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

AS 3/6/03

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

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

SEC FILE NUMBER  
8-1030

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:

Seltsam, Hanni & Company, Inc.

OFFICIAL USE ONLY  
FIRM ID. NO.

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

Bank of America, Suite 100

(No. and Street)

Topeka,

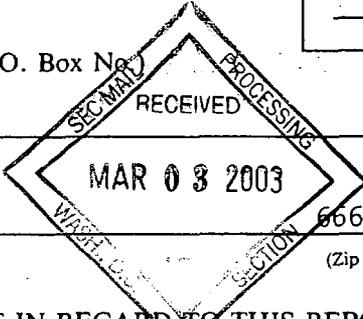
Kansas

(City)

(State)

66603

(Zip Code)



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

James D. Seltsam

(785) 354-8588

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

Greg C. Huseth, CPA, P.A.

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

5857 SW 29th Street

(Address)

Topeka

(City)

Kansas

(State)

66614

(Zip Code)

CHECK ONE:

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

PROCESSED

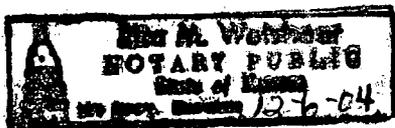
MAR 19 2003

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 D. Seltsam, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Seltsam, Hanni & Company, Inc., as of December 31, 192002, 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:



Peter M. Wlasko  
Notary Public

James D. Seltsam  
Signature

President  
Title

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).

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

|  |                    |
|--|--------------------|
| OMB APPROVAL   |                    |
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| Expires:   | September 30, 1998 |
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# Form X-17A-5

# FOCUS REPORT

(Financial and Operational Combined Uniform Single Report)

## Schedule I

INFORMATION REQUIRED OF BROKERS AND DEALERS PURSUANT TO RULE 17a-5

Report for the Calendar Year 19 8004  
or if less than 12 months

Report for the period beginning 01 / 01 / 02 8005 and ending 12 / 31 / 02 8006  
MM DD YY MM DD YY

|                 |      |
|-----------------|------|
| SEC FILE NUMBER |      |
| 8-              | 8011 |

|  |      |            |                   |         |
|--|------|------------|-------------------|---------|
| 1. NAME OF BROKER DEALER<br>Seltsam, Hanni & Company, Inc. | 8020 | <b>N 9</b> | OFFICIAL USE ONLY | 8021    |
|  |      |            | Firm No.          | M M Y Y |

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

|       |      |                   |      |
|-------|------|-------------------|------|
| NAME: | 8053 | OFFICIAL USE ONLY | 8057 |
| NAME: | 8054 |                   | 8058 |
| NAME: | 8055 |                   | 8059 |
| NAME: | 8056 |                   | 8060 |

3. Respondent conducts a securities business exclusively with registered broker-dealers:  
(enter applicable code: 1 = Yes 2 = No) 2 8073

4. Respondent is registered as a specialist on a national securities exchange:  
(enter applicable code: 1 = Yes 2 = No) 2 8074

5. Respondent makes markets in the following securities:

|                                      |   |          |             |
|--------------------------------------|---|----------|-------------|
| (a) equity securities . . . . .      | (enter applicable code: 1 = Yes 2 = No) | <u>2</u> | <u>8075</u> |
| (b) municipals . . . . .             | (enter applicable code: 1 = Yes 2 = No) | <u>2</u> | <u>8076</u> |
| (c) other debt instruments . . . . . | (enter applicable code: 1 = Yes 2 = No) | <u>2</u> | <u>8077</u> |

6. Respondent is registered solely as a municipal bond dealer:  
(enter applicable code: 1 = Yes 2 = No) 2 8078

7. Respondent is an insurance company or an affiliate of an insurance company:  
(enter applicable code: 1 = Yes 2 = No) 2 8079

8. Respondent carries its own public customer accounts:  
(enter applicable code: 1 = Yes 2 = No) 2 8084

9. Respondent's total number of public customer accounts:  
(carrying firms filing X-17A-5 Part II only)

|  |          |             |
|--|----------|-------------|
| (a) Public customer accounts . . . . . | <u>0</u> | <u>8080</u> |
| (b) Omnibus accounts . . . . .         | <u>0</u> | <u>8081</u> |

10. Respondent clears its public customer and/or proprietary accounts:  
(enter applicable code: 1 = Yes 2 = No) 1 8085

February 11, 2003

The Board of Directors  
Seltsam, Hanni, & Company, Inc.  
Topeka, Kansas

We have examined the financial statements of Seltsam, Hanni, & Company, Inc., for the years ended December 31, 2002 and 2001 and have rendered our opinion thereon, dated February 11, 2003. As part of our examination, we reviewed and tested the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion of the financial statements and to assist the auditor in planning and performing the examination of the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion of the system of internal accounting control taken as a whole.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized if considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented intentionally by management with respect either to the execution and recording of transactions or with respect to the estimated and judgments required in the preparation of financial statements.

Further projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

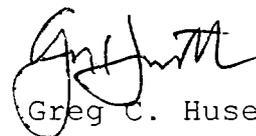
Our study and evaluation of the system of internal accounting control for the year ended December 31, 2002, which was made for the purposes set forth in the first paragraph, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

Based on our study, we found we could not rely on the system of internal control due to the limitation of segregating duties and control over assets. This situation is brought about by the small number of individuals within the company.

Based on our study and tests of the accounting records we wish to inform you we found no items we considered would have a material impact on the financial statements for the year.

This report is intended solely for the use of management and should not be used for any other purpose.

Sincerely,

 CPA, P.A.  
Greg C. Huseh, CPA, P.A.

# FOCUS REPORT

## Schedule I

### page 2

11. Respondent clears its public customer accounts in the following manner:  
 (enter a "1" in appropriate boxes)

|  |      |      |
|--|------|------|
| (a) Direct Mail (New York Stock Exchange Members Only) ..... | 8086 | 8086 |
| (b) Self-Clearing .....                                      | 1    | 8087 |
| (c) Omnibus .....  |      | 8088 |
| (d) Introducing .....  |      | 8089 |
| (e) Other .....  |      | 8090 |
| If Other please describe:                                    |      |      |
| (f) Not applicable .....                                     |      | 8091 |

12. (a) Respondent maintains membership(s) on national securities exchange(s):  
 (enter applicable code: 1 = Yes 2 = No)

|  |   |      |
|--|---|------|
|  | 2 | 8100 |
|--|---|------|

(b) Names of national securities exchange(s) in which respondent maintains memberships:  
 (enter a "1" in appropriate boxes)

|                         |      |      |
|-------------------------|------|------|
| (1) American .....      | 8120 | 8120 |
| (2) Boston .....        | 8121 | 8121 |
| (3) CBOE .....          | 8122 | 8122 |
| (4) Midwest .....       | 110  | 8123 |
| (5) New York .....      | 8124 | 8124 |
| (6) Philadelphia .....  | 8125 | 8125 |
| (7) Pacific Coast ..... | 8126 | 8126 |
| (8) Other .....         | 8129 | 8129 |

13. Employees:

|   |   |      |
|---|---|------|
| (a) Number of full-time employees .....   | 3 | 8101 |
| (b) Number of full-time registered representatives employed by respondent included in 13(a) ..... | 2 | 8102 |

14. Number of NASDAQ stocks respondent makes market .....

|  |     |      |
|--|-----|------|
|  | 111 | 8103 |
|--|-----|------|

15. Total number of underwriting syndicates respondent was a member .....

|  |   |      |
|--|---|------|
|  | 0 | 8104 |
|--|---|------|

(Carrying or clearing firms filing X-17A-5 Part II)

16. Number of respondent's public customer transactions:

|   |    |      |
|---|----|------|
| Actual .....  | 1  | 8105 |
| Estimate .....  |    | 8106 |
| (a) equity securities transactions effected on a national securities exchange .....                         |    |      |
|   | 28 | 8107 |
| (b) equity securities transactions effected other than on a national securities exchange .....              |    |      |
|   | 0  | 8108 |
| (c) commodity, bond, option, and other transactions effected on or off a national securities exchange ..... |    |      |
|   |    | 8109 |

# FOCUS REPORT

## Schedule I

### page 3

17. Respondent is a member of the Securities Investor Protection Corporation  
 (enter applicable code: 1=Yes 2=No) 13 1 8111

18. Number of branch offices operated by respondent ..... 0 8112

19. (a) Respondent directly or indirectly controls, is controlled by, or is under  
 common control with, a U.S. bank  
 (enter applicable code: 1=Yes 2=No) 2 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  
 (enter applicable code: 1=Yes 2=No) 2 8113

21. (a) Respondent is a subsidiary of a registered broker-dealer  
 (enter applicable code: 1=Yes 2=No) 2 8114

(b) Name of parent <sup>12</sup> 8116

22. Respondent is a subsidiary of a parent which is not a registered broker or dealer  
 (enter applicable code: 1=Yes 2=No) 2 8115

23. Respondent sends quarterly statements to customers pursuant to  
 10b-10(b) in lieu of daily or immediate confirmations:  
 (enter applicable code: 1=Yes 2=No)\* 2 8117

24. Aggregate Dollar Amount of Non-Exempted OTC Sales of Exchange-Listed  
 Securities Done by Respondent During the Reporting Period ..... \$ 1 8118

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

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

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

Form  
 X-17A-5

**FOCUS REPORT**  
 (Financial and Operational Combined Uniform Single Report)  
**PART II** 11

(Please read instructions before preparing Form.)

