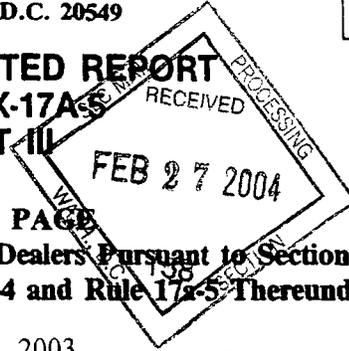


UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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8- 49347

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



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 January 1, 2003 AND ENDING December 31, 2003  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

Mark Stewart Securities, Inc.

OFFICIAL USE ONLY  
FIRM ID. NO.

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

18101 Von Karman Avenue, Suite 330

(No. and Street)

Irvine

California

92612

(City)

(State)

(Zip Code)

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

Mark Stewart

(949) 955-2400

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Kevin G. Breard, CPA An Accountancy Corporation

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

9010 Corbin Avenue, Suite 7

Northridge

California

91324

(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 12 2004

THOMSON  
FINANCIAL

FOR OFFICIAL USE ONLY

\*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).

SEC 1410 (3-91)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

1431004

AA 3/8/2004 \*\*



**OATH OR AFFIRMATION**

I, Mark Stewart, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Mark Stewart Securities, as of December 31, 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:

State of California  
 County of Orange  
 Subscribed and sworn (or affirmed) to before me this 26 day of Feb., 2004  
Virginia H. Cook  
 Notary Public

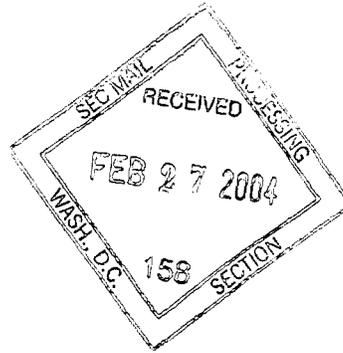
Mark Stewart  
 Signature  
PRESIDENT  
 Title



This report\*\* contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in ~~Financial Condition~~ Cash Flows
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole 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).



**Mark Stewart Securities, Inc.**  
**Report Pursuant to Rule 17a-5 (d)**  
**Financial Statements**  
**For the Year Ended December 31, 2003**

PLACE  
NOTARIZED  
FACING  
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KEVIN G. BREARD, C.P.A.  
AN ACCOUNTANCY CORPORATION

Independent Auditor's Report

Board of Directors  
Mark Stewart Securities, Inc.

I have audited the accompanying statement of financial condition of Mark Stewart Securities, Inc. (an S Corporation) as of December 31, 2003 and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mark Stewart 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 accounting principles generally accepted in the United States of America.

My examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on Schedules I-III are presented for purposes of additional analysis and is not required as part of the basic financial statements, but as supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subject to the auditing procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole and in conformity with the rules of the Securities and Exchange Commission.



Kevin G. Breard  
Certified Public Accountant

Northridge, California  
January 29, 2004

NORTHRIDGE OFFICE PLAZA  
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NORTHRIDGE, CALIFORNIA 91324  
(818) 886-0940 • FAX (818) 886-1924  
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**Mark Stewart Securities, Inc.**  
**Statement of Financial Condition**  
**December 31, 2003**

**Assets**

Receivable from clearing firm	\$ 8,417
Deposits at clearing firm	23,588
Furniture and equipment, net of \$7,228 accumulated depreciation	1,517
Securities, not readily marketable	2,475
Other receivables	1,000
Loan to stockholder	<u>27,786</u>
<b>Total assets</b>	<b><u>\$ 64,783</u></b>

**Liabilities and Stockholder's Equity**

**Liabilities**

Accounts payable and accrued expenses	\$ 5,741
Short-term bank loans	3,908
Loan from related party	100
Income taxes payable	<u>800</u>
<b>Total liabilities</b>	10,549

**Stockholder's equity**

Common stock, no par value, 20,000,000 shares authorized, 2,000,000 shares issued and outstanding	5,555
Retained earnings	<u>48,679</u>
<b>Total stockholder's equity</b>	<u>54,234</u>
<b>Total liabilities and stockholder's equity</b>	<b><u>\$ 64,783</u></b>

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

**Mark Stewart Securities, Inc.**  
**Statement of Income**  
**For the year ended December 31, 2003**

**Revenue**

Commissions	\$ 107,734
Interest income	79
Realized gains (losses)	(825)
Other income	<u>4,054</u>

**Total revenue** 111,042

**Expenses**

Employee compensation	5,151
Commissions, trading fees and floor brokerage	36,214
Communications	7,977
Occupancy & equipment rental	9,092
Interest expense	1,826
Taxes, other than income taxes	5,509
Other operating expenses	<u>21,266</u>

**Total expenses** 87,035

**Income (loss) before income taxes** 24,007

**Income tax provision** 800

**Net income (loss)** \$ 23,207

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

**Mark Stewart Securities, Inc.**  
**Statement of Changes in Stockholder's Equity**  
**For the year ended December 31, 2003**

