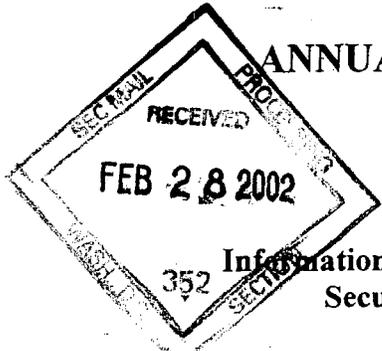


UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



SEC FILE NUMBER
8- 49278



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

FACING PAGE

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

3/6/02 FC

REPORT FOR THE PERIOD BEGINNING 01/01/01 AND ENDING 12/31/01
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Q Prime, Inc.

OFFICIAL USE ONLY
FIRM ID. NO

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

164 Gramercy Place

(No. and Street)

Glen Rock
(City)

NJ
(State)

07452
(Zip Code)

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

Kenneth Kiess

(201) 222-2700
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

McGladrey & Pullen, LLP

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

380 Madison Avenue, New York, NY 10017
(Address) (City) (State) (Zip Code)

PROCESSED

CHECK ONE:

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

MAR 18 2002

P 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)

3/15

OATH OR AFFIRMATION

I, Kenneth Kiess, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Q Prime, Inc. as of 12/31/01, 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: NONE.

[Handwritten Signature]
Signature

President
Title

Sworn to and subscribed before me
this 27 day of FEB 2002

[Handwritten Signature]
Notary Public
JOHN B. SMYTHE
NOTARY PUBLIC OF NEW JERSEY
MY COMMISSION EXPIRES SEPT. 29, 2003

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 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

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Q Prime, Inc.

We have audited the accompanying statement of financial condition of Q Prime, Inc. as of December 31, 2001, and the related statements of income, changes in stockholder's equity and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. 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 Q Prime, Inc. as of December 31, 2001, 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information 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 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in our 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 and in conformity with the rules of the Securities and Exchange Commission.

McGladrey & Pullen, LLP

New York, New York
February 10, 2002

Q PRIME, INC.

STATEMENT OF FINANCIAL CONDITION
December 31, 2001

ASSETS

Cash	\$ 21,019
Prepaid expenses	<u>240</u>
	<u>\$ 21,259</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Liability:

Accounts payable	<u>\$ 7,829</u>
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Stockholder's Equity:

Common stock, no par value, 2,500 shares authorized; 100 shares issued and outstanding	20,000
Retained earnings	5,430
Treasury stock, at cost, 50 shares	<u>(12,000)</u>
	<u>13,430</u>
	<u>\$ 21,259</u>

See notes to financial statements.

Q PRIME, INC.

STATEMENT OF INCOME
Year Ended December 31, 2001

Revenues:	
Commissions	\$ 604,748
Interest and other	287
	<hr/>
	605,035
	<hr/>
Expenses:	
Clearing charges	239,483
Research expenses	362,345
Administrative expenses	7,128
Professional fees	(6,250)
	<hr/>
	602,706
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Net income	\$ 2,329
	<hr/> <hr/>

See notes to financial statements.

Q PRIME, INC.

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
Year Ended December 31, 2001

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Total</u>
Balance, beginning	\$ 20,000	\$ 3,101	\$ (12,000)	\$ 11,101
Net income	<u>-</u>	<u>2,329</u>	<u>-</u>	<u>2,329</u>
Balance, ending	<u>\$ 20,000</u>	<u>\$ 5,430</u>	<u>\$ (12,000)</u>	<u>\$ 13,430</u>

See notes to financial statements.

Q PRIME, INC.

STATEMENT OF CASH FLOWS
Year Ended December 31, 2001

Cash Flows From Operating Activities:	
Net income	\$ 2,329
Adjustments to reconcile net income to net cash provided by operating activities:	
Receivable from broker	15,619
Prepaid expenses	(40)
Accounts payable	<u>(13,329)</u>
Net cash provided by operating activities	4,579
Cash:	
Beginning	<u>16,440</u>
Ending	<u><u>\$ 21,019</u></u>
Supplemental Disclosure of Cash Flow Information:	
Income taxes paid	<u><u>\$ 280</u></u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1. **NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

Nature of Business:

On March 28, 1996, Q Prime, Inc. (the "Company") was organized under the laws of the State of New Jersey. The Company provides investment banking services as an introducing broker to a broad base of customers. The Company is registered with the Securities and Exchange Commission ("SEC") and as a member with the National Association of Securities Dealers, Inc. ("NASD") is registered in various states.

