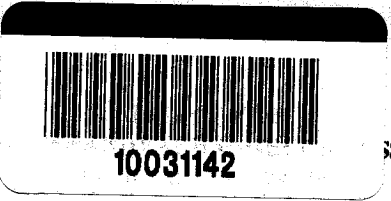


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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8- 67658

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

REPORT FOR THE PERIOD BEGINNING 01/01/09 AND ENDING 12/31/09
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **Potomac Securities, LLC**

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

OFFICIAL USE ONLY
FIRM I.D. NO.

7445 B Glemont Drive

(No. and Street)

North Royalton

(City)

Ohio

(State)

44133

(Zip Code)

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

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Radachi and Company, Certified Public Accountants

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

900 East Broad Street, Suite A, Elyria

(Address)

(City)

Ohio

(State)

44035

(Zip Code)

CHECK ONE:

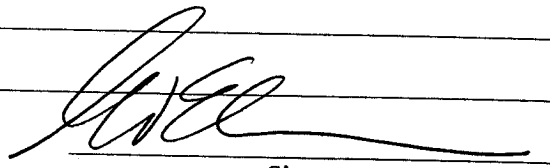
- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

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)

OATH OR AFFIRMATION

I, Gary Elsmore, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Potomac Securities, LLC, as of December 31, 2009, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Signature

President

Title


Notary Public

Francine M. Bokar, Notary Public
STATE OF OHIO
My Commission Expires 01/16/2011

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).

RADACHI AND COMPANY

Certified Public Accountants and Business Consultants

900 East Broad Street, Suite A
Elyria, Ohio 44035
Telephone (440) 365-3115 • Fax (440) 365-4668

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
of Potomac Securities, LLC
North Royalton, Ohio

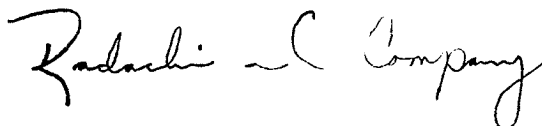
We have audited the accompanying statement of financial condition of Potomac Securities, LLC (the Company) as of December 31, 2009, and the related statements of income, changes in members' equity, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities 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 Potomac Securities, LLC as of December 31, 2009, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on pages 11 through 14 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 of the Securities and 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.

February 26, 2010



POTOMAC SECURITIES, LLC

STATEMENT OF FINANCIAL CONDITION

December 31, 2009

ASSETS

| | | | |
|---------------------|----|--------------|------------------|
| Cash (Note 2) | \$ | 6,341 | |
| Receivables - Other | | 7,500 | |
| Prepaid expenses | | <u>3,065</u> | |
| Total assets | | | <u>\$ 16,906</u> |

LIABILITIES AND MEMBERS' EQUITY

| | | | |
|-----------------|--|--|------------------|
| MEMBERS' EQUITY | | | <u>\$ 16,906</u> |
|-----------------|--|--|------------------|

The accompanying notes are an integral part of the financial statements.
See Independent Auditors' Report.

POTOMAC SECURITIES, LLC

STATEMENT OF INCOME

Year Ended December 31, 2009

REVENUES:

| | | |
|-----------------|--------------|------------|
| Commissions | \$ 293,491 | |
| Services income | <u>7,539</u> | \$ 301,030 |

EXPENSES:

| | | |
|---------------------------|------------|----------------|
| Bank charges | 118 | |
| Bad debt expense | 6,000 | |
| Commissions | 264,142 | |
| Insurance | 132 | |
| Legal and accounting | 7,000 | |
| Consulting fees | 5,000 | |
| Meals and entertainment | 170 | |
| Office and administrative | 4,500 | |
| Outside services | 278 | |
| Professional fees | 27,300 | |
| Regulatory fees | 4,298 | |
| Utilities | <u>700</u> | <u>319,638</u> |

NET LOSS

\$ 18,608

The accompanying notes are an integral part of the financial statements.
See Independent Auditors' Report.

POTOMAC SECURITIES, LLC

STATEMENT OF CHANGES IN MEMBERS' EQUITY

Year Ended December 31, 2009

| | | | |
|-----------------------------|----|---------------|----------------|
| BALANCE - Beginning of year | | \$ | 21,464 |
| ADDITIONS (DEDUCTIONS): | | | |
| Net loss | \$ | (18,608) | |
| Capital contributions | | <u>14,050</u> | <u>(4,558)</u> |
| Balance - End of year | | \$ | <u>16,906</u> |

The accompanying notes are an integral part of the financial statements.
See Independent Auditors' Report.

