



SECURITIES

Washington, D.C.

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

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8- 66048

SEP 29 2008

Washington, DC  
110

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### 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 08/01/2007 AND ENDING 07/31/2008  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: WATERMARK ADVISORS, LLC  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
531 SOUTH MAIN STREET, SUITE ML-9

OFFICIAL USE ONLY
FIRM I.D. NO.

GREENVILLE	(No. and Street) SC	29601
(City)	(State)	(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
KAREN ALVAREZ 770-263-7300  
(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

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

RUBIO CPA, PC

2120 POWERS FERRY ROAD, SUITE 350	(Name - if individual, state last, first, middle name) ATLANTA	GA	30339
(Address)	(City)	(State)	(Zip Code)

CHECK ONE:

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

**B** PROCESSED  
OCT 08 2008  
THOMSON REUTERS

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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)

10/17

OATH OR AFFIRMATION

I, KAREN ALVAREZ, 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 ADVISORS, LLC, as of July 31, 2008, 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:

**WILLIAM C BRAND**  
**NOTARY PUBLIC**

**Gwinnett County**  
**State of Georgia**  
**My Commission Expires 07/11/2010**

*Karen Alvarez*

Signature

FINOP

Title

*William C Brand*

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 Proprietors' 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).

**WATERMARK ADVISORS, LLC  
FINANCIAL STATEMENTS AND SCHEDULE**

**For the Year ended  
July 31, 2008  
With Independent Auditor's Report**

**INDEPENDENT AUDITOR'S REPORT**

To the Owner  
of Watermark Advisors, LLC

We have audited the accompanying statement of financial condition of Watermark Advisors, LLC as of July 31, 2008 and the accompanying statements of operations, cash flows and members' equity for the year then ended that you are filing pursuant to Rule 17a-5 of 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 the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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, results of operations and cash flows of Watermark Advisors, LLC as of July 31, 2008 and for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the 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.



RUBIO CPA, PC

September 16, 2008  
Atlanta, Georgia

**WATERMARK ADVISORS, LLC**  
**STATEMENT OF FINANCIAL CONDITION**  
**July 31, 2008**

ASSETS

Cash and cash equivalents	\$ 139,739
Property and equipment, at cost, less accumulated depreciation of \$13,451 and \$7,852	32,576
Prepaid expenses	<u>6,507</u>
Total assets	<u>\$ 178,822</u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities:	
Accounts payable	\$ 26,905
Capital lease obligations	6,687
Accrued payroll and taxes	<u>26,801</u>
Total liabilities	<u>60,393</u>
Members' equity	<u>118,429</u>
Total liabilities and members' equity	<u>\$ 178,822</u>

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

**WATERMARK ADVISORS, LLC**  
**STATEMENT OF OPERATIONS**  
**For the Year Ended July 31, 2008**

<b>REVENUES</b>	
Investment banking	\$ 30,000
Valuation services	97,500
Other	<u>41,521</u>
Total revenue	<u>169,021</u>
<b>EXPENSES:</b>	
Commissions and compensation	399,492
Regulatory fees	6,731
Occupancy	21,925
Other operating expenses	<u>211,249</u>
Total expenses	<u>639,397</u>
<b>NET INCOME (LOSS)</b>	<u>\$ (470,376)</u>

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

**WATERMARK ADVISORS, LLC**  
**STATEMENT OF MEMBERS' EQUITY**  
**For the Year Ended July 31, 2008**

	<u>Paid In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, July 31, 2007	\$ 124,847	\$ 279,381	\$ 404,228
Net income (loss)		(470,376)	(470,376)
Capital contributions:			
Cash	145,000		145,000
Services	50,000		50,000
Distributions	<u>                    </u>	<u>(10,423)</u>	<u>(10,423)</u>
Balance, July 31, 2008	<u>\$ 319,847</u>	<u>\$ (201,418)</u>	<u>\$ 118,429</u>

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

**WATERMARK ADVISORS, LLC**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended July 31, 2008**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income (loss) \$ (470,376)

Adjustments to reconcile net loss to net cash provided by operating activities:

Depreciation and amortization	5,598
Commissions and consulting fees exchanged for equity	50,000
Decrease in accounts receivable	10,000
Increase in prepaid expenses	(2,217)
Increase in accounts payable	16,325
Decrease in accrued commissions	(405,845)
Decrease in accrued payroll	<u>(1,601)</u>

Net cash used by operating activities (798,116)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchase of property and equipment (13,076)

Net cash used by investing activities (13,076)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Capital contributions	145,000
Distributions to owner	(10,424)
Debt repayments - capital lease	<u>(343)</u>

Net cash provided by financing activities 134,233

**NET DECREASE IN CASH** **(676,955)**

**CASH AND CASH EQUIVALENTS:**

Beginning of period 816,694

End of period \$ 139,739

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Property acquired under capital lease	<u>\$ 7,030</u>
Interest paid	<u>\$ 104</u>
Capital contribution of services	<u>\$ 50,000</u>

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

**WATERMARK ADVISORS, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2008**

**NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Business: Watermark Advisors, LLC was organized as a South Carolina Limited Liability Company in July 2002. The Company became an independent registered broker-dealer and a member of the Financial Industry Regulatory Authority effective January 2004. The Company's business is to act as a broker in private placement transactions, mergers and acquisitions, and to provide valuation services.

The Company was wholly-owned by Watermark Holdings, Inc. ("Parent") until July 2008. Effective July 2008, the Company is 50% owned by Watermark Holdings, Inc. and 50% owned by B. Duster & Company, LLC.

