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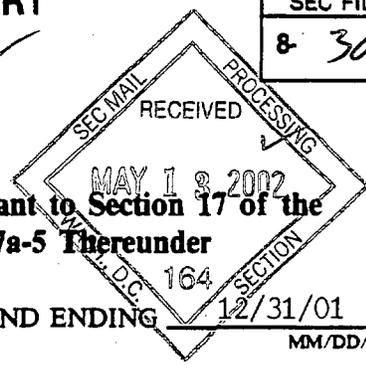
MISSION

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

SEC FILE NUMBER
8- 30405

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:
O'Donnell Securities Corporation

OFFICIAL USE ONLY
FIRM ID. NO.

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

19111 Detroit Ave., Suite 103

(No. and Street)

Rocky River

Ohio

44116

(City)

(State)

(Zip Code)

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

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Gallovic, Granito & Co. Ltd

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

8361 Tyler Blvd.

Mentor

Ohio

44060

(Address)

(City)

(State)

Zip Code)

CHECK ONE:

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

PROCESSED
JUN 26 2002

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THOMSON FINANCIAL

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6-24-02

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OATH OR AFFIRMATION

I, Neil J. O'Donnell, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of O'Donnell Securities Corporation, as of December 31, 10 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:

Neil J. O'Donnell
Signature
President
Title

Leona H. Herda
Notary Public



LEONA H. HERDA
NOTARY PUBLIC
STATE OF OHIO
Recorded in Clay Co.
My Comm. Exp. 12/7/05

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.

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

GALLOVIC, GRANITO & Co. LTD
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
O'Donnell Securities Corporation

We were engaged to audit the accompanying statement of financial condition of O'Donnell Securities, Inc. as of December 31, 2001, and the related statements of income and comprehensive income, stockholder's equity and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities and Exchange Act of 1934. These financial statements are the responsibility of management.

The accompanying 2001 financial statements have been prepared assuming that the Company will continue as a going concern. However, the following conditions raise substantial doubt about its ability to continue as a going concern. As discussed in Note C to the financial statements, as a result of an arbitration award, the company is in violation of the net capital requirement of Rule 15c3-1 under the Securities and Exchange Act of 1934 and has been required to cease conducting a security business until the capital violation is corrected. As of December 31, 2001, this violation has not been cured and the companies liabilities exceed its assets. Management is attempting to negotiate a settlement of the arbitration award, however, at the present time, the outcome is not determinable.

Because of the significance of the uncertainties and other factors, we are unable to express, and we do not express an opinion on the 2001 financial statements described in the first paragraph.

The reconciliation of the computation of net capital and Form X-17A-5, Part III as of December 31, 2001 and for the year then ended, submitted herewith, are presented for purposes of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by Rule 17a-5 under the Securities and Exchange Act of 1934. Because of the significance of the uncertainty described in the second paragraph, we are unable to express, and we do not express, an opinion on the 2001 reconciliation of the computation of net capital and Form X-17A-5, Part III.

We audited the financial statements of O'Donnell Securities Corporation as of December 31, 2000 and the reconciliation of the computation of net capital which was supplementary information required by Rule 17a-5 under the Securities and Exchange Act of 1934 and our report dated February 7, 2001 expressed an unqualified opinion on those statements and supplementary information.

Gallucci, Grunig & Co. LTD

April 9, 2002

O'DONNELL SECURITIES CORPORATION

STATEMENTS OF FINANCIAL CONDITION

ASSETS

	December 31,	
	<u>2001</u>	<u>2000</u>
CURRENT ASSETS		
Cash and cash equivalents	-	\$ 2,416
Commissions receivable	\$ 53,805	98,803
Investments - marketable securities (Note F)	-	50,191
Investments - non-marketable securities	3,300	3,300
Prepaid management fees	-	473,395
Prepaid taxes	520	520
	<u>\$ 57,625</u>	<u>\$ 628,625</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES		
Bank overdraft	\$ 416	-
Accounts payable	17,310	\$ 26,322
Accounts payable - related party	775	-
NASD arbitration award payable (Note G)	397,578	-
	416,079	26,322
CONTINGENCIES (NOTES C AND H)		
STOCKHOLDER'S EQUITY		
Common stock \$100 par value; 750 shares authorized; 150 shares issued and outstanding	15,000	15,000
Additional paid in capital	1,000	1,000
Retained earnings (deficit)	(374,454)	584,962
Accumulated other comprehensive income	-	1,341
	<u>(358,454)</u>	<u>602,303</u>
	<u>\$ 57,625</u>	<u>\$ 628,625</u>

