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CHANGE COMMISSION  
D.C. 20549

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

RECEIVED  
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WASH. D.C. SECTION

SEC FILE NUMBER  
8-43902

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:

Watermark Securities, Inc.

OFFICIAL USE ONLY  
FIRM ID. NO.

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

900 Third Avenue

(No. and Street)

New York

(City)

New York

(State)

10022

(Zip Code)

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

Michael Link

(212) 451-1187

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

BDO Seidman, LLP

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

330 Madison Avenue

(Address)

New York

(City)

New York

(State)

10017

(Zip Code)

CHECK ONE:

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

PROCESSED

MAR 18 2002

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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).





## **Independent Auditors' Report**

Board of Directors  
Watermark Securities, Inc.  
New York, New York

We have audited the accompanying statement of financial condition of Watermark Securities, Inc. ("Company") as of December 31, 2001. 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 statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Watermark Securities, Inc. at December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

*BDO Seidman, LLP*

January 29, 2002

# Watermark Securities, Inc.

## Statement of Financial Condition

*December 31, 2001*

<b>Assets</b>	
Cash and cash equivalents	\$ 864,978
Deposit with clearing broker	59,834
Receivable from clearing broker	857,480
Investments in securities, at fair value	72,100
Prepaid expenses and other	118,202
	<b>\$1,972,594</b>
<b>Liabilities and Stockholders' Equity</b>	
<b>Liabilities:</b>	
Payable to brokers and dealers	\$ 56,781
Accrued expenses and other liabilities	385,501
<b>Total liabilities</b>	<b>442,282</b>
<b>Stockholders' equity</b>	<b>1,530,312</b>
	<b>\$1,972,594</b>

*See accompanying notes to statement of financial condition.*

# Watermark Securities, Inc.

## Notes to Statement of Financial Condition

- 1. Organization**

Watermark Securities, Inc. ("Company") is a broker-dealer providing services for affiliated institutional clients, and clears all such transactions through another broker-dealer pursuant to a clearance agreement on a fully disclosed basis. Accordingly, the Company is exempt from the provisions of the Securities and Exchange Commission ("SEC") Rule 15c3-3.
  
- 2. Significant Accounting Policies**

*Cash and Cash Equivalents*

Investments in money market funds are classified as cash equivalents.

*Revenue Recognition*

Commission income and related expenses are recorded on a trade date basis.

*Income Taxes*

The Company has elected S Corporation status for income tax purposes and, as such, income flows through to the stockholders' individual income tax returns. As a result, the Company is not liable for Federal income taxes and a portion of state income taxes.

*Use of Estimates*

The preparation of a statement of financial condition in conformity with generally accepted accounting principles 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 statement of financial condition. Actual results could differ from those estimates.

*Securities Valuation*

Marketable securities are valued at market value, and securities not readily marketable are valued at fair value as determined by management.

# Watermark Securities, Inc.

## Notes to Statement of Financial Condition

- 3. Investments In Securities, At Fair Value**

Investments in securities, at fair value, consists of warrants and common stock purchased as a part of one company's private placement. Management has deemed the fair value of the investment to be its cost due to certain sale restrictions associated with the private placement and the lack of a current market for these investments.
- 4. Related Party Transactions**

An affiliate provides certain administrative, operational, and other services whose costs are allocated to the Company. In addition, this affiliate pays certain of the Company's direct obligations. Included in accrued expenses and other liabilities is \$109,300 for 2001 services.

Substantially all commission revenue is derived from related parties.
- 5. Net Capital Requirements**

Under the "Uniform Net Capital Rule" of the SEC, the Company is required to maintain net capital, as defined, equivalent to the greater of \$5,000 or 6-2/3% of aggregate indebtedness, as defined, and requires that the ratio of aggregate indebtedness to net capital, as defined, shall not exceed 15 to 1. While net capital and aggregate indebtedness may change from day to day, at December 31, 2001, the Company's net capital of \$1,331,051 exceeded minimum requirements by \$1,301,566 and the ratio of aggregate indebtedness to net capital was .33 to 1.
- 6. Employee Benefit Plans**

The Company participates in a defined contribution pension plan covering substantially all employees. The Company is required to make annual contributions of 10% of a qualified employee's eligible compensation.

The Company also participates in a noncontributory profit sharing plan covering substantially all employees, which provides for annual contributions as determined by the Company.

# Watermark Securities, Inc.

## Notes to Statement of Financial Condition

Effective the close of business on December 31, 2001, all assets and liabilities of the pension plan were merged into the profit sharing plan.

- 7. Deposit and Receivable from Clearing Broker**      The Company is required to maintain a collateral account with its clearing broker with a minimum market value of \$50,000. United States treasury bills with a market value of \$59,834 were held in this account at December 31, 2001. Receivable from broker represents the net commissions due from this broker. Accordingly, the Company is subject to credit risk relating to this broker's ability to pay the balance in the account or deliver the securities on deposit.
  
- 8. Subsequent Event**      On January 2, 2002, the Company's Board of Directors declared a dividend payable to stockholders in the amount of \$401,625.

**Watermark Securities, Inc.**

**Statement of Financial Condition**  
December 31, 2001

# Watermark Securities, Inc.

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**Watermark Securities, Inc.**

**Independent Auditors' Report on  
Internal Control Required by  
Securities and Exchange Commission  
Rule 17a-5  
Year Ended December 31, 2001**

# Watermark Securities, Inc.

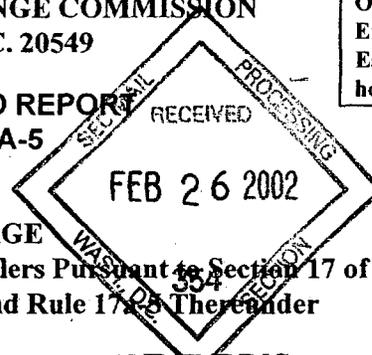
## Contents

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

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

Michael Link

(212) 451-1187

(Area Code — Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

**BDO Seidman, LLP**

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

330 Madison Avenue  
(Address)

New York  
(City)

New York  
(State)

10017  
(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not in residence 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).

OATH OR AFFIRMATION

I, Marc Baltuch, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Watermark 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:

No Exceptions

MOSHE A. LUCHINS
Notary Public, State of New York
No. 02LU5078353
Qualified in Bronx County
Commission Expires May 27, 2003

Marc Baltuch

Signature

President

Title

M A L

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 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 Auditors' Report on Internal Control.

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



## **Independent Auditors' Report on Internal Control Required by Securities and Exchange Commission Rule 17a-5**

Board of Directors  
Watermark Securities, Inc.  
New York, New York

In planning and performing our audit of the financial statements and supplemental schedule of Watermark Securities, Inc. ("Company") for the year ended December 31, 2001, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our 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 ("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 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 securities 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 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 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 controls 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 conformity with accounting principles generally



accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in 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 control activities 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 paragraph of this report are considered by the SEC 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 SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the N.A.S.D. Regulation, 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 is not intended to be and should not be used by anyone other than these specified parties.

*BDO Seidman, LLP*

Certified Public Accountants

New York, New York

January 29, 2002