]
 - (3) CBOE [8122]
 - (4) Midwest [8123]
 - (5) New York [8124]
 - (6) Philadelphia [8125]
 - (7) Pacific Coast [8126]
 - (8) Other [8129]

13. Employees:
- (a) Number of full-time employees _____ 1 [8101]
 - (b) Number of full-time employees registered representatives employed by respondent included in 13(a) _____ 1 [8102]

14. Number of NASDAQ stocks respondent makes market _____ 0 [8103]

15. Total number of underwriting syndicates respondent was a member _____ 0 [8104]

16. Number of respondent's public customer transactions:
- Actual Estimate
- (a) equity securities transactions effected on a national securities exchange _____ [8107]
 - (b) equity securities transactions effected other than on a national securities exchange _____ [8108]

(c) commodity, bond, option, and other transactions effected on or off a national securities exchange _____ [8109]

17. Respondent is a member of the Securities Investor Protection Corporation Yes No [8111]

18. Number of branch offices operated by respondent _____ 1 [8112]

19. (a) Respondent directly or indirectly controls, is controlled by, or is under common control with a U.S. bank Yes No [8130]

(b) Name of parent or affiliate _____ [8131]

(c) Type of institution _____ [8132]

20. Respondent is an affiliate or subsidiary of a foreign broker-dealer or bank Yes No [8113]

21. (a) Respondent is a subsidiary of a registered broker-dealer Yes No [8114]

(b) Name of parent _____ [8116]

22. Respondent is a subsidiary of a parent which is not a registered broker or dealer Yes No [8115]

23. Respondent sends quarterly statements to customers pursuant to Rule 10b-10(b) in lieu of daily or immediate confirmations: Yes No [8117]

* Required in any Schedule I filed for the calendar year 1978 and succeeding years.

24. Aggregate Dollar Amount of Non-Exempted OTC Sales of Exchange-Listed Securities Done by Respondent During the Reporting Period _____ 0 [8118]

N.A.S.D. Miscellaneous Information

Annual Municipal Income _____ 0 [8151]

K-One Investment Company
Statement of Cash Flows
Year Ended December 31, 2002

Operating Activities	
Net loss	\$ (1,564)
Item not requiring cash	
Depreciation	76
Changes in	
Prepaid expenses	852
Accounts payable	—
Income taxes payable	<u>(309)</u>
Net cash used in operating activities	<u>(945)</u>
Investing Activities	
Repayments to affiliates	<u>(1,096)</u>
Net cash used in investing activities	<u>(1,096)</u>
Decrease in Cash	(2,041)
Cash, Beginning of Year	<u>12,287</u>
Cash, End of Year	\$ <u><u>10,246</u></u>

K-One Investment Company

Notes to Financial Statements

December 31, 2002

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Company's revenues are predominately earned from underwriting fees and commissions from Regulation A and Regulation D public and private offerings. Underwritings are provided primarily for medical related businesses and corporate real estate ventures throughout California, Texas, Colorado and Arkansas. The Company has unsecured accounts receivable for revenues earned.

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.

Property and Equipment

Property and equipment are stated at cost or fair market value at the date of contribution for contributed assets. Depreciation is computed using the straight-line method over the estimated useful life of each asset.

Income Taxes

Deferred tax liabilities and assets are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

Self Insurance

The Company has elected to self-insure all insurable risks. Costs resulting from losses are charged to income when incurred.

K-One Investment Company
Notes to Financial Statements
December 31, 2002

Note 2: Income Taxes

The tax effects of temporary differences related to deferred taxes shown on the balance sheet as of December 31, 2002, were:

Deferred tax assets			
General business credit carryforwards	\$	474	
Net operating loss carryforwards		<u>10,854</u>	
Net deferred tax asset before valuation allowance		<u>11,328</u>	
Valuation allowance			
Beginning balance		(10,505)	
Increase during period		<u>(823)</u>	
Ending balance		<u>(11,328)</u>	
Net deferred tax asset	\$	<u><u>0</u></u>	

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

Computed at the statutory rate (34%)			
Increase (decrease) resulting from:	\$	(636)	
Changes in deferred tax asset valuation allowance		823	
Other		<u>(496)</u>	
Actual tax benefit	\$	<u><u>(309)</u></u>	

As of December 31, 2002, the Company had approximately \$474 of general business credits available to offset future federal income taxes. The credits have no expiration date. The Company also has unused operating loss carryforwards of \$26,700, which expire between 2006 and 2022.