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

O'DONNELL SECURITIES CORPORATION

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Years Ended	
	December 31,	
	2001	2000
REVENUES		
Commissions	\$ 571,325	\$ 3,755,731
Interest and dividends	-	4,888
Net loss on securities	(12,049)	-
Other income	-	8,016
	<u>559,276</u>	<u>3,768,635</u>
EXPENSES		
Management fees	956,332	3,806,277
Commissions	60,558	-
Arbitration award	309,600	-
Dues and assessments	11,596	8,708
Dealer intangibles tax	447	5,606
Interest expense	87,978	-
Office and miscellaneous	887	7,468
Legal and professional (Note J)	54,493	16,934
	<u>1,481,891</u>	<u>3,844,993</u>
NET LOSS	(922,615)	(76,358)
OTHER COMPREHENSIVE INCOME		
Unrealized losses on available for sale securities	(13,390)	(22,133)
Reclassification adjustment	12,049	-
	<u>(1,341)</u>	<u>(22,133)</u>
COMPREHENSIVE LOSS	\$ <u>(923,956)</u>	\$ <u>(98,491)</u>

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

O'DONNELL SECURITIES CORPORATION

STATEMENTS OF STOCKHOLDER'S EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	<u>Common Stock</u>	<u>Additional Paid In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
BALANCE - JANUARY 1, 2000	\$ 15,000	\$ 1,000	\$ 661,320	\$ 23,474	\$ 700,794
NET LOSS	-	-	(76,358)	-	(76,358)
UNREALIZED GAINS ON MARKETABLE SECURITIES	-	-	-	(22,133)	(22,133)
BALANCE - DECEMBER 31, 2000	15,000	1,000	584,962	1,341	602,303
NET LOSS	-	-	(922,615)	-	(922,615)
DISTRIBUTION	-	-	(36,801)	-	(36,801)
UNREALIZED LOSSES ON MARKETABLE SECURITIES	-	-	-	(13,390)	(13,390)
RECLASSIFICATION ADJUSTMENT	-	-	-	12,049	12,049
BALANCE - DECEMBER 31, 2001	\$ <u>15,000</u>	\$ <u>1,000</u>	\$ <u>(374,454)</u>	<u>-</u>	\$ <u>(358,454)</u>

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

O'DONNELL SECURITIES CORPORATION

STATEMENTS OF CASH FLOWS

	For the Years Ended	
	December 31,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (922,615)	\$ (76,358)
Loss on sale of marketable securities	12,049	-
Changes in current operating assets and liabilities:		
Decrease in commissions receivable	44,998	76,357
Decrease in accounts receivable - affiliate	-	7,767
(Increase) decrease in prepaid management fees	473,395	(10,740)
Decrease in accounts payable	(9,012)	(15,037)
Increase in accounts payable - related party	775	-
Decrease in payable to mutual funds and insurance companies	-	(848,809)
Increase in NASD arbitration award payable	397,578	-
NET CASH USED BY OPERATING ACTIVITIES	(2,832)	(866,820)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	-	(8,139)
Proceeds from sale of marketable securities	36,801	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	36,801	(8,139)
CASH FLOWS FROM FINANCING ACTIVITIES		
Distribution to shareholder	(36,801)	-
NET CASH USED BY FINANCING ACTIVITIES	(36,801)	-
NET DECREASE IN CASH	(2,832)	(874,959)
CASH AT BEGINNING OF YEAR	2,416	877,375
CASH (CASH OVERDRAFT) AT END OF YEAR	\$ (416)	\$ 2,416

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

O'DONNELL SECURITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

Note A - Organization and Nature of Business

Principal Business Activity

O'Donnell Securities Corporation was organized February 2, 1983, and operates as a securities broker dealing primarily in mutual funds and annuities. The Company is registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers (NASD). As of September 2001, the Company has been in violation of the capital requirements of the Securities and Exchange Commission (SEC) Rule 15c3-1 and has been required to cease operating a securities business.

The Company has offices in northeastern Ohio and markets mutual funds and annuities primarily to middle-income individuals and retirees.

Note B - Summary of Significant Accounting Policies

Basis of Accounting

The Company's financial statements have been prepared on the accrual basis of accounting whereas revenues are recognized when earned and expenses are recognized when incurred. The basis of accounting conforms to generally accepted accounting principles. However, the Company reports on the cash basis of accounting for federal income tax purposes.

Commissions Receivable

The Company earns commissions from mutual funds and insurance companies from the sale of their products. Commission revenue is recognized as it is earned.

Marketable Securities

The Company's marketable securities consist of mutual fund shares that have a readily determinable fair market value. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such determinations at each balance sheet date.

Since the Company does not intend to sell these securities in the near term, they are classified as "available for sale" and accordingly, are carried at fair value, with unrealized gains and losses, net of tax, reported as a component of other comprehensive income. Realized gains and losses on all marketable securities are determined by specific identification and are charged or credited to current earnings.

O'DONNELL SECURITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

Note B - Summary of Significant Accounting Policies (Continued)

Nonmarketable Securities

The Company's nonmarketable securities consists of 300 shares of Nasdaq Stock Market, Inc. which was purchased through a private placement. This investment is carried at cost.

Use of Estimates in Preparation of Financial Statements

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenue and expenses. Actual results could vary from the estimates that were used.

Cash Equivalents

The Company considers all highly liquid debt instruments with an original maturity of three months or less cash equivalents.

