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

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

SEC FILE NUMBER 8-51869

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 01-01-02 AND ENDING 12-31-02 MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Heir Options Trading

OFFICIAL USE ONLY FIRM ID. NO.

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

440 S. LaSalle Street, 6th Floor

(No. and Street)

Chicago

Illinois

60605

(City)

(State)

(Zip Code)

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

Michael Burroughs

(312) 986-9986

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

PROCESS

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Schultz & Chez, LLP

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

141 W. Jackson Blvd., Suite 2900

Chicago, IL

60604

MAR 18 2003

THOMSON FINANCIAL

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

MAR 03 2003 stamp

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).

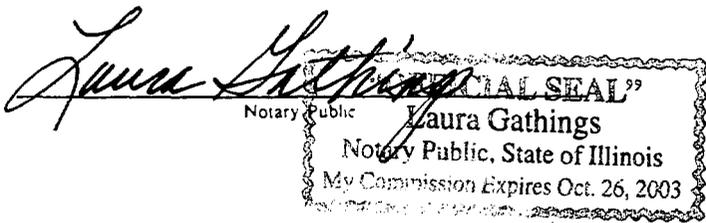
BB 3/17

OATH OR AFFIRMATION

I, Thomas Purtle, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Heir Options Trading, 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:

TP
Signature

General Partner
Title



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 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 of Creditors.
- (g) Computation of Net Capital
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3. [Same Page
- (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.
- (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).

HEIR OPTIONS TRADING
(An Illinois General Partnership)

REPORT PURSUANT TO RULE X-17a-5(d)

YEAR ENDED DECEMBER 31, 2002

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SCHULTZ & CHEZ, L.L.P.

Certified Public Accountants

141 West Jackson Boulevard, Suite 2900
Chicago, Illinois 60604
Main: (312) 332-1912
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INDEPENDENT AUDITOR'S REPORT

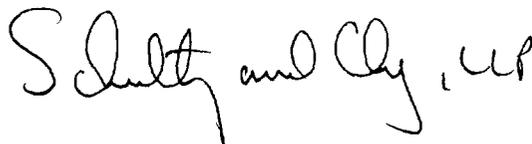
To the Partners
HEIR OPTIONS TRADING
Chicago, Illinois

We have audited the accompanying statement of financial condition of HEIR OPTIONS TRADING (An Illinois General Partnership) as of December 31, 2002 and the related statements of income, changes in partners' capital and cash flows for the year 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 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 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 HEIR OPTIONS TRADING as of December 31, 2002, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on pages 8 and 9 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 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.



Chicago, Illinois
February 12, 2003

HEIR OPTIONS TRADING
(An Illinois General Partnership)
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2002

ASSETS

Receivable from clearing broker	S	1,397,788
Securities owned, at market value		
Equities		3,305,070
Options		1,054,655
Other assets		<u>10,000</u>
 TOTAL ASSETS	 S	 <u><u>5,767,513</u></u>

LIABILITIES AND PARTNERS' CAPITAL

LIABILITIES

Securities sold, not yet purchased, at market value		
Equities	S	3,550,532
Options		<u>138,960</u>
 Total Liabilities		 <u>3,689,492</u>
 Partners' capital		 <u>2,078,021</u>
 TOTAL LIABILITIES AND PARTNERS' CAPITAL	 S	 <u><u>5,767,513</u></u>

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

HEIR OPTIONS TRADING
(An Illinois General Partnership)
STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2002

REVENUE

Proprietary trading	\$ 1,040,945
Interest and dividends	<u>64,399</u>
Total Revenue	<u>1,105,344</u>

EXPENSES

Commissions, floor brokerage and clearing fees	227,088
Communications and technology	11,758
Occupancy	3,618
Interest	18,793
Dividends	46,579
Exchange fees	3,000
Membership rental	26,712
Consulting fees	50,000
Other	<u>21,113</u>
Total Expenses	<u>408,661</u>
NET INCOME	\$ <u>696,683</u>

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

HEIR OPTIONS TRADING
(An Illinois General Partnership)
STATEMENT OF CHANGES IN PARTNERS' CAPITAL
YEAR ENDED DECEMBER 31, 2002

Balance at December 31, 2001	\$ 1,665,699
Capital contributions	14,494
Capital withdrawals	(298,855)
Net income	<u>696,683</u>
Balance at December 31, 2002	\$ <u>2,078,021</u>

