

SECURITIES



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

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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 01/01/10 AND ENDING 12/31/10  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Lee Financial Securities, Inc.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

2756 Woodlawn Drive

Suite 6-201

(No. and Street)

Honolulu

Hawaii

96822

(City)

(State)

(Zip Code)

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

Nora Simpson

(302) 897-6782

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Tait, Weller & Baker LLP

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

1818 Market Street, Suite 2400

Philadelphia

PA

19103

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

**FOR OFFICIAL USE ONLY**

\*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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*3/9/2011*

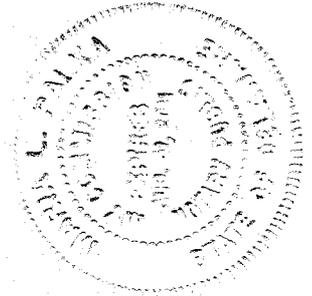
OATH OR AFFIRMATION

I, Nora Simpson, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Lee Financial Securities, Inc., as of December 31, 2010, 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:

Nora B. Simpson  
Signature  
Chief Financial Officer  
Title

Maria L. Palka  
Notary Public

MARIA L. PALKA  
NOTARY PUBLIC, STATE OF DELAWARE  
My Commission Expires August 31, 2011



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).

# TAIT, WELLER & BAKER LLP

*Certified Public Accountants*

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**Board of Directors  
Lee Financial Securities, Inc.  
Honolulu, Hawaii**

We have audited the accompanying statement of financial condition of Lee Financial Securities, Inc. as of December 31, 2010 and the related statements of income (loss), changes in ownership 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 Lee Financial Securities, Inc. as of December 31, 2010, 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 made for the purpose of forming an opinion on the basic financial statements, taken as a whole. The information contained in Pages 3, 4, 6 and 7 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 our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Tait, Weller & Baker LLP*

**Philadelphia, Pennsylvania  
February 25, 2011**

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART IIA

BROKER OR DEALER	Lee Financial Securities, Inc.	N3								100
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### STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING AND CERTAIN OTHER BROKERS OR DEALERS

as of (MM/DD/YY)	12/31/10	99
SEC FILE NO.	8-40219	98
Consolidated	<input type="checkbox"/>	198
Unconsolidated	<input checked="" type="checkbox"/>	199

	Allowable		Non-Allowable		Total
1. Cash .....	\$ 12,222	200		\$ 12,222	750
2. Receivables from brokers or dealers:					
A. Clearance account .....		295			
B. Other .....		300	\$ 550		810
3. Receivable from non-customers .....		355	600		830
4. Securities and spot commodities owned at market value:					
A. Exempted securities .....		418			
B. Debt securities .....		419			
C. Options .....		420			
D. Other securities .....		424			
E. Spot commodities .....		430			850
5. Securities and/or other investments not readily marketable:					
A. At cost $\frac{1}{2}$ \$ .....		130			
B. At estimated fair value .....		440	610		860
6. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:					
A. Exempted securities \$ .....		150			
B. Other securities \$ .....		160			
7. Secured demand notes:		470	640		890
Market value of collateral:					
A. Exempted securities \$ .....		170			
B. Other securities \$ .....		180			
8. Memberships in exchanges:					
A. Owned, at market \$ .....		190			
B. Owned, at cost .....			650		
C. Contributed for use of the company, at market value .....			660		900
9. Investment in and receivables from affiliates, subsidiaries and associated partnerships .....		480	102,279	670	102,279
10. Property, furniture, equipment, leasehold improvements and rights under lease agreements, at cost-net of accumulated depreciation and amortization .....		490		680	920
11. Other assets .....		535		735	930
12. TOTAL ASSETS .....	\$ 12,222	540	\$ 102,279	740	\$ 114,501
					940

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See notes to financial statements.

