



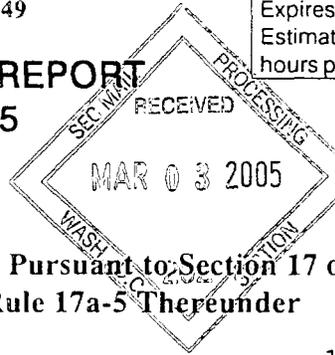
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

BB 3/24

OMB APPROVAL
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JAL AUDITED REPORT
FORM X-17A-5
PART III



SEC FILE NUMBER
8- 38158

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 01/01/04 AND ENDING 12/31/04
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Institutional Securities Corporation

OFFICIAL USE ONLY

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

FIRM I.D. NO.

2800 Oak Lawn Avenue

(No. and Street)

Dallas

Texas

75219

(City)

(State)

(Zip Code)

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

Terry L. Hill

(214) 520 - 1115

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Davis, Clark and Company, P.C.

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

2705 Swiss Avenue

Dallas

Texas

75204

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

APR 04 2005

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 (06-02)

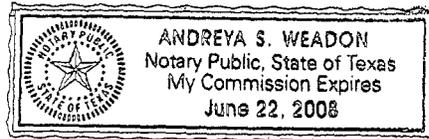
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OATH OR AFFIRMATION

I, Terry L. Hill, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Institutional Securities Corporation, as of December 31, 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:

Terry L Hill
Signature
PRESIDENT
Title

Andreya S Weadon
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 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.

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



DAVIS CLARK
& COMPANY

Independent Auditor's Report

Board of Directors
Institutional Securities Corporation
2800 Oak Lawn Avenue
Dallas, Texas 75219

Dear Sirs:

We have audited the accompanying Statement of Financial Condition of Institutional Securities Corporation (A Wholly Owned Subsidiary of ISC Group, Inc.) as of December 31, 2004, and the related Statements of Income, of Changes in Stockholder's Equity, of Cash Flows, and of Changes in Liabilities Subordinated to Claims of General Creditors 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. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedules 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 Institutional Securities Corporation as of December 31, 2004, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in schedules 1-3 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 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.

Davis Clark & Company

DAVIS, CLARK AND COMPANY, P.C.
Certified Public Accountants

February 19, 2005

Institutional Securities Corporation
(A Wholly Owned Subsidiary of ISC Group, Inc.)
Statement of Financial Condition
December 31, 2004

Exhibit A

ASSETS

Cash	\$ 165,406
Certificate of deposit	42,124
Receivable from brokers or dealers:	
Clearing account	15,678
Other	231,609
Income tax receivable (due from parent)	2,369
Prepaid expense	29,968
Prepayment on cost sharing agreement with parent	116,239
Investment in nonmarketable equity securities	<u>5,800</u>
Total assets	<u>\$ 609,193</u>

The accompanying notes are an integral part of this statement.

Institutional Securities Corporation
(A Wholly Owned Subsidiary of ISC Group, Inc.)
Statement of Financial Condition
December 31, 2004

Exhibit A

LIABILITIES AND STOCKHOLDER'S EQUITY

Commissions payable	\$ 175,167
Accounts payable	10,316
Deferred income tax	<u>46,036</u>
Total liabilities	<u>231,519</u>
Stockholder's equity	
Common stock, authorized, issued and outstanding 10,000 shares of \$.10 par value	1,000
Additional paid in capital	30,658
Retained earnings	<u>346,016</u>
Total stockholder's equity	<u>377,674</u>
Total liabilities and stockholder's equity	<u>\$ 609,193</u>

The accompanying notes are an integral part of this statement.

Institutional Securities Corporation
(A Wholly Owned Subsidiary of ISC Group, Inc.)
Statement of Changes in Stockholder's Equity
Year Ended December 31, 2004

Exhibit B

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholder's Equity</u>
Balance beginning of period	\$ 1,000	\$ 30,658	\$ 310,043	\$ 341,701
Net (profit) for period	<u>- 0 -</u>	<u>- 0 -</u>	<u>35,973</u>	<u>35,973</u>
Balance at end of period	<u>\$ 1,000</u>	<u>\$ 30,658</u>	<u>\$ 346,016</u>	<u>\$ 377,674</u>

The accompanying notes are an integral part of this statement.