Note 3: Related Party Transactions

The Company received \$10,000 in revenues from an affiliated company during 2002.

K-One Investment Company

Notes to Financial Statements

December 31, 2002

Note 4: 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. At December 31, 2002, the Company had net capital based on this rule of \$10,246, which was in excess of its required net capital of \$5,000.

Note 5: Net Capital Reconciliation

Net capital on initially filed FOCUS report	\$ 9,937
Adjusting income taxes payable to actual	309
Adjusting for outstanding checks not recorded	<u> </u>
Net capital per audited FOCUS report	<u>\$ 10,246</u>

Note 6: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Self Insurance

The Company has elected to insure all insurable risks. Provisions for losses expected under these programs are recorded based upon the Company's estimates of the aggregate liability for claims incurred. As of the date of these financial statements, the Company does not expect to incur any losses pertaining to these risks. No losses have been accrued.

Major Customers

Substantially, all of the Company's revenues are earned from underwriting fees and commissions from Regulation A and Regulation D public and private offerings. There are a limited number of available offerings. All of the Company's revenues for 2002 were earned from one affiliated company.



5000 Rogers Avenue, Suite 700
Fort Smith, AR 72903-2079
479 452-1040 Fax 479 452-5542

400 W. Capitol Avenue, Suite 2500
P.O. Box 3667
Little Rock, AR 72203-3667
501 372-1040 Fax 501 372-1250

200 E. 11th Avenue
P.O. Box 8306
Pine Bluff, AR 71611-8306
870 534-9172 Fax 870 534-2146

bkd.com

Independent Auditor's Report on Internal Control Required by SEC Rule 17a-5

Board of Directors
K-One Investment Company
Fort Smith, Arkansas

In planning and performing our audit of the financial statements of K-One Investment Company for the year ended December 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 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 followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

- (a) Making quarterly securities examinations, counts, verifications, and comparisons
- (b) Recordation of differences required by rule 17a-13
- (c) Complying with the requirements for prompt payment for securities under section 8 of Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control 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 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 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. 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, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Solutions
for
Success

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 the following matter involving the control environment, accounting system and control activities and their operation that we consider to be a material weakness as defined above. This condition was considered in determining the nature, timing and extent of the procedures to be performed in our audit of the financial statements of K-One Investment Company for the year ended December 31, 2002, and this report does not affect our report thereon dated January 21, 2003.

The Company's accounting functions are performed by a single employee. These duties include receipt and deposit of funds; preparing, signing and recording of checks; maintaining the general ledger and bank account reconciliations.

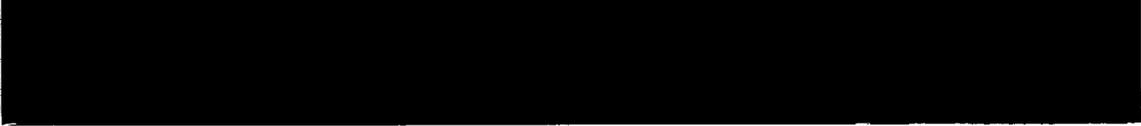
We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities and Exchange Act of 1934 and related regulations and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2002, to meet the SEC's objectives.

This report is intended solely for the use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, 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.

