

SE



05043157

MISSION

VF 6-3-05AK

OMB APPROVAL
 OMB Number: 3235-0123
 Expires: January 31, 2007
 Estimated average burden
 hours per response . . . 12.00

SEC FILE NUMBER
 8-03018

**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 03/27/04 AND ENDING 03/25/05
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
INVESTEC (US) INCORPORATED
 ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
ONE BATTERY PARK PLAZA

OFFICIAL USE ONLY
 FIRM ID. NO.

NEW YORK **NEW YORK** **10004**
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
BEATRIZ L. DIAZ **(212) 898-6428**
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
Ernst & Young LLP

5 Times Square **New York** **NY** **10036**
(Address) (City) (State) (Zip Code)

PROCESSED

JUN 14 2005

THOMSON FINANCIAL

CHECK ONE:

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

FOR OFFICIAL USE ONLY

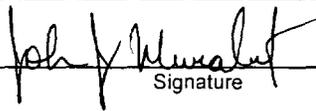
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

Handwritten initials/signature

Handwritten initials/signature

OATH OR AFFIRMATION

I, JOHN J. MURABITO, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of INVESTEC (US) INCORPORATED, as of MARCH 25, 2005, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:


Signature
CHIEF EXECUTIVE OFFICER
Title


Notary Public

Rita Burghardt McDonough
NOTARY PUBLIC, State of New York
No. 02BU6098744
Qualified in New York County
Commission Expires Sept. 22, 2007

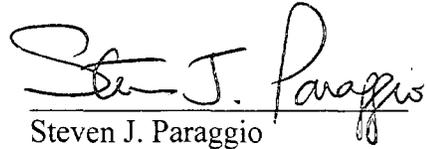
This report** contains (check all applicable boxes):

- (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 or 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 or 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.

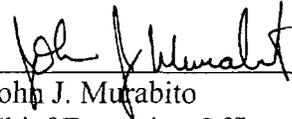
**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

Oath or Affirmation

To the best of our knowledge and belief, the accompanying financial statements and supplemental information pertaining to the firm of Investec (US) Incorporated (the "Company") at and for the year ended March 25, 2005, are true and correct. Based upon information available to the undersigned, neither the Company nor any principal officer or director thereof has any proprietary interest in any account classified solely as that of a client. The financial statements and supplemental information of the Company are made available to all of the Company's members and allied members of the New York Stock Exchange, Inc.



Steven J. Paraggio
Chief Financial Officer
Investec (US) Incorporated



John J. Murabito
Chief Executive Officer
Investec (US) Incorporated



Notary Public

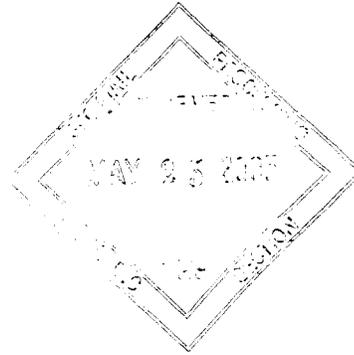
Rita Burghardt McDonaugh
NOTARY PUBLIC, State of New York
No. 02BU6098744
Qualified in New York County
Commission Expires Sept. 22, 2007

STATEMENT OF FINANCIAL CONDITION

Investec (US) Incorporated

March 25, 2005

with Report of Independent Registered Public Accounting Firm



Investec (US) Incorporated
Statement of Financial Condition

Year ended March 25, 2005

Contents

Report of Independent Registered Public Accounting Firm	1
Statement of Financial Condition.....	2
Notes to Statement of Financial Condition.....	3

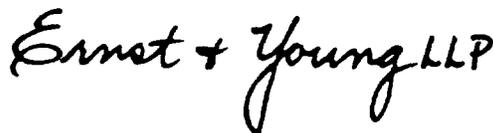
Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of
Investec (US) Incorporated

We have audited the accompanying statement of financial condition of Investec (US) Incorporated (the "Company") as of March 25, 2005. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, and evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Investec (US) Incorporated at March 25, 2005 in conformity with accounting principles generally accepted in the United States.



May 17, 2005

Investec (US) Incorporated

Statement of Financial Condition

March 25, 2005

Assets

Cash and cash equivalents		\$ 10,453,332
Receivables from brokers, dealers and clearing organizations		1,411,222
Securities owned, at market value	\$ 18,223,502	
Securities owned, pledged as collateral	<u>849,397</u>	
Total securities owned		19,072,899
Exchange memberships—owned by the Company, at cost (market value \$3,092,000)		3,088,998
Fixed assets at cost, less accumulated depreciation and amortization of \$4,568,642		598,820
Other assets		<u>1,526,489</u>
Total assets		<u>\$ 36,151,760</u>

Liabilities and stockholder's equity

Securities sold, not yet purchased, at market value	\$ 267,972	
Accounts payable	4,594,723	
Accrued expenses and other liabilities	<u>6,671,327</u>	
		<u>11,534,022</u>
Stockholder's equity:		
Common stock, \$.01 par value; 100 shares Authorized; 10 shares outstanding		—
Additional paid-in capital		67,910,275
Accumulated deficit		<u>(43,292,537)</u>
Total stockholder's equity		<u>24,617,738</u>
Total liabilities and stockholder's equity		<u>\$ 36,151,760</u>

The accompanying notes are an integral part of this statement of financial condition.

