

STATEMENT OF FINANCIAL CONDITION, DECEMBER 31, 2002

ASSETS

CURRENT ASSETS:

Cash and cash equivalents.....	\$ 1,526,398
Receivables from customers	9,709,991
Receivables from brokers and dealers	3,501,053
Securities segregated under Federal and other regulations	169,346
Securities owned, at fair value	2,059,245
Total current assets	16,966,033

PROPERTY AND EQUIPMENT; net of accumulated

depreciation of \$1,472,113.....	362,226
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CASH SURRENDER VALUE OF LIFE INSURANCE POLICIES	752,341
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PREPAID EXPENSES AND OTHER ASSETS	407,337
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Total assets	\$ 18,487,937
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LIABILITIES AND PARTNERS' CAPITAL

LIABILITIES:

Payable to clearing agent.....	\$ 1,754,045
Payables to brokers and dealers	6,996,510
Accrued liabilities	2,656,618
Total liabilities.....	\$ 11,407,173

PARTNERS' CAPITAL:

General Partner	\$ 3,303,000
Limited Partners	3,777,764
Total Partners' capital	\$ 7,080,764
Total liabilities and Partners' capital	\$ 18,487,937

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of James Baker & Associates, A Limited Partnership

We have audited the accompanying statement of financial condition of James Baker & Associates, A Limited Partnership (the Partnership) as of December 31, 2002, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Partnership's management. Our responsibility is to express an opinion on this financial statement 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 financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 statement referred to above presents fairly, in all material respects, the financial position of James Baker & Associates, A Limited Partnership as of December 31, 2002, in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP
Oklahoma City, Oklahoma
January 24, 2003

OFFICERS/DIRECTORS

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Chairman of the Board
and President

David A. Daugherty
Managing Director

Carl H. Holliday
Managing Director

Mike W. Mackey
Managing Director

Robert H. Northwood, Jr.
Managing Director

J. Steven Porter
Managing Director

Craig H. Stanley
Managing Director

Philip C. Stenseth, C.F.A.
Managing Director

Daniel R. Tonseth
Managing Director

Jim C. Wolfe
Managing Director

Tim Beloit
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Rick L. Hansing
Associate Partner

Eric Harland
Associate Partner

Terry McElwee
Associate Partner

Edward A. Krei
Director

Banking Services

Greg Nieto
Director
Public Finance Division

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Vice President

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Vice President and
Chief Financial Officer

John Goodman
Vice President

Ryan Hayhurst
Vice President

Skoshi Heron
Vice President

L. Keith Lindell, C.E.P.
Vice President

Ruth McLean
Vice President

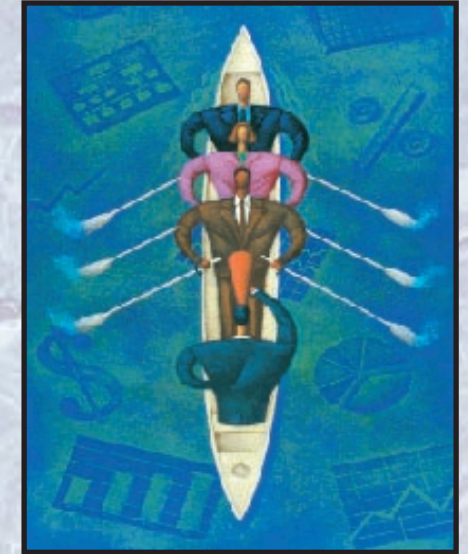
Valle L. McGinnis
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Vice President

Lester F. Murray
Vice President

Gerry Skousen
Vice President

Janice VonHolten
Vice President



2002 STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2002

(AUDITED)



James Baker & Associates

INDUSTRY RESPONSIVE
A LIMITED PARTNERSHIP

Oklahoma City
(405) 415-7200
(800) 937-2257

Indianapolis
(317) 567-0016
(800) 406-0016

Salt Lake City
(801) 256-2155
(800) 288-9411

Austin
(512) 320-0301
(888) 486-0301

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(217) 241-0835
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James Baker & Associates

INDUSTRY RESPONSIVE
A LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENT DECEMBER 31, 2002

1. Organization

Basis of Presentation

James Baker & Associates, A Limited Partnership (the Partnership) is registered under the Securities Exchange Act of 1934 (the Act) as a general securities broker and dealer.

The Partnership provides broker-dealer services for its clients, which consist predominately of community banks located in approximately 34 states. The Partnership engages in consulting and investment advisory functions in addition to its broker-dealer operations.

The Partnership consists of a general partner, James Baker Group, Inc. (JBG), and Class A and Class B limited partners. The Class A limited partner, which holds a voting interest in the Partnership, is comprised solely of The Baker Group, Inc. (TBG). The Class B Limited Partners have nonvoting interests and are issued in three series, the Class B Series I Interests, the Class B Series II Interests and the Class B Series III Interests. The Class B Series I Partners may be comprised of state banking associations and the Class B Series II and III Partners are individuals, some of whom also own JBG and TBG. Capital contributions by partners are made on a discretionary basis. Any dilution, as a result of these discretionary contributions, may be avoided at the option of the diluted partner(s), through additional contributions.

