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SECURITIES AND EXCHANGE COMMISSION  
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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER  
8-66367

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 01/01/2013 AND ENDING 12/31/2013  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Dawson James Securities, Inc.

OFFICIAL USE ONLY

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

FIRM I.D. NO.

1 North Federal Highway, Suite 500

(No. and Street)

Boca Raton  
(City)

FL  
(State)

33432  
(Zip Code)

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

Kevin Kurtz

(561)208-2907

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Spicer Jeffries LLP

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

5251 S. Quebec Street, Suite 200  
(Address)

Greenwood Village  
(City)

CO  
(State)

80111  
(Zip Code)

CHECK ONE:

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



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\* 3/9/14  
KW

**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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3/14/14

OATH OR AFFIRMATION

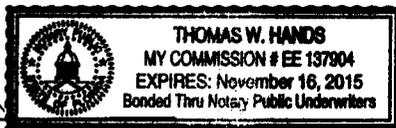
I, Kevin Kurtz, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Dawson James Securities, Inc., as of December 31, 2013, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Kevin A. Kurtz  
Signature

Chief Financial Officer  
Title

[Handwritten Signature]



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 of Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital (including reconciliation of X-17A-5 Part II filing with this Rule 17a-5(d) report, if applicable).
- (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 15c3-3 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) Independant Auditors' Report on Internal Accounting Control.

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

**DAWSON JAMES SECURITIES, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2013**



SPICER JEFFRIES LLP  
CERTIFIED PUBLIC ACCOUNTANTS

**DAWSON JAMES SECURITIES, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2013**

The report is filed in accordance with Rule 17a-5(e)(3) under the Securities Exchange Act of 1934 as a **PUBLIC DOCUMENT**.

**DAWSON JAMES SECURITIES, INC.**

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SPICER JEFFRIES LLP

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors of  
Dawson James Securities, Inc.

### *Report on the Financial Statements*

We have audited the accompanying statement of financial condition of Dawson James Securities, Inc. (the "Company") as of December 31, 2013 that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934 and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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 is free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on this 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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 Dawson James Securities, Inc. as of December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

Greenwood Village, Colorado  
February 24, 2013



**DAWSON JAMES SECURITIES, INC.**

**STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2013**

---

**ASSETS**

|   |                            |
|---|----------------------------|
| Cash and cash equivalents   | \$ 684,398                 |
| Securities owned, at fair value (Note 6)                                      | 946,806                    |
| Due from affiliates (Note 3)  | 859,769                    |
| Due from clearing brokers   | 532,995                    |
| Prepaid expenses  | 136,085                    |
| Other receivables, net of allowance for doubtful accounts of \$60,000         | 113,384                    |
| Furniture and equipment at cost, net of accumulated depreciation of \$203,754 | 73,064                     |
| Other assets  | <u>284,622</u>             |
|   | <b><u>\$ 3,631,123</u></b> |

**LIABILITIES AND SHAREHOLDER'S EQUITY**

**LIABILITIES:**

|                                       |                  |
|---------------------------------------|------------------|
| Accounts payable and accrued expenses | \$ 409,395       |
| Commissions and salaries payable      | 856,623          |
| Deferred income                       | 115,370          |
| Due to affiliate (Note 3)             | <u>11,547</u>    |
| <i>Total liabilities</i>              | <u>1,392,935</u> |

**COMMITMENTS AND CONTINGENCIES (Notes 3 and 5)**

**SHAREHOLDER'S EQUITY (Note 2):**

|  |                            |
|--|----------------------------|
| Common stock, par value \$.001 per share; 1,000 shares authorized;<br>600 shares issued and outstanding  | 1                          |
| 15% Series A Cumulative Preferred Stock; \$.001 par value; 30 shares<br>authorized; 7 shares issued and outstanding; stated value \$50,000 per share | 311,772                    |
| Additional paid-in capital   | 3,443,054                  |
| Deficit  | <u>(1,516,639)</u>         |
| <i>Total shareholder's equity</i>  | <u>2,238,188</u>           |
|  | <b><u>\$ 3,631,123</u></b> |

The accompanying notes are an integral part of this statement.

**DAWSON JAMES SECURITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Business**

Dawson James Securities, Inc. (the "Company") was incorporated on July 30, 2002 as a Florida Corporation. The Company began operations as a securities broker-dealer registered with the Securities Exchange Commission in August 2004, and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"). The Company deals mainly in equity securities. The Company is owned 100% by its parent.