Income Taxes: The Company has elected to be a Limited Liability Company that is taxed as a Partnership under Internal Revenue Code regulations. Therefore, the income or losses of the Company flow through to and are taxable to its owners and no liability for income taxes is reflected in the accompanying financial statements.

Estimates: The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates in determining assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Cash and Cash Equivalents: The Company maintains its bank accounts at a high credit quality bank in the United States. Balances, at times may exceed federally insured limits. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal risk.

The Company considers deposits with maturities of ninety-days or less to be cash and cash equivalents.

Accounts Receivable: Accounts receivable consist of trade receivables for investment banking and advisory services. The Company regularly reviews its accounts receivable for any bad debts. The review for bad debts is based on an analysis of the Company's collection experience, customer credit worthiness, and current economic trends.

**NOTE 2 – NET CAPITAL REQUIREMENTS**

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 and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At July 31, 2008, the Company had net capital of \$92,705, which was \$87,705 more than its required net capital of \$5,000 and the ratio of aggregate indebtedness to net capital was .51 to 1.0.

**WATERMARK ADVISORS, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**July 31, 2008**

**NOTE 3 – LEASES**

The Company occupies office facilities leased under operating leases. Rent expense for the year ended July 31, 2008 was \$19,405.

Future minimum rental payments under the office premises leases are the following:

2009	\$ 72,000
2010	35,000
2011	35,000
2012	36,000
2013	<u>27,000</u>
Total	<u>\$ 205,000</u>

During 2008, the Company acquired telephone equipment costing \$7,030 under a capital lease obligation due \$223 monthly through May 2011.

**NOTE 4 – CONCENTRATION**

Substantially all of the Company's investment banking revenue was earned from eight customers.

**NOTE 5 – RETIREMENT PLAN**

Effective September 2005, the Company adopted a SIMPLE IRA plan covering substantially all employees. Expense under the agreement for the year ended July 31, 2008 is approximately \$16,000.

**NOTE 6 – NET LOSS**

The Company had a net loss of \$470,376 for 2008 and was dependent upon capital contributions to meet its working capital needs. The owners have represented that they intend to make capital contributions, when necessary, to insure the Company's survival and to meet its net capital requirements through August 1, 2009.

**WATERMARK ADVISORS, LLC**

**Supplementary Information  
Pursuant to Rule 17(a)-5 of the  
Securities Exchange Act of 1934**

**July 31, 2008**

The accompanying schedule is prepared in accordance with the requirements and general format of FOCUS Form X-17 A-5.

WATERMARK ADVISORS, LLC

SCHEDULE I  
COMPUTATION OF NET CAPITAL UNDER  
RULE 15c3-1 OF THE SECURITIES  
AND EXCHANGE COMMISSION  
ACT OF 1934

July 31, 2008

Net Capital	
Total members' equity qualified for net capital	\$ 118,429
Other (deductions) or allowable credits:	
Discretionary bonuses	13,359
Deduction for non-allowable assets:	
Prepaid expenses	(6,507)
Property and equipment	<u>(32,576)</u>
Net capital before haircuts	92,705
Less haircuts	<u>-</u>
Net capital	<u>\$ 92,705</u>
Minimum net capital required	<u>\$ 5,000</u>
Aggregate Indebtedness:	
Liabilities, net of discretionary bonuses	<u>\$ 47,034</u>
Minimum net capital based on aggregate indebtedness	<u>\$ 3,135</u>
Ratio of aggregate indebtedness to net capital	<u>.51 to 1.0</u>
Excess net capital	<u>\$ 87,705</u>

RECONCILIATION WITH COMPANY'S COMPUTATION OF NET CAPITAL INCLUDED  
IN PART IIA OF FORM X-17A-5 AS OF JULY 31, 2008

There was no significant difference between net capital in Part IIA of Form X-17A-5 and net capital above.

**WATERMARK ADVISORS, LLC**

**SCHEDULE II  
COMPUTATION FOR DETERMINATION OF THE RESERVE REQUIREMENTS  
UNDER THE SECURITIES AND EXCHANGE COMMISSION RULE 15c3-3  
AND INFORMATION RELATING TO THE POSSESSION OR CONTROL  
REQUIREMENTS UNDER SECURITIES AND EXCHANGE COMMISSION RULE 15c3-3  
JULY 31, 2008**

The Company is not required to file the above schedules as it is exempt from Securities and Exchange Commission Rule 15c3-3 under paragraph K(2)(i) of the rule and does not hold customers' monies or securities.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL ACCOUNTING CONTROL  
REQUIRED BY RULE 17a-5**

To the Owners of  
Watermark Advisors, LLC:

In planning and performing our audit of the financial statements of Watermark Advisors, LLC for the year ended July 31, 2008, we considered its internal control structure, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures (including test of compliance with such practices and procedures) followed by Watermark Advisors, LLC that we considered relevant to the objective stated in Rule 17a-5(g). We also made a study of the practices and procedures followed by the Company in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the procedure for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company related to the following: (1) in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13; (2) in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System; and (3) in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers 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 Commission'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 conformity with generally accepted accounting principles. 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, which we consider to be material weaknesses as defined above.

However, we noted that due to the size of the Company, duties surrounding cash receipts and disbursements have not been segregated to achieve segregation of duties over these functions. These conditions were considered in determining the nature, timing and extent of procedures performed in our audit of the financial statements for the year ended July 31, 2008 and this report does not effect our report thereon dated September 16, 2008.

In addition, no facts came to our attention indicating that the exemptive provision of Rule 15c3-3 had not been complied with during the year.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission 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 July 31, 2008 to meet the Commission's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, the Financial Industry Regulatory Authority 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.

September 16, 2008  
Atlanta, Georgia



RUBIO CPA, PC

*END*