

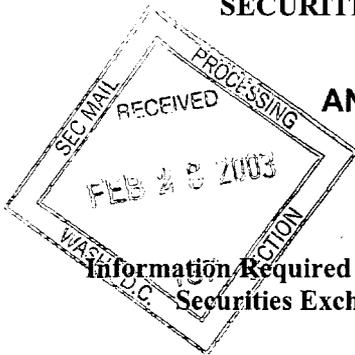
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SECURITIES

MISSION

OMB APPROVAL	
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Estimated average burden hours per response...	12.00



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

SEC FILE NUMBER
8-51096

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/02 AND ENDING 12/31/02
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Baird Management Corporation

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

1550 West Walnut Hill Lane, Suite 100

(No. and Street)

Irving

(City)

Texas

(State)

75038

(Zip Code)

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

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Cheshier & Fuller, L.L.P.

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

14175 Proton Rd.

(Address)

Dallas

(City)

TX

(State)

75244

(Zip Code)

CHECK ONE:

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

PROCESSED

FOR OFFICIAL USE ONLY	
MAR 19 2003	
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).

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OATH OR AFFIRMATION

I, Paula Tsioumas, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Baird Management Corporation, 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:

THE SIGNATURE GUARANTEED BY
MEDALION GUARANTEED BY
BAIRD MANAGEMENT CORPORATION

Julie M. Martin

001 AFFIRMED SIGNATURE
E 9800219
SECURITIES FINANCIAL AGENTS MEDALION PROGRAM
THE
THE

Notary Public

Paula Tsioumas

Signature

Chief Financial Officer

Title

This report** contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of 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.
- (o) Independent auditor's report on internal control

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

BAIRD MANAGEMENT CORPORATION

REPORT PURSUANT TO RULE 17a-5(d)

YEAR ENDED DECEMBER 31, 2002

BAIRD MANAGEMENT CORPORATION

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Cheshier & Fuller, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
SEC PRACTICE SECTION OF AICPA
TEXAS SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS
CPAMERICA INTERNATIONAL
AN AFFILIATE OF HORWATH INTERNATIONAL

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INDEPENDENT AUDITOR'S REPORT

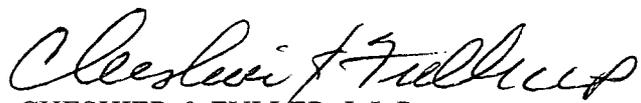
Board of Directors
Baird Management Corporation

We have audited the accompanying statement of financial condition of Baird Management Corporation, as of December 31, 2002, and the related statements of income, changes in stockholder's equity, changes in liabilities subordinated to claims of general creditors, and cash flows 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 U. S. generally accepted auditing standards. 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 Baird Management Corporation, as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with U. S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the Schedules I and II 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 and Exchange Commission. 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.


CHESHIER & FULLER, L.L.P.

Dallas, Texas
January 28, 2003

BAIRD MANAGEMENT CORPORATION
Statement of Financial Condition
December 31, 2002

ASSETS

Cash and cash equivalents	\$ 75,796
Receivable from broker-dealers	11,458
Commissions receivable	7,450
Prepaid expenses	<u>17,755</u>
	<u>\$ 112,459</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities

Accounts payable and accrued liabilities	\$ 18,477
Due to Parent	5,153
State income taxes payable	<u>2,950</u>
	<u>26,580</u>

Stockholder's equity

Common stock, 50,000 shares authorized of \$.01 par value, 10,000 shares issued and outstanding	100
Additional paid-in capital	900
Retained earnings	<u>84,879</u>
Total stockholder's equity	<u>85,879</u>
	<u>\$ 112,459</u>

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

BAIRD MANAGEMENT CORPORATION
Statement of Income
For the Year Ended December 31, 2002

Revenues	
Commission income	\$ 247,224
Revenue from sale of investment companies	285,023
Interest income	<u>1,250</u>
	<u>533,497</u>
Expenses	
Regulatory fees and expenses	18,421
Occupancy	269
Other	<u>449,241</u>
	<u>467,931</u>
Income before income taxes	65,566
Provision for Federal income taxes	(11,390)
Provision for State income taxes	<u>(2,402)</u>
Net income	<u>\$ 51,774</u>

