

SO
9/5/03



03051665

UNITED STATES
EXCHANGE COMMISSION
Washington, D.C. 20549

VF9-4-03

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
8-19086

RACING 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 7/01/02 AND ENDING 6/30/03
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Barr Brothers & Co., Inc.
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

39 Broadway Suite 2400
(No. and Street)

New York NY 10006
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Michael J. Read (212) 269-4500 EXT. 512
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

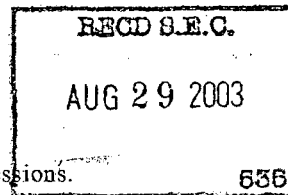
INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers L.L.P.
(Name - if individual, state last, first, middle name)

1177 Avenue of The Americas New York NY 10036
(Address) (City) (State) (Zip Code)

CHECK ONE:

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



PROCESSED

SEP 09 2003

THOMSON FINANCIAL

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)

009-8

OATH OR AFFIRMATION

I, Michael J. Read, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Barr Brothers & Co., Inc., as of June 30, 2003, 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:

LICIA M. GALASSO
Notary Public, State of New York
No. 01GA5061617
Qualified in Richmond County
Commission Expires June 10, 2006

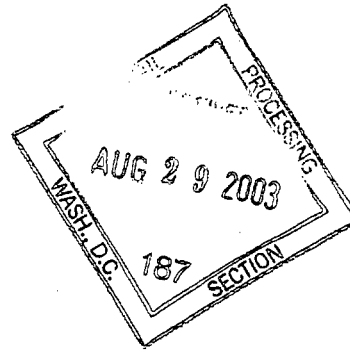
Licia M Galasso
Licia M. Galasso
Notary Public

Michael J Read
Signature
Chief Financial Officer
Title

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 15c3-3 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).



Barr Brothers & Co., Inc.

**Financial Statements and
Supplementary Information
June 30, 2003**

Report of Independent Accountants

To the Board of Directors
and Stockholders of
Barr Brothers & Co., Inc.

In our opinion, the accompanying statement of financial condition and the related statements of income, changes in stockholders' equity, cash flows and changes in loan from stockholder subordinated to claims of general creditors present fairly, in all material respects, the financial position of Barr Brothers & Co., Inc. at June 30, 2003, 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. 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 of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Supplementary Schedules I and II 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.

PricewaterhouseCoopers LLP

August 22, 2003

Barr Brothers & Co., Inc.
Statement of Financial Condition
June 30, 2003

Assets	
Cash	\$ 61,356
Trading securities, at market value	12,900,392
Net receivable for securities transactions not yet due for settlement	5,305,185
Receivable from brokers and dealers	51,606
Receivable from customers	15,000
Investments, at market value	691,081
Interest receivable	243,180
Loans and advances receivable	201,547
Other assets	382,898
Total assets	<u>\$ 19,852,245</u>
Liabilities and Stockholders' Equity	
Bank loans payable	\$ 12,755,000
Payable to customers	206,421
Accrued compensation	397,000
Accrued pension	354,000
Income payable	71,290
Accrued expenses and other liabilities	196,103
Total liabilities	<u>13,979,814</u>
Commitments (Notes 3 and 10)	
Liabilities subordinated to claims of general creditors	<u>1,200,000</u>
Stockholders' equity	
Capital stock, \$1 par value; 200,000 shares authorized; 33,566 shares issued and outstanding	31,516
Capital in excess of par value	2,047,976
Retained earnings	2,965,606
	<u>5,045,098</u>
Less - Treasury stock, at cost, 15,800 shares	(372,667)
Total stockholders' equity	<u>4,672,431</u>
Total liabilities and stockholders' equity	<u>\$ 19,852,245</u>

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

Barr Brothers & Co., Inc.
Statement of Income
Year Ended June 30, 2003

Revenues	
Trading	\$ 2,314,992
Interest	971,365
Investments	109,725
Joint account and underwriting	39,436
	<u>3,435,518</u>
Expenses	
Compensation and employee benefits	2,002,915
Interest	447,684
Other	884,535
	<u>3,335,134</u>
Income before provision for income taxes	<u>100,384</u>
Provision for income taxes	<u>41,700</u>
Net income	<u>\$ 58,684</u>

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

Barr Brothers & Co., Inc.
Statement of Changes in Stockholders' Equity
Year Ended June 30, 2003

	Capital Stock Shares	Capital Stock Amount	Capital in Excess of Par Value	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total
Balance at June 30, 2002	33,566	\$ 33,566	\$ 2,617,848	\$ 2,960,148	(15,800)	\$ (372,667)	\$ 5,238,895
Repurchase and retirement of capital stock	(2,050)	(2,050)	(569,872)	(53,226)	-	-	(625,148)
Net income	-	-	-	58,684	-	-	58,684
Balance at June 30, 2003	31,516	\$ 31,516	\$ 2,047,976	\$ 2,965,606	(15,800)	\$ (372,667)	\$ 4,672,431

