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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

SEC FILE NUMBER  
8-39877

**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:

CRI Securities, Inc.

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

400 Robert Street North

(No. and Street)

St. Paul

MN

55101

(City)

(State)

(Zip Code)

RECD S.E.C.  
FEB 27 2003  
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FIRM ID. NO.

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

Jennifer Baston

651-665-1000

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

KPMG, LLP

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

4200 Wells Fargo Center

Minneapolis,

MN

55402

(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 13 2003

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THOMSON FINANCIAL

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

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OATH OR AFFIRMATION

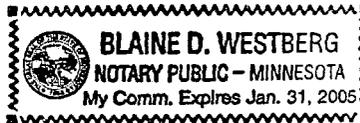
I, George Connolly, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CRI Securities, Inc., as of December 31, 2002, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*George Connolly*  
Signature

President  
Title

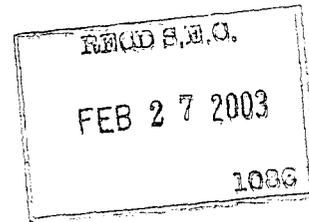
*Blaine D. Westberg*  
Notary Public



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 Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (o) Independent Auditors' Report on Internal Accounting Controls.

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



**C.R.I. SECURITIES, INC.**

**Financial Statements with Supplementary  
Information and Independent Auditors' Report  
on Internal Control**

**December 31, 2002**



4200 Wells Fargo Center  
90 South Seventh Street  
Minneapolis, MN 55402

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders of  
C.R.I. Securities, Inc.:

We have audited the accompanying statement of financial condition of C.R.I. Securities, Inc. (the Company) as of December 31, 2002 and the related statements of operations, changes in stockholders' equity, changes in liabilities subordinated to claims and general creditors, and cash flows for the year 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of C.R.I. Securities, Inc. as of December 31, 2002 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

February 14, 2003



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

**C.R.I. SECURITIES, INC.**

**Statement of Financial Condition**

**December 31, 2002**

**Assets**

Cash	\$ 103,801
Commissions receivable	307,960
Accounts receivable	2,096
Due from affiliates	8,516
Prepaid asset	2,000
Deposit with clearing organization	25,000
Secured demand note receivable	20,000
Securities inventory	131,368
	<u>\$ 600,741</u>

**Liabilities and Stockholders' Equity**

**Liabilities:**

Commissions payable	\$ 194,018
Accounts payable	3,453
Due to affiliates	131,202
Interest payable	700
Securities inventory payable	131,368
	<u>460,741</u>

Liabilities subordinated to claims of general creditors 20,000

**Stockholders' equity:**

Common stock, no par value; authorized 25,000 shares; issued and outstanding 100 shares	<u>120,000</u>
	<u>\$ 600,741</u>

See accompanying notes to financial statements.

**C.R.I. SECURITIES, INC.**

**Statement of Operations**

**For the year ended December 31, 2002**

**Revenue**

Commissions \$ 5,457,912

**Expenses**

Commissions 3,687,606

Management and administrative fees paid to owners 1,449,935

Fees paid to owners 319,171

Interest expense 1,200

5,457,912

Net income \$ 0

See accompanying notes to financial statements.

**C.R.I. SECURITIES, INC.**

**Statement of Changes in Stockholders' Equity**

**For the year ended December 31, 2002**

	<u>Common stock</u>	<u>Total stockholders' equity</u>
Balances at December 31, 2001	\$ 120,000	\$ 120,000
Net income	<u>-</u>	<u>-</u>
Balances at December 31, 2002	<u>\$ 120,000</u>	<u>\$ 120,000</u>

See accompanying notes to financial statements.

**C.R.I. SECURITIES, INC.**

**Statement of Changes in Liabilities  
Subordinated to Claims and General Creditors**

**For the year ended December 31, 2002**

Subordinated liabilities at December 31, 2001 and 2002

\$ 20,000

See accompanying notes to the financial statements.

**C.R.I. SECURITIES, INC.**

**Statement of Cash Flows**

**For the year ended December 31, 2002**

Cash flows from operating activities:	
Net income	\$ 0
Adjustments to reconcile net income to net cash used in operating activities:	
Increase in receivables, net	(127,184)
Decrease in due from affiliates	35,742
Increase in commissions payable	101,859
Decrease in due to affiliates	(157,105)
Increase in securities inventory payable	85,566
Decrease in other payables	<u>(660)</u>
Net cash used in operating activities	<u>(61,782)</u>
Cash flows from investing activities:	
Purchase of securities	<u>(85,566)</u>
Net cash used in investing activities	<u>(85,566)</u>
Decrease in cash	(147,348)
Cash at beginning of year	<u>251,149</u>
Cash at end of year	\$ <u><u>103,801</u></u>
Supplemental cash flows disclosures:	
Interest payments	\$ <u><u>1,200</u></u>

See accompanying notes to the financial statements.

# C.R.I. SECURITIES, INC.

## Notes to Financial Statements

December 31, 2002

### (1) Nature of Business

C.R.I. Securities, Inc. (the Company), incorporated on May 29, 1988, is a joint venture between MIMLIC Imperial Corporation (Imperial), a 50% owner, and a certain outside owner. Imperial is a wholly-owned subsidiary of Enterprise Holding Corporation, which in turn is a wholly-owned subsidiary of the Minnesota Life Insurance Company (Minnesota Life).

The Company is a registered broker-dealer in securities under the Securities and Exchange Act of 1934. The Company was formed for the purpose of selling mutual fund shares and certain annuity and life insurance products of Minnesota Life.

The Company's results of operations may not be indicative of the results that would be obtained had it operated independently.

