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



14046785

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

SEC  
Mail Processing  
Section

FEB 28 2014

SEC FILE NUMBER  
8-50403

FACING PAGE  
Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 under

REPORT FOR THE PERIOD BEGINNING 01/01/13 AND ENDING 12/31/13  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **Alphagen Securities LLC**

OFFICIAL USE ONLY  
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
440 S. LaSalle Street, Suite 3600

(No. and Street)

Chicago

(City)

Illinois

(State)

60605

(Zip Code)

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

Mark Wolfson

(312) 477-8470

B. ACCOUNTANT IDENTIFICATION

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

Ryan & Juraska, Certified Public Accountants

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

141 W. Jackson Blvd., Suite 2250

(Address)

Chicago

(City)

IL

(State)

60604

(Zip Code)

CHECK ONE:

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

FOR OFFICIAL USE ONLY

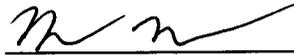
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 241.17a-5(e)(2).

DD  
4/2/14

## OATH OR AFFIRMATION

I, **Mark Wolfson**, swear (or affirm) that, to the best of my knowledge and belief, the accompanying financial statement and supporting schedules pertaining to the firm of **Alphagen Securities, LLC** 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:

\_\_\_\_\_  
None  
\_\_\_\_\_



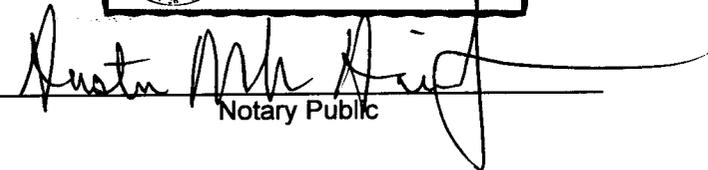
\_\_\_\_\_  
Signature

\_\_\_\_\_  
Manager  
Title

Subscribed and sworn to before me this

25 day of February, 2014



  
\_\_\_\_\_  
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 Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of General Creditors.
- (g) Computation of Net Capital for Brokers and Dealers pursuant to Rule 15c3-1.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements for Brokers and Dealers 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 Accounting Control.
- (p) Schedule of Segregation Requirements and Funds in Segregation – Customers' Regulated Commodity Futures Accounts Pursuant to CFTC Rule 1.11(d)2(iv).

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

**SEC**  
Mail Processing  
Section

FEB 28 2014

Washington, DC  
124

**ALPHAGEN SECURITIES LLC**

**STATEMENT OF FINANCIAL CONDITION  
PURSUANT TO SEC RULE 17a-5(d)**

**December 31, 2013**

**AVAILABLE FOR PUBLIC INSPECTION**



**RYAN & JURASKA**  
Certified Public Accountants  
141 West Jackson Boulevard  
Chicago, Illinois 60604

## **INDEPENDENT AUDITORS' REPORT**

To the Members of Alphagen Securities, LLC

We have audited the accompanying statement of financial condition of Alphagen Securities, LLC, (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 statement of financial condition.

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

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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's 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 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 Company'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 Alphagen Securities, LLC as of December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

### **Report on Other Regulatory Requirements**

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The information contained in the supplementary schedules is presented for the purpose of additional analysis and is not a required part of the financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information in the supplementary schedules has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in the supplementary schedules is fairly stated in all material respects in relation to the financial statement as a whole.

Chicago, Illinois  
February 24, 2014

**ALPHAGEN SECURITIES, LLC**  
**Statement of Financial Condition**  
**December 31, 2013**

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**Assets**

Cash and cash equivalents	\$	399,399
Receivable from broker-dealer		20,181,227
Securities owned, at fair value		130,536,812
Exchange membership, at cost (fair value \$278,000)		490,300
Investments in private operating companies, at fair value		4,123,820
Equipment and leasehold improvements, at cost (net of accumulated depreciation and amortization of \$213,303)		253,317
Other asset		<u>10,000</u>
	\$	<u><u>155,994,875</u></u>

**Liabilities and Members' Equity**

Liabilities:

Securities sold short, at fair value	\$	137,674,489
Accounts payable and accrued expenses		<u>206,256</u>
		137,880,745
Members' equity		<u>18,114,130</u>
	\$	<u><u>155,994,875</u></u>

See accompanying notes.

