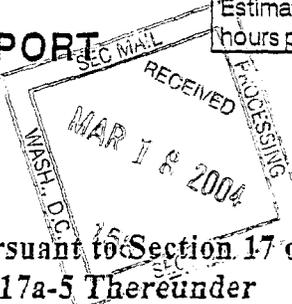




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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**



SEC FILE NUMBER
8- 34979

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3/24

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 01/01/03 AND ENDING 12/31/03
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: BPU Investment Group, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

3 PPG Place, Suite 500

(No. and Street)

Pittsburgh,

PA

15222-5403

(City)

(State)

(Zip Code)

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

William R. Berkowitz

(412) 288-9150

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Lally, Lally & Co. LLC

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

5700 Corporate Drive, Suite 800, Pittsburgh, PA 15237

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

APR 02 2004

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)

BPU INVESTMENT GROUP, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2003

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Lally, Lally & Co. LLC

Certified Public Accountants & Business Advisors

5700 Corporate Drive, Suite 800
Pittsburgh, Pennsylvania 15237-5851
Telephone 412•367•8190
Facsimile 412•366•3111
www.lallycpas.com

INDEPENDENT AUDITORS' REPORT

BPU Investment Group, Inc.
Pittsburgh, Pennsylvania

We have audited the accompanying statement of financial condition of **BPU Investment Group, Inc.** (the Company) as of December 31, 2003, and the related statements of operations, changes in stockholders' 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 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 **BPU Investment Group, Inc.** at December 31, 2003, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on page 11 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 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.

Lally, Lally & Co. LLC

January 21, 2004

BPU INVESTMENT GROUP, INC.
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2003

ASSETS

Cash and Cash Equivalents	\$ 237,994
Securities Owned - At Market Value	17,565
Receivable From Broker-Dealers and Clearing Organization	125,286
Prepays and Other Assets	36,080
Furniture, Equipment, and Leasehold Improvements - At Cost, Less Accumulated Depreciation of Approximately \$164,000	62,552
Cash Value of Life Insurance	<u>868,447</u>
Total Assets	<u>\$ 1,347,924</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Accounts Payable, Accrued Expenses, and Other Liabilities	\$ 126,597
Revolving Credit Line	180,000
Capital Lease Payable	10,923
Total Liabilities	<u>317,520</u>

Stockholders' Equity

Common Stock - Par Value \$1 Per Share; 100,000 Shares Authorized; 65,000 Shares Issued and Outstanding	65,000
Retained Earnings	<u>965,404</u>
Total Stockholders' Equity	<u>1,030,404</u>
Total Liabilities and Stockholders' Equity	<u>\$ 1,347,924</u>

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

BPU INVESTMENT GROUP, INC.
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2003

REVENUES

Net Dealer Inventory and Investment Gains	\$ 2,379,995
Management Fee Income	775,267
Commissions and Fees	633,228
Private Placement Income	274,387
Interest	62,952
Other Revenues and Gains	19,825
Total Revenues	<u>4,145,654</u>

EXPENSES

Employee Compensation and Benefits	2,240,269
Other	354,200
Communications	246,265
Occupancy and Equipment Rentals	200,104
Commissions and Clearing Charges to Other Brokers	182,129
Interest	8,965
Total Expenses	<u>3,231,932</u>

Net Income	<u>\$ 913,722</u>
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The accompanying notes are an integral part of these financial statements.

BPU INVESTMENT GROUP, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2003

	<u>Common Stock</u>	<u>Retained Earnings</u>
Balance - Beginning	\$ 65,000	\$ 411,682
Stockholder Dividends	0	(360,000)
Net Income	<u>0</u>	<u>913,722</u>
Balance - Ending	<u>\$ 65,000</u>	<u>\$ 965,404</u>

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

**BPU INVESTMENT GROUP, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2003**

OPERATING ACTIVITIES

Net Income	\$ 913,722
Noncash Items Included in Net Income	
Depreciation	21,863
Increase in Cash Value of Life Insurance	(48,378)
Changes In	
Securities Owned	2,230
Receivable From Broker-Dealers and Clearing Organizations	(6,941)
Prepays and Other Assets	76,059
Accounts Payable, Accrued Expenses, and Other Liabilities	(332,620)
Net Cash and Cash Equivalents From Operating Activities	<u>625,935</u>

INVESTING ACTIVITIES

Property and Equipment Acquired	(38,171)
Premiums Paid on Whole-Life Insurance Policies	(62,102)
Net Cash and Cash Equivalents From Investing Activities	<u>(100,273)</u>

FINANCING ACTIVITIES

Principal Payments on Long-Term Debt	(7,155)
Net Borrowings on Revolving Credit Line	(110,000)
Dividends Paid	(360,000)
Net Cash and Cash Equivalents From Financing Activities	<u>(477,155)</u>

Net Increase in Cash and Cash Equivalents	48,507
Cash and Cash Equivalents - Beginning	<u>189,487</u>
Cash and Cash Equivalents - Ending	<u>\$ 237,994</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash Paid for Interest	<u>\$ 8,965</u>
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The accompanying notes are an integral part of these financial statements.