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance on January 1, 2003	\$ 5,555	\$ 25,472	\$ 31,027
Net income	<u>—</u>	<u>23,207</u>	<u>23,207</u>
Balance on December 31, 2003	<u>\$ 5,555</u>	<u>\$ 48,679</u>	<u>\$ 54,234</u>

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

**Mark Stewart Securities, Inc.**  
**Statement of Cash Flows**  
**For the year ended December 31, 2003**

<b>Cash flows from operating activities:</b>		
Net income		\$ 23,207
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	\$ 1,013	
(Increase) decrease in:		
Accounts receivable	559	
Clearing deposit	1,622	
Other receivable	(1,000)	
(Decrease) increase		
Accounts payable	3,443	
Income taxes payable	<u>800</u>	
Total adjustments		<u>6,437</u>
<b>Net cash provided by operating activities</b>		<b>29,644</b>
<b>Cash flows from investing activities:</b>		
Expired warrants	<u>825</u>	
<b>Net cash provided by investing activities</b>		<b>825</b>
<b>Cash flows from financing activities:</b>		
Repayment of short term bank loans	(1,072)	
Repayment of loan payable officer	(1,611)	
Issuance of loan receivable from stockholder	<u>(27,786)</u>	
<b>Net cash used in financing activities</b>		<u>(30,469)</u>
<b>Net decrease in cash</b>		<b>-</b>
<b>Cash at beginning of year</b>		<u><b>-</b></u>
<b>Cash at end of year</b>		<u><u><b>\$ -</b></u></u>
<b>Additional disclosures:</b>		
Taxes paid	\$ -	
Interest paid	\$ 1,826	

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

**Mark Stewart Securities, Inc.**  
**Notes to Financial Statements**  
**December 31, 2003**

**Note 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General*

Mark Stewart Securities, Inc. (the "Company"), an S Corporation, was originally incorporated under the name "Trademark Investments, Inc.", on May 15th, 1996 in the state of California. On November 19, 2000, the Company changed its name to Mark Stewart Securities, Inc. The Company operates, a general securities business, specializing in Orange County stocks, including options, on a fully disclosed basis whereby it does not hold customer funds or securities, and Regulation D offerings on a best efforts basis.

The Company is a member of the National Association of Securities Dealers, Inc. ("NASD") and the Securities Investor Protection Corporation ("SIPC") and Municipal Securities Rulemaking Board ("MSRB").

The Company has 175 clients, most in the Orange County area. About twenty five to thirty (10-15) of these clients generate 25% of the Company's revenue.

*Summary of Significant Accounting Principles*

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Securities transactions are recorded on a settlement date basis with related commission income and expenses also recorded on a settlement date basis. Accounting Principles Generally Accepted in the United States of America (US GAAP) requires securities transactions to be recorded on a trade basis. There is no material difference between trade date and settlement date accounting.

Marketable securities are valued at market value. Mark to market accounting is used for purposes of determining unrealized gain/loss on security positions in proprietary trading and investment accounts. The securities are sold on a first in first out basis; however, certain securities are inventoried on a specific identification basis.

**Mark Stewart Securities, Inc.**  
**Notes to Financial Statements**  
**December 31, 2003**

**Note 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

The Company, with the consent of its stockholder, has elected to be an S Corporation and accordingly has its income taxed under Section 1372 of the Internal Revenue Code, which provides that in lieu of corporate income taxes, the stockholder is taxed on the Company's taxable income. Therefore, no provision or liability for Federal Income Taxes is included in these financial statements. The State of California has similar regulations, although there exists a provision for a minimum Franchise Tax and a tax rate of 1.5% over the minimum Franchise Fee of \$800.

The Company has elected to report the statement of changes in stockholder's equity without disclosing the accumulated adjustment account and other equity accounts pertinent to a S Corporation. There is no financial impact to these financial statements.

**Note 2: DEPOSITS WITH CLEARING ORGANIZATION**

The Company has deposited \$25,000 with Wedbush Morgan Securities as security for its transactions with them. Interest is paid monthly on the deposit at the average overnight repurchase agreement rate. At December 31, 2003, the Company was deficient in its required clearing deposit by \$1,412. The balances at December 31, 2003 include interest earned for a deposit total of \$23,588.

**Note 3: FURNITURE AND EQUIPMENT, NET**

The furniture and equipment are recorded at cost.

		<u>Depreciable Life Years</u>
Furniture & equipment	\$ 8,745	5-7
Less accumulated depreciation	<u>(7,228)</u>	
	<u>\$ 1,517</u>	

Depreciation expense for the year ended December 31, 2003 was \$1,013.

