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

OMB APPROVAL
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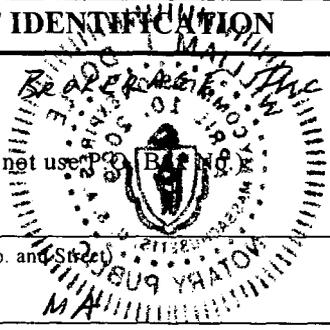
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**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 1/1/02 AND ENDING 12/31/02
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: BLACKWATCH
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box)
321 SUMMER STREET
BOSTON (City) MA (State) 02210 (Zip Code)



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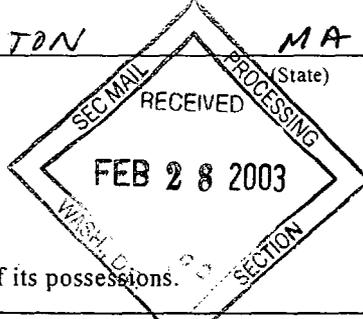
NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
DEIRDRE NOONAN 617-239-8880
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
PRICEWATERHOUSE COOPERS LLP
(Name - if individual, state last, first, middle name)
160 FEDERAL STREET BOSTON MA (Address) (City) (State) 02110 (Zip Code)

CHECK ONE:

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



PROCESSED
MAR 19 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)

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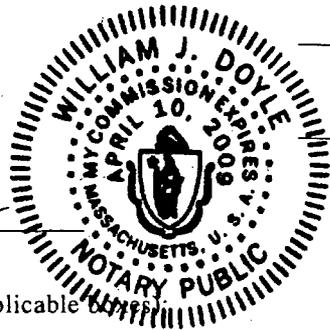
OATH OR AFFIRMATION

I, DEIRDRE M. NOONAN, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of BLACK HATCH BROKERAGE 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:

Deirdre M. Noonan
Signature

PRESIDENT
Title

[Signature]
Notary Public



- This report ** contains (check all applicable)
- (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).



Blackwatch Brokerage Inc.

Statement of Financial Condition

December 31, 2002



Report of Independent Accountants

To the Board of Directors of Blackwatch Brokerage Inc.

In our opinion, the accompanying statement of financial condition of Blackwatch Brokerage Inc. (the "Company") (a wholly-owned subsidiary of The MacGregor Group, Inc.), presents fairly, in all material respects, the financial position of the Company at December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement 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 statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, and evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

The Company is a member of a group of affiliated companies and, as disclosed in the notes to the financial statement, has extensive transactions and relationships with members of the group. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

PricewaterhouseCoopers LLP

February 25, 2002

Blackwatch Brokerage Inc.
Statement of Financial Condition
December 31, 2002

Assets

Cash and cash equivalents	\$	3,900,613
Receivables from clearing brokers and dealers		509,171
Receivable from Parent		829,710
Deferred expenses		413,521
Deposits with clearing brokers		100,552
Interest receivable		-
Securities owned, at fair value		<u>31,900</u>
Total assets	\$	<u>5,785,467</u>

Liabilities and Stockholder's Equity

Accrued research - related expenses	\$	1,085,090
Accrued interest		39,657
Accrued income taxes payable		<u>829,710</u>
		<u>1,954,457</u>
Subordinated borrowings		<u>175,000</u>
Common stock, \$.01 par, authorized 3,000 shares, issued and outstanding, 1,000 shares		10
Additional paid-in capital		954,700
Retained earnings		<u>2,701,300</u>
Total stockholder's equity		<u>3,656,010</u>
Total liabilities and stockholder's equity	\$	<u>5,785,467</u>

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

Blackwatch Brokerage Inc.
Notes to Financial Statement
December 31, 2002

1. Organization

Blackwatch Brokerage Inc. (the "Company") is a registered broker-dealer under the Securities Exchange Act of 1934 and acts as an introducing broker whose accounts are cleared and carried by other broker-dealers on a fully disclosed basis. The Company is a wholly-owned subsidiary of The MacGregor Group, Inc. (the "Parent"), which develops, markets, distributes and sells trade order management software and connectivity solutions for institutional investment managers, brokers, hedge funds, pension plans, mutual fund companies, and trust companies throughout the United States and Europe.

The Company was incorporated in the State of Delaware on March 3, 1999, and commenced operations on December 23, 1999, subsequent to the grant of its application to the National Association of Securities Dealers, Inc. ("NASD").

2. Summary of Significant Accounting Policies

Use of Estimates

The accompanying financial statement is prepared in conformity with accounting principles generally accepted in the United States of America, which 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 statement. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The company invests its excess cash primarily in money market funds, which have strong credit ratings. These investments are subject to minimal credit and market risks.

