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

\*\*ARB 2-10-2004

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



04002172

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

RECEIVED  
FEB 05 2004  
WASH. D.C. SECTION

SEC FILE NUMBER  
8.38999

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 01/01/03 AND ENDING 12/31/03  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: First Winston Securities, Inc.

OFFICIAL USE ONLY

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

FIRM I.D. NO.

121-E Reynolda Village

(No. and Street)

Winston-Salem

North Carolina

27106

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
William F. Marshall (336)761-1900  
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

Butler & Burke, LLP, CPA's

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

100 Club Oaks Court Suite A Winston-Salem, NC

27104

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

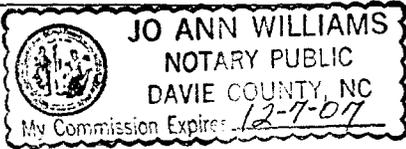
PROCESSED  
FEB 12 2004

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)

OATH OR AFFIRMATION

I, William Marshall, 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 Winston Securities, Inc., as of December 31, 20 03, 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:



William Marshall  
Signature  
President  
Title

Jo Ann Williams  
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.
- (o) Independent auditors' report on internal accounting control.

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

***FIRST WINSTON  
SECURITIES, INC.***

***Financial Statements***

***December 31, 2003***

**FORM  
X-17A-5**

**FOCUS REPORT**

OMB No. 3235-0123  
(5-31-87)

(Financial and Operational Combined Uniform Single Report)

**PART II** 11

3/91

(Please read instructions before preparing Form.)

This report is being filed pursuant to (Check Applicable Block(s)):

- 1) Rule 17a-5(a)  16      2) Rule 17a-5(b)  17      3) Rule 17a-11  18  
 4) Special request by designated examining authority  19      5) Other  26

NAME OF BROKER-DEALER

SEC FILE NO

First Winston Securities, Inc. 13

8-38999 14

ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do Not Use P.O. Box No.)

FIRM ID. NO.

121-E Reynolda Village 20

21538 15

(No. and Street)

FOR PERIOD BEGINNING (MM/DD/YY)

Winston-Salem 21 North Carolina 22 27106 23

01/01/03 24

(City)

(State)

(Zip Code)

AND ENDING (MM/DD/YY)

12/31/03 25

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

(Area Code)—Telephone No.

William F. Marshall 30

(336) 761-1900 31

NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT:

- |  |    |    |
|--|----|----|
|  | 32 | 33 |
|  | 34 | 35 |
|  | 36 | 37 |
|  | 38 | 39 |

OFFICIAL USE

DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNTS? YES  40 NO  41

CHECK HERE IF RESPONDENT IS FILING AN AUDITED REPORT  42

07-021538-R  
 FIRST WINSTON SECURITIES, INC.  
 WILLIAM F. MARSHALL  
 P.O. BOX 7409, REYNOLDA  
 WINSTON-SALEM, NC 27109

**EXECUTION:**

The registrant/broker or dealer submitting this Form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated the 30<sup>th</sup> day of January 2002

- Manual signatures of
- 1) William F. Marshall  
Principal Executive Officer or Managing Partner
  - 2) William F. Marshall  
Principal Financial Officer or Partner
  - 3) William F. Marshall  
Principal Operations Officer or Partner

**ATTENTION**—Intentional misstatements or omissions of facts constitute Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 781(a))

TO BE COMPLETED WITH THE ANNUAL AUDIT REPORT ONLY:

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report				
Name (If individual, state last, first, middle name)				
<u>Butler &amp; Burke, LLP, CPA's</u>				70
ADDRESS	Number and Street	City	State	Zip Code
	100 Club Oaks Court, Suite A	Winston-Salem,	NC	27104
	71	72	73	74

Check One

- (X) Certified Public Accountant 75
- ( ) Public Accountant 76
- ( ) Accountant not resident in United States or  
any of its possessions 77

FOR SEC USE

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WORK LOCATION	REPORT DATE MM/DD/YY	DOC. SEQ. NO.	CARD				
50	51	52 5	3				



Stockholders and Directors  
First Winston Securities, Inc.  
Winston-Salem, North Carolina

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of financial condition of First Winston Securities, Inc. as of December 31, 2003, and the related statements of income (loss), changes in ownership equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the year then ended. 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 U.S. generally accepted auditing standards. 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 First Winston Securities, Inc. as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

*Butler & Burke, LLP*

Winston-Salem, North Carolina  
January 16, 2004

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART II**

BROKER OR DEALER **First Winston Securities, Inc.**

**N 2**

100

**STATEMENT OF FINANCIAL CONDITION**

As of (MM/DD/YY) **12/31/03** 99

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Consolidated  198  
Unconsolidated  199

