

And
11-28-2003

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

SEC FILE NUMBER
8-01523

**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 10/01/2002 AND ENDING 09/30/2003
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
First Southwest Company

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
325 North St. Paul Street, Suite 800
(No. and Street)
Dallas Texas 75201
(City) (State) (Zip Code)

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FIRM ID. NO.

NOV 25 2003

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
John R. Muschalek (214) 953-4000
(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)
301 Commerce St., 2500 City Center Tower II, Fort Worth, Texas 76102
(Address) (City) (State) (Zip Code)

CHECK ONE:
 Certified Public Accountant
 Public Accountant
 Accountant not resident in United States or any of its possessions.

PROCESSED
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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).

[Handwritten initials]

OATH OR AFFIRMATION

I, John R. Muschalek, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of First Southwest Company, as of September 30, 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:



[Signature]
Signature

Senior Vice President
Title

[Signature]
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.

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

FIRST SOUTHWEST COMPANY AND SUBSIDIARIES

Consolidated Statement of Financial Condition

September 30, 2003

Assets

| | |
|--|-----------------------|
| Cash and cash equivalents | \$ 13,471,575 |
| Cash and securities segregated for regulatory purposes | 29,000,000 |
| Receivable from brokers, dealers, and clearing organizations | 211,892,364 |
| Receivable from customers - secured | 65,120,503 |
| Securities: | |
| Marketable | 7,290,303 |
| Not readily marketable | 24,604 |
| Furniture, equipment, and leaseholds, net | 3,807,039 |
| Goodwill, net | 3,527,657 |
| Other assets and deferred charges, net | 7,560,191 |
| Deferred income taxes, net | <u>2,426,413</u> |
| | \$ <u>344,120,649</u> |

Liabilities and Stockholder's Equity

| | |
|---|-----------------------|
| Liabilities: | |
| Drafts payable | \$ 6,954,579 |
| Payable to brokers, dealers, and clearing organizations | 176,164,337 |
| Payable to customers | 77,886,502 |
| Other liabilities and deferred credits | <u>35,492,807</u> |
| | <u>296,498,225</u> |
| Commitments and contingent liabilities | |
| Stockholder's equity: | |
| Common stock at \$.01 par value. Authorized 1,000,000 shares; issued and outstanding 200,007 shares | 2,000 |
| Additional paid-in capital | 24,916,736 |
| Retained earnings | <u>22,703,688</u> |
| Total stockholder's equity | <u>47,622,424</u> |
| | \$ <u>344,120,649</u> |

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