

AAJ  
4-11-03

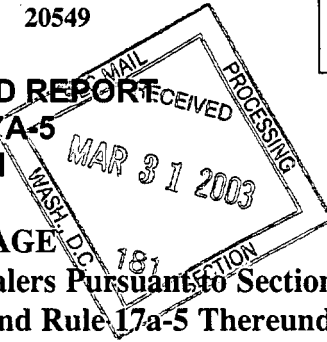


ES  
SECURITIES COMMISSION  
20549

CM

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	October 31, 2004
Estimated average burden hours per response . . .	12.00

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



SEC FILE NUMBER
8 - 49047

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 01/01/02 AND ENDING 12/31/02  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:  
**First Avantus Securities, Inc.**

OFFICIAL USE ONLY
FIRM ID. NO.

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

8911 Capital of Texas Highway

(No. and Street)

Austin

(City)

Texas

(State)

78759

(Zip Code)

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

Tom Wilkinson

512-585-7519

(Area Code - T elephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Helin, Donovan, Trubee & Wilkinson, LLP

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

12466 Los Indios Trail, Suite 213

(Address)

Austin

(City)

Texas

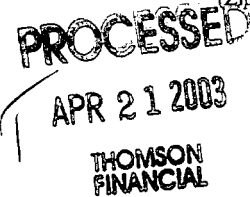
(State)

78729

(Zip Code)

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).

SEC 1410 (06-02)

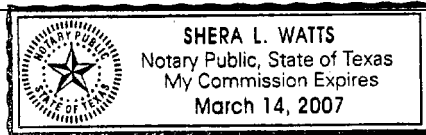
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

51-4-15

OATH OR AFFIRMATION

I, Brian E. Smith, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of First Avantus Securities, Inc., as of December 31, 2002, 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:

NONE



Brian E. Smith

Signature

President

Title

Shera L. Watts  
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 Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (o) Independent auditor's report on the internal control as required by SEC rule 17a-5.

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

**FIRST AVANTUS SECURITIES, INC.**  
**Index to Financial Statements and Supplemental Schedules**  
**December 31, 2002**

---

INDEPENDENT AUDITORS' REPORT	1
------------------------------	---

---

FINANCIAL STATEMENTS

Statement of Financial Condition	2
Statement of Operations	3
Statement of Changes in Stockholder's Equity	4
Statement of Cash Flows	5
Notes to financial statements	6 - 10

---

SUPPLEMENTARY SCHEDULE

I. Computation of net capital and aggregate indebtedness pursuant to Rule 15c3-1 of the Securities and Exchange Commission	11
--	----

---

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL	12 - 13
---	---------

---



**Helin, Donovan, Trubee & Wilkinson, LLP**  
Certified Public Accountants  
[www.helindonovan.com](http://www.helindonovan.com)



Member of Russell  
Bedford International

**FIRST AVANTUS SECURITIES, INC.**

Financial Statements

December 31, 2002

(With Independent Auditors' Report Thereon)



**Helin, Donovan, Trubee & Wilkinson, LLP**  
Certified Public Accountants  
[www.helindonovan.com](http://www.helindonovan.com)



Member of Russell  
Bedford International

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
First Avantus Securities, Inc.:

We have audited the accompanying statement of financial condition of First Avantus Securities, Inc. as of December 31, 2002, and the related statements of operations, changes in stockholder's equity, and cash flows 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 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 First Avantus Securities, Inc. as of December 31, 2002, 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 Schedule I 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 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.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 9 to the financial statements, the Company has incurred net losses from operations and may incur significant provision for losses as a result of the outcome of arbitration, administrative actions or lawsuits, which raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustment that might result from the outcome of this uncertainty.

**Helin, Donovan, Trubee & Wilkinson, LLP**

*Helin, Donovan, Trubee & Wilkinson LLP*

Austin, Texas  
March 6, 2003

12466 Los Indios Trail, Suite 213  
Austin, Texas 78729  
Phone (512) 331-5336  
Fax: (512) 258-5895

2936 Elm Street, Suite G  
Dallas, Texas 75226  
Phone (214) 741-6955  
Toll Free: 1-866-331-5336



The CPA. Never Underestimate The Value.®

**FIRST AVANTUS SECURITIES, INC.**  
**Statement of Financial Condition**  
**December 31, 2002**

**ASSETS**

Cash and cash equivalents	\$ 180,299
Receivable from broker-dealers and clearing organizations	238,373
Concessions receivable	22,437
Securities owned, at market value	1,056
Advances to employees	3,425
Other assets	<u>1,083</u>

**TOTAL ASSETS** \$ 446,673

**LIABILITIES AND STOCKHOLDER'S EQUITY**

**Liabilities**

Accounts payable	\$ 7,469
Accrued expenses and other liabilities	<u>248,781</u>

Total liabilities 256,250

**Stockholder's Equity**

Common stock, 1,000,000 shares authorized, \$.01 par value, 100,000 shares issued and outstanding	1,000
Additional paid-in capital	461,973
Retained deficit	<u>(272,550)</u>

Total Stockholder's equity 190,423

**TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY** \$ 446,673

See notes to financial statements and independent auditors' report.

