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

SEC FILE NUMBER
8- 65827

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, 2010 AND ENDING December 31, 2010  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Financial Paradimings, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

4900 Woodway, Suite 550

(No. and Street)

Houston

Texas

77056

(City)

(State)

(Zip Code)

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

John Goott

713.622.9111

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Harper & Pearson Company, P.C.

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

One Riverway, Suite 1000

Houston

Texas

77056

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**

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

<b>FOR OFFICIAL USE ONLY</b>
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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)

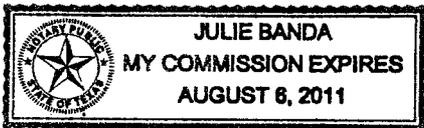
SEC 1410 (06-02)

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MM

OATH OR AFFIRMATION

I, John Goott, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Financial Paradimgs, Inc. of December 31, 20 10, 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:



John Goott Signature
PRESIDENT Title

Julie Banda 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 15c3-1 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).

FINANCIAL PARADIGMS, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2010 and 2009



February 17, 2011

John Goott  
Financial Paradigms, Inc.  
4900 Woodway, Suite 550  
Houston, Texas 77056

We have audited the financial statements of Financial Paradigms, Inc. (the Company) for the year ended December 31, 2010, and have issued our report thereon dated February 17, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 22, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 22, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated October 22, 2010.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Company are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We are pleased to report that there were no misstatements noted as a result of our audit procedures.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 17, 2011.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Company's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Financial Paradigms, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

A handwritten signature in cursive script that reads "Harper & Pearson Company, P.C.".

HARPER & PEARSON COMPANY, P.C.

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Financial Paradigms, Inc.  
Houston, Texas

We have audited the accompanying balance sheets of Financial Paradigms, Inc. (an S corporation) as of December 31, 2010 and 2009, and the related statements of operations, changes in stockholder's equity and cash flows for the years 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 audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. 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 audits provide 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 Financial Paradigms, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II and III 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 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audits 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.

*Harper & Pearson Company, P.C.*

Houston, Texas  
February 17, 2011

**FINANCIAL PARADIGMS, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2010 AND 2009**

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<b>ASSETS</b>	<b>2010</b>	<b>2009</b>
Cash and cash equivalents	\$ 26,552	\$ 34,445
Accounts receivable	<u>2,693</u>	<u>2,595</u>
 TOTAL ASSETS	 <u>\$ 29,245</u>	 <u>\$ 37,040</u>
 <b>STOCKHOLDER'S EQUITY</b>		
Stockholder's Equity		
Common stock, \$1 par value, 1,000,000 shares authorized, 1,000 shares issued and outstanding	\$ 1,000	\$ 1,000
Additional paid-in capital	19,500	19,500
Retained earnings	<u>8,745</u>	<u>16,540</u>
 TOTAL STOCKHOLDER'S EQUITY	 <u>\$ 29,245</u>	 <u>\$ 37,040</u>

The accompanying notes are an integral part of the financial statements.

**FINANCIAL PARADIGMS, INC.**  
**STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

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	<u>2010</u>	<u>2009</u>
Commission income and other income	\$ 83,358	\$ 83,603
Management and administrative expenses	<u>76,153</u>	<u>85,912</u>
Net income (loss)	<u>\$ 7,205</u>	<u>\$ (2,309)</u>

The accompanying notes are an integral part of the financial statements.

**FINANCIAL PARADIGMS, INC.**  
**STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

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	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>
Balance, December 31, 2008	\$ 1,000	\$ 19,500	\$ 18,849
Net loss	-	-	(2,309)
Balance, December 31, 2009	1,000	19,500	16,540
Distributions	-	-	(15,000)
Net income	-	-	7,205
Balance, December 31, 2010	<u>\$ 1,000</u>	<u>\$ 19,500</u>	<u>\$ 8,745</u>

The accompanying notes are an integral part of the financial statements.

