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SECURITIES

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

SEC FILE NUMBER
8- 34785

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 01/01/2002 AND ENDING 12/31/2002
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Broadway Brokerage Services, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

1177 N E Loop 410
(No. and Street)
San Antonio Texas 78209
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Steven G. Mitchell (210)283 - 6600
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG LLP
(Name - if individual, state last, first, middle name)
112 Pecan Suite 2400 San Antonio Texas 78205
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

MAR 13 2003
THOMSON FINANCIAL

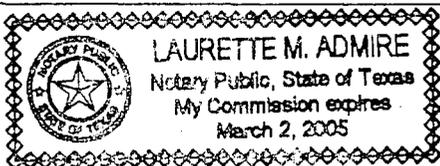
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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

OATH OR AFFIRMATION

I, Steven G. Mitchell, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Broadway Brokerage Services, 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:

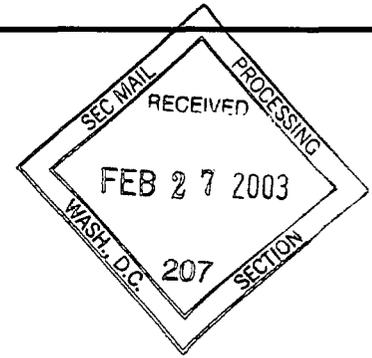


Steven G. Mitchell
Signature
Steven G. Mitchell
President
Title

Laurette M. Admire
Notary Public

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

- (a) Facing Page.
 - (b) Statement of Financial Condition.
 - (c) Statement of Income (Loss).
 - (d) Statement of Changes in Financial Condition.
 - (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
 - N/A (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
 - 1 (g) Computation of Net Capital.
 - 1 (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
 - 1 (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
 - 1 (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
 - N/A (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
 - (l) An Oath or Affirmation.
 - N/A (m) A copy of the SIPC Supplemental Report.
 - N/A (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
 - 1 (o) Supplementary schedules
- **For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).
- X (o) Independent auditors report on Internal Control Structure



BROADWAY BROKERAGE SERVICES, INC.
(A Wholly-Owned Subsidiary of Broadway National Bank)

Financial Statements and
Supplementary Schedules and Information

December 31, 2002 and 2001

(With Independent Auditors'
Report Thereon)

BROADWAY BROKERAGE SERVICES, INC.
(A Wholly Owned Subsidiary of Broadway National Bank)

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112 East Pecan, Suite 2400
San Antonio, TX 78205-1585

Independent Auditors' Report

The Board of Directors and Shareholder
Broadway Brokerage Services, Inc.:

We have audited the accompanying balance sheets of Broadway Brokerage Services, Inc. (the Company) (a wholly owned subsidiary of Broadway National Bank) as of December 31, 2002 and 2001, and the related statements of income, stockholder's equity, and cash flows for the years then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. 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 Broadway Brokerage Services, Inc. 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the accompanying supplementary schedules as of December 31, 2002 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 under 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.

KPMG LLP

January 23, 2003



KPMG LLP KPMG LLP a U.S. limited liability partnership, is
a member of KPMG International, a Swiss association.

BROADWAY BROKERAGE SERVICES, INC.
(A Wholly Owned Subsidiary of Broadway National Bank)

Balance Sheets

December 31, 2002 and 2001

Assets	2002	2001
Cash	\$ 604,503	515,033
Receivable from clearing firm	77,223	116,480
Furniture, fixtures and equipment, net	60,489	69,010
Other	13,557	24,026
Total assets	\$ 755,772	724,549
Liabilities and Stockholder's Equity		
Accounts payable and accrued expenses	\$ 67,147	64,779
State income taxes payable	3,458	19,769
Total liabilities	70,605	84,548
Stockholder's equity:		
Common stock, \$1 par value. Authorized 1,000,000 shares; issued and outstanding 50,000 shares	50,000	50,000
Additional paid-in capital	50,000	50,000
Retained earnings	585,167	540,001
Total stockholder's equity	685,167	640,001
Total liabilities and stockholder's equity	\$ 755,772	724,549

See accompanying notes to financial statements.

