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

AM 3/2/03

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

SEC FILE NUMBER
8- 051268

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: Security Brokerage Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

3960 Howard Hughes Pkwy., Suite 700

(No. and Street)

Las Vegas

(City)

NV

(State)

89109

(Zip Code)

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

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Piercy, Bowler, Taylor & Kern

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

6100 Elton Ave., Suite 100

(Address)

Las Vegas

(City)

NV

(State)

89107

(Zip Code)

CHECK ONE:

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

PROCESSED

MAR 21 2003

**THOMSON
FINANCIAL**

FOR OFFICIAL USE ONLY

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

OATH OR AFFIRMATION

I, Daniel G. Calugar, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Security Brokerage, Inc., as of December 31, 20 02, 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:

Daniel G. Calugar

DCIP, LP

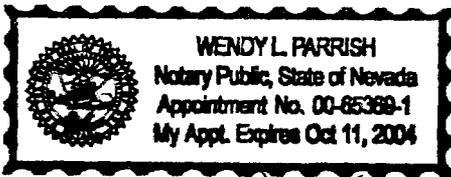
Security Brokerage, Inc. Profit Sharing Trust

[Handwritten Signature]

Signature

President

Title



[Handwritten Signature: Wendy L. Parrish]
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.
(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 15c3-3 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).



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SECURITY BROKERAGE, INC.

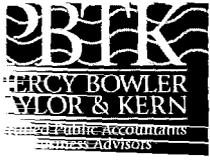
FINANCIAL STATEMENTS AND REGULATORY REPORTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

SECURITY BROKERAGE, INC.
DECEMBER 31, 2002 AND 2001

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Member of
International

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Board of Directors
Security Brokerage, Inc.
Las Vegas, Nevada

We have audited the accompanying balance sheets of Security Brokerage, Inc. as of December 31, 2002 and 2001, and the related statements of operations, stockholder's equity and cash flows for the years then ended, that are being filed 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. 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 position of Security Brokerage, Inc. as of December 31, 2002 and 2001, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the financial statements, taken as a whole. The information contained in the supplemental schedules on pages 8 through 9 is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplemental information required by Rule 17a-5 of the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

Percy Bowler Taylor & Kern

January 23, 2003

SECURITY BROKERAGE, INC.
BALANCE SHEETS
DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 477,645	\$ 2,791,191
Broker's fees receivable	148,381	4,253
Due from affiliates		35,778
Prepaid expenses		<u>10,071</u>
	<u>626,026</u>	2,841,293
Property and equipment, net of accumulated depreciation	86,425	151,620
Other assets	<u>8,853</u>	<u>8,853</u>
	<u>\$ 721,304</u>	<u>\$ 3,001,766</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Funds held on behalf of clients		\$ 2,436,162
Accounts payable	\$ 1,680	1,625
Accrued expenses	<u>50,341</u>	<u>6,838</u>
	<u>52,021</u>	<u>2,444,625</u>
Subordinated long-term debt		<u>401,000</u>
Stockholder's equity		
Common stock, \$1 par, 500 shares authorized, 500 shares issued and outstanding	500	500
Additional paid-in capital	440,000	40,000
Retained earnings	<u>228,783</u>	<u>115,641</u>
	<u>669,283</u>	<u>156,141</u>
	<u>\$ 721,304</u>	<u>\$ 3,001,766</u>

SECURITY BROKERAGE, INC.
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Revenues	\$ 1,618,856	\$ 738,778
Expenses	<u>(1,492,945)</u>	<u>(738,778)</u>
Income from operations	125,911	
Interest income	<u>30,732</u>	<u>5,589</u>
Income before income tax	156,643	5,589
Income tax	<u>43,503</u>	<u>838</u>
Net income	<u>\$ 113,140</u>	<u>\$ 4,751</u>

SECURITY BROKERAGE, INC.
STATEMENTS OF STOCKHOLDER'S EQUITY
YEARS ENDED DECEMBER 31, 2002 AND 2001

	Number of shares issued and out- standing	Common stock stated value	Additional paid-in capital	Retained earnings	Total
Balance, January 1, 2002	100	\$ 500	\$ 40,000	\$ 115,643	\$ 156,143
Capital contribution			400,000		400,000
Net income				113,140	113,140
Balance, December 31, 2002	<u>100</u>	<u>500</u>	<u>440,000</u>	<u>228,783</u>	<u>\$ 669,283</u>
Balance, January 1, 2001	100	\$ 500	\$ 40,000	\$ 110,892	\$ 151,392
Net income				4,751	4,751
Balance, December 31, 2001	<u>100</u>	<u>\$ 500</u>	<u>\$ 40,000</u>	<u>\$ 115,643</u>	<u>\$ 156,143</u>