Comprehensive Income

Statements of Financial Accounting Standards No. 130 requires that total comprehensive income be reported in the financial statements. Total comprehensive income is presented on the statements of income and comprehensive income.

Reclassification

Certain amounts in the 2000 financial statements have been reclassified to conform to the 2001 presentation

Note C - Going Concern

As a result of an NASD arbitration award against the Company (see Note G), the Company is in violation of the capital requirement of SEC Rule 15c3-1 and has been required to cease conducting a securities business as of September 30, 2001 until this capital requirement has been met. At December 31, 2001, the Company's liabilities exceed its assets by \$358,454. The Company is also party to lawsuits brought by clients (see Note H). These factors create an uncertainty about the Company's ability to continue as a going concern. Management of the Company is negotiating with the former employee that received the arbitration award to try to reach an agreement which will allow the Company to restore its capital to the required level and allow it to continue in the securities business. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

O'DONNELL SECURITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

Note D - Federal Income Taxes

The Company, with the consent of its shareholder, has elected under the Internal Revenue Code to be an S Corporation, in lieu of corporation income taxes. The shareholders of an S Corporation are taxed on their proportionate share of the Company's taxable income. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

Note E - Related Party Transactions

The Company has an agreement with a corporation owned and controlled by the Company's shareholder which provides for management fees based on the annual results of operations of the Company for services of employees and certain occupancy and administrative expenses. During 2001 and 2000, transactions with the affiliated company were as follows:

	<u>2001</u>	<u>2000</u>
Prepaid management fees - January 1,	\$ 473,395	\$ 462,655
Management fee expensed	(956,331)	(3,806,277)
Management fee paid	<u>482,936</u>	<u>3,817,017</u>
Prepaid management fees - December 31,	<u>-</u>	\$ <u>473,395</u>

Note F - Marketable Investment Securities

The following is a summary of investment securities at December 31, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Available-for-sale-securities		
Mutual funds stock at cost	-	\$ 48,850
Unrealized gains		<u>1,341</u>
	<u>-</u>	\$ <u>50,191</u>

During 2001, the Company sold these mutual fund shares and realized a loss of \$12,049.

O'DONNELL SECURITIES CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

Note G - NASD Arbitration

During 2000 and 2001, the Company, affiliated companies, and its officers were party to arbitration before NASD Dispute Resolution, Inc. brought by a former employee for issues arising from his termination. The Company denied the allegations and brought a counter claim. In September, 2001, the panel found for the former employee and awarded against the Company and two affiliated companies for \$360,000 plus interest at 10% from July 22, 1999 until payment of the award is made. The liability is joint and several. During this arbitration, the Company and affiliates were awarded compensatory damages of \$50,400 with no interest against the former employee.

At December 31, 2001, the Company has recognized the net amount of the awards as a liability for the \$309,600 and \$87,978 in accrued interest. The Company is attempting to negotiate a settlement of the award, but no agreement has been reached.

Note H - Contingencies

During 2001, the Company has been named with other parties in various lawsuits brought by clients and others. The Company intends to vigorously pursue these matters and, at this point, the likely outcomes of these lawsuits cannot be determined..

Note I - Net Capital Requirement

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. At December 31, 2001, the Company has negative net capital of \$372,694 which is below their required capital of \$25,000 (See Note A). At December 31, 2000, the Company had net capital of \$107,680.

Note J - Legal Fees

Various retainers have been paid to the law firms handling the Company's litigation matters. Since substantially all litigation has multiple party defendants, any determination of advanced or prepaid legal fees is not possible.

O'DONNELL SECURITIES CORPORATION

RECONCILIATION OF THE COMPUTATION OF NET CAPITAL

	For the Years Ended	
	December 31,	
	<u>2001</u>	<u>2000</u>
UNAUDITED COMPUTATION OF NET CAPITAL SUBMITTED BY COMPANY (AS REPORTED IN COMPANY'S PART IIA FOCUS REPORT)	\$ (315,753)	\$ 45,079
CHANGE IN ELEMENTS OF THE NET CAPITAL COMPUTATION RESULTING FROM AUDIT ADJUSTMENTS:		
Net audit adjustments:		
Adjust commissions receivable	53,805	97,514
Adjust prepaid management fees	-	473,395
Recognize prepaid taxes	520	520
Recognize interest on arbitration liability	(87,978)	-
Adjust accounts payable	<u>(17,310)</u>	<u>(25,162)</u>
	(50,963)	546,267
Net haircuts on other securities	-	-
Net audit adjustments to nonallowable assets	<u>(5,978)</u>	<u>(483,666)</u>
	<u>(56,941)</u>	<u>62,601</u>
NET CAPITAL	\$ <u><u>(372,694)</u></u>	\$ <u><u>107,680</u></u>

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

O'DONNELL SECURITIES CORPORATION

REPORT ON AUDIT OF FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000

GALLOVIC, GRANITO & CO. LTD
CERTIFIED PUBLIC ACCOUNTANTS
MENTOR, OHIO