**Mark Stewart Securities, Inc.**  
**Notes to Financial Statements**  
**December 31, 2003**

**Note 4: SECURITIES, NOT READILY MARKETABLE**

Securities, not readily marketable consist of 300 warrants in the NASDAQ Stock Market, Inc., these securities were offered primarily to NASD members and purchased through a Private Placement Memorandum. The warrants are exercisable in four tranches over four years. The first tranche expired on June 27, 2003. The Company has the remaining options to exercise in the following tranches;

		<u>Exercisable on</u>	<u>Expires on</u>	<u>Exercise Price</u>
Tranche 2	300 shares	June 30, 2003	June 25, 2004	\$ 14.00
Tranche 3	300 shares	June 28, 2004	June 27, 2005	\$ 15.00
Tranche 4	300 shares	June 28, 2005	June 27, 2006	\$ 16.00

The Company is carrying these warrants at their amortized cost of \$2,475.

**Note 5: LOAN TO STOCKHOLDER**

Amounts due from stockholder are unsecured, non-interest bearing and due on demand.

**Note 6: INCOME TAXES**

As discussed in the Summary of Significant Accounting Policies (Note 1), the Company has elected the S Corporate tax status, therefore no federal income tax provision is provided.

The tax provision of \$800 represents the California state minimum tax . Similar to the Federal Rules, the net income passes through to the stockholders so that both federal and state taxes are primarily paid on the individual level.

**Note 7: RECENTLY ISSUED ACCOUNTING STANDARDS**

In January 2003, the FASB issued Interpretation 46, *Consolidation of Variable Interest Entities*. In general, a variable interest entity is a corporation, partnership, trust, or any legal structure used for business purposes that either (a) does not have interest entity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Interpretation 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The

**Mark Stewart Securities, Inc.**  
**Notes to Financial Statements**  
**December 31, 2003**

**Note 7: RECENTLY ISSUED ACCOUNTING STANDARDS**  
**(Continued)**

consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to transactions entered into prior to February 1, 2003 in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The adoption of the Interpretation on July 1, 2003 did not have a material impact on the Company's financial statements.

In April 2003, the FASB issued SFAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, which amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. The Statement is effective for contracts entered into or modified after June 30, 2003. The adoption of this Statement did not have a material impact on the Company's financial statements.

In May 2003, The FASB issued SFAS 150, *Accounting for Certain Financial Instruments with Characteristic of both Liabilities and Equity*. The Statement establishes standards for how an issuer classifies and measure certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer clarify a financial instrument that is within its scope as a liability (or an asset in some circumstances). It is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this Statement did not have a material impact on the Company's financial statements.

**Note 8: NET CAPITAL**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Net capital and aggregate indebtedness change day to day, but on December 31, 2003, the Company's net capital of \$21,456 exceeded the minimum net capital requirement by \$16,456; and the Company's ratio of aggregate indebtedness (\$10,549) to net capital was 0.49 to 1, which is less than the 15 to 1 maximum ratio required of a Broker/Dealer.



**Mark Stewart Securities, Inc.**  
**Schedule II - Computation for Determination of Reserve**  
**Requirements Pursuant to Rule 15c3-3**  
**As of December 31, 2003**

A computation of reserve requirement is not applicable to Mark Stewart Securities, Inc. as the Company qualifies for exemption under Rule 15c3-3 (k)(2)(ii).

*See independent auditor's report.*

**Mark Stewart Securities, Inc.**  
**Schedule III - Information Relating to Possession or Control**  
**Requirements Under Rule 15c3-3**  
**As of December 31, 2003**

Information relating to possession or control requirements is not applicable to Mark Stewart Securities, Inc. as the Company qualifies for exemption under Rule 15c3-3 (k)(2)(ii).

*See independent auditor's report.*

**Mark Stewart Securities, Inc.**  
**Supplementary Accountant's Report**  
**on Internal Accounting Control**  
**Report Pursuant to 17a-5**  
**For the Year Ended December 31, 2003**

KEVIN G. BREARD, C.P.A.  
AN ACCOUNTANCY CORPORATION

Board of Directors  
Mark Stewart Securities, Inc.

In planning and performing my audit of the financial statements and supplemental schedules of Mark Stewart Securities, Inc. for the year ended December 31, 2003, I considered its internal control structure, for the purpose for safeguarding securities, in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission, I have made a study of the practices and procedures followed by Mark Stewart Securities, Inc. including tests of such practices and procedures that I considered relevant to objectives stated in rule 17a-5(g), in making the periodic computations of aggregate indebtedness (or aggregate debits) 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, I did not review the practices and procedures followed by the Company in any of the following:

1. Making the 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 Federal Reserve 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 structure and the practice and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements 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 Commission's above mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

NORTHRIDGE OFFICE PLAZA  
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NORTHRIDGE, CALIFORNIA 91324  
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B r e a r d C P A @ a o l . c o m

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 they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

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

I understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purpose 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 material inadequacy for such purposes. Based on this understanding and on my study, I 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 use of management, the Securities and Exchange Commission, and other regulatory agencies which rely on rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.



Kevin G. Breard  
Certified Public Accountant

Northridge, California  
January 29, 2004