



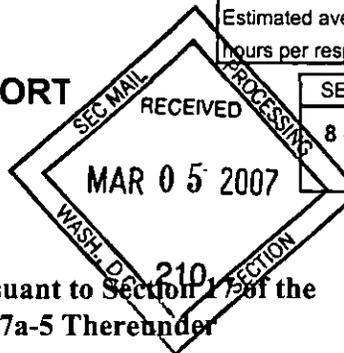
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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ANNUAL AUDITED REPORT
FORM 17A-5
PART III



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 01/01/06 AND ENDING 12/31/06
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Capital Investment Services, Inc.

OFFICIAL USE ONLY
FIRM ID. NO.

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

2121 Ponce De Leon Blvd., Suite 340

(No. and Street)

Coral Gables

Florida

33134

(City)

(State)

(Zip Code)

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

Robert J. Escobio, President

(305) 446-4800

(Area Code -- Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Rothstein, Kass & Company, P.C.

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

4 Becker Farm Road

Roseland

New Jersey

07068

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

APR 11 2007

**THOMSON
FINANCIAL**

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).

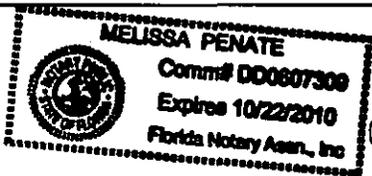
SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, Robert J. Escobio, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Capital Investment Services, Inc., as of December 31, 2006, 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:



M Penate

Robert Escobio

Signature

Title

Notary Public

This report** contains (check all applicable boxes):

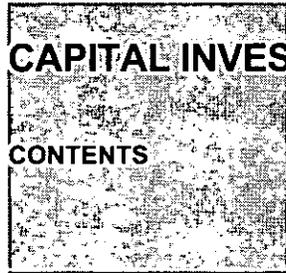
- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims 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 auditor's report on internal accounting control.
- (p) Schedule of segregation requirements and funds in segregation--customers' regulated commodity futures account pursuant to Rule 171-5.

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

CAPITAL INVESTMENT SERVICES, INC.

**STATEMENT OF FINANCIAL CONDITION
AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2006



CAPITAL INVESTMENT SERVICES, INC.

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Certified
Public
Accountants

Rothstein, Kass & Company, P.C.
4 Becker Farm Road
Roseland, NJ 07068
tel 973.994.6666
fax 973.994.0337
www.rkco.com

Beverly Hills
Dallas
Denver
Grand Cayman
New York
Roseland
San Francisco
Walnut Creek

Rothstein Kass

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Capital Investment Services, Inc.

We have audited the accompanying statement of financial condition of Capital Investment Services, Inc. as of December 31, 2006. The statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on the statement of financial condition based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 statement of financial condition referred to above presents fairly, in all material respects, the financial position of Capital Investment Services, Inc. as of December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of expressing an opinion on the statement of financial condition taken as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the statement of financial condition, but is supplementary information required by Regulation 1.10 under the Commodity Exchange Act. Such information has been subjected to the auditing procedures applied in the audit of the statement of financial condition and, in our opinion, is fairly stated, in all material respects, in relation to the statement of financial condition taken as a whole.

Rothstein, Kass & Company, P.C.

Roseland, New Jersey
January 29, 2007

CAPITAL INVESTMENT SERVICES, INC.

STATEMENT OF FINANCIAL CONDITION

December 31, 2006

ASSETS

Cash and cash equivalents	\$ 1,554,709
Securities owned, including restricted securities of \$393,019	3,319,633
Due from clearing broker	7,025
Commissions receivable	124,659
Other receivables	36,453
Property and equipment, net of accumulated depreciation of \$15,105	34,125
Due from related parties	2,793,577
Deferred tax asset	54,800
	<u>\$ 7,924,981</u>

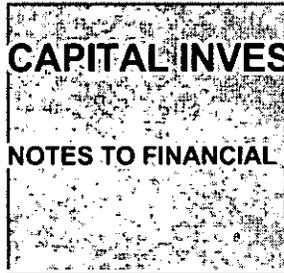
LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Accounts payable and accrued expenses	\$ 726,794
Income taxes payable	342,500
Note payable	375,725
	<u>1,445,019</u>

Stockholders' equity

Common stock, \$1 par value, 100 million shares authorized, 345,000 shares issued and outstanding	345,000
Additional paid-in capital	5,728,365
Retained earnings	406,597
	<u>6,479,962</u>
	<u>\$ 7,924,981</u>



CAPITAL INVESTMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of operations

Capital Investment Services, Inc., a Florida Corporation (the "Company"), was organized on June 10, 1999. The Company is registered as an introducing broker/dealer with the Securities and Exchange Commission ("SEC") and is a member of the National Association of Securities Dealers, Inc. ("NASD"), and the National Futures Association ("NFA").

The Company is an introducing broker clearing customer trades on a fully disclosed basis through a clearing firm. Under this basis, it forwards all customers transactions to another broker who carries all customers accounts and maintains and preserves books and records.

The Company is a wholly-owned subsidiary of Southern Trust Securities Holding Corporation ("STSHC").

2. Summary of significant accounting policies

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks and money market accounts.

Securities Owned

All securities owned are valued at market and unrealized gains and losses are reflected in revenues.

Property and Equipment

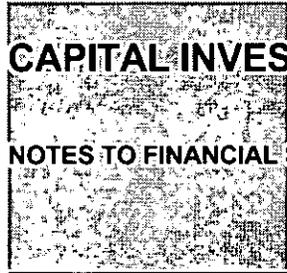
Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from three to ten years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease. