

And  
3-30-2004



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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

**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 January 1, 2003 AND ENDING December 31, 2003  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

Fred Montgomery Co., Inc.

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

395 Delnor Glen Dr.

(No. and Street)

St. Charles  
(City)

Illinois  
(State)

60174  
(Zip Code)

OFFICIAL-USE ONLY
FIRM ID. NO.

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

Frederick D. Montgomery

800-615-1580

(Area Code — Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Caroline Barnes Associates, CPA's  
(Name — if individual, state last, first, middle name)

817 Mission Ave, Ste 2C  
(Address)

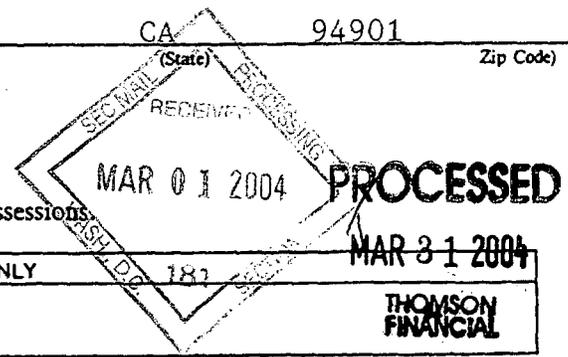
San Rafael  
(City)

CA  
(State)

94901  
(Zip Code)

CHECK ONE:

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



FOR OFFICIAL USE ONLY
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  
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OATH OR AFFIRMATION

I, FREDERICK D MONTGOMERY, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of FRED MONTGOMERY CO. INC., as of DECEMBER 31, 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



Notary Public State of Arizona  
Pima County  
B A Sheeley  
Expires April 1, 2006

Frederick D Montgomery  
Signature  
President  
Title

B. A. Sheeley  
Notary Public

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 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.

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

**FRED MONTGOMERY COMPANY, INC.  
(AN S CORPORATION)**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2003 AND 2002**

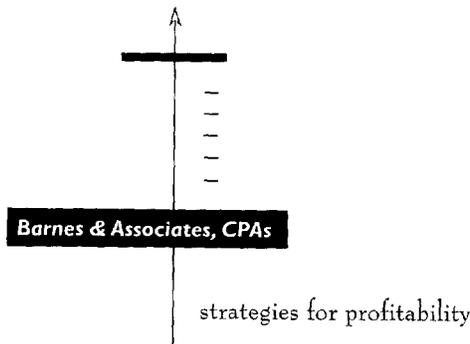
FRED MONTGOMERY COMPANY, INC.  
(AN S CORPORATION)  
FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002

CONTENTS

	<u>PAGE NO.</u>
Independent Auditors' Report	2
Balance Sheets	3
Statements of Operations	4
Statements of Retained Earnings	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 8

SUPPLEMENTARY INFORMATION

Independent Auditors' Report on Supplemental Information	9
Net Capital Computation	10



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Fred Montgomery Company, Inc.  
(An S Corporation)

We have audited the accompanying balance sheets of Fred Montgomery Company, Inc., (an S Corporation) as of December 31, 2003 and 2002 and the related statements of operations, of retained earnings and of cash flows for the years 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 audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Fred Montgomery Company, Inc. (an S Corporation) as of December 31, 2003 and 2002 and the results of its operations, the changes in its retained earnings and its cash flows for the years ended December 31, 2003 and 2002 in conformity with generally accepted accounting principles.

*Barnes & Associates*

Barnes & Associates  
Certified Public Accountants

February 19, 2004

415 454 7494

817 Mission Avenue Suite 2C  
San Rafael, California 94901  
Fax 415 454 1183  
email [cbarnesCPA@aol.com](mailto:cbarnesCPA@aol.com)

BALANCE SHEET

FRED MONTGOMERY COMPANY, INC.  
 (AN S CORPORATION)  
 BALANCE SHEETS

ASSETS

December 31,

2003

2002

Current assets

Cash	\$ 21,907	\$ 31,145
Marketable securities	20,860	18,183
Accounts receivable	<u>13,950</u>	<u>17,684</u>
	56,717	67,012

Property and equipment

Vehicles	46,394	46,394
Furniture, equipment and fixtures	<u>19,784</u>	<u>25,007</u>

