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DIVISION OF MARKET REGULATION

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

SEC FILE NUMBER  
8-65406

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: Rho Trading Securities, LLC

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

440 S. LaSalle, #620

(No. and Street)

Chicago

Illinois

60605

(City)

(State)

(Zip Code)

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

John Keazirian

(312) 362-4949

(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**  
APR 20 2004

**FOR OFFICIAL USE ONLY**  
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)

SEC 1416 (06-02)

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 currently valid OMB control number.

OATH OR AFFIRMATION

I, John Keazirian, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Rho Trading Securities, 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:

**Rho Trading Securities, LLC**

*[Handwritten Signature]*  
Signature  
By: **John Keazirian**  
Its: **Executive Vice President**  
Title



*[Handwritten Signature]*  
Notary Public

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. ] Same Page
- (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 Additor's Report on Internal Control Structure.

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

RHO TRADING SECURITIES, 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 of  
RHO TRADING SECURITIES, LLC  
Chicago, Illinois

We have audited the accompanying statement of financial condition of RHO TRADING SECURITIES, LLC, as of December 31, 2003, and the related statements of operations, 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 RHO TRADING SECURITIES, 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  
February 15, 2004

*Schultz & Chez, LLP*

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

**ASSETS**

Cash	\$ 107,638
Receivable from broker/dealers	4,669,341
Interest and dividends receivable	91,980
Securities owned, at market value	
Equities	26,560,372
Options	77,316,505
Equipment and furniture, net	219,538
Exchange memberships, at cost (market value \$569,000)	367,000
Other assets	<u>21,800</u>
 TOTAL ASSETS	 \$ <u>109,354,174</u>

**LIABILITIES AND MEMBERS' EQUITY**

**LIABILITIES**

Securities sold, not yet purchased, at market value	
Equities	\$ 53,123,211
Options	52,930,806
Interest and dividends payable	135,102
Accounts payable and accrued expenses	93,941
Accrued bonuses payable	<u>1,125,000</u>
 Total Liabilities	 <u>107,408,060</u>
 Members' Equity	 <u>1,946,114</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 \$ <u>109,354,174</u>

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

RHO TRADING SECURITIES, LLC  
(A Delaware Limited Liability Company)

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2003

**REVENUE**

Firm trading	\$ 7,970,226
Interest	1,032,973
Dividends	<u>503,307</u>
Total Revenue	<u>9,506,506</u>

**EXPENSES**

Compensation and employee benefits	4,076,188
Commissions	1,921,375
Regulatory and exchange fees	1,841,072
Interest	1,071,751
Dividends	333,732
Consulting	139,462
Depreciation	182,585
Membership rental	138,213
Occupancy	67,520
Professional fees	97,695
Other	<u>29,203</u>
Total Expenses	<u>9,898,796</u>

NET LOSS \$ (392,290)

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

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

Balance at December 31, 2002	\$ 2,798,980
Member contributions	770,672
Member withdrawals	(1,231,248)
Net loss	( 392,290)
Balance at December 31, 2003	\$ <u>1,946,114</u>

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

RHO TRADING SECURITIES, LLC  
(A Delaware Limited Liability Company)

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2003

OPERATING ACTIVITIES

Net loss	\$ ( 392,290)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation expense	182,585
Change in assets and liabilities	
Decrease in receivable from broker/dealers	23,947,691
Increase in securities owned	( 48,370,708)
Decrease in interest and dividend receivable	100,897
Increase in other assets	( 11,800)
Increase in securities sold, not yet purchased	25,732,794
Increase in interest and dividend payable	54,671
Decrease in accounts payable and accrued expenses	( 38,137)
Increase in payable to traders	<u>225,000</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 1,430,703

INVESTING ACTIVITIES

Purchase of equipment and furniture	( 157,781)
Purchase of exchange membership	( <u>15,500</u> )

NET CASH USED IN INVESTING ACTIVITIES ( 173,281)

FINANCING ACTIVITIES

Retirement of loan payable to member	( 1,000,000)
Member contributions	770,672
Member withdrawals	( <u>1,231,248</u> )

NET CASH USED IN FINANCING ACTIVITIES ( 1,460,576)

NET DECREASE IN CASH ( 203,154)

CASH AT DECEMBER 31, 2002 310,792

CASH AT DECEMBER 31, 2003 \$ 107,638

*Supplemental Cash Flow Information:*

Cash payments for interest during the year totaled \$1,016,163.