This report is being filed pursuant to (Check Applicable Block(s)):

- 1) Rule 17a-5(a)  16      2) Rule 17a-5(b)  17      3) Rule 17a-11  18  
 4) Special request by designated examining authority  19      5) Other  26

|   |   |
|---|---|
| NAME OF BROKER-DEALER<br><br><u>Seltsam, Hanni &amp; Company, Inc.</u> <span style="float: right; border: 1px solid black; padding: 0 5px;">13</span><br>ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do Not Use P.O. Box No.)<br><br><u>Bank of America Tower, Suite 100</u> <span style="float: right; border: 1px solid black; padding: 0 5px;">20</span><br><small>(No. and Street)</small><br><br><u>Topeka</u> <span style="border: 1px solid black; padding: 0 5px;">21</span> <u>Kansas</u> <span style="border: 1px solid black; padding: 0 5px;">22</span> <u>66603</u> <span style="border: 1px solid black; padding: 0 5px;">23</span><br><small>(City) (State) (Zip Code)</small> | SEC FILE NO.<br><u>8-1030</u> <span style="float: right; border: 1px solid black; padding: 0 5px;">14</span><br>FIRM I.D. NO.<br><u>48-0395450</u> <span style="float: right; border: 1px solid black; padding: 0 5px;">15</span><br>FOR PERIOD BEGINNING (MM/DD/YY)<br><u>01/01/02</u> <span style="float: right; border: 1px solid black; padding: 0 5px;">24</span><br>AND ENDING (MM/DD/YY)<br><u>12/31/02</u> <span style="float: right; border: 1px solid black; padding: 0 5px;">25</span> |
|---|---|

|   |   |
|---|---|
| NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT<br><u>James D. Seltsam</u> <span style="float: right; border: 1px solid black; padding: 0 5px;">30</span><br>NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT:<br>_____ <span style="float: right; border: 1px solid black; padding: 0 5px;">32</span><br>_____ <span style="float: right; border: 1px solid black; padding: 0 5px;">34</span><br>_____ <span style="float: right; border: 1px solid black; padding: 0 5px;">36</span><br>_____ <span style="float: right; border: 1px solid black; padding: 0 5px;">38</span> | (Area Code)—Telephone No.<br><u>785-354-8588</u> <span style="float: right; border: 1px solid black; padding: 0 5px;">31</span><br>OFFICIAL USE<br>_____ <span style="float: right; border: 1px solid black; padding: 0 5px;">33</span><br>_____ <span style="float: right; border: 1px solid black; padding: 0 5px;">35</span><br>_____ <span style="float: right; border: 1px solid black; padding: 0 5px;">37</span><br>_____ <span style="float: right; border: 1px solid black; padding: 0 5px;">39</span> |
|---|---|

DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNTS? YES  40 NO  41  
 CHECK HERE IF RESPONDENT IS FILING AN AUDITED REPORT  42

**EXECUTION:**

The registrant/broker or dealer submitting this Form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated the 25th day of Feb 2003  
 Manual signatures of \_\_\_\_\_

- 1) James D. Seltsam  
 Principal Executive Officer or Managing Partner James D. Seltsam, President
- 2) \_\_\_\_\_  
 Principal Financial Officer or Partner Arthur R. Hanni, Exec. V.P.
- 3) Arthur R. Hanni  
 Principal Operations Officer or Partner

**ATTENTION**—Intentional misstatements or omissions of facts constitute Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 78f(a))

TO BE COMPLETED WITH THE ANNUAL AUDIT REPORT ONLY:

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report

NAME (If individual, state last, first, middle name)

Huseth, Greg C.

70

ADDRESS

5857 SW 29th Street

71

Topeka

72

Kansas

73

66614

74

Number and Street

City

State

Zip Code

CHECK ONE

Certified Public Accountant

75

Public Accountant

76

Accountant not resident in United States  
or any of its possessions

77

FOR SEC USE

|  |  |
|--|--|
|  |  |
|--|--|

DO NOT WRITE UNDER THIS LINE ... FOR SEC USE ONLY

| WORK LOCATION | REPORT DATE<br>MM/DD/YY | DOC. SEQ. NO. | CARD |  |  |  |  |
|---------------|-------------------------|---------------|------|--|--|--|--|
| 50            | 51                      | 52            | 53   |  |  |  |  |

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART II

BROKER OR DEALER

Seltsam, Hanni & Company, Inc.

N 2

100

## STATEMENT OF FINANCIAL CONDITION

as of (MM/DD/YY) 12/31/02

SEC FILE NO. \_\_\_\_\_

Consolidated

Unconsolidated

99

98

198

199

|  | <u>ASSETS</u>    |                      |  | <u>Total</u> |     |
|--|------------------|----------------------|--|--------------|-----|
|  | <u>Allowable</u> | <u>Non-Allowable</u> |  | <u>Total</u> |     |
| 1. Cash  | \$ 96136         | 200                  |  | \$ 96136     | 750 |
| 2. Cash segregated in compliance with federal and other regulations  | 200              | 210                  |  | 200          | 760 |
| 3. Receivable from brokers or dealers and clearing organizations:    |                  |                      |  |              |     |
| A. Failed to deliver:  |                  |                      |  |              |     |
| 1. Includable in "Formula for Reserve Requirements"                  | 220              |                      |  |              |     |
| 2. Other   | 230              |                      |  | 770          |     |
| B. Securitiles borrowed:   |                  |                      |  |              |     |
| 1. Includable in "Formula for Reserve Requirements"                  | 240              |                      |  |              |     |
| 2. Other   | 250              |                      |  | 780          |     |
| C. Omnibus accounts:   |                  |                      |  |              |     |
| 1. Includable in "Formula for Reserve Requirements"                  | 260              |                      |  |              |     |
| 2. Other   | 270              |                      |  | 790          |     |
| D. Clearing organizations:   |                  |                      |  |              |     |
| 1. Includable in "Formula for Reserve Requirements"                  | 280              |                      |  |              |     |
| 2. Other   | 290              |                      |  | 800          |     |
| E. Other   | 300              | \$ 550               |  | 810          |     |
| 4. Receivables from customers:                                       |                  |                      |  |              |     |
| A. Securities accounts:  |                  |                      |  |              |     |
| 1. Cash and fully secured accounts                                   | 310              |                      |  |              |     |
| 2. Partly secured accounts   | 320              | 560                  |  |              |     |
| 3. Unsecured accounts  | 330              | 570                  |  |              |     |
| B. Commodity accounts  | 330              | 580                  |  |              |     |
| C. Allowance for doubtful accounts                                   | ( ) 335          | ( ) 590              |  | 820          |     |
| 5. Receivables from non-customers:                                   |                  |                      |  |              |     |
| A. Cash and fully secured accounts                                   | 340              |                      |  |              |     |
| B. Partly secured and unsecured accounts                             | 350              | 600                  |  | 830          |     |
| 6. Securities purchased under agreements to resell                   | 360              | 605                  |  | 840          |     |
| 7. Securities and spot commodities owned, at market value:           |                  |                      |  |              |     |
| A. Bankers acceptances, certificates of deposit and commercial paper | 370              |                      |  |              |     |
| B. U.S. and Canadian government obligations                          | 380              |                      |  |              |     |
| C. State and municipal government obligations                        | 390              |                      |  |              |     |
| D. Corporate obligations   | 400              |                      |  |              |     |

