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



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

SEC FILE NUMBER  
8-43872

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

*3/15/02 pd*

REPORT AS OF: 12/31/01

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

ROCK ISLAND SECURITIES, INC.

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

200 West Jackson Boulevard, Suite 2400

(No. and Street)

Chicago

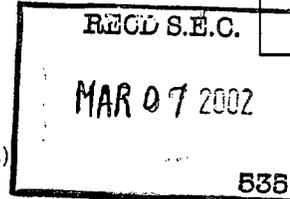
(City)

Illinois

(State)

60606

(Zip Code)



OFFICIAL USE ONLY  
FIRM ID. NO.

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

Robyn E. Kole

(312) 895-2678

(Area Code - Telephone No)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Ryan & Juraska, Certified Public Accountants

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

141 West Jackson Boulevard, Suite 3520

(Address)

Chicago

(City)

Illinois

(State)

60604

(Zip Code)

PROCESSED

MAR 22 2002

THOMSON FINANCIAL

CHECK ONE:

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

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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).

*5/2/02*

## OATH OR AFFIRMATION

I, Robyn E. Kole, swear (or affirm) that, to the best of my knowledge and belief, the accompanying financial statement and supporting schedules pertaining to the firm of Rock Island 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  
\_\_\_\_\_

*Robyn E Kole*

\_\_\_\_\_  
Signature  
\_\_\_\_\_

Chief Financial Officer

\_\_\_\_\_  
Title  
\_\_\_\_\_

Subscribed and sworn to before me this

28<sup>th</sup> day of FEBRUARY, 2002



*Kristen Murphy*

\_\_\_\_\_  
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 Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of General Creditors.
- (g) Computation of Net Capital for Brokers and Dealers pursuant to Rule 15c3-1.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements for Brokers and Dealers 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 Auditors' Report on Internal Accounting Control.
- (p) Schedule of Segregation Requirements and Funds in Segregation - Customers' Regulated Commodity Futures Accounts Pursuant to CFTC Rule 1.10(d)2(iv).

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

**RYAN & JURASKA**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**141 WEST JACKSON BOULEVARD**  
**CHICAGO, ILLINOIS 60604**  
TEL: (312) 922-0062  
FAX: (312) 922-0672

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Rock Island Securities, Inc.

We have audited the accompanying statement of financial condition of Rock Island Securities, Inc. 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 statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. 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 Rock Island Securities, 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 statement taken as a whole. The information contained in the supplementary schedules is presented for purpose of additional analysis and is not a required part of the basic financial statement, 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 statement and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statement taken as a whole.

*Ryan & Juraska*

Chicago, Illinois  
February 19, 2002

**ROCK ISLAND SECURITIES, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
as of December 31, 2001

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**ASSETS**

Cash	\$ 2,520,456
Cash segregated in compliance with federal regulations	1,051,892
Receivables from related broker-dealers	25,983
Receivables from clearing organizations	1,251,026
Deposits with clearing organizations	195,149
Commissions receivable	48,538
Securities owned, at market value	34,248
Exchange memberships, at cost (market value \$2,552,500)	649,500
Furniture, equipment and leasehold improvements, at cost (net of accumulated depreciation of \$267,278)	1,029,279
Other assets	<u>307,345</u>
	<u>\$ 7,113,416</u>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

**Liabilities**

Payable to broker-dealers	\$ 409,475
Securities sold, not yet purchased, at market value	521,285
Accrued expenses	812,586
Liability for litigation reserve	68,957
Payable to related broker-dealer	576,212
Income taxes payable	<u>423,464</u>
	<u>2,811,979</u>

<b>Liabilities Subordinated to Claims of General Creditors</b>	<u>400,000</u>
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**Stockholder's Equity**

Common stock, no par value; 5,000 shares authorized, 1,074 shares issued and outstanding	503,474
Retained earnings	<u>3,397,963</u>
	<u>3,901,437</u>
	<u>\$ 7,113,416</u>

See accompanying notes.

# ROCK ISLAND SECURITIES, INC.

## NOTES TO STATEMENT OF FINANCIAL CONDITION as of December 31, 2001

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### 1. Description of Business

Rock Island Securities, Inc. (the "Company") was incorporated in the State of Illinois on May 23, 1991 and is a registered securities broker-dealer with the Securities and Exchange Commission and is a member of the New York Stock Exchange, the Chicago Stock Exchange, the American Stock Exchange, the Boston Stock Exchange and the National Association of Securities Dealers, Inc. The Company is also a clearing member of the National Securities Clearing Corporation and a member of the Depository Trust Company. The Company primarily executes trades and clears transactions for other broker-dealers who are exchange members.