Total property and equipment 66,178 71,401

Less: accumulated depreciation (54,898) (49,020)

Property and equipment, net 11,280 22,381

\$ 67,997 \$ 89,393

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

LIABILITIES AND STOCKHOLDER'S EQUITY

	December 31,	
	2003	2002
Current liabilities		
Accounts payable	\$ 3,164	\$ 3,575
Total liabilities	3,164	3,575
Stockholder's equity		
Common stock, \$ 1 par value, 1,000,000 shares authorized, 12,000 shares issued and outstanding	12,000	12,000
Retained earnings	52,833	73,818
Total stockholder's equity	64,833	85,818
	\$ 67,997	\$ 89,393

FRED MONTGOMERY COMPANY, INC.  
(AN S CORPORATION)  
STATEMENTS OF OPERATIONS

	Years ended December 31,	
	2003	2002
Revenue:		
Commission income	\$ 16,809	\$ 2,241
Fee income	35,430	70,063
Insurance commissions	1,244	1,452
Other income	2,635	1,962
Total revenue	56,118	75,718
Operating expenses:		
Advertising	255	950
Auto	2,361	2,052
Bad debt	24	510
Business meals	388	504
Computer	2,086	2,619
Contributions	1,025	1,179
Continuing education	-	40
Depreciation	7,558	14,381
Employee benefits	3,551	5,178
Insurance	7,234	4,619
Interest	383	142
Licenses and fees	2,085	1,476
Miscellaneous	276	94
Moving expenses	2,297	-
Office expense	13,070	11,057
Professional fees	3,290	2,047
Repairs and maintenance	4,622	7,092
Research and subscriptions	3,706	2,765
Taxes	-	2,241
Travel	6,562	7,037
Total operating expenses	60,773	65,983
Income/(loss) from operations	(4,655)	9,735
Loss on disposal of fixed assets	(3,543)	-
Gain/(loss) on investment	2,677	(2,560)
Income/(loss) before taxes	(5,521)	7,175
Provision for income tax	800	800
Net income/(loss)	\$ (6,321)	\$ 6,375

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

FRED MONTGOMERY COMPANY, INC.  
(AN S CORPORATION)  
STATEMENTS OF RETAINED EARNINGS

	<u>Years ended December 31,</u>	
	<u>2003</u>	<u>2002</u>
Balance at beginning of year	\$ 73,818	\$ 83,030
Net income/(loss)	(6,321)	6,375
Distributions	<u>(14,664)</u>	<u>(15,587)</u>
Balance at end of year	<u>\$ 52,833</u>	<u>\$ 73,818</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

FRED MONTGOMERY COMPANY, INC.  
(AN S CORPORATION)  
STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income(loss)	\$ (6,321)	\$ 6,375
Adjustments to reconcile net income to net cash used by operating activities		
Depreciation and amortization	7,558	14,381
Loss on abandonment of equipment	3,543	-
Changes in current assets and liabilities:		
Decrease (increase) in accounts receivable	3,734	998
Decrease (increase) in prepaid expenses	-	624
(Decrease) increase in accrued liabilities	-	(767)
(Decrease) increase in accounts payable	(411)	372
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>8,103</b>	<b>21,983</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in marketable securities	(2,677)	2,560
Proceeds from sale of asset	-	750
Purchase of fixed assets	-	(1,967)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>(2,677)</b>	<b>1,343</b>
<b>NET CASH USED BY FINANCING ACTIVITIES</b>		
Distributions to stockholder	(14,664)	(15,587)
<b>Net increase (decrease) in cash</b>	<b>(9,238)</b>	<b>7,739</b>
Cash at beginning of year	31,145	23,406
Cash at end of year	\$ 21,907	\$ 31,145

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

FRED MONTGOMERY COMPANY, INC.  
(AN S CORPORATION)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002

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**NOTE 1 - DESCRIPTION OF BUSINESS AND SUMMARY  
OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

Fred Montgomery Company, Inc., (the Company), was incorporated on August 8, 1995. Prior to that date, the company operated as a sole proprietorship. The Company is a securities broker and a member of the National Association of Securities Dealers, dealing only in mutual funds and variable annuities. The Company also offers investment advisory services. At December 31, 2003, the Company had \$11 million under management.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to the financial statements. Changes in such estimates may affect amounts reported in future periods.

