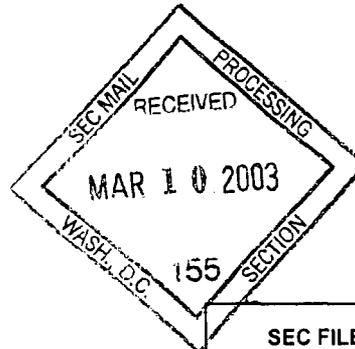




03014771

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

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



BB
3/21

| |
|--------------|
| SEC FILE NO. |
| 8-19952 |

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

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER

NEW SALEM INVESTMENT CORPORATION

| |
|-----------------|
| Office Use Only |
| FIRM ID. NO. |

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

440 SOUTH LASALLE STREET, SUITE 2320
(No. and Street)

CHICAGO
(City)

ILLINOIS
(State)

60605
(Zip Code)

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

BRADFORD R. DOOLEY, CPA

312-939-0477
(Area-Code-Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

RAPACZ, LINDA CAROL

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

13844 SOUTH MAPLE AVENUE
(Address)

ORLAND PARK
(City)

ILLINOIS
(State)

60462-1628
(Zip Code)

CHECK ONE:

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

PROCESSED
APR 04 2003

THOMSON
FINANCIAL

FOR OFFICIAL USE ONLY

* Claims for extensions from the requirements 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 240.17x-5(e)(2).

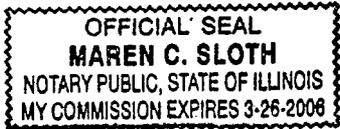
4-3

OATH OR AFFIRMATION

I, DANIEL S. CURRAN, swear (or affirm) that to the best of my knowledge and belief, the accompanying financial statements and supporting schedules pertaining to the firm of

NEW SALEM INVESTMENT CORPORATION 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:



Daniel S. Curran
Signature

PRESIDENT
Title

Subscribed and sworn to before me this 3rd day of March, 2003

Maren C. Sloth

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 cash flows.
- (e) Statement of changes in stockholders' equity or partners' or sole proprietor's capital.
- (f) Statement of changes in liabilities subordinated to claims of general creditors.
- (g) Computation of net capital for brokers and dealers pursuant to Rule 15c3-1.
- (h) Computation for determination of reserve requirements pursuant to Rule 15c3-3.
- (i) Information relating to the possession or control requirements for brokers and dealers 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 auditor's report on internal accounting controls.
- (p) Schedule of segregation requirements and funds in segregation - customers' regulated commodity futures account pursuant to Rule 171-5.

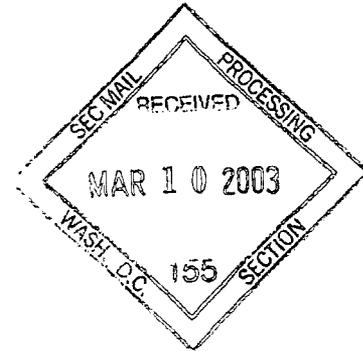
* For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

NEW SALEM INVESTMENT CORPORATION
(A Delaware Corporation)

STATEMENT OF FINANCIAL CONDITION
AND INDEPENDENT AUDITOR'S REPORT
PURSUANT TO RULE 17a-5 (d)
DECEMBER 31, 2002

LINDA C. RAPACZ
CERTIFIED PUBLIC ACCOUNTANT
13844 SOUTH MAPLE AVENUE
ORLAND PARK, ILLINOIS 60462-1628
(708) 403-1999 FAX (708) 403-1428

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
ILLINOIS CPA SOCIETY



Mr. Daniel S. Curran, President
and The Board of Directors
New Salem Investment Corporation
Chicago, Illinois

I have audited the accompanying statement of financial condition of New Salem Investment Corporation as of December 31, 2002. This financial statement is the responsibility of the Company's management. My responsibility is to express an opinion on this financial statement based upon 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 financial statement referred to above presents fairly, in all material respects, the financial position of New Salem Investment Corporation as of December 31, 2002, in conformity with generally accepted accounting principles.

A handwritten signature in cursive script that reads 'Linda Rapacz'.

