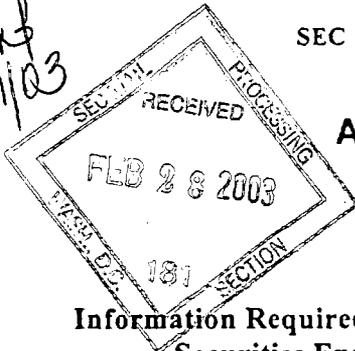


AKB
3/11/03



SEC



03014524

COMMISSION

CM

| | |
|--|------------------|
| OMB APPROVAL | |
| OMB Number: | 3235-0123 |
| Expires: | October 31, 2004 |
| Estimated average burden hours per response..... | 12.00 |

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

| |
|-----------------|
| SEC FILE NUMBER |
| 8- 17925 |

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

REPORT FOR THE PERIOD BEGINNING 01/01/2002 AND ENDING 12/31/2002
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Financial Sciences, Inc.

OFFICIAL USE ONLY

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

FIRM I.D. NO.

21 Milk Street, 2nd Fl

(No. and Street)

Boston

MA

02109

(City)

(State)

(Zip Code)

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

Yun Chien, Treasurer

617-338-5700

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Lewis and Associates, CPA

21 Woodward Ave.

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

Boston

02119

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

MAR 18 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)

14

OATH OR AFFIRMATION

I, Yun Chien, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Financial Sciences, Inc., as of February 26, 2003, 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:

Yun Chien
Signature
Treasurer
Title

Wendy Ho
Notary Public
WENDY HO
Notary Public, Massachusetts
My Commission Expires March 14, 2008

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~~ **Cash Flows**
- (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).

FINANCIAL SCIENCES, INC
DECEMBER 31, 2002
INDEX

| | Page Number |
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| Independent Auditor's Report on Financial Statements | 1 |
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Accounting for Solutions

Financial Sciences, Inc.
21 Milk Street, 2nd floor
Boston, MA 02109

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

I have audited the accompanying statement of financial condition of Financial Sciences, Inc. (the Company) as of December 31, 2002, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the statements referred to above present fairly, in all material respects, the financial position of Financial Sciences, Inc. as of December 31, 2002 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

My audit was conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The information contained in Schedule I is presented for the purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sincerely,


Marilyn Lewis, CPA

Boston, Massachusetts
February 2003

FINANCIAL SCIENCES, INC
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2002

ASSETS

| | |
|--|----------------------------|
| Cash and cash equivalents | \$ 28,864 |
| Deposits with clearing organizations and others | 99,189 |
| Receivable from broker-dealers and clearing organizations | 16,304 |
| Securities owned: | |
| NASD Securities | 72,100 |
| Other Securities | <u>548,703</u> |
| | 620,803 |
| I/T Receivables | 14,136 |
| Furniture, equipment, and leasehold improvements, at cost, less accumulated depreciation \$3,411 | 4,895 |
| Deferred Income Taxes | 468,916 |
| | <u><u>\$ 1,253,107</u></u> |

LIABILITIES AND STOCKHOLDERS EQUITY

Liabilities:

| | |
|---------------|------------|
| Other Payable | 459 |
| | <u>459</u> |

Stockholders' equity:

| | |
|--|----------------------------|
| Common stock, par value \$30, 5000 shares issued | 150,000 |
| Additional paid-in capital | 550,775 |
| Retained earnings | <u>551,873</u> |
| Total stockholders equity | 1,252,648 |
| | <u><u>\$ 1,253,107</u></u> |

The accompanying notes are an integral part of these financial statements

FINANCIAL SCIENCES, INC
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2002

REVENUES:

| | | | |
|--|----------------|------------------|--|
| Commissions | | | |
| Securities listed on an exchange | \$ 55,670 | | |
| Listed option transactions | 69,394 | | |
| Sale of investment company shares | 2,357 | | |
| Other income less rebates of \$ 3163 | <u>134,287</u> | | |
| | | 261,708 | |
| Interest and Dividends | | 4,732 | |
| Net gains on firm securities trading account | | <u>(340,054)</u> | |
| | | <u>(73,614)</u> | |