BPU INVESTMENT GROUP, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION

BPU Investment Group, Inc. was incorporated in September 1985, and was organized under the laws of the Commonwealth of Pennsylvania. The Company operates as a securities broker-dealer, registered with the National Association of Security Dealers, Inc. and is also a federally registered investment advisor.

The Company is headquartered in Pittsburgh, Pennsylvania and maintains branches in Greensburg, Pennsylvania, and New Albany, Ohio. The Company executes principal (proprietary) and agency (customer) securities transactions, performs private placement merger and acquisition services, and manages investment portfolios.

A significant portion of the Company's business is conducted with credit unions and fraternal organizations located throughout the United States. In 2003, revenues generated with that group of customers was approximately 40% of total revenues.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The financial statements of BPU Investment Group, Inc. are presented on the accrual basis of accounting and are prepared in conformity with U.S. generally accepted accounting principles. In order to facilitate the understanding of the data included in the financial statements, summarized below are the more significant accounting policies.

Securities Transactions

The Company clears securities transactions through Wexford Clearing Services, LLC, a member of the New York Stock Exchange, Inc., on a fully disclosed basis. The Company does not carry securities accounts for customers or perform custodial functions relating to customer securities. As such, the Company operates under the (k)(2)(ii) exemptive provisions of Securities and Exchange Commission (SEC) Rule 15c3-3.

Securities transactions, together with related commission revenues and expenses, are recorded on a settlement date basis.

Estimates Used

The Company uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

BPU INVESTMENT GROUP, INC.
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Company maintains balances on deposit with financial institutions and its clearing broker. Those organizations are located in Pennsylvania and Massachusetts (financial institutions) and New York (clearing broker). The accounts maintained at financial institutions are insured by the Federal Deposit Insurance Corporation up to \$100,000. The cash accounts maintained at the clearing broker are insured by the Securities Investor Protection Corporation up to \$100,000. At certain times during the year, the Company's cash balances may exceed those limits. The Company has not experienced any losses associated with those accounts.

For purposes of the statement of cash flows, the Company includes amounts on deposit with banks and amounts invested in money market instruments with other financial institutions as cash and cash equivalents.

Securities Owned

Securities are carried at market value. Investments in securities traded on a national securities exchange or listed on NASDAQ are valued at the last reported sales price on the primary securities exchange on which securities have traded on the last business day of the year. The resulting difference between cost and market is included in income.

Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, and leasehold improvements are recorded at cost. Depreciation is provided on a straight-line basis using estimated useful lives ranging from five to thirty-nine years. Depreciation expense for the year ended December 31, 2003, amounted to approximately \$21,900.

Income Taxes

The Company has elected S corporation status for federal and state income tax purposes effective January 1, 2003. Earnings and losses after that date are included in the personal income tax returns of the stockholders and taxed depending on their personal tax strategies. Accordingly, the Company's financial statements do not include a provision for income taxes. Upon electing S corporation status, a deferred federal built-in gains tax liability was recognized for the tax on the differences between the basis for financial and income tax reporting of assets existing at the time of electing S corporation status and which management expects to dispose of within ten years.

NOTE 3 – RECEIVABLE FROM BROKER-DEALERS AND CLEARING ORGANIZATION

Amounts receivable from broker-dealers and clearing organization at December 31, 2003, consisted of the following:

Deposits with Clearing Organization	\$ 100,000
Fees and Commissions Receivable	<u>25,286</u>
	<u>\$ 125,286</u>

BPU INVESTMENT GROUP, INC.
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

NOTE 3 – RECEIVABLE FROM BROKER-DEALERS AND CLEARING ORGANIZATION
(CONTINUED)

The Company clears its transactions on a fully disclosed basis through Wexford Clearing Services, LLC. The amounts receivable from the clearing organization relate to amounts due from Wexford Clearing Services, LLC.

NOTE 4 – LIFE INSURANCE

The Company is the owner and beneficiary of various term and whole-life insurance policies on the lives of its stockholders. At December 31, 2003, the policies had total face values of approximately \$9.4 million (\$6 million – term policies and \$3.4 million – whole-life policies).

NOTE 5 – EMPLOYEE BENEFIT AND DEFERRED COMPENSATION PLANS

The Company sponsors a profit sharing plan under Section 401(k) of the Internal Revenue Code benefiting substantially all employees. Employees are eligible to participate as of the date of their employment. A contribution to the plan totaling approximately \$40,000 was incurred by the Company for the year.

The Company also sponsors a cafeteria plan under Section 125 of the Internal Revenue Code. The plan provides health care benefits for full time employees. Pretax salary reductions from employees are contributed to the plan.

NOTE 6 – REVOLVING CREDIT LINE

Under the terms of a revolving credit agreement with a bank, the Company may borrow up to \$300,000. Principal borrowings on the line are payable on demand and interest on advances is payable monthly at the prime rate plus .5% (4.5% at December 31, 2003). The line is collateralized with principally all assets of the Company and calls for stockholder guarantees. The credit line agreement also calls for periodic renewals.