### 2. Summary of Significant Accounting Policies

A summary of the significant accounting policies that have been followed in preparing the accompanying financial statements is set forth below:

#### Income Recognition

Securities transactions and related commission revenue and expenses are recorded on a settlement date basis. Generally Accepted Accounting Principles normally require an entity to record securities transactions on a trade date basis, however, a majority of brokers and dealers record most securities transactions on the settlement date rather than on the trade date. The difference between trade date and settlement date accounting is not material to the Company's financial position at December 31, 2001, nor material to the results of its operations for the year then ended.

#### Securities Owned

Marketable securities are carried at market value. Securities that are not readily marketable are valued at fair value as determined by management.

#### Depreciation and Amortization

Depreciation is computed using the straight-line method for financial reporting, and straight-line and accelerated methods for income tax purposes.

#### Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and the accompanying notes. Management determines that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

### 3. Investment Securities Owned

Investment securities owned consist of corporate equity securities and are carried at market value.

**ROCK ISLAND SECURITIES, INC.**

**NOTES TO STATEMENT OF FINANCIAL CONDITION, Continued  
as of December 31, 2001**

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**3. Investment Securities Owned, continued**

Securities not readily marketable include investment securities (a) for which there is no market on a securities exchange or no independent publicly quoted market, (b) that cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1993 or (c) that cannot be offered or sold because of other arrangements, restrictions or conditions applicable to the securities or to the Company.

At December 31, 2001, firm owned securities at estimated fair values consist of corporate equities valued at \$23,700.

**4. Liabilities Subordinated to Claims of General Creditors**

The borrowings under subordination agreements at December 31, 2001 consist of the following:

<u>Lender</u>	<u>Type</u>	<u>Effective Date</u>	<u>Amount</u>	<u>Maturity Date</u>	<u>Rate</u>
The Rock Island Company of Chicago	Cash	09/29/00	\$400,000	10/31/03	Prime + 2%

The subordinated borrowings are covered by agreements approved by the New York Stock Exchange and are thus available in computing net capital under the Securities and Exchange Commission's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

**5. Income Taxes**

The Company's taxable income is included in the consolidated federal income tax return filed by its parent company, The Rock Island Company of Chicago. The companies have agreed to allocate the consolidated federal income tax expense among the subsidiaries using the separate return method. Under this method, the Company's income tax expense would be approximately the same as if it filed a separate federal income tax return.

**6. Employee Benefit Plan**

Effective January 1, 1993, the Company adopted a profit-sharing and savings plan which qualifies under Section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may contribute up to 15% of their compensation to the plan with the Company matching 100% of the contributions. The plan covers qualified employees who meet the prescribed service requirements.

**ROCK ISLAND SECURITIES, INC.**

**NOTES TO STATEMENT OF FINANCIAL CONDITION, Continued  
as of December 31, 2001**

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**7. Related Party Transactions and Major Customer**

Rock Island Specialists, Inc. ("RISI"), Rock Island Index Trading, LLC ("RIIT") and Rock Island Europe, GmbH ("RIE"), which are related by common ownership, are registered broker-dealers on the Chicago Stock Exchange. At December 31, 2001, the Company had receivables from RISI and RIIT of \$12,457 and \$13,526, respectively, and a payable to RIE of \$576,212.

**8. Off-Balance Sheet Risk and Concentrations of Credit Risk**

In the normal course of business, the Company enters into transactions in financial instruments with varying degrees of off-balance sheet risk. These financial instruments include corporate equity securities and Canadian and U.S. government obligations. The trading of these financial instruments is conducted with other registered broker-dealers and a commercial bank. The Company's exposure to credit risk associated with counter-party nonperformance on the above financial instruments is limited to the amounts reflected in the statement of financial condition.

The Company monitors its exposure to market and counter-party risk through positions and credit exposure controls and other procedures. Market risk is managed through the daily monitoring of position reports and on-line profit and loss measures. The trading department has internal limits and monitors the age and composition of all inventory positions.

Securities sold, not yet purchased, represent obligations of the Company and thereby create a liability to purchase the securities in the market at prevailing prices. These transactions may result in off-balance sheet risk since the Company's ultimate obligation to satisfy its obligation for securities sold, not yet purchased, may exceed the amount recognized in the statement of financial condition.

## ROCK ISLAND SECURITIES, INC.

### NOTES TO STATEMENT OF FINANCIAL CONDITION, Continued as of December 31, 2001

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#### 9. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15(c)3-1) and has elected to use the basic method as permitted by this rule. Under this rule, the Company is required to maintain "net capital" equal to the greater of \$250,000 or 6 and 2/3 % of "aggregate indebtedness", as defined.

At December 31, 2001, the Company had net capital and net capital requirements of \$2,145,504 and \$250,000, respectively.

#### 10. Litigation

On January 6, 2000, an arbitration claim was filed before the New York Stock Exchange (the "NYSE") against the Company asserting that the Company was liable to another broker-dealer for \$1,800,000 relating to a securities order that the Company had placed with the broker-dealer on December 30, 1999. Also on January 6, 2000, the Company initiated arbitration proceedings against the broker-dealer before the Chicago Stock Exchange (the "CHX"), requesting a finding that the Company has no liability to the broker-dealer. During 2000, the Company and the broker-dealer entered into an agreement to terminate both the NYSE and CHX proceedings, and to submit their dispute for arbitration in Chicago before the National Association of Securities Dealers (the "NASD"). On November 27, 2001, the NASD arbitration was settled and the Company was ordered to pay \$430,000 plus interest of approximately \$39,000.

On about January 16, 2001, the Company was served with a Complaint filed in the United States District Court for the Northern District of Illinois, Eastern Division. The Complaint names 12 defendants, including the Company, and alleges that the defendants have infringed, or contributed to the infringement of, a patent owned by the plaintiff. The complaint seeks an injunction against any further acts of alleged infringement, as well as unspecified royalty damages, treble damages, costs, and attorneys fees. Pursuant to an agreement between the plaintiff and the defendants, the defendants must answer or otherwise plead to the Complaint on or before March 14, 2001. The Company intends to vigorously defend against the Complaint, but its legal counsel has indicated that it cannot yet express an opinion as to the ultimate outcome of the proceeding. Management believes the claim is without merit; and accordingly, no provision has been made in the financial statements for any loss that may result from the arbitration proceeding.

**SUPPLEMENTARY SCHEDULES**

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART III**

**BROKER OR DEALER ROCK ISLAND SECURITIES, INC.**

as of **December 31, 2001**

**COMPUTATION OF NET CAPITAL**

1.	Total ownership (from Statement of Financial Condition- Item 1800)	\$	<u>3,901,437</u>	[3480]
2.	Deduct: Ownership equity not allowable for net capital			[3490]
3.	Total ownership equity qualified for net capital	\$	<u>3,901,437</u>	[3500]
4.	Add:			
	A. Liabilities subordinated to claims of general creditors allowable in computation of net capital	\$	<u>400,000</u>	[3520]
	B. Other (deductions) or allowable subordinated liabilities			[3525]
5.	Total capital and allowable subordinated liabilities	\$	<u>4,301,437</u>	[3530]
6.	Deductions and/or charges:			
	A. Total non-allowable assets from Statement of Financial Condition (Note B and C) (See detail below)	\$	<u>2,038,724</u>	[3540]
	1. Additional charges for customers' and non-customers' security accounts			[3550]
	2. Additional charges for customers' and non-customers' commodity accounts			[3560]
	B. Aged fail-to-deliver			[3570]
	1. Number of items			[3450]
	C. Aged short security differences- less reserved of			[3460]
	2. Number of items			[3470]
	D. Secured demand note deficiency			[3590]
	E. Commodity futures contract and spot commodities proprietary capital charges			[3600]
	F. Other deductions and/or charges			[3610]
	G. Deductions for accounts carried under Rule 15c3-1(a)(6), (a)(7) and (c)(2)(x)			[3615]
	H. Total deduction and/or charges	\$	<u>(2,038,724)</u>	[3620]
7.	Other additions and/or allowable credits (List)			[3630]
8.	Net Capital before haircuts on securities positions	\$	<u>2,262,713</u>	[3640]
9.	Haircuts on securities (computed, where applicable pursuant to 15c3-1(f) ):			
	A. Contractual securities commitments			[3660]
	B. Subordinated securities borrowings			[3670]
	C. Trading and Investment securities			
	1. Bankers' acceptance, certificates of deposit, and commercial paper			[3680]
	2. U.S. and Canadian government obligations			[3690]
	3. State and municipal government obligations			[3700]
	4. Corporate obligations			[3710]
	5. Stocks and warrants	\$	<u>78,193</u>	[3720]
	6. Options			[3730]
	7. Arbitrage			[3732]
	8. Other securities			[3734]
	D. Undue concentration		<u>39,016</u>	[3650]
	E. Other (List)			[3736]
		\$	<u>(117,209)</u>	[3740]
10.	Net Capital	\$	<u>2,145,504</u>	[3750]