Institutional Securities Corporation
(A Wholly Owned Subsidiary of ISC Group, Inc.)
Statement of Income
Year Ended December 31, 2004

Exhibit C

Revenues	
Commissions	\$ 3,130,706
Advisory fees	548,096
Interest and dividends	<u>20,473</u>
Total revenue	<u>3,699,275</u>
Expenses	
Commissions	3,128,032
Regulatory fees and expenses	30,945
Other operating expenses	<u>497,853</u>
Total expenses	<u>3,656,830</u>
Income before income tax	42,445
State and federal income tax expense	<u>6,472</u>
Net income	<u>\$ 35,973</u>

The accompanying notes are an integral part of this statement.

Institutional Securities Corporation
(A Wholly Owned Subsidiary of ISC Group, Inc.)
Statement of Cash Flows
Year Ended December 31, 2004

Exhibit D

Cash flows from operating activities:	
Net income	\$ 35,973
Non cash expenses, revenues, losses and gains included in net loss:	
Decrease in clearing account receivable	9,674
Decrease in accounts receivable - other	61,639
Decrease in income tax receivable (due from parent)	16,200
(Increase) in prepaid expenses	(111,767)
Increase in commissions payable	33,813
Increase in accounts payable	7,001
(Decrease) in deferred income tax	(6,069)
Net cash flow provided by operating activities	<u>46,464</u>
Cash flows from investing activities:	
Purchase of certificate of deposit	(26,724)
Net cash flows (used in) investing activities	<u>(26,724)</u>
Net increase in cash	19,740
Cash at beginning of the year	<u>145,666</u>
Cash at the end of the year	<u>\$ 165,406</u>
<u>Supplemental Cash Flow Information:</u>	
Federal income taxes actually paid (to parent)	<u>\$ 14,000</u>

The accompanying notes are an integral part of this statement.

Institutional Securities Corporation
(A Wholly Owned Subsidiary of ISC Group, Inc.)
Statement of Changes in Liabilities
Subordinated to Claims of General Creditors
Year Ended December 31, 2004

Exhibit E

Balance December 31, 2004

\$ - 0 -

No increase or decrease for the year ended December 31, 2004.

The accompanying notes are an integral part of this statement.

Institutional Securities Corporation
(A Wholly Owned Subsidiary of ISC Group, Inc.)
Notes to Financial Statements
December 31, 2004

1. Summary of Significant Accounting Policies

In fulfilling its responsibility for the preparation of the Company's financial statements and disclosures, Company management selects accounting principles generally accepted in the United States of America and adopts methods for their application. The application of accounting principles requires the estimating, matching and timing of revenue and costs in the determination of income or loss. It is also necessary for management to determine, measure, allocate and make certain assumptions regarding Company resources and obligations within the financial process according to those principles. Below is a summary of certain significant accounting policies selected by management.

A. General

Institutional Securities Corporation (The Company) was formed in July, 1999 as a wholly owned subsidiary of ISC Group, Inc. The Company is engaged in the securities broker-dealer industry operating as an introducing broker and forwards all transactions and customer accounts to Southwest Securities who carries such accounts on a fully disclosed basis. The Company primarily serves clients located in Texas.

B. Revenue Recognition

Revenues and expenses are recognized as earned or incurred, using the accrual method of accounting. Commissions for customer's transactions are recorded on a trade date basis.

C. Certificate of Deposits

The Company has certificates of deposit with a financial institution with original maturities of twenty four months. These investments are stated at cost, as it is the intent of the company to hold these securities until maturity.

D. Cash Flows

The Company uses the "indirect method" in preparing the Statement of Cash Flows. For purposes of the Statement of Cash Flows, cash and cash equivalents include demand deposits and certificates of deposit with initial maturities of three months or less.