**FIRST AVANTUS SECURITIES, INC.**  
**Statement of Operations**  
**Year Ended December 31, 2002**

**REVENUES**

Securities commissions	\$ 2,381,832
Insurance commissions	620,543
Sale of investment company shares	499,026
Loss on firm securities investment account	(13,263)
Interest and other income	<u>3,008</u>

Total Revenues 3,491,146

**EXPENSES**

Compensation and benefits	1,892,183
Commissions and clearance paid to all other brokers	665,592
Interest expense	10,236
Regulatory fees and expenses	50,073
Management fees	616,694
Other expenses	<u>299,510</u>

Total Expenses 3,534,288

**LOSS BEFORE INCOME TAXES** (43,142)

Provision for income taxes -

**NET LOSS** \$ (43,142)

See notes to financial statements and independent auditors' report.

**FIRST AVANTUS SECURITIES, INC.**  
**Statement of Changes in Stockholder's Equity**  
**Year Ended December 31, 2002**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Deficit</u>	<u>Total</u>
Balances at December 31, 2001	\$ 1,000	\$ 461,973	\$ (229,408)	\$ 233,565
Net loss	<u>-</u>	<u>-</u>	<u>(43,142)</u>	<u>(43,142)</u>
Balances at December 31, 2002	<u>\$ 1,000</u>	<u>\$ 461,973</u>	<u>\$ (272,550)</u>	<u>\$ 190,423</u>

See notes to financial statements and independent auditors' report.



**FIRST AVANTUS SECURITIES, INC.**  
**Statement of Cash Flows**  
**Year Ended December 31, 2002**

<b>Cash flows from operating activities:</b>	
Net loss	\$ (43,142)
Adjustments to reconcile net loss to net cash used in operating activities:	
Unrealized loss on securities	13,263
Change in assets and liabilities	
Decrease in receivables from broker-dealers and clearing organizations	193,450
Increase in concessions receivable	(22,437)
Increase in securities owned	(3,554)
Decrease in advances to employees and other assets	9,923
Decrease in accounts payable and accrued expenses	<u>(91,571)</u>
<b>Net cash used in operating activities</b>	<b><u>55,932</u></b>
<b>Cash flows from investing activities:</b>	<b><u>-</u></b>
<b>Cash flows from financing activities:</b>	<b><u>-</u></b>
Net increase in cash and cash equivalents	55,932
Cash and cash equivalents at beginning of year	<u>124,367</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ <u><u>180,299</u></u></b>
 <b>Supplemental Disclosures of Cash Flow Information:</b>	
Income taxes paid	\$ <u><u>-</u></u>
Interest paid	\$ <u><u>10,236</u></u>

See notes to financial statements and independent auditors' report.

# FIRST AVANTUS SECURITIES, INC.

## Notes to the Financial Statements

December 31, 2002

### Note 1 - Nature of Business

First Avantus Securities, Inc. (Company) is registered as a broker/dealer with the Securities and Exchange Commission (SEC) and is a member of the National Association of Security Dealers, Inc. (NASD). The Company operates under the provisions of Paragraph K(2)(ii) of Rule 15c3-3 of the SEC, and accordingly is exempt from the remaining provisions of that Rule. The Company is a Texas corporation that is a wholly owned subsidiary of First Financial Investment Securities, Inc. (Parent).

### Note 2 - Significant Accounting Policies

#### Customer Funds

The Company is not approved to hold customer funds on account. From time to time, the Company may accept funds from customers for deposit into an escrow account at a bank. Those funds will be held separate from the general funds of the Company in a custodial account.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

#### Cash Equivalents

For purposes of the statements of cash flows, the Company considers short-term investments, which may be withdrawn at any time without penalty, and restricted cash, which will become available within one year from the date of the financial statements, to be cash equivalents.

#### Securities Transactions

Security transactions and the related commission revenues and expenses are recorded on a settlement date basis, generally the third business day following the transaction. If materially different, commission income and related expenses are recorded on a trade date basis.