BROADWAY BROKERAGE SERVICES, INC.
(A Wholly Owned Subsidiary of Broadway National Bank)

Statements of Income

Years ended December 31, 2002 and 2001

	2002	2001
Revenues:		
Commissions	\$ 1,275,286	1,304,680
Interest income	7,134	17,598
Total revenues	1,282,420	1,322,278
Expenses:		
Employee compensation and benefits	719,521	672,314
General and administrative	526,148	431,881
Total expenses	1,245,669	1,104,195
Income before income taxes	36,751	218,083
Income tax (credit) expense	(8,415)	15,000
Net income	\$ 45,166	203,083

See accompanying notes to financial statements.

BROADWAY BROKERAGE SERVICES, INC.
(A Wholly Owned Subsidiary of Broadway National Bank)

Statements of Stockholder's Equity
Years ended December 31, 2002 and 2001

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total stockholder's equity</u>
Balances at December 31, 2000	\$ 50,000	50,000	486,918	586,918
Cash dividends paid to parent	—	—	(150,000)	(150,000)
Net income	—	—	203,083	203,083
Balances at December 31, 2001	50,000	50,000	540,001	640,001
Net income	—	—	45,166	45,166
Balances at December 31, 2002	\$ <u>50,000</u>	<u>50,000</u>	<u>585,167</u>	<u>685,167</u>

See accompanying notes to financial statements.

BROADWAY BROKERAGE SERVICES, INC.
(A Wholly Owned Subsidiary of Broadway National Bank)

Statements of Cash Flows

Years ended December 31, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Net income	\$ 45,166	203,083
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	21,793	27,520
Decrease (increase) in receivable from clearing firm	39,257	(32,173)
Decrease in other assets	10,469	84,858
Increase in accounts payable	2,368	14,274
Decrease in state income taxes payable	(16,311)	(231)
Net cash provided by operating activities	102,742	297,331
Cash flows from investing activities:		
Purchases of furniture, fixtures and equipment	(13,272)	(4,598)
Cash flows from financing activities:		
Cash dividends paid to parent	—	(150,000)
Net increase in cash	89,470	142,733
Cash at beginning of year	515,033	372,300
Cash at end of year	\$ 604,503	515,033
Supplemental disclosure of cash flow information:		
Taxes paid during the year	\$ 9,475	16,658

See accompanying notes to financial statements.

BROADWAY BROKERAGE SERVICES, INC.
(A Wholly Owned Subsidiary of Broadway National Bank)

Notes to Financial Statements

December 31, 2002 and 2001

(1) Significant Accounting Policies

Broadway Brokerage Services, Inc. (the Company), a wholly owned subsidiary of Broadway National Bank (BNB), is registered as a fully-disclosed, introducing broker-dealer under the Securities Exchange Act of 1934. As a broker-dealer, the Company is directly impacted by fluctuations in the debt and equity securities markets. The Company's customer base is primarily comprised of individuals residing in San Antonio, Texas, with the majority also being customers of BNB. The Company is subject to regulation by the National Association of Securities Dealers (NASD) and various governmental agencies, including the Securities and Exchange Commission and the Texas Securities Department. Such agencies may require certain standards or impose certain limitations based on their judgments.

The Company operates under a clearing agreement with National Financial Services Corporation (NFS), whereby NFS clears security transactions for the Company's customers and carries the accounts of such customers on a fully-disclosed basis as customers of NFS. The Company does not hold cash or securities in connection with such transactions.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the balance sheets and income and expenses for the periods. Actual results could differ significantly from those estimates.

All highly liquid debt instruments with original maturities of three months or less are considered cash equivalents.

Security transactions and related revenues and expenses are recorded on a settlement date basis. Recording such transactions on a trade date basis would not have resulted in a material difference from that disclosed in the accompanying financial statements as of December 31, 2002 and 2001 and for the years then ended. Investment securities owned are stated at market value, with the resulting difference between amortized cost and market included in income. The Company did not hold any investment securities as of December 31, 2002 and 2001.

Furniture and equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization computed principally by the straight-line method over their estimated useful lives.

Advertising costs are expensed as incurred. Advertising costs of \$43,994 and \$15,561 are included in general and administrative expenses for the years ended December 31, 2002 and 2001.