ASSETS

Allowable

Nonallowable

Total

1	Cash	\$	100,790	200		\$	100,790	750
2	Cash segregated in compliance with federal and other regulations			210				760
3	Receivable from brokers or dealers and clearing organizations:							
	A. Failed to deliver:							
	1. Includable in "Formula for Reserve Requirements"			220				
	2. Other			230				770
	B. Securities borrowed:							
	1. Includable in "Formula for Reserve Requirements"			240				
	2. Other			250				780
	C. Omnibus accounts:							
	1. Includable in "Formula for Reserve Requirements"			260				
	2. Other			270				790
	D. Clearing organizations:							
	1. Includable in "Formula for Reserve Requirements"			280				
	2. Other			290				800
	E. Other			300		\$	550	810
4	Receivables from customers:							
	A. Securities accounts:							
	1. Cash and fully secured accounts			310			560	
	2. Partly secured accounts			320			570	
	3. Unsecured accounts						580	
	B. Commodity accounts			330			590	
	C. Allowance for doubtful accounts			335			590	820
5	Receivables from non-customers:							
	A. Cash and fully secured accounts			340				
	B. Partly secured and unsecured accounts			350			600	830
6	Securities purchased under agreements to resell			360			605	840
7	Securities and spot commodities owned, at market value:							
	A. Bankers acceptances, certificates of deposit and commercial paper			370				
	B. U.S. and Canadian government obligations			380				
	C. State and municipal government obligations			1,264,365	390			
	D. Corporate obligations				400			

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART II**

**BROKER OR DEALER** First Winston Securities, Inc.

as of 12/31/03

**STATEMENT OF FINANCIAL CONDITION**

ASSETS

	<u>Allowable</u>	<u>Nonallowable</u>	<u>Total</u>
E. Stocks and warrants	410		
F. Options	420		
G. Arbitrage	422		
H. Other securities	424		
I. Spot commodities	430		
			\$ 1,264,365
8. Securities owned not readily marketable:			
A. At Cost	130		
B. At estimated fair value	440	\$ 72,100	72,100
9. Other investments not readily marketable:			
A. At Cost	140		
B. At estimated fair value	450	620	870
10. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:			
A. Exempted securities	150		
B. Other	160	630	880
11. Secured demand notes - market value of collateral:			
A. Exempted securities	170		
B. Other	180	640	890
12. Memberships in exchanges:			
A. Owned, at market value	190		
B. Owned at cost		650	
C. Contributed for use of company, at market value		660	900
13. Investment in and receivables from affiliates, subsidiaries and associated partnerships	480	670	910
14. Property, furniture, equipment, leasehold improvements and rights under lease agreements:			
At cost (net of accumulated depreciation and amortization)	490	1,526	1,526
15. Other Assets:			
A. Dividends and interest receivable	12,479	690	
B. Free shipments	510	700	
C. Loans and advances	520	710	
D. Miscellaneous	530	720	12,479
16. TOTAL ASSETS	\$ 1,377,634	\$ 73,626	\$ 1,451,260

OMIT PENNIES

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART II**

**BROKER OR DEALER** First Winston Securities, Inc.

as of 12/31/03

**STATEMENT OF FINANCIAL CONDITION**

**LIABILITIES AND OWNERSHIP EQUITY**

<u>Liabilities</u>	<u>A.I. Liabilities *</u>	<u>Non-A.I. Liabilities *</u>	<u>Total</u>
17. Bank loans payable:			
A. Includable in "Formula for Reserve Requirements" .....	\$ 1030	\$ 1240	\$ 1460
B. Other .....	1040	34,000 1250	34,000 1470
18. Securities sold under repurchase agreements ..		1260	1480
19. Payable to brokers or dealers and clearing organizations:			
A. Failed to receive:			
1. Includable in "Formula for Reserve Requirements" .....	1050	1270	1490
2. Other .....	1060	1280	1500
B. Securities loaned:			
1. Includable in "Formula for Reserve Requirements" .....	1070		1510
2. Other .....	1080	1290	1520
C. Omnibus accounts:			
1. Includable in "Formula for Reserve Requirements" .....	1090		1530
2. Other .....	1095	1300	1540
D. Clearing organizations:			
1. Includable in "Formula for Reserve Requirements" .....	1100		1550
2. Other .....	1105	1310	1560
E. Other .....	1110	1320	1570
20. Payable to customers:			
A. Securities accounts -including free credits of .....	\$ 950 1120		1580
B. Commodities accounts .....	1130	1330	1590
21. Payable to non customers:			
A. Securities accounts .....	1140	1340	1600
B. Commodities accounts .....	1150	1350	1610
22. Securities sold not yet purchased at market value - including arbitrage of .....	\$ 960	1360	1620
23. Accounts payable and accrued liabilities and expenses:			
A. Drafts payable .....	1160		1630
B. Accounts payable .....	994 1170		994 1640
C. Income taxes payable .....	1180		1650
D. Deferred income taxes .....		1370	1660
E. Accrued expenses and other liabilities .....	1190		1670
F. Other .....	1200	1380	1680

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\*Brokers or Dealers electing the alternative net capital requirement method need not complete these columns.

