

SO  
2/3/04



**UNITED STATES  
EXCHANGE COMMISSION**  
Washington, D.C. 20549

VE 1-30-04

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	October 31, 2004
Estimated average burden	
Hours per response .....	12.00

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

SEC FILE NUMBER
8-26579

JAN 29 2004

**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 12/01/02 AND ENDING 11/30/03  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

TransMarket Group L.L.C. ~~and Subsidiaries~~

OFFICIAL USE ONLY
FIRM ID NO.

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

141 W. Jackson Boulevard, Suite 1930

(No. and Street)

Chicago  
(City)

Illinois  
(State)

60604  
(Zip Code)

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

Thomas R. O'Brien

312-663-4941  
(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  
(Address)

Chicago  
(City)

IL  
(State)

60606-3392  
(Zip Code)

**CHECK ONE:**

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

**PROCESSED**  
FEB 04 2004  
THOMSON FINANCIAL

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).

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

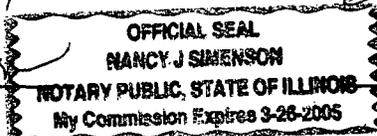
I, Thomas R. O'Brien, affirm that, to the best of my knowledge and belief the accompanying statement of financial condition and supplementary information pertaining to the firm of TransMarket Group L.L.C. and Subsidiaries, as of November 30, 2003, are true and correct. I further affirm that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer.

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

Sworn and subscribed to me on the

2<sup>nd</sup> day of January 2004

Nancy J. Simenson  
Notary Public



Thomas R. O'Brien  
Signature

Chief Financial Officer  
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).

# **TransMarket Group L.L.C. and Subsidiaries**

## **Statement of Financial Condition**

**November 30, 2003**

---

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

---



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

# **TransMarket Group L.L.C. and Subsidiaries**

## **Table of Contents**

**November 30, 2003**

---

	Page
<b>Independent Auditors' Report</b>	1
<b>Financial Statement</b>	
Consolidated Statement of Financial Condition	2
Notes to the Consolidated Statement of Financial Condition	3 - 8



**Altschuler, Melvoin and Glasser LLP**

Certified Public Accountants and Consultants

## **Independent Auditors' Report**

Member of  
TransMarket Group L.L.C. and Subsidiaries

We have audited the accompanying consolidated statement of financial condition of TransMarket Group L.L.C. and Subsidiaries as of November 30, 2003 that you are filing pursuant to Rule 17a-5 of the Securities and Exchange Commission and Regulation 1.16 of the Commodity Futures Trading Commission. This consolidated financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated 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 consolidated statement of financial condition referred to above presents fairly, in all material respects, the financial position of TransMarket Group L.L.C. and Subsidiaries as of November 30, 2003 in conformity with U.S. generally accepted accounting principles.

Chicago, Illinois  
January 9, 2004

**TransMarket Group L.L.C. and Subsidiaries**  
**Consolidated Statement of Financial Condition**  
**November 30, 2003**

---

**Assets**

Cash	\$ 10,321,000
Securities purchased under agreements to resell	223,285,000
Securities and options owned (\$201,564,000 pledged)	240,779,000
Receivable from broker-dealers and clearing organizations	189,173,000
Memberships and stock in exchanges and clearing organization, at cost (market value of \$6,049,000)	3,082,000
Furniture, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$2,191,000	2,918,000
Other assets	<u>3,404,000</u>
<b>Total assets</b>	<b><u>\$ 672,962,000</u></b>

**Liabilities and Member's Equity**

Liabilities	
Payable to customers	\$ 16,019,000
Securities sold under agreements to repurchase	304,116,000
Securities and options sold, not yet purchased	271,959,000
Payable to broker-dealers	16,723,000
Accounts payable, accrued expenses, and other liabilities	<u>29,667,000</u>
Total	638,484,000
Liabilities subordinated to claims of general creditors	1,000,000
Member's equity	<u>33,478,000</u>
<b>Total liabilities and member's equity</b>	<b><u>\$ 672,962,000</u></b>

**TransMarket Group L.L.C. and Subsidiaries**  
**Notes to the Consolidated Statement of Financial Condition**  
**November 30, 2003**

---

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

**Nature of Operations**—TransMarket Group L.L.C. ("TMG") and Subsidiaries (collectively, the "Company") enters into proprietary transactions in securities and exchange listed derivatives, primarily in the United States, Europe and Australia. The Company also provides clearing and execution services to customers in Australia. TMG is a registered broker-dealer and futures commission merchant and a member of principal U.S. commodity exchanges. TMG's operating agreement provides, among other things, that TMG shall dissolve no later than December 31, 2044.