Investec (US) Incorporated

Notes to Statement of Financial Condition

March 25, 2005

1. Description of Business

Investec (US) Incorporated (the "Company") is an indirect, wholly-owned subsidiary of Investec plc ("Investec"), a publicly owned specialist banking group. Investec is dually listed on the London and Johannesburg Stock Exchanges.

The Company is a registered broker-dealer in securities under the Securities Exchange Act of 1934 and is a member of the New York Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Its business includes fixed income, equity and options trading and brokerage activities.

In the year ended March 2003, the Company sold and exited several businesses. Included in accrued expenses and other liabilities is approximately \$4.1 million for excess office space, severance and other benefits for terminated employees, contractual commitments and other contingent liabilities associated with the sold and exited businesses. One of the transactions provides for payments to the Company based on certain revenues of the acquirer over five years and the assumption of certain office and equipment leases. Net assets receivable pursuant to this sale are approximately \$0.6 million at March 25, 2005.

2. Summary of Significant Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Proprietary securities transactions, brokerage fees, commissions, and related expenses are recorded on a trade date basis.

Securities owned and securities sold, not yet purchased are for trading purposes and reported in the statement of financial condition at market or fair value. Market value is generally based on quoted market prices. If quoted market prices are not available, fair value is determined based on other relevant factors, including dealer price quotations. Unrealized changes in market value are recognized in firm trading revenues in the period in which the change occurs.

Investec (US) Incorporated

Notes to Statement of Financial Condition (continued)

2. Summary of Significant Accounting Policies (continued)

Assets and liabilities denominated in foreign currency are converted to U.S. dollars based on exchange rates at the statement of financial condition date.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 10 years. Leasehold improvements are amortized over the lesser of the economic life of the improvement or the term of the lease.

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of tax benefits or expenses on the temporary differences between the financial reporting and the tax basis of assets and liabilities. If appropriate, deferred tax assets are adjusted by a valuation allowance, which reflects expectations of the extent to which such assets will be realized.

The Company considers certain highly liquid investments with initial maturities of three months or less to be cash equivalents.

The carrying amounts of the Company's cash and cash equivalents, accrued expenses and other liabilities, and receivables from and payables to brokers, dealers, and clearing organizations approximate their fair values due to their short-term nature.

The Company accounts for certain transfers of financial assets and collateral in accordance with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 140 established the standards for accounting for securitizations and other transfers of financial assets and collateral, and requires certain disclosures pertaining to recognition and reclassification of collateral pledged to creditors and securitization transactions.

Investec (US) Incorporated

Notes to Statement of Financial Condition (continued)

3. Receivables from Brokers, Dealers and Clearing Organizations

The Company had receivables from and payables to brokers, dealers and clearing organizations relating to the following at March 25, 2005:

Receivables:	
Deposits	\$ 270,572
Floor brokerage receivables	161,054
Receivable from clearing broker	979,597
	<u>\$ 1,411,222</u>

Receivables from brokers, dealers and clearing organizations represents amounts due primarily as a result of the Company's trading, commission and brokerage activities.

The Company has agreed to indemnify its clearing brokers for certain losses that the clearing brokers may sustain from the transactions introduced by the Company.

4. Securities Owned and Securities Sold, Not Yet Purchased

At March 25, 2005, securities owned (including those pledged as collateral) and securities sold not yet purchased, consist of the following, at market value:

	<u>Owned</u>	<u>Sold, Not Yet Purchased</u>
U.S. Government obligations	\$ 18,444,305	\$ -
Corporate obligations	627,551	267,945
Stocks and warrants	1,043	27
	<u>\$ 19,072,899</u>	<u>\$ 267,972</u>

Securities owned, pledged as collateral represent proprietary positions, which have been pledged as collateral to counterparties on terms that permit the counterparty to sell or repledge the securities to others. Included in U.S. Government obligations at March 25, 2005 are securities owned, pledged as collateral for a letter of credit of approximately \$0.8 million.

Investec (US) Incorporated

Notes to Statement of Financial Condition (continued)

5. Income Taxes

As of March 25, 2005 the gross deferred tax asset and liability amounted to approximately \$14.5 million and \$0.7 million, respectively. A full valuation allowance is recorded on the net deferred tax asset as it has been determined that it is more likely than not that the Company will be unable to utilize this asset. The temporary differences that give rise to the gross deferred tax asset and liability at March 25, 2005 are as follows:

Deferred tax asset	
Accrued liabilities	\$ 3,946,000
Furniture, equipment and leasehold improvements	1,459,000
Net operating loss	9,032,000
Other	58,000
Deferred tax liability	
Other	658,000
Total net deferred tax asset before valuation allowance	<u>13,837,000</u>
Less valuation allowance	<u>(13,837,000)</u>
Total net deferred tax asset after valuation allowance	<u>\$ —</u>

The Company is included in the consolidated federal and certain combined state and local income tax returns filed by Investec USA Holdings Corp. and its subsidiaries (the "Group"). The Company and the Group have a practice whereby federal, state and local income taxes are determined for financial reporting purposes on a separate company basis.

