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



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

SEC FILE NUMBER
8-50268

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 10/01/01 AND ENDING 09/30/02
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Salomon Grey Financial Corporation

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

5430 LBJ Freeway, Suite 1626

(No. and Street)

Dallas

TX

75240

(City)

(State)

(Zip Code)

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

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Cheshier & Fuller, L.L.P.

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

14175 Proton Rd.

Dallas

TX

75244

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

P JAN 13 2003

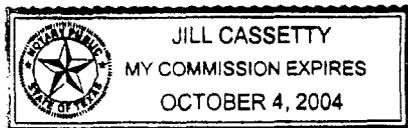
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THOMSON FINANCIAL

*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).

PS 1/9/03

OATH OR AFFIRMATION

I, Kyle B. Rowe, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Salomon Grey Financial Corporation, as of September 30, 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:



[Signature]
Signature
President
Title

[Signature] Notary Public 12/26/02

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 internal control

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

SALOMON GREY FINANCIAL CORPORATION

REPORT PURSUANT TO RULE 17a-5(d)

YEAR ENDED SEPTEMBER 30, 2002

SALOMON GREY FINANCIAL CORPORATION

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Cheshier & Fuller, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
SEC PRACTICE SECTION OF AICPA
TEXAS SOCIETY OF CERTIFIED
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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Salomon Grey Financial Corporation

We have audited the accompanying statement of financial condition of Salomon Grey Financial Corporation as of September 30, 2002 and the related statements of income, changes in stockholder's equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the year then ended. 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 U. S. generally accepted auditing standards. 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 Salomon Grey Financial Corporation as of September 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with U. S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 8 to the financial statements, the Company is a party to numerous legal actions. Those actions claim substantial amounts as a result of alleged violations of securities laws and other matters. Those conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the 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 of the Securities and Exchange Commission. 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.

CHESHER & FULLER, L.L.P.

Dallas, Texas
October 31, 2002

SALOMON GREY FINANCIAL CORPORATION
Statement of Financial Condition
September 30, 2002

ASSETS

Cash	\$ 285,061
Receivable from brokers-dealers and clearing organizations	1,954,394
Securities owned, at market value	709,088
Property and equipment, net of accumulated depreciation of \$92,825	60,285
Advances – employees	29,499
Deposits	<u>13,440</u>
	<u>\$3,051,767</u>

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

SALOMON GREY FINANCIAL CORPORATION
Statement of Financial Condition
September 30, 2002

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities

Accounts payable and accrued expenses	\$ 343,297
Payable to brokers-dealers and clearing organizations	597,732
Commissions payable	307,413
Securities sold, not yet purchased, at market value	290,401
Federal income taxes payable	344,999
State income taxes payable	<u>26,325</u>
	<u>1,910,167</u>

Stockholder's equity

Common stock, 1,000,000 shares authorized with no par value, 1,000,000 shares issued and outstanding	523,744
Retained earnings	<u>617,856</u>
Total stockholder's equity	<u>1,141,600</u>
	<u>\$3,051,767</u>

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

SALOMON GREY FINANCIAL CORPORATION

Statement of Income

For the Year Ended September 30, 2002

Revenues

Commissions income	\$ 14,285,408
Revenue from sale of investment company shares	255
Gains or losses on firm securities trading accounts	4,717,801
Interest income	251
Dividend income	4,798
Other income	<u>146,781</u>
	<u>19,155,294</u>

Expenses

Compensation and benefits	3,239,619
Commissions and clearance paid to all other brokers	11,932,775
Communications	498,930
Occupancy & equipment costs	325,414
Promotional costs	235,904
Regulatory fees and expenses	448,266
Other expenses	<u>1,646,134</u>
	<u>18,327,042</u>

Net income before income tax	828,252
Provision for federal income taxes	344,999
Provision for state income taxes	<u>28,140</u>
Net income	<u>\$ 455,113</u>

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

SALOMON GREY FINANCIAL CORPORATION
Statement of Changes in Stockholder's Equity
For the Year Ended September 30, 2002

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balances at October 1, 2001	\$ 523,744	\$ 162,743	\$ 686,487
Net income	_____	<u>455,113</u>	<u>455,113</u>
Balances at September 30, 2002	<u>\$ 523,744</u>	<u>\$ 617,856</u>	<u>\$1,141,600</u>

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

SALOMON GREY FINANCIAL CORPORATION
Statement of Changes in Liabilities Subordinated
to Claims of General Creditors
For the Year Ended September 30, 2002

