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

SEC FILE NUMBER
8- 53408

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, 2003 AND ENDING December 31, 2003  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

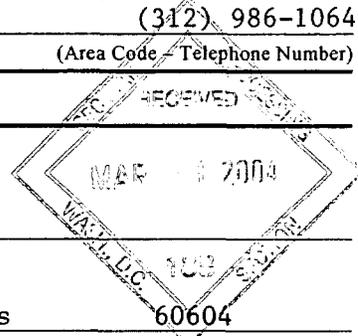
NAME OF BROKER-DEALER: JAG Trading, LLC  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
2525 Telegraph Road, Suite 310  
(No. and Street)  
Bloomfield Hills, MI 48302  
(City) (State) (Zip Code)

OFFICIAL USE ONLY
FIRM I.D. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Jacqueline L. Sloan (312) 986-1064  
(Area Code Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
Schultz and Chez, LLP  
(Name - if individual, state last, first, middle name)  
141 W. Jackson Blvd., Suite 2900 Chicago Illinois 60604  
(Address) (City) (State) (Zip Code)



CHECK ONE:

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

PROCESSED

MAR 31 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)

Handwritten initials

OATH OR AFFIRMATION

I, Craig Bauer, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of JAG Trading, LLC, as of December 31, 2003, 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:



Laura Gathings  
Notary Public

C. Bauer  
Signature  
Partner  
Title

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

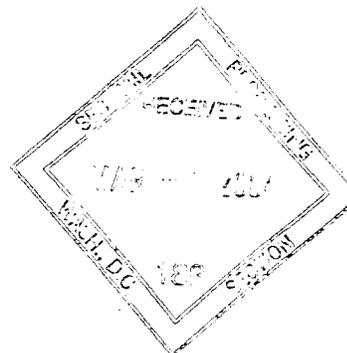
- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) 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. ] Same Page
- (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).

JAG TRADING, LLC  
(A Delaware Limited Liability Company)

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

YEAR ENDED DECEMBER 31, 2003



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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

Fax: (312) 332-3635

## INDEPENDENT AUDITOR'S REPORT

To the Members

JAG TRADING, LLC

Bloomfield Hills, Michigan

We have audited the accompanying statement of financial condition of JAG TRADING, LLC, as of December 31, 2003, and the related statements of income, changes in members' equity 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 JAG TRADING, LLC, as of December 31, 2003 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 9 and 10 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  
January 31, 2004

*Schultz & Chez, LLP*

**JAG TRADING, LLC**  
(A Delaware Limited Liability Company)  
**STATEMENT OF FINANCIAL CONDITION**  
DECEMBER 31, 2003

**ASSETS**

Cash in bank	\$ 375,324
Receivable from broker/dealers	6,783,275
Securities owned, at market value	
Equities	6,369,261
Options	1,100,875
Equipment and furniture, net	12,653
Interest and dividends receivable	5,648
Other assets	<u>10,000</u>
 TOTAL ASSETS	 \$ <u>14,657,036</u>

**LIABILITIES AND MEMBERS' EQUITY**

**LIABILITIES**

Securities sold, not yet purchased, at market value	
Equities	\$ 10,767,700
Options	469,982
Interest and dividends payable	<u>7,868</u>
 Total Liabilities	 <u>11,245,550</u>
 Members' Equity	 <u>3,411,486</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 \$ <u>14,657,036</u>

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

JAG TRADING, LLC  
(A Delaware Limited Liability Company)

**STATEMENT OF INCOME**  
YEAR ENDED DECEMBER 31, 2003

<b>REVENUE</b>	
Firm trading	\$ 1,767,611
Interest	90,504
Dividends	138,548
Other	<u>4,041</u>
Total Revenue	<u>2,000,704</u>
<b>EXPENSES</b>	
Commissions and floor brokerage	596,615
Regulatory fees	97,581
Interest	107,954
Dividends	80,518
Market information	188,562
Depreciation	3,163
Occupancy	71,261
Consulting	54,469
Professional fees	7,500
Other	<u>89,887</u>
Total Expenses	<u>1,297,510</u>
NET INCOME	 \$ <u><u>703,194</u></u>

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

**JAG TRADING, LLC**  
**(A Delaware Limited Liability Company)**  
**STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
**YEAR ENDED DECEMBER 31, 2003**

Balance at December 31, 2002	\$ 3,212,019
Member contributions	1,000,562
Member withdrawals	( 1,504,289)
Net income	<u>703,194</u>
Balance at December 31, 2003	<u>\$ 3,411,486</u>

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

JAG TRADING, LLC  
(A Delaware Limited Liability Company)

**STATEMENT OF CASH FLOWS**  
YEAR ENDED DECEMBER 31, 2003

<b>OPERATING ACTIVITIES</b>	
Net income	\$ 703,194
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation expense	3,163
Change in assets and liabilities	
Increase in receivable from broker/dealers	( 3,469,915)
Increase in securities owned	( 883,405)
Decrease in interest and dividends receivable/payable	20,636
Increase in securities sold, not yet purchased	<u>4,347,139</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>720,812</u>
 <b>INVESTING ACTIVITIES</b>	
Purchase of equipment and furniture	( <u>15,816</u> )
 NET CASH USED IN INVESTING ACTIVITIES	 ( <u>15,816</u> )
 <b>FINANCING ACTIVITIES</b>	
Member contributions	1,000,562
Member withdrawals	( 1,504,289)
Decrease in note payable	( <u>22,000</u> )
 NET CASH USED IN FINANCING ACTIVITIES	 ( <u>525,727</u> )
 NET INCREASE IN CASH	 179,269
 CASH AT DECEMBER 31, 2002	 <u>196,055</u>
 CASH AT DECEMBER 31, 2003	 \$ <u><u>375,324</u></u>

*Supplemental Cash Flow Information:*

Cash payments for interest during the year totaled \$109,152.

