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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

SEC FILE NUMBER
8-27897
42976

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 01/01/01 AND ENDING 12/31/01
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

QUAKER SECURITIES, INC.

CONFIDENTIAL
OFFICIAL USE ONLY

FIRM ID. NO.

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

1288 Valley Forge Road, Suite 75

(No. and Street)

Valley Forge

Pennsylvania

19482

(City)

(State)

(Zip Code)

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

Stephen Gallagher

(610) 935-6135

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

ARTHUR ANDERSEN LLP

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

1601 Market Street

Philadelphia

Pennsylvania

19103

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

Accountant not resident in United States or any of its possessions

PROCESSED
MAY 22 2002
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).

5/22

OATH OR AFFIRMATION

I, Stephen Gallagher, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of QUAKER SECURITIES, INC., as of December 31, 2001, 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

Signature
Chief Financial Officer
Title

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 Changes in Financial Condition.
(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) Report of Independent Public Accountants on Internal Accounting Control.

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

**Quaker Securities, Inc.
(a Pennsylvania Corporation)**

**Statement of financial condition
As of December 31, 2001
Together with auditors' report**



Report of independent public accountants

To the Shareholders of Quaker Securities, Inc.:

We have audited the accompanying statement of financial condition of Quaker Securities, Inc. (a Pennsylvania corporation) as of December 31, 2001, 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 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 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 financial statement referred to above presents fairly, in all material respects, the financial position of Quaker Securities, Inc. at December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Arthur Andersen

Philadelphia, Pennsylvania
February 25, 2002

Quaker Securities, Inc.
(a Pennsylvania Corporation)

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Quaker Securities, Inc.
(a Pennsylvania Corporation)

Statement of financial condition
As of December 31, 2001

Assets

Cash and cash equivalents	\$ 383,633
Due from clearing brokers	750,000
Commissions receivable	1,204,894
Property and equipment, net of accumulated depreciation of \$221,069	313,886
Other receivables	324,810
Other assets:	
Prepaid expenses	29,191
Deposits	3,781
Total assets	\$ 3,010,195

Liabilities

Accounts payable	\$ 35,142
Payable to affiliates	300,860
Accrued expenses	1,332,078
Income taxes payable	239,008
Capital lease obligations	30,922
Total liabilities	1,938,010

Commitments and contingencies (Note 7)

Shareholders' equity:

Common stock (Class A shares at .01, par value 1,000,000 shares authorized, issued and outstanding)	10,000
Additional paid-in-capital	8,248
Retained earnings	1,053,937
Total shareholders' equity	1,072,185
Total liabilities and shareholders' equity	\$ 3,010,195

The accompanying notes are an integral part of this financial statement.

Quaker Securities, Inc.
(a Pennsylvania Corporation)

Notes to the financial statements
For the year ended December 31, 2001

1. Organization and nature of business:

Quaker Securities, Inc. (the Company) was incorporated on June 26, 1990 for the purpose of providing execution services as a registered broker-dealer. The Company provides institutional investors with private broker services for the execution of trades in listed equities, options, NASDAQ/OTC, and equity basket trading from a wide range of domestic and foreign markets. The Company clears all of its customers' securities transactions on a fully disclosed basis through full service brokerage firms. Substantially all of the Company's revenue is from broker-dealer commissions. Approximately 70 percent of the Company's revenues are derived from customers located in the United States of America and approximately 30 percent is derived from customers located in Europe and serviced by the Company's office in Nyon, Switzerland.

The Company is owned 90 percent by the parent company and 10 percent by the minority shareholder.

2. Summary of significant accounting policies:

Revenue recognition

Commissions revenue is recorded on a trade-date basis based upon a commissions fee determined by the Company in conjunction with the customer. The Company recognizes revenue as the gross commission charged to the customer and the cost of services provided by the Company as sales commissions, floor brokerage expense, clearing fee expense, and certain other purchased services for the benefit of its customers.

Deposit and commissions receivable from clearing brokers

The Company has \$750,000 on deposit with clearing brokers to secure its clearing agreements. Pursuant to these clearing agreements, the Company is required to assume customer obligations in the event of default.

Concentration of credit risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash due from clearing organizations and commissions receivable. The Company places its cash with commercial banking institutions. At times, such cash may be in excess of the Federal Deposit Insurance Corporation insurance limit. In addition, the Company routinely assesses the financial strength of its customers as well as its broker-dealer counterparties and, as a consequence, believes that its credit risk exposure is limited.

Furniture, equipment and leasehold improvements

Furniture and equipment are stated at cost less accumulated depreciation and includes leasehold improvements, computer equipment and, furniture and fixtures. Depreciation for the majority of computer equipment and furniture and fixtures is computed using the straight-line method. Depreciation is calculated over the estimated useful lives of the assets (generally five years). Leasehold improvements are depreciated using the straight-line method over the lesser of the economic useful life of the improvement or the term of the lease. Expenditures for maintenance, repairs and renewals of a minor nature are charged against earnings as incurred. Major renewals and betterments are capitalized.

Income taxes

The Company intends to file a consolidated income tax return with its parent company.

The Company accounts for deferred income taxes in accordance with Statement of Financial Accounting Standards No. 109. Temporary differences between income reported for financial statement purposes and taxable income are not significant; accordingly, no deferred income taxes have been recorded as of December 31, 2001.

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 reported amounts of assets and liabilities and disclosure 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.