OMIT PENNIES

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART II

BROKER OR DEALER

Seltsam, Hanni & Company, Inc.

as of 12/31/02

## STATEMENT OF FINANCIAL CONDITION

### ASSETS

Allowable

Nonallowable

Total

|   |    |        |     |               |
|---|----|--------|-----|---------------|
| E. Stocks and warrants  | \$ | 410    |     |               |
| F. Options  |    | 420    |     |               |
| G. Arbitrage  |    | 422    |     |               |
| H. Other securities   |    | 424    |     |               |
| I. Sport commodities  |    | 430    |     | 850           |
| 8. Securities owned not readily marketable:   |    |        |     |               |
| A. At Cost  | \$ | 130    | 440 | \$ 610        |
| 9. Other investments not readily marketable:  |    |        |     |               |
| A. At Cost  | \$ | 140    | 450 | 620           |
| B. At estimated fair value  |    |        | 450 | 620           |
| 10. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value: |    |        |     |               |
| A. Exempted securities  | \$ | 150    |     |               |
| B. Other  | \$ | 160    | 460 | 630           |
| 11. Secured demand notes - market value of collateral:  |    |        |     |               |
| A. Exempted securities  | \$ | 170    |     |               |
| B. Other  | \$ | 180    | 470 | 640           |
| 12. Memberships in exchanges:   |    |        |     |               |
| A. Owned, at market value   | \$ | 190    |     |               |
| B. Owned at cost  |    |        |     | 650           |
| C. Contributed for use of company, at market value  |    |        |     | 660           |
| 13. Investment in and receivables from affiliates, subsidiaries and associated partnerships                                       |    | 480    |     | 670           |
| 14. Property, furniture, equipment, leasehold improvements and rights under lease agreements:                                     |    |        |     |               |
| At cost (net of accumulated depreciation and amortization)  |    | 84     | 490 | 680           |
| 15. Other Assets:   |    |        |     |               |
| A. Dividends and interest receivable  |    | 500    |     | 690           |
| B. Free shipments   |    | 510    |     | 700           |
| C. Loans and advances   |    | 520    |     | 710           |
| D. Miscellaneous  |    | 28616  | 530 | 250 720       |
| 16. TOTAL ASSETS  | \$ | 125036 | 540 | \$ 250 740    |
|   |    |        |     | \$ 28866 930  |
|   |    |        |     | \$ 125286 940 |

OMIT PENNIES

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART II

BROKER OR DEALER

Seltsam, Hanni & Company, Inc.

as of 12/31/02

## STATEMENT OF FINANCIAL CONDITION

### LIABILITIES AND OWNERSHIP EQUITY

| <u>Liabilities</u>  | <u>A.I.<br/>Liabilities*</u> | <u>Non-A.I.<br/>Liabilities*</u> | <u>Total</u> |
|---|------------------------------|----------------------------------|--------------|
| 17. Bank loans payable:   |                              |                                  |              |
| A. Includable in "Formula for Reserve Requirements" .....   | \$ 1030                      | \$ 1240                          | \$ 1460      |
| B. Other .....  | 1040                         | 1250                             | 1470         |
| 18. Securities sold under repurchase agreement  |                              | 1260                             | 1480         |
| 19. Payable to brokers or dealers and clearing organizations:   |                              |                                  |              |
| A. Failed to receive:   |                              |                                  |              |
| 1. Includable in "Formula for Reserve Requirements" .....   | 1050                         | 1270                             | 1490         |
| 2. Other .....  | 1060                         | 1280                             | 1500         |
| B. Securities loaned:   |                              |                                  |              |
| 1. Includable in "Formula for Reserve Requirements" .....   | 1070                         | 1290                             | 1510         |
| 2. Other .....  | 1080                         | 1290                             | 1520         |
| C. Omnibus accounts:  |                              |                                  |              |
| 1. Includable in "Formula for Reserve Requirements" .....   | 1090                         | 1300                             | 1530         |
| 2. Other .....  | 1095                         | 1300                             | 1540         |
| D. Clearing organizations:  |                              |                                  |              |
| 1. Includable in "Formula for Reserve Requirements" .....   | 1100                         | 1310                             | 1550         |
| 2. Other .....  | 1105                         | 1310                             | 1560         |
| E. Other .....  | 1110                         | 1320                             | 1570         |
| 20. Payable to customers:   |                              |                                  |              |
| A. Securities accounts-including free credits of ..... \$ <span style="border: 1px solid black; padding: 2px;">950</span>                             | 1120                         | 1330                             | 1580         |
| B. Commodities accounts .....   | 1130                         | 1330                             | 1590         |
| 21. Payable to non customers:   |                              |                                  |              |
| A. Securities accounts .....  | 1140                         | 1340                             | 1600         |
| B. Commodities accounts .....   | 1150                         | 1350                             | 1610         |
| 22. Securities sold not yet purchased at market value-including arbitrage of ..... \$ <span style="border: 1px solid black; padding: 2px;">960</span> |                              | 1360                             | 1620         |
| 23. Accounts payable and accrued liabilities and expenses:  |                              |                                  |              |
| A. Drafts payable .....   | 1160                         |                                  | 1630         |
| B. Accounts payable .....   | 1170                         |                                  | 1640         |
| C. Income taxes payable .....   | 1180                         |                                  | 1650         |
| D. Deferred income taxes .....  | 1190                         | 1370                             | 1660         |
| E. Accrued expenses and other liabilities .....   | 1200                         | 1380                             | 1670         |
| F. Other .....  | 1200                         | 1380                             | 1680         |

OMIT PENNIES

\*Brokers or Dealers electing the alternative net capital requirement method need not complete these columns.

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART II

BROKER OR DEALER

Seltsam, Hanni & Company, Inc.

as of 12/31/02

## STATEMENT OF FINANCIAL CONDITION

### LIABILITIES AND OWNERSHIP EQUITY (continued)

| <u>Liabilities</u>   | <u>A.I.<br/>Liabilities*</u>  | <u>Non-A.I.<br/>Liabilities*</u>  | <u>Total</u>   |
|--|---|---|--|
| 24. Notes and mortgages payable:   |   |   |  |
| A. Unsecured .....   | \$ <span style="border: 1px solid black; padding: 2px;">1210</span> |   | \$ <span style="border: 1px solid black; padding: 2px;">1690</span>  |
| B. Secured .....   | \$ <span style="border: 1px solid black; padding: 2px;">1211</span> | \$ <span style="border: 1px solid black; padding: 2px;">1390</span>         | \$ <span style="border: 1px solid black; padding: 2px;">1700</span>  |
| 25. Liabilities subordinated to claims<br>of general creditors:  |   |   |  |
| A. Cash borrowings: .....  |   | <span style="border: 1px solid black; padding: 2px;">1400</span>            | <span style="border: 1px solid black; padding: 2px;">1710</span>   |
| 1. from outsiders $\nabla$ \$ <span style="border: 1px solid black; padding: 2px;">970</span>                              |   |   |  |
| 2. Includes equity subordination (15c3-1(d))<br>of ... \$ <span style="border: 1px solid black; padding: 2px;">980</span>  |   |   |  |
| B. Securities borrowings, at market value .....  |   | <span style="border: 1px solid black; padding: 2px;">1410</span>            | <span style="border: 1px solid black; padding: 2px;">1720</span>   |
| from outsiders \$ <span style="border: 1px solid black; padding: 2px;">990</span>  |   |   |  |
| C. Pursuant to secured demand note<br>collateral agreements: .....   |   | <span style="border: 1px solid black; padding: 2px;">1420</span> $\nabla$   | <span style="border: 1px solid black; padding: 2px;">1730</span>   |
| 1. from outsiders \$ <span style="border: 1px solid black; padding: 2px;">1000</span>                                      |   |   |  |
| 2. Includes equity subordination (15c3-1(d))<br>of ... \$ <span style="border: 1px solid black; padding: 2px;">1010</span> |   |   |  |
| D. Exchange memberships contributed for<br>use of company, at market value .....   |   | $\nabla$ <span style="border: 1px solid black; padding: 2px;">1430</span>   | <span style="border: 1px solid black; padding: 2px;">1740</span>   |
| E. Accounts and other borrowings not<br>qualified for net capital purposes .....   | <span style="border: 1px solid black; padding: 2px;">1220</span>    | <span style="border: 1px solid black; padding: 2px;">1440</span>            | <span style="border: 1px solid black; padding: 2px;">1750</span>   |
| 26. TOTAL LIABILITIES .....  | \$ <span style="border: 1px solid black; padding: 2px;">1230</span> | \$ <span style="border: 1px solid black; padding: 2px;">1450</span>         | \$ <span style="border: 1px solid black; padding: 2px;">1760</span>  |
| <u>Ownership Equity</u>  |   |   |  |
| 27. Sole proprietorship .....  |   |   | \$ <span style="border: 1px solid black; padding: 2px;">1770</span>  |
| 28. Partnership-limited partners .....   | \$ <span style="border: 1px solid black; padding: 2px;">1020</span> |   | <span style="border: 1px solid black; padding: 2px;">1780</span>   |
| 29. Corporation:   |   |   |  |
| A. Preferred stock .....   |   |   | <span style="border: 1px solid black; padding: 2px;">1791</span>   |
| B. Common stock .....  |   | $\nabla$ <span style="border: 1px solid black; padding: 2px;">135000</span> | <span style="border: 1px solid black; padding: 2px;">1792</span>   |
| C. Additional paid-in capital .....  |   | <span style="border: 1px solid black; padding: 2px;">702332</span>          | <span style="border: 1px solid black; padding: 2px;">1793</span>   |
| D. Retained earnings .....   |   | <span style="border: 1px solid black; padding: 2px;">(712046)</span>        | <span style="border: 1px solid black; padding: 2px;">1794</span>   |
| E. Total .....   |   | <span style="border: 1px solid black; padding: 2px;">125286</span>          | <span style="border: 1px solid black; padding: 2px;">1795</span>   |
| F. Less capital stock in treasury .....  |   | <span style="border: 1px solid black; padding: 2px;">( )</span>             | <span style="border: 1px solid black; padding: 2px;">1796</span>   |
| 30. TOTAL OWNERSHIP EQUITY .....   |   |   | \$ <span style="border: 1px solid black; padding: 2px;">125286</span> <span style="border: 1px solid black; padding: 2px;">1800</span> |
| 31. TOTAL LIABILITIES AND OWNERSHIP EQUITY .....   |   |   | \$ <span style="border: 1px solid black; padding: 2px;">125286</span> <span style="border: 1px solid black; padding: 2px;">1810</span> |