# ALPHAGEN SECURITIES, LLC

## Notes to Statement of Financial Condition

December 31, 2013

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### 1. Organization and Business

Alphagen Securities, LLC (the "Company"), formerly Sallerson-Troob LLC, an Illinois limited liability company, was organized on January 1, 1996. Effective January 3, 2013 the Company changed its name to Alphagen Securities, LLC. The Company is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and is a member of the Chicago Board Options Exchange ("CBOE"). The Company engages primarily in the proprietary trading of exchange-traded equity securities, equity and index options contracts and financial futures and futures options contracts. The Company has two classes of membership interest. Class A members participate in the Company's general activities and have management and voting rights. Class B members participate in their individual trading activities and do not participate in the Company's general activities.

### 2. Summary of Significant Accounting Policies

#### Revenue Recognition and Securities Valuation

The Company records all securities and futures transactions on a trade date basis, and, accordingly, gains and losses are recorded on unsettled securities transactions and open futures contracts. Dividends are recorded on the ex-dividend date and interest is recognized on the accrual basis. Investments in securities and securities sold, not yet purchased are recorded in the statement of financial condition at fair value in accordance with Accounting Standards Codification Topic 820 ("ASC 820") - Fair Value Measurement and Disclosures (see Note 8).

#### Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures 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 these estimates.

#### Income Taxes

No provision has been made for federal income taxes as the taxable income or loss of the Company is included in the respective income tax returns of the members.

In accordance with U.S. GAAP, the Company is required to determine whether its tax positions are more likely than not to be sustained upon examination by the applicable taxing authority, based on the technical merits of the position. Generally, the Company is no longer subject to income tax examinations by major taxing authorities for the years before 2010. Based on its analysis, there were no tax positions identified by management which did not meet the "more likely than not" standard as and for the year ended December 31, 2013.

#### Investments in Private Operating Companies

At December 31, 2013, the Company had investments in three private operating companies totaling \$4,123,820. The Company values these investments at its share of each company's net members' equity. Because of the inherent uncertainty of valuation, the value used may differ significantly from the value that would have been used had a ready market for these investments existed, and the difference could be material.

#### Depreciation and Amortization

Computer and telecom equipment is being depreciated over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are being amortized on a straight-line basis over the term of the associated lease.

## ALPHAGEN SECURITIES, LLC

### Notes to Statement of Financial Condition, Continued

December 31, 2013

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#### 3. Agreements and Related Party Transactions

The Company has a Joint Back Office ("JBO") clearing agreement with ABN AMRO Clearing Chicago LLC ("AACC"). The agreement allows JBO participants to receive favorable margin treatment as compared to the full customer margin requirements of Regulation T. As part of this agreement, the Company has invested \$10,000 in the preferred interest of AACC. The Company's investment in AACC is reflected in other asset in the statement of financial condition. Under the rules of the Chicago Board Options Exchange, the agreement requires that the Company maintain a minimum net liquidating equity of \$1 million with AACC, exclusive of its preferred interest investment.

The Company has an expense sharing agreement with a company affiliated by common ownership under which they share certain general and administrative services.

#### 4. Commitments and Contingencies

The Company conducts its operations in leased office facilities and annual rentals are charged to current operations. The leases are subject to escalation clauses based on the operating expenses of the lessor.

The minimum annual rental commitments under non-cancelable operating leases are as follows as of December 31, 2013:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2013	\$ 365,000
2014	374,000
2015	383,000
2016	<u>393,000</u>
	\$ <u>1,515,000</u>

At December 31, 2013, the Company was contingently liable in the amount of \$100,000 under a bank letter of credit used in lieu of a security deposit for the Company's office lease. The letter of credit is collateralized by a certificate of deposit with a fair value of \$103,132.

In the normal course of business, the Company is subject to various regulatory inquiries that may result in claims of potential violations of exchange rules and that may possibly involve sanctions and/or fines. These matters are rigorously defended as they arise.

# ALPHAGEN SECURITIES, LLC

## Notes to Statement of Financial Condition, Continued

December 31, 2013

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### 5. Financial Instruments

Accounting Standards Codification Topic 815 ("ASC 815"), Derivatives and Hedging, requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit risk related contingent features in derivative agreements. The disclosure requirements of ASC 815 distinguish between derivatives, which are accounted for as "hedges" and those that do not qualify for such accounting. The Company reflects derivatives at fair value and recognizes changes in fair value through the statement of operations, and as such do not qualify for ASC 815 hedge accounting treatment.