OMIT PENNIES

**Non-Allowable Assets (Line 6A.):**

Commissions receivable	\$	3,278
Securities owned, at market		23,700
Exchange memberships, at cost		649,500
Receivable from related broker-dealers		25,983
Furniture and equipment, net		1,029,279
Other assets		<u>306,984</u>
	\$	<u>2,038,724</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.

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART III**

**BROKER OR DEALER**    **ROCK ISLAND SECURITIES, INC.**

as of **December 31, 2001**

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

**Part A**

11.	Minimum net capital required (6-2/3% of line 19)	\$	152,713	[3756]
12.	Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	250,000	[3758]
13.	Net capital requirement (greater of line 11 or 12)	\$	250,000	[3760]
14.	Excess net capital (line 10 less 13)	\$	1,895,504	[3770]
15.	Excess net capital at 1000% (line 10 less 10% of line 19)	\$	1,845,504	[3780]

**COMPUTATION OF AGGREGATE INDEBTEDNESS**

16.	Total A.I. liabilities from Statement of Financial Condition	\$	2,290,694	[3790]
17.	Add:			
	A. Drafts for immediate credit		[3800]	
	B. Market value of securities borrowed for which no equivalent value is paid or credited		[3810]	
	C. Other unrecorded amounts (List)		[3820]	[3830]
18.	Deduct: Adjustment based on deposits in Special Reserve Bank Accounts (15c3-1(c)(1)(vii) )			[3838]
19.	Total aggregate indebtedness	\$	2,290,694	[3840]
20.	Percentage of aggregate indebtedness to net capital (line 19 – by line 10)		107	[3850]
21.	Percentage of aggregate indebtedness to net capital <u>after</u> anticipated capital withdrawals (line 19- by line 10 less item 4880 page 12)		107	[3853]

**COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT**

**Part B**

22.	2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c-3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries debits			[3870]
23.	Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)			[3880]
24.	Net capital requirement (greater of line 22 or 23)			[3760]
25.	Excess net capital (line 10 less 24)			[3910]
26.	Percentage of Net Capital to Aggregate Debits (line 10 divided by line 17 page 8)			[3851]
27.	Percentage of Net Capital, <u>after</u> anticipated capital withdrawals, to Aggregate Debits (line 10 less item 4880, page 11 divided by line 17 page 8)			[3854]
28.	Net capital in excess of: 5% of combined aggregate debit items or \$300,000			[3920]

**OTHER RATIOS**

**Part C**

29.	Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)			[3860]
30.	Options deductions/Net Capital ratio (1000% test) total deductions exclusive of liquidating equity under Rule 15c3-1(a)(6), (a)(7) and (c)(2)(x) + Net Capital			[3852]

**NOTES:**

- A. The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
1. Minimum dollar net capital requirement, or
  2. 6-2/3% of aggregate indebtedness or 2% of aggregate debits if alternative method is used.
- B. Do not deduct the value of securities borrowed under subordination agreements of secured demand notes covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of Partnership (contra to item 1740) and partners securities which were included in non-allowable assets.
- C. For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART III**

**BROKER OR DEALER**    **ROCK ISLAND SECURITIES, INC.**

as of December 31, 2001

**COMPUTATION FOR DETERMINATION OF PAIB RESERVE REQUIREMENTS  
FOR BROKER-DEALERS**

**CREDIT BALANCES**

1.	Free credit balances and other credit balances in proprietary accounts of introducing brokers (PAIB)	\$ <u>985,687</u>	[2110]
2.	Monies borrowed collateralized by securities carried PAIB	<u>                    </u>	[2120]
3.	Monies payable PAIB securities loaned (see Note 2-PAIB)	<u>                    </u>	[2130]
4.	PAIB securities failed to receive	<u>                    </u>	[2140]
5.	Credit balances in firm accounts which are attributable to principal sales to PAIB	<u>                    </u>	[2150]
6.	Other (List)	<u>                    </u>	[2160]
7.	<b>TOTAL PAIB CREDITS</b>	\$ <u>985,687</u>	[2170]

