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

SEC FILE NUMBER
8-66179

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 01/01/2008 AND ENDING 12/31/2008  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: PALADIN REALTY SECURITIES LLC  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

10880 WILSHIRE BLVD SUITE 1400  
(No. and Street)  
LOS ANGELES CA 90024  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
MARIA (XIAOYAN) LI 212-809-7171  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

IMOWITZ KOENIG & CO., LLP  
(Name - if individual, state last, first, middle name)  
622 THIRD AVE, 23RD FLOOR NEW YORK NY 10017  
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

**CEO**  
Mail Processing  
Section

FEB 27 2009

<b>FOR OFFICIAL USE ONLY</b>	Washington, DC 100

\*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)

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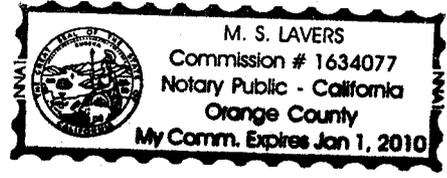
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OATH OR AFFIRMATION

I, GERALD ARTHUR BOUCHER, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of PALADIN REALTY SECURITIES LLC, as of DECEMBER 31ST, 20 08, 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:

Gerald A. Boucher
Signature
CHIEF COMPLIANCE OFFICER
Title

M. S. Lavers
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).

**INDEPENDENT AUDITORS' REPORT**

To the Member of  
Paladin Realty Securities, LLC:

We have audited the accompanying statement of financial condition of Paladin Realty Securities, LLC (the "Company"), as of December 31, 2008, and the related statements of operations, changes in member'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 Paladin Realty Securities, LLC, 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 on pages 11 and 12 is presented for purposes of additional analysis and is not required as part of the basic financial statements, but is supplementary information required by Rule 17a-5 of 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.

*Imowitz Koenig & Co., LLP*

Certified Public Accountants

New York, New York  
February 21, 2009

**PALADIN REALTY SECURITIES, LLC**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2008**

ASSETS

Cash	\$ 54,908
Due from affiliate	43,619
License	70,000
Prepaid expenses	<u>20,324</u>
 TOTAL ASSETS	 <u>\$ 188,851</u>

LIABILITIES AND MEMBER'S EQUITY

Liabilities:

Accrued expenses and other liabilities	<u>\$ 30,000</u>
 TOTAL LIABILITIES	 <u>30,000</u>
 Member's Equity	 <u>158,851</u>
 TOTAL LIABILITIES AND MEMBER'S EQUITY	 <u>\$ 188,851</u>

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

**PALADIN REALTY SECURITIES, LLC**  
**STATEMENT OF OPERATIONS**  
**YEAR ENDED DECEMBER 31, 2008**

**REVENUES:**

Commissions	\$ 216,443
Interest income	<u>152</u>
TOTAL REVENUES	<u>216,595</u>

**EXPENSES:**

Salaries and benefits	1,569,776
Professional fees	106,455
General and administrative expenses	117,153
Registration and regulatory fees	<u>24,981</u>

TOTAL EXPENSES 1,818,365

Net loss before income tax expense (1,601,770)

Income tax expense 1,661

NET LOSS \$ (1,603,431)

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

**PALADIN REALTY SECURITIES, LLC**  
**STATEMENT OF CHANGES IN MEMBER'S EQUITY**  
**YEAR ENDED DECEMBER 31, 2008**

Member's Equity - January 1, 2008	\$ 182,087
Capital contributions	1,580,195
Net loss	<u>(1,603,431)</u>
Member's Equity - December 31, 2008	<u>\$ 158,851</u>

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

**PALADIN REALTY SECURITIES, LLC**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2008**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net loss	\$ (1,603,431)
Adjustments to reconcile net loss to net cash used in operating activities:	
Changes in assets and liabilities:	
Increase in due from affiliate	(29,946)
Decrease in prepaid expenses	4,126
Decrease in accrued expenses and other liabilities	<u>(24,752)</u>
Net cash used in operating activities	<u>(1,654,003)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Capital contributions	<u>1,580,195</u>
Cash provided by financing activities	<u>1,580,195</u>
Net decrease in cash	(73,808)
Cash at beginning of year	<u>128,716</u>
Cash at end of year	<u><u>\$ 54,908</u></u>

**Supplemental Disclosures of Cash Flow Information:**

Income taxes paid	<u><u>\$ 1,661</u></u>
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The accompanying notes are an integral part of these financial statements.

**PALADIN REALTY SECURITIES, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**NOTE 1 - ORGANIZATION AND BUSINESS**

Paladin Realty Securities, LLC (the "Company"), a Delaware limited liability company, was formed on May 23, 2007. On February 13, 2007, Paladin Realty Advisors, LLC ("Advisors"), the sole member of the Company, entered into a "Membership Interest Purchase Agreement" with David Adams Holdings, LLC to purchase all of the outstanding membership interests of Broadwall Capital, LLC, a registered broker-dealer, for a purchase price of \$70,000. This agreement became effective on May 22, 2007. The purchase price of \$70,000 was recorded as an acquired intangible asset and is classified as a license in the statement of financial condition. The Company shall continue in existence perpetually unless dissolved pursuant to the Company's limited liability company agreement.

