

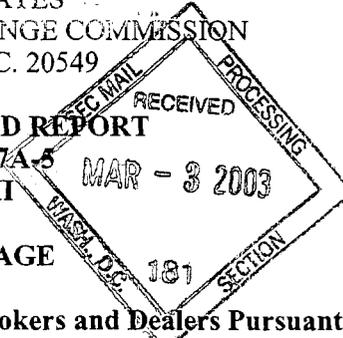


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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

FACING PAGE



OMB APPROVAL
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SEC FILE NUMBER
8-38818

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, 2002 AND ENDING December 31, 2002
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER:
Arbor Research & Trading, Inc.

OFFICIAL USE ONLY
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
1000 Hart Road, Suite 260

Barrington IL 60010
(City) (State) (Zip Code)

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

James R. Stevens 847.304.1550
(Area Code - Telephone No.)

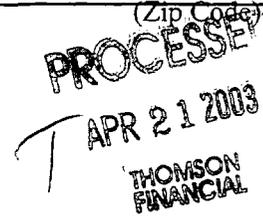
B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
Deloitte & Touche LLP

180 North Stetson Chicago IL 60601
(Address) (City) (State) (Zip Code)

CHECK ONE:

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



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).

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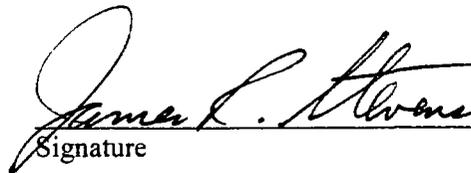
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ARBOR RESEARCH & TRADING, INC.

MEMBER NATIONAL ASSOCIATION OF SECURITIES DEALERS
1000 HART ROAD • SUITE 260 • BARRINGTON, ILLINOIS 60010
847-304-1550 • FAX: 847-304-1595
800-876-1825

AFFIRMATION

I, James R. Stevens, affirm that, to the best of my knowledge and belief, the accompanying financial statements and supporting schedules pertaining to the firm of Arbor Research & Trading, Inc. as of December 31, 2002, are true and correct. I 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.


Signature

President
Title



Notary Public



***Arbor Research & Trading, Inc.
and Subsidiary
(SEC File No. 8-38818)***

*Consolidated Financial Statement as of
December 31, 2002 and
Independent Auditors' Report and
Supplemental Report on Internal Control*

*Filed pursuant to Rule 17a-5 (e)(3) under
the Securities and Exchange Act of 1934 as a
PUBLIC DOCUMENT*

ARBOR RESEARCH & TRADING, INC.

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- (x) (b) Consolidated Statement of Financial Condition
- () (c) Consolidated Statement of Operations
- () (d) Consolidated Statement of Cash Flows
- () (e) Consolidated Statement of Changes in Shareholders' Equity
- () (f) Statement of Changes in Liabilities Subordinated to Claims of General Creditors
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- (x) Notes to Consolidated Financial Statement
- () (g) Computation of Unconsolidated Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1
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- (x) (l) An Oath or Affirmation
- () (m) Copy of the SIPC Supplemental Report (Not Required)
- (x) (n) A Report Describing Any Material Inadequacies Found to Exist or Found to Have Existed
Since the Date of the Previous Audit (Supplemental Report on Internal Control)

Deloitte & Touche LLP
180 N. Stetson Avenue
Chicago, Illinois 60601-6779

Tel: (312) 946-3000
Fax: (312) 946-2600
www.deloitte.com

**Deloitte
& Touche**

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Arbor Research & Trading, Inc.
Barrington, Illinois

We have audited the accompanying consolidated statement of financial condition of Arbor Research & Trading, Inc. and subsidiary (the "Company") for the year ended December 31, 2002 that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. 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 in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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, such consolidated statement of financial condition presents fairly, in all material respects, the financial position of Arbor Research & Trading, Inc. and subsidiary at December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 19, 2003

ARBOR RESEARCH & TRADING, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2002

ASSETS

CASH AND CASH EQUIVALENTS	<u>\$ 498,997</u>
RECEIVABLE FROM CLEARING BROKER/DEALER	<u>1,243,883</u>
SECURITIES OWNED—At market value	<u>3,041,946</u>
INVESTMENTS:	
Arbor Intermediate Term Government Securities, LLP	99,084
National Association of Securities Dealers	117,600
Bianco Research, LLC	40,473
Integrated Investments, LLC	<u>5,700</u>
Total investments	<u>262,857</u>
FURNITURE AND EQUIPMENT—Net of accumulated depreciation of \$1,676,423	<u>279,753</u>
OTHER ASSETS	<u>107,012</u>
TOTAL	<u><u>\$5,434,448</u></u>

LIABILITIES AND SHAREHOLDERS' EQUITY

ACCOUNTS PAYABLE AND ACCRUED EXPENSES	<u>\$ 274,781</u>
SHAREHOLDERS' EQUITY:	
Common stock—no par value, at stated value; 1,000,000 shares authorized; 172,900 shares issued	86,450
Additional paid-in capital	2,532,141
Retained earnings	2,509,279
Accumulated other comprehensive income	<u>31,797</u>
Total shareholders' equity	<u>5,159,667</u>
TOTAL	<u><u>\$5,434,448</u></u>

See notes to consolidated statement of financial condition.