Balance at October 1, 2001	\$ -0-
Increases	-0-
Decreases	<u>-0-</u>
Balance at September 30, 2002	<u>\$ -0-</u>

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

SALOMON GREY FINANCIAL CORPORATION
Statement of Cash Flows
For the Year Ended September 30, 2002

Cash flows from operating activities:	
Net income	\$ 455,113
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	36,866
Change in assets and liabilities:	
Increase in receivable from brokers-dealers and clearing organizations	(465,368)
Increase in securities owned	(527,448)
Decrease in federal income tax refund receivable	37,163
Decrease in advances – employees	81,555
Increase in accounts payable and accrued expenses	275,165
Increase in payable to brokers-dealers and clearing organizations	293,961
Decrease in commissions payable	(159,374)
Increase in securities sold, not yet purchased	77,627
Decrease in accrued interest payable	(12,500)
Increase in federal income taxes payable	138,616
Increase in state income taxes payable	<u>26,325</u>
Net cash provided (used) by operating activities	<u>257,701</u>
Cash flows from investing activities:	
Purchases of property and equipment	<u>(29,232)</u>
Net cash provided (used) by investing activities	<u>(29,232)</u>
Cash flows from financing activities:	
Net cash provided (used) by financing activities	<u>-0-</u>
Net increase in cash	228,469
Cash at beginning of period	<u>56,592</u>
Cash at end of period	<u>\$ 285,061</u>

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

SALOMON GREY FINANCIAL CORPORATION
Statement of Cash Flows
For the Year Ended September 30, 2002

Supplemental Disclosures

Cash paid for:

Income taxes	<u>\$ -0-</u>
Interest	<u>\$ -0-</u>

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

SALOMON GREY FINANCIAL CORPORATION

Notes to Financial Statements

September 30, 2002

Note 1 - Summary of Significant Accounting Policies

Salomon Grey Financial Corporation (the "Company") is a broker-dealer in securities registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers (NASD). The Company operates under (SEC) Rule 15c3-3(k)(2)(ii), which provides that all funds and securities belonging to the Company's customers would be handled by a clearing broker-dealer.

The Company is 100% owned by Salomon Grey Financial Group, Inc. (the "Parent").

Purchases and sales of securities are recorded on a trade date basis. Commission revenue and expense are recorded on a settlement date basis, generally the third business day following the transactions. If materially different, commission revenue and expense are adjusted to a trade date basis.

The preparation of financial statements in conformity with U. S. generally accepted accounting principles 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.

Advertising costs are expensed as incurred. Advertising costs charged to expense were \$5,726 for the year ended September 30, 2002 and are reflected in promotional costs.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due. The provision for federal income taxes differs from the expected amount using statutory rates because certain expenses included in the determination of net income are non-deductible for tax reporting purposes.

Property and equipment are stated at cost. Depreciation on office equipment and furniture is computed using an accelerated method over the estimated useful lives of the assets. Depreciation expense for the year ended September 30, 2002 was \$36,866, and is reflected in occupancy and equipment costs.

Compensated absences have not been accrued because the amount cannot be reasonably estimated.

SALOMON GREY FINANCIAL CORPORATION

Notes to Financial Statements

September 30, 2002

Note 2 - Net Capital Requirements

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities and 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. At September 30, 2002, the Company had net capital of approximately \$762,660 and net capital requirements of \$100,000. The Company's ratio of aggregate indebtedness to net capital was 1.34 to 1. The Securities and Exchange Commission permits a ratio of no greater than 15 to 1.

Note 3 - Possession or Control Requirements

The Company does not have any possession or control of customer funds or securities. There were no material inadequacies in the procedures followed in adhering to the exemptive provisions of (S.E.C.) Rule 15c3-3(k)(2)(ii) by promptly transmitting all customer funds and securities to the clearing broker who carries the customer accounts.

Note 4 - Concentration Risk

At September 30, 2002, and at various times during the year, the Company had cash balances in excess of federally insured limits of \$100,000.

Note 5 - Related Party Transactions

The Company paid Salomon Grey Financial Group, Inc. (the "Parent") \$1,720,000 for various administrative expenses incurred for the year ended September 30, 2002. This is reflected in other expenses.

The Company is provided transportation services by an affiliated entity, Millennium Limousine. Transportation costs charged to expense were \$4,271 for the year ended September 30, 2002 and are reflected in promotional costs.

The Company is provided consulting services by an affiliated entity, Broker Dealer Consultants, L.L.C. Consulting fees charged to expense were \$55,000 for the year ended September 30, 2002 and are reflected in other expenses.