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART IIA

BROKER OR DEALER

Lee Financial Securities, Inc.

as of 12/31/10

### STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING AND CERTAIN OTHER BROKERS OR DEALERS

#### LIABILITIES AND OWNERSHIP EQUITY

Liabilities	A.I. Liabilities	Non-A.I. Liabilities	Total
13. Bank loans payable .....	\$ 1045	\$ 1255 <sup>13</sup>	\$ 1470
14. Payable to brokers or dealers:			
A. Clearance account .....	1114	1315	1560
B. Other .....	1115 <sup>10</sup>	1305	1540
15. Payable to non-customers .....	1155	1355	1610
16. Securities sold not yet purchased, at market value .....		1360	1620
17. Accounts payable, accrued liabilities, expenses and other .....	120 1205	1385	120 1685
18. Notes and mortgages payable:			
A. Unsecured .....	1210		1690
B. Secured .....	1211 <sup>12</sup>	1390 <sup>14</sup>	1700
19. E. Liabilities subordinated to claims of general creditors:			
A. Cash borrowings:		1400	1710
1. from outsiders <sup>9</sup> \$ 970			
2. includes equity subordination (15c3-1(d)) of ... \$ 980			
B. Securities borrowings, at market value from outsiders \$ 990		1410	1720
C. Pursuant to secured demand note collateral agreements:		1420	1730
1. from outsiders \$ 1000			
2. includes equity subordination (15c3-1(d)) of ... \$ 1010			
D. Exchange memberships contributed for use of company, at market value .....		1430	1740
E. Accounts and other borrowings not qualified for net capital purposes .....	1220	1440	1750
20. TOTAL LIABILITIES .....	\$ 120 1230	\$ 1450	\$ 120 1760
<b>Ownership Equity</b>			
21. Sole Proprietorship .....			1770 <sup>15</sup>
22. Partnership (limited partners) .....	11 (\$ 1020 ) <sup>11</sup>		1780
23. Corporation:			
A. Preferred stock .....			1791
B. Common stock .....		2,500	1792
C. Additional paid-in capital .....		401,226	1793
D. Retained earnings .....		(289,345)	1794
E. Total .....		114,381	1795
F. Less capital stock in treasury .....		16	1796 <sup>16</sup>
24. TOTAL OWNERSHIP EQUITY .....		\$ 114,381	1800
25. TOTAL LIABILITIES AND OWNERSHIP EQUITY .....		\$ 114,501	1810

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See notes to financial statements.

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART IIA

BROKER OR DEALER

Lee Financial Securities, Inc.

as of 12/31/10

### COMPUTATION OF NET CAPITAL

1. Total ownership equity from Statement of Financial Condition .....	\$	114,381	3480
2. Deduct ownership equity not allowable for Net Capital .....	<sup>19</sup> (		3490
3. Total ownership equity qualified for Net Capital .....		114,381	3500
4. Add:			
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital .....			3520
B. Other (deductions) or allowable credits (List) .....			3525
5. Total capital and allowable subordinated liabilities .....	\$	114,381	3530
6. Deductions and/or charges:			
A. Total non-allowable assets from			
Statement of Financial Condition (Notes B and C) .....	<sup>17</sup> \$	102,279	3540
B. Secured demand note delinquency .....			3590
C. Commodity futures contracts and spot commodities - proprietary capital charges .....			3600
D. Other deductions and/or charges .....			3610
		( 102,279 )	3620
7. Other additions and/or allowable credits (List) .....			3630
8. Net capital before haircuts on securities positions .....	<sup>20</sup> \$	12,102	3640
9. Haircuts on securities (computed, where applicable, pursuant to 15c3-1(f)):			
A. Contractual securities commitments .....	\$		3660
B. Subordinated securities borrowings .....			3670
C. Trading and investment securities:			
1. Exempted securities .....	<sup>18</sup>		3735
2. Debt securities .....			3730
3. Options .....			3730
4. Other securities .....			3734
D. Undue Concentration .....			3650
E. Other (List) .....			3736
			( ) 3740
10. Net Capital .....	\$	12,102	3750

The net capital as reported in the Company's unaudited Focus Report agrees with the audited net capital reported above.

