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

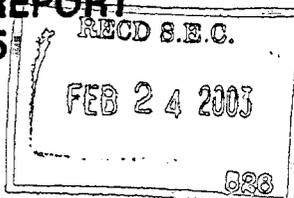
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SEC FILE NUMBER  
8- 50847



03002785

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



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 10/01/02 AND ENDING 12/31/02  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Kovack Securities, Inc.

OFFICIAL USE ONLY  
FIRM ID. NO.

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

6451 N. Federal Hwy., Suite 1201  
(No. and Street)

Ft. Lauderdale Florida 33308  
(City) (State) (Zip Code)

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

Ronald J. Kovack (954) 491-1733  
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

Margolies, Fink & Wichrowski  
(Name - if individual, state last, first, middle name)

2201 W. Sample Rd., #9-1B Pompano Beach Florida 33073  
(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

THOMSON  
FINANCIAL

FOR OFFICIAL USE ONLY

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

OATH OR AFFIRMATION

I, Ronald J. Kovack, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Kovack 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:

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

Ronald J. Kovack  
Signature

Chairman  
Title

Carlo A. Bidone, Jr.  
Notary Public

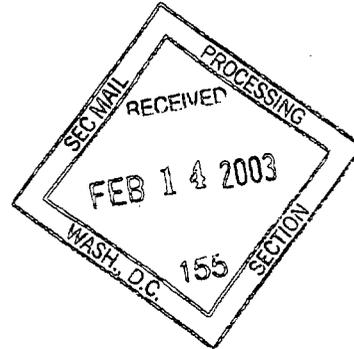


Carlo A. Bidone, Jr.  
Commission # DD162660  
Expires Nov. 14, 2006  
Aaron Notary

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).

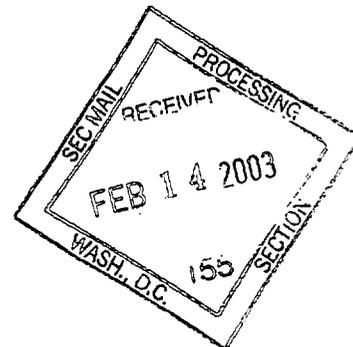


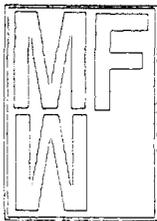
**KOVACK SECURITIES, INC.  
FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2002 and 2001  
and  
INDEPENDENT AUDITORS' REPORT**

**KOVACK SECURITIES, INC.**  
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1. Independent Auditors' Report and Financial Statements
2. Oath of Officer and Form X-17A-5 (Focus Report)
3. Report on Internal Accounting Control





A Partnership of Professional Associations

Bernard W. Margolies, C.P.A., P.A.  
Barry A. Fink, C.P.A., P.A.  
Mark V. Wichrowski, C.P.A., P.A.

**MARGOLIES, FINK AND WICHROWSKI**  
CERTIFIED PUBLIC ACCOUNTANTS  
BUILDING 9, SUITE 1B  
2201 W. SAMPLE RD.  
POMPANO BEACH, FLORIDA 33073  
OFFICE: (954) 979-5440  
FAX: (954) 979-1939

Members of  
American Institute of Certified Public Accountants  
Florida Institute of Certified Public Accountants  
New York State Society of Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors  
Kovack Securities, Inc.

We have audited the accompanying balance sheets of Kovack Securities, Inc. as of December 31, 2002 and 2001, and the related statements of income, stockholders equity, changes in subordinated borrowings, 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 from 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 Kovack Securities, Inc. at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity 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 accompanying reconciliation of net capital is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*Margolies, Fink and Wichrowski*