March 3, 2003

NEW SALEM INVESTMENT CORPORATION
(A Delaware Corporation)
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2002

A S S E T S

CURRENT ASSETS

| | |
|-----------------------------------|--------------|
| Cash in Bank | \$ 10,876 |
| Securities Owned, at Market Value | 5,159,604 |
| Due from Broker | 1,460,888 |
| Dividends Receivable | <u>3,371</u> |

Total Current Assets \$6,634,739

OTHER ASSETS

| | |
|---|---------------|
| Memberships (at cost - Market Value at December 31, 2002 is \$ 62,000) | \$ 96,500 |
| Investment - First Options Stock | <u>10,000</u> |

Total Other Assets 106,500

TOTAL ASSETS \$6,741,239

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES

| | |
|---|----------------|
| Securities Sold, Not Yet Purchased, at Market Value | \$4,836,296 |
| Accounts Payable | <u>150,623</u> |

Total Current Liabilities \$4,986,919

STOCKHOLDER'S EQUITY

| | |
|--|-------------------|
| Capital Stock - Common, No Par Value; 1,000 Shares Authorized, 500 Shares Issued and Outstanding | \$ 10,000 |
| Additional Paid-In Capital | 2,002,000 |
| Retained Earnings | <u>(257,680)</u> |

Total Stockholder's Equity 1,754,320

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY \$6,741,239

The accompanying notes to the financial statements
are an integral part of this statement.

NEW SALEM INVESTMENT CORPORATION
(a Delaware Corporation)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS

New Salem Investment Corporation (the Company) is a Delaware corporation, which is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the Chicago Stock Exchange. The Company operates as a fully disclosed market maker.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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 and commodities transactions are entered into for the account and risk of the Company, and are therefore recorded on a trade date basis. Marketable securities, held by the Company, are valued at quoted market value.

Income Taxes

The Company has elected to be taxed as an S-Corporation; therefore its income flows through to its stockholders' tax returns. As a result, no federal income tax provision is made by the Company. The Company is liable, however, for the Illinois replacement tax of 1.5% of net prescribed income. The 2002 Illinois replacement tax credit of approximately \$7,900 has not been recorded on the Company's books.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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.

Employees' Retirement Plan

The Company started a Profit Sharing and Money Purchase Plan effective during 2000. Contributions are based upon the employee's earnings. The 2002 Company contributions were calculated as an amount that can be deducted for federal tax purposes; the Company's Pension contribution was \$17,350. The Retirement Plans are administered by an outside financial institution.

NEW SALEM INVESTMENT CORPORATION
(a Delaware Corporation)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2002

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Operating Lease Commitment

As of April 1, 2001 the Company subleased office space from a related party under a noncancelable prime lease which expires on January 31, 2011. The sublease can be terminated or extended with 180 days notice. The Company paid \$19,867 in rent expense under the terms of this lease in 2002. The following is a schedule by years of future minimum rents due under the sublease as of December 31, 2002:

Year Ending:

| | |
|-------------------|--------------|
| December 31, 2003 | \$ 20,463 |
| December 31, 2004 | 21,077 |
| December 31, 2005 | 21,709 |
| December 31, 2006 | 22,361 |
| December 31, 2007 | 23,032 |
| December 31, 2008 | 23,722 |
| December 31, 2009 | 24,434 |
| December 31, 2010 | 25,167 |
| December 31, 2011 | <u>2,113</u> |

Total Lease Commitment \$184,078

NOTE 3 - FINANCIAL INSTRUMENTS ACCOUNTING POLICIES

Derivative financial instruments can be used for trading purposes, including hedges of trading instruments, and would be carried at quoted market value. Unrealized gains or losses on these derivative contracts would be recorded on the same basis as the underlying assets or liabilities, that is, marked to market. The Company held no derivative contracts at December 31, 2002.

NOTE 4 - FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK

The Company can enter into various transactions involving derivatives and other off-balance sheet financial instruments. These financial instruments include futures and options. Derivative transactions are entered into for trading purposes or to hedge other positions or transactions. In addition, the Company has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded these obligations in the financial statements at December 31, 2002, at market values and will incur a loss if the market value of the securities increases subsequent to December 31, 2002.

NEW SALEM INVESTMENT CORPORATION
(a Delaware Corporation)
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2002

NOTE 5 - CONCENTRATION OF CREDIT RISK

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, clearing firms and other financial institutions. In the event 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 6- RECONCILIATION OF AUDITED AND UNAUDITED FINANCIAL STATEMENTS

The audit of the unaudited financial statements revealed no material discrepancies. Therefore, no adjustments to the financial statements were required.

NOTE 7- NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1). The Company is required to maintain "adjusted net capital" equivalent to \$100,000 or one eighth of aggregate indebtedness, whichever is greater, as these terms are defined. At December 31, 2002 the Company had net capital and net capital requirements of \$616,581 and \$100,000 respectively. The ratio of aggregate indebtedness to net capital was 24.43%. The net capital requirement may restrict the payment of dividends or the withdrawal of equity.

NOTE 8 - RELATED PARTY TRANSACTIONS

The Company subleases office space and shares expenses with an affiliated company. The Company's stockholder is a partner of the affiliated company. During the year ended December 31, 2002 the Company paid \$392,000 in management fees to its affiliate. There are neither outstanding receivables from, nor payables to, the related party at December 31, 2002.