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

SEC FILE NUMBER  
**8-51062**

**FACING PAGE**

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

NOV 28 2003

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SECTION

REPORT FOR THE PERIOD BEGINNING 10/01/02 AND ENDING 09/30/03  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

OFFICIAL USE ONLY

Octagon Trading Group, LLC

FIRM ID NO.

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

141 W. Jackson

(No. and Street)

Chicago

Illinois

60604

(City)

(State)

(Zip Code)

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

Patrick H. Arbor

(312) 542-2945

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Altschuler, Melvoin and Glasser LLP

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

One South Wacker Drive

Chicago

IL

60606-3392

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**

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

**PROCESSED**

**DEC 10 2003**

**FOR OFFICIAL USE ONLY**

**THOMSON  
FINANCIAL**

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\*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)

Potential Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a current valid OMB control number.

**OATH OR AFFIRMATION**

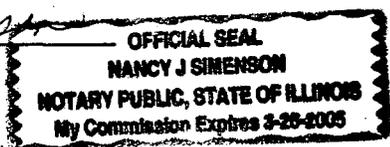
I, Patrick H. Arbor, affirm that, to the best of my knowledge and belief the accompanying statement of financial condition pertaining to the firm of Octagon Trading Group, LLC, as of Tuesday, September 30, 2003, is true and correct. I further affirm that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer.

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

Sworn and subscribed to me on the  
26th day of November 2003

*Patrick H. Arbor*  
\_\_\_\_\_  
Signature

*Nancy J. Simenson*  
\_\_\_\_\_  
Notary Public

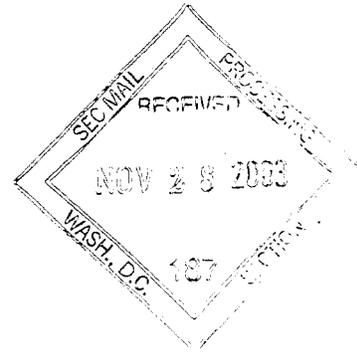


Patrick H. Arbor, manager and Member  
\_\_\_\_\_  
Title

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (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 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 Statement 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 Auditors' Report on Internal Control.

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



# Octagon Trading Group, LLC

## Statement of Financial Condition

September 30, 2003

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Filed Pursuant to Rule 17a-5(d) Under the Securities  
Exchange Act of 1934

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Altschuler, Melvoin and Glasser LLP  
Certified Public Accountants and Consultants

# **Octagon Trading Group, LLC**

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**September 30, 2003**

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**Altschuler, Melvoin and Glasser LLP**  
Certified Public Accountants and Consultants

## **Independent Auditors' Report**

Member of  
Octagon Trading Group, LLC

We have audited the accompanying statement of financial condition of Octagon Trading Group, LLC (an Illinois limited liability company) as of September 30, 2003 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 U.S. generally accepted auditing standards. 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, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Octagon Trading Group, LLC as of September 30, 2003 in conformity with U.S. generally accepted accounting principles.

*Altschuler, Melvoin and Glasser LLP*

Chicago, Illinois  
November 14, 2003

**Octagon Trading Group, LLC**  
**Statement of Financial Condition**  
**September 30, 2003**

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**Assets**

Cash and cash equivalents	\$	10,527
Receivable from broker-dealer		52,867
Equipment		3,292
Other assets		<u>302</u>

**Total assets** **\$** 66,988

**Liabilities and Member's Equity**

Liabilities		
Accounts payable and accrued expenses	\$	4,607
Member's equity		<u>62,381</u>

**Total liabilities and member's equity** **\$** 66,988

**Note 1 Nature of Operations and Significant Accounting Policies**

**Nature of Operations**—Octagon Trading Group, LLC (an Illinois limited liability company) (the "Company") is a broker-dealer registered under the Securities Exchange Act of 1934 and a wholly owned subsidiary of Shatkin, Arbor, Karlov & Company ("SAK"), a registered futures commission merchant. Although the Company has an agreement to clear securities transactions on a fully disclosed basis through another broker-dealer, the Company is not currently executing securities transactions. The Company is considering alternative operational plans involving both futures and securities businesses.

**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 accompanying notes. Actual results could differ from those estimates.

**Securities Transactions**—Securities transactions are recorded on trade date. Securities are valued at market value. Resulting unrealized gains and losses are reflected in income.

**Depreciation**—Depreciation is computed using the straight-line method over the estimated useful lives of the equipment.

**Income Taxes**—The Company is taxed as a partnership under the provisions of the Internal Revenue Code and, accordingly, is not subject to federal income taxes. Instead, the Company's income or loss is allocated to the member for federal income tax purposes.

**Note 2 Equipment**

Equipment at September 30, 2003 consists of:

Equipment	\$ 11,620
Accumulated depreciation	<u>(8,328)</u>
Net	<u>\$ 3,292</u>

**Note 3 Off-Balance-Sheet Credit Risk**

Receivable from broker-dealer, which is a clearing deposit invested in money market mutual funds, and cash and cash equivalents at a bank, represent concentrations of credit risk. The Company does not anticipate nonperformance by these counterparties. In addition, the Company has a policy of reviewing, as considered necessary, the creditworthiness of these counterparties.

**Note 4 Net Capital Requirements**

The Company is a broker-dealer subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the Company to maintain "net capital" of 6-2/3 percent of "aggregate indebtedness" or \$5,000, whichever is greater, as these terms are defined. Net capital and aggregate indebtedness change from day to day, but as of September 30, 2003, the Company had net capital and net capital requirements of approximately \$58,000 and \$5,000, respectively. The net capital rule may effectively restrict the withdrawal of member's equity.