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\*Brokers or Dealers electing the alternative net capital requirement method need not complete these columns.

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART II

BROKER OR DEALER

Seltsam, Hanni & Company, Inc.

as of 12/31/02

## COMPUTATION OF NET CAPITAL

|  |    |        |      |
|--|----|--------|------|
| 1. Total ownership equity from Statement of Financial Condition - Item 1800) .....                       | \$ | 125286 | 3480 |
| 2. Deduct: Ownership equity not allowable for Net Capital .....  |    | ( )    | 3490 |
| 3. Total ownership equity qualified for Net Capital .....  |    | 125286 | 3500 |
| 4. Add:  |    |        |      |
| A. Liabilities subordinated to claims of general creditors allowable in computation of net capital ..... |    |        | 3520 |
| B. Other (deductions) or allowable credits (List) .....  |    |        | 3525 |
| 5. Total capital and allowable subordinated liabilities .....  | \$ | 125286 | 3530 |
| 6. Deductions and/or charges:  |    |        |      |
| A. Total nonallowable assets from<br>Statement of Financial Condition (Notes B and C) .....              | \$ | 250    | 3540 |
| 1. Additional charges for customers' and<br>non-customers' security accounts .....                       | \$ |        | 3550 |
| 2. Additional charges for customers' and<br>non-customers' commodity accounts .....                      |    |        | 3560 |
| B. Aged fall-to-deliver .....  |    |        | 3570 |
| 1. Number of Items .....   |    | 3450   |      |
| C. Aged short security differences-less<br>reserve of .....  | \$ | 3470   | 3580 |
| number of items .....  |    | 3470   |      |
| D. Secured demand note deficiency .....  |    |        | 3590 |
| E. Commodity futures contracts and spot commodities<br>- proprietary capital charges .....               |    |        | 3600 |
| F. Other deductions and/or charges .....   |    |        | 3610 |
| G. Deductions for accounts carried under Rule 15c3-1(a)(6), (a)(7) and (c)(2)(x) ..                      |    |        | 3615 |
| H. Total deductions and/or charges .....   |    | (250)  | 3620 |
| 7. Other additions and/or allowable credits (List) .....   |    |        | 3630 |
| 8. Net capital before haircuts on securities positions .....   | \$ | 125036 | 3640 |
| 9. Haircuts on securities: (computed, where applicable, pursuant to 15c3-1(f)):                          |    |        |      |
| A. Contractual securities commitments .....  | \$ |        | 3660 |
| B. Subordinated securities borrowings .....  |    |        | 3670 |
| C. Trading and investment securities:  |    |        |      |
| 1. Bankers' acceptances, certificates of deposit and commercial paper .....                              |    |        | 3680 |
| 2. U.S. and Canadian government obligations .....  |    |        | 3690 |
| 3. State and municipal government obligations .....  |    |        | 3700 |
| 4. Corporate obligations .....   |    |        | 3710 |
| 5. Stocks and warrants .....   |    |        | 3720 |
| 6. Options .....   |    |        | 3730 |
| 7. Arbitrage .....   |    |        | 3732 |
| 8. Other securities .....  |    |        | 3734 |
| D. Undue Concentration .....   |    |        | 3650 |
| E. Other (list) .....  |    |        | 3736 |
| 10. Net Capital .....  | \$ | 125036 | 3750 |

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# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART II

BROKER OR DEALER

Seltsam, Hanni & Company, Inc.

as of 12/31/02

## COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

|   |    |      |
|---|----|------|
| 11. Minimum net capital required (6 2/3% of line 19) .....  | \$ | 3756 |
| 12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A) ..... | \$ | 3758 |
| 13. Net capital requirement (greater of line 11 or 12) .....  | \$ | 3760 |
| 14. Excess net capital (line 10 less 13) .....  | \$ | 3770 |
| 15. Excess net capital at 1000% (line 10 less 10% of line 19) .....   | \$ | 3780 |

## COMPUTATION OF AGGREGATE INDEBTEDNESS

|  |    |      |
|--|----|------|
| 16. Total A.I. liabilities from Statement of Financial Condition .....   | \$ | 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) .....   | \$ | 3820 |
| 18. Deduct: Adjustment based on deposits in Special Reserve Bank Accounts (15c3-1(c)(1)(vii)) .....  | \$ | 3838 |
| 19. Total aggregate indebtedness .....   | \$ | 3840 |
| 20. Percentage of aggregate indebtedness to net capital (line 19 + by line 10) .....   | %  | 3850 |
| 21. Percentage of aggregate indebtedness to net capital <u>after</u> anticipated capital withdrawals (line 19 + by line 10 less Item 4880 page 11) ..... | %  | 3853 |

## COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT

|  |    |      |
|--|----|------|
| Part B   |    |      |
| 22. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits ..... | \$ | 3870 |
| 23. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A) .....  | \$ | 3880 |
| 24. Net capital requirement (greater of line 22 or 23) .....   | \$ | 3760 |
| 25. Excess net capital (line 10 less 24) .....   | \$ | 3910 |
| 26. Percentage of Net Capital to Aggregate Debts (line 10 + by line 17 page 8) .....   | %  | 3851 |
| 27. Percentage of Net Capital, <u>after</u> anticipated capital withdrawals, to Aggregate Debts (Line 10 less Item 4880 page 11 + by line 17 page 8) .....   | %  | 3854 |
| 28. Net capital in excess of the greater of:   |    |      |
| A. 5% of combined aggregate debit items or \$120,000 .....   | \$ | 3920 |

## OTHER RATIOS

|  |   |      |
|--|---|------|
| Part C   |   |      |
| 29. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1 (d) .....  | % | 3860 |
| 30. Options deductions/Net Capital ratio (1000% test) total deductions exclusive of liquidating equity under Rule 15c3-1(a)(6), (a)(7) and (c)(2)(x) + Net Capital ..... | % | 3852 |

### NOTES:

- (A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
1. Minimum dollar net capital requirement, or
  2. 6 2/3% of aggregate indebtedness or 2% of aggregate debits if alternative method is used.
- (B) Do not deduct the value of securities borrowed under subordination agreements or secured demand notes covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.
- (C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

## PART II — FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

|   |   |
|---|---|
| BROKER OR DEALER<br><b>Seltsam, Hanni &amp; Company, Inc.</b> | For the period (MMDDYY) from <b>1/01/02</b> 3932 to <b>12/31/02</b> 3933<br>Number of months included in this statement <span style="float: right;">3931</span> |
|---|---|