**DEBIT BALANCES**

8.	Debit balances in PAIB excluding unsecured accounts and accounts doubtful of collection	\$ <u>                    </u>	[2180]
9.	Securities borrowed to effectuate short sales by PAIB and securities borrowed to make delivery on PAIB securities failed to deliver	<u>                    </u>	[2190]
10.	Failed to deliver PAIB securities not older than 30 calendar days	<u>                    </u>	[2200]
11.	Margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in PAIB accounts	<u>                    </u>	[2210]
12.	Other (List)	<u>                    </u>	[2220]
13.	<b>TOTAL PAIB DEBITS</b>	\$ <u>                    </u>	[2230]

**RESERVE COMPUTATION**

14.	Excess of total PAIB debits over total PAIB credits (line 13 less line 17)	<u>                    </u>	[2240]
15.	Excess of total PAIB credits over total PAIB debits (line 7 less line 13)	\$ <u>985,687</u>	[2250]
16.	Excess debits in customer reserve formula computation	<u>                    </u>	[2260]
17.	PAIB Reserve requirement (line 15 less line 16)	\$ <u>985,687</u>	[2270]
18.	Amount held on deposit in "Reserve Bank Account(s)", including <u>                    </u> [2275] value of qualified securities, at end of reporting period	\$ <u>1,051,218</u>	[2280]
19.	Amount of deposit (or withdrawal) including <u>                    </u> [2285] value of qualified securities	<u>                    </u>	[2290]
20.	New amount in Reserve Bank Account(s) after adding deposit or subtracting <u>                    </u> [2295] value of qualified securities	\$ <u>1,051,218</u>	[2300]
21.	Date of deposit (MMDDYY)	<u>12/24/01</u>	[2310]

**FREQUENCY OF COMPUTATION**

OMIT PENNIES

Weekly   X   [2320]            Monthly            [2330]

**Note:** There are no material differences between the audited computation for for determination of PAIB reserve requirements and that per the Company's unaudited FOCUS report as filed.

**ROCK ISLAND SECURITIES, INC.**

**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS  
PURSUANT TO RULE 15c 3-3  
as of December 31, 2001**

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The Company did not handle any customer cash or securities during the year ended December 31, 2001 and does not have any customer accounts.

**ROCK ISLAND SECURITIES, INC.**

**INFORMATION RELATING TO POSSESSION OR CONTROL  
REQUIREMENTS UNDER TO RULE 15c 3-3  
as of December 31, 2001**

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The Company did not handle any customer cash or securities during the year ended December 31, 2001 and does not have any customer accounts.

**RYAN & JURASKA**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
141 WEST JACKSON BOULEVARD  
CHICAGO, ILLINOIS 60604  
TEL: (312) 922-0062  
FAX: (312) 922-0672

**INDEPENDENT AUDITORS' REPORT  
ON INTERNAL CONTROL**

To the Board of Directors of  
Rock Island Securities, Inc.

In planning and performing our audit of the financial statement of Rock Island Securities, Inc. as of December 31, 2001, we considered its internal control structure, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control structure.

Also, as required by rule 17A-5(g)(1) of the Securities Exchange Commission (the "SEC"), 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 objectives stated in 17a-5(g), in the following:

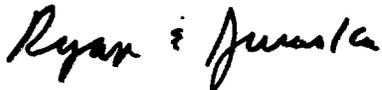
1. Making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3-3(e).
2. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required 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.
4. Obtaining and maintaining physical possession or control of a fully paid and excess margin securities of a customer as required by rule 15c3-3.

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 SEC'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 principals. 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.

We understand that practices and procedures that accomplish the objectives referred to in the second and third paragraphs of this report are considered by the SEC to be adequate for their 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 SEC's objectives.

This report is intended solely for the information and use of management, the SEC, the Chicago Stock Exchange, the New York Stock Exchange, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.



Chicago, Illinois  
February 19, 2002



**ROCK ISLAND SECURITIES, INC.**

**STATEMENT OF FINANCIAL CONDITION  
AND SUPPLEMENTARY SCHEDULES  
PURSUANT TO SEC RULE 17a-5(d)**

**as of December 31, 2001  
AVAILABLE FOR PUBLIC INSPECTION**