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

SEC FILE NUMBER
8-52502

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

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: EQUITY TRADING ONLINE, LLC

OFFICIAL USE ONLY
FIRM I.D. NO.

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

350 FIFTH AVENUE, SUITE 630
(No. and Street)

NEW YORK
(City)

NEW YORK
(State)

10018
(Zip Code)

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

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

POVOL AND FELDMAN, CPA, PC

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

5 DAKOTA DRIVE, SUITE 207, LAKE SUCCESS, NY, 11042
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED

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MAR 24 2003
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)

MAR 21 2003

OATH OR AFFIRMATION

I, RICHARD WOLFF, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of EQUITY TRADING ONLINE, LLC, 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:

[Signature]
Signature
Member
Title

[Signature]
Notary Public

DELBERT L. JACKSON
Notary Public, State of New York
No. 01JA5060350
Qualified in New York County
Commission Expires 5/10/2006

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: CASH FLOW.
- (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.
- (o) INDEPENDENT AUDITOR'S Report on Internal Control Structure

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

EQUITY TRADING ONLINE, LLC

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ALLAN D. POVOL, CPA
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Equity Trading Online, LLC

We have audited the accompanying statements of financial condition of Equity Trading Online, LLC as of December 31, 2002 and 2001, and the related statements of operations, changes in members' equity, and 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 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 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 referred to above present fairly, in all material respects, the financial position of Equity Trading Online, LLC at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Lake Success, New York
February 21, 2003

**EQUITY TRADING ONLINE, LLC
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2002 AND 2001**

ASSETS

	<u>2002</u>	<u>2001</u>
Current Assets:		
Cash and Cash Equivalents	\$ 195,589	\$ 204,080
Commissions Receivable	59,614	23,749
Interest Receivable	73,261	34,071
Municipal Bond Trading Inventory	3,977,837	2,088,115
Futures Trading Inventory	10,241	-
Prepaid Expenses	<u>3,484</u>	<u>1,145</u>
Total Current Assets	<u>4,320,026</u>	<u>2,351,160</u>
Other Assets:		
Deposits with Clearing Broker	30,000	30,000
Subordinate Loan Receivable	<u>1,400,000</u>	<u>1,400,000</u>
	<u>\$ 1,430,000</u>	<u>\$ 1,430,000</u>
 Total Assets	 <u>\$ 5,750,026</u>	 <u>\$ 3,781,160</u>

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities:		
Amounts due Clearing Broker	\$ 3,855,984	\$ 1,994,112
Accrued Expenses	<u>62,222</u>	<u>23,773</u>
Total Current Liabilities	<u>3,918,206</u>	<u>2,017,885</u>
 Subordinate Loan Payable	 <u>1,400,000</u>	 <u>1,400,000</u>
 Members' Equity	 <u>431,820</u>	 <u>363,275</u>
 Total Liabilities and Members' Equity	 <u>\$ 5,750,026</u>	 <u>\$ 3,781,160</u>

See the accompanying notes and auditors' report.

EQUITY TRADING ONLINE, LLC
NOTES TO FINANCIAL STATEMENTS

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

Nature of Business

Equity Trading Online, LLC (ET, the Company) is a broker-dealer registered with the Securities and Exchange Commission and the National Association of Securities Dealers. ET was formed under the Limited Liability Company laws of the State of New York on May 19, 2000 (inception), operates two divisions, and can continue until December 31, 2075. The first division, began operating January 2001 and is engaged in providing a low cost, state-of-the-art vehicle for online and/or on site trading, for which ET generates commissions for clearing trades. The second division began operating in September 2001 and trades for its own account on margin in high-grade municipal bonds generating interest income and trading gains and losses.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, 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 and cash equivalents, and amounted to approximately \$126,000 and \$145,000 at December 31, 2002 and 2001, respectively.

Marketable Securities

All marketable securities are classified as available for sale, and are carried in the financial statements at fair value. Realized gains and losses, determined using the average cost method, are included in earnings; unrealized holding gains and losses are reported separately.

Revenue Recognition

Securities transactions and related commissions and expenses are recorded on a trade date basis. Marketable securities are valued at fair value. The resulting differences between cost and fair market value are included in operations.

Income Taxes

The Company operates as an LLC and files its tax returns as a partnership. State and local taxes are expensed as incurred.

Concentration of credit risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents, clearing deposits, and the bank trading account. The Company maintains its cash in two financial institutions. At December 31, 2002 and 2001, approximately \$500 and \$104,000, respectively were in excess of federally insured amounts, but were in excess of such limits during the years then ended. The Company manages this risk by monitoring the performance of the clearing broker.