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are liquid investments that are readily convertible into cash and have an original maturity of 90 days or less.

Property and Equipment

Property and equipment are recorded at cost. Depreciation expense is computed using the straight line method over the estimated useful lives of the property and equipment of five to seven years.

Revenue Recognition

The Company's main sources of income are commissions and advisory fees. Commissions are recognized as income when the related sale of securities or insurance is completed and the amount is determined. Advisory fees are calculated based on a percentage of the market value of the portfolio being managed by the Company.

FRED MONTGOMERY COMPANY, INC.  
(AN S CORPORATION)  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002

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**NOTE 1 - DESCRIPTION OF BUSINESS AND SUMMARY  
OF SIGNIFICANT ACCOUNTING POLICIES *continued***

Income Taxes

Effective August 8, 1995, the Company elected by consent of its stockholder to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under such election, the Company's federal and state taxable income or loss is passed through to the individual stockholder. Therefore, no provision or liability for income tax has been included in these financial statements except for the California minimum franchise tax.

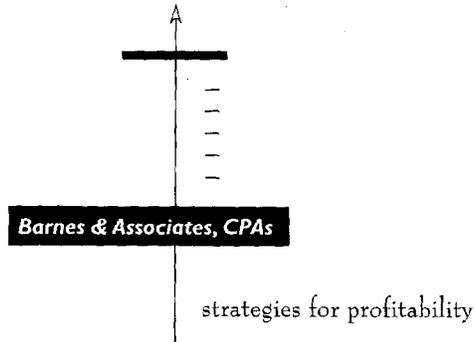
**NOTE 2 - RELATED PARTY TRANSACTIONS**

The Company's facility is located in the stockholder's home. Consequently, certain expenses such as rent are not charged to the income statement.

**NOTE 3 - NET CAPITAL REQUIREMENT**

The Company is subject to the revised Securities and Exchange Commission Uniform Net Capital Rule, Rule 15(c)3-1 which requires broker/dealers to maintain a certain amount of net capital. Brokers who do not receive or hold funds or securities for customers, or owe funds or securities to customers, shall maintain a net capital of not less than \$5,000 and a ratio of aggregate indebtedness to net capital of not more than 15 to 1. At December 31, 2003 and 2002, respectively, the Company had net capital of \$37,726 and \$40,397 and an aggregate indebtedness to net capital ratio of .083867 and .088497 to 1, respectively.

SUPPLEMENTARY INFORMATION



## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors  
Fred Montgomery Company, Inc.  
(An S Corporation)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the supplementary schedules is presented for the 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.

*Barnes & Associates*  
Barnes & Associates  
Certified Public Accountants

February 19, 2004

415 454 7494

817 Mission Avenue Suite 2C  
San Rafael, California 94901  
Fax 415 454 1183  
email charnesCPA@aol.com

FRED MONTGOMERY COMPANY, INC.  
 (AN S CORPORATION)  
 NET CAPITAL COMPUTATION  
 YEAR ENDED DECEMBER 31, 2003

AGGREGATE INDEBTEDNESS

Total liabilities for net capital purposes	\$ 3,164
Less: deductions and/or changes	<u>          -</u>
Total aggregate indebtedness	<u><u>\$ 3,164</u></u>

NET CAPITAL

Total capital (stockholder's equity) per balance sheet	\$ 64,833
Less: non – allowable asset items	<u>25,230</u>
Total net capital before haircuts on securities	39,603
Less haircuts on securities (computed, where applicable, pursuant to rule 15c3-1(f))	
A. Preferred securities	
B. Other securities	<u>1,877</u>
Total haircut	<u>1,877</u>

NET CAPITAL 37,726

Minimum net capital requirement	5,000
Excess net capital	<u>32,726</u>
Total net capital	<u><u>\$ 37,726</u></u>

PERCENTAGE OF AGGREGATE INDEBTEDNESS 8.39%  
 TO NET CAPITAL

RECONCILIATION OF DIFFERENCE IN NET CAPITAL  
 AS REPORTED BY INDEPENDENT AUDITOR AND  
 BY BROKER/DEALER ON FOCUS REPORT

Net capital on FOCUS report	\$ 37,590
Amount immaterial, no adjustment necessary	<u>136</u>
Net capital as reported by auditor	<u><u>\$ 37,726</u></u>