EXPENSES:

| | | | |
|------------------------------------|--|----------------------------|--|
| Employee compensation and benefits | | 112,893 | |
| Floor brokerage and commissions | | 46,906 | |
| Communications and data processing | | 31,412 | |
| Regulatory and registration cost | | 8,144 | |
| Occupancy | | 48,399 | |
| Other expenses | | <u>8,927</u> | |
| | | <u>256,681</u> | |
| Income before taxes | | (330,295) | |
| Provision for Income taxes | | 7,464 | |
| Deferred Income Taxes | | <u>(125,691)</u> | |
| | | <u>(118,227)</u> | |
| Net Income | | <u><u>\$ (212,068)</u></u> | |
| Earnings per Share of Common Stock | | <u><u>\$ (42.41)</u></u> | |

The accompanying notes are an integral part of these financial statements

FINANCIAL SCIENCES, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2002

| | <u>Capital Stock</u> | | <u>Additional Paid-in Capital</u> | <u>Retained Earnings</u> | <u>Total Stockholders' Equity</u> |
|----------------------------------|----------------------|-------------------|---|------------------------------|---|
| | Shares | Amount | | | |
| Balances at January 1, 2002 | 5000 | \$ 150,000 | \$ 550,775 | \$ 763,941 | <u>1,464,716</u> |
| Net Income | | | | <u>(212,068)</u> | <u>(212,068)</u> |
| Balances at December 31, 2002 | <u>5000</u> | <u>\$ 150,000</u> | <u>\$ 550,775</u> | <u>\$ 551,873</u> | <u>\$ 1,252,648</u> |

Needs to be adjusted--opening R/E balance is not the same as client B/S

The accompanying notes are an integral part of these financial statements

FINANCIAL SCIENCES, INC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002

Cash Flows from Operating Activities

| | | |
|---|-----------|----------------|
| Net Income: | | \$ (212,068) |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation | 3,411 | |
| (Increase) Decrease in Income Tax Receivable | 99,203 | |
| (Increase) Decrease in Clearance Account | (1,272) | |
| (Increase) Decrease in Commissions Receivable: | 4,040 | |
| (Increase) Decrease in Other Receivable: | | |
| (Increase) Decrease in Deferred Income Taxes | (125,691) | |
| Unrealized Gains-Securities | 281,648 | |
| Increase (Decrease) in Other Payables | (48,055) | |
| Total Adjustments | | <u>213,284</u> |
| Net cash used in operating activities | | <u>1,216</u> |

Cash Flows from Investing Activities

| | | |
|---------------------------------------|--|------------------|
| Purchase of Equipment | | <u>(1,687)</u> |
| Net cash used in investing activities | | <u>(1,687)</u> |
| <u>Increase in cash</u> | | <u>(471)</u> |
| <u>Cash at beginning of the year</u> | | <u>29,335</u> |
| <u>Cash at end of the year</u> | | <u>\$ 28,864</u> |

Supplemental cash flow disclosures:

| | | |
|---------------------|--|------------------|
| Income tax payments | | <u>\$ 27,100</u> |
|---------------------|--|------------------|

The accompanying notes are an integral part of these financial statements

FINANCIAL SCIENCES, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1-Organization and Nature of Business

The company, a securities broker/dealer servicing the general public, is registered with the Securities and Exchange Commission (SEC) and is a member of various exchanges and the National Association of Securities Dealers (NASD). The Company is a Massachusetts corporation organized in 1992.

NOTE 2-Significant Accounting Policies

a. **Basis of Presentation**

The financial statements, which include the accounts of the company, are prepared on the accrual basis. The Company is engaged in a single line of business as a securities broker-dealer. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

b. **Securities Transactions**

Proprietary securities transactions in regular-way trades are recorded on the trade date, as if they had settled. Profit and loss arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade date basis. Customers' securities transactions are reported on a settlement date basis with related commission income and expense reported on a trade date basis.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded on the statement of financial condition

Marketable securities are valued at market value.

c. **Commissions**

Commissions and related clearinghouse expenses are recorded on a trade-date basis as securities transactions occur.

d. **Income Taxes**

The Company has included a provision for income taxes and is calculated based on current tax laws and rates.

e. **Depreciation**

Office Equipment and leasehold improvements are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

f. **Statement of Cash Flows**

For purposes of the Statement of Cash Flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days that are not held for sale in the ordinary course of business.

NOTE 3-Cash and cash Equivalents

Cash and cash equivalents stated in the Statement of Cash Flows consists of the operating cash.

NOTE 4-Receivables to Broker-Dealers

Commissions receivables from clearing organizations at December 31, 2002 are \$ 16,304.

FINANCIAL SCIENCES, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 5-Securities Owned

Marketable securities owned at December 31, 2002 consist of the following:

| | |
|------------------------------|-------------------|
| NASD Stock | \$ 72,100 |
| Corporate Stocks and Options | <u>\$ 548,703</u> |
| | <u>\$ 620,803</u> |

NOTE 6-CAPITAL STOCK

Capital Stock is detailed as follows:

Common stock-Par value \$30 per share
 Authorized: 11,250 shares
 Issued and outstanding: 5000 shares

NOTE 7-EQUIPMENT AND IMPROVEMENTS

These accounts are detailed as follows:

| | |
|--------------------------|-----------------|
| Office Equipment | \$ 5,658 |
| Leasehold Improvements | <u>24,480</u> |
| | 30,138 |
| Accumulated Depreciation | <u>(25,243)</u> |
| Net Value | <u>\$ 4,895</u> |

NOTE 8-INCOME TAXES

Deferred income tax assets are computed annually for the differences between the financial statement and the tax basis of assets that will result in taxable amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. An allowance is provided if it is more likely than not that the company will not realize the benefits of a deferred asset. As of December 31, 2003 a valuation allowance has not been provided against the deferred tax asset.

Income tax expense at December 31, 2002 is made up of the following components.

| | |
|------------------------------------|---------------------|
| | 2002 |
| Current federal income tax expense | \$ 1,098 |
| Current state income tax expense | \$ 6,366 |
| Deferred income taxes | <u>\$ (125,691)</u> |
| Income Tax Benefit | \$ (212,068) |

The current federal and state income tax expense differs from the expense that would result from applying statutory rates to income because of the gain in sale of investment differences for book and tax purposes in the year ending December 31, 2002.

Note 8- INCOME TAXES (continued)

Net deferred tax assets consisted of the following at December 31, 2002:

| | ASSET | LIABILITY | NET |
|---------|------------|--------------------|--------------------|
| Federal | (\$50,306) | (\$371,263) | (\$320,957) |
| State | <u>-</u> | <u>(\$147,959)</u> | <u>(\$147,959)</u> |
| Total | (\$50,306) | (519,222) | (\$468,916) |

NOTE 9- USE OF ESTIMATES

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

NOTE 10-CONCENTRATION OF CREDIT RISKS

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event the counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

NOTE 11-NET CAPITAL REQUIREMENTS

The company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (sec RULE 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2002, the company had net capital of \$ 1,073,966, which was \$ 973,966 in excess of its required net capital of \$100,000. The company's net capital ratio was .04%.

Computation of Net Capital includes an Undue Concentration in the amount of \$ 5,728.

Net capital as reported in the Company's unaudited Form X-17a-5 as of December 31, 2002 does not differ materially from net capital as stated in this report.

NOTE 12-EARNINGS PER SHARE

Earnings per share of common stock were computed by dividing net income by the weighted average number of common shares outstanding for the year (5000 shares).