Net income of the Partnership is allocated as follows:

Class A Limited Partner Interest receives the sum of an amount equal to the Federal long-term rate, as defined, multiplied by its weighted average balance of its capital contribution account;

Class B Series I Interests receive an amount equal to the Federal short-term rate multiplied by the applicable weighted average balance outstanding during the period and an amount equal to a percentage of the business derived by the Partnership from members of each respective state banking association, as defined;

Class B II Interests receive an amount equal to 10% multiplied by the average daily capital balance of the Class B Limited Partners (for the year ending December 31, 2002 and 2001, there were no Class B Series II Limited Partners);

Class B III Interests receive an amount at the discretion of the general partner; and

Thereafter to the general partner.

The financial statements do not contain a statement of changes in liabilities subordinated to claims of general creditors as required by Rule 17a-5 of the Act as no such liabilities existed at December 31, 2002, or during the year then ended.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of financial reporting, the Partnership considers all cash and marketable securities with an original maturity of less than three months to be cash and cash equivalents. As of December 31, 2002, cash and cash equivalents included \$1,089,000 of Federal Funds Sold.

Securities Transactions

Securities transactions are recorded on the trade date, as if they had settled. Securities owned are valued at market value with the resulting difference between cost and market included in income for the period. The valuation of securities often requires judgements and estimates. The valuation is as of a specific date and such values may change significantly due to changes in interest rates, the credit quality of the issuer of the security, or other market factors. Commissions and related clearing expenses are recorded on a trade date basis as security transactions occur. As of December 31, 2002, securities owned consisted of state and municipal securities with a fair value of \$2,059,245.

Public Finance, Commissions and Advisory Fees

These amounts are earned in accordance with contract terms or as trades are executed. Revenue is recognized as earned.

Depreciation

Depreciation of property and equipment is provided on a straight-line basis over the estimated useful lives of the assets which range from three to five years.

Income Taxes

The Partnership is not a taxable entity and the results of its operations are includable in the individual tax returns of its partners. Accordingly, income taxes are not reflected in the accompanying financial statement.

3. Securities Segregated Under Federal and Other Regulations

Qualified securities and cash with a market value of \$169,346 as of December 31, 2002, are segregated in a special reserve bank account for the benefit of customers pursuant to Rule 15c3-3 under the Act.

4. Receivables from Customer

Accounts receivable from customers include amounts due on security transactions. Securities owned by customers are held as collateral for receivables. Such collateral is not reflected in the financial statement.

5. Commitments and Contingencies

The Partnership has an open line of credit with The Bank of New York (the Clearing Agent), which is used to finance the clearance of securities and securities purchased for the Partnership's account. Borrowings under the line of credit are collateralized by securities, which are pledged to secure the line of credit. Cash advances made by the Clearing Agent in excess of cash balances maintained by the Partnership at the Clearing Agent bear interest at the Federal Funds rate plus 75 basis points (2.00% at December 31, 2002) and are payable on demand. As of December 31, 2002, there were no advances outstanding.

The Partnership is subject to market and credit risk in connection with security transactions. The Partnership is therefore exposed to risk of loss on these transactions in the event of the customers' or brokers' inability to meet the terms of their contracts, in which case the Partnership may have to purchase or sell securities at prevailing market prices which may not be sufficient to liquidate the contractual obligation. The Partnership controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Partnership establishes credit limits for such activities and monitors compliance on a daily basis.

6. Related Party Transactions

The Partnership pays all expenses directly related to broker-dealer activities. The general partner pays all other expenses on behalf of the Partnership including, but not limited to, compensation and benefits of certain employees, rent and certain general and administrative expenses. The expenses paid by the general partner totaled approximately \$2,617,000 for the year ended December 31, 2002, and are not included in the Partnership's financial statements. Additionally, during 2002, the general partner made contributions of furniture and equipment at its cost of \$154,144, which approximated its fair value.

7. Fair Value of Disclosures of Financial Instruments

Estimation of the fair value of financial instruments is made in accordance with the requirements of Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments*. The estimated fair value amounts have been determined by the Partnership using available market information and appropriate valuation methodologies. The use of different market assumptions and/or estimation methodologies may have a

material effect on the estimated fair value amounts. At December 31, 2002, the carrying amount of all financial instruments as reflected on the statement of financial condition was the same as their estimated fair value.

For cash and cash equivalents, securities segregated under federal and other regulations, receivables from and payables to brokers and dealers, and payable to clearing agent, the carrying amount is a reasonable estimate of fair value as such amounts are payable or receivable on demand or generally within five days.

For securities owned, fair value is estimated based on the closing price for listed securities at December 31, 2002, or at the appropriate closing bid or asked prices, in accordance with management's established procedures.

8. Net Capital Requirements

The Partnership is subject to the Uniform Net Capital Rule (15c3-1) under the Act which requires the maintenance of minimum net capital. Rule 15c3-1 also limits the amount of capital withdrawals that can be made within any 30-day period without notification and/or approval of the Securities and Exchange Commission.

The Partnership has elected to use the alternative method, permitted by Rule 15c3-1, which requires the Partnership to maintain minimum net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit balances arising from customer transactions, as defined. At December 31, 2002, the Partnership had net capital of \$6,351,844, which was 109% of aggregate debit balances and \$6,101,844 in excess of required net capital.

A copy of the December 31, 2002 annual financial statements filed pursuant to Rule 17a-5 of the Securities and Exchange Commission is available for examination at the principal office of the Partnership and at the Fort Worth, Texas, regional office of the Commission.

The NASD Regulation, Inc., Public Disclosure Program Hotline Number is 800-289-9999. The NASD Regulation Web Site Address is www.nasdr.com. An investor brochure that includes information describing the NASD Regulation Public Disclosure Program may be obtained from the NASD.