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

Barr Brothers & Co., Inc.
Statement of Cash Flows
Year Ended June 30, 2003

Cash flows from operating activities	
Net income	\$ 58,684
Adjustments to reconcile net income to net cash used in operating activities	
Noncash charges included in net income	
Depreciation	27,436
Decrease (increase) in assets	
Trading securities	7,589,842
Net receivable for securities transactions not yet due for settlement	(5,305,185)
Receivable from brokers and dealers	(51,606)
Receivable from customers	10,139
Interest receivable	(12,554)
Loans and advances receivable	609,662
Other assets	(121,759)
Increase (decrease) in liabilities	
Payable to brokers and dealers	(53,372)
Net payable for securities transactions not yet due for settlement	(5,623,713)
Payable to customers	206,421
Accrued compensation	397,000
Accrued pension and profit sharing	354,000
Income taxes payable	10,751
Accrued expenses and other liabilities	(25,124)
Net cash used in operating activities	<u>(1,929,378)</u>
Cash flows from investing activities	
Increase in investments	<u>(229,616)</u>
Net cash used in investing activities	<u>(229,616)</u>
Cash flows from financing activities	
Net increase in bank loans	2,770,000
Repurchase of capital stock	<u>(625,148)</u>
Net cash provided by financing activities	<u>2,144,852</u>
Net decrease in cash	(14,142)
Cash	
At June 30, 2002	<u>75,498</u>
At June 30, 2003	<u>\$ 61,356</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest expense	\$ 446,291
Cash paid during the year for income taxes	\$ 26,749

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

Barr Brothers & Co., Inc.
Statement of Changes in Loan from Stockholder
Subordinated to Claims of General Creditors
Year Ended June 30, 2003

Balance, July 1, 2002	\$ 1,200,000
Increase/decreases	-
Balance, June 30, 2003	<u>\$ 1,200,000</u>

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

Barr Brothers & Co., Inc.
Notes to Financial Statements
June 30, 2003

1. Business and Significant Accounting Policies

Barr Brothers & Co., Inc. (the "Company") is a municipal securities dealer registered with the Securities and Exchange Commission and is a member of the National Association of Securities Dealers, Inc.

The financial statements are presented in conformity with accounting principles generally accepted in the United States which require 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Securities transactions of the Company are recorded on a trade date basis. Trading and investment securities and securities sold but not yet purchased are valued at market value. All realized and unrealized gains and losses are reflected in income currently.

2. Collateralization of Bank Loans

As of June 30, 2003, securities with an aggregate market value of \$18,516,210 consisting primarily of New York State investment grade securities, were pledged as collateral for the Company's outstanding bank loans. Interest accrues on these loans at the brokers call rate which fluctuates on a day-to-day basis.

3. Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, the Company enters into municipal securities sale transactions as principal. If the securities subject to such transactions are not in the possession of the Company (for example, failed to receive), the Company may incur a loss if the securities the Company is obligated to deliver are not received and the market value has increased over the contract amount of the sale transaction.

In the normal course of business, in order to meet its hedging needs and to reduce its own exposure to market and interest rate risk, the Company enters into financial futures contracts. Financial futures contracts provide for the delayed delivery of financial instruments in which the seller agrees to make delivery at a specified future date, and at a specified price or yield. The contract or notional amount of these contracts reflects the Company's extent of involvement in these contracts and does not represent the Company's risk of loss due to counterparty nonperformance. At June 30, 2003, the Company was a party to financial futures contracts for sales with contract amounts of \$1,195,000. The Company clears all of its futures transactions through an unrelated counterparty and is exposed to off-balance sheet risk from adverse market fluctuations.

Additionally, the Company also enters in to when-issued municipal securities transactions. The Company is exposed to off-balance sheet risk to the extent of the adverse market price movement in the underlying securities.

4. Loans and Advances Receivable

Loans and advances receivable are due from officers and employees of the Company. These loans and advances are unsecured, bear an interest rate of 7% and mature at various dates, the latest of

Barr Brothers & Co., Inc.
Notes to Financial Statements
June 30, 2003

which is December 31, 2007. The Company earned interest income of \$16,233 from these loans and advances during the year.

5. Pension and Profit-Sharing Plans

The Company has a defined benefit pension plan and a discretionary profit-sharing plan which covers officers and employees. Pension plan benefits are based on years of service and the employee's highest five years' average annual compensation up to the maximum limit under the Internal Revenue Code. The Company's funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes.

During the year a contribution of \$354,000 was accrued to fully fund the Plan. It is management's intention to terminate the pension plan on September 6, 2003.