3. Net capital requirements:

Under Rule 15c3-1 of the Securities Exchange Act of 1934 (the Rule), the Company is required to maintain minimum net capital (as defined) and a ratio of aggregate indebtedness to net capital (as defined) not to exceed 15-to-1.

The basic concept of the Rule is liquidity, its objective being to require a broker-dealer in securities to have, at all times, sufficient liquid assets to cover its current indebtedness. At December 31, 2001, the Company had net capital of \$416,949. The Company's minimum net dollar capital requirement is \$25,000. The Company's net capital ratio at December 31, 2001 was 4.64 to 1.

4. Exemptive provisions of Rule 15c3-3:

The Company is exempt from both the computation for determination of reserve requirements (Rule 15c3-3) and the possession or control requirements (Rule 15c3-3, Exhibit A). The Company does not maintain physical custody of securities or hold customer funds. Because of such exemption, the Company is not required to prepare a determination of reserve requirement or information relating to possession or control requirements for brokers and dealers in securities.

5. Related parties:

During the year ended December 31, 2001, the Company entered into various transactions with related parties. These transactions and the principal terms are summarized below:

Commissions revenue

The Company processed investment transactions for a company affiliated with the minority shareholder by common ownership. At December 31, 2001, commissions receivable related to these transactions processed was \$109,568.

Rent expenses

The Company rents office space from its parent company under the terms of an annual operating lease. The lease is subject to automatic renewal on an annual basis through December 2003. The Company, in turn, subleases a portion of this office space to another related affiliate on a month-to-month basis.

The Company leases office space in Nyon, Switzerland from an affiliated company.

Broker-dealer split arrangement

The Company has broker-dealer split arrangements with an affiliate. At December 31, 2001, the payable to affiliate under these arrangements was \$279,691.

Purchased services

The Company has entered into certain purchased service arrangements with a related affiliate.

Other operating expenses

The Company incurred certain operating costs and expenses with companies affiliated with its parent company through common ownership.

The Company pays its allocable share of federal corporate net income taxes due to its parent company as a result of filing a consolidated federal income tax return.

Total liabilities under these related party arrangements include \$533,360 due to the Company's parent and related entities and consist of amounts due as of December 31, 2001 as follows:

Income taxes payable	\$ 232,530
Other expenses payable	<u>300,860</u>
	<u>\$ 533,390</u>

The other receivables account included in the accompanying balance sheet includes \$246,082 due from the company's parent and related entities as of December 31, 2001.

6. Capital lease obligation:

The Company is obligated under a capital lease for certain office and computer equipment. The net book value of equipment under this capital lease as of December 31, 2001 is \$30,922.

The future minimum lease payments due under this capital lease as of December 31, 2001 are as follows:

<u>Year ending December 31</u>	
2002	\$ 20,910
2003	13,942
Less- Amount representing interest	<u>(3,930)</u>
Present value of net minimum lease payments	<u>\$ 30,922</u>

7. Commitments and contingencies:

The Company rents office space in Valley Forge, Pennsylvania from the parent company under the terms of an annual operating lease. Also, certain equipment is leased from nonrelated parties under operating leases expiring at various dates through October 2004.

The Company opened a trading office in Nyon, Switzerland in July 2000. The facilities were leased from an unrelated party under the terms of an operating lease which expired December 31, 2000. In January 2001, the Nyon office moved its facilities (see Note 5).

In January 2001, the Company commenced operations in McLean, Virginia. Office facilities were leased from an unrelated party under the terms of an operating lease which expires April 30, 2002. Office equipment and furniture for the Virginia office were leased under an operating lease expiring in December 2003.

In January 2001, the Company leased an automobile under the terms of an operating lease expiring in April 2004. Monthly lease payments under this lease are \$1,075.

The Company is currently leasing transaction order software from an unrelated party under a service agreement. The agreement requires a minimum monthly service fee of \$12,500 plus transaction costs. The initial period of service is 24 months and began in July 2000.

The following is a summary of future minimum lease payments required under these non-cancelable operating leases:

<u>Year ending December 31</u>	
2002	\$ 446,300
2003	184,900
2004	<u>3,225</u>
	<u>\$ 634,425</u>

8. Employee benefit plans:

The Company has a 401(k) retirement saving plan (the Plan) covering all qualified employees in the United States of America. Employees eligible to participate in the Plan must have completed three months of service and attained the age of 21. Under the terms of the Plan, the Company matches 100 percent of the employee's contribution up to 4 percent of total salary. The Plan also has a profit-sharing feature, where the Company can contribute at its discretion.

Employees of the Company in Nyon, Switzerland are covered by a defined contribution government mandated retirement plan with an employer matching provision. Employer matching contributions are subject to limitations contained in the plan document.

9. Subsequent events:

In January 2002, the parent company purchased the ten percent ownership interest of the minority shareholder. The parent company is now the sole shareholder of Quaker Securities, Inc.

The Company also entered into an employment agreement with the minority shareholder as of January 1, 2002. Based upon the terms of the agreement, the minority shareholder will serve as a member of the Board of Directors and as a marketing representative of Quaker Securities, Inc. The employment agreement shall commence as of January 1, 2002, and shall terminate on the fourth anniversary thereof unless terminated earlier. Pursuant to the employment agreement, the Company will pay net commissions (as defined) on certain accounts net of a non-refundable first year draw of \$360,000.

In January 2002, the Company closed its trading office located in McLean, Virginia. Management believes that the impact of this closure to the operations of the Company will be insignificant.