

12-14-2004

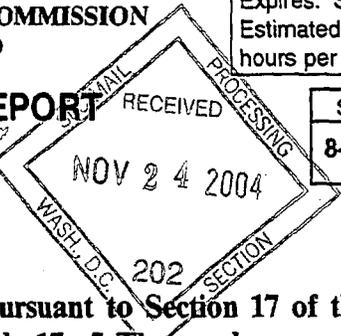


SEC 04014569 COMMISSION  
Washington, D.C. 20549

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



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**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 10/01/2003 AND ENDING 09/30/2004  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: First Southwest Company

OFFICIAL USE ONLY  
FIRM ID. NO.

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)

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

David Commons

(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  
DEC 16 2004  
THOMSON FINANCIAL

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\*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)

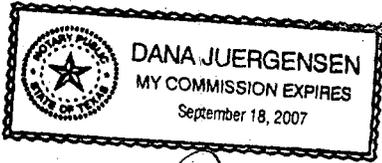
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12-14-2004

OATH OR AFFIRMATION

I, David Commons, 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, 2004, 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:

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



*Dana Juergensen*  
Notary Public

*David Commons*  
Signature  
Chief Financial Officer  
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.
- (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 Statements of Financial Condition**

**September 30, 2004 and 2003**

|   | <b>2004</b>           | <b>2003</b>        |
|---|-----------------------|--------------------|
| <b>Assets</b>   |                       |                    |
| Cash and cash equivalents   | \$ 6,033,987          | 13,471,575         |
| Cash and securities segregated for regulatory purposes  | 56,000,000            | 29,000,000         |
| Receivable from brokers, dealers, and clearing organizations  | 299,315,164           | 211,892,364        |
| Receivable from customers - secured   | 83,789,715            | 65,120,503         |
| <b>Securities:</b>  |                       |                    |
| Marketable  | 29,342,759            | 7,290,303          |
| Not readily marketable  | 24,604                | 24,604             |
| Furniture, equipment, and leaseholds, net   | 3,620,414             | 3,807,039          |
| Goodwill, net   | 3,527,657             | 3,527,657          |
| Other assets and deferred charges, net  | 9,378,448             | 7,560,191          |
| Deferred income taxes, net  | 1,075,685             | 2,426,413          |
|   | <b>\$ 492,108,433</b> | <b>344,120,649</b> |
| <b>Liabilities and Stockholder's Equity</b>   |                       |                    |
| <b>Liabilities:</b>   |                       |                    |
| Drafts payable  | \$ 7,831,740          | 6,954,579          |
| Notes payable   | 11,998,860            | —                  |
| Payable to brokers, dealers, and clearing organizations   | 296,171,343           | 176,164,337        |
| Payable to customers  | 90,718,536            | 77,886,502         |
| Other liabilities and deferred credits  | 32,552,182            | 35,492,807         |
|   | <b>439,272,661</b>    | <b>296,498,225</b> |
| <b>Commitments and contingent liabilities</b>   |                       |                    |
| <b>Stockholder's equity:</b>  |                       |                    |
| Common stock at \$.01 par value. Authorized 500 and 1,000,000 shares at September 30, 2004 and 2003, respectively; issued and outstanding 500 and 200,007 shares at September 30, 2004 and 2003, respectively | 5                     | 2,000              |
| Additional paid-in capital  | 25,712,034            | 24,916,736         |
| Retained earnings   | 27,123,733            | 22,703,688         |
| Total stockholder's equity  | <b>52,835,772</b>     | <b>47,622,424</b>  |
|   | <b>\$ 492,108,433</b> | <b>344,120,649</b> |

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