### REVENUE

### STATEMENT OF INCOME (LOSS)

|   |          |      |      |
|---|----------|------|------|
| 1. Commissions:   |          |      |      |
| a. Commissions on transactions in listed equity securities executed on an exchange .....            | \$ 4777  |      | 3935 |
| b. Commissions on transactions in exchange listed equity securities executed over-the-counter ..... |          |      | 3937 |
| c. Commissions on listed option transactions .....  |          |      | 3938 |
| d. All other securities commissions .....   |          |      | 3939 |
| e. Total securities commissions .....   | 4777     |      | 3940 |
| 2. Gains or losses on firm securities trading accounts  |          |      |      |
| a. From market making in over-the-counter equity securities .....                                   |          |      | 3941 |
| 1. Includes gains or (losses) OTC market making in exchange listed equity securities .....          |          | 3943 |      |
| b. From trading in debt securities .....  |          |      | 3944 |
| c. From market making in options on a national securities exchange .....                            |          |      | 3945 |
| d. From all other trading .....   |          |      | 3949 |
| e. Total gains or (losses) .....  |          |      | 3950 |
| 3. Gains or losses on firm securities investment accounts   |          |      |      |
| a. Includes realized gains (losses) .....   |          | 4235 |      |
| b. Includes unrealized gains (losses) .....   |          | 4236 |      |
| c. Total realized and unrealized gains (losses) .....   |          |      | 3952 |
| 4. Profits or (losses) from underwriting and selling groups .....                                   |          |      | 3955 |
| a. Includes underwriting income from corporate equity securities .....                              |          | 4237 |      |
| 5. Margin interest .....  |          |      | 3960 |
| 6. Revenue from sale of investment company shares .....   | 23398    |      | 3970 |
| 7. Fees for account supervision, investment advisory and administrative services .....              |          |      | 3975 |
| 8. Revenue from research services .....   |          |      | 3980 |
| 9. Commodities revenue .....  |          |      | 3990 |
| 10. Other revenue related to securities business .....  |          |      | 3985 |
| 11. Other revenue .....   | 2185     |      | 3995 |
| 12. Total revenue .....   | \$ 30360 |      | 4030 |

### EXPENSES

|   |           |      |      |
|---|-----------|------|------|
| 13. Registered representatives' compensation .....  |           |      |      |
|   | \$ 40027  |      | 4110 |
| 14. Clerical and administrative employees' expenses .....   | 20275     |      | 4040 |
| 15. Salaries and other employment costs for general partners, and voting stockholder officers ..... |           |      | 4120 |
| a. Includes interest credited to General and Limited Partners capital accounts .....                |           | 4130 |      |
| 16. Floor brokerage paid to certain brokers (see definition) .....                                  |           |      | 4055 |
| 17. Commissions and clearance paid to all other brokers (see definition) .....                      |           |      | 4145 |
| 18. Clearance paid to non-brokers (see definition) .....  |           |      | 4135 |
| 19. Communications .....  | 4094      |      | 4060 |
| 20. Occupancy and equipment costs .....   | 22153     |      | 4080 |
| 21. Promotional costs .....   | 1304      |      | 4150 |
| 22. Interest expense .....  |           |      | 4075 |
| a. Includes interest on accounts subject to subordination agreements .....                          |           | 4070 |      |
| 23. Losses in error account and bad debts .....   |           |      | 4170 |
| 24. Data processing costs (including service bureau service charges) .....                          |           |      | 4186 |
| 25. Non-recurring charges .....   |           |      | 4190 |
| 26. Regulatory fees and expenses .....  | 5447      |      | 4195 |
| 27. Other expenses .....  | 22908     |      | 4100 |
| 28. Total expenses .....  | \$ 116208 |      | 4200 |

### NET INCOME

|  |            |      |      |
|--|------------|------|------|
| 29. Income (loss) before Federal income taxes and items below (Item 12 less Item 28) ..... |            |      |      |
|  | (85848)    |      | 4210 |
| 30. Provision for Federal income taxes (for parent only) .....                             |            |      | 4220 |
| 31. Equity in earnings (losses) of unconsolidated subsidiaries not included above .....    |            |      | 4222 |
| a. After Federal income taxes of .....   |            | 4238 |      |
| 32. Extraordinary gains (losses) .....   |            |      | 4224 |
| a. After Federal income taxes of .....   |            | 4239 |      |
| 33. Cumulative effect of changes in accounting principles .....                            |            |      | 4225 |
| 34. Net income (loss) after Federal income taxes and extraordinary items .....             | \$ (85848) |      | 4230 |

### MONTHLY INCOME

|   |           |  |      |
|---|-----------|--|------|
| 35. Income (current month only) before provision for Federal income taxes and extraordinary items ..... |           |  |      |
|   | \$ (7154) |  | 4211 |

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART II

BROKER OR DEALER

Seltsam, Hanni & Company, Inc.

as of 12/31/02

## COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS FOR BROKER-DEALERS UNDER RULE 15c-3-3 (See Rule 15c-3, Exhibit A and Related Notes)

### CREDIT BALANCES

|  |    |        |
|--|----|--------|
| 1. Free credit balances and other credit balances in customers' security accounts (see Note A, Exhibit A, Rule 15c-3-3).....   | \$ | 4340   |
| 2. Monies borrowed collateralized by securities carried for the accounts of customers (See Note B) .....   |    | 4350   |
| 3. Monies payable against customers' securities loaned (see Note C) .....  |    | 4360   |
| 4. Customers' securities failed to receive (see Note D) .....  |    | 4370   |
| 5. Credit balances in firm accounts which are attributable to principal sales to customers .....   |    | 4380   |
| 6. Market value of stock dividends, stock splits and similar distributions receivable outstanding over 30 calendar days .....  |    | 4390   |
| 7. **Market value of short security count differences over 30 calendar days old .....  |    | 4400   |
| 8. **Market value of short securities and credits (not to be offset by longs or by debits) in all suspense accounts over 30 calendar days .....  |    | 4410   |
| 9. Market value of securities which are in transfer in excess of 40 calendar days and have not been confirmed to be in transfer by the transfer agent or the issuer during the 40 days ..... |    | 4420   |
| 10. Other (List) .....   |    | 4425   |
| 11. TOTAL CREDITS .....  | \$ | 0 4430 |

### DEBIT BALANCES

|  |    |          |
|--|----|----------|
| 12. **Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection net of deductions pursuant to Note E, Exhibit A, Rule 15c-3-3 ..... | \$ | 4440     |
| 13. Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver .....   |    | 4450     |
| 14. Failed to deliver of customers' securities not older than 30 calendar days .....   |    | 4460     |
| 15. Margin required and on deposit with Options Clearing Corporation for all option contracts written or purchased in customer accounts (see Note F) .....                                       |    | 4465     |
| 16. Other (List) .....   |    | 4469     |
| 17. **Aggregate debit items .....  | \$ | 0 4470   |
| 18. **Less 3% (for alternative method only—see Rule 15c-3-1(f)(5)(i)) .....  |    | ( ) 4471 |
| 19. **TOTAL 15c-3-3 DEBITS .....   | \$ | 0 4472   |

### RESERVE COMPUTATION

|   |    |        |
|---|----|--------|
| 20. Excess of total debits over total credits (line 19 less line 11) .....  | \$ | 4480   |
| 21. Excess of total credits over total debits (line 11 less line 19) .....  |    | 4490   |
| 22. If computation permitted on a monthly basis, enter 105% of excess of total credits over total debits .....  |    | 4500   |
| 23. Amount held on deposit in "Reserve Bank Account(s)," including value of qualified securities, at end of reporting period .....  |    | 0 4510 |
| 24. Amount of deposit (or withdrawal) including<br>\$ <span style="border: 1px solid black; padding: 0 5px;">4515</span> value of qualified securities .....  |    | 4520   |
| 25. New amount in Reserve Bank Account(s) after adding deposit or subtracting withdrawal including<br>\$ <span style="border: 1px solid black; padding: 0 5px;">4525</span> value of qualified securities ..... | \$ | 0 4530 |
| 26. Date of deposit (MMDDYY) .....  |    | 4540   |

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### FREQUENCY OF COMPUTATION

27. Daily  4332 Weekly  4333 Monthly  4334

\*\*In the event the Net Capital Requirement is computed under the alternative method, this "Reserve Formula" shall be prepared in accordance with the requirements of paragraph (f) of Rule 15c-3-1.