Included in cash and cash equivalents is \$2,256,291 of shares in a money market account.

Receivables from Clearing Brokers and Dealers and Deferred Expenses

The Company aggregates commissions across clearing firms to satisfy the third-party soft dollar obligations of the Parent's institutional customers and other institutional firms. Gross commissions received from clearing firms are reported net of payments to clearing brokers on a trade date basis. Receivables arising from such commissions are generally collected within thirty days.

The Company accrues a portion of the gross commissions from the clearing brokers in anticipation of future soft dollar payments. The average amount accrued is approximately two thirds of the level of gross commissions. To the extent that actual soft dollar payments paid on behalf of any single customer exceed the amount accrued on the commissions generated from trades introduced on behalf of that customer, the excess amount is deferred as an asset on the Company's statement of financial condition. A reserve against the deferred expense is established based upon reviews of the transaction activity of such customers. As of December 31, 2002, no amount had been reserved against the deferred expense balance of \$413,521.

Blackwatch Brokerage Inc.
Notes to Financial Statement
December 31, 2002

Securities Owned

Security transactions are recorded on trade date. Securities owned at December 31, 2002 consist entirely of the Company's investment in the NASDAQ Stock Market, Inc. This security is not readily marketable and cannot be publicly sold. Therefore, this security is valued at fair value as determined by management.

Income Taxes

The Company is included in the consolidated income tax returns filed by the Parent. Current and deferred income taxes are allocated by the Parent to its consolidated subsidiaries based upon the application of Statement of Financial Accounting Standards ("SFAS") 109, "Accounting for Income Taxes", to each subsidiary as if it were a separate taxpayer. SFAS 109 requires the use of the asset/liability method of accounting for income taxes. Deferred income taxes are recognized for the future tax consequences of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end, based on enacted tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to an amount, which is more likely than not realizable. Income tax expense is the sum of the taxes currently payable and the change during the period in deferred tax assets and liabilities. Current and deferred tax assets and liabilities resulting from the income tax allocations are receivable from or payable to the Parent.

3. Administrative Agreement

The Company has entered into an administrative agreement with the Parent. Under the terms this agreement, the Parent provides, at no charge, administrative and support services to the Company including, but not limited to, office space, telephone services, computer services, internal accounting, payroll, utilities and other miscellaneous services. This agreement may be terminated at the election of either party at least 30 days extended prior to the termination date of December 31. The Agreement can be extended for one year periods each December 31, and has been extended until December 31, 2003.

4. Subordinated Borrowings

The Company had borrowed \$175,000 from the Parent under two separate subordinated loan agreements at December 31, 2002. Under terms of these agreements, \$100,000, with associated interest payments, is due May 1, 2003 and \$75,000, with associated interest payments, is due December 31, 2003. The borrowing bears interest at 2% per annum in excess of the Wall Street Journal Prime Rate, defined as the base rate on corporate loans posted by 75% of the nation's 30 largest banks (or the highest of such rate, if there is more than one) as reported in the Wall Street Journal. The borrowings are subordinated to the claims of general creditors. The borrowings have been approved by the NASD and are available to the Company in computing the net capital under the Securities and Exchange Commission's Uniform Net Capital Rule 15c3-1 (the "Rule").

Blackwatch Brokerage Inc.
Notes to Financial Statement
December 31, 2002

5. Net Capital and Other Regulatory Requirements

The Company is subject to minimum capital requirements of the Rule. Under the Rule, the Company is required to maintain "net capital" equal to the greater of \$5,000 or 6-2/3 percent of "aggregate indebtedness" (a maximum ratio of 15 to 1) as those terms are defined by the Rule. As of December 31, 2002, the Company's regulatory net capital of \$2,230,589 exceeded required net capital of \$130,297. "Aggregate indebtedness" was \$1,954,457, resulting in a ratio of "aggregate indebtedness" to "net capital" of approximately 88%.

The Company is exempt from the provisions of the Securities and Exchange Commission's Rule 15c3-3 under paragraph (k)(2)(ii) thereof.

6. Income Taxes

At December 31, 2002, there are no deferred tax assets and liabilities.

The Company will only recognize a deferred tax asset when, based on available evidence, realization is more likely than not. Accordingly, at December 31, 2002, the Company has recorded no valuation allowance against federal or state deferred tax assets based on reversals of existing taxable amounts and taxable income in carryback years.

7. Related Parties

Certain directors and officers of the Company are minority owners in a broker dealer and a alternative trading system, respectively. The Company is compensated for providing soft dollar administration services and transaction revenue based on dollar volume of trades executed by the Parent's customers. At December 31, 2002, there was \$81,680 included in receivables from clearing brokers and dealers under this arrangement.