The profit-sharing plan provides for annual contributions, if any, subject to management discretion. There was no contribution payable for the year ended June 30, 2003.

6. Capital Stock Repurchase Agreement

Under the terms of a stockholders' agreement dated September 3, 1996, the Company is required to repurchase within 120 days all of the outstanding stock of any stockholder who either dies or retires from full-time employment with the Company, and may exercise its option to purchase within 30 days any outstanding shares for which a stockholder has received a bona fide offer. The purchase price would be based upon the net worth of the Company, as defined.

7. Loan from Stockholder Subordinated to the Claims of General Creditors

At June 30, 2003, the Company had outstanding a subordinated loan of \$1.2 million which matures November 2005 and bears an interest rate of 6%. This loan is covered by an agreement approved by the NASD and is thus available for computing net capital under the Securities and Exchange Commission's Uniform Net Capital Rule. To the extent that this loan is required for the Company's continued compliance with minimum net capital requirements, it may not be repaid.

8. Income Taxes

The provision for income taxes of \$41,700 is comprised entirely of state and local taxes.

9. Net Capital Requirements

The Company is subject to the Uniform Net Capital Rule under the Securities Exchange Act of 1934 (the "Rule"). The Rule requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. As of June 30, 2003, the Company's net capital of \$4,400,248 exceeded required net capital of \$100,000 by \$4,300,248 and the ratio of aggregate indebtedness to net capital was .28 to 1.

10. Commitments

The Company's current office space lease expires December 27, 2009. The Company is required to pay its proportionate share of maintenance, insurance and taxes in addition to the minimum

Barr Brothers & Co., Inc.
Notes to Financial Statements
June 30, 2003

rentals. Rental expense for the fiscal year amounted to \$228,592. Minimum rental commitments are as follows:

Fiscal year ending June 30,	
2004	\$ 225,700
2005	225,700
2006	229,400
2007	229,400
2008 and thereafter	456,300
	<hr/>
	\$ 1,366,500

Barr Brothers & Co., Inc.
Computation of Net Capital Under Rule 15c3-1 of
the Securities Exchange Act of 1934
June 30, 2003

Supplementary Schedule I

Total stockholders' equity	\$ 4,672,431
Loan subordinated to claims of general creditors	1,200,000
Stockholders' equity and subordinated loan	<u>\$ 5,872,431</u>
Deductions and/or Charges	
Nonallowable assets	
Loans and advances receivable	203,285
Other nonallowable assets	385,898
Total	<u>589,183</u>
Net capital before haircuts on securities positions	<u>5,283,248</u>
Haircuts on securities positions	<u>883,000</u>
Net capital	<u>\$ 4,400,248</u>
Computation of Basic Net Capital Requirement	
Aggregate indebtedness	
Payable to customers	206,421
Accrued expenses and other liabilities	947,103
Income taxes payable	71,290
Aggregate indebtedness	<u>\$ 1,224,814</u>
Net capital requirement (the greater of 6 ² / ₃ % of aggregate indebtedness or \$100,000)	<u>\$ 100,000</u>
Excess net capital	<u>\$ 4,300,248</u>
Ratio of aggregate indebtedness to net capital	<u>.28 to 1</u>

No differences exist between the above computation of net capital under Rule 15c3-1 and that filed with the Company's June 30, 2003 amended FOCUS Report.

Barr Brothers & Co., Inc.
Computation of Determination of Reserve
Requirements and Information Relating to
Possession or Control Requirements Under
Rule 15c3-3 of the Securities Exchange Act of 1934 Supplementary Schedule II

The Company is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934, as amended, in that the Company's activities are limited to those set forth in the conditions for exemption appearing in clause (i) of subparagraph (k)(2) of the Rule, and the Company maintains a "Special Account for the Exclusive Benefit of Customers."

**Report of Independent Accountants on Internal Accounting
Control Required by SEC Rule 17a-5**

To the Board of Directors and
Stockholders of Barr Brothers & Co., Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Barr Brothers & Co., Inc. (the "Company") for the year ended June 30, 2003, 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) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures, followed by the Company, including tests of compliance with such practices and procedures, that we considered relevant to the objectives stated in Rule 17a-5(g) in the following:

1. Making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11);
2. Making quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13;
3. The Company is exempt from the provisions of Regulation T of the Board of Governors of the Federal Reserve System.
4. Determining compliance with the exemptive provisions of Rule 15c3-3;

Because the Company conducts business in accordance with the exemptive provisions of paragraph (k)(2)(i) of Rule 15c3-3, we did not review the practices and procedures followed by the Company for the following:

1. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3;

PRICEWATERHOUSECOOPERS

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 internal control 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 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 controls 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 controls 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 one or more 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 controls, 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 June 30, 2003, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, 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.

PriceWaterhouseCoopers LLP

August 22, 2003