SECURITY BROKERAGE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Operating activities		
Net cash provided by (used in) operating activities	\$ <u>(2,306,813)</u>	\$ <u>2,519,084</u>
Investing activities		
Purchase of property and equipment	<u>(5,733)</u>	<u>(19,697)</u>
Financing activities		
Repayment of borrowings	(401,000)	
Capital contribution	<u>400,000</u>	
Net cash used in financing activities	<u>(1,000)</u>	
Net increase (decrease) in cash and cash equivalents	(2,313,546)	2,499,387
Cash and cash equivalents, beginning of year	<u>2,791,191</u>	<u>291,804</u>
Cash and cash equivalents, end of year	<u>\$ 477,645</u>	<u>\$ 2,791,191</u>

SECURITY BROKERAGE, INC.
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2002 AND 2001

1. Nature of operations and background information:

Business activities. Security Brokerage, Inc., a corporation, (the Company) buys and sells mutual fund positions exclusively on behalf of its related party clients (Note 7), and receives a commission as a result of these transactions.

On September 11, 2001, the United States was subjected to extensive terrorist attacks likely to continue to have far-reaching effects on economic activity in the country for an indeterminate period. The long-term impact of the attacks and a possible war on the nation's economy and the Company's business cannot be predicted at this time but may be substantial.

2. Summary of significant accounting policies:

Use of estimates. Timely preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts, some of which may require revision in future periods.

Cash and cash equivalents. Cash equivalents include highly liquid investments with initial maturities of three months or less. Cash segregated under federal and other regulations (Note 4) is included in cash and cash equivalents.

Property and equipment. Property and equipment are stated at cost (Note 3). Depreciation, including amortization of leasehold improvements, is computed using the straight-line method over the estimated useful lives of the assets, which for leasehold improvements is the lease term, if less.

Reclassifications. Certain prior year amounts have been reclassified to conform with the current year presentation.

3. Property and equipment:

As of the December 31, 2002 and 2001, property and equipment consists of the following:

	<u>2002</u>	<u>2001</u>
Leasehold improvements	\$ 158,542	\$ 158,542
Equipment, furniture, and fixtures	<u>231,225</u>	<u>225,492</u>
	389,767	384,034
Less accumulated depreciation	<u>(303,342)</u>	<u>(232,414)</u>
	<u>\$ 86,425</u>	<u>\$ 151,620</u>

4. Net capital and other regulatory requirements:

The Company is subject to the net capital provisions of the Securities Exchange Act of 1934. The rules adopted by the SEC prohibit a member from engaging in securities transactions if the ratio of its aggregate indebtedness to net capital, as defined, exceeds 15 to 1, or if its net capital, as defined, falls below a specified level (in this case, \$25,000 in 2002 and \$250,000 in 2001). Net capital and the related net capital ratio may fluctuate on a daily basis. As of December 31, 2002 and 2001, the net capital to aggregate indebtedness ratio of the Company was .09 to 1 and .02 to 1, and its net capital was \$573,166 and \$350,818, respectively. Therefore, the Company was in compliance with these requirements.

During 2001, the Company became a self-clearing broker, and terminated its agreement with a third party for clearing and execution services. As a result, the Company received and held funds at December 31, 2001, in the amount of \$2,436,162 on behalf of its two clients in a special reserve bank account. On January 16, 2002, however, the Company changed its procedures so that customer funds are no longer held in a Company bank account. Although the Company is still a self-clearing broker, the only times it possesses customer funds is immediately before or after transactions are processed, and the monies are immediately wired to the appropriate destination. Therefore, the Company is not subject to Rule 15c3-3 of the Securities and Exchange Commission (SEC), and the regulations prescribed therein, under paragraph (K)(2)(i) of the Rule.

5. Commitments and contingencies:

Lease commitments. The Company has a non-cancelable operating lease commitment for office space expiring in 2003. Rent expense was \$74,865 and \$67,886 during 2002 and 2001, respectively. Rent expense for 2003 is expected to be approximately \$70,706 under the terms of the rental agreement.

SECURITY BROKERAGE, INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
YEARS ENDED DECEMBER 31, 2002 AND 2001

6. Income taxes:

The components of the Company's income tax provision (benefit) are as follows:

	<u>2002</u>	<u>2001</u>
Current	\$ 764	\$ 838
Deferred	<u>42,739</u>	<u> </u>
Provision on income	<u>\$ 43,503</u>	<u>\$ 838</u>

The Company's effective tax rate differs from the federal statutory rate due primarily to the surtax exemption.