**EQUITY TRADING ONLINE, LLC
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - COMMISSIONS RECEIVABLE:

Due from clearing broker represents monies due for commissions earned in which the Company acted as the trading broker incurred for executed trades.

The balance is paid by the 15th of the following month and amounted to \$59,614 and \$23,749 at December 31, 2002 and 2001, respectively.

NOTE 3: - TRADING ACCOUNT OF FUTURES:

The Muni-division of ET traded within the futures market. During 2002, approximately \$39,000 was invested in futures, while the Company suffered unrealized losses amounting to approximately \$19,000. Realized losses amounted to \$9,383 during 2002.

NOTE 4 - TRADING ACCOUNT OF MUNICIPAL BUSINESS ON MARGIN

The Muni-division of ET trades high quality municipal bonds on margin. The investments made and the assets of the Company collateralize the margin account. During the years ended December 31, 2002 and 2001, ET incurred approximately \$114,000 and \$22,000 in interest charges, respectively.

NOTE 5 - SUBORDINATE LOAN RECEIVABLE:

ET is able to extend trading capital through its clearing house based upon its asset base. In August 2001, the Company received a \$1,400,000 three-year secured demand loan from a member, which is fully collateralized by municipal bonds, to act as collateral for trading on margin in its municipal trading division (MTD). This loan is callable should the MTD sustain a loss in excess of \$50,000. The amount of the underlying collateral to the loan receivable amounted to approximately \$1,577,000 and \$1,599,000 at December 31, 2002 and 2001, respectively.

NOTE 6 - SUBORDINATE LOAN PAYABLE:

In connection with the receipt of the loan receivable, the Company issued a \$1,400,000 three-year secured demand loan to that member. However, upon the receipt of any called portion of the loan receivable, the amount of this loan payable is reduced and is converted to equity contributed by that member. The loan is non-interest bearing and is subordinated to the margin trading account liability.

NOTE 7 - RELATED PARTY TRANSACTIONS:

Advancement Fees

The Company entered into a services agreement with a company related by common ownership on August 1, 2001, on a continuous basis. The terms of the agreement grant ET to use a designated portion of office space in addition to receiving the benefit of certain employment related and overhead costs incurred by the related company. In return, the Company pays an administrative servicing fee amounting to \$15,000 per month. Such costs amounted to \$180,000 and \$75,000, respectively during 2002 and 2001.

EQUITY TRADING ONLINE, LLC
NOTES TO FINANCIAL STATEMENTS

NOTE 8 – NET CAPITAL REQUIREMENTS:

The Company is a broker-dealer subject to the Securities & Exchange Commission Uniform Net Capital Rule (Rule 15c3-1). Under this rule, the Company is required to maintain “minimum net capital” equivalent to \$100,000 or 6 2/3% of “aggregate indebtedness,” whichever is greater, as these terms are defined.

Net capital and aggregate indebtedness change from day to day, but at December 31, 2002 and 2001, the Company had net capital and net capital requirements of \$1,486,630 and \$1,532,758 respectively. The Company’s net capital ratio was .0276 and .0169 at December 31, 2002 and 2001, respectively. The net capital rule may effectively restrict the payment of cash distributions.

NOTE 9 - COMMITMENTS AND CONTINGENCIES:

Clearing Agreement

The Company is responsible for any loss, liability, damage, cost or expense incurred or sustained by the clearing agent as a result of the failure of any introduced account to make a timely payment for securities purchased or timely and good delivery of securities sold.

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Board of Directors
Equity Trading Online, LLC

**INDEPENDENT AUDITORS REPORT ON
INTERNAL CONTROLS**

In planning and performing an audit of the financial statements of Equity Trading Online, LLC ("Company") for the year ended December 31, 2002, we considered its internal controls, 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 controls.

Also, as required by rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), 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. 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 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.

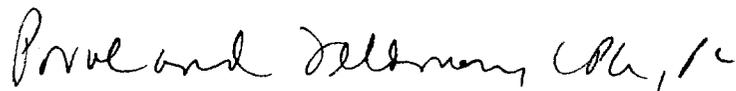
The management of the Company is responsible for establishing and maintaining internal controls and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the Commission's above-mentioned objectives. The objective of internal controls and the practices and procedures is to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and the transactions are executed in accordance with management's authorization and are recorded properly to permit preparation of financial statements in conformity with 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 internal controls 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 internal controls would not necessarily disclose all matters in internal controls 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 elements 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 internal controls, including procedures for safeguarding firm assets, 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 use of management, the Securities and Exchange Commission, and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.



Lake Success, New York
February 21, 2003