

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



13015114

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

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Washington DC  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

OMB APPROVAL  
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REPORT FOR THE PERIOD BEGINNING 1/01/12 AND ENDING 12/31/12  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER DEALER:

Watermark Securities Inc.

OFFICIAL USE ONLY  
FIRM ID. NO.

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

900 Third Avenue  
(No. and Street)

New York  
(City)

New York  
(State)

10022  
(Zip Code)

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

Michael Link

(212)-451-1187

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

BDO USA, LLP

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

100 Park Avenue  
(Address)

New York  
(City)

New York  
(State)

10017  
(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not in residence 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).

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OATH OR AFFIRMATION

I, Marc Baltuch, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Watermark Securities, Inc., as of December 31, 2012, 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:

No exceptions.

MOSHE A. LUCHINS  
Notary Public, State of New York  
No. 02LU5078353  
Qualified in New York County  
Commission Expires May 27, 2015



Notary Public



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 Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietorss 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.
- (o) Independent Auditors' Report on internal control required by SEC Rule 17a-5.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

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**Watermark Securities, Inc.**

Statement of Financial Condition  
December 31, 2012

FILED PURSUANT TO RULE 17a-5(e)(3) AS A  
PUBLIC DOCUMENT



## Independent Auditor's Report

Board of Directors  
Watermark Securities, Inc.

We have audited the accompanying statement of financial condition of Watermark Securities, Inc. (the "Company") as of December 31, 2012, and the related notes to the financial statement.

### *Management's Responsibility for the Statement of Financial Condition*

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Watermark Securities, Inc. at December 31, 2012, in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

February 22, 2013

# Watermark Securities, Inc.

## Statement of Financial Condition

*December 31, 2012*

<b>Assets</b>	
Cash and cash equivalents	\$ 778,635
Receivable from clearing broker	230,559
Prepaid expenses and other	46,111
Property and equipment (net of accumulated depreciation and amortization of \$183,566)	79,175
<b>Total Assets</b>	<b>\$1,134,480</b>
<b>Liabilities and Stockholders' Equity</b>	
<b>Liabilities:</b>	
Payable to clearing broker	\$ 53,220
Accrued expenses and other liabilities	62,975
<b>Total Liabilities</b>	<b>116,195</b>
<b>Commitments (Note 8)</b>	
<b>Stockholders' Equity</b>	<b>1,018,285</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$1,134,480</b>

*See accompanying notes to statement of financial condition.*

# Watermark Securities, Inc.

## Notes to Statement of Financial Condition

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### 1. Business

Watermark Securities, Inc. ("Company") is a broker-dealer providing services for affiliated institutional clients, and clears all such transactions through another broker-dealer pursuant to a clearance agreement on a fully disclosed basis. Accordingly, the Company operates under the exemptive provisions of the Securities and Exchange Commission ("SEC") Rule 15c3-3(k)(2)(ii).

### 2. Significant Accounting Policies

#### *Basis of Presentation*

The statement of financial condition has been presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

#### *Cash and Cash Equivalents*

The Company considers all highly liquid investments, with original maturities of ninety days or less when purchased, as cash and cash equivalents. Cash and cash equivalents held at financial institutions, at times, may exceed the amount insured by the Federal Deposit Insurance Corporation.

#### *Property and Equipment*

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets which range from three to seven years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

#### *Use of Estimates*

The preparation of the statement of financial condition in conformity with U.S. GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates.

#### *Income Taxes*

The Company has elected S Corporation status for income tax purposes and, as such, income flows through to the stockholders' individual income tax returns. As a result, the Company is not liable for Federal or New York State income taxes. The financial statements include a provision for a New York State minimum tax and New York City corporate income taxes, as New York City does not recognize S corporation status.

The Company applies the provisions of Accounting Standards Codification ("ASC") 740, "Income Taxes", which clarifies the accounting for and reporting of income tax uncertainties, and requires additional disclosures related to uncertain income tax positions. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 requires that the Company determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the Company presumes that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information.