Cash payments for income taxes during the year totaled \$0.

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

JAG TRADING, LLC  
(A Delaware Limited Liability Company)

**NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2003

**(1) NATURE OF BUSINESS**

JAG TRADING, LLC (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**

*Use of Estimates*

Generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Securities Owned and Securities Sold, Not Yet Purchased*

Securities owned and securities sold, not yet purchased are valued at market value based on listed market prices. Unrealized gains and losses are reflected in Firm trading in the Statement of Operations. Securities sold, not yet purchased represent obligations of the Company to purchase the securities at prevailing market prices. The ultimate gains or losses recognized are dependent upon the prices at which these securities are purchased to settle the obligation under the sales commitments. Securities transactions are recorded on the trade date.

*Fixed Assets*

Equipment and furniture is recorded at cost and is depreciated over its estimated useful life using an accelerated method. At December 31, 2003, accumulated depreciation was \$3,163.

*Fair Value of Derivative Financial Instruments*

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.

*Comprehensive Income*

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

**(3) INCOME TAXES**

No provision has been made for income taxes as the taxable income or loss is included in the respective income tax returns of the Members.

JAG TRADING, LLC  
(A Delaware Limited Liability Company)

**NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2003  
(Continued)

(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, in millions, as of December 31, 2003:

	<u>Contract Value</u>	<u>Market Value</u>	<u>Average Contract Value During 2003</u>
Equities sold, not yet purchased	\$ 11	\$ 11	\$ 11
Written options	\$ 11	\$ 1	\$ 11
Options held for trading	\$ 9	\$ 1	\$ 5

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***

At December 31, 2003, credit concentrations with the Company's clearing brokers consisted of approximately \$3 million representing the market values of the Company's trading accounts. The Company monitors the credit worthiness of the clearing brokers to mitigate the Company's exposure to credit risk.

The Company maintains its cash balance at two financial institutions. These balances are each insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2003, the Company's uninsured balance totaled \$270,716.

JAG TRADING, LLC  
(A Delaware Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

(Continued)

(6) **REGULATORY MATTERS**

As a registered broker/dealer, the Company is subject to the SEC'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, 2003, the Company had net capital of \$898,977 which exceeded requirements by \$798,977 and the ratio of aggregate indebtedness to net capital was less than 1:1.

(7) **SUBSEQUENT EVENTS**

During the period from January 1, 2004, to January 31, 2004, members made contributions of \$901,000.

SUPPLEMENTARY INFORMATION

JAG TRADING, LLC  
(A Delaware Limited Liability Company)

**COMPUTATION OF NET CAPITAL,  
PER UNIFORM NET CAPITAL RULE 15c3-1**

DECEMBER 31, 2003

<b>CREDITS</b>		
Members' equity	\$	<u>3,411,486</u>
<b>TOTAL CREDITS</b>		3,411,486
<b>DEBITS</b>		
Non-allowable assets		
Equipment and furniture, net	\$ (	12,653)
Other assets	(	<u>10,000</u> )
<b>TOTAL DEBITS</b>		( <u>22,653</u> )
<b>NET CAPITAL BEFORE HAIRCUTS ON SECURITIES</b>		3,388,833
Haircuts on securities		
Undue concentration charges	\$ (	2,109,993)
	(	<u>379,863</u> )
<b>Total Haircuts</b>		( <u>2,489,856</u> )
<b>NET CAPITAL</b>	\$	<u><u>898,977</u></u>
<b>COMPUTATION OF BASIC NET CAPITAL REQUIREMENT</b>		
Minimum net capital required (Greater of 6 2/3% of aggregate indebtedness or \$100,000)	\$	<u>100,000</u>
<b>EXCESS NET CAPITAL</b>	\$	<u><u>798,977</u></u>
<b>COMPUTATION OF AGGREGATE INDEBTEDNESS</b>		
Total aggregate indebtedness-specified liabilities	\$	<u>-</u>
<b>TOTAL AGGREGATE INDEBTEDNESS</b>	\$	<u><u>-</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.

**JAG TRADING, LLC**  
**(A Delaware Limited Liability Company)**  
**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS**  
**AND**  
**INFORMATION FOR THE POSSESSION OR CONTROL**  
**REQUIREMENTS PURSUANT TO RULE 15c3-3**

DECEMBER 31, 2003

**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 Members

JAG TRADING, LLC

Bloomfield Hills, Michigan

In planning and performing our audit of the financial statements of JAG TRADING, LLC (the "Company") for the year ended December 31, 2003, 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 JAG TRADING, LLC, 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 the Company 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 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 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 the Company 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 JAG TRADING, LLC, 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, 2003, 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 Company's practices and procedures were adequate at December 31, 2003, 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.

Schultz  
Chicago, LLC

Chicago, Illinois  
January 31, 2004