SALOMON GREY FINANCIAL CORPORATION

Notes to Financial Statements

September 30, 2002

Note 6 - Operating Leases

The following is a schedule by years of future minimum rental payments required under various operating leases that have initial or remaining noncancelable lease terms in excess of one year.

<u>Year Ending</u> <u>September 30,</u>	
2003	\$ 310,475
2004	313,889
2005	<u>64,697</u>
	<u>\$ 689,061</u>

Rental expense for the year ended September 30, 2002 was \$225,332 and is reflected in occupancy and equipment costs.

Note 7 - Commitments and Contingencies

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 in excess of \$4,600,000. Management intends to present a vigorous defense.

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

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 the unsettled trade. At September 30, 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.

SALOMON GREY FINANCIAL CORPORATION
Notes to Financial Statements
September 30, 2002

Note 8 - Going Concern

The Company is involved in various arbitration proceedings, administrative actions, and lawsuits which claim substantial damages, as discussed in Note 7. These matters raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Supplemental Information
Pursuant to Rule 17a-5 of the
Securities Exchange Act of 1934
as of
September 30, 2002

Schedule I

SALOMON GREY FINANCIAL CORPORATION

Computation of Net Capital Under Rule 15c3-1

of the Securities and Exchange Commission

As of September 30, 2002

COMPUTATION OF NET CAPITAL

Total stockholder's equity qualified for net capital			\$ 1,141,600
Add:			
Other deductions or allowable credits			<u>-0-</u>
Total capital and allowable subordinated liabilities			1,141,600
Deductions and/or charges			
Non-allowable assets:			
Property and equipment, net	\$ 60,285		
Advances – employees	29,499		
Deposits	13,440		
Non marketable securities	<u>150,042</u>		<u>(253,266)</u>
Net capital before haircuts on securities positions			888,334
Haircuts on securities (computed, where applicable, pursuant to rule 15c3-1(f))			
Other securities			<u>(125,674)</u>
Net capital			<u>\$ 762,660</u>
AGGREGATE INDEBTEDNESS			
Items included in statement of financial condition:			
Accounts payable and accrued expenses		\$ 343,297	
Commissions payable		307,413	
Federal income taxes payable		344,999	
State income taxes payable		<u>26,325</u>	
Total aggregate indebtedness			<u>\$1,022,034</u>

Schedule I (continued)

SALOMON GREY FINANCIAL CORPORATION

Computation of Net Capital Under Rule 15c3-1

of the Securities and Exchange Commission

As of September 30, 2002

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Minimum net capital required (6-2/3% of total aggregate indebtedness)	<u>\$ 68,170</u>
Minimum dollar net capital requirement of reporting broker or dealer	<u>\$ 100,000</u>
Net capital requirement (greater of above two minimum requirement amounts)	<u>\$ 100,000</u>
Net capital in excess of required minimum	<u>\$ 662,660</u>
Excess net capital at 1000%	<u>\$ 660,457</u>
Ratio: aggregate indebtedness to net capital	<u>1.34 to 1</u>

RECONCILIATION WITH COMPANY'S COMPUTATION

The following serves to reconcile differences in the computation of net capital under Rule 15c3-1 from the Company's computation.

Net capital, as reported in Company's (unaudited) Focus report	\$ 785,975
Increase (decrease) due to adjustments for:	
Accounts payable and accrued expenses	(270,006)
Federal income taxes payable	353,171
State income taxes payable	(26,325)
Haircuts on securities	(3,432)
Non-allowable assets	<u>(76,723)</u>
Net capital per audited report	<u>\$ 762,660</u>

Schedule II

SALOMON GREY FINANCIAL CORPORATION
Computation for Determination of Reserve Requirements Under
Rule 15c3-3 of the Securities and Exchange Commission
As of September 30, 2002

EXEMPTIVE PROVISIONS

The Company has claimed an exemption from Rule 15c3-3 under section (k)(2)(ii), in which all customer transactions are cleared through another broker-dealer on a fully disclosed basis.

Company's clearing firm: Emmett A. Larkin Company, Inc.

Independent Auditor's Report

On Internal Control

Required By SEC Rule 17a-5

Year Ended September 30, 2002



Cheshier & Fuller, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
SEC PRACTICE SECTION OF AICPA
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL REQUIRED BY SEC RULE 17a-5

The Board of Directors
Salomon Grey Financial Corporation

In planning and performing our audit of the financial statements and supplemental schedules of Salomon Grey Financial Corporation (the "Company"), for the year ended September 30, 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 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 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 U. S. 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 September 30, 2002, 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.


CHESHER & FULLER, L.L.P.

Dallas, Texas
October 31, 2002