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

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

SEC FILE NUMBER  
8-45442

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 January 1, 2008 AND ENDING December 31, 2008  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: SAFEGUARD SECURITIES, INC.

OFFICIAL USE ONLY

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

FIRM I.D. NO.

2000 AUBURN DRIVE, SUITE 300

(No. and Street)

CLEVELAND

OH

44122

(City)

(State)

(Zip Code)

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

Peter Mooney

(216) 593-5095

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

HOBE & LUCAS CPA'S, INC.

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

4807 Rockside Road

Independence

OH

44131

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

SEC  
Mail Processing  
Section

MAR 26 2009

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Washington, DC  
122

\*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)

SEC 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, Peter Mooney, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Safeguard Securities, Inc., as of December 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:

\_\_\_\_\_



*[Handwritten Signature]*

Signature

Principal

Title

*[Handwritten Signature]*

Notary Public

DAVID W. KUHR  
NOTARY PUBLIC, STATE OF OHIO  
MY COMMISSION EXPIRES 4-14-09

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).

**SAFEGUARD SECURITIES, INC.**

**DECEMBER 31, 2008**

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# Hobe & Lucas

Certified Public Accountants, Inc.

4807 Rockside Road, Suite 510 Phone: (216) 524.8900  
Independence, Ohio 44131 Fax: (216) 524.8777  
<http://www.hobe.com>

## **INDEPENDENT AUDITORS' REPORT**

To the Shareholder  
Safeguard Securities, Inc.

We have audited the accompanying statement of financial condition of Safeguard Securities, Inc. (a wholly-owned subsidiary of Source Companies, LLC) as of December 31, 2008, and the related statements of operations, changes in shareholder's equity, 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 Safeguard Securities, Inc. as of December 31, 2008, 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 Schedules I, II, and III 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 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.

*Hobe & Lucas*  
*Certified Public Accountants, Inc.*

March 16, 2009

Independent Member

**B K R**

INTERNATIONAL

Firms In Principal Cities Worldwide

**SAFEGUARD SECURITIES, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2008**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$	21,276	
Prepaid expenses		2,785	
Marketable securities - trading securities		7,465	
Accounts receivable		<u>48,803</u>	\$ 80,329

**Other Assets**

Goodwill			<u>27,500</u>
			<u>\$ 107,829</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

**Current Liabilities**

Accounts payable	\$	36,463	
Accrued expenses		2,656	
Accrued income taxes		<u>1,200</u>	\$ 40,319

**Shareholders' Equity**

Common stock, no par value, 1,000 shares authorized			
258 shares issued and outstanding		52,500	
Retained earnings		<u>15,010</u>	<u>67,510</u>
			<u>\$ 107,829</u>

The accompanying notes are an integral part of these statements.

**SAFEGUARD SECURITIES, INC.**  
**STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

**Revenue**

Fee based revenues	\$ 115,683	
Commissions	1,302	
Mutual fund fees	41,483	
Other revenue related to securities business	937,771	
Net investment income, including unrealized gains (losses)	<u>680</u>	\$ 1,096,919

**Expenses**

	298,772	
Payroll and related expenses	393,500	
Consulting and professional fees	333,730	
Clearing expenses	8,440	
Rent and utilities	29,502	
Insurance	15,029	
Office expenses	3,523	
Other expenses	<u>6,343</u>	<u>1,088,839</u>

**Net Income Before Provision For Income Taxes** 8,080

**Provision For Income Taxes** 1,200

**Net Income** \$ 6,880

The accompanying notes are an integral part of these statements.

**SAFEGUARD SECURITIES, INC.**  
**STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	<b><u>Common Stock</u></b>	<b><u>Retained Earnings (Deficit)</u></b>	<b><u>Total</u></b>
<b><u>Balance - January 1, 2008</u></b>	\$ 59,361	\$ 6,991	\$ 66,352
Transfer of ownership	(6,861)	1,139	(5,722)
Net income		6,880	6,880
<b><u>Balance - December 31, 2008</u></b>	<b><u>\$ 52,500</u></b>	<b><u>\$ 15,010</u></b>	<b><u>\$ 67,510</u></b>

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

**SAFEGUARD SECURITIES, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

**Cash Flows From Operating Activities**

Net income (loss)	\$	6,880
Adjustments to reconcile net income to net cash used in operating activities:		
Net decrease in marketable securities		1,470
Increase (decrease) in cash from changes in operating activities:		
(Increase) decrease in accounts receivable - net		(9,868)
(Increase) decrease in prepaid expenses		(2,785)
Increase (decrease) in accounts payable		36,463
Increase (decrease) in accrued expenses		(40,349)
Increase (decrease) in accrued income taxes		1,200
Net Cash Used In Operating Activities		<u>(6,989)</u>