January 21, 2003

**KOVACK SECURITIES, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2002 AND 2001**

**ASSETS**

	<u>2002</u>	<u>2001</u>
Cash and cash equivalents	\$ 580,771	\$ 412,132
Restricted cash	100,000	190,726
Securities owned, not readily marketable	23,841	23,861
Receivables:		
Clearing broker and insurance companies	168,503	672,324
Accounts receivable – officers and other	44,008	
Prepaid expenses	72,899	51,481
Property and equipment, net of accumulated depreciation	142,136	54,073
Organizational costs, net of accumulated amortization		800
Deposits	<u>31,940</u>	<u>38,418</u>
	<u>\$ 1,164,098</u>	<u>\$ 1,443,815</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Accounts payable and accrued expenses	\$ 214,821	\$ 562,985
Note payable - insurance	<u>43,784</u>	<u>-</u>
	<u>258,605</u>	<u>562,985</u>
Subordinated note payable	<u>225,000</u>	<u>225,000</u>
Stockholders' equity:		
Common stock, no par value per share, 10,000 shares		
Authorized, 1,818, shares issued and outstanding	319,843	319,843
Additional paid-in capital	10,000	10,000
Retained earnings	<u>350,650</u>	<u>325,987</u>
Total stockholders' equity	<u>680,493</u>	<u>655,830</u>
	<u>\$ 1,164,098</u>	<u>\$ 1,443,815</u>

The accompanying notes are an integral part of these financial statements.

**KOVACK SECURITIES, INC.**  
**STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
Revenues:		
Commissions, and other income	<u>5,468,351</u>	<u>7,900,301</u>
Expenses:		
Commissions	3,904,414	6,301,586
Rent	156,029	52,632
Depreciation and amortization	24,139	12,661
Interest	9,169	9,105
Other	<u>1,017,771</u>	<u>770,996</u>
	<u>5,111,522</u>	<u>7,146,980</u>
Net income	<u>\$ 356,829</u>	<u>\$ 753,321</u>

The accompanying notes are an integral part of these financial statements.

**KOVACK SECURITIES, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<u>Common Stock</u>		<u>Additional</u>		<u>Retained</u>	<u>Stock</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Capital</u>	<u>Earnings</u>	<u>Subscriptions</u>	<u>Total</u>
						<u>Receivable</u>	
Balance December 31, 2000	1,818	\$ 319,843	\$ 10,000		\$ 372,426	\$ (198,997)	\$ 503,272
Distributions					(799,760)		(799,760)
Proceeds from stock Subscription						198,997	198,997
Net income	-	-	-		753,321	-	753,321
Balance December 31, 2001	1,818	319,843	10,000		325,987	-	655,830
Distributions					(332,166)		(332,166)
Net income	-	-	-		356,829	-	356,829
Balance December 31, 2002	<u>1,818</u>	<u>\$ 319,843</u>	<u>\$ 10,000</u>		<u>\$ 350,650</u>	<u>\$ -</u>	<u>\$ 680,493</u>

The accompanying notes are an integral part of these financial statements.

**KOVACK SECURITIES, INC.**  
**STATEMENT OF CHANGES IN SUBORDINATED BORROWINGS**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

Subordinated borrowings at January 1, 2001	\$ 225,000
Increase (decrease) in subordinated borrowings	<u>          -</u>
Subordinated borrowing at December 31, 2001	225,000
Increase (decrease) in subordinated borrowings	<u>          -</u>
Subordinated borrowing at December 31, 2002	<u>\$ 225,000</u>

**KOVACK SECURITIES, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Net income	\$ <u>356,829</u>	\$ <u>753,351</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,139	12,661
Investments	20	840
Receivables	503,821	(98,104)
Accounts receivable- stockholder and other	(44,008)	59,725
Prepaid expenses	27,417	(39,225)
Deposits	6,478	(31,574)
Accounts payable and accrued expenses	<u>(348,163)</u>	<u>(82,910)</u>
Total adjustments	<u>169,704</u>	<u>(178,587)</u>
Total cash flows from operating activities	<u>526,533</u>	<u>574,764</u>
Cash flows (used in) investing activities:		
Purchase of property and equipment	<u>(111,402)</u>	<u>(23,498)</u>
Cash flows from (used in) financing activities:		
Receipt of stock subscription		198,997
Stockholder distributions	(332,166)	(799,760)
Principal payments on notes payable - insurance	(5,052)	
Principal payments on capital lease obligations	<u>-</u>	<u>(1,486)</u>
Total cash flows (used in) financing activities	<u>(337,218)</u>	<u>(602,249)</u>
Net increase (decrease) in cash and cash equivalents	77,913	(50,983)
Cash and cash equivalents, beginning of period	<u>602,858</u>	<u>653,841</u>
Cash and cash equivalents, end of period	<u>\$ 680,771</u>	<u>\$ 602,858</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 9,169</u>	<u>\$ 9,105</u>
Insurance financed with debt	<u>\$ 48,836</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**KOVACK SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**1. BUSINESS**

The Company was incorporated in the State of Florida on April 23, 1997, as a registered securities broker-dealer. The Company's offices are located in Pompano Beach, Florida.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Cash and cash equivalents** - The Company considers all unrestricted deposits and highly liquid investments, readily convertible to known amounts, with an original maturity of three months or less to be cash equivalents.