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See notes to financial statements.

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART IIA

BROKER OR DEALER

Lee Financial Securities, Inc.

as of 12/31/10

### COMPUTATION OF NET CAPITAL REQUIREMENT

**Part A**

11. Minimum net capital required (6 $\frac{2}{3}$ % of line 19) .....	\$	8	3756
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A) .....	\$	5,000	3758
13. Net capital requirement (greater of line 11 or 12) .....	\$	5,000	3760
14. Excess net capital (line 10 less 13) .....	\$	7,102	3770
15. Excess net capital at 1000% (line 10 less 10% of line 19) .....	\$	6,102	3780

### COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.I. liabilities from Statement of Financial Condition .....	\$	120	3790
17. Add:			
A. Drafts for immediate credit .....	\$	3800	
B. Market value of securities borrowed for which no equivalent value is paid or credited .....	\$	3810	
C. Other unrecorded amounts (List) .....	\$	3820	
18. Total aggregate indebtedness .....	\$	120	3830
19. Percentage of aggregate indebtedness to net capital (line 18 ÷ by line 10) .....	%	0.99	3850
20. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d) .....	%	0.00	3860

### COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT

**Part B**

21. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits .....	\$	3970	3970
22. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A) .....	\$	3880	3980
23. Net capital requirement (greater of line 21 or 22) .....	\$	3760	3990
24. Excess capital (line 10 less 23) .....	\$	3910	3910
25. Net capital in excess of the greater of:			
A. 5% of combined aggregate debit items or \$120,000 .....	\$	3920	3920

**NOTES:**

- (A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
1. Minimum dollar net capital requirement, or
  2. 6 $\frac{2}{3}$ % of aggregate indebtedness or 4% of aggregate debits if alternative method is used.
- (B) Do not deduct the value of securities borrowed under subordination agreements or secured demand note covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.
- (C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

See notes to financial statements.

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART IIA

BROKER OR DEALER      Lee Financial Securities, Inc.

For the period (MMDDYY) from 1/1/10 3932 to 12/31/10 3933  
 Number of months included in this statement    12                      3931

### STATEMENT OF INCOME (LOSS)

#### REVENUE

1. Commissions:			
a. Commissions on transactions in exchange listed equity securities executed on an exchange .....		\$	3935
b. Commissions on listed option transactions .....		25	3938
c. All other securities commissions .....	1,292		3939
d. Total securities commissions .....	1,292		3940
2. Gains or losses on firm securities trading accounts			
a. From market making in options on a national securities exchange .....			3945
b. From all other trading .....			3949
c. Total gain (loss) .....			3950
3. Gains or losses on firm securities investment accounts .....			3952
4. Profit (loss) from underwriting and selling groups .....		26	3955
5. Revenue from sale of investment company shares .....	190,858		3970
6. Commodities revenue .....			3990
7. Fees for account supervision, investment advisory and administrative services .....			3975
8. Other revenue .....	60,562		3995
9. Total revenue .....	252,712	\$	4030

#### EXPENSES

10. Salaries and other employment costs for general partners and voting stockholder officers .....			
11. Other employee compensation and benefits .....	229,548		4115
12. Commissions paid to other broker-dealers .....			4140
13. Interest expense .....			4075
a. Includes interest on accounts subject to subordination agreements .....	4070		
14. Regulatory fees and expenses .....	32,526		4195
15. Other expenses .....	61,464		4100
16. Total expenses .....	323,538	\$	4200

#### NET INCOME

17. Income (loss) before Federal income taxes and items below (Item 9 less Item 16) .....			
18. Provision for Federal income taxes (for parent only) .....		28	4220
19. Equity in earnings (losses) of unconsolidated subsidiaries not included above .....			4222
a. After Federal income taxes of .....	4338		
20. Extraordinary gains (losses) .....			4224
a. After Federal income taxes of .....	4239		
21. Cumulative effect of changes in accounting principles .....			4225
22. Net income (loss) after Federal income taxes and extraordinary items .....	(70,826)	\$	4230

#### MONTHLY INCOME

23. Income (current month only) before provision for Federal income taxes and extraordinary items .....			
		\$	4211

See notes to financial statements.