Institutional Securities Corporation
(A Wholly Owned Subsidiary of ISC Group, Inc.)
Notes to Financial Statements
December 31, 2004

1. Summary of Significant Accounting Policies (cont'd)

E. Income Tax Calculation

The Company files a consolidated federal income tax return with its parent company. Income tax expense is computed as if the Company filed a separate return.

F. Fixed Assets

Fixed assets are stated at cost. Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of the assets are capitalized.

Fixed assets are fully depreciated.

G. Accounting Estimates and Assumptions

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. The major estimates are valuation of securities owned, net realizable value of unsecured receivables, valuation of commissions payable and lives used to depreciate fixed assets. The methods used in making accounting estimates are believed by management to be reasonable and have been consistently applied. Actual results could differ from estimates used.

H. Compensated Absences

Employees of the Company are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service and other factors. The corporation's policy is to recognize the costs of compensated absences when actually paid to employees.

Institutional Securities Corporation
(A Wholly Owned Subsidiary of ISC Group, Inc.)
Notes to Financial Statements
December 31, 2004

2. Receivables from Brokers or Dealers

The Company considers receivables from brokers or dealers to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, it will be charged to operations when that determination is made.

3. Federal Income Tax

The Company is wholly owned by ISC Group, Inc. and is included in its consolidated Federal income tax return. Income taxes are provided based on the policy of the parent corporation charging or crediting the Company for the amount of income tax expense or benefit resulting from the inclusion of the Company's results of operations in the consolidated federal income tax return 4.

Deferred income taxes result from the use of the cash method of accounting for income tax purposes which gives rise to temporary differences between financial statement and tax return recognition of receivables and payables.

State and federal income tax were computed as follows:

	<u>Tax</u>	<u>Percentage</u>
Tax benefit at statutory rate	\$ 14,431	34.0 %
Surtax exemptions	(8,064)	(19.0 %)
Other	(806)	(1.9 %)
Federal income tax expense	5,561	<u>13.1 %</u>
State income tax	<u>911</u>	
Total state and federal income tax expense	<u>\$ 6,472</u>	

Federal income tax expense is receivable as follows:

Federal income tax	\$ 5,561
Deferred income tax	(3,192)
Total federal income tax receivable	<u>\$ 2,369</u>

The parent company files the consolidated tax return utilizing the cash basis. This results in a deferred tax liability as follows:

Institutional Securities Corporation
(A Wholly Owned Subsidiary of ISC Group, Inc.)
Notes to Financial Statements
December 31, 2004

3. Federal Income Tax (cont'd)

Deferred tax asset from liabilities	\$ 46,121
Deferred tax liability from receivables and prepaids	(92,157)
Net deferred tax liability	<u>(\$ 46,036)</u>

4. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission's (S.E.C.) Uniform Net Capital 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 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2004, the Company's total net capital as defined by rule 15c3-1 was as follows:

<u>Required</u>	<u>Actual</u>	<u>Excess</u>	Percentage of Aggregate Indebtedness to Net Capital
<u>\$ 9,972</u>	<u>\$132,748</u>	<u>\$122,776</u>	<u>112 %</u>

5. Commitments, Related Parties, and Contingencies

Due to the nature of its business, the Company becomes party to various claims, legal actions, and complaints arising in the ordinary course of business. At December 31, 2004, all such claims or legal actions were of such amount or nature that management believes any adverse outcome would not have a material impact on the Company.

At various times throughout the year, the Company may maintain deposits in financial institutions in excess of federally insured amounts. The amount in excess of federally insured amounts as of December 31, 2004 was \$315,414.

The Company shares office facilities with its parent company. During 2004, the parent performed certain administrative and accounting services for the Company. Pursuant to a cost sharing agreement, these administrative overhead and the office facilities services approximated \$35,000 per month. At December 31, 2004, approximately three months administrative services had been prepaid. During the year ended December 31, 2004, \$442,169 was incurred for these services.