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

BAIRD MANAGEMENT CORPORATION
Statement of Changes in Stockholder's Equity
For the Year Ended December 31, 2002

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balances at December 31, 2001	\$ 100	\$ 900	\$ 133,105	\$ 134,105
Dividend			(100,000)	(100,000)
Net income	<u>-0-</u>	<u>-0-</u>	<u>51,774</u>	<u>51,774</u>
Balances at December 31, 2002	<u>\$ 100</u>	<u>\$ 900</u>	<u>\$ 84,879</u>	<u>\$ 85,879</u>

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

BAIRD MANAGEMENT CORPORATION
Statement of Changes in Liabilities Subordinated
to Claims of General Creditors
For the Year Ended December 31, 2002

Balance at December 31, 2001	\$ -0-
Increases	-0-
Decreases	<u>-0-</u>
Balance at December 31, 2002	<u>\$ -0-</u>

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

BAIRD MANAGEMENT CORPORATION
Statement of Cash Flows
For the Year Ended December 31, 2002

Cash flows from operating activities:	
Net income	\$ 51,774
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Amortization	269
Changes in assets and liabilities:	
Increase in receivable from broker-dealers	(116)
Decrease in commissions receivable	8,990
Increase in prepaid expense	(1,708)
Increase in account payable and accrued liabilities	17,377
Decrease in due to Parent	(3,249)
Increase in state income taxes payable	<u>1,012</u>
Net cash provided (used) by operating activities	<u>74,349</u>
Cash flows from investing activities:	
Net cash provided (used) by investing activities	<u>-0-</u>
Cash flows from financing activities:	
Dividend to Parent	<u>(100,000)</u>
Net cash provided (used) by financing activities	<u>(100,000)</u>
Net decrease in cash and cash equivalents	(25,651)
Cash and cash equivalents at beginning of year	<u>101,447</u>
Cash and cash equivalents at end of year	<u>\$ 75,796</u>

Supplemental Disclosures

Cash paid for:	
Income taxes	<u>\$ 1,390</u>
Interest	<u>\$ -0-</u>

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

BAIRD MANAGEMENT CORPORATION

Notes to Financial Statements

December 31, 2002

Note 1 - Summary of Significant Accounting Policies

Baird Management Corporation (the "Company") is a broker-dealer in securities registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers (NASD). The Company operates under (SEC) Rule 15c3-3(k)(2)(ii), which provides that all funds and securities belonging to the Company's customers would be handled by a clearing broker-dealer. The Company is also an investment advisor registered with the State of Texas. The Company is a wholly-owned subsidiary of The Financial Source Group, Inc. ("Parent"). Approximately 50% of the Company's customers are located in the Southwestern United States, 35% is located in Georgia and 15% throughout the United States.

For purposes of reporting 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 the ordinary course of business.

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Security transactions (and related commission revenue and expenses) are recorded on a settlement date basis, generally the third business day following the transactions. If materially different, commission income and related expense is adjusted to a trade date basis.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due.

Note 2 - Net Capital Requirements

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. Net capital and the related net capital ratio may fluctuate on a daily basis.

BAIRD MANAGEMENT CORPORATION

Notes to Financial Statements

December 31, 2002

Note 2 - Net Capital Requirements, continued

At December 31, 2002, the Company had net capital of approximately \$68,025 and net capital requirements of \$50,000. The Company's ratio of aggregate indebtedness to net capital was .39 to 1. The Securities and Exchange Commission permits a ratio of no greater than 15 to 1.

Note 3 - Possession or Control Requirements

The Company does not have any possession or control of customer funds or securities. There were no material inadequacies in the procedures followed in adhering to the exemptive provisions of (S.E.C.) Rule 15c3-3(k)(2)(ii) by promptly transmitting all customer funds and securities to the clearing broker who carries the customer accounts.