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART II**

**BROKER OR DEALER** First Winston Securities

as of 12/31/03

**STATEMENT OF FINANCIAL CONDITION**

**LIABILITIES AND OWNERSHIP EQUITY (continued)**

<u>Liabilities</u>	<u>A.I. Liabilities *</u>	<u>Non-A.I. Liabilities *</u>	<u>Total</u>
24. Notes and mortgages payable:			
A. Unsecured .....	\$ 1210		\$ 1690
B. Secured .....	\$ 1211	\$ 1390	\$ 1700
25. Liabilities subordinated to claims of general creditors:			
A. Cash borrowings .....		\$ 1400	\$ 1710
1. from outsiders $\nabla$ \$ .....	\$ 970		
2. Includes equity subordination (15c3-1 (d)) of .....	\$ 980		
B. Securities borrowings, at market value; from outsiders \$ .....		\$ 1410	\$ 1720
C. Pursuant to secured demand note collateral agreements; .....		\$ 1420	\$ 1730
1. from outsiders \$ .....	\$ 1000		
2. Includes equity subordination (15c3-1 (d)) of .....	\$ 1010		
D. Exchange memberships contributed for use of company at market value .....		\$ 1430	\$ 1740
E. Accounts and other borrowings not qualified for net capital purposes .....	\$ 1220	\$ 1440	\$ 1750
26. <b>TOTAL LIABILITIES</b> .....	\$ <b>994</b> 1230	\$ <b>34,000</b> 1450	\$ <b>34,994</b> 1760
 <u>Ownership Equity</u>			
27. Sole proprietorship .....			\$ 1770
28. Partnership- limited partners .....	\$ 1020		\$ 1780
29. Corporation			
A. Preferred stock .....			\$ 1791
B. Common stock .....		\$ 542,859	\$ 1792
C. Additional paid-in capital .....			\$ 1793
D. Retained earnings .....		\$ 873,407	\$ 1794
E. Total .....		\$ 1,416,266	\$ 1795
F. Less capital stock in treasury .....			\$ 1796
30. <b>TOTAL OWNERSHIP EQUITY</b> .....			\$ <b>1,416,266</b> 1800
31. <b>TOTAL LIABILITIES AND OWNERSHIP EQUITY</b> .....			\$ <b>1,451,260</b> 1810

OMIT PENN1

\*Brokers or Dealers electing the alternative net capital requirement method need not complete these columns.

**PART II—FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT**

<b>BROKER OR DEALER</b> <b>First Winston Securities, Inc.</b>	For the period (MMDDYY) from <b>01/01/03</b> to <b>12/31/03</b>	3932	3933
Number of months included in this statement		3932	3933

**REVENUE**

**STATEMENT OF INCOME (LOSS)**

<b>1. Commissions:</b>			
a. Commissions on transactions in listed equity securities executed on an exchange		\$	3935
b. Commissions on transactions in exchange listed equity securities executed over-the-counter			3937
c. Commissions on listed option transactions			3938
d. All other securities commissions			3939
e. Total securities commissions			3940
<b>2. Gains or losses on firm securities trading accounts</b>			
a. From market making in over-the-counter equity securities			3941
i. Includes gains or (losses) OTC market making in exchange listed equity securities	3943		
b. From trading in debt securities		2,872,070	3944
c. From market making in options on a national securities exchange			3945
d. From all other trading			3949
e. Total gains or (losses)			3950
<b>3. Gains or losses on firm securities investment accounts</b>			
a. Includes realized gains (losses)	4235		
b. Includes unrealized gains (losses)	4236		
c. Total realized and unrealized gains (losses)			3952
<b>4. Profits or (losses) from underwriting and selling groups</b>		55,216	3955
a. Includes underwriting income from corporate equity securities	4237		
<b>5. Margin interest</b>			3960
<b>6. Revenue from sale of investment company shares</b>			3970
<b>7. Fees for account supervision, investment advisory and administrative services</b>			3975
<b>8. Revenue from research services</b>			3990
<b>9. Commodities revenue</b>			3990
<b>10. Other revenue related to securities business</b>			3985
<b>11. Other revenue</b>		53,580	3995
<b>12. Total revenue</b>		\$ 2,980,866	4030

**EXPENSES**

<b>13. Registered representatives' compensation</b>		\$ 640,199	4110
<b>14. Clerical and administrative employees' expenses</b>		164,541	4010
<b>15. Salaries and other employment costs for general partners, and voting stockholder officers</b>		914,967	4120
a. Includes interest credited to General and Limited Partners capital accounts	4130		
<b>16. Floor brokerage paid to certain brokers (see definition)</b>			4055
<b>17. Commissions and clearance paid to all other brokers (see definition)</b>			4145
<b>18. Clearance paid to non-brokers (see definition)</b>		63,436	4135
<b>19. Communications</b>		61,776	4050
<b>20. Occupancy and equipment costs</b>		32,495	4080
<b>21. Promotional costs</b>		690	4150
<b>22. Interest expense</b>		7,986	4075
a. Includes interest on accounts subject to subordination agreements	4070		
<b>23. Losses in error account and bad debts</b>			4170
<b>24. Data processing costs (including service bureau service charges)</b>		2,661	4185
<b>25. Non-recurring charges</b>			4190
<b>26. Regulatory fees and expenses</b>		6,223	4195
<b>27. Other expenses</b>		106,206	4100
<b>28. Total expenses</b>		\$ 2,001,180	4200

**NET INCOME**

<b>29. Income (loss) before Federal income taxes and items below (Item 12 less Item 28)</b>		\$ 979,686	4210
<b>30. Provision for Federal income taxes (for parent only)</b>		0	4220
<b>31. Equity in earnings (losses) of unconsolidated subsidiaries not included above</b>		0	4222
a. After Federal income taxes of	4238		
<b>32. Extraordinary gains (losses)</b>		0	4224
a. After Federal income taxes of	4239		
<b>33. Cumulative effect of changes in accounting principles</b>		0	4225
<b>34. Net income (loss) after Federal income taxes and extraordinary items</b>		\$ 979,686	4230

**MONTHLY INCOME**

<b>35. Income (loss) (current month only) before provision for Federal income taxes and extraordinary items</b>			4211
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**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT**  
**Capital Withdrawals**  
**PART II**

**BROKER OR DEALER** First Winston Securities For the period (MMDDYY) from 01/01/03 to 12/31/03

**RECAP**

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, which have not been deducted in the computation of net capital.