#### Insurance Commissions

Insurance commissions are recorded when the insurance products are funded by the customer.

# FIRST AVANTUS SECURITIES, INC.

## Notes to the Financial Statements

December 31, 2002

### Note 2 - Significant Accounting Policies (Continued)

#### Financial instruments and credit risk

Financial instruments that potentially subject the Company to credit risk include cash and cash equivalents, receivables from broker-dealers and clearing organizations, concessions receivable, securities owned and advances to employees. The Company had cash balances in excess of federally insured limits of \$100,000 at various times during 2002 (\$82,525 at December 31, 2002). Securities owned consist of securities held for trading purposes. Securities that are marketable are stated at fair market value (as determined by quoted market prices) and securities not readily marketable are carried at fair value as determined by management of the Company. The increase or decrease in net unrealized appreciation or depreciation of securities is credited or charged to operations.

#### Income Taxes

The Company files a consolidated income tax return with the Parent. Income taxes are recorded using the separate company method to comply with FASB Statement 109. Any resulting provision or benefit for income taxes is recorded as a receivable from or payable to the Parent. Future benefits with respect to loss carryforwards that are expected to expire unused are offset by a valuation allowance.

The Company is also subject to Texas Franchise tax at 4.5% of Federal taxable income.

### Note 3 - Net Capital Requirements

The Company is subject to the SEC uniform net capital rule (Rule 15c3-1), which requires the maintenance of a minimum amount of net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Rule 15c3-1 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, 2002, the Company had net capital and net capital requirements of \$176,388 and \$100,000, respectively. The Company's net capital ratio was 1.45 to 1.

### Note 4 - Income Taxes

At December 31, 2002, the Company has a net operating loss carryforward of approximately \$267,000 which may be offset against future taxable income. The operating loss carryforward expires in 2016 and 2017. The tax benefit of \$91,000 has not been reported in these financial statements because the Company believes that there is at least a 50% chance that the carryforwards will expire unused. Accordingly, the tax benefit has been offset by a valuation allowance of the same amount.

# FIRST AVANTUS SECURITIES, INC.

## Notes to the Financial Statements

December 31, 2002

### Note 5 - Retirement Plans

The Company sponsors a 401(k) plan in which all employees are eligible to participate. Both employees and the Company may elect to make contributions to the Plan. Company contributions are voluntary and at the discretion of the Board of Directors. No discretionary contributions were made by the Company during the year ended December 31, 2002.

### Note 6 - Commitments and Contingencies

#### Litigation

The Company together with others has been named as a defendant in various arbitration proceedings, administrative actions and lawsuits incidental to its securities business that allege, among other things, violations of Federal and state securities laws and claim damages collectively in excess of \$5.5 million. Management intends to present a vigorous defense against all claims. Claims totaling \$4.5 million were settled in 2003 for the amount of the remaining insurance coverage. The company is uninsured for the remaining or future claims.

The ultimate outcome of the arbitration proceedings, administrative actions and lawsuits cannot presently be determined. Accordingly, no provision for liability related to these matters has been made in these financial statements.

#### Clearing Agreement

Included in the Company's clearing agreement with its clearing broker-dealer, is an indemnification clause. This clause relates to instances where the Company's customers fail to settle security transactions. In the event this occurs, the Company will indemnify the clearing broker-dealer to the extent of the net loss on any unsettled trades. At December 31, 2002, management of the Company had not been notified by the clearing broker-dealer, nor were they otherwise aware, of any potential losses relating to this indemnification.

The clearing agreement contains an early termination fee that would be due if the Company desires to terminate the clearing agreement prior to the end of a determined period of time. The termination fees are as follows:

<u>Termination prior to November 19,</u>		<u>Termination Fee</u>
2003	\$	420,000
2004	\$	325,000
2005	\$	210,000
2006	\$	105,000

The agreement with the clearing broker-dealer also calls for minimum monthly charges of \$20,000 per month during the entire period of the agreement.

# FIRST AVANTUS SECURITIES, INC.

## Notes to the Financial Statements

December 31, 2002

### Note 6 - Commitments and Contingencies (Continued)

The Company leases office facilities in Austin and Dallas, Texas under leases expiring on October 31, 2004 and September 30, 2004, respectively. The Company subleases these facilities to unrelated parties. The subleases expire on October 31, 2004. Future minimum rental payments on these leases and noncancelable subleases are as follows:

<u>Year Ending December 31,</u>	<u>Minimum Lease Payments</u>	<u>Minimum Sublease Income</u>	<u>Shortfall</u>
2003	\$ 110,731	87,377	23,354
2004	87,976	70,677	17,299
Total	\$ <u>198,707</u>	<u>158,054</u>	<u>40,653</u>

The difference between the rental payments and rental income is an obligation assumed by the Parent and therefore has not been accrued by the Company as of December 31, 2002.