Fort Smith, Arkansas
January 21, 2003

BKD, LLP





BKD

K-One Investment Company

Accountants' Report and Financial Statements

December 31, 2002 and 2001

K-One Investment Company

December 31, 2002 and 2001

Contents

Independent Accountants' Report	1
---------------------------------------	---

Financial Statements

Balance Sheets	2
Statements of Operations.....	3
Statements of Retained Earnings (Deficit)	4
Statements of Cash Flows	5
Notes to Financial Statements	6



5000 Rogers Avenue, Suite 700
Fort Smith, AR 72903-2079
479 452-1040 Fax 479 452-5542

400 W. Capitol Avenue, Suite 2500
P.O. Box 3667
Little Rock, AR 72203-3667
501 372-1040 Fax 501 372-1250

200 E. 11th Avenue
P.O. Box 8306
Pine Bluff, AR 71611-8306
870 534-9172 Fax 870 534-2146

bkd.com

Independent Accountants' Report

Board of Directors
K-One Investment Company
Fort Smith, Arkansas

We have audited the accompanying balance sheets of K-One Investment Company as of December 31, 2002 and 2001, and the related statements of operations, retained earnings (deficit) 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 K-One Investment Company as of December 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.

BKD, LLP

Fort Smith, Arkansas
January 21, 2003

Solutions
for
Success

K-One Investment Company

Balance Sheets

December 31, 2002 and 2001

Assets

	<u>2002</u>	<u>2001</u>
Current Assets		
Cash	\$ 10,246	\$ 12,287
Prepaid regulatory fees	2,905	3,757
Due from affiliate	<u>—</u>	<u>350</u>
Total current assets	<u>13,151</u>	<u>16,394</u>
Property and Equipment, At Cost		
Office furniture and fixtures	848	848
Less accumulated depreciation	<u>762</u>	<u>686</u>
	<u>86</u>	<u>162</u>
Other Assets, At Cost		
Investments	<u>18,900</u>	<u>18,900</u>
	<u>\$ 32,137</u>	<u>\$ 35,456</u>

Liabilities and Stockholder's Equity

Current Liabilities		
Due to affiliates	\$ —	\$ 1,446
Income taxes payable	<u>—</u>	<u>309</u>
Total current liabilities	<u>0</u>	<u>1,755</u>
Stockholder's Equity		
Common stock, \$1 par value; authorized 25,000 shares; issued and outstanding 19,607 shares	19,607	19,607
Additional paid-in capital	42,672	42,672
Retained earnings (deficit)	<u>(30,142)</u>	<u>(28,578)</u>
Total stockholder's equity	<u>32,137</u>	<u>33,701</u>
	<u>\$ 32,137</u>	<u>\$ 35,456</u>

K-One Investment Company
Statements of Operations
Years Ended December 31, 2002 and 2001

	2002	2001
Revenues	\$ <u>10,000</u>	\$ <u>7,929</u>
Operating Expenses		
Commissions	—	6,000
Professional fees	6,221	5,581
Legal settlement	—	1,000
Contract labor	—	605
Consulting	—	587
Insurance	582	96
Regulatory expense	4,732	3,479
Bank charges	237	47
Taxes and licenses	57	64
Utilities	104	759
Depreciation	<u>76</u>	<u>96</u>
	<u>12,009</u>	<u>18,314</u>
Operating Loss	(2,009)	(10,385)
Other Income	<u>136</u>	<u>440</u>
Loss Before Income Taxes	(1,873)	(9,945)
Credit for Income Taxes	<u>(309)</u>	<u>—</u>
Net Loss	\$ <u>(1,564)</u>	\$ <u>(9,945)</u>

K-One Investment Company
Statements of Retained Earnings (Deficit)
Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Deficit, Beginning of Year	\$ (28,578)	\$ (18,633)
Net Loss	<u>(1,564)</u>	<u>(9,945)</u>
Deficit, End of Year	<u>\$ (30,142)</u>	<u>\$ (28,578)</u>

K-One Investment Company
Statements of Cash Flows
Years Ended December 31, 2002 and 2001