**1. Equity Capital**

**A. Partnership Capital:**

1. General Partners	\$	4700
2. Limited		4710
3. Undistributed Profits		4720
4. Other (describe below)		4730
5. Sole Proprietorship		4735

**B. Corporation Capital:**

1. Common Stock		4740
2. Preferred Stock		4750
3. Retained Earnings (Dividends and Other)		4760
4. Other (describe below)		4770

**2. Subordinated Liabilities**

A. Secured Demand Notes		4780
B. Cash Subordinations		4790
C. Debentures		4800
D. Other (describe below)		4810

**3. Other Anticipated Withdrawals**

A. Bonuses		4820
B. Voluntary Contributions to Pension or Profit Sharing Plans		4860
C. Other (describe below)		4870

Total \$ 4880

**4. Description of Other**

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**STATEMENT OF CHANGES IN OWNERSHIP EQUITY**  
**(SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)**

1. Balance, beginning of period	\$	1,538,868	4240
A. Net income (loss)		979,686	4250
B. Additions (Includes non-conforming capital of	\$	4262	4260
C. Deductions (Includes non-conforming capital of	\$	4272	4270
2. Balance, end of period (From Item 1800)	\$	1,416,266	4290

**STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED**  
**TO CLAIMS OF GENERAL CREDITORS**

3. Balance, beginning of period	\$	0	4300
A. Increases			4310
B. Decreases			4320
4. Balance, end of period (From item 3520)	\$	0	4330

OMIT PENNIES

**FIRST WINSTON SECURITIES, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2003**

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OPERATING ACTIVITIES

Net income	\$ 979,686
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	1,130
(Increase)/Decrease in operating assets:	
Securities owned, net	1,882,519
Interest receivable	28,981
Increase/(Decrease) in operating liabilities:	
Accounts payable	405
Payable to broker - dealers	<u>(30,954)</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>2,861,767</u>

FINANCING ACTIVITIES

Re-payment of secured short term bank loans, net	(1,760,000)
Dividends paid	<u>(1,102,288)</u>
<u>NET CASH USED IN FINANCING ACTIVITIES</u>	<u>(2,862,288)</u>

DECREASE IN CASH

	(521)
Cash, Beginning	<u>101,311</u>
Cash, Ending	<u>\$ 100,790</u>
Supplemental cash flow disclosures:	
Interest paid	<u>\$ 7,986</u>

**FIRST WINSTON SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

First Winston Securities, Inc. is registered as a dealer pursuant to Section 15(b) of the Securities Exchange Act of 1934. The Company deals primarily in municipal bonds and performs underwriting services only as a participating underwriter. The Company's customers are generally located in North Carolina.

Securities Transactions

Securities transactions (and related revenues and expenses) are recorded on a settlement date basis, generally the third business day following the trade date.

Securities

Marketable securities owned by the Company are valued at market value. Net unrealized gains and losses are reflected in operations. Securities not readily marketable are valued at fair value as determined by management.

Underwriting Service

Underwriting fees or expenses are recognized when the underwriting is completed and the income or expense is reasonably determinable.

Cash Equivalents

For purposes of the statement of cash flows, the Company considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Receivables From and Payables to Customers and Dealers

Amounts receivable from and payable to customers and dealers represent the contract amount of securities which have not been received or delivered by the settlement date.

Property and Depreciation

Property is recorded at cost. Depreciation is generally computed using accelerated methods over estimated useful lives of five to seven years.

Income Taxes

The Company has elected to be taxed under the provision of Subchapter S of the Internal Revenue Code. Accordingly, the financial statements do not include a provision for income taxes because the Company does not incur federal or state income taxes. Instead, its earnings and losses are included in the stockholders' personal income tax returns and are taxed based on their personal tax strategies.

**FIRST WINSTON SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

**NOTE B: PROPERTY AND EQUIPMENT**

Property and equipment is summarized as follows at December 31, 2003:

Vehicle	\$ 39,345
Leasehold improvements	58,507
Office furniture and equipment	<u>1,905</u>
	99,757
Less: accumulated depreciation and amortization	<u>98,231</u>
	<u>\$ 1,526</u>

**NOTE C: SECURED SHORT TERM BANK LOANS**

At December 31, 2003, the Company had agreements with a bank to borrow funds of up to \$20,000,000 as needed on a secured basis to carry inventory and to cover failed transactions. Interest on these loans is charged at LIBOR plus 2.5% (3.6700%) at December 31, 2003. At December 31, 2003, the loan balance of \$34,000 was fully collateralized by the Company's trading inventory, which had an aggregate market value of \$1,264,365. The agreements with the bank expire on May 30, 2004.