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART II

BROKER OR DEALER

Seltsam, Hanni & Company, Inc.

as of 12/31/02

## COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS FOR BROKER-DEALERS UNDER RULE 15c-3-3 (continued)

### EXEMPTIVE PROVISIONS

28. If an exemption from Rule 15c-3-3 is claimed, identify below the section upon which such exemption is based (check one only)

|  |    |      |
|--|----|------|
| A. (k)(1) — \$2,500 capital category as per Rule 15c3-1 .....  | \$ | 4550 |
| B. (k)(2)(A) — "Special Account for the Exclusive Benefit of customers" maintained .....   | X  | 4560 |
| C. (k)(2)(B) — All customer transactions cleared through another broker-dealer on a fully disclosed basis.<br>Name of clearing firm <sup>1</sup> ..... |    | 4570 |
| 4335   |    | 4570 |
| D. (k)(3) — Exempted by order of the Commission .....  |    | 4580 |

### Information for Possession or Control Requirements Under Rule 15c3-3

State the market valuation and number of items of:

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

|                          |    |      |      |
|--------------------------|----|------|------|
|                          | \$ | none | 4586 |
| A. Number of Items ..... |    |      | 4587 |

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

|                          |    |      |      |
|--------------------------|----|------|------|
|                          | \$ | none | 4588 |
| A. Number of Items ..... |    |      | 4589 |

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3. The system and procedures utilized in complying with the requirement to maintain physical possession or control of customers' fully paid and excess margin securities have been tested and are functioning in a manner adequate to fulfill the requirements of Rule 15c3-3 .....

|  |     |   |      |    |      |
|--|-----|---|------|----|------|
|  | Yes | X | 4584 | No | 4585 |
|--|-----|---|------|----|------|

### NOTES

- A—Do not include in Item one customers' fully paid and excess margin securities required by Rule 15c3-3 to be in possession or control but for which no action was required by the respondent as of the report date or required action was taken by respondent within the time frames specified under Rule 15c3-3.
- B—State separately in response to Items one and two whether the securities reported in response thereto were subsequently reduced to possession or control by the respondent.
- C—Be sure to include in Item two only items not arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3.
- D—Item two must be responded to only with report which is filed as of the date selected for the broker's or dealer's annual audit of financial statements, whether or not such date is the end of a calendar quarter. The response to Item two should be filed within 60 calendar days after such date, rather than with the remainder of this report. This information may be required on a more frequent basis by the Commission or the designated examining authority in accordance with Rule 17a-5(a)(2)(iv).

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART II

BROKER OR DEALER

Seltsam, Hanni & Company, Inc.

as of 12/31/02

## SCHEDULE OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION

### CUSTOMERS' REGULATED COMMODITY FUTURES ACCOUNTS

#### SEGREGATION REQUIREMENTS

|   |     |      |
|---|-----|------|
| 1. Net ledger balance:  | N/A |      |
| A. Cash .....   |     | 7010 |
| B. Securities (at market) .....   |     | 7020 |
| 2. Net unrealized profit (loss) in open futures contracts traded on a contract market .....         |     | 7030 |
| 3. Exchange traded options:   |     |      |
| A. Add: Market Value of open option contracts purchased on a contract market .....                  |     | 7032 |
| B. Deduct: Market Value of open option contracts granted (sold) on a contract market .....          |     | 7033 |
| 4. Net equity (deficit) (total of 1, 2 and 3) .....   |     | 7040 |
| 5. Add accounts liquidating to a deficit and accounts with debit balances with no open trades ..... |     | 7050 |
| 6. Amount required to be segregated (total of 5 and 5) .....  |     | 7060 |

#### FUNDS ON DEPOSIT IN SEGREGATION N/A

|   |    |      |
|---|----|------|
| 7. Deposited in segregated funds bank accounts:   |    |      |
| A. Cash .....   |    | 7070 |
| B. Securities representing investments of customers' funds (at market) .....                      |    | 7080 |
| C. Securities held for particular customers or option customers in lieu of cash (at market) ..... |    | 7090 |
| 8. Margins on deposit with clearing organizations of contract markets:                            |    |      |
| A. Cash .....   |    | 7100 |
| B. Securities representing investments of customers' funds (at market) .....                      |    | 7110 |
| C. Securities held for particular customers or option customers in lieu of cash (at market) ..... |    | 7120 |
| 9. Settlement due from (to) clearing organizations of contract markets .....                      |    | 7130 |
| 10. Exchange traded options:  |    |      |
| A. Add: Unrealized receivables for option contracts purchased on contract markets .....           |    | 7132 |
| B. Deduct: Unrealized obligations for option contracts granted (sold) on contract markets .....   |    | 7133 |
| 11. Net equities with other FCMs .....  |    | 7140 |
| 12. Segregated funds on hand:   |    |      |
| A. Cash .....   |    | 7150 |
| B. Securities representing investments of customers' funds (at market) .....                      |    | 7160 |
| C. Securities held for particular customers in lieu of cash (at market) .....                     |    | 7170 |
| 13. Total amount in segregation (total of 7 through 12) .....                                     | \$ | 7180 |
| 14. Excess (insufficiency) funds in segregation (13 minus 6) .....                                | \$ | 7190 |

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART II

BROKER OR DEALER

Seltsam, Hanni & Company, Inc.

as of 12/31/02

**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<br>Withdrawal or<br>Accrual<br>See below for<br>code to enter | Name of Lender or Contributor | Insider or<br>Outsider?<br>(In or Out) | Amount to be<br>Withdrawn (cash<br>amount and/or Net<br>Capital Value of<br>Securities) | (MMDDYY)<br>Withdrawal or<br>Maturity<br>Date | Expect<br>to<br>Renew<br>(Yes or No) |
|--|-------------------------------|--|---|---|--------------------------------------|
| Y<br>60  | 4600                          | 4601                                   | 4602 \$   | 4603  | 4604 4605                            |
| Y<br>61  | 4610                          | 4611                                   | 4612  | 4613  | 4614 4615                            |
| Y<br>62  | 4620                          | 4621                                   | 4622  | 4623  | 4624 4625                            |
| Y<br>63  | 4630                          | 4631                                   | 4632  | 4633  | 4634 4635                            |
| Y<br>64  | 4640                          | 4641                                   | 4642  | 4643  | 4644 4645                            |
| Y<br>65  | 4650                          | 4651                                   | 4652  | 4653  | 4654 4655                            |
| Y<br>66  | 4660                          | 4661                                   | 4662  | 4663  | 4664 4665                            |
| Y<br>67  | 4670                          | 4671                                   | 4672  | 4673  | 4674 4675                            |
| Y<br>68  | 4680                          | 4681                                   | 4682  | 4683  | 4684 4685                            |
| Y<br>69  | 4690                          | 4691                                   | 4692  | 4693  | 4694 4695                            |

Total \$ none 4699\*

OMIT PENNIES

\*To agree with the total on Recap (Item No. 4880)

**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: | DESCRIPTIONS                 |
|------------------|------------------------------|
| 1.               | Equity Capital               |
| 2.               | Subordinated Liabilities     |
| 3.               | Accruals                     |
| 4.               | 15c3-1(c)(2)(iv) Liabilities |

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT**  
**Capital Withdrawals**  
**PART II**

BROKER OR DEALER Seltsam, Hanni & Company, Inc. as of 12/31/02

**RECAP**

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, which have not been deducted in the computation of net capita.

|   |    |      |      |
|---|----|------|------|
| <b>1. Equity Capital</b>  |    |      |      |
| A. Partnership Capital:   |    |      |      |
| 1. General Partners .....   | \$ | 4700 |      |
| 2. Limited .....  |    | 4710 |      |
| 3. Undistributed Profits .....                                      |    | 4720 |      |
| 4. Other (describe below) .....                                     |    | 4730 |      |
| 5. Sole Proprietorship .....  |    | 4735 |      |
| B. Corporation Capital:   |    |      |      |
| 1. Common Stock .....   |    | 4740 |      |
| 2. Preferred Stock .....  |    | 4750 |      |
| 3. Retained Earnings (Dividends and Other) .....                    | !  | 4760 |      |
| 4. Other (describe below) .....                                     |    | 4770 |      |
| <b>2. Subordinated Liabilities</b>                                  |    |      |      |
| A. Secured Demand Notes .....                                       |    | 4780 |      |
| B. Cash Subordinates .....  |    | 4790 |      |
| C. Debentures .....   |    | 4800 |      |
| D. Other (describe below) .....                                     |    | 4810 |      |
| <b>3. Other Anticipated Withdrawals</b>                             |    |      |      |
| A. Bonuses .....  |    | 4820 |      |
| B. Voluntary Contributions to Pension or Profit Sharing Plans ..... | !  | 4860 |      |
| C. Other (describe below) .....                                     |    | 4870 |      |
| Total .....   | \$ |      | 4880 |
| <b>4. Description of Other</b>                                      |    |      |      |
| _____   |    |      |      |
| _____   |    |      |      |
| _____   |    |      |      |