Note 4 - Related Party Transactions

The Company is provided office space, office facilities and administrative help from Parent. During the year ended the Company incurred \$426,798 for expenses to reimburse Parent for these services. At December 31, 2002 \$5,153 was owed for administrative services and Federal income taxes.

Note 5 - Commitments and Contingencies

Included in the Company's clearing agreement with its clearing broker-dealer, is an indemnification clause. This clause relates to instances where the Company's customers fail to settle security transactions. In the event this occurs, the Company will indemnify the clearing broker-dealer to the extent of the net loss on the unsettled trade. At December 31, 2002, management of the Company had not been notified by the clearing broker-dealer, nor were they otherwise aware, of any potential losses relating to this indemnification.

Note 6 - Income Taxes

The Company files a consolidated income tax return with Parent and reports its income on the separate company basis.

Supplemental Information

Pursuant to Rule 17a-5

of the Securities Exchange Act of 1934

as of

December 31, 2002

Schedule I

BAIRD MANAGEMENT CORPORATION
Computation of Net Capital Under Rule 15c3-1
of the Securities and Exchange Commission
As of December 31, 2002

COMPUTATION OF NET CAPITAL

Total stockholder's equity qualified for net capital	\$ 85,879
Deductions and/or charges	
Prepaid expenses	<u>(17,755)</u>
Net capital before haircuts on securities positions	<u>68,124</u>
Haircuts on securities (computed, where applicable, pursuant to rule 15c3-1(f))	<u>99</u>
Net capital	<u>\$ 68,025</u>

AGGREGATE INDEBTEDNESS

Items included in statement of financial condition	
Accounts payable and accrued liabilities	\$ 18,477
Due to Parent	5,153
State income taxes payable	<u>2,950</u>
Total aggregate indebtedness	<u>\$ 26,580</u>

Schedule I (continued)

BAIRD MANAGEMENT CORPORATION
Computation of Net Capital Under Rule 15c3-1
of the Securities and Exchange Commission
As of December 31, 2002

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Minimum net capital required (6-2/3% of total aggregate indebtedness)	<u>\$ 1,773</u>
Minimum dollar net capital requirement of reporting broker or dealer	<u>\$ 50,000</u>
Net capital requirement (greater of above two minimum requirement amounts)	<u>\$ 50,000</u>
Net capital in excess of required minimum	<u>\$ 18,025</u>
Excess net capital at 1000%	<u>\$ 65,367</u>
Ratio: Aggregate indebtedness to net capital	<u>.39 to 1</u>

RECONCILIATION WITH COMPANY'S COMPUTATION

There were differences in the computation of net capital under Rule 15c3-1 from the Company's computation. The following serves to reconcile the differences in net capital.

Net capital, as reported in Company's Part II (unaudited) FOCUS report	\$ 82,464
Haircuts on securities	(99)
Income tax accrual	<u>(14,340)</u>
Net capital per audited report	<u>\$ 68,025</u>

Schedule II

BAIRD MANAGEMENT CORPORATION
Computation for Determination of Reserve Requirements Under
Rule 15c3-3 of the Securities and Exchange Commission
As of December 31, 2002

EXEMPTIVE PROVISIONS

The Company has claimed an exemption from Rule 15c3-3 under section (k)(2)(ii), in which all customer transactions are cleared through another broker-dealer on a fully disclosed basis.

Company's clearing firm: Southwest Securities, Inc.

Independent Auditor's Report

On Internal Control

Required By SEC Rule 17a-5

Year Ended December 31, 2002



Cheshier & Fuller, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
SEC PRACTICE SECTION OF AICPA
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WWW.CHESHIER-FULLER.COM

INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL REQUIRED BY SEC RULE 17a-5

The Board of Directors
Baird Management Corporation

In planning and performing our audit of the financial statements and supplemental information of Baird Management Corporation, (the "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 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:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve 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 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 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 U. S. 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, 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 they 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 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 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 information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc., 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.


CHESHIER & FULLER, L.L.P.

Dallas, Texas
January 28, 2003