**NOTE D: COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Company enters into underwriting commitments and when-issued contracts. At December 31, 2003, the Company expected no losses from such open commitments.

**FIRST WINSTON SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE E: LEASES**

The Company leases its office space under a noncancellable operating lease. Future minimum lease payments under the terms of this agreement at December 31, 2003 are as follows:

2004	\$ 18,339
2005	<u>7,704</u>
	<u>\$ 26,043</u>

Rent expenses under this lease was \$17,979 in 2003.

**NOTE F: MINIMUM NET CAPITAL REQUIREMENTS**

The Company, as a registered securities broker-dealer, is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1). This rule prohibits a broker-dealer from engaging in any securities transaction when its aggregate indebtedness exceeds 15 times its net capital, as those terms are defined by the rule. At December 31, 2003, the Company had net capital of \$1,269,140, which exceeded its required net capital of \$100,000, and its net capital ratio was .0007 to 1.



**SUPPLEMENTARY INFORMATION REQUIRED  
BY SEC RULE 17a-5**

Stockholders and Directors  
First Winston Securities, Inc.  
Winston-Salem, North Carolina

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of First Winston Securities, Inc. for the year ended December 31, 2003, and have issued our report thereon dated January 16, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the schedules on the following pages 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 of the Securities and Exchange Commission. Such information, as applicable, 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.

*Butler & Burke, LLP*

Winston-Salem, North Carolina  
January 16, 2004

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART II**

**BROKER OR DEALER First Winston Securities, Inc.**

as of 12/31/03

**COMPUTATION OF NET CAPITAL**

1. Total ownership equity (from Statement of Financial Condition - Item 1800) .....	\$	<u>1,416,266</u>	3480
2. Deduct: Ownership equity not allowable for net capital .....			3490
3. Total ownership equity qualified for net capital .....		<u>1,416,266</u>	3500
4. Add:			
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital .....			3520
B. Other (deductions) or allowable credits (List) .....			3525
5. Total capital and allowable subordinated liabilities .....	\$	<u>1,416,266</u>	3530
6. Deductions and/or charges:			
A. Total non-allowable assets from			
Statement of Financial Condition (Note B and C) .....	\$	<u>73,626</u>	3540
1. Additional charges for customers' and non-customers' security accounts .....		<u>3550</u>	
2. Additional charges for customers' and non-customers' commodity accounts .....		<u>3560</u>	
B. Aged fail-to-deliver: .....		<u>3570</u>	
1. Number of items .....	▼ 29	<u>3450</u>	
C. Aged short security differences-less reserve of .....	\$	<u>3460</u>	▼ 3580
number of items .....		<u>3470</u>	
D. Secured demand note deficiency .....		<u>3590</u>	
E. Commodity futures contracts and spot commodities proprietary capital charges .....		<u>3600</u>	
F. Other deductions and/or charges .....		<u>3610</u>	
G. Deductions for accounts carried under Rule 15c3-1(a)(6), (a)(7) and (c)(2)(x) ..		<u>3615</u>	
H. Total deductions and/or charges .....		<u>73,626</u>	362
7. Other additions and/or allowable credits (List) .....			363
8. Net Capital before haircuts on securities positions .....	\$	<u>1,342,640</u>	364
9. Haircuts on securities: (Computed, where applicable, pursuant to 15c3-1 (f) ):			
A. Contractual securities commitments .....		<u>1,969</u>	3660
B. Subordinated securities borrowings .....		<u>3670</u>	
C. Trading and Investment securities:			
1. Bankers' acceptances, certificates of deposit and commercial paper .....	▼ 31	<u>3680</u>	
2. U.S. and Canadian government obligations .....		<u>3690</u>	
3. State and municipal government obligations .....		<u>71,531</u>	3700
4. Corporate obligations .....		<u>3710</u>	
5. Stocks and warrants .....		<u>3720</u>	
6. Options .....		<u>3730</u>	
7. Arbitrage .....		<u>3732</u>	
8. Other securities .....	▼ 37	<u>3734</u>	
D. Undue concentration .....		<u>3650</u>	
E. Other (List) .....		<u>3736</u>	
10. Net Capital .....	\$	<u>1,269,140</u>	37

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**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART II**

**BROKER OR DEALER** First Winston Securities, Inc.

as of 12/31/03

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

11. Minimum net capital required (6-2/3% of line 19)	\$	66	375
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	100,000	375
13. Net capital requirement (greater of line 11 or 12)	\$	100,000	375
14. Excess net capital (line 10 less 13)	\$	1,169,140	377
15. Excess net capital at 1000% (line 10 less 10% of line 19)	\$	1,269,041	378

**COMPUTATION OF AGGREGATE INDEBTEDNESS**

16. Total A.I. liabilities from Statement of Financial Condition	\$	994	379
17. Add:			
A. Drafts for immediate credit	\$	3800	
B. Market value of securities borrowed for which no equivalent value is paid or credited	\$	3810	
C. Other unrecorded amounts (List)	\$	3820	383
18. Deduct: Adjustment based on deposits in Special Reserve Bank Accounts (15c3-1 (c) (1) (vii))	\$		383
19. Total aggregate indebtedness	\$	994	384
20. Percentage of aggregate indebtedness to net capital (line 19 ÷ by line 10)	%		385
21. Percentage of Aggregate Indebtedness to net capital <u>after</u> anticipated capital withdrawals (line 19 ÷ by line 10 less Item 4880 page 11)	%	0007	385

**COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT**

**Part B**      **N/A**

22. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits	\$	387
23. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	388
24. Net capital requirement (greater of line 22 or 23)	\$	376
25. Excess net capital (line 10 less 24)	\$	391
26. Percentage of Net Capital to Aggregate Debits (line 10 ÷ by line 17 page 8)	%	385
27. Percentage of Net Capital, <u>after</u> anticipated capital withdrawals, to Aggregate Debits (line 10 less Item 4880 page 11 ÷ by line 17 page 8)	%	385
28. Net capital in excess of: 5% of combined aggregate debit items or \$120,000	\$	392

**OTHER RATIOS**

**Part C**      **N/A**

29. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1 (d)	%	38
30. Options deductions/Net Capital ratio (1000% test) total deductions exclusive of liquidating equity under Rule 15c3-1(a)(6), (a)(7) and (c)(2)(x) ÷ Net Capital	%	38

**NOTES:**

- (A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
  1. Minimum dollar net capital requirement, or
  2. 6-2/3% of aggregate indebtedness or 2% of aggregate debits if alternative method is used.
- (B) Do not deduct the value of securities borrowed under subordination agreements or secured demand notes covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.
- (C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

**FIRST WINSTON SECURITIES, INC.  
AS OF DECEMBER 31, 2003**

RECONCILIATION OF COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION WITH COMPANY'S COMPUTATION (included in Part II of X-17A-5 as of December 31, 2003)

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There is no material difference in net capital computed in this report and that reported by the Company in Part II of Form X-17A-5 as of December 31, 2003.

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART II**

BROKER OR DEALER

**First Winston Securities, Inc.**

as of 12/31/03

**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS  
FOR BROKER-DEALERS UNDER RULE 15c3-3  
(See Rule 15c3-3, Exhibit A and Related Notes)**

**CREDIT BALANCES**

1. Free credit balances and other credit balances in customers' security accounts (see Note A, Exhibit A, Rule 15c3-3) .....	\$	4340	
2. Monies borrowed collateralized by securities carried for the accounts of customers (see Note B) .....		4350	
3. Monies payable against customers' securities loaned (see Note C) .....		4360	
4. Customers' securities failed to receive (see Note D) .....		4370	
5. Credit balances in firm accounts which are attributable to principal sales to customers .....		4380	
6. Market value of stock dividends, stock splits and similar distributions receivable outstanding over 30 calendar days .....		4390	
7. **Market value of short security count differences over 30 calendar days old .....		4400	
8. **Market value of short securities and credits (not to be offset by longs or by debits) in all suspense accounts over 30 calendar days .....	\$	4410	
9. Market value of securities which are in transfer in excess of 40 calendar days and have not been confirmed to be in transfer by the transfer agent or the issuer during the 40 days .....		4420	
10. Other (List) .....		4425	
11. TOTAL CREDITS .....	\$		4430

**DEBIT BALANCES**

12. **Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection net of deductions pursuant to Note E, Exhibit A, Rule 15c3-3 .....	\$	4440	
13. Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver .....		4450	
14. Failed to deliver of customers' securities not older than 30 calendar days .....		4460	
15. Margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in customer accounts (See Note F) .....		4465	
16. Other (List) .....	\$	4469	
17. **Aggregate debit items .....	\$		4470
18. **less 3% (for alternative method only — see Rule 15c3-1 (f) (5) (ii)) .....			4470
19. **TOTAL 15c3-3 DEBITS .....	\$		4470

**RESERVE COMPUTATION**

20. Excess of total debits over total credits (line 19 less line 11) .....	\$		4470
21. Excess of total credits over total debits (line 11 less line 19) .....			4470
22. If computation permitted on a monthly basis, enter 105% of excess of total credits over total debits .....			4470
23. Amount held on deposit in "Reserve Bank Account(s)", including value of qualified securities, at end of reporting period .....			4470
24. Amount of deposit (or withdrawal) including \$ 4515 value of qualified securities .....			4470
25. New amount in Reserve Bank Account(s) after adding deposit or subtracting withdrawal including \$ 4525 value of qualified securities .....	\$		4470
26. Date of deposit (MMDDYY) .....			4470

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**FREQUENCY OF COMPUTATION**

27. Daily  4332 Weekly  4333 Monthly  4334

\*\*In the event the Net Capital Requirement is computed under the alternative method, this "Reserve Formula" shall be prepared in accordance with the requirements of paragraph (f) of Rule 15c3-1.