In the normal course of business, the Company enters into transactions in derivative financial instruments that include futures contracts and exchange-traded options contracts as part of the Company's overall trading strategy. All derivative instruments are held for trading purposes. Fair values of options contracts are recorded in securities owned or securities sold short, as appropriate. Open trade equity in futures transactions is recorded as receivables from and/or payables to broker-dealers, as applicable. All positions are reported in the accompanying statement of financial condition at fair value and gains and losses from derivative financial instruments are reflected in trading gains in the statement of operations.

Futures contracts provide for the delayed delivery/receipt of the underlying instrument. As a writer of options contracts, the Company receives a premium in exchange for giving the counterparty the right to buy or sell the underlying instrument at a future date at a contracted price. The contractual or notional amounts related to these financial instruments reflect the volume and activity and do not reflect the amounts at risk. Futures contracts are executed on an exchange, and cash settlement is made on a daily basis for market movements. Accordingly, futures contracts generally do not have credit risk. The credit risk for options contracts is limited to the unrealized fair valuation gains recorded in the statement of financial condition. Market risk is substantially dependent upon the value of the underlying instruments and is affected by market forces such as volatility and changes in interest and foreign exchange rates.

Securities sold short represent obligations of the Company to deliver the security or underlying instrument and, thereby, create a liability to repurchase the security or underlying instrument in the market at prevailing prices. Accordingly, these transactions result in risk as the Company's satisfaction of the obligations may exceed the amount recognized in the statement of financial condition.

The Company is engaged in various trading activities in which counterparties primarily include broker-dealers. 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. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

### 6. Credit Concentration

At December 31, 2013, a significant credit concentration consisted of approximately \$13 million, representing the fair value of the Company's trading accounts carried by its clearing broker, ABN AMRO Clearing Chicago LLC. Management does not consider any credit risk associated with this receivable to be significant.

# ALPHAGEN SECURITIES, LLC

## Notes to Statement of Financial Condition, Continued

December 31, 2013

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### 7. Guarantees

Accounting Standards Codification Topic 460 ("ASC 460"), Guarantees, requires the Company to disclose information about its obligations under certain guarantee arrangements. ASC 460 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. This guidance also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement, as well as indirect guarantees of the indebtedness of others.

Certain derivatives contracts that the Company has entered into meet the accounting definition of a guarantee under ASC 460. Derivatives that meet the ASC 460 definition of guarantees include futures contracts and written options. The maximum potential payout for these derivatives contracts cannot be estimated as increases in interest rates, foreign exchange rates, securities prices, commodities prices and indices in the future could possibly be unlimited.

The Company records all derivative contracts at fair value. For this reason, the Company does not monitor its risk exposure to derivatives contracts based on derivative notional amounts; rather the Company manages its risk exposure on a fair value basis. The Company believes that the notional amounts of the derivative contracts generally overstate its exposure. Aggregate market risk limits have been established, and market risk measures are routinely monitored against these limits. The Company believes that market risk is substantially diminished when all financial instruments are aggregated.

### 8. Fair Value Measurement and Disclosures

ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions that market participants would use in pricing the asset or liability. The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.

# ALPHAGEN SECURITIES, LLC

## Notes to Statement of Financial Condition, Continued

December 31, 2013

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### 8. Fair Value Measurement and Disclosures, continued

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<u>Assets</u>			
Securities owned			
Equities	\$ 49,122,582	\$ -	\$ 49,122,582
Options	81,414,230	-	81,414,230
Investments in private companies	<u>-</u>	<u>4,123,820</u>	<u>4,123,820</u>
	<u>\$ 130,536,812</u>	<u>\$ 4,123,820</u>	<u>\$ 134,660,632</u>
<u>Liabilities</u>			
Securities sold short			
Equities	\$ 89,189,055	\$ -	\$ 89,189,055
Options	<u>48,485,434</u>	<u>-</u>	<u>48,485,434</u>
	<u>\$ 137,674,489</u>	<u>\$ -</u>	<u>\$ 137,674,489</u>

At December 31, 2013, the Company had net unrealized gains on open futures contracts totaling \$2,775,143, which were Level 1 investments. This amount is reflected in receivable from broker-dealer in the statement of financial condition. At December 31, 2013, the Company held no Level 3 investments.

### 9. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15(c)3-1). Under this rule, the Company is required to maintain "net capital" equal to the greater of \$100,000 or 6 and 7/8 % of "aggregate indebtedness", as defined.

At December 31, 2013, the Company had net capital and net capital requirements of \$8,000,143 and \$100,000, respectively.

### 10. Subsequent Events

The Company's management has evaluated events and transactions through February 24, 2014, the date the financial statements were issued, noting no material events requiring disclosure in the Company's financial statements.