**Basis of Presentation**—The consolidated financial statement includes the accounts of TMG and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

**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 and Derivatives Transactions**—Transactions in securities and derivatives are recorded on trade date. Securities owned and securities sold, not yet purchased, and open futures and options on futures contracts are carried at market value, with the resulting unrealized gains and losses reflected in revenue.

Receivable and payable amounts for securities transactions that have not reached their contractual settlement date are recorded net in the consolidated statement of financial condition.

Commissions earned and related expenses are recognized on trade date.

**Resale and Repurchase Agreements**—Securities purchased under agreements to resell (reverse repurchase or resale agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collateralized financing transactions and are carried at the amounts at which the securities will subsequently be resold or reacquired as specified in the respective agreements; such amounts include accrued interest. It is the policy of the Company to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged where appropriate.

**Furniture, Equipment and Leasehold Improvements**—Furniture and equipment are being depreciated over the estimated useful lives of the assets on the straight-line method. Leasehold improvements are being amortized over the lesser of the estimated useful lives of the improvements or the term of the lease on the straight-line method.

**Income Taxes**—Under the provisions of the Internal Revenue Code, TMG is treated as a division of its member. Accordingly, TMG's taxable income or loss is included in the tax return of its member. TMG's foreign subsidiaries are subject to tax in the jurisdictions in which they operate. Deferred income taxes are recorded to reflect the effects of differences in the recognition of income and expenses for financial reporting and tax reporting purposes, and for the benefits of any loss carryforwards.

**TransMarket Group L.L.C. and Subsidiaries**  
**Notes to the Consolidated Statement of Financial Condition**  
**November 30, 2003**

---

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

**Translation of Foreign Currencies**—The assets and liabilities of foreign operations are translated at the exchange rates in effect at the date of the statement of financial condition, with related translation gains or losses reported as a separate component of member's equity. The results of foreign operations are translated at the average exchange rates for the year.

**Fair Value of Financial Instruments**—Substantially all of the Company's assets and liabilities are considered financial instruments and are either already reflected at fair values or are short-term or replaceable on demand. Therefore, their carrying amounts approximate their fair values.

**Note 2 Assets Segregated or Held in Separate Accounts Under Foreign Regulations**

At November 30, 2003, assets segregated or held in separate accounts under foreign regulations and included in the consolidated statement of financial condition are as follows:

Cash	\$ 7,737,000
Receivable from broker-dealers	<u>11,971,000</u>
Total	<u>\$ 19,708,000</u>

**Note 3 Securities and Options Owned and Sold, Not Yet Purchased**

Securities and options owned and sold, not yet purchased, at November 30, 2003 consist of:

	Securities and Options Owned	Securities and Options Sold, Not Yet Purchased
U.S. Government obligations	\$ 207,350,000	\$ 271,111,000
Options	36,000	1,000
Common stock	<u>33,393,000</u>	<u>847,000</u>
Total	<u>\$ 240,779,000</u>	<u>\$ 271,959,000</u>

At November 30, 2003, U.S. Government obligations of \$3,792,000 and common stock of \$33,393,000 have been deposited as collateral with broker-dealers and clearing organizations and portions of these deposits collateralize amounts due to these counterparties.

**TransMarket Group L.L.C. and Subsidiaries**  
**Notes to the Consolidated Statement of Financial Condition**  
**November 30, 2003**

---

**Note 4 Collateral Under Resale and Repurchase Agreements**

At November 30, 2003, the aggregate fair values of collateral obtained under resale agreements and deposited under repurchase agreements are substantially equal to the aggregate carrying values of the transactions reflected in the consolidated financial statements.