The Company operates as a limited-purpose broker-dealer. The only business of the Company is the distribution of the securities of Paladin Realty Income Properties, Inc. ("PRIP"), a publicly traded, non-listed real estate investment trust and an affiliate of the Company's member. The Company distributes the securities through third-party Financial Industry Regulatory Authority ("FINRA") member firms with which it has selling agreements.

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

**Basis of Accounting**

The financial statements of the Company have been prepared on the historical cost basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**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 the 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.

**PALADIN REALTY SECURITIES, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**  
**(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

The Company maintains cash with banking institutions, which amounts at times exceed federally insured limits.

License

The license has been recorded as an acquired intangible asset that has an indefinite life and is not subject to amortization. The license is tested for impairment annually or more frequently if events or changes in circumstances indicate that the license might be impaired. The impairment test consists of a comparison of the fair value of the license to its carrying amount. If the carrying amount exceeds the fair value, an impairment loss is recognized equal in amount to that excess.

The useful life of the license is evaluated each reporting period to determine whether events and circumstances continue to support an indefinite useful life. At the time it is determined that the license no longer has an indefinite life, the license is again tested for impairment. The carrying amount of the license after recognition of an impairment charge, if any, would then be amortized prospectively over the license's estimated remaining useful life.

Revenue Recognition

The Company earns commissions based upon a percentage of the gross proceeds of the sale of PRIP securities. Commissions are recognized as earned.

Income Taxes

No provision has been made in the accompanying financial statements for federal income taxes because, as a limited liability company, the taxable income or loss is included in the tax returns of the member.

**PALADIN REALTY SECURITIES, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**  
**(Continued)**

**NOTE 3 - NET CAPITAL REQUIREMENT**

The Company is subject to SEC Uniform Net Capital 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, may not exceed 15 to 1. As of December 31, 2008, the Company had net capital of \$24,908, which was \$19,908 in excess of its required net capital of \$5,000.

**NOTE 4 - TRANSACTIONS WITH AFFILIATES**

The Company has an "Expense Sharing Agreement" with Advisors, whereby the Company is charged for a monthly allocation of rent expense and office operating expenses and recorded \$111,876 for the expenses for the year ended December 31, 2008.

The Company had an amount due from Advisors for expense reimbursements of \$43,619 at December 31, 2008.

## **SUPPLEMENTAL INFORMATION**

**PALADIN REALTY SECURITIES, LLC**  
**COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1**  
**OF THE SECURITIES AND EXCHANGE COMMISSION**  
**DECEMBER 31, 2008**

Credits:

Total member's equity \$ 158,851

Debits:

Non-allowable assets (133,943)

Net capital before haircuts 24,908

Haircuts on securities -

Net capital 24,908

Minimum net capital requirement (5,000)

Excess net capital \$ 19,908

Aggregate indebtedness \$ 30,000

Ratio of aggregate indebtedness to net capital 1.20 to 1

No material differences exist between the above computation and the computation included in the Company's corresponding unaudited Form X-17A-5 Part IIA Filing.

**PALADIN REALTY SECURITIES, LLC**  
**COMPUTATION FOR DETERMINATION OF THE RESERVE REQUIREMENTS**  
**AND INFORMATION RELATING TO POSSESSION OR CONTROL**  
**REQUIREMENTS**  
**FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-3**  
**DECEMBER 31, 2008**

The Company claims exemption under provisions of Rule 15c3-3 under paragraph (k)(2)(ii) and was in compliance with the condition of such exemption.

The Company does not effect transactions for anyone defined as a customer as defined under Rule 15c3-3. Accordingly, there are no items to report under the requirements of this Rule.

**SUPPLEMENTARY REPORT  
OF INDEPENDENT AUDITORS**

**INDEPENDENT AUDITORS' SUPPLEMENTARY REPORT**  
**ON INTERNAL ACCOUNTING CONTROL**

To the Member of  
Paladin Realty Securities, LLC:

In planning and performing our audit of the financial statements and supplemental schedules of Paladin Realty Securities, LLC (the "Company") as of and for the year ended December 31, 2008 we considered the Company's 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 (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:

- Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by rule 17a-13.
- 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.
- 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 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 practice 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.

*Imowitz Koenig & Co., LLP*  
*Certified Public Accountants*

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 or 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 one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by 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 controls, 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 purpose 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 our study, we believe that the Company's practices and procedures were adequate at December 31, 2008, to meet the SEC's objectives.

This report recognizes that it is not practical in an organization the size of Paladin Realty Securities, LLC to achieve all the divisions of duties and cross-checks generally included in a system of internal accounting control and that alternatively greater reliance must be placed on surveillance by management.

This report is intended solely for the information and 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 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.



Certified Public Accountants

New York, New York  
February 21, 2009

*Imowitz Koenig & Co., LLP*  
*Certified Public Accountants*

**PALADIN REALTY SECURITIES, LLC**

**AUDITED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2008**

**PALADIN REALTY SECURITIES, LLC**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2008**

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