Institutional Securities Corporation
(A Wholly Owned Subsidiary of ISC Group, Inc.)
Notes to Financial Statements
December 31, 2004

5. Commitments, Related Parties, and Contingencies (cont'd)

The Company engages in various brokerage activities (including forwarding transactions and customer accounts to Southwest Securities) in which counter parties primarily include broker-dealers, banks and other financial institutions. In the event counter parties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the credit worthiness of the counter party and is considered by management before entering into such transactions.

6. Credit Concentration

Institutional Securities Corporation extends credit to Southwest Securities who carries customer accounts of Institutional Securities Corporation on a fully disclosed basis. Southwest Securities is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (15c3-1).

Institutional Securities Corporation provides financial services to its customers, most of whom are retirement plans. The Company's commissions income is derived mainly from three mutual fund companies.

Institutional Securities Corporation
(A Wholly Owned Subsidiary of ISC Group, Inc.)
Computation of Net Capital
Pursuant to Rule 15c3-1
December 31, 2004

Schedule 1

Total stockholder's equity	\$ 377,674
Add liabilities subordinate to claims of general creditors	<u>- 0 -</u>
Total stockholder's equity qualified for net capital	<u>377,674</u>
Deductions	
Total nonallowable assets from statement of financial condition	(<u>239,126</u>)
Total deductions	(<u>239,126</u>)
Net capital before haircuts on securities positions	138,548
Non-marketable securities	(<u>5,800</u>)
Net capital	<u>\$ 132,748</u>

The accompanying notes are an integral part of this schedule.

Institutional Securities Corporation
(A Wholly Owned Subsidiary of ISC Group, Inc.)
Reconciliation of Net Capital Requirements
December 31, 2004

Schedule 2

	<u>Per Focus</u> <u>Report</u>	<u>Adjustments</u>	<u>Per Audit</u> <u>Report</u>
Net Capital	<u>\$174,346</u>	<u>(\$ 41,598)</u>	<u>\$ 132,748</u>
Adjustments			
Other audit adjustments			\$ 18,790
Deferred tax liability			(46,036)
Correction to nonallowable assets			(14,352)
Net decrease			<u>(\$ 41,598)</u>

The accompanying notes are an integral part of this schedule.

Institutional Securities Corporation
(A Wholly Owned Subsidiary of ISC Group, Inc.)
Reconciliation of Computation of Reserve Requirements
Pursuant to Rule 15c3-3
December 31, 2004

Schedule 3

Institutional Securities Corporation claims exemption from the provisions of Rule 15c3-3 pursuant to Rule 15c3-3 section (k)(2)(ii). As an introducing broker, Institutional Securities Corporation, clears all transactions with and from customers on a fully disclosed basis with Southwest Securities. All customer funds and securities are promptly transmitted to Southwest Securities.

Information for Possession or Control Requirements
Pursuant to Rule 15c3-3
December 31, 2004

Institutional Securities Corporation operates as an introducing broker and forwards all transactions and customer accounts to Southwest Securities who carries such accounts on a fully disclosed basis. Securities transactions are recorded on blotter receipts and then transferred to Southwest Securities on a same day basis.

The accompanying notes are an integral part of this schedule.

**INSTITUTIONAL SECURITIES
CORPORATION
(A Wholly Owned Subsidiary
of ISC Group, Inc.)**

**Independent Auditor's Report on
Internal Accounting Control**

December 31, 2004

Institutional Securities Corporation
Independent Auditor's Report on
Internal Accounting Control
December 31, 2004

Board of Directors
Institutional Securities Corporation
2800 Oak Lawn Avenue
Dallas, Texas 75291

In planning and performing our audit of the financial statements of Institutional Securities Corporation for the year ended December 31, 2004, 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 17-a5(g)(1) of the Securities 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 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 securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making 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 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 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 properly to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. 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, the following no matters involving internal control, including activities 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 S.E.C. 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, 2004, to meet the S.E.C.'s objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, the New York Stock Exchange 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 purposes.

February 19, 2005



DAVIS, CLARK AND COMPANY, P.C.
Certified Public Accountants