**Cash Flows From Financing Activities**

Cash paid in connection with change in ownership	<u>(18,022)</u>
--	-----------------

**Net Increase (Decrease) in Cash** (25,011)

**Cash at Beginning of Year** 46,287

**Cash at End of Year** \$ 21,276

**Supplemental Disclosure of Cash Flow Information**

Interest paid	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

**SAFEGUARD SECURITIES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE 1 - ORGANIZATION**

Safeguard Securities, Inc. (the Company), a wholly-owned subsidiary of Source Companies, LLC (the Parent), is a fully-disclosed broker/dealer registered with the Securities and Exchange Commission (SEC). The Company is a member of the Financial Industry Regulatory Authority (FINRA) specializing in selling investment securities and is registered in various states.

There was a change in ownership of the Company during 2008. The Company is currently working through the process with FINRA to get formal approval.

The Company's current activities include participating in an execution and clearing agreement with an introducing clearing firm, the purchasing and redeeming of mutual funds and variable life insurance and annuities for customers, and investment management services. In many cases orders with the mutual funds and/or life insurance companies are placed in the customer's names, the shares or units are held by the funds' or insurance company's custodians, and the Company's only financial involvement is through receipt of commission checks from the mutual fund or insurance company.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income Taxes**

The Company is taxed as a C corporation and required to pay federal corporate income taxes on its taxable income.

The provision for income taxes at December 31, 2008 is comprised of the following:

Current	\$ 1,200
Deferred	<u>0</u>
	<u>\$ 1,200</u>

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates

**SAFEGUARD SECURITIES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income Taxes (Continued)**

expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company's deferred tax assets and liabilities at December 31, 2008 consist of:

Deferred tax asset	\$ 860
Valuation allowance	(860)
Deferred tax liability	<u>0</u>
	<u>\$ 0</u>

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, that requires the tax effects of certain tax positions to be recognized. These tax positions must meet a "more likely than not" standard that, based on their technical merits, have a more than 50 percent likelihood of being sustained upon examination. Interpretation 48 has been deferred, for non-public companies, until fiscal periods beginning after December 15, 2008. At adoption, the financial statements must be adjusted to reflect only those tax positions that are more likely than not of being sustained. Management of the Company is currently evaluating the impact that FASB Interpretation No. 48 will have on the Company's financial statements.

**Cash and Cash Equivalents**

The Company considers financial instruments with an original maturity of less than 90 days to be cash equivalents. Included in cash and cash equivalents at December 31, 2008, are cash and money market funds.

**Marketable Securities - Trading Securities**

Marketable securities are trading securities carried at market value with unrealized gains and losses reported in operations in the year in which they occur. Net realized gains and losses on security transactions are determined on the specific identification cost basis.

**Concentration of Credit Risk**

The Company is engaged in various trading and brokerage activities for itself for which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event that these other broker-dealers or counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of these other broker-dealers or counterparties. It is the Company's policy to review, as necessary, the credit standing of these various relationships.

**SAFEGUARD SECURITIES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Goodwill**

Goodwill is reviewed for possible impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that the entity's carrying value is greater than its fair value. At December 31, 2008, the Company determined that fair value of the goodwill was greater than its carrying value. Accordingly, no impairment was recorded for the year ended December 31, 2008.

**NOTE 3 - FAIR VALUE**

FASB Statement No. 157 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB Statement No. 157, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.

Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

At December 31, 2008, marketable securities owned by the Company represented mutual funds at market value and are classified as Level 1 securities. Shares of stock in Ancora Income Fund Class D (a fund of Ancora Trust which is managed by Ancora Advisors, LLC, an entity that is under common control with the parent of the Company) comprised 100% of the Company's total investments at December 31, 2008. The securities are valued as follows:

Cost	\$ 10,000
Unrealized loss	<u>(2,535)</u>
Fair market value	<u>\$ 7,465</u>

Unrealized losses of \$1,471 are included in net investment income for the year ended December 31, 2008.

**SAFEGUARD SECURITIES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE 4 - RELATED PARTY TRANSACTIONS**

The Company has entered into a formal expense sharing agreement with the Parent. The agreement provides that certain non-regulatory expenses, such as salaries, rent and utilities, be paid by the Parent on behalf of the Company. Amounts are paid to the Parent to reimburse these expenses and total \$29,683 per month. Included in accounts payable at December 2008 is \$33,819 owed to the Parent.