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART II**

**BROKER OR DEALER** First Winston Securities, Inc.

as of 12/31/03

**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS  
FOR BROKER-DEALERS UNDER RULE 15c3-3 (continued)**

**EXEMPTIVE PROVISIONS**

28. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based (check one only)

A. (k) (1)—\$2,500 capital category as per Rule 15c3-1 .....	Y	455
B. (k) (2)(A)—"Special Account for the Exclusive Benefit of customers" maintained .....	X	456
C. (k) (2)(B)—All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm: <u>4335</u> .....		457
D. (k) (3)—Exempted by order of the Commission .....		458

**Information for Possession or Control Requirements Under Rule 15c3-3**

State the market valuation and the number of items of:

1. Customers' fully paid securities and excess margin securities not in the respondent's possession or control as of the report date (for which instructions to reduce to possession or control had been issued as of the report date) but for which the required action was not taken by respondent within the time frames specified under Rule 15c3-3. Notes A and B .....	\$	458
A. Number of Items .....		459
2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of the report date, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3. Notes B, C and D .....	\$	458
A. Number of Items .....	Y	459
OMIT PENN		
3. The system and procedures utilized in complying with the requirement to maintain physical possession or control of customers' fully paid and excess margin securities have been tested and are functioning in a manner adequate to fulfill the requirements of Rule 15c3-3 .....	Yes	4584
	No	459

**NOTES**

- A—Do not include in item one customers' fully paid and excess margin securities required by Rule 15c3-3 to be in possession or control but for which no action was required by the respondent as of the report date or required action was taken by respondent within the time frames specified under Rule 15c3-3.
- B—State separately in response to items one and two whether the securities reported in response thereto were subsequently reduced to possession or control by the respondent.
- C—Be sure to include in item two only items not arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3.
- D—Item two must be responded to only with report which is filed as of the date selected for the broker's or dealer's annual audit of financial statements, whether or not such date is the end of a calendar quarter. The response to item two should be filed within 60 calendar days after such date, rather than with the remainder of this report. This information may be required on a more frequent basis by the Commission or the designated examining authority in accordance with Rule 17a-5(a)(2)(iv).

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART II**

<b>BROKER OR DEALER</b> <b>First Winston Securities, Inc.</b>	<b>as of</b> <b>12/31/03</b>
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**SCHEDULE OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION  
CUSTOMERS' REGULATED COMMODITY FUTURES ACCOUNTS**

**SEGREGATION REQUIREMENTS**

<b>1. Net ledger balance:</b>	
A. Cash .....	\$ <span style="border: 1px solid black; padding: 2px;">7010</span>
B. Securities (at market) .....	<span style="border: 1px solid black; padding: 2px;">7020</span>
2. Net unrealized profit (loss) in open futures contracts traded on a contract market .....	<span style="border: 1px solid black; padding: 2px;">7030</span>
<b>3. Exchange traded options:</b>	
A. Add: Market Value of open option contracts purchased on a contract market .....	<span style="border: 1px solid black; padding: 2px;">7032</span>
B. Deduct: Market Value of open option contracts granted (sold) on a contract market .....	( <span style="border: 1px solid black; padding: 2px;">7033</span> )
4. Net equity (deficit) (total of 1, 2 and 3) .....	<span style="border: 1px solid black; padding: 2px;">7040</span>
5. Add accounts liquidating to a deficit and accounts with debit balances with no open trades .....	<span style="border: 1px solid black; padding: 2px;">7050</span>
6. Amount required to be segregated (total of 4 and 5) .....	<span style="border: 1px solid black; padding: 2px;">7060</span>

**FUNDS ON DEPOSIT IN SEGREGATION**

<b>7. Deposited in segregated funds bank accounts:</b>	
A. Cash .....	\$ <span style="border: 1px solid black; padding: 2px;">7070</span>
B. Securities representing investments of customers' funds (at market) .....	<span style="border: 1px solid black; padding: 2px;">7080</span>
C. Securities held for particular customers or option customers in lieu of cash (at market) .....	<span style="border: 1px solid black; padding: 2px;">7090</span>
<b>8. Margins on deposit with clearing organizations of contract markets:</b>	
A. Cash .....	<span style="border: 1px solid black; padding: 2px;">7100</span>
B. Securities representing investments of customers' funds (at market) .....	<span style="border: 1px solid black; padding: 2px;">7110</span>
C. Securities held for particular customers or option customers in lieu of cash (at market) .....	<span style="border: 1px solid black; padding: 2px;">7120</span>
9. Settlement due from (to) clearing organizations of contract markets .....	<span style="border: 1px solid black; padding: 2px;">7130</span>
<b>10. Exchange traded options:</b>	
A. Add: Unrealized receivables for option contracts purchased on contract markets .....	<span style="border: 1px solid black; padding: 2px;">7132</span>
B. Deduct: Unrealized obligations for option contracts granted (sold) on contract markets .....	<span style="border: 1px solid black; padding: 2px;">7133</span>
11. Net equities with other FCMs .....	<span style="border: 1px solid black; padding: 2px;">7140</span>
<b>12. Segregated funds on hand:</b>	
A. Cash .....	<span style="border: 1px solid black; padding: 2px;">7150</span>
B. Securities representing investments of customers' funds (at market) .....	<span style="border: 1px solid black; padding: 2px;">7160</span>
C. Securities held for particular customers in lieu of cash (at market) .....	<span style="border: 1px solid black; padding: 2px;">7170</span>
13. Total amount in segregation (total of 7 through 12) .....	\$ <span style="border: 1px solid black; padding: 2px;">7180</span>
14. Excess (insufficiency) funds in segregation (13 minus 6) .....	\$ <span style="border: 1px solid black; padding: 2px;">7190</span>

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART II**

**BROKER OR DEALER** First Winston Securities, Inc.

as of 12/31/03

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.