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

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

RHO TRADING SECURITIES, LLC  
(A Delaware Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

(1) *NATURE OF BUSINESS*

RHO TRADING SECURITIES, 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").

(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.

*Futures Transactions*

Futures contracts are valued at market value based on exchange settlement prices. Unrealized gains and losses on futures contracts are reflected in Firm trading in the Statement of Operations.

*Equipment and Furniture*

Equipment and furniture are recorded at cost and depreciated over their estimated useful lives using accelerated methods. At December 31, 2003, accumulated depreciation and amortization totaled \$243,670.

*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".

RHO TRADING SECURITIES, LLC  
(A Delaware Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

(Continued)

(3) **INCOME TAXES**

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

(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 and futures commission merchants. 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:

	Contract Value	Market Value	Average Contract Value During 2003
Equities sold, not yet purchased	\$ 53	\$ 53	\$ 50
Written options	\$ 2,660	\$ 53	\$ 2,156
Options held for trading	\$ 2,271	\$ 77	\$ 1,827
Financial futures contracts	\$ 2,686	N/A	\$ 2,865

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. Futures contracts are executed on an exchange, and cash settlement is made on a daily basis for market movements. 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.

RHO TRADING SECURITIES, LLC  
(A Delaware Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

(Continued)

(5) **CONCENTRATION OF CREDIT RISK**

At December 31, 2003, credit concentrations with the Company's clearing brokers consisted of approximately \$2 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 account at one financial institution which is insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2003, the Company's uninsured balance totaled \$7,619.

(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 \$1,205,257 which exceeded requirements by \$1,105,257 and the ratio of aggregate indebtedness to net capital was 1:1.

(7) **SUBSEQUENT EVENTS**

During the period from January 1, 2004, to February 15, 2004, there were no contributions or withdrawals made by the members.

SUPPLEMENTARY INFORMATION

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RHO TRADING SECURITIES, LLC  
(A Delaware Limited Liability Company)  
**COMPUTATION OF NET CAPITAL,  
PER UNIFORM NET CAPITAL RULE 15c3-1**  
DECEMBER 31, 2003

CREDITS			
Members' equity		\$	<u>1,946,114</u>
TOTAL CREDITS			<u>1,946,114</u>
DEBITS			
Non-allowable assets			
Equipment, furniture and leasehold improvements, net	\$	219,583	
Exchange memberships, at cost		367,000	
Other assets		<u>21,800</u>	( 608,383)
Commodity charges			( <u>132,474</u> )
TOTAL DEBITS			( <u>740,857</u> )
NET CAPITAL BEFORE HAIRCUTS ON SECURITIES			1,205,257
Haircuts on securities	\$	-	
Undue concentration charges		<u>-</u>	
Total Haircuts			<u>-</u>
NET CAPITAL		\$	<u><u>1,205,257</u></u>
COMPUTATION OF BASIC NET CAPITAL REQUIREMENT			
Minimum net capital required (Greater of 6 2/3% of aggregate indebtedness or \$100,000)		\$	<u>100,000</u>
EXCESS NET CAPITAL		\$	<u><u>1,105,257</u></u>
COMPUTATION OF AGGREGATE INDEBTEDNESS			
Total aggregate indebtedness-specified liabilities			
Accounts payable and accrued expenses		\$	93,941
Accrued bonuses payable			<u>1,125,000</u>
TOTAL AGGREGATE INDEBTEDNESS		\$	<u><u>1,218,941</u></u>
Percentage of aggregate indebtedness to net capital			<u><u>101%</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.

**RHO TRADING SECURITIES, 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.

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

To the Members  
RHO TRADING SECURITIES, LLC  
Chicago, Illinois

In planning and performing our audit of the financial statements of RHO TRADING SECURITIES, 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 RHO TRADING SECURITIES, 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 RHO TRADING SECURITIES, 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 : Chy, LLC

Chicago, Illinois  
February 15, 2004