	2002	2001
Operating Activities		
Net loss	\$ (1,564)	\$ (9,945)
Item not requiring cash		
Depreciation	76	96
Changes in		
Prepaid expenses	852	(1,048)
Accounts payable	—	(79)
Income taxes payable	(309)	(131)
Net cash used in operating activities	(945)	(11,107)
Investing Activities		
Advances from (repayments to) affiliates	(1,096)	706
Net cash provided by (used in) investing activities	(1,096)	706
Decrease in Cash	(2,041)	(10,401)
Cash, Beginning of Year	12,287	22,688
Cash, End of Year	\$ 10,246	\$ 12,287

K-One Investment Company

Notes to Financial Statements

December 31, 2002 and 2001

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Company's revenues are predominately earned from underwriting fees and commissions from Regulation A and Regulation D public and private offerings. Underwritings are provided primarily for medical related businesses and corporate real estate ventures throughout California, Texas, Colorado and Arkansas. The Company has unsecured accounts receivable for revenues earned.

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.

Property and Equipment

Property and equipment are depreciated over the estimated useful life of each asset. Annual depreciation is computed using the straight-line method.

Income Taxes

Deferred tax liabilities and assets are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

Self Insurance

The Company has elected to self-insure all insurable risks. Costs resulting from losses are charged to income when incurred.

K-One Investment Company

Notes to Financial Statements

December 31, 2002 and 2001

Note 2: Income Taxes

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

	<u>2002</u>	<u>2001</u>
Deferred tax assets		
General business credit carryforwards	\$ 474	\$ 474
Net operating loss carryforwards	<u>10,854</u>	<u>10,031</u>
Net deferred tax asset before valuation allowance	<u>11,328</u>	<u>10,505</u>
Valuation allowance		
Beginning balance	(10,505)	(6,129)
Increase during period	<u>(823)</u>	<u>(4,376)</u>
Ending balance	<u>(11,328)</u>	<u>(10,505)</u>
Net deferred tax asset	<u>\$ 0</u>	<u>\$ 0</u>

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	<u>2002</u>	<u>2001</u>
Computed at the statutory rate (34%)	\$ (636)	\$ (3,382)
Increase (decrease) resulting from:		
Changes in deferred tax asset valuation allowance	823	4,376
Other	<u>(496)</u>	<u>(994)</u>
Actual tax benefit	<u>\$ (309)</u>	<u>\$ 0</u>

As of December 31, 2002, the Company had approximately \$474 of general business credits available to offset future federal income taxes. The credits have no expiration date. The Company also has unused operating loss carryforwards of \$26,700, which expire between 2006 and 2022.

Note 3: Related Party Transactions

The Company paid \$6,000 in commissions to the primary stockholder during 2001.

The Company received \$10,000 in revenues from an affiliated company during 2002.

K-One Investment Company
Notes to Financial Statements
December 31, 2002 and 2001

Note 4: 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. At December 31, 2002 and 2001, the Company had net capital based on this rule of \$10,246 and \$10,532, respectively, which was in excess of its required net capital of \$5,000.

Note 5: Net Capital Reconciliation

	2002	2001
Net capital on initially filed FOCUS report	\$ 9,937	\$ 11,556
Adjusting income taxes payable to actual	309	(25)
Adjusting for an outstanding check not recorded	—	(999)
Net capital per audited FOCUS report	\$ 10,246	\$ 10,532

Note 6: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Self Insurance

The Company has elected to insure all insurable risks. Provisions for losses expected under these programs are recorded based upon the Company's estimates of the aggregate liability for claims incurred. As of the date of these financial statements, the Company does not expect to incur any losses pertaining to these risks. No losses have been accrued.

Major Customers

Substantially, all of the Company's revenues are earned from underwriting fees and commissions from Regulation A and Regulation D public and private offerings. There are a limited number of available offerings. All of the Company's revenues for 2002 were earned from one affiliated company.

K-One Investment Company
Notes to Financial Statements
December 31, 2002 and 2001

Investment

The Company owns shares of a closely held company. Since there is not a readily available market for this investment, the actual fair market value could be materially different than its recorded cost basis.