NOTE 7 – INCOME TAXES

As discussed in Note 2, the Company changed its tax status from taxable to nontaxable effective January 1, 2003. Accordingly, the Company has recognized a deferred federal built-in gains tax liability for the tax on the difference between the basis for financial and income tax reporting of certain assets expected to be disposed of within ten years of electing S corporation status. The federal built-in gains tax liability of approximately \$22,800 is reflected under the caption "other liabilities" in the accompanying statement of financial condition.

BPU INVESTMENT GROUP, INC.
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases office space, vehicles, and equipment under several short-term and long-term agreements that expire in various years through 2006. Certain of the leases call for renewal options. The leases are classified as operating leases. The leases call for monthly base rents of approximately \$14,200 at December 31, 2003. Certain of the leases contain provisions for additional rents for real estate tax increases and building operating costs based on the Company's pro rata share of building occupancy. For the year ended December 31, 2003, rent expense under the leases was approximately \$202,500.

Minimum future rental payments under non-cancelable operating leases having remaining lease terms in excess of one year as of December 31, 2003, for each of the next three years are:

<u>Year Ending</u> <u>December 31,</u>	
2004	\$ 157,900
2005	134,000
2006	<u>70,200</u>
	<u>\$ 362,100</u>

Capital Lease

The Organization is the lessee of computer equipment under a capital lease expiring in 2005. The asset and liability under this capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The asset is depreciated over its estimated productive life.

Following is a summary of property held under this capital lease:

Computer Equipment	\$ 23,008
Accumulated Depreciation	<u>(11,964)</u>
	<u>\$ 11,044</u>

The following is a summary of approximate capital lease payment obligations during the next two years:

<u>Year Ending</u> <u>December 31,</u>	
2004	\$ 9,800
2005	<u>2,400</u>
	12,200
Amount Representing Interest	<u>(1,300)</u>
	<u>\$ 10,900</u>

BPU INVESTMENT GROUP, INC.
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

NOTE 8 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Affiliation Agreement

The Company has an affiliation agreement to provide broker-dealer services to a third-party organization. Under the terms of the agreement, the Company compensates this affiliate at certain agreed-upon rates for revenues earned on services generated by the affiliate. The agreement has an initial term of two years and has provisions for renewal. During 2003, approximately 1.0% of the Company's revenues were earned under this agreement.

NOTE 9 – NET CAPITAL REQUIREMENTS

The Company, as a registered broker-dealer in securities, is subject to the net capital rule adopted by the Securities and Exchange Commission and administered by the National Association of Securities Dealers, Inc. This rule requires that the Company's "aggregate indebtedness" not exceed fifteen times its "net capital" as defined. The National Association of Securities Dealers, Inc. may require a broker-dealer to reduce its business activity if the capital ratio should exceed 12 to 1 and may prohibit a broker-dealer from expanding business if the ratio exceeds 10 to 1. At December 31, 2003, the Company's net capital under the uniform net capital rule was approximately \$913,300, which exceeded the minimum capital requirements by approximately \$863,300. The Company's ratio of aggregate indebtedness to net capital at December 31, 2003, was 3.5 to 1.

BPU INVESTMENT GROUP, INC.
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1
OF THE SECURITIES AND EXCHANGE COMMISSION
DECEMBER 31, 2003

NET CAPITAL	
Stockholders' Equity	<u>\$ 1,030,404</u>
Deductions	
Nonallowable Assets:	
Furniture and Equipment - Net	62,552
Securities - Not Readily Marketable	17,300
Other Assets	33,028
Other Deductions and/or Charges	4,000
Haircuts on Securities Owned	<u>265</u>
	<u>117,145</u>
Net Capital	<u><u>\$ 913,259</u></u>
AGGREGATE INDEBTEDNESS	
Accounts Payable, Accrued Expenses, and Other Liabilities	<u><u>\$ 317,520</u></u>
RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	
Net Capital Requirement (Greater of 6-2/3% of Aggregate Indebtedness or \$50,000)	\$ 50,000
Net Capital in Excess of Amount Required	<u>863,259</u>
Net Capital	<u><u>\$ 913,259</u></u>
Ratio of Aggregate Indebtedness to Net Capital	<u><u>3.5 to 1</u></u>

The above computation does not differ from the computation of net capital under Rule 15c3-1 as of December 31, 2003, as filed with the National Association of Securities Dealers, Inc. on January 21, 2004.

See independent auditors' report.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
REQUIRED BY SEC RULE 17a-5**

BPU Investment Group, Inc.
Pittsburgh, Pennsylvania

In planning and performing our audit of the financial statements of **BPU Investment Group, Inc.** (the Company) for the year ended December 31, 2003, we considered its internal control, including procedures 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 the 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; and
3. Complying with the requirements for prompt payment for securities under Section 8 of the 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 judgements by management are required to assess the expected benefits and related costs of controls 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 the 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 preparation of financial statements in conformity 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 the internal control or the practices and procedures referred to above, errors, or irregularities 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 the internal control would not necessarily disclose all matters in the 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 errors or irregularities 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 the 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 the 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, 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 Security Dealers, Inc. and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered broker-dealers, and is not intended to be and should not be used by anyone other than these specified parties.

King, Lang & Co. LLC

January 21, 2004