The Company has a consulting agreement with Ancora Securities, Inc. (Ancora), an affiliate under common control with the Parent, in the amount of \$1,000 per month. The Company also has an execution and clearing agreement with Ancora. Fees were paid under this agreement in the amount of \$7,141 for the year ended December 31, 2008.

**NOTE 5 - NET CAPITAL PROVISION OF RULE 15c3-1**

The Company is subject to the Securities and Exchange Commission (SEC) 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 December 31, 2008, Safeguard Securities, Inc. had net capital of \$35,680 which was \$30,680 in excess of its required net capital of \$5,000. Safeguard Securities, Inc.'s ratio of aggregate indebtedness to net capital was 113%.

**NOTE 6 - EXEMPTION FROM RULE 15c3-3**

The Company acts as an introducing broker or dealer, promptly transmitting all funds and delivering all securities received in connection with its activities as a broker or dealer and does not otherwise hold funds or securities for or owe money or securities to customers. The Company operates under Section (k)(2)(ii) of Rule 15c3-3 of the Securities Exchange Act of 1934 and is therefore exempt from the requirements of Rule 15c3-3.

**SUPPLEMENTAL INFORMATION**  
**PURSUANT TO RULE 17a-5 OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**  
**DECEMBER 31, 2008**

**SAFEGUARD SECURITIES, INC.**  
**COMPUTATION OF NET CAPITAL**  
**PURSUANT TO RULE 15c3-1 OF THE**  
**SECURITIES AND EXCHANGE COMMISSION**  
**DECEMBER 31, 2008**

<b><u>Net Capital</u></b>	
Total shareholder's equity from statement of financial condition	\$ 67,510
Less: Non-allowable assets:	
Prepaid expenses	(2,785)
Goodwill	(27,500)
	<u>37,225</u>
<b><u>Net Capital Before Haircuts on Securities</u></b>	
Haircuts on securities	<u>(1,545)</u>
<b><u>Net Capital</u></b>	<u>\$ 35,680</u>
<b><u>Computation of Aggregate Indebtedness</u></b>	
Accrued expenses	<u>\$ 40,319</u>
<b><u>Computation of Basic Net Capital Requirement -</u></b> <b><u>6 2/3% of Aggregate Indebtedness</u></b>	<u>\$ 2,688</u>
<b><u>Minimum Required Net Capital</u></b>	<u>\$ 5,000</u>
<b><u>Net Capital Requirement</u></b>	<u>\$ 5,000</u>
<b><u>Excess Net Capital</u></b>	<u>\$ 30,680</u>
<b><u>Excess Net Capital at 1,000%</u></b>	<u>\$ 31,648</u>
<b><u>Ratio of Aggregate Indebtedness to Net Capital</u></b>	<u>113%</u>

**SAFEGUARD SECURITIES, INC.**  
**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS**  
**AND INFORMATION RELATING TO POSSESSION OR CONTROL**  
**REQUIREMENTS PURSUANT TO RULE 15c3-3 OF THE**  
**SECURITIES AND EXCHANGE COMMISSION**  
**DECEMBER 31, 2008**

A reconciliation of the computation of net capital under Rule 15c3-1 as included in the Company's unaudited Form X-17a-5 as of December 31, 2008, filed with the Securities and Exchange Commission and the amount included in the accompanying Schedule I computation is not required as there were no audit adjustments.

The Company is not required to present the schedule "Computation for Determination of Reserve Requirements under Rule 15c3-3" and "Information for Possession or Control Requirements under Rule 15c3-3" as it meets the exemptive provisions of Rule 15c3-3, under Section (k)(2)(ii) of the Rule.

## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL** **REQUIRED BY SEC RULE 17a-5**

To the Shareholder  
Safeguard Securities, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Safeguard Securities, Inc. (the Company) as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's 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 consideration of control activities for safeguarding securities. This study included 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 (or aggregate debits) 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, verification, and comparisons and recordation of differences required by Rule 17a-13
2. 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 judgments 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 of 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 internal control and 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.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand the 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, as described in the second paragraph of this report, were adequate at December 31, 2008, to meet the SEC's objectives.

This report is intended solely for the information and use of management, the SEC, 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 those specified parties.

*Hobe & Lucas*  
*Certified Public Accountants, Inc.*

March 16, 2009

**SAFEGUARD SECURITIES, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**