ARBOR RESEARCH & TRADING, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2002

1. GENERAL

Basis of Presentation—The accompanying consolidated statement of financial condition includes the accounts of Arbor Research & Trading, Inc. (the “Company”) and its wholly owned subsidiary, Arbor Research & Trading UK Limited. All intercompany balances and transactions have been eliminated.

Nature of Operations—The Company, an Illinois corporation, is a registered securities broker/dealer which deals primarily in securities issued by the United States Government and United States Government agencies. All trades are cleared on a fully disclosed basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Management’s Use of Estimates—The preparation of the consolidated statement of financial condition in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

Cash and Cash Equivalents—For purposes of reporting cash flows, cash and cash equivalents include cash on hand and money market investments.

Securities Owned—Securities owned represent a U.S. Treasury bill maturing in less than 90 days. Security transactions are recorded on a trade date basis. The security is classified as a trading security and valued at current market value based on current market quotes, which approximates fair value.

Investments—The investments in Arbor Intermediate Term Government Securities, LLP and Bianco Research, LLC are accounted for on the equity method of accounting, whereby the cost of the investment interest is adjusted for the Company’s proportionate share of the results of operations of the investments and any distributions. The investment in common stock of the National Association of Securities Dealers is accounted for at market, which approximates cost. The investment in Integrated Investments, LLC is accounted for at cost.

Furniture and Equipment—Furniture and equipment are stated at historical cost and are depreciated on a double-declining basis.

Foreign Currency—The financial statements of the Company’s foreign subsidiary are translated into United States dollars at the exchange rate in effect at the end of a reporting period for assets and liabilities. The unrealized gains or losses from the translation of the net assets are recorded as unrealized foreign currency translation adjustments, and included in accumulated other comprehensive income. Changes in unrealized foreign currency translation adjustments are included in other comprehensive income.

New Accounting Standards—In November 2002, the FASB issued FASB Interpretation No. 45 (“FIN 45”), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN 45 are effective for financial statements that end after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. The adoption of the disclosure provisions of FIN 45 did not have an impact on the financial statements for the year ended December 31, 2002. The Company does not expect that the adoption of the remaining provisions of FIN 45 will have a material impact on its financial position or results of operations.

3. NET CAPITAL REQUIREMENTS

The Company, as a registered broker/dealer, is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (Rule 15c3-1) and is required to maintain minimum net capital, as defined, which is equivalent to the greater of \$100,000 or 6-2/3% of “aggregate indebtedness,” as defined.

At December 31, 2002, the Company had net capital, as defined, of \$4,235,858, which was \$4,135,858 in excess of its required minimum net capital of \$100,000.

4. RECEIVABLE FROM CLEARING BROKER/DEALER

As a securities broker, the Company is engaged almost exclusively in buying and selling government and government agency securities for a select group of institutional investors. The Company introduces these transactions for clearance by another broker/dealer on a fully disclosed basis.

The receivable from the clearing broker/dealer arises in the normal course of business from the settlement of securities transactions. The receivables are generally collected within thirty days. The Company utilizes one broker/dealer as its clearing broker. This clearing broker is nationally recognized and is a member of the major exchanges.

The Company is obligated for nonperformance by customers it has introduced to the clearing broker. The Company actively monitors its exposure under this obligation by requesting substantiation of its customers' activities from the clearing broker on a daily basis. No such nonperformance by a customer, based on refusal or inability to fulfill its obligation, occurred in 2002.

5. COMMITMENT

The Company has entered into a noncancelable lease for its office premises. The future minimum annual rental payments required under this operating lease is \$44,835 due in 2003. Rent expense under operating leases for the year ended December 31, 2002 was \$131,816.

6. RELATED-PARTY TRANSACTIONS

In 2002, the Company paid approximately \$155,000 to ATG Systems, an affiliated company, for professional services related to computer programming.

* * * * *



SUPPLEMENTAL REPORT ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5

Board of Directors and Shareholders
Arbor Research & Trading, Inc.
Barrington, Illinois

In planning and performing our audit of the consolidated financial statements of Arbor Research & Trading, Inc. and subsidiary (the "Company") for the year ended December 31, 2002 (on which we issued our report dated February 19, 2003), we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements and not to provide assurance on the Company's internal control.

Also, as required by Rule 17a-5(g)(1) under the Securities Exchange Act of 1934, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by the Company 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. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13 or in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

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 internal control and of the practices and procedures, and to assess whether those practices and procedures can be expected to achieve the Securities and Exchange Commission's (the "Commission") 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 acquisition, 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 conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control or the practices and procedures referred to above, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control or of such practices and procedures to future periods are subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with the practices or procedures may deteriorate.

Our consideration of the Company's internal control would not necessarily disclose all matters in the Company's 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 one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by 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 the Company's internal control and its operation, 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 Commission 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 December 31, 2002 to meet the Commission's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission, the National Association of Securities Dealers 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.

Deloitte & Touche LLP

February 19, 2003