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

HEIR OPTIONS TRADING
(An Illinois General Partnership)
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2002

OPERATING ACTIVITIES	
Net income	\$ 696,683
Adjustments to reconcile net income to net cash provided by operating activities	
Change in assets and liabilities	
Increase in securities owned	(3,151,021)
Decrease in receivables from clearing broker	4,028,959
Decrease in securities sold, not yet purchased	(<u>1,290,260</u>)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>284,361</u>
FINANCING ACTIVITIES	
Partners' capital contributions	14,494
Partners' capital withdrawals	(<u>298,855</u>)
NET CASH USED IN FINANCING ACTIVITIES	(<u>284,361</u>)
NET INCREASE IN CASH	-
CASH AT DECEMBER 31, 2001	<u>-</u>
CASH AT DECEMBER 31, 2002	\$ <u><u>-</u></u>

Supplemental Cash Flow Information:

Cash payments for interest during the year totaled \$18,793.
Cash payments for taxes during the year totaled \$0.

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

HEIR OPTIONS TRADING
(An Illinois General Partnership)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2002

(1) *NATURE OF THE ACCOUNTS*

HEIR OPTIONS TRADING (the "Company") engages in trading strategies involving primarily equities and equity derivative instruments on a proprietary basis. The Company is registered as a broker/dealer with the Securities and Exchange Commission ("SEC") and is a member of the Chicago Board Options Exchange.

(2) *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

Marketable securities owned and sold, not yet purchased, are carried at quoted market values.

Securities transactions are recorded on the trade date and, accordingly, gains and losses are recorded on unsettled transactions.

Futures transactions and resulting gains and losses are recorded on the trade date. Gains and losses on open futures contracts are reflected in income.

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", requires companies to recognize all derivatives as either assets or liabilities and measure those instruments at fair value. All derivative financial instruments held at year end are included in the Statement of Financial Condition at fair value and accordingly, the changes in fair value for the year are recognized in the Company's earnings.

The Company has not presented a Statement of Comprehensive Income because it does not have any items of "other comprehensive income".

(3) *INCOME TAXES*

Federal income taxes are not reflected on the accompanying statements as the income or loss of the Company flows directly through to the individual partners.

(4) *DERIVATIVE FINANCIAL INSTRUMENTS HELD AND ISSUED FOR TRADING PURPOSES AND OTHER FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK*

In its normal course of business, the Company trades financial instruments involving off-balance-sheet market risk with securities broker/dealers. The gross notional (or contractual) amounts of derivative financial instruments represent the volume of these transactions and not the amounts potentially subject to market risk. In addition, measurement of market risk is meaningful only when all related and offsetting transactions are taken into consideration. Gross notional (or contractual) amounts of derivative financial instruments used for trading purposes with off-balance sheet market risk are set forth below, as of

December 31, 2002: ...

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

HEIR OPTIONS TRADING
 (An Illinois General Partnership)
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2002
 (Continued)

(4) **DERIVATIVE FINANCIAL INSTRUMENTS HELD AND ISSUED FOR TRADING PURPOSES AND OTHER FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK (continued)**

(all amounts in thousands)

	Contract Value	Market Value	Average Contract Value During 2002
Equities sold, not yet purchased	\$ 3,550	\$ 3,550	\$ 4,189
Written options	\$ 2,492	\$ 139	\$ 2,173
Options held for trading	\$20,181	\$ 1,054	\$10,617
Financial futures contracts	\$ -	\$ N/A	\$ 100

Market risk is the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other factors, such as liquidity, will result in losses for a specified position or portfolio. Financial instruments sold, but not yet purchased, entail an obligation to purchase the securities at a future date. The Company may incur a loss if the market value of the securities subsequently increases prior to the purchase of the security. The settlement of the aforementioned transactions is not expected to have a material adverse affect on the financial position of the Company.

As a trader, the Company is in the business of managing market risk. In management's opinion, market risk is substantially diminished when all financial instruments, including equities owned, are aggregated.

Credit risk represents the loss that the Company would incur if a counterparty fails to perform its contractual obligation to the Company. All derivative financial instruments entered into by the Company are exchange-traded. For exchange traded contracts, the Company's clearing broker, through industry clearing organizations, acts as the counterparty of specific transactions and therefore, bears the risk of delivery to and from counterparties.

Substantially all of the Company's trading gains originated from trading strategies involving derivative financial instruments.