The Company, under Rule 15c3-3(k)(2)(ii), is exempt from the reserve and possession or control requirements of Rule 15c3-3 of the Securities and Exchange Commission. The Company does not carry or clear customer accounts. Accordingly, all customer transactions are executed and cleared on behalf of the Company by its clearing brokers on a fully disclosed basis. The Company's agreements with its clearing brokers provide that as clearing brokers, those firms will make and keep such records of the transactions effected and cleared in the customer accounts as are customarily made and kept by a clearing broker pursuant to the requirements of Rules 17a-3 and 17a-4 of the Securities and Exchange Act of 1934, as amended (the "Act"). It also performs all services customarily incident thereto, including the preparation and distribution of customers' confirmations and statements and maintenance margin requirements under the Act and the rules of the Self Regulatory Organization of which the Company is a member.

**Securities Transactions**

Securities owned by the Company (substantially all common stock) are recorded at fair value and related changes in fair value are reflected in income. The Company records securities transactions and related revenue and expenses on a trade date basis.

**Revenue Recognition**

The Company records proprietary transactions, commission revenue and related expenses on a trade date basis. In connection with the Company's investment banking activities, underwriting deposits and expense advances received by the Company, along with any related expenses, are deferred and recognized when its services are completed.

**Securities Inventory**

The Company values its investments in accordance with Accounting Standards Codification 820 – Fair Value Measurements ("ASC 820"). Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

DAWSON JAMES SECURITIES, INC.

NOTES TO STATEMENT OF FINANCIAL CONDITION

(continued)

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Securities Inventory (continued)**

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and blockage discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

**DAWSON JAMES SECURITIES, INC.**

**NOTES TO STATEMENT OF FINANCIAL CONDITION**

(continued)

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (continued)**

**Securities Inventory** (continued)

The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

The Company values investments in securities that are freely tradable and are listed on a national securities exchange or reported on the NASDAQ national market at their last sales price as of the last business day of the year. Changes in fair value are reflected in the Company's statement of operations.

**Income Taxes**

The Company files a consolidated federal tax return with its parent. For financial statement purposes, the Company presents income tax information as if it filed a separate income tax return. The Company utilizes the asset and liability method of accounting for income taxes, as prescribed by Accounting Standards Codification 740 - Income Taxes ("ASC 740"). Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which these temporary differences are expected to be recovered or settled. Changes in tax rates are recognized in income in the period that includes the enactment date.

The Company is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any tax related appeals or litigation processes, based on the technical merits of the position. The Company files an income tax return in the U.S. federal jurisdiction, and may file income tax returns in various U.S. states. The Company is not subject to income tax return examinations by major taxing authorities for years before 2010. The tax benefit recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized results in the Company recording a tax liability that reduces net assets. However, the Company's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof. The Company recognizes interest accrued related to unrecognized tax benefits and penalties related to unrecognized tax benefits in income taxes payable, if assessed. No interest expense or penalties have been recognized as of and for the year ended December 31, 2013.

**Depreciation**

The Company provides for depreciation of furniture and equipment on the straight-line method based on the estimated lives of the assets ranging from three to seven years.

**DAWSON JAMES SECURITIES, INC.**

**NOTES TO STATEMENT OF FINANCIAL CONDITION**

(continued)

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the accounting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist exclusively of money market instruments at the clearing brokers.

**NOTE 2 - NET CAPITAL REQUIREMENTS**

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 under such provisions. At December 31, 2013, the Company had net capital and net capital requirements of \$577,661 and \$153,085, respectively. The Company's net capital ratio (aggregate indebtedness to net capital) was 3.98 to 1. According to Rule 15c3-1, the Company's net capital ratio shall not exceed 15 to 1.

**NOTE 3 - COMMITMENTS AND RELATED PARTY TRANSACTIONS**

The Company leases office space and equipment under operating leases. The lease term for office space is one to five years with monthly payments ranging from approximately \$2,000 to \$19,000. The deferred rent liability resulting from the free monthly rentals is being amortized over the applicable lease term. At December 31, 2013 the deferred rent liability was approximately \$74,800. Monthly lease payments for equipment are less than \$1,000 per month. Lease expense for office space and equipment was approximately \$455,000 for the year ended December 31, 2013.

**DAWSON JAMES SECURITIES, INC.**

**NOTES TO STATEMENT OF FINANCIAL CONDITION**

(continued)

**NOTE 3 - COMMITMENTS AND RELATED PARTY TRANSACTIONS** *(concluded)*

The following is a schedule by years of minimum future rentals on non-cancelable leases as of December 31, 2013.

| <u>Year</u> | <u>Operating<br/>Lease</u>     |
|-------------|--------------------------------|
| 2014        | \$ 526,459                     |
| 2015        | 463,379                        |
| 2016        | 300,476                        |
| 2017        | 307,034                        |
| 2018        | <u>236,798</u>                 |
|             | <br><b><u>\$ 1,834,146</u></b> |

In July 2013 the Company entered into an agreement with Ark to provide a revolving line of credit up to \$500,000 bearing interest at a rate of 6% per annum. As of December 31, 2013, Ark has an outstanding balance against this line of credit of \$485,000. The principal balance plus all accrued and unpaid interest is due to be paid in full by the borrower on July 31, 2014.