The Company has a pre-tax effected federal net operating loss carryforward of approximately \$20.5 million. The net operating losses are due to start expiring at March 31, 2023.

6. Commitments and Contingencies

The Company is a defendant in lawsuits and other actions incidental to its businesses. Management of the Company, after consultation with outside legal counsel, believes that the ultimate resolution of these matters will not have a material adverse effect on its financial condition.

Investec (US) Incorporated

Notes to Statement of Financial Condition (continued)

6. Commitments and Contingencies (continued)

The Company leases its office space and certain equipment under non-cancelable operating leases expiring at various dates through 2011. Accrued expenses and other liabilities includes approximately \$2.8 million for excess office space at March 25, 2005 related to the sold and exited businesses, as described in Note 1.

Future minimum payments and receipts (excluding expense escalation clauses) under the leases and subleases, respectively, are as follows:

	<u>Minimum Lease Payments</u>	<u>Minimum Sub-Lease Receipts</u>
Fiscal year ending March 31:		
2006	\$ 3,163,000	\$ 1,869,000
2007	2,893,000	1,696,000
2008	2,844,000	1,686,000
2009	2,819,000	1,686,000
2010	2,819,000	1,686,000
2011	1,730,000	1,264,000
Total	<u>\$ 16,268,000</u>	<u>\$ 9,887,000</u>

The Company may terminate its leases for office space at its option in 2006 at a cost of approximately \$1.5 million, which would reduce minimum lease payments in subsequent years by approximately \$3.95 million.

The Company maintains a letter of credit of approximately \$0.8 million to collateralize lease payments.

7. Employee Benefit Plans

The Company has a qualified defined contribution profit sharing plan covering substantially all of its employees. The Company's contributions to the plan, which are at the discretion of management, are determined annually but do not exceed the amount permitted under the Internal Revenue Code as a deductible expense.

Investec (US) Incorporated

Notes to Statement of Financial Condition (continued)

7. Employee Benefit Plans (continued)

In 2003 and 2004, certain employees of the Company were granted options to purchase Investec stock, in accordance with an option grant program that was approved by Investec in 2002. Under terms of the approved program, options vest in equal 25% tranches on the second, third, fourth and fifth anniversaries of the grant date, and exercise is subject to Investec achieving certain financial performance conditions.

8. Regulatory Requirements

As a registered broker-dealer, the Company is subject to Rule 15c3-1 of the Securities Exchange Act of 1934, which specifies uniform minimum net capital requirements for its registrants.

The Company has elected to compute net capital under the basic method, which states that the broker-dealer must maintain net capital, as defined, equal to the greater of 6 2/3% of aggregate indebtedness or the minimum dollar requirement based on the number of securities in which the Firm makes a market. At March 25, 2005, the Company had net capital of approximately \$18.5 million, which exceeded minimum capital requirements by approximately \$17.7 million.

Subsequent to the sale of assets related to its securities clearing business in August 2002, the Company ceased providing securities clearing services to customers and correspondents. The Company transferred all residual customer related receivable and payable balances to Investec USA Holdings Corp in June 2004 as it converted from a clearing to an introducing broker-dealer. As a result, the Company is exempt from the requirements of Rule 15c3-3 of the Securities and Exchange Commission based on Section (k)(2)(ii) of the Rule.

Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the net capital rule of the SEC and other regulatory bodies.

9. Transactions with Related Parties

During the year ended March 25, 2005, the Company paid service fees of \$370,000 to affiliates, which is included in other expenses. Included in accounts payable is approximately \$3.7 million of payables to affiliates.

Investec (US) Incorporated

Notes to Statement of Financial Condition (continued)

10. Financial Instruments With Off-Balance Sheet Risk and Concentration of Credit Risk

The Company's securities activities involve the execution, settlement and financing of various securities transactions. These activities may expose the Company to risk in the event customers, other brokers and dealers, banks, depositories or clearing organizations are unable to fulfill their contractual obligations.

The Company records commission income and expenses on a trade date basis. The Company is exposed to off-balance sheet risk of loss on unsettled transactions in the event customers and other counterparties are unable to fulfill their contractual obligations.

Securities sold, but not yet purchased represent obligations of the Company to deliver the specified security at a future date and thereby create a liability to repurchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance sheet risk, as the Company's ultimate obligation to satisfy the sale of securities sold, but not yet purchased may exceed the amount recognized in the statement of financial condition. Inventory positions are monitored on a daily basis to minimize the risk of loss.