

SEC



MISSION

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

**OMB APPROVAL**  
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**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 01/01/09 AND ENDING 12/31/09  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Port Securities, Inc.

**OFFICIAL USE ONLY**  
FIRM I.D. NO.

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

2713 W. Coast Highway

(No. and Street)

New Port Beach

CA

92663

(City)

(State)

(Zip Code)

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

Richard H. Lemmon, Jr.

949-574-9286

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Elizabeth Tractenberg, CPA

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

3832 Shannon Road

Los Angeles

CA

90027

(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 01 2010

**FOR OFFICIAL USE ONLY**

Washington, DC  
120

\*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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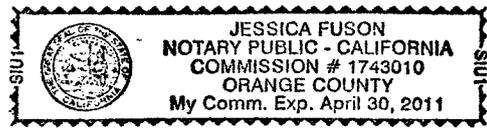
OATH OR AFFIRMATION

I, Richard H. Lemmon, Jr., swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Port Securities, Inc., as of December 31, 2009, 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:

None

[Signature]
Notary Public

[Signature]
Signature
President
Title



- 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.
(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).

ACKNOWLEDGMENT

State of California  
County of Orange

On February 11, 2010 before me, Jessica Fuson, Notary Public  
(insert name and title of the officer)

personally appeared Richard H. Lemmon, Jr.  
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are  
subscribed to the within instrument and acknowledged to me that he/she/they executed the same in  
his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the  
person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing  
paragraph is true and correct.

WITNESS my hand and official seal.



Signature [Handwritten Signature] (Seal)

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C.

ANNUAL AUDIT REPORT

DATE - DECEMBER 31, 2009

PORT SECURITIES, INC.

## CONTENTS

### PART I

Report of Independent Accountant	1
Statement of Financial Condition	2
Statement of Operations	3
Statement of Changes in Stockholder's Equity	4
Statement of Changes in Financial Condition	5
Notes to Financial Statements	6-7

### SUPPLEMENTARY INFORMATION

Schedule I - Computation of Net Capital Requirements Pursuant to Rule 15c3-1	8
Schedule II – Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3	9
Schedule III – Information Relating to Possession or Control Requirements Under Rule 15c3-3	10

### PART II

Statement of Internal Control	11-12
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### PART III

SIPC Supplemental Report	13-14
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**Elizabeth Tractenberg, CPA**  
3832 SHANNON ROAD  
LOS ANGELES, CALIFORNIA 90027  
323/669-0545 – Fax 323/669-0575  
INDEPENDENT AUDITOR'S REPORT

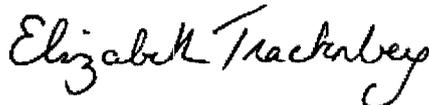
Board of Directors  
Port Securities, Inc.  
Newport Beach, California

I have audited the accompanying statement of financial condition of Port Securities, Inc as of December 31, 2009 and related statements of operations, changes in financial condition, and changes in stockholder's equity for the year then ended. These financial statements are being filed pursuant to Rule 17a-5 of the Securities Exchange Act of 1934 and include the supplemental schedule of the net capital computation required by rule 15c3-1. These financial statements are the responsibility of Port Securities, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, such financial statements referred to above present fairly, in all material respects, the financial condition of Port Securities, Inc. as of December 31, 2009 and the results of its operations, changes in financial condition and stockholders' equity for the year then ended in conformity with accounting principles generally accepted in the United States.

My 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 the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Elizabeth Tractenberg, CPA  
Los Angeles, California  
February 4, 2010

PORT SECURITIES, INC.  
STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2009

**Assets**

Cash - checking	\$ 85,245
Clearing deposit	26,289
Commissions receivable	2,563
Deposits	393
Prepaid expenses	<u>3,670</u>
<b>Total Assets</b>	<b><u><u>\$ 118,160</u></u></b>

**Liabilities and Stockholder's Equity**

**Liabilities**

Accounts payable and accrued expenses	\$ 9,479
Pension contribution payable	<u>0</u>

**Total Liabilities** 9,479

**Stockholder's Equity**

Common stock (1,000 shares authorized and 51 shares issued and outstanding, no par value)	\$ 1,500	
Paid-in capital	27,000	
Retained earnings	<u>80,181</u>	<u>108,681</u>

**Total Liabilities and Stockholder's Equity** **\$ 118,160**

See Accompanying Notes to Financial Statements

PORT SECURITIES, INC.  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2009

**Revenues**

Commissions	\$ 153,786
Miscellaneous income	18
Total Revenues	<u>153,804</u>

**Direct Costs**

Clearing charges	23,764
Commissions expense	56,880
Quotes & research	3,615
Total Direct Costs	<u>84,259</u>

Gross Profits 69,545

**Operating Expenses**

Auto	9,406
Equipment rent	3,176
License and regulatory fee	2,468
Office expense	2,678
Pension	0
Professional services	3,325
Rent	7,952
Salaries, wages and related expenses	21,733
Sales promotions	10,035
Telephone	4,163
Travel and entertainment	20,286
All others	6,096
Total Operating Expenses	<u>91,318</u>

