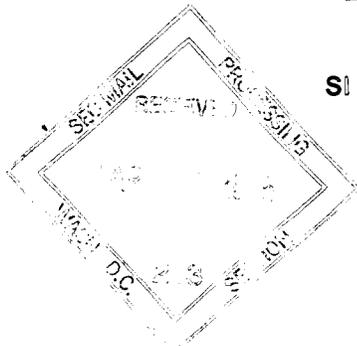


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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

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

REPORT FOR THE PERIOD BEGINNING 01/01/04 AND ENDING 12/31/04  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

OFFICIAL USE ONLY  
FIRM ID. NO.

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)

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)

CHECK ONE:

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

PROCESSED  
APR 04 2005  
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).

A

UF 3-28-05



**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, 2004, and the related statements of income, changes in stockholder's equity, changes in liabilities subordinated to claims of general creditors 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 Rock Island Securities, Inc. as of December 31, 2004, 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 information contained in the supplementary schedules is presented for purpose 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.

Chicago, Illinois  
February 19, 2005

ROCK ISLAND SECURITIES, INC.

STATEMENT OF FINANCIAL CONDITION  
as of December 31, 2004

ASSETS

Cash	\$	422,162
Cash segregated in compliance with federal regulations		338,839
Receivables from broker-dealers		178,108
Receivable from related broker-dealer		214,997
Receivables from clearing organizations		15,264
Deposits with clearing organizations		79,549
Commissions receivable		343,448
Securities owned		
Marketable, at market value		23,099
Not readily marketable, at fair value		49,635
Receivable from affiliate		478,517
Exchange memberships, at cost (market value \$90,000)		209,500
Refundable income taxes		66,000
Furniture, equipment and leasehold improvements, at cost (net of accumulated depreciation of \$722,311)		508,401
Other assets		<u>302,504</u>
	\$	<u>3,230,023</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

<b>Liabilities</b>		
Payables to broker-dealers	\$	16,356
Securities sold, not yet purchased, at market value		15,382
Accounts payable and accrued expenses		<u>874,407</u>
		<u>906,145</u>
<b>Stockholder's Equity</b>		
Common stock, no par value; 5,000 shares authorized, 1,074 shares issued and outstanding		503,474
Retained earnings		<u>1,820,404</u>
		<u>2,323,878</u>
	\$	<u>3,230,023</u>

See accompanying notes.

**ROCK ISLAND SECURITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
for the year ended December 31, 2004**

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**1 Organization and 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, 2004, 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. Depreciation expense totaled \$174,765 for the year ended December 31, 2004.

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. 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.

**ROCK ISLAND SECURITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the year ended December 31, 2004**

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**4. Investment Securities Owned**

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

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, 2004, firm owned securities at estimated fair values consist of corporate equities valued at \$49,635.

**5. 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 100% of their compensation to the plan, subject to a maximum contribution of \$13,000 per person. The plan covers qualified employees who meet the prescribed service requirements. The Company may elect to match employee contributions up to 100%. There were no employer contributions to the plan for the year ended December 31, 2004.

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

Rock Island Equity Market Services, Inc. ("RIEMS"), an affiliated company related by common ownership, is a registered securities broker-dealer on the Chicago Stock Exchange. During 2004, the Company received commissions from RIEMS totaling \$2,021,165. Additionally, the Company received seat lease income from RIEMS totaling \$9,438. At December 31, 2004, the Company had a receivable from RIEMS totaling \$214,997.

During the year ended December 31, 2004, the Company paid management fees totaling \$930,000 to its parent company, The Rock Island Company of Chicago ("TRIC"), for administrative and management services rendered. The Company also paid seat lease expense to TRIC totaling \$2,300. Additionally, at December 31, 2004, the Company had a receivable from TRIC totaling \$478,517.

**7. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15(c)-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 \$100,000 or 6 and  $\frac{2}{3}$  % of "aggregate indebtedness", as defined.

At December 31, 2004, the Company had net capital and net capital requirements of \$440,260 and \$100,000, respectively.

**ROCK ISLAND SECURITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS, Continued**  
**for the year ended December 31, 2004**

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**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 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.

**9. Contingencies**

In the normal course of business, the Company is subject to regulatory investigations and related determinations and charges, which may involve monetary settlements and disciplinary sanctions. In the opinion of management, based on consultation with legal counsel, these actions will not result in any material or adverse effect on the Company's operations or financial position.