**FINANCIAL PARADIGMS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 83,260	\$ 81,032
Cash paid for management and administrative expenses	(76,153)	(85,912)
Net cash provided (used) by operating activities	7,107	(4,880)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Distributions	(15,000)	-
Net cash used by financing activities	(15,000)	-
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(7,893)	(4,880)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	34,445	39,325
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 26,552	\$ 34,445
 <b>RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 7,205	\$ (2,309)
Increase in accounts receivable	(98)	(2,571)
Net cash provided (used) by operating activities	\$ 7,107	\$ (4,880)

The accompanying notes are an integral part of the financial statements.

NOTE A      BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company maintains its accounts on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Accounting principles followed by the Company and the methods of applying those principles which materially affect the determination of financial position, results of operations and cash flows are summarized below:

Description of Business – Financial Paradigms, Inc. (an S corporation) ("the Company") is located in Houston, Texas and is a limited business broker dealer that transacts in variable life and annuities only. During 2009, the Company closed all of its brokerage accounts with customers and will only receive commissions on variable annuity and variable life insurance products in the future. Consequently, the Company has claimed an exemption from the Securities and Exchange Commission's (SEC) Rule 15c3-3 under section (K)(1). The Company is registered as a Broker-Dealer with the SEC, and a member of the Financial Industry Regulatory Authority (FINRA). Its principal market is the general public in the Southeastern region of Texas.

Statement Presentation – An unclassified balance sheet is presented in accordance with industry standards.

Cash and Cash Equivalents – The Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. The Company had no cash equivalents at December 31, 2010 and 2009.

Revenue Recognition – Commissions are recognized when trades settle and receivables are recorded at that time. Revenues are primarily generated from commissions on sales of variable insurance products.

Income Taxes – No provision has been made for federal income tax, since these taxes are the responsibility of the shareholder. The Company is subject to the Texas Margin Tax which is a state income tax. The Company did not owe any Texas Margin Tax at December 31, 2010 and 2009.

Generally accepted accounting principles (GAAP) provide detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. GAAP requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The Company believes that all tax positions will more likely than not be sustained upon examination. The Company does not expect any tax positions to have a material effect that is not already reflected on its financial position, results of operations or cash flows. As of December 31, 2010, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2007 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as tax expense in the statements of operations.

Estimates – The preparation of financial statements 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 period. Actual results could differ from those estimates.

NOTE A      BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)

Subsequent Events – The Company has evaluated subsequent events through February 17, 2011, the date the financial statements were available to be issued. No subsequent events occurred, which require adjustment or disclosure to the financial statements at December 31, 2010.

NOTE B      MANAGEMENT AGREEMENT

The Company has entered into a management agreement with Investec Asset Management Group, Inc. (IAMG), a company related through common ownership, whereby IAMG will provide administrative and operational services, facilities, furniture and pay all overhead expenses of the Company.

IAMG receives a reimbursement from the Company for its allocable share of personnel costs, rent, and general and administrative overhead costs. Expenses under this agreement during each of the years ended December 31, 2010 and 2009 was \$10,728.

NOTE C      NET CAPITAL REQUIREMENTS

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. Net capital and the related net capital ratio may fluctuate on a daily basis.

There were no material inadequacies found to exist in the computation of the ratio of aggregate indebtedness to net capital at December 31, 2010 and 2009 or in the procedures followed in making the required periodic computations. At December 31, 2010 and 2009 the Company had net capital of \$26,552 and \$34,445, respectively, and a net capital requirement of \$5,000 for each year. The Company's ratio of aggregate indebtedness to net capital was \$-0- at December 31, 2010 and 2009. The Securities and Exchange Commission permits a ratio for the Company at this time of no greater than 15 to 1.

NOTE D      CREDIT RISK

The Company is engaged in various trading and brokerage activities in which the counter parties primarily include insurance companies. In the event a counter party does not fulfill its obligations, the Company may be exposed to risk. The risk of default depends on the credit worthiness of the counter party or issuer of the instrument. It is the Company's policy to review the credit standings of each counter party.