**Securities owned** - Securities are carried at market value, which approximates cost. The resulting difference between cost and market is included in income. Securities not readily marketable are value at fair value as determined by management.

**Property and equipment** - Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method.

**Revenue recognition** - Purchases and sales of securities are recorded on the settlement date. Investment banking income is recorded at the time the services are completed and the income is reasonably determinable.

**Accounting estimates** - Management of the Company occasionally uses accounting estimates in determining certain revenues and expenses. Estimates are based on subjective as well as objective factors and, as a result, judgment is required to estimate certain amounts at the date of the financial statements.

**Fair value of financial instruments** - The fair value of the Company's financial instruments such as cash and cash equivalents, accounts receivable, accounts payable, capital lease obligations, and subordinated notes payable approximate their carrying value.

**Income taxes** - The Company with the consent of its shareholders, elected to be an "S" Corporation under the Internal Revenue Code. All taxable income or loss flows through to the shareholders. Accordingly, no income tax expense or liability is recorded in the accompanying financial statements.

**3. RESTRICTED CASH**

The Company maintains \$100,000 collateral with a clearing agents for brokerage transactions.

**KOVACK SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**4. PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2002 and 2001 consists of the following:

	<u>2002</u>	<u>2001</u>	<u>Estimated useful lives</u>
Office equipment and furniture	\$ 145,107	\$ 51,505	5 years
Automobile	22,115	22,115	5 years
Leasehold improvements	<u>17,800</u>	<u>-</u>	
	185,022	73,620	
Less accumulated depreciation	<u>(42,886)</u>	<u>(19,547)</u>	
	<u>\$ 142,136</u>	<u>\$ 54,073</u>	

Depreciation expense charged to income was \$21,432 and \$11,861 in 2002 and 2001, respectively.

**5. NOTE PAYABLE - INSURANCE**

Notes payable - insurance at December 31, 2002 and 2001 consists of the following:

	<u>2002</u>	<u>2001</u>
Installment note payable, due in 10 installments of interest and principal of \$5,035, interest at 6.75% unsecured	<u>\$ 43,784</u>	<u>\$ -</u>

**6. SUBORDINATED NOTE PAYABLE**

Subordinated note payable at December 31, 2002 and 2001 consists of the following:

	<u>2002</u>	<u>2001</u>
Subordinated note payable, with interest at 4% payable annually, maturing on November 30, 2005, unsecured.	<u>\$ 225,000</u>	<u>\$ 225,000</u>

**KOVACK SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**7. STOCKHOLDERS EQUITY**

On January 3, 2000 the Company issued 818 shares of its common stock to a related party in exchange for a note receivable in the amount of \$198,997. The note receivable was recorded in the equity as a subscription receivable. The note bore interest at 6.3% and was payable in five equal annual installments of \$47,627, including principal and interest, beginning on January 3, 2001. On December 31, 2001 the note receivable was paid in full.

**8. LEASES**

The Company has several non-cancelable leases for transportation equipment, office facilities and equipment that expire over the next three years. The following is a schedule of future minimum lease payments for operating leases as of December 31, 2002: 2003 - \$185,023, 2004 - \$189,254, 2005 - \$193,486, 2006 - \$197,718, 2007 - \$201,949, thereafter - \$276,769.

**9. REQUIREMENTS OF RULE 15c3-3**

The Company is a non-clearing broker, exempt from making computations of amounts on deposit in the Special Reserve Bank Account for the Exclusive Benefits of Customers, under the provisions of paragraph (k) of Rule 15c3-3 under the Securities and Exchange Act of 1934.