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART IIA

BROKER OR DEALER      Lee Financial Securities, Inc.

For the period (MMDDYY) from 1/1/10 to 12/31/10

### STATEMENT OF CHANGES IN OWNERSHIP EQUITY (SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)

1. Balance, beginning of period .....	\$	118,207	4240
A. Net income (loss) .....		(70,826)	4250
B. Additions (Includes non-conforming capital of .....	\$	67,000	4260
C. Deductions (Includes non-conforming capital of .....	\$	4272	4270
2. Balance, end of period (From item 1800) .....		\$	114,381    4290

### STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

3. Balance, beginning of period .....	\$		4300
A. Increases .....			4310
B. Decreases .....			4320
4. Balance, end of period (From item 3520) .....		\$	4330

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See notes to financial statements.

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART IIA

BROKER OR DEALER

Lee Financial Securities, Inc.

as of 12/31/10

### EXEMPTIVE PROVISION UNDER RULE 15c3-3

24. If an exemption from Rule 15c3-1 is claimed, identify below the section upon which such exemption is based (check one only)

- |   |      |      |
|---|------|------|
| A. (k)(1) — \$2,500 capital category as per Rule 15c3-1 .....   | X    | 4550 |
| B. (k)(2)(A) — "Special Account for the Exclusive Benefit of customers" maintained .....  |      | 4560 |
| C. (k)(2)(B) — All customer transactions cleared through another broker-dealer on a fully disclosed basis.<br>Name of clearing firm <sup>30</sup> ..... | 4335 | 4570 |
| D. (k)(3) — Exempted by order of the Commission (include copy of letter) .....  |      | 4580 |

### Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.

Type of Proposed Withdrawal or Accrual (See below for code)	Name of Lender or Contributor	Insider or Outsider? (In or Out)	Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities)	(MMDDYY) Withdrawal or Maturity Date	Expect to Renew (Yes or No)	
31	4600	4601	4602	4603	4604	4605
32	4610	4611	4612	4613	4614	4615
33	4620	4621	4622	4623	4624	4625
34	4630	4631	4632	4633	4634	4635
35	4640	4641	4642	4643	4644	4645
			<b>Total \$<sup>36</sup></b>			<b>4699</b>

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**Instructions:** Detail Listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and anticipated accruals which would cause a reduction of Net Capital. These anticipated accruals would include amounts of bonuses, partners' drawing accounts, taxes, and interest on capital, voluntary contributions to pension or profit sharing plans, etc., which have not been deducted in the computation of Net Capital, but which you anticipate will be paid within the next six months.

<b>WITHDRAWAL CODE:</b>	<b>DESCRIPTIONS</b>
1.	Equity Capital
2.	Subordinated Liabilities
3.	Accruals

See notes to financial statements.

# LEE FINANCIAL SECURITIES, INC.

## STATEMENT OF CASH FLOWS

Year ended December 31, 2010

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### INCREASE (DECREASE) IN CASH

#### *Cash flows from operating activities*

Commissions and other fees received	\$ 253,810
Salaries and other expenses paid	<u>(323,446)</u>

<b>Net cash used in operating activities</b>	<u>(69,636)</u>
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#### *Cash flows from investing activities*

Stockholder capital contributed	<u>67,000</u>
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<b>Net decrease in cash</b>	(2,636)
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#### *Cash*

Beginning of year	<u>14,858</u>
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<b>End of year</b>	<u>\$ 12,222</u>
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### RECONCILIATION OF NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES

#### *Net loss*

Decrease in accounts receivable from affiliate	\$ (70,826)
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Increase in accounts payable	1,098
	<u>92</u>

<i>Net cash used in operating activities</i>	<u>\$ (69,636)</u>
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See notes to financial statements.