The Company had made advances to affiliates of \$374,769 and as of December 31, 2013 had \$11,547 due to an affiliate. These advances are non-interest bearing and are due on demand.

**NOTE 4 - INCOME TAXES**

The Company has approximately \$1,996,000 of remaining net operating losses expiring through 2032, which may be used to offset future taxable income. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The Company has approximately \$751,000 in deferred tax benefit relating to these net operating loss carry forwards, but realization of this benefit is uncertain at the present time and accordingly a valuation allowance in the same amount has been recorded.

The valuation allowance decreased approximately \$92,000 for the year ending December 31, 2013.

**DAWSON JAMES SECURITIES, INC.**

**NOTES TO STATEMENT OF FINANCIAL CONDITION**

(continued)

***NOTE 5 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK  
AND CONTINGENCIES***

In the normal course of business, the Company's customers' activities ("customers") through its clearing brokers involve the execution, settlement and financing of various customer securities transactions. These activities may expose the Company to off-balance sheet risk. In the event a customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's obligations. In the Company's trading activities, the Company has purchased securities for its own account and may incur losses if the fair value of the securities changes subsequent to December 31, 2013.

The Company has deposits with and receivables from its clearing brokers. If the clearing brokers should cease business, these amounts could be subject to forfeiture. In addition, the Company has deposits in banks in excess of the FDIC insured amount of \$250,000. At December 31, 2013, the Company had \$434,398 in excess of this requirement, which is subject to loss should the bank cease operations.

The Company is involved in various litigation and disputes arising in the normal course of business. In certain of these matters, large and/or indeterminate amounts are sought. Management, after review and discussion with legal counsel, believes the Company has meritorious defenses and intends to vigorously defend itself in these matters, but it is not feasible to predict or determine the final outcomes at the present time.

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

The Company's financial instruments, including cash, due from clearing brokers, due from affiliates, other receivables, other assets, prepaid expenses, accounts payable and accrued expenses, commissions and salaries payable and deferred income, are carried at amounts that approximate fair value due to the short term nature of those instruments. Securities owned by the company are valued as described in Note 1.

**DAWSON JAMES SECURITIES, INC.**

**NOTES TO STATEMENT OF FINANCIAL CONDITION**

(continued)

**NOTE 6 - FAIR VALUE MEASUREMENTS**

The Company's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 1 for a discussion of the Company's policies. The following table presents information about the Company's assets measured at fair value as of December 31, 2013:

|                                 | Quoted Prices in<br>Active Markets<br>for Identical Assets<br>(Level 1) | Significant<br>Other Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance as of<br>December 31, 2013 |
|---------------------------------|---|--|--|------------------------------------|
| Securities owned, at fair value | \$ 916,703  | \$ -   | \$ 30,103  | \$ 946,806                         |

The Company did not have any significant transfers between Level 1 and Level 2 during the year ended December 31, 2013.

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Company has classified within Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category may include changes in fair value that were attributable to both observable and unobservable inputs.

|                | Level 3<br>Beginning Balance<br>December 31, 2012 | Net Transfers<br>In and/or (Out)<br>of Level 3 | Purchases | Sales and<br>Settlements | Realized and<br>Unrealized<br>Gains (Losses) | Level 3<br>Ending Balance<br>December 31, 2013 | Change in Unrealized<br>Gains (Losses) for<br>Investments Still Held at<br>December 31, 2013 |
|----------------|---|--|-----------|--------------------------|--|--|--|
| <b>Assets:</b> |   |  |           |                          |  |  |  |
| Securities     | \$ -  | \$ -   | \$ 30,103 | \$ -                     | \$ -   | \$ 30,103                                      | \$ -   |

Valuation technique and unobservable inputs for Level 3 assets measured at fair value for the year ended December 31, 2013 are as follows:

|                | Fair Value at<br>December 31, 2013 | Valuation<br>Technique | Unobservable<br>Inputs |
|----------------|------------------------------------|------------------------|------------------------|
| <b>Assets:</b> |                                    |                        |                        |
| Securities     | \$ 30,103                          | Recent Sales<br>Price  | Purchase<br>Agreement  |

**NOTE 7 - SUBSEQUENT EVENTS**

The Company has performed an evaluation of subsequent events through the date the financial statements were issued. The evaluation did not result in any subsequent events that required disclosures and/or adjustments.