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

|   |    |         |      |
|---|----|---------|------|
| 1. Balance, beginning of period .....                   | \$ | 125134  | 4240 |
| A. Net income (loss) .....                              |    | (85848) | 4250 |
| B. Additions (includes non-conforming capital of .....  | \$ | 86000   | 4262 |
| C. Deductions (includes non-conforming capital of ..... | \$ | 4272    | 4270 |
| 2. Balance, end of period (From Item 1800) .....        | \$ | 125286  | 4290 |

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

|  |    |  |      |
|--|----|--|------|
| 3. Balance, beginning of period .....            | \$ |  | 4300 |
| A. Increases .....                               |    |  | 4310 |
| B. Decreases .....                               | (  |  | 4320 |
| 4. Balance, end of period (From Item 3520) ..... | \$ |  | 4330 |

OMIT PENNIES

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART II

BROKER OR DEALER

Seltsam, Hanni & Company, Inc.

as of 12/31/02

## FINANCIAL AND OPERATIONAL DATA

|    |   |                                     |      |      |                               |
|----|---|-------------------------------------|------|------|-------------------------------|
| 1. | Month end total number of stock record breaks unresolved over three business days   | Valuation                           |      |      | Number                        |
|    | A. breaks long  | \$                                  | none | 4890 | 4900                          |
|    | B. breaks short   | \$                                  | none | 4910 | 4920                          |
| 2. | Is the firm in compliance with Rule 17a-13 regarding periodic count and verification of securities positions and locations at least once in each calendar quarter?<br>(Check one) |                                     |      |      |                               |
|    | Yes   | <input checked="" type="checkbox"/> | 4930 | No   | <input type="checkbox"/> 4940 |
| 3. | Personnel employed at end of reporting period:  |                                     |      |      |                               |
|    | A. Income producing personnel   |                                     |      | 2    | 4950                          |
|    | B. Non-income producing personnel (all other)   |                                     |      | 1    | 4960                          |
|    | C. Total  |                                     |      | 3    | 4970                          |
| 4. | Actual number of tickets executed during current month of reporting period  |                                     |      |      |                               |
|    |   |                                     |      | 3    | 4980                          |
| 5. | Number of corrected customer confirmations mailed after settlement date   |                                     |      |      |                               |
|    |   |                                     |      | 0    | 4990                          |

|   | No. of Items | Debit<br>(Short Value) |  | No. of Items | Credit<br>(Long Value) |
|---|--------------|------------------------|--|--------------|------------------------|
| 6. Money differences  | 5000         | \$ 5010                |  | 5020         | \$ 5030                |
| 7. Security suspense accounts   | 5040         | \$ 5050                |  | 5060         | \$ 5070                |
| 8. Security difference accounts   | 5080         | \$ 5090                |  | 5100         | \$ 5110                |
| 9. Commodity suspense accounts  | 5120         | \$ 5130                |  | 5140         | \$ 5150                |
| 10. Open transactions with correspondents, other brokers, clearing organizations, depositories and interoffice and inter-company accounts which could result in a charge — unresolved amounts over 30 calendar days | 5160         | \$ 5170                |  | 5180         | \$ 5190                |
| 11. Bank account reconciliations — unresolved amounts over 30 calendar days   | 5200         | \$ 5210                |  | 5220         | \$ 5230                |
| 12. Open transfers over 40 calendar days, not confirmed   | 5240         | \$ 5250                |  | 5260         | \$ 5270                |
| 13. Transactions in reorganization accounts — over 60 calendar days   | 5280         | \$ 5290                |  | 5300         | \$ 5310                |
| 14. Total   | 5320         | \$ 5330                |  | 5340         | \$ 5350                |
|   | No. of Items | Leger Amount           |  | Market Value |                        |
| 15. Failed to deliver 11 business days or longer (21 business days or longer in the case of Municipal Securities)   | 5360         | \$ 5361                |  | 5362         |                        |
| 16. Failed to receive 11 business days or longer (21 business days or longer in the case of Municipal Securities)   | 5363         | \$ 5364                |  | 5365         |                        |
| 17. Security concentrations (See instructions in Part I):   |              |                        |  |              |                        |
| A. Proprietary positions  |              |                        |  | 5370         |                        |
| B. Customers' accounts under Rule 15c3-3  |              |                        |  | 5374         |                        |
| 18. Total of personal capital borrowings due within six months  |              |                        |  | 5378         |                        |
| 19. Maximum haircuts on underwriting commitments during the period  |              |                        |  | 5380         |                        |
| 20. Planned capital expenditures for business expansion during next six months  |              |                        |  | 5382         |                        |
| 21. Liabilities of other individuals or organizations guaranteed by respondent  |              |                        |  | 5384         |                        |
| 22. Lease and rentals payable within one year   |              |                        |  | \$ 26893     | 5386                   |
| 23. Aggregate lease and rental commitments payable for entire term of the lease   |              |                        |  |              |                        |
| A. Gross  |              |                        |  | \$ 26893     | 5388                   |
| B. Net  |              |                        |  | \$ 26893     | 5390                   |

OMIT PENNIES

SELTSAM, HANNI & COMPANY, INC.  
Topeka, Kansas

COMPUTATION OF NET CAPITAL  
December 31, 2002

|  |                  |
|--|------------------|
| NET CAPITAL                                  |                  |
| Stock  | \$ 135,000       |
| Paid in surplus                              | 702,332          |
| Retained earnings                            | <u>(712,044)</u> |
|  | 125,286          |
| NON - ADMITTED ASSETS                        |                  |
| Postage                                      | <u>(250)</u>     |
| NET CAPITAL                                  | 125,036          |
| CAPITAL REQUIREMENT                          | <u>100,000</u>   |
| NET CAPITAL IN EXCESS OF CAPITAL REQUIREMENT | \$ <u>25,036</u> |

The above capital computation is not materially different than that computed by the firm.

SELTSAM, HANNI & COMPANY, INC.  
Topeka, Kansas

COMPUTATION OF SPECIAL BANK ACCOUNT  
FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS  
December 31, 2002

|  |               |            |
|--|---------------|------------|
| Free credit balances and other<br>credit balances in customers'<br>security accounts, etc. | -0-           |            |
| Debit balances in customers' cash<br>accounts, etc.  | <u>-0-</u>    | <u>-0-</u> |
| Excess of total debits   |               | <u>-0-</u> |
| Required deposit (105% of excess<br>total credits)   | -0-           |            |
| Deposit in reserve account   | <u>200</u>    |            |
| Required deposit   | \$ <u>-0-</u> |            |

Pursuant to Rule 15c3-3 (k) (2) (ii), the Company is exempt from the reserve requirement of Rule 15c3-3 at December 31, 2002.

The Company was in compliance with the exemptive provisions of SEC Rule 15c3-3 as of December 31, 2002, relative to information relating to possession and control.

SELTSAM, HANNI & COMPANY, INC.

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FINANCIAL STATEMENTS AND SCHEDULES FOR  
ANNUAL REPORT ON FORM X-17A-5

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YEARS ENDED DECEMBER 31, 2002 AND 2001

SELTSAM, HANNI & COMPANY, INC.  
Topeka, Kansas

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Independent Auditor's Report

Board of Directors  
Seltsam, Hanni & Company, Inc.  
Topeka, Kansas 66603

We have audited the accompanying balance sheets of Seltsam, Hanni & Company, Inc., as of December 31, 2002 and 2001, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of Seltsam, Hanni & Company, 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.

 CPA, P.A.  
Greg C. Huseth, CPA, P.A.

February 11, 2003

SELTSAM, HANNI & COMPANY, INC.