7. Related party transactions:

The Company's only clients are an investment partnership controlled by its sole shareholder, which was liquidated in 2002, the Company's profit sharing trust and the Company's sole shareholder. In 2001, based upon executed agreements ("WRAP" agreements) between the Company and these related parties, all trailer and finder's fees that the Company received from mutual fund companies were passed through to its two clients. In return, the Company received WRAP fees (operating cost reimbursements) from its clients that were equal to the operating costs incurred. These reimbursements are presented in the accompanying statement of operations as revenues, pursuant to Emerging Issues Task Force Consensus No. 01-14. In 2002, based on amended WRAP agreements, the Company now retains all commission and 12b-1 fees (operating revenues), and WRAP fees are only charged if operating revenues are insufficient to meet operating expenses. In 2002, operating revenues exceeded operating expenses, and therefore no WRAP fees were charged.

In January 2002, a \$403,005 payment was made to the sole shareholder to pay in full subordinated notes payable (\$401,000) and related accrued interest (\$2,005).

8. Supplemental cash flow information:

	<u>2002</u>	<u>2001</u>
Reconciliation of net income to net cash provided by operating activities		
Net income (loss)	\$ 113,140	\$ 4,751
Depreciation	70,928	69,292
Increase in operating (assets) liabilities		
Accounts receivable	(144,126)	248,611
Restricted cash	(2,436,162)	2,436,162
Due from related parties	35,778	(35,778)
Other assets		2,007
Prepaid expenses	10,071	(10,071)
Deferred tax assets		23,925
Accounts payable	54	(2,531)
Accrued expenses	43,504	(23,222)
Due to related parties	<u> </u>	<u>(194,062)</u>
Net cash provided by operating activities	\$ (2,306,813)	\$ 2,519,084

SUPPLEMENTAL INFORMATION

SECURITY BROKERAGE, INC
SUPPLEMENTAL INFORMATION
DECEMBER 31, 2002

SCHEDULE I
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 of the
SECURITIES AND EXCHANGE COMMISSION

Total stockholder's equity qualified for net capital	\$ 669,283
Deductions from and/or charges to net worth:	
Non-allowable assets, net	<u>(95,278)</u>
Net capital	<u>\$ 574,005</u>
Minimum net capital requirement	<u>\$ 25,000</u>
Aggregate indebtedness	<u>\$ 52,021</u>
Excess net capital @ 1000%	<u>\$ 568,803</u>
Ratio of aggregate indebtedness to total net capital	<u>.09 to 1</u>
Reconciliation with company's computation (included in part II of Form X-17A-5 as of December 31, 2001:	
Net capital, per the Company's amended focus report	<u>\$ 574,005</u>
Net capital per above	<u>\$ 574,005</u>

**SECURITY BROKERAGE, INC.
SUPPLEMENTAL INFORMATION
DECEMBER 31, 2002**

**SCHEDULE II
COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS**

Computation for Determination of Reserve Requirement Under Rule 15c3-3 of the Securities and Exchange Commission:

The Company is exempt under paragraph (k)(2)(i) of this rule.

**SCHEDULE III
INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS**

Information Relating to Possession or Control Requirements Under Rule 15c3-3 of the Securities and Exchange Commission:

The Company only deals in mutual fund shares, and does not receive any certificate of ownership of fund shares. For purposes of this rule, the Company treats the mutual fund companies as control locations, as permitted by SEC no action letter dated January 28, 1986, issued to Edward Kwalwasser, Senior Vice President, New York Stock Exchange. Therefore, the Company is exempt from this requirement.

**SCHEDULE IV
SCHEDULE OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION**

Schedule of Segregation Requirements and Funds in Segregation for Customers' Regulated Commodity Futures and Options Accounts Under Regulation 1.16 of the Commodity Futures Trading Commission:

The Company is exempt from this requirement, as it does not broker or deal commodity futures or options.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

Board of Directors
Security Brokerage, Inc.
Las Vegas, Nevada

In planning and performing our audit of the financial statements and supplemental schedules of Security Brokerage, Inc. (the Company), for the year ended December 31, 2002, we considered its internal control, in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated 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 (as defined under paragraph (1) of Rule 15c3-3) 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.

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 conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in 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 components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

However, except as noted in the following paragraph, we noted no matters involving internal control 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, except as noted in the preceding paragraph, we believe that the Company's practices and procedures were adequate at December 31, 2002, to meet the SEC's objectives.

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

Percy Bush Taylor : Ken

January 23, 2003