Type of Proposed withdrawal or Accrual See below for code to enter	N/A Name of Lender or Contributor	Insider or Outsider? (In or Out)	Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities)	(MMDDYY) Withdrawal or Maturity Date	Expect to Renew (yes or no)
4600	4601	4602	\$ 4603	4604	4605
4610	4611	4612	4613	4614	4615
4620	4621	4622	4623	4624	4625
4630	4631	4632	4633	4634	4635
4640	4641	4642	4643	4644	4645
4650	4651	4652	4653	4654	4655
4660	4661	4662	4663	4664	4665
4670	4671	4672	4673	4674	4675
4680	4681	4682	4683	4684	4685
4690	4691	4692	4693	4694	4695
TOTAL \$			4699*		

OMIT PENNIES

\*To agree with the total on Recap (Item No. 4880)

Instructions: Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c)(2)(iv)), which could be required by the lender on demand or in less than six months.

WITHDRAWAL CODE:	DESCRIPTION
1.	Equity Capital
2.	Subordinated Liabilities
3.	Accruals
4.	15c3-1(c)(2)(iv) Liabilities

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART II**

**BROKER OR DEALER** First Winston Securities, Inc.

as of 12/31/03

**N/A**

**FINANCIAL AND OPERATIONAL DATA**

1. Month end total number of stock record breaks unresolved over three business days		<u>Valuation</u>		<u>Number</u>	
A. breaks long	\$	4890		4900	
B. breaks short	\$	4910		4920	
2. Is the firm in compliance with Rule 17a-13 regarding periodic count and verification of securities positions and locations at least once in each calendar quarter? (Check one)					
		Yes	<input type="checkbox"/>	4930	No <input type="checkbox"/> 4940
A) If response is negative attach explanation of steps being taken to comply with Rule 17a-13.					
3. Personnel employed at end of reporting period					
A. Income producing personnel				4950	
B. Non-income producing personnel (all other)				4960	
C. Total				4970	
4. Actual number of tickets executed during current month of reporting period					
				4980	
5. Number of corrected customer confirmations mailed after settlement date					
				4990	
6. Money differences					
	<u>No. of Items</u>	<u>Debit (Short Value)</u>	<u>No. of Items</u>	<u>Credit (Long Value)</u>	
	5000	\$ 5010	5020	\$ 5030	
7. Security suspense accounts	5040	\$ 5050	5060	\$ 5070	
8. Security difference accounts	5080	\$ 5090	5100	\$ 5110	
9. Commodity suspense accounts	5120	\$ 5130	5140	\$ 5150	
10. Open transactions with correspondents, other brokers, clearing organizations, depositories and interoffice and intercompany accounts which could result in a charge-unresolved amounts over 30 calendar days					
	5160	\$ 5170	5180	\$ 5190	
11. Bank account reconciliations-unresolved amounts over 30 calendar days					
	5200	\$ 5210	5220	\$ 5230	
12. Open transfers over 40 calendar days, not confirmed					
	5240	\$ 5250	5260	\$ 5270	
13. Transactions in reorganization accounts-over 60 calendar days					
	5280	\$ 5290	5300	\$ 5310	
14. Total	5320	\$ 5330	5340	\$ 5350	
15. Failed to deliver 5 business days or longer (21 business days or longer in the case of Municipal Securities)					
		<u>No. of Items</u>	<u>Ledger Amount</u>	<u>Market Value</u>	
		5360	\$ 5361	\$ 5362	
16. Failed to receive 5 business days or longer (21 business days or longer in the case of Municipal Securities)					
		5363	\$ 5364	\$ 5365	
17. Security concentrations (See instructions in Part I)					
A. Proprietary positions				\$ 5370	
B. Customers' accounts under Rule 15c3-3				\$ 5374	
18. Total of personal capital borrowings due within six months				\$ 5378	
19. Maximum haircuts on underwriting commitments during the period				\$ 5380	
20. Planned capital expenditures for business expansion during next six months				\$ 5382	
21. Liabilities of other individuals or organizations guaranteed by respondent				\$ 5384	
22. Lease and rentals payable within one year				\$ 5386	
23. Aggregate lease and rental commitments payable for entire term of the lease					
A. Gross				\$ 5388	
B. Net				\$ 5390	

OMIT PENNIES



Stockholders and Directors  
First Winston Securities, Inc.  
Winston-Salem, North Carolina

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE

In planning and performing our audit of the financial statements of First Winston Securities, Inc. (the Company), for the year ended December 31, 2003, we considered its internal control structure, including procedures 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 the internal control structure.

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 the following:

1. 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. Making the quarterly securities examinations, counts, verifications, and comparisons, and the 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
4. 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 this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures, 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 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 the preparation of financial statements in accordance with U. S. 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 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 changes in conditions or that the effectiveness of their design and operation may deteriorate. Our 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, we noted no matters involving the internal control structure, including procedures 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, 2003, to meet the Commission's objectives.

This report is intended solely for the information and use of management, the SEC, The New York Stock Exchange 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.

*Butler & Burke LLP*

Winston-Salem, North Carolina  
January 16, 2004