The Company operates under the provisions of Paragraph (k)(2)(ii) of Rule 15c3-3 under the Securities Exchange Act of 1934 and, accordingly, is exempt from the remaining provisions of that Rule. Essentially, the requirements of Paragraph (k)(2)(ii) provide that the Company clear all transactions on behalf of customers on a fully disclosed basis with a clearing broker – dealer and promptly transmit all customer funds and securities to the clearing broker-dealer. The clearing broker-dealer carries all the accounts of the customers and maintains and preserves all related books and records that are customarily kept by a clearing broker-dealer.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Commissions:

Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

Income Taxes:

The Company has elected under the provisions of the Internal Revenue Code to be taxed as an S Corporation. Under those provisions, the Company is exempt from Federal corporate income taxes and certain New Jersey taxes. Instead, the stockholder is liable individually for Federal and state income taxes on the Company's taxable income.

2. **RELATED PARTY TRANSACTIONS**

The Company has entered into an agreement to purchase research exclusively from a company which is under common control of the Company's stockholder. Payroll and certain operating costs of the Company are incurred by this related party. Expenses related to this agreement for the year ended December 31, 2001 totaled \$328,743. The amount due to this related party at December 31, 2001 was \$6,626 and is included in accounts payable.

Q PRIME, INC.

NOTES TO FINANCIAL STATEMENTS

3. PAYABLE TO BROKER

All customer securities transactions are introduced to one broker. At December 31, 2001, the amount due to this broker was \$1,203 and is included in accounts payable.

4. NET CAPITAL REQUIREMENTS

The Company is a broker-dealer subject to the SEC 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. Rule 15c3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2001, the Company had net capital of \$13,190, which was \$8,190 in excess of its required net capital of \$5,000. At December 31, 2001, the Company's net capital ratio was 0.59 to 1.

Q PRIME, INC.

**COMPUTATION OF NET CAPITAL UNDER SECURITIES AND
EXCHANGE COMMISSION RULE 15c3-1**

December 31, 2001

Stockholder's Equity	\$ 13,430
Nonallowable Assets:	
Prepaid expenses	<u>240</u>
Net capital	13,190
Minimum Requirement (greater of \$5,000 or 6-2/3% of aggregate indebtedness)	<u>5,000</u>
Excess net capital	<u>\$ 8,190</u>
Aggregate Indebtedness:	
Accounts payable	<u>\$ 7,829</u>
Ratio of aggregate indebtedness to net capital	<u>0.59 to 1</u>

Q PRIME, INC.

**SCHEDULE OF COMPUTATION OF RESERVE REQUIREMENTS UNDER
EXHIBIT A OF SECURITIES AND EXCHANGE COMMISSION RULE 15c3-3
December 31, 2001**

The firm is exempt from SEC Rule 15c3-3 since it clears all customer transactions through another broker on a fully disclosed basis.

Q PRIME, INC.

**INFORMATION RELATING TO THE POSSESSION OR CONTROL REQUIREMENTS
UNDER SECURITIES AND EXCHANGE COMMISSION RULE 15c3-3**

December 31, 2001

The firm is exempt from SEC Rule 15c3-3 since it clears all customer transactions through another broker on a fully disclosed basis.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Q Prime, Inc.
New York, New York

In planning and performing our audit of the financial statements of Q Prime, Inc. (the "Company") for the year ended December 31, 2001, we considered its internal control, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "Commission"), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objective stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications and comparisons.
2. Recordation of differences required by Rule 17a-13.
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining an internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control 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 SEC's above-mentioned objectives. Two of the objectives of internal control 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 or the practices and procedures referred to above, error or fraud 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.

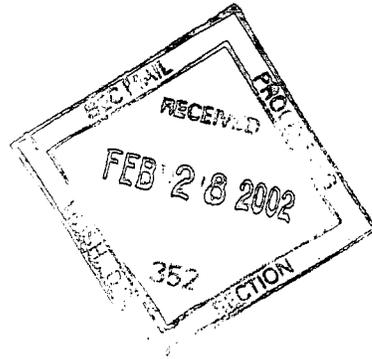
Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud 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 internal control, including procedures for safeguarding securities, which we consider to be material weaknesses as defined above.

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, 2001 to meet the Commission's objectives.

This report is intended solely for the use of the Board of Directors, management, the Securities and Exchange Commission, National Association of Securities Dealers, Inc. and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

New York, New York
February 10, 2002



Q PRIME, INC.
FINANCIAL REPORT
DECEMBER 31, 2001