### Note 7 - Related Party Transactions

The Company is provided certain management and administrative services, office facilities, staff support, utilities and supplies by the Parent. During the year ended December 31, 2002, the Company paid a management fee for such services to the Parent of \$616,694 under the terms of a Management Services Agreement. The Company has recorded payables to the Parent of \$7,064 at December 31, 2002 that has been included in accrued expenses and other liabilities on the balance sheet. The Management Services Agreement limits the amounts to be charged to the Company to amounts that would not result in a violation of the net capital requirements.

The Company earns fee income related to insurance products from an insurance agency owned by stockholders of the Company. At December 31, 2002, the Company had a receivable from the related party of \$22,437 which is included in concessions receivable on the balance sheet. Total insurance commissions earned from this related party were \$620,543 during 2002.

### Note 8 - Concentrations

The Company has a single employee who was responsible for generating approximately 18% of the total securities commissions earned in 2002. The ability of the Company to earn this revenue would be significantly reduced if the employee were to stop working for the Company.

**FIRST AVANTUS SECURITIES, INC.**

**Notes to the Financial Statements**

**December 31, 2002**

**Note 9 - Going Concern**

These financial statements are presented on the basis that the Company is a going concern. Going concern contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable period of time. Continued operating losses or significant provisions required as a result of the outcome of arbitration, administrative actions or lawsuits could adversely impact the Company's regulatory capital, which requires minimum net capital of \$100,000. It is management's intention to control costs, increase revenues and vigorously defend arbitration, administrative actions and lawsuits. The financial statements do not include any adjustment that might result from the outcome of this uncertainty.

## Schedule I

### FIRST AVANTUS SECURITIES, INC. Computation of Net Capital and Aggregate Indebtedness Pursuant to Rule 15c3-1 of the Securities and Exchange Commission As of December 31, 2002

Total stockholder's equity qualified for net capital	\$	190,423
Deductions and/or charges		
Non-allowable assets:		
Advances to employees		3,425
Portion of concessions receivable not recorded as commissions payable		7,853
Other assets		<u>1,083</u>
Total deductions and/or charges		<u>12,361</u>
Net capital before haircuts on securities		178,062
Haircuts on securities		<u>1,674</u>
Net Capital	\$	<u><u>176,388</u></u>
Aggregate indebtedness		
Accounts payable and accrued expenses	\$	<u>256,250</u>
Total aggregate indebtedness	\$	<u><u>256,250</u></u>
Computation of basic net capital requirement		
Minimum net capital required (greater of \$100,000 or 6 2/3% of aggregate indebtedness)	\$	<u><u>100,000</u></u>
Net capital in excess of minimum requirement	\$	<u><u>76,388</u></u>
Ratio of aggregate indebtedness to net capital		<u><u>1.45 to 1</u></u>

Note: The above computation does not differ from the computation of net capital under Rule 15c3-1 as of December 31, 2002 as reported by First Avantus Securities, Inc. on Amended Form X-17A-5. Accordingly, no reconciliation is deemed necessary.

See notes to financial statements and independent auditors' report.



**Helin, Donovan, Trubee & Wilkinson, LLP**  
**Certified Public Accountants**  
[www.helindonovan.com](http://www.helindonovan.com)



Member of Russell  
Bedford International

**INDEPENDENT AUDITORS' REPORT**

**ON INTERNAL CONTROL**

To the Board of Directors of  
First Avantis Securities, Inc.:

In planning and performing our audit of the financial statements and supplemental schedule of First Avantis Securities, Inc. (the Company) for the year ended December 31, 2002, we considered its internal control, including control activities 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 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 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 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 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





## Report on Internal Control

disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in accordance 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.

Our consideration of internal control would not necessarily disclose all matters in internal control 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 components does not reduce to a relatively low level the risk that error or fraud 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, we noted no matters involving internal control, including 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 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, 2002 to meet the SEC's objectives.

This report is intended solely for use of the Managers, management, the SEC, the National Association of Securities Dealers, Inc. 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 and should not be used by anyone other than these specified parties.

**Helin, Donovan, Trubee & Wilkinson, LLP**



Austin, Texas  
March 6, 2003