Accounting for Solutions

Financial Sciences, Inc.
21 Milk Street, 2nd floor
Boston, MA 02109

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION
REQUIRED BY RULE 17a-5 OF THE SECURITIES AND EXCHANGE COMMISSION

I have audited the accompanying financial statements of Financial Sciences, Inc. (the Company) as of and for the year ended December 31, 2002, and have issued my report thereon dated February 2003. My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material aspects in relation to the basic financial statements taken as a whole.

Sincerely,


Marilyn Lewis, CPA

Boston, Massachusetts
February 2003

FINANCIAL SCIENCES, INC
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE
SECURITIES AND EXCHANGE COMMISSION
AS OF DECEMBER 31, 2002

SCHEDULE I

NETCAPITAL

| | |
|----------------------------|---------------------|
| Total Stockholders' Equity | <u>\$ 1,252,648</u> |
|----------------------------|---------------------|

Deductions:

| | | |
|--|--------|---------------|
| Furniture, equipment, and leasehold improvements, net | 4,895 | |
| Other Receivables | 88,404 | |
| Total deductions | | <u>93,299</u> |

| | |
|---|-----------|
| Net capital before haircuts on securities | 1,159,349 |
|---|-----------|

Haircuts on securities:

| | | |
|----------------------|--------------|---------------|
| Stock and warrants | 79,655 | |
| Options | | |
| Money market funds | | |
| Undue concentrations | <u>5,728</u> | |
| Total haircuts | | <u>85,383</u> |

| | |
|-------------|----------------------------|
| Net capital | <u><u>\$ 1,073,966</u></u> |
|-------------|----------------------------|

Aggregate Indebtedness

| | |
|---|---------------|
| Other accounts payable and accrued expenses | <u>\$ 459</u> |
|---|---------------|

| | |
|------------------------------|----------------------|
| Total aggregate indebtedness | <u><u>\$ 459</u></u> |
|------------------------------|----------------------|

Computation of basic net capital requirement

| | |
|------------------------------|---------|
| Minimum net capital required | \$ 30 |
| Minimum dollar requirement | 100,000 |

| | |
|-------------------------|--------------------------|
| Net capital requirement | <u><u>\$ 100,000</u></u> |
|-------------------------|--------------------------|

| | |
|--------------------|--------------------------|
| Excess net capital | <u><u>\$ 973,966</u></u> |
|--------------------|--------------------------|

| | |
|---|----------------------------|
| Excess net capital @ 1000% (net of 10% aggregate indebtedness) | <u><u>\$ 1,073,920</u></u> |
|---|----------------------------|

| | |
|--|---------------------|
| Ratio: Aggregate indebtedness to net capital | <u><u>0.04%</u></u> |
|--|---------------------|

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of the changes in conditions or that the effectiveness of their design and operation may deteriorate.

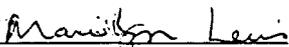
My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, I noted no matters involving the internal control structure, including procedures for safeguarding securities that I consider to be material weaknesses as defined above.

I understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission 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 my study, I believe that that Company's practices and procedures were adequate at December 31, 2002 to meet the Commission's objectives.

This report is intended solely for the use of the Board of Directors, management, the SEC, NASD, 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 should not be used for any other purpose.

Sincerely,

Boston, Massachusetts
February 2003

 CPA
Marilyn Lewis CPA



Accounting for Solutions
Financial Sciences, Inc.
21 Milk Street, 2nd floor
Boston, MA 02109

INDEPENDENT AUDITOR'S REPORT ON INTERNAL ACCOUNTING CONTROL

In planning and performing my audit of the financial statements of Financial Sciences, Inc. (The "Company") for year ended December 31, 2002, I considered its internal control structure, including procedures for safeguarding securities, in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission, I have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by Financial Sciences, Inc. that I consider relevant to the objectives stated in rule 17a-5(g);(1) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3-3(e); (2) in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by rule 17a-13;(3) in complying with the requirements for the prompt payment for securities under Section 8 of regulation T of the Board of Governors of the Federal Reserve System; and (4) in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by rule 15c3-3.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling the responsibility, estimates and judgments made by management are required to assess the expected benefits and related costs of internal control structure policies and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the Commission's above mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.