POTOMAC SECURITIES, LLC

STATEMENT OF CASH FLOWS

Year Ended December 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|--|-----------------|
| Net loss | \$ (18,608) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | |
| (Increase) decrease in: | |
| Accounts receivable | (1,500) |
| Prepays | <u>(3,065)</u> |
| Net cash used in operating activities | <u>(23,173)</u> |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | |
|---|---------------|
| Capital contributions | <u>14,050</u> |
| Net cash provided by financing activities | <u>14,050</u> |

NET DECREASE IN CASH (9,123)

CASH AND CASH EQUIVALENTS - Beginning of year 15,464

CASH AND CASH EQUIVALENTS - End of year \$ 6,341

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

| | |
|--|-------------|
| Cash paid during the year for interest | <u>\$ 0</u> |
| Cash paid during the year for income taxes | <u>\$ 0</u> |

The accompanying notes are an integral part of the financial statements.
See Independent Auditors' Report

POTOMAC SECURITIES, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

Note 1. Organization and Nature of Business:

Potomac Securities, LLC (the Company) is a Maryland limited liability company located in North Royalton, Ohio. Customers are located throughout the United States. The Company is a full service broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA).

Note 2. Summary of Significant Accounting Policies:

A. Estimates:

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

B. Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Company considers all highly-liquid investments with an initial maturity of three months or less to be cash equivalents.

C. Receivables – Other:

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

D. Income Taxes:

The Company is treated as a partnership for income tax purposes and is not subject to income taxes. The taxable income or losses of the Company are included in the members' individual income tax returns. Accordingly, no provision is made for income taxes in the financial statements.

As a limited liability company, each member's liability is limited to amounts reflected in their respective member accounts.

See Independent Auditors' Report.

POTOMAC SECURITIES, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

Note 2. Summary of Significant Accounting Policies (Continued):

D. Income Taxes (Continued):

The Company has implemented the provisions of FASB ASC 740, *Income Taxes* (FIN No. 48), that establishes a single approach to address uncertainty in the recognition of deferred tax assets and liabilities.

As of December 31, 2009, there were no positions for which management believes it is reasonably possible that the total amounts of tax contingencies will significantly increase or decrease within 12 months of the reporting date.

The Company files tax returns in the U.S. federal jurisdiction, two state jurisdictions, and a local jurisdiction. As of 2009, no uncertain tax positions are under audit for any of the Company's tax jurisdictions.

E. Concentrations of Credit Risk for Cash Held at Banks:

The Company maintains a cash balance at one bank. The account at the bank is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2009, the Company did not have cash deposits in excess of the FDIC coverage on deposit at a single financial institution.

F. Revenue Recognition:

Revenues consist of variable life insurance fees arising from offerings in which the Company acts as an underwriter or agent. Additional revenue consists of consulting income. Commissions revenue are recorded when the sales are complete and the revenue is reasonably determinable.

Note 3. Net Capital Requirement:

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital of \$5,000, and requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. As of December 31, 2009, the Company had an aggregate indebtedness to net capital ratio of -0- to 1. In addition, the Company had net capital of \$6,341, which was \$1,341 in excess of its required net capital of \$5,000. The Company's net capital ratio was 1.27 to 1.

See Independent Auditors' Report.

POTOMAC SECURITIES, LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

Note 4. Report Disclosure:

Part III of the Potomac Securities, LLC Focus Report (Form X-17A-5) dated December 31, 2009 to the SEC is available for examination and copying at the principal office of the Company in Broadview Heights, Ohio, and at the Chicago, Illinois regional office of the SEC.

Note 5. Subsequent Events:

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through February 24, 2010.