Income (Loss) Before Tax Provision (21,773)

Income Tax Provision 800

Net Income (Loss) \$ (22,573)

See Accompanying Notes to Financial Statements

PORT SECURITIES, INC.  
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Common Stock Shares</u>	<u>Common Stock</u>	<u>Paid- In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 2008	1,500	\$ 1,500	\$ 27,000	\$ 102,754	\$ 131,254
Net Income (loss)				(22,573)	(22,573)
Capital distribution	<u>          </u>	<u>          </u>	<u>          </u>	<u>          0</u>	<u>          0</u>
Balance, December 31, 2009	<u>1,500</u>	<u>\$ 1,500</u>	<u>\$ 27,000</u>	<u>\$ 80,181</u>	<u>\$ 108,681</u>

See Accompanying Notes to Financial Statements

PORT SECURITIES, INC.  
STATEMENT OF CHANGES IN FINANCIAL CONDITION  
DECEMBER 31, 2009

Cash Flows from Operating Activities:	
Net income (loss)	\$ (22,573)
Changes in operating assets and liabilities:	
Clearing deposit	1,714
Commissions receivable	(694)
Prepaid expenses	(687)
Accrued expenses	(7,920)
Pension contribution payable	<u>(6,250)</u>
Net cash used in operating activities	(36,410)
Cash Flows for Investing Activities:	<u>0</u>
Cash Flows for Financing Activities:	
Capital distribution	<u>0</u>
Cash Flows for Financing Activities	<u>0</u>
Net decrease in cash	(36,410)
Cash at beginning of year	<u>121,655</u>
Cash at end of year	<u><u>\$ 85,245</u></u>

SUPPLEMENTAL INFORMATION

Interest paid	<u>\$ 0</u>
Income taxes paid	<u>\$ 0</u>

See Accompanying Notes to Financial Statements

PORT SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Business**

Port Securities, Inc. (the Company) has been approved as a registered broker-dealer with the Securities and Exchange Commission under SEC Rule 15(b) as of June 4, 1998. The Company was incorporated July 9, 1997 under the laws of the State of California, and is a member of the National Association of Securities Dealers, Inc. (NASD). The NASD and NYSE Member Regulation consolidated in 2007 to form the Financial Industry Regulatory Agency (FINRA).

The Company conducts business on a fully disclosed basis whereby the execution and clearance of trades are handled by another Broker/Dealer. The Company does not hold customer funds and/or securities. Accordingly, the Company operates under the exemptive provisions of Securities and Exchange Commission (SEC) Rule 15c-3 (k) (2) (ii) and is exempt from certain provisions and requirements of the Securities Exchange Commission.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand; cash in the bank and all short-term debt securities purchased with a maturity of three months or less. The Company has no bank deposits in excess of federally insured limits of \$100,000.

**Property, Equipment and Depreciation**

Property and equipment are carried at cost. Depreciation is calculated using a straight line method over estimated economic lives of 3 to 7 years.

**Income Taxes**

The Company elected to be taxed as an S Corporation for Federal and California state income tax purposes. As an S Corporation, Federal and California state taxable income or loss of the Company is allocated to each stockholder in proportion to the stockholder's ownership interest. The appropriate income tax for the allocated share of income is determined by the stockholder's tax status. Additionally, S Corporations are subject to California franchise tax of 1.5% of taxable income.

**Revenue**

Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

PORT SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS (continued)  
DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Use of Estimates**

The preparation of financial statements 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – NET CAPITAL REQUIREMENTS

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities and Exchange Act of 1934, the Company is required to maintain a minimum net capital as defined under such provisions. See the computation of net capital requirements following these Notes to Financial Statements.

NOTE 3 – CLEARING BROKER DEPOSIT

The Company has an agreement with a clearing broker which requires a minimum deposit of \$25,000.

NOTE 4 – PROVISION FOR INCOME TAXES

The Company's fiscal year ends December 31, 2009. The provision for income taxes for the year consists of 1.5% of net income before taxes.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company executes, as agent, transactions on behalf of customers. If the agency transactions do not settle because of failure to perform by either the customer or the counterparty, the Company may be obligated to discharge the obligation of the nonperforming party and, as a result, may incur a loss if the market value of the security is different from the contract amount of the transactions. The Company does not anticipate nonperformance by customers or counterparties in the above situations. The Company's policy is to monitor its market exposure and counterparty risk.

The Company is currently operating under a month to month standard commercial lease for use of its current office space.

