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

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**ANNUAL AUDITED REPORT** SEC  
**FORM X-17A-5** Mail Processing  
**PART III** Section  
 FEB 27 2013

SEC FILE NUMBER
8-65827

FACING PAGE Washington DC

**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 01/01/2012 AND ENDING 12/31/2012  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Financial Paradigms, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

4900 Woodway Dr Suite 550  
(No. and Street)

Houston TX 77056  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
John Groot 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 1900 Houston TX 77056  
(Address) (City) (State) (Zip Code)

**CHECK ONE:**

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

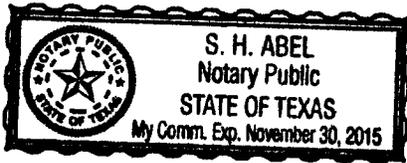
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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

OATH OR AFFIRMATION

I, John Koott, 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 Paradigms, Inc, as of December 31, 2012, 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:

N/A



[Signature]  
Signature  
President & CEO  
Title

[Signature]  
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. Exempt - see attached form SIPC-3
- (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).

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**HARPER & PEARSON**  
COMPANY, P.C. CERTIFIED PUBLIC  
ACCOUNTANTS

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

To 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, 2012, 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 *deficiency in internal control* 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, 2012, 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  
February 5, 2013

**FINANCIAL PARADIGMS, INC.**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**



**HARPER & PEARSON**  
**COMPANY, P.C.** CERTIFIED PUBLIC  
ACCOUNTANTS

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**FINANCIAL PARADIGMS, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2012 AND 2011**

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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, 2012 and 2011, and the related statements of income, changes in stockholder's equity and cash flows for the years then ended, and the related notes to the financial statements that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **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, 2012 and 2011, 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.

## Other Matter

Our audits were made for the purpose of forming an opinion on the financial statements as a whole. Schedules I, II and III on pages 9, 10, and 11 are presented for purposes of additional analysis and are not a required part of the financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Harper & Pearson Company, P.C.*

Houston, Texas  
February 5, 2013

**FINANCIAL PARADIGMS, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2012 AND 2011**

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<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 26,214	\$ 29,565
Accounts receivable	<u>4,512</u>	<u>2,695</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 30,726</u></b>	<b><u>\$ 32,260</u></b>
 <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>10,226</u>	<u>11,760</u>
<b>TOTAL STOCKHOLDER'S EQUITY</b>	<b><u>\$ 30,726</u></b>	<b><u>\$ 32,260</u></b>

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

**FINANCIAL PARADIGMS, INC.**  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

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	<u>2012</u>	<u>2011</u>
Commission income and other income	\$ 78,814	\$ 80,605
Management and administrative expenses	<u>70,348</u>	<u>77,590</u>
Net income	<u>\$ 8,466</u>	<u>\$ 3,015</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, 2012 AND 2011**

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	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>
Balance, December 31, 2010	\$ 1,000	\$ 19,500	\$ 8,745
Net income	-	-	3,015
Balance, December 31, 2011	1,000	19,500	11,760
Distributions	-	-	(10,000)
Net income	-	-	8,466
Balance, December 31, 2012	<u>\$ 1,000</u>	<u>\$ 19,500</u>	<u>\$ 10,226</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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 76,997	\$ 80,603
Cash paid for management and administrative expenses	<u>(70,348)</u>	<u>(77,590)</u>
Net cash provided by operating activities	<u>6,649</u>	<u>3,013</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Distributions	<u>(10,000)</u>	<u>-</u>
Net cash used by financing activities	<u>(10,000)</u>	<u>-</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(3,351)</b>	<b>3,013</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>29,565</u>	<u>26,552</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 26,214</u>	<u>\$ 29,565</u>
<b>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net income	\$ 8,466	\$ 3,015
Increase in accounts receivable	<u>(1,817)</u>	<u>(2)</u>
Net cash provided by operating activities	<u>\$ 6,649</u>	<u>\$ 3,013</u>

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

NOTE A      BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Paradigms, Inc. (an S corporation) ("the Company") maintains its accounts on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP). 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 - The Company is located in Houston, Texas and is a limited business broker dealer that transacts in variable life and annuities only. 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, 2012 and 2011.

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

Income Taxes - The Company has elected to be taxed as a Subchapter S Corporation, and therefore 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, 2012 and 2011.

The Company believes that all tax positions will more likely than not be sustained upon examination. As of December 31, 2012, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2009 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 income.

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.

Subsequent Events - The Company has evaluated subsequent events through February 5, 2013, 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, 2012.

**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, 2012 and 2011 was \$10,728. Effective January 1, 2012 the allocable share percentage of variable commission from IAMG to the Company increased from 25% to 40%.

**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, 2012 and 2011 or in the procedures followed in making the required periodic computations. At December 31, 2012 and 2011 the Company had net capital of \$26,214 and \$29,565, 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, 2012 and 2011. The Securities and Exchange Commission permits a ratio of aggregate indebtedness to net capital 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, 2012**

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NET CAPITAL	
Total stockholder's equity qualified for net capital	\$ 30,726
Total capital and allowable subordinated liabilities	30,726
Deductions and/or charges	
Nonallowable assets:	
Accounts receivable	<u>4,512</u>
NET CAPITAL BEFORE HAIRCUTS ON SECURITIES POSITION	26,214
Haircuts on securities	<u>-</u>
Net capital	<u>\$ 26,214</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>\$ 21,214</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, 2012, filed with the Securities and Exchange Commission by the Company on Part IIA of Form X-17a-5.

**FINANCIAL PARADIGMS, INC.**  
**SCHEDULE II**  
**COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1**  
**OF THE SECURITIES AND EXCHANGE COMMISSION**  
**DECEMBER 31, 2011**

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<b>NET CAPITAL</b>	
Total stockholder's equity qualified for net capital	\$ <u>32,260</u>
Total capital and allowable subordinated liabilities	32,260
Deductions and/or charges	
Nonallowable assets:	
Accounts receivable	<u>2,695</u>
<b>NET CAPITAL BEFORE HAIRCUTS ON SECURITIES POSITION</b>	<b>29,565</b>
Haircuts on securities	<u>-</u>
Net capital	<u>\$ 29,565</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>\$ 24,565</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, 2011, filed with the Securities and Exchange Commission by the Company on Part IIA of Form X-17a-5.

**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, 2012 AND 2011**

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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 life and annuities only).