SUPPLEMENTARY INFORMATION

POTOMAC SECURITIES, LLC

COMPUTATION OF NET CAPITAL UNDER RULE 15C3-1
OF THE SECURITIES AND EXCHANGE COMMISSION

As of December 31, 2009

NET CAPITAL

| | | | |
|--|----|--------|-----------------|
| Total Members' Equity | \$ | 16,906 | |
| Add: | | | |
| A. Liabilities subordinated to claims of general creditors allowable in computation of net capital | | 0 | |
| B. Deferred federal income taxes | | 0 | |
| Total capital and allowable subordinated liabilities | | | \$ 16,906 |
| Deductions and/or Charges: | | | |
| Non-allowable assets: | | | |
| Accounts receivable | | 7,500 | |
| Prepaid expenses | | 3,065 | |
| | | | <u>10,565</u> |
| Net Capital before Haircuts on Securities Positions | | | 6,341 |
| Haircuts on Securities (computed, where applicable, pursuant to 15c3-1 (f)): | | | |
| A. Trading and investment securities | | 0 | |
| B. Undue concentration | | 0 | |
| | | | <u>0</u> |
| Net Capital | | | <u>\$ 6,341</u> |
| RECONCILIATION WITH COMPANY'S COMPUTATION (included in Part II of Form X-17A-5 as of December 31, 2009) | | | |
| Net capital, as reported in Company Part II unaudited FOCUS report | | | \$ 6,342 |
| Increase in assets | | (1) | |
| Increase in liabilities | | 0 | |
| Decrease in non-allowable assets | | 0 | |
| | | | <u>(1)</u> |
| Net capital per above | | | <u>\$ 6,341</u> |

The accompanying notes are an integral part of the financial statements.
See Accountants' Report.

POTOMAC SECURITIES, LLC

COMPUTATION OF NET CAPITAL UNDER RULE 15C3-1 OF THE SECURITIES AND EXCHANGE COMMISSION

As of December 31, 2009

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

| | |
|--|-----------------|
| Minimum net capital required | \$ <u>0</u> |
| Minimum dollar net capital requirement of reporting broker or dealer | <u>5,000</u> |
| Net capital requirement | <u>5,000</u> |
| Excess net capital | <u>1,341</u> |
| Excess net capital at 1500% | <u>6,341</u> |
| Excess net capital at 1000% | <u>6,341</u> |
| Ratio: Aggregate indebtedness to net capital | <u>-0- to 1</u> |

AGGREGATE INDEBTEDNESS

| | |
|--|-------------|
| Items included in statement of financial condition | |
| Accounts payable | \$ 0 |
| Accrued expenses | <u>0</u> |
| Total aggregate indebtedness | <u>\$ 0</u> |
| Percentage of aggregate indebtedness to net capital | <u>0 %</u> |
| Percentage of debt-to-debt equity total computed in accordance with rule 15c3-1(d) | <u>0 %</u> |

The accompanying notes are an integral part of the financial statements.
See Accountants' Report.

RADACHI AND COMPANY

Certified Public Accountants and Business Consultants

900 East Broad Street, Suite A
Elyria, Ohio 44035
Telephone (440) 365-3115 • Fax (440) 365-4668

INDEPENDENT AUDITORS' REPORT ON INTERNAL ACCOUNTING CONTROL

To The Board of Directors and Stockholders
of Potomac Securities, LLC
North Royalton, Ohio

In planning and performing our audit of the financial statements of Potomac Securities, LLC (the Company) for the year ended December 31, 2009, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the 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 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 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 any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons.
2. Recordation of differences required by Rule 17a-13.
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

INDEPENDENT AUDITORS' REPORT ON INTERNAL ACCOUNTING CONTROL
(Continued)

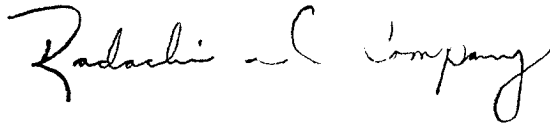
Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including 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, 2009, to meet the SEC's objectives.

Our report recognizes that it is not practicable in a company the size of Potomac Securities, LLC to achieve all the division of duties and cross-checks generally included in a system of internal accounting control, and alternatively, greater reliance must be placed on surveillance by management.

This report is intended solely for the use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc. and other regulatory agencies which 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.



February 26, 2010

POTOMAC SECURITIES, LLC

**FORM X-17A-5
PART III**

DECEMBER 31, 2009

RADACHI AND COMPANY
Certified Public Accountants and Business Consultants

900 EAST BROAD STREET, SUITE A, ELYRIA, OHIO 44035 • (440) 365-3115 • FAX: (440) 365-4668

POTOMAC SECURITIES, LLC

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