**10. NET CAPITAL PROVISION OF RULE 15c3-1**

The Company is subject to Rule 15c3-1 under the Securities and Exchange Act of 1934. The rule provides the aggregate indebtedness may not exceed 8 times net capital for 12 months after commencing business as a broker-dealer and 15 times net capital thereafter.

The net capital of the Company, as defined by the rule was \$591,810 at December 31, 2002. The ratio of aggregate indebtedness to net capital was .44 to 1.

**11. REPORTING REQUIREMENTS UNDER RULE 17a-5**

The Company is subject to the reporting requirements of Rule 17a-5 of the Securities and Exchange Act of 1934, which requires certain brokers and dealers to file annual statements of financial condition with the Securities and Exchange Commission. The Company has met this requirement by filing Form X-17A-5 with the Commission. Copies of Parts I and II of Form X-17A-5 and any comments as to weaknesses found in the accounting system, the internal accounting controls or procedures for safeguarding securities are available for examination at the Pompano Beach, Florida office of the Company, and in the regional office of the Securities and Exchange Commission.

**KOVACK SECURITIES, INC.**  
**COMPUTATION AND RECONCILIATION OF NET CAPITAL**  
**UNDER RULE 15c3-1 OF THE**  
**SECURITIES AND EXCHANGE COMMISSION**  
**DECEMBER 31, 2002**

**NET CAPITAL COMPUTATION:**

Total stockholders equity qualified for net capital	\$ 680,493
Add:	
Allowable subordinated liabilities	<u>225,000</u>
Total capital and allowable subordinated liabilities	905,493
Deducts and or charges:	
Total non-allowable assets	<u>(313,683)</u>
Net capital before haircuts	<u>591,810</u>
Haircuts on securities:	
Other securities	-
Undue concentrations	-
Money markets	<u>-</u>
	<u>-</u>
Net capital	<u>\$ 591,810</u>

**RECONCILIATION:**

Net capital, per page 10 of the December 31, 2002 un-audited Focus Report, as originally filed	\$ 591,810
Net audit adjustments	<u>-</u>
Net capital, per December 31, 2002 audited report, as filed	<u>\$ 591,810</u>

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

Select a filing method:

Basic  Alternate  [0011]

Name of Broker Dealer: KOVACK SECURITIES INC. [0013] SEC File Number: 8- 50847 [0014]

Address of Principal Place of Business: 6451 N. FEDERAL HWY. [0020]

FT. LAUDERDALE FL 33308 Firm ID: 44848 [0015]

[0021] [0022] [0023]

For Period Beginning 10/01/2002 And Ending 12/31/2002  
[0024] [0025]

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

Name: RONALD J. KOVACK - CHAIRMAN Phone: 954-491-1733  
[0030] [0031]

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

Name: \_\_\_\_\_ Phone: \_\_\_\_\_  
[0032] [0033]

Name: \_\_\_\_\_ Phone: \_\_\_\_\_  
[0034] [0035]

Name: \_\_\_\_\_ Phone: \_\_\_\_\_  
[0036] [0037]

Name: \_\_\_\_\_ Phone: \_\_\_\_\_  
[0038] [0039]

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

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

**ASSETS**

Consolidated [0198]		Unconsolidated [0199]		
		<b>Allowable</b>	<b>Non-Allowable</b>	<b>Total</b>
1.	Cash	<u>680,771</u> [0200]		<u>680,771</u> [0750]
2.	Receivables from brokers or dealers:			
	A. Clearance account	<u>62,335</u> [0295]		
	B. Other	<u>106,169</u> [0300]		<u>168,504</u> [0810]
3.	Receivables from non- customers			<u>0</u> [0830]
4.	Securities and spot commodities owned, at market value:			
	A. Exempted securities	<u></u> [0418]		
	B. Debt securities	<u></u> [0419]		
	C. Options	<u></u> [0420]		
	D. Other securities	<u></u> [0424]		
	E. Spot commodities	<u>1,141</u> [0430]		<u>1,141</u> [0850]
5.	Securities and/or other investments not readily marketable:			
	A. At cost			
		<u>22,700</u> [0130]		
	B. At estimated fair value	<u></u> [0440]	<u>22,700</u> [0610]	<u>22,700</u> [0860]
6.	Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:			
	A. Exempted securities	<u></u> [0150]		<u>0</u> [0880]
	B. Other securities	<u></u> [0160]		
7.	Secured demand notes market value of collateral:	<u></u> [0470]	<u></u> [0640]	<u>0</u> [0890]
	A. Exempted securities	<u></u>		