(5) **CONCENTRATION OF CREDIT RISK**

A significant credit concentration consisted of a net receivable from a securities broker/dealer of approximately \$2 million which represents the market value of the Company's trading account carried by this clearing broker.

(6) **REGULATORY MATTERS**

As a registered broker/dealer, the Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (Rule 15c3-1) which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2002, the Company had net capital of \$1,764,031 which exceeded requirements by \$1,664,031, and the ratio of aggregate indebtedness to net capital was less than 1:1.

SUPPLEMENTARY INFORMATION

HEIR OPTIONS TRADING
(An Illinois General Partnership)
**COMPUTATION OF NET CAPITAL,
PER UNIFORM NET CAPITAL RULE 15c3-1**
DECEMBER 31, 2002

CREDITS	
Partners' capital	\$ <u>2,078,021</u>
TOTAL CREDITS	<u>2,078,021</u>
DEBITS	
Non-allowable assets	
Other assets	(<u>10,000</u>)
TOTAL DEBITS	(<u>10,000</u>)
NET CAPITAL BEFORE HAIRCUTS ON SECURITIES	
Haircuts on securities	(303,990)
Undue concentration charges	(<u>-</u>)
NET CAPITAL	\$ <u><u>1,764,031</u></u>
COMPUTATION OF BASIC NET CAPITAL REQUIREMENT	
Minimum net capital required (Greater of 6 2/3% of aggregate indebtedness or \$100,000)	\$ <u><u>100,000</u></u>
EXCESS NET CAPITAL	\$ <u><u>1,664,031</u></u>
COMPUTATION OF AGGREGATE INDEBTEDNESS	
Total liabilities, less liabilities specifically excluded under Rule 15c3-1	\$ <u><u>0</u></u>
Percentage of aggregate indebtedness to net capital	<u><u>0%</u></u>

Note: There are no material differences between the audited computation of net capital and that per the Company's unaudited FOCUS report as filed.

HEIR OPTIONS TRADING
(An Illinois General Partnership)
COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
AND
INFORMATION FOR THE POSSESSION OR CONTROL
REQUIREMENTS PURSUANT TO RULE 15c3-3
DECEMBER 31, 2002

RESERVE COMPUTATION
(see Note)

INFORMATION FOR POSSESSION OR CONTROL REQUIREMENTS
(see Note)

NOTE: Although the Company is not exempt from Rule 15c3-3, it does not transact a business in securities with or for customers and does not carry margin accounts, credit balances or securities for any person defined as a "customer" pursuant to Rule 17a-5(c)(4). Accordingly, there are no amounts reportable under these sections.

SCHULTZ & CHEZ, L.L.P.

Certified Public Accountants

141 West Jackson Boulevard, Suite 2900
Chicago, Illinois 60604
Main: (312) 332-1912
Fax: (312) 332-3635

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

To the Partners
HEIR OPTIONS TRADING
Chicago, Illinois

In planning and performing our audit of the financial statements, of HEIR OPTIONS TRADING, ("HEIR") for the year ended December 31, 2002, we considered its internal control structure, 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 structure.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by HEIR, that we considered relevant to the objectives stated in Rule 17a-5(g), (1) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e); and (2) in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13. We did not review the practices and procedures followed by HEIR in complying with the requirements for prompt payment for securities under Section 8(b) of Regulation T of the Board of Governors of the Federal Reserve System, because HEIR does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of HEIR is responsible for establishing and maintaining an internal control structure 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 structure policies and procedures 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. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which HEIR 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 the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

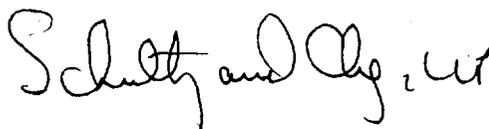
Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure 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 structure 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 the internal control structure, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

Our review indicated that HEIR, although not exempt from Rule 15c3-3, had no reporting requirements because it did not transact a business in securities directly with or for other than members of a national securities exchange and did not carry margin accounts, credit balances or securities for any person defined as a "customer" pursuant to Rule 17a-5(c)(4) and that, as of December 31, 2002, no facts came to our attention to indicate that such conditions were not complied with during the period.

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 HEIR'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 Chicago Board Options Exchange, the Securities and Exchange Commission and other regulatory authorities who rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.

A handwritten signature in cursive script that reads "Schults and Co., LLP".

Chicago, Illinois
February 12, 2003