(2) Income Taxes

In March 1998, Broadway Bancshares, Inc. (BBI), the parent company of BNB, for tax purposes, elected S Corporation status under the Internal Revenue Code, and the Company elected to be treated as a Qualified S Subsidiary of BBI. As a result, effective January 1, 1998, the Company no longer incurs any federal income tax. Accordingly, the Company's earnings, along with other taxable income of BBI, will be reported by the shareholders of BBI on their federal and state income tax returns. During 2002 and 2001, the Company recorded state income tax (credit) expense of (\$8,415) and \$15,000, respectively.

BROADWAY BROKERAGE SERVICES, INC.
(A Wholly Owned Subsidiary of Broadway National Bank)

Notes to Financial Statements

December 31, 2002 and 2001

(3) Related Party Transactions

The Company pays an administrative charge to BNB for various services including human resources, marketing, and accounting. Total payments of these items were \$134,407 and \$59,517 during 2002 and 2001, respectively. The Company also leases office space from BNB on a month-to-month basis. Total lease payments were \$52,007 in 2002 and \$47,540 in 2001.

Employees of the Company also participate in various employee benefit plans and the profit sharing plan of BBI. The Company contributes to BBI its share of the cost for participating employees. The profit sharing plan covers substantially all full-time employees who have completed one year of service. Payments to the plan are made at the discretion of the Board of Directors, not to exceed the maximum allowable deduction under provisions of the Internal Revenue Code. Profit sharing expense amounted to \$69,239 and \$52,499 in 2002 and 2001.

(4) Net Capital Requirements

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Under Rule 15c3-1, equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio were to exceed 10 to 1. At December 31, 2002, the Company had net capital of \$528,991, which was \$278,991 in excess of its required net capital of \$250,000. The Company's ratio of aggregate indebtedness to net capital was 0.13 to 1 at December 31, 2002.

(5) Commitments

The Company is obligated under equipment rental agreements that expire in August 2003. Future minimum payments under those agreements total approximately \$36,000.

BROADWAY BROKERAGE SERVICES, INC.
(A Wholly Owned Subsidiary of Broadway National Bank)

Schedule of Computation of Net Capital

December 31, 2002

Computation of Net Capital

Total stockholder's equity	\$ 685,167
Deductions:	
Non-allowable assets:	
Furniture, fixtures and equipment, net	60,489
Other assets	13,557
Haircuts on securities (computed pursuant to Rule 15c3-1)	11,788
Other deductions	342
Excess fidelity bond deductible	70,000
Net capital	<u>\$ 528,991</u>

Computation of Aggregate Indebtedness

Accounts payable and accrued expenses	\$ 67,147
State income taxes payable	<u>3,458</u>
Total aggregate indebtedness	<u>\$ 70,605</u>

Computation of Basic Net Capital Requirements:

Minimum net capital required (greater of \$250,000 or 6-2/3% of aggregate indebtedness of \$70,605)	<u>\$ 250,000</u>
Excess net capital	<u>\$ 278,991</u>
Excess net capital at 1000%	<u>\$ 521,931</u>
Ratio of aggregate indebtedness to net capital	<u>0.13 to 1</u>

There were no material adjustments to net capital as presented herein and as shown in Part II of Form X-17A-5 as of December 31, 2002.

See accompanying independent auditors' report.

BROADWAY BROKERAGE SERVICES, INC.
(A Wholly Owned Subsidiary of Broadway National Bank)

Statement Pursuant to Rule 15c3-3

December 31, 2002

- **Computation for Determination of Reserve Requirement:**

The Company is exempt from Rule 15c3-3 of the Securities and Exchange Commission under paragraph (k)(2)(ii) of that rule.

- **Information Relating to Possession or Control Requirements:**

The Company did not hold funds or securities for, or owe money or securities to, customers as of December 31, 2002; all customer funds and securities are transmitted to a clearing broker. Therefore, possession or control requirements under Rule 15c3-3 do not apply.

See accompanying independent auditors' report.



112 East Pecan, Suite 2400
San Antonio, TX 78205-1585

Telephone 210 227 9272
Fax 210 224 0126
210 227 4707

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

The Board of Directors and Stockholders
Broadway Brokerage Services, Inc.:

In planning and performing our audit of the financial statements of Broadway Brokerage Services, Inc. (the Company) (a wholly owned subsidiary of Broadway National Bank) 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 (or aggregate debits) 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 accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, 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.





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 elements 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 use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 23, 2003