				[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]	142,136 [0680]	142,136 [0920]
11.	Other assets	[0535]	148,847 [0735]	148,847 [0930]
12.	<b>TOTAL ASSETS</b>	850,416 [0540]	313,683 [0740]	1,164,099 [0940]

## LIABILITIES AND OWNERSHIP EQUITY

Liabilities	A.I. Liabilities	Non-A.I. Liabilities	Total
13. Bank loans payable	[1045]	[1255]	0 [1470]
14. Payable to brokers or dealers:			
A. Clearance account	166,926 [1114]	[1315]	166,926 [1560]
B. Other	25,420 [1115]	[1305]	25,420 [1540]
15. Payable to non-customers	[1155]	[1355]	0 [1610]
16. Securities sold not yet purchased, at market value		[1360]	0 [1620]
17. Accounts payable, accrued liabilities, expenses and other	22,475 [1205]	[1385]	22,475 [1685]
18. Notes and mortgages payable:			
A. Unsecured	43,784 [1210]		43,784 [1690]
B. Secured	[1211]	[1390]	0 [1700]
19. Liabilities subordinated to claims of general creditors:			
A. Cash borrowings:		225,000	225,000
1. from outsiders		[1400]	[1710]
	[0970]		
2. Includes equity subordination (15c3-1(d)) of			
	225,000 [0980]		
B. Securities borrowings, at market value: from outsiders		[1410]	0 [1720]
	[0990]		
C. Pursuant to secured demand note collateral agreements:			
1. from outsiders		[1420]	0 [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]	0 [1750]
20.		<b>TOTAL LIABILITIES</b>	<u>258,605</u> [1230]	<u>225,000</u> [1450]
				<u>483,605</u> [1760]

**Ownership Equity**

			<b>Total</b>	
21.		Sole proprietorship		[1770]
22.		Partnership (limited partners [1020] )		[1780]
23.		Corporations:		
	A.	Preferred stock		[1791]
	B.	Common stock		319,843 [1792]
	C.	Additional paid-in capital		10,000 [1793]
	D.	Retained earnings		350,650 [1794]
	E.	Total		<u>680,493</u> [1795]
	F.	Less capital stock in treasury		[1796]
24.		<b>TOTAL OWNERSHIP EQUITY</b>		<u>680,493</u> [1800]
25.		<b>TOTAL LIABILITIES AND OWNERSHIP EQUITY</b>		<u>1,164,098</u> [1810]



17.	Net Income(loss) before Federal Income taxes and items below (Item 9 less Item 16)	<u>-96,202</u> [4210]
18.	Provision for Federal Income taxes (for parent only)	<u>[4220]</u>
19.	Equity in earnings (losses) of unconsolidated subsidiaries not included above	<u>[4222]</u>
a.	After Federal income taxes of	<u>[4238]</u>
20.	Extraordinary gains (losses)	<u>[4224]</u>
a.	After Federal income taxes of	<u>[4239]</u>
21.	Cumulative effect of changes in accounting principles	<u>[4225]</u>
22.	Net income (loss) after Federal income taxes and extraordinary items	<u>-96,202</u> [4230]
<b>MONTHLY INCOME</b>		
23.	Income (current monthly only) before provision for Federal income taxes and extraordinary items	<u>15,541</u> [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- <u>45411</u> [4335A]	<u>RBC DAIN RAUSCHER INC.</u> [4335A2]	<u>All</u> [4335B]
8- <u>51364</u> [4335C]	<u>SOUTHWEST CLEARING CORP.</u> [4335C2]	<u>Bonds</u> [4335D]
8- _____ [4335E]	_____ [4335E2]	_____ [4335F]
8- _____ [4335G]	_____ [4335G2]	_____ [4335H]
8- _____ [4335I]	_____ [4335I2]	_____ [4335J]