### (2) Summary of Significant Accounting Policies

#### Securities Inventory

In the normal course of business the Company periodically holds positions in its brokerage account. These positions represent various incomplete transactions at the brokerage. Ownership of these positions ultimately resides with, and is transferred to, customer accounts. The Company does not hold these positions for sale.

#### Commission Income and Expense

Commission income on mutual funds and annuity and life insurance products is recognized as earned. As commission income is recognized, the related commission expense due to sales agents is also recognized.

#### Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, including reporting or disclosure of contingent assets and liabilities, as of the statement of financial condition date and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

### (3) Income Taxes

Because the Company acts as a conduit to pass through commission income, such income is equal to commission expense, management and administrative fees, operating expenses, interest expense and fees paid to owners. Accordingly, there are no earnings retained by the Company, nor is there a provision for income taxes.

**C.R.I. SECURITIES, INC.**

**Notes to Financial Statements, Continued**

**(4) Related Party Transactions**

All operating costs of the Company are paid by Securian Financial Services, Inc., an affiliate of the Company, and certain outside parties. Securian Financial Services, Inc. incurs all operating expenses and is reimbursed by the Company for a portion of these expenses. During 2002, \$302,185 was paid to Securian Financial Services, Inc. as reimbursement of operating costs, of which \$14,099, included in due to affiliates, was payable to Securian Financial Services, Inc. at December 31, 2002.

Under the joint venture agreement, fees (calculated as a percentage of commission revenue) are paid to Imperial and a certain outside owner. During the year ended December 31, 2002 these fees totaled \$319,171. At December 31, 2002, \$35,730 of such fees was included in due to affiliates.

Under the joint venture agreement, a company affiliated with the outside owner received management and administrative fees representing the remaining annual net income of the Company after all other expenses are paid. For the year ended December 31, 2002, these management and administrative fees were \$1,147,750, of which \$81,373 was included in due to affiliates at year end.

**(5) Secured Demand Note Receivable**

The secured demand note receivable is non-interest bearing and collateralized by securities pledged by an outside stockholder of the Company. As of December 31, 2002, the pledged securities had a market value of \$67,339. The note receivable, which is scheduled to mature on September 29, 2003, is directly related to the \$20,000 interest-bearing note payable (see note 6) and is callable if net capital falls below 120% of the minimum capital required under Rule 15c3-1 of the Securities and Exchange Commission.

**(6) Liabilities Subordinated to Claims of General Creditors**

Borrowings under a subordination agreement at December 31, 2002 are as follows:

Note payable, 6.00%, due September 29, 2003	\$20,000
---------------------------------------------	----------

For the year ended December 31, 2002, interest expense was \$1,200. At December 31, 2002, interest payable was \$700.

This subordinated liability is covered by an agreement approved by the National Association of Securities Dealers, Inc. and is therefore available in computing net capital. To the extent that such borrowing is required for the Company's continued compliance with minimum net capital requirements, it may not be repaid.

**(7) Net Capital Requirements**

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities and Exchange Commission, the Company is required to maintain a minimum net capital as defined under such provisions. Net capital and the related net capital ratio may fluctuate on a daily basis. At December 31, 2002, the Company

**C.R.I. SECURITIES, INC.**

**Notes to Financial Statements, Continued**

**(7) Net Capital Requirements – Continued**

had net capital and net capital requirements of \$107,683 and \$50,000, respectively. The Company's net capital ratio (ratio of aggregate indebtedness to net capital) was 4.3 to 1 at December 31, 2002.

**(8) Rule 15c3-3**

The Company is exempt from Rule 15c3-3 of the Securities and Exchange Commission under subsection (k). Under this exemption, the "Computation for Determination of Reserve Requirements" and "Information Relating to the Possession or Control Requirements" are not required.

Schedule 1

**C.R.I. SECURITIES, INC.**

**Computation of Net Capital Under Rule 15c3-1  
of the Securities and Exchange Commission  
as of December 31, 2002**

Stockholders' equity	\$ 120,000
Liabilities subordinated to claims of general creditors allowable in computation of net capital	<u>20,000</u>
	140,000
Deductions - nonallowable assets:	
Due from affiliates	8,516
Accounts receivable	2,096
Prepaid asset	<u>2,000</u>
Net capital before haircuts on securities	127,388
Haircuts on securities	<u>19,705</u>
Net capital	<u>\$ 107,683</u>
Total aggregate indebtedness	<u>\$ 460,741</u>
Net capital	\$ 107,683
Minimum capital required to be maintained (the greater of \$50,000 or 6 2/3% of aggregate indebtedness of \$460,741)	<u>50,000</u>
Net capital in excess of requirement	<u>\$ 57,683</u>
Ratio of aggregate indebtedness to net capital	<u>4.3 to 1</u>
120% of minimum net capital	<u>\$ 60,000</u>

There were no material differences in the computation of net capital or aggregate indebtedness between the amounts included in Part IIA of Form X-17A-5 and the above computations.

See accompanying independent auditors' report.



4200 Wells Fargo Center  
90 South Seventh Street  
Minneapolis, MN 55402

INDEPENDENT AUDITORS' REPORT ON INTERNAL  
ACCOUNTING CONTROL REQUIRED BY SEC RULE 17a-5

The Board of Directors  
CRI Securities, Inc.:

In planning and performing our audit of the financial statements and supplemental schedule of CRI Securities, Inc. (the Company) for the year ended December 31, 2002, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the SEC), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following: 1. making quarterly securities examinations, counts, verifications, and comparisons; 2. recordation of differences required by Rule 17a-13; 3. complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System.

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

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





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

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2002 to meet the SEC's objectives.

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

KPMG LLP

February 14, 2003