The fair value of collateral obtained under resale agreements at November 30, 2003 was approximately \$223,116,000 (including collateral delivered to close short positions of approximately \$996,000). The fair value of securities owned and pledged as collateral under repurchase agreements at November 30, 2003 was approximately \$201,564,000. Also, the net fair value of securities owned that were sold but not yet settled and pledged as collateral under repurchase agreements was approximately \$101,915,000.

**Note 5 Receivable from and Payable to Brokers-Dealers and Clearing Organizations**

Receivable from and payable to broker-dealers and clearing organizations at November 30, 2003 consist of:

Receivable from Broker-dealers and clearing organizations, including the net receivable for unsettled securities transactions	<u>\$ 189,173,000</u>
Payable to Securities failed-to-receive	\$ 4,823,000
Broker-dealers and clearing organizations	<u>11,900,000</u>
Total	<u>\$ 16,723,000</u>

**Note 6 Accounts Payable, Accrued Expenses, and Other Liabilities**

Accounts payable, accrued expenses, and other liabilities at November 30, 2003 consist of:

Accrued trader compensation and participation interests	\$ 23,112,000
Minority interest	1,886,000
Other	<u>4,669,000</u>
Total	<u>\$ 29,667,000</u>

**Note 7 Liabilities Subordinated to Claims of General Creditors**

Liabilities subordinated to claims of general creditors at November 30, 2003 represent borrowings from a shareholder of TMG's member pursuant to a subordinated loan agreement providing for interest at a rate of 5 percent per annum and maturing on December 31, 2004.

**TransMarket Group L.L.C. and Subsidiaries**  
**Notes to the Consolidated Statement of Financial Condition**  
**November 30, 2003**

---

**Note 8 Income Taxes**

The Company has a net operating loss carryforward of approximately \$600,000 from one of its foreign operations available indefinitely to offset future taxable income of this operation. At November 30, 2003, the Company has a deferred tax asset of approximately \$200,000 arising primarily from this net operating loss carryforward. However, a valuation allowance has been provided to fully offset this deferred tax asset as realization is not assured.

**Note 9 Employee Benefit Plan**

The Company has a qualified 401(k) profit sharing plan covering all eligible employees. Under the provisions of the plan, the Company matches a portion, as defined, of the employees' contributions. In addition, the Company may elect to make discretionary contributions to the plan.

**Note 10 Commitments and Contingencies**

The Company leases office space under noncancelable lease agreements that expire at various dates to January 31, 2006. At November 30, 2003, the aggregate minimum annual rental commitments under these operating leases, exclusive of additional payments that may be required for certain increases in operating and maintenance costs, are as follows:

2004	\$ 617,000
2005	378,000
2006	<u>17,000</u>
	<u>\$ 1,012,000</u>

The Company is also in the process of negotiating a new office space lease agreement for one of its foreign subsidiaries.

The Company is obligated to purchase certain brokerage and execution services from a broker-dealer at a fixed price of \$750,000 per quarter through April 30, 2005.

In connection with the sale of its domestic clearing and execution operations in 2001, TMG guaranteed to the buyer the performance of a former customer in meeting certain contracted obligations. The guarantee is collateralized by an exchange membership. Under certain circumstances, the Company would be obligated to perform under this guarantee. In addition, the buyer can liquidate the collateral to recover any amounts due. At November 30, 2003, the outstanding amount of the guarantee was \$374,000 and the approximate fair value of the collateral was \$628,000.

The Company also guarantees to certain clearing houses the performance of other members of these institutions and, under certain circumstances, would be subject to assessment.

TMG did not file risk assessment information for certain prior periods as required by two of its regulators. Information required as of November 30, 2003 has been timely filed. In the opinion of management, this matter will not have a material effect upon the financial condition or results of operations of the Company.

**TransMarket Group L.L.C. and Subsidiaries**  
**Notes to the Consolidated Statement of Financial Condition**  
**November 30, 2003**

---

**Note 11 Derivatives Activities**

In the normal course of business, the Company enters into transactions in a variety of cash and derivative financial instruments, including futures, options contracts, and other financial instruments with similar characteristics. Futures contracts provide for the delayed delivery or purchase of financial instruments at a specified future date at a specified price or yield. Options held provide the Company with the opportunity to deliver or take delivery of specified financial instruments at a contracted price. Options written obligate the Company to deliver or take delivery of specified financial instruments at a contracted price in the event the option is exercised by the holder. These financial instruments may have market risk and/or credit risk in excess of those amounts recorded in the consolidated statement of financial condition.