PORT SECURITIES, INC.  
 COMPUTATION OF NET CAPITAL REQUIREMENTS PURSUANT  
 TO RULE 15c3-1  
 DECEMBER 31, 2009

**Computation of Net Capital**

Total ownership equity from statement of financial condition	\$ 108,681
Non allowable assets:	
Deposits	(393)
Prepaid expenses	(3,670)
Net Capital	\$ 104,618

**Computation of Net Capital Requirement**

Minimum net aggregate indebtedness - 6-2/3% of net aggregate indebtedness	\$ 632
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Minimum dollar net capital required	\$ 5,000
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Net Capital required (greater of above amounts)	\$ 5,000
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<b>Excess Capital</b>	<b>\$ 99,618</b>
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Excess net capital at 1000% (net capital less 10% of aggregate indebtedness)	\$ 99,618
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**Computation of Aggregate Indebtedness**

Total liabilities	\$ 9,479
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Percentage of aggregate indebtedness to net capital	0
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The following is a reconciliation of the above net capital computation with the Company's corresponding unaudited computation pursuant to Rule 179-5(d)(4):

<b>Net Capital per Company's Computation</b>	\$ 107,042
Variance:	
Decrease in cash	(1,575)
Increase in accrued expenses	(844)
Rounding	(5)
<b>Net Capital per Audit Report</b>	<b>\$ 104,618</b>

See Accompanying Notes to Financial Statements

PORT SECURITIES, INC.  
SCHEDULE II – COMPUTATION FOR DETERMINATION OF RESERVE  
REQUIREMENTS PURSUANT TO RULE 15c3-3  
AS OF DECEMBER 31, 2009

A computation of reserve requirement is not applicable to Port Securities, Inc. as the Company qualifies for exemption under Rule 15c3-3 (k) (2) (ii).

**PORT SECURITIES, INC.**  
**SCHEDULE III – INFORMATION RELATING TO POSSESSION OR CONTROL**  
**REQUIREMENTS UNDER RULE 15c3-3**  
**AS OF DECEMBER 31, 2009**

Information relating to possession or control requirements is not applicable to Port Securities, Inc. as the Company qualifies for exemption under Rule 15c3-3 (k) (2) (ii).

**Elizabeth Tractenberg, CPA**

3832 SHANNON ROAD  
LOS ANGELES, CALIFORNIA 90027  
323/669-0545 – Fax 323/669-0575  
elizabeth@tractenberg.net

**PART II**

**Report of Independent Accountant  
on Internal Accounting Control Required by SEC Rule 17a-5**

Board of Directors  
Port Securities, Inc.

In planning and performing my audit of the financial statements and supplemental schedules of Port Securities, Inc. (the Company) for the year ended December 31, 2009, I considered its internal control, including control activities for safeguarding securities, in order to determine my auditing procedures for the purpose of expressing my 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), I have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that I 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-5(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, I 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 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 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.

Board of Directors  
Port Securities, Inc.

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.

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.

My 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. I did not identify any deficiencies in internal control and control activities for safeguarding securities that I consider to be material weaknesses, as defined above.

I 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 my study, I believe that the Company's practices and procedures were adequate on December 31, 2009 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, FINRA, 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 for anyone other than these specified parties.



Elizabeth Tractenberg, CPA  
Los Angeles, California  
February 4, 2010

## **Elizabeth Tractenberg, CPA**

3832 SHANNON ROAD  
LOS ANGELES, CALIFORNIA 90027  
323/669-0545 – Fax 323/669-0575  
elizabeth@tractenberg.net

### Part III

#### SIPC Supplemental Report Pursuant to SEC Rule 17a-5(e)(4)

Board of Directors  
Port Securities, Inc.

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, I have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments (Transitional Assessment Reconciliation (Form SIPC-7T)] to the Securities Investor Protection Corporation (SIPC) for the Year Ended December 31, 2009, which were agreed to by Port Securities, Inc. and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., SIPC solely to assist you and the other specified parties in evaluating Port Securities, Inc.'s compliance with the applicable instructions of the Transitional Assessment Reconciliation (Form SIPC-7T).

Port Securities, Inc.'s management is responsible for the Port Securities, Inc.'s compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, I make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures I performed and my findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7T with respective copy of the cancelled check issued on December 31, 2008 noting no differences.
2. Reviewed the completed form SIPC-7T - Determination of "SIPC Net Operating Revenues" and General Assessment form as follows:
  - a. Compared Item No. 2a Total Revenue for the quarters ending June 30, September 30, and December 31, 2009 to the Focus Report line 12/Part IIA line 9, Code 4030 and Item No. 2c (9)(i) total interest expense to the Focus Report line 22/Part IIA line 13, Code 4075 noting no differences.
  - b. Compared Item No. 2c Deductions to the transaction reports (general ledger activity) for the quarters as listed in 2a above noting no differences.
  - c. Reviewed computation of Item No. 2d SIPC Net Operating Revenues and Item No. 2e General Assessment noting no differences.

Board of Directors  
Port Securities, Inc.

SIPC Supplemental Report page 2

3. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7T and in the related schedules and working papers as noted in section 2 above noting no differences.
4. Compared the amount due to copy of the check and the journal entry accruing the SIPC fee owed at December 31, 2009 noting no differences.

I was not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, I do not express such an opinion. Had I performed additional procedures, other matters might have come to my attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.



Elizabeth Tractenberg, CPA  
Los Angeles, California  
February 4, 2010