**FINANCIAL PARADIGMS, INC.**  
**SCHEDULE I**  
**COMPUTATION OF NET CAPITAL UNDER RULE 15C3-1**  
**OF THE SECURITIES AND EXCHANGE COMMISSION**  
**DECEMBER 31, 2010**

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<b>NET CAPITAL</b>	
Total stockholder's equity qualified for net capital	\$ 29,245
Total capital and allowable subordinated liabilities	29,245
Deductions and/or charges	
Nonallowable assets:	
Accounts receivable	<u>2,693</u>
<b>NET CAPITAL BEFORE HAIRCUTS ON SECURITIES POSITION</b>	<b>26,552</b>
Haircuts on securities	<u>-</u>
Net capital	<u>\$ 26,552</u>
<b>COMPUTATION ON BASIC NET CAPITAL REQUIREMENTS</b>	
Minimum net capital required (12.5% of total aggregate indebtedness)	<u>\$ -</u>
Minimum dollar net capital requirement	<u>\$ 5,000</u>
Net capital requirement (greater of above two minimum requirement amounts)	<u>\$ 5,000</u>
Excess net capital	<u>\$ 21,552</u>
Ratio: Aggregate indebtedness to net capital	<u>-0-</u>

Note: The above computation does not differ materially from the computation of net capital under Rule 15c3-1 as of December 31, 2010, filed with the Securities and Exchange Commission by the Company on Part IIA of Form X-17a-5.

See independent auditor's report.

**FINANCIAL PARADIGMS, INC.**  
**SCHEDULE II**  
**COMPUTATION OF NET CAPITAL UNDER RULE 15C3-1**  
**OF THE SECURITIES AND EXCHANGE COMMISSION**  
**DECEMBER 31, 2009**

NET CAPITAL	
Total stockholder's equity qualified for net capital	\$ 37,040
Total capital and allowable subordinated liabilities	37,040
Deductions and/or charges	
Nonallowable assets:	
Accounts receivable	<u>2,595</u>
NET CAPITAL BEFORE HAIRCUTS ON SECURITIES POSITION	34,445
Haircuts on securities	<u>-</u>
Net capital	<u>\$ 34,445</u>
COMPUTATION ON BASIC NET CAPITAL REQUIREMENTS	
Minimum net capital required (12.5% of total aggregate indebtedness)	<u>\$ -</u>
Minimum dollar net capital requirement	<u>\$ 5,000</u>
Net capital requirement (greater of above two minimum requirement amounts)	<u>\$ 5,000</u>
Excess net capital	<u>\$ 29,445</u>
Ratio: Aggregate indebtedness to net capital	<u>-0-</u>

Note: The above computation does not differ materially from the computation of net capital under Rule 15c3-1 as of December 31, 2009, filed with the Securities and Exchange Commission by the Company on Part IIA of Form X-17a-5.

See independent auditor's report.

**FINANCIAL PARADIGMS, INC.**  
**SCHEDULE III**  
**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS**  
**AND INFORMATION RELATING TO POSSESSION OR CONTROL OF SECURITIES**  
**UNDER RULE 15C3-3 OF THE SECURITIES AND EXCHANGE COMMISSION**  
**DECEMBER 31, 2010 AND 2009**

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Exemption Provisions

The Company has claimed an exemption from Rule 15c3-3 under Section (k)(1), in which the Company engages in limited business (variable annuities only).

See independent auditor's report.



**REPORT ON INTERNAL CONTROL STRUCTURE**  
**REQUIRED BY SEC RULE 17 A-5 FOR A**  
**BROKER-DEALER CLAIMING AN EXEMPTION**  
**FROM SEC RULE 15C3-3**

February 17, 2011

The Stockholder  
Financial Paradigms, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Financial Paradigms, Inc. (the Company), as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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 consideration of control activities for safeguarding securities. This study included 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 and recordation of differences required by rule 17a-13.
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal 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 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 controls 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 internal control 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 conformity with 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 internal control or the practices and procedures referred to above, error or fraud 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.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control 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 SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and the 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, 2010, to meet the SEC's objectives.

This report is intended solely for the information and use of the stockholder, management, the SEC, 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 is not intended to be an should not be used by anyone other than these specified parties.

*Harper & Pearson Company, P.C.*

Houston, Texas