# Watermark Securities, Inc.

## Notes to Statement of Financial Condition

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It is the policy of the Company to comply with the provisions applicable to S corporations, as defined by Subchapter S of the Internal Revenue Code. Therefore, no Federal income tax provision is required.

The Company files U.S. Federal and various state and local income tax returns. No income tax returns are currently under examination. The statutes of limitations on each of the Company's U.S. Federal income tax returns remain open for the three years ended December 31, 2012. The statutes of limitations on each of the Company's state and local income tax returns may remain open for an additional year depending upon jurisdiction.

Management has analyzed the Company's tax positions taken on Federal income tax returns for all open tax years and has concluded that, as of December 31, 2012, no liabilities are required to be recorded in connection with such uncertain tax positions in the Company's statement of financial condition.

### 3. Significant Risk Factors

#### *Commitments and Financial Instruments With Off-Balance Sheet Risk*

The Company is subject to the following:

##### *Market Risk*

Market risk represents the potential loss that can be caused by a change in the fair value of financial instruments.

##### *Off-Balance Sheet Risk and Concentration of Credit Risk*

Credit risk represents the maximum potential loss that the Company would incur if the counterparties failed to perform pursuant to the terms of their agreements with the Company.

In the normal course of business, the Company facilitates the execution of securities transactions on behalf of customers as an agent. 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 securities differs from the contract amount.

The Company is also subject to credit risk to the extent that the Company's clearing broker may be unable to fulfill its obligations either to return the Company's securities held as deposits or repay net commissions owed.

The Company's policy is to monitor its market exposure and counterparty risk.

### 4. Receivable From Clearing Broker

The Company is required to maintain a collateral account with its clearing broker with a minimum market value of \$100,000. Included in receivable from clearing broker is \$100,000 in cash held in this account at December 31, 2012. This cash serves as collateral for potential defaults of the Company and for any amounts due to broker.

Receivable from clearing broker includes all cash balances held at this broker and net commissions due from this broker.

# Watermark Securities, Inc.

## Notes to Statement of Financial Condition

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The Company is subject to a \$250,000 cancellation fee payable to its clearing broker should the Company terminate its clearing agreement prior to October 31, 2014.

### 5. Property and Equipment

At December 31, 2012, property and equipment consists of:

	Amount
Computer equipment	\$ 171,741
Furniture and fixtures	23,941
Leasehold improvements	67,059
	262,741
Less: Accumulated depreciation and amortization	(183,566)
	\$ 79,175

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### 6. Related Party Transactions

An affiliate provides certain administrative, operational, and other services whose costs are allocated to the Company. Included in prepaid expenses and other assets is \$26,028 for 2012 payments that exceeded allocated costs to this affiliate.

### 7. Employee Benefit Plan

The Company participates in a profit sharing plan covering substantially all employees, which provides for annual contributions as determined by the Company.

The Company did not make a contribution for the year ended December 31, 2012.

### 8. Regulatory Net Capital Requirements

Under the "Uniform Net Capital Rule" of the SEC, the Company is required to maintain regulatory net capital, as defined, equivalent to the greater of \$5,000 or 6-2/3% of aggregate indebtedness, as defined, and requires that the ratio of aggregate indebtedness to regulatory net capital, as defined, shall not exceed 15 to 1. While regulatory net capital and aggregate indebtedness may change from day to day, at December 31, 2012, the Company's regulatory net capital of \$892,999 exceeded minimum requirements by \$885,253 and the ratio of aggregate indebtedness to regulatory net capital was .13 to 1.

### 9. Subsequent Events

Management has evaluated the possibility of subsequent events existing in the Company's statement of financial condition through February 22, 2013, the date the statement of financial condition was available to be issued. Management has determined that there are no material events that would require adjustment to or disclosure in the Company's statement of financial condition.

**Watermark Securities, Inc.**

Statement of Financial Condition  
December 31, 2012

FILED PURSUANT TO RULE 17a-5(e)(3) AS A  
PUBLIC DOCUMENT

# Watermark Securities, Inc.

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