**Market Risk**—Derivative financial instruments involve varying degrees of off-balance-sheet market risk whereby changes in the market values of the underlying financial instruments may result in changes in the value of the financial instruments in excess of the amounts reflected in the consolidated statement of financial condition. Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments and the Company's proprietary inventories, and the volatility and liquidity in the markets in which the financial instruments are traded. In many cases, the use of such financial instruments serves to modify or offset market risk associated with other transactions and, accordingly, serves to decrease the Company's overall exposure to market risk. The Company attempts to manage its exposure to market risk arising from the use of these financial instruments through various analytical monitoring techniques.

The Company also has securities sold, not yet purchased and will, therefore, be obligated to acquire the securities in the future at prevailing market prices, which may exceed the amount recorded in the consolidated statement of financial condition.

**Credit Risk**—Credit risk arises from the potential inability of counterparties to perform in accordance with the terms of the contract. The Company's exposure to credit risk associated with counterparty nonperformance is limited to the current cost to replace all contracts in which the Company has a gain. Exchange traded financial instruments, such as futures and options, generally do not give rise to significant counterparty exposure due to the cash settlement procedures for daily market movements and the margin requirements of the individual exchanges.

**Concentrations of Credit Risk**—The Company also enters into various transactions with broker-dealers and other financial institutions. In the event these counterparties do not fulfill their obligations, the Company may be exposed to risk. This risk of default depends on the creditworthiness of the counterparties to these transactions. It is the Company's policy to monitor the creditworthiness of each party with which it conducts business.

**TransMarket Group L.L.C. and Subsidiaries**  
**Notes to the Consolidated Statement of Financial Condition**  
**November 30, 2003**

---

**Note 11 Derivatives Activities, Continued**

**Customer Activities**—The Company's customer activities include the acceptance and clearance of futures contracts and options on futures contracts for customers of its Australian subsidiary. As such, the Company guarantees to the respective clearing house its customers' performance under these contracts. The Company requires its customers to meet, at a minimum, the margin requirements established by the exchange at which the contracts are traded. These margin deposits represent good faith deposits by the customers, which reduce the risk to the Company of a failure on the part of the customer to fulfill any obligation under these contracts. In addition, the Company monitors daily its exposure to the risk of loss on an account by account basis and adjusts margin requirements as needed. Under certain circumstances, customers may be required to deposit additional funds, securities or other collateral. In order to reduce the risk of loss, the Company may also liquidate certain customer positions.

**Note 12 Net Capital Requirements**

TMG is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1). TMG has elected to use the alternative method permitted by the rule, which requires TMG to maintain "net capital" equal to the greater of \$250,000 or 2 percent of "aggregate debit items" as these terms are defined. TMG is also subject to the Commodity Futures Trading Commission Net Capital Requirements (Regulation 1.17) and is required to maintain "net capital" equal to the greater of \$250,000 or four percent of "funds required to be segregated" arising from customer transactions, as these terms are defined. Net capital, aggregate debit items, and funds required to be segregated change from day to day, but at November 30, 2003, TMG had net capital and net capital requirements of approximately \$12,970,000 and \$250,000, respectively. In addition, the Australian operations are subject to the capital requirements of the Sydney Futures Exchange. At November 30, 2003, the Company was in compliance with these capital requirements. The net capital requirements may effectively restrict the payment of cash distributions and the repayment of subordinated borrowings.

**Note 13 Consolidated Subsidiaries**

TMG's consolidated subsidiaries have total assets of approximately \$32,030,000 and member's equity of \$6,325,000.

The accounts of TMG's consolidated subsidiaries are not included in TMG's computation of net capital as the assets of TMG's consolidated subsidiaries are not readily available for the protection of TMG's counterparties, and other creditors, and the liabilities of TMG's consolidated subsidiaries are not guaranteed by TMG.