BALANCE SHEETS  
December 31, 2002 and 2001

ASSETS

|   | <u>2002</u>       | <u>2001</u>       |
|---|-------------------|-------------------|
| <u>Current Assets</u>   |                   |                   |
| Cash  | \$ 96,136         | \$ 96,275         |
| Cash - customer and trust accounts  | 200               | 200               |
| Due from customers  | -0-               | -0-               |
| Due from brokers  | -0-               | -0-               |
|   | <hr/>             | <hr/>             |
| Total current assets  | 96,336            | 96,475            |
| <u>Fixed Assets</u>   |                   |                   |
| Office equipment less accumulated depreciation of \$10,991 and \$10,916 in 2002 and 2001 respectively | 84                | 159               |
| <u>Other Assets</u>   |                   |                   |
| Cash value of life insurance, face value - \$40,000   | 28,616            | 28,250            |
| Deposits  | 250               | 250               |
|   | <hr/>             | <hr/>             |
| Total assets  | \$ <u>125,286</u> | \$ <u>125,134</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

|   |                   |                   |
|---|-------------------|-------------------|
| <u>Current Liabilities</u>  |                   |                   |
| Total current liabilities   | -0-               | -0-               |
| <u>Stockholders' Equity</u>   |                   |                   |
| Common stock, par value \$100 per share; authorized 1,350 shares, issued and outstanding 1,350 shares | 135,000           | 135,000           |
| Additional paid-in capital  | 702,332           | 616,332           |
| Accumulated deficit   | (712,046)         | (626,198)         |
|   | <hr/>             | <hr/>             |
| Total stockholders' equity  | 125,286           | 125,134           |
| Total liabilities and stockholders' equity  | \$ <u>125,286</u> | \$ <u>125,134</u> |

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

SELTSAM, HANNI & COMPANY, INC.

STATEMENTS OF OPERATIONS

For the years ended December 31, 2002 and 2001

|                              | <u>2002</u>        | <u>2001</u>        |
|------------------------------|--------------------|--------------------|
| <u>Revenues</u>              |                    |                    |
| Commissions on securities    | \$ 28,175          | \$ 28,761          |
| Commissions on real estate   | -0-                | 300                |
| Dividends and interest       | 1,246              | 2,821              |
| Other income                 | <u>939</u>         | <u>946</u>         |
| Total revenues               | <u>30,360</u>      | <u>32,828</u>      |
| <u>Expenses</u>              |                    |                    |
| Salaries and commissions     | 60,302             | 60,147             |
| Operating and administrative | <u>55,906</u>      | <u>55,005</u>      |
| Total expenses               | <u>116,208</u>     | <u>115,152</u>     |
| Net loss                     | \$ <u>(85,848)</u> | \$ <u>(82,324)</u> |

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

SELTSAM, HANNI & COMPANY, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
For the years ended December 31, 2002 and 2001

|                            | Common<br>Stock | Additional<br>Paid-in Capital | Accumulated<br>Deficit |
|----------------------------|-----------------|-------------------------------|------------------------|
| Balance, January 1, 2001   | \$ 135,000      | \$ 536,332                    | \$(543,874)            |
| Net loss, 2001             |                 |                               | (82,324)               |
| Owners investment, 2001    |                 | 80,000                        |                        |
| Balance, December 31, 2000 | 135,000         | 616,332                       | (626,198)              |
| Net loss, 2002             |                 |                               | (85,848)               |
| Owners investment, 2002    |                 | 86,000                        |                        |
| Balance, December 31, 2002 | \$ 135,000      | \$ 702,332                    | \$(712,046)            |

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

SELTSAM, HANNI & COMPANY, INC.

STATEMENT OF CASH FLOWS

For the years ended December 31, 2002 and 2001

Increase (Decrease) in Cash and Cash Equivalents

|   | <u>2002</u>      | <u>2001</u>      |
|---|------------------|------------------|
| <u>Cash flows from operating activities:</u>            |                  |                  |
| Cash received from customers and brokers                | \$ 28,747        | \$ 29,223        |
| Cash paid to suppliers and employees                    | (116,132)        | (115,066)        |
| Interest received                                       | <u>1,246</u>     | <u>2,821</u>     |
| Net cash provided by (used in)<br>Operating activities  | (86,139)         | (83,022)         |
| <u>Cash flows from investing activities:</u>            |                  |                  |
| Purchase of office equipment                            | <u>-0-</u>       | <u>-0-</u>       |
| Net cash provided by (used in)<br>Investing activities  | -0-              | -0-              |
| <u>Cash flows from financing activities:</u>            |                  |                  |
| Receipt of additional paid-in capital                   | 86,000           | 80,000           |
| Reduction of accrued expenses                           | <u>-0-</u>       | <u>(273)</u>     |
| Net cash provided by (used in)<br>Financing activities  | <u>86,000</u>    | <u>79,727</u>    |
| Net increase (decrease) in cash<br>and cash equivalents | (139)            | (3,295)          |
| Cash and cash equivalents at beginning<br>of year       | <u>96,475</u>    | <u>99,770</u>    |
| Cash and cash equivalents at end of year                | \$ <u>96,336</u> | \$ <u>96,475</u> |

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

SELTSAM, HANNI & COMPANY, INC.

STATEMENT OF CASH FLOWS

For the years ended December 31, 2002 and 2001

Reconciliations of net loss to net cash provided by (used in)  
operating activities:

|   | <u>2002</u>        | <u>2001</u>        |
|---|--------------------|--------------------|
| <u>Net Loss</u>   | \$ (85,848)        | \$ (82,324)        |
| Adjustments to reconcile net loss to<br>net cash provided by (used in)<br>operating activities: |                    |                    |
| Depreciation  | 76                 | 86                 |
| (Increase) in cash surrender<br>Value of life insurance   | (367)              | (784)              |
| (Increase) decrease in amounts<br>due from customers  | -0-                | -0-                |
| Increase (decrease) in other<br>Liabilities   | <u>-0-</u>         | <u>-0-</u>         |
| Net cash provided by (used in)<br>Operating activities  | \$ <u>(86,139)</u> | \$ <u>(83,022)</u> |

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

SELTSAM, HANNI & COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of significant accounting policies

The more significant accounting policies not described elsewhere in the notes to the financial statements are as follows:

- a. Basis of accounting--The Corporation's policy is to prepare its financial statements on the accrual basis of accounting.
- b. Furniture, fixtures, and equipment--Maintenance, repairs and minor renewals are charged to operations during the year in which incurred. Major renewals and betterment are capitalized. Upon sale, retirement, or other disposition of major capitalized assets, the cost thereof and related accumulated depreciation are removed from the respective accounts and any gain or loss is credited or charged, respectively, to earnings.
- c. Income taxes--Income taxes are not paid by the Corporation. Effective January 1, 1979, the Corporation elected to be taxed under subchapter S of the Internal Revenue Code. No provision for taxes would be required if the election was not in force.

Note 2. Stock redemption agreement

The Corporation has entered into agreements for redemption of part of its common stock in the event of the death of certain stockholders. Redemption price is to be based upon a formula using market values.

Terms of the agreements provide for down payments equal to the excess of insurance proceeds over cash values of policies carried by the Corporation on the lives of these shareholders and five annual installments of any remaining balance.

Note 3. Lease commitments

The Corporation leases a vehicle. The lease is a three year operating lease, expiring October 25, 2003 with a stated purchase option price of approximately the fair market value of the vehicle.

SELTSAM, HANNI & COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS  
(continued)

The following is a schedule of future minimum rental payments required under the vehicle operating lease as of December 31, 2002:

| <u>Year Ending</u><br><u>December 31,</u> | <u>Amount</u>   |
|---|-----------------|
| 2003                                      | <u>\$ 4,528</u> |

Lease expense amounted to \$5,433 in 2002.

Note 4. Minimum capital requirements

The Corporation is required by Rule 15c 3-1 of the Securities and Exchange Commission to maintain a minimum net capital. Net capital as computed under the rule was \$125,036 at December 31, 2002 which is \$25,036 more than required.

ACCOMPANYING INFORMATION

AUDITOR'S OPINION ON SUPPLEMENTARY INFORMATION

Our examinations of the basic financial statements presented in the preceding section of this report were made primarily to form an opinion on such financial statements taken as a whole. Supplementary information, contained in the following pages, is not considered essential for a fair presentation of the financial position of Seltsam, Hanni & Company, Inc., the results of its operations, or its cash flows. However, the following data was subjected to the audit procedures applied in the examination 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.

  
Greg C. Huseth, CPA, P.A.

Topeka, Kansas  
February 11, 2003