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

**COMPUTATION OF NET CAPITAL**

1.	Total ownership equity from Statement of Financial Condition		<u>680,493</u>	
			[3480]	
2.	Deduct ownership equity not allowable for Net Capital		<u></u>	
			[3490]	
3.	Total ownership equity qualified for Net Capital		<u>680,493</u>	
			[3500]	
4.	Add:			
A.	Liabilities subordinated to claims of general creditors allowable in computation of net capital		<u>225,000</u>	
			[3520]	
B.	Other (deductions) or allowable credits (List)			
	<u></u>	<u></u>		
	[3525A]	[3525B]		
	<u></u>	<u></u>		
	[3525C]	[3525D]		
	<u></u>	<u></u>		
	[3525E]	[3525F]		
			<u>0</u>	
			[3525]	
5.	Total capital and allowable subordinated liabilities		<u>905,493</u>	
			[3530]	
6.	Deductions and/or charges:			
A.	Total nonallowable assets from Statement of Financial Condition (Notes B and C)	<u>313,683</u>		
		[3540]		
B.	Secured demand note deficiency	<u></u>		
		[3590]		
C.	Commodity futures contracts and spot commodities - proprietary capital charges	<u></u>		
		[3600]		
D.	Other deductions and/or charges	<u></u>		
		[3610]	<u>-313,683</u>	
			[3620]	
7.	Other additions and/or credits (List)			
	<u></u>	<u></u>		
	[3630A]	[3630B]		
	<u></u>	<u></u>		
	[3630C]	[3630D]		
	<u></u>	<u></u>		
	[3630E]	[3630F]		
			<u>0</u>	
			[3630]	
8.	Net capital before haircuts on securities positions		<u>591,810</u>	
			[3640]	
9.	Haircuts on securities (computed, where applicable, pursuant to 15c3-1(f)):			
A.	Contractual securities commitments	<u></u>		
		[3660]		
B.	Subordinated securities borrowings	<u></u>		
		[3670]		
C.	Trading and investment securities:			
1.	Exempted securities	<u></u>		
		[3735]		
2.	Debt securities	<u></u>		
		[3733]		
3.	Options	<u></u>		
		[3730]		
4.	Other securities	<u></u>		
		[3734]		



**OTHER RATIOS**

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

% \_\_\_\_\_ 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

**STATEMENT OF CHANGES**


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**STATEMENT OF CHANGES IN OWNERSHIP EQUITY  
(SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)**

1.	Balance, beginning of period		739,571
			[4240]
	A. Net income (loss)		-96,202
			[4250]
	B. Additions (includes non-conforming capital of		37,124
		[4262] )	[4260]
	C. Deductions (includes non-conforming capital of		[4270]
		[4272] )	[4270]
2.	Balance, end of period (From item 1800)		680,493
			[4290]

**STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED  
TO CLAIMS OF GENERAL CREDITORS**

3.	Balance, beginning of period		225,000
			[4300]
	A. Increases		[4310]
	B. Decreases		[4320]
4.	Balance, end of period (From item 3520)		225,000
			[4330]



## MARGOLIES, FINK AND WICHROWSKI

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Members of  
American Institute of Certified Public Accountants  
Florida Institute of Certified Public Accountants  
New York State Society of Certified Public Accountants

To the Board of Directors  
Kovack Securities, Inc.

In planning and performing our audit of the financial statements of Kovack Securities, Inc. for the year ended December 31, 2002, we considered its internal control structure, including procedures 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 structure.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by Kovack Securities, Inc. that we considered relevant to the objectives stated in Rule 17a-5(g), (1) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the Company has met the conditions and is exempt from compliance with Rule 15c3-3, (2) in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13; (3) in 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; and (4) 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 the Company 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 internal control structure policies and procedures 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 Commission's above-mentioned objectives. Two of the objectives of an internal control structure 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 preparation of financial statements in conformity 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 any internal control structure or the practices and procedures referred to above, errors or irregularities 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. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure 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 structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 the internal control structure, including procedures for safeguarding securities that we consider 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 the 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 Commission's objectives.

This report is intended solely for the use of the Board of Directors, management, the Securities and Exchange Commission, 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.

*Margolis, Lil and Weikowski*

Pompano Beach, Florida  
January 21, 2003