# LEE FINANCIAL SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lee Financial Securities, Inc. (the "*Company*"), a Hawaii Corporation, was formed on May 13, 1988, and is a wholly-owned subsidiary of Lee Financial Group Inc., an investment management services organization. The Company is registered as a general securities broker-dealer with the Securities and Exchange Commission.

The Company has a distribution agreement with First Pacific Mutual Fund, Inc. (the "*Fund*"), a non-diversified open-end management investment company. Pursuant to Rule 12b-1 of the Investment Company Act of 1940, a distribution plan adopted by the Fund reimburses the Company for certain expenses incurred in distributing the Fund's shares.

The Company is included in the consolidated federal and state income tax returns of its parent. Income taxes are provided for on a separate return basis only to the extent that income tax expense (credit) is incurred by the consolidated group. Although income tax expense was incurred by the consolidated group for the year ended December 31, 2010, no provision was allocated, due to the net loss incurred by the Company for the year.

Management has analyzed the Company's tax positions and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on federal, state and local income tax returns for open years (2007 – 2009) or expected to be taken on the Company's 2010 tax return.

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of income and expenses during the reported period. Actual results could differ from those estimates.

The carrying amounts of cash, commissions receivable, and accrued expenses approximate fair value because of the short maturity of these items.

One of the Company's directors serves on the Board of Directors of First Pacific Mutual Fund, Inc. from which the Company receives a majority of its revenue.

Customers' securities transactions are reported on a settlement date basis with related commission income and expenses reported on a trade date basis.

The Company introduces customers' securities transactions on a fully-disclosed basis to its clearing broker/dealer. Off-balance-sheet risk exists with respect to these transactions due to the possibility that customers may be unable to fulfill their contractual commitments wherein the clearing broker-dealer may charge any losses it incurs to the Company. The Company seeks to minimize this risk through procedures designed to monitor the credit worthiness of its customers and that customer transactions are executed properly by the clearing broker/dealer.

### ***SUBSEQUENT EVENTS***

Subsequent events after the balance sheet date through the date that the financial statements were available for issuance, February 25, 2011, have been evaluated in the preparation of the financial statements.

# LEE FINANCIAL SECURITIES, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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### (2) REGULATORY REQUIREMENTS

The Company is exempt from the provisions of Rule 15c3-3 of the Securities Exchange Act of 1934 (reserve requirement for brokers and dealers) in that the Company does not hold funds or securities for customers and it promptly transmits all funds and delivers all securities in connection with its activities as a broker or dealer.

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined, equal to the greater of \$5,000 or 6-2/3% of aggregate indebtedness. Net capital and the related net capital ratio may fluctuate on a daily basis. At December 31, 2010, the Company had net capital of \$12,102, and net capital requirements of \$5,000. The percentage of aggregate indebtedness to net capital was .99%.

*TAIT, WELLER & BAKER LLP*  
*Certified Public Accountants*

**REPORT ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5**

**Board of Directors**  
**Lee Financial Securities, Inc.**  
**Honolulu, Hawaii**

In planning and performing our audit of the financial statements of Lee Financial Securities, Inc. (the "Company"), as of December 31, 2010 and for the year then ended, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not 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 making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13 and 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 an 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 accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors 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.

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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 deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented or detected and corrected on a timely basis.

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 that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2010, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, 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 these specified parties.

*Tait, Weller & Baker LLP*

**TAIT, WELLER & BAKER LLP**

**Philadelphia, Pennsylvania  
February 25, 2011**

**LEE FINANCIAL SECURITIES, INC.**

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

**DECEMBER 31, 2010**