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SECURITIES AND EXCHANGE COMMISSION

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3/6/02 \*\*

OMB APPROVAL	
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Estimated average burden hours per response . . .	12.00

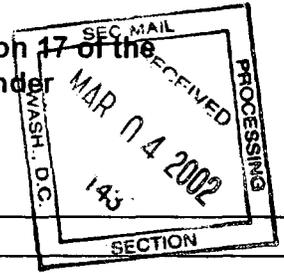
**ANNUAL AUDITED REPORT**  
**FORM 17A-5**  
**PART III**

SEC FILE NUMBER
8-49450 49343

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



**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

**B-TRADE SERVICES LLC**

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

**1633 BROADWAY - 48<sup>TH</sup> FLOOR**

OFFICIAL USE ONLY
FIRM ID. NO.

<b>NEW YORK</b>	<b>NEW YORK</b>	<b>10019</b>
<small>(City)</small>	<small>(State)</small>	<small>(Zip Code)</small>

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
**CHRISTOPHER M. SPRINGER** **212-468-7560**  
(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
**Ernst & Young LLP**

<b>787 Seventh Avenue</b>	<b>New York</b>	<b>NY</b>	<b>10019</b>
<small>(Address)</small>	<small>(City)</small>	<small>(State)</small>	<small>(Zip Code)</small>

CHECK ONE:

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

**PROCESSED**  
**MAR 12 2002 P**

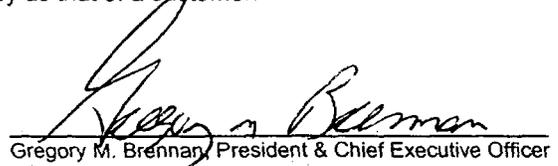
FOR OFFICIAL USE ONLY
THOMSON FINANCIAL

\*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).

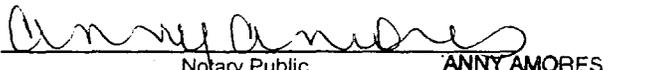
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## OATH OR AFFIRMATION

We, Gregory M. Brennan and Christopher M. Springer, affirm that, to the best of our knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of B-Trade Services LLC, as of December 31, 2001, are true and correct. We further 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.

  
Gregory M. Brennan, President & Chief Executive Officer

  
Christopher M. Springer, Chief Financial Officer

  
Notary Public  
ANNY AMORES  
Notary Public, State of New York  
No. 01AM6019082  
Qualified in Kings County  
Commission Expires Feb. 2003

This report\*\* contains (check all applicable boxes)

- (a) Facing page.
- (b) Statement of Financial Condition
- (c) Statement of Operations.
- (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 or 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 or 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) Schedule of Segregation Requirements and Funds in Segregation for Customers Trading on U.S. Commodity Exchanges.
- (p) Statement of Secured Amount and Funds Held in Separate Accounts for Foreign Futures and Options Customers Pursuant to Commission Regulation 30.7.
- (q) Supplementary Report of Independent Auditors on Internal Control required by SEC Rule 17a-5

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

STATEMENT OF FINANCIAL CONDITION

B-TRADE SERVICES LLC

December 31, 2001

with Report of Independent Auditors



B-Trade Services LLC

Statement of Financial Condition

December 31, 2001

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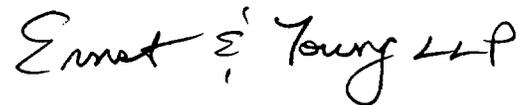
## Report of Independent Auditors

The Member of  
B-Trade Services LLC

We have audited the accompanying statement of financial condition of B-Trade Services LLC (the "Company") as of December 31, 2001. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of financial condition. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above present fairly, in all material respects, the financial position of B-Trade Services LLC at December 31, 2001, in conformity with accounting principles generally accepted in the United States.



February 26, 2002

## B-Trade Services LLC

### Statement of Financial Condition

December 31, 2001

#### Assets

Cash and equivalents	\$ 118,291,669
Commissions receivable, net of allowance of \$613,842	13,935,646
Fixed assets, at cost, less accumulated depreciation and amortization of \$602,383	1,210,387
Other assets	<u>4,229,569</u>
Total assets	<u>\$ 137,667,271</u>

#### Liabilities and Member's Equity

##### Liabilities:

Due to bank	\$ 2,635,709
Commissions payable to Tradebook ( <i>Note 1</i> )	7,404,169
Taxes payable	32,510,461
Deferred soft dollar payable	14,001,871
Other liabilities and accrued expenses	<u>10,363,013</u>
Total liabilities	<u>66,915,223</u>
Member's equity	<u>70,752,048</u>
Total liabilities and member's equity	<u>\$ 137,667,271</u>

*The accompanying notes are an integral part of this statement of financial condition.*

# B-Trade Services LLC

## Notes to Statement of Financial Condition

December 31, 2001

### **1. Organization and Description of Business**

B-Trade Services LLC (the "Company") is a Delaware Limited Liability Company, which is registered with the Securities and Exchange Commission ("SEC"), and is a member of the National Association of Securities Dealers, Inc. ("NASD").

The Company is a wholly-owned subsidiary of The Bank of New York (the "Parent"). The Company was formed as a limited purpose broker-dealer solely to provide trade execution and clearing services for Bloomberg Tradebook LLC ("Tradebook"), which offers a continuous trading system to institutions and broker-dealer participants (the "Participants") over the Bloomberg Network. In addition, other NASD brokers may access certain Participant bids and offers pursuant to the SEC order handling rules. The Company shares commission revenue with Tradebook pursuant to a revenue sharing agreement.

### **2. Significant Accounting Policies**

#### **Fixed Assets**

Furniture and equipment and computer hardware are generally depreciated on a straight-line basis over estimated useful lives between three and seven years. Software costs are amortized on a straight-line basis over five years. Leasehold improvements are amortized on a straight-line basis over the life of the lease.

#### **Income Taxes**

The Company accounts for income taxes under the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases.

## B-Trade Services LLC

### Notes to Statement of Financial Condition (continued)

#### 2. Significant Accounting Policies (continued)

##### Use of Estimates

The preparation of the statement of financial condition, in conformity with accounting principles generally accepted in the United States, 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 statement of financial condition. Actual results could differ from those estimates. Financial instruments recognized in the statement of financial condition approximate their carrying value, as such financial instruments are short-term in nature, bear interest at current market rates or are subject to repricing generally on a daily basis.

#### 3. Fixed Assets

At December 31, 2001, fixed assets were comprised of:

Computer hardware	\$ 1,382,148
Software	202,783
Leasehold improvements	201,524
Furniture and equipment	<u>26,315</u>
	1,812,770
Less accumulated depreciation and amortization	<u>(602,383)</u>
Fixed assets, net	<u>\$ 1,210,387</u>

Software represents amounts incurred for the development of the Company's trade processing system.

## B-Trade Services LLC

### Notes to Statement of Financial Condition (continued)

#### **4. Income Taxes**

The Company is included in the consolidated federal and combined state and local income tax returns filed by The Bank of New York Company, Inc. ("BNY"). Income taxes are calculated as if the Company filed on a separate return basis, and the amount of current tax expense or benefit calculated is either remitted to or received from BNY, pursuant to a tax sharing agreement between BNY and the Parent.

The deferred income taxes reflect the tax effects of temporary differences between financial reporting and tax bases of assets and liabilities. The Company has a deferred tax liability of \$1,092,260 and a deferred tax asset of \$161,460. The deferred tax asset is attributable to bad debt-related expenses and the deferred tax liability is primarily attributable to depreciation, intangibles, and state and local tax payments.

#### **5. Related Party Transactions**

The Company has entered into a fully disclosed clearing agreement with BNY ESI & Co., Inc. ("ESI"), an affiliate, for the carrying of institutional customer accounts and clearance of broker transactions. The rates paid by the Company are comparable to those charged by ESI to outside clients. ESI and the Parent provide certain management, administrative and technical services to the Company on a regular basis. In addition, the Company subleases office space from ESI.

Included in commissions receivable is \$1,613,248 due from ESI for commissions on unsettled trades.

#### **6. Net Capital Requirements**

As a registered broker-dealer, the Company is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1) which requires net capital, as defined, to exceed a minimum amount calculated pursuant to either the basic or alternative method. The Company calculates its minimum net capital using the alternative method, which requires net capital to equal the greater of \$250,000 or 2% of aggregate debits arising from customer transactions, as defined. At December 31, 2001 the Company had net capital of \$61,021,365 and its net capital requirement was \$250,000.

## B-Trade Services LLC

### Notes to Statement of Financial Condition (continued)

#### **7. Retirement Savings Plans**

All employees of the Company are eligible to participate in a retirement savings plan sponsored by ESI, which has two components, a defined contribution profit sharing plan and a 401(k) match program. The Company is required to make annual contributions to the plan on behalf of its employees.

#### **8. Off Balance Sheet Risks**

In the normal course of business, the Company's business activities involve the execution of securities transactions for institutional customers and other broker-dealers, which are cleared and settled by ESI. Pursuant to the clearing agreement, the Company is required to reimburse ESI for any losses incurred due to counterparty's failure to satisfy its contractual obligations.

The Company seeks to control credit risk by establishing and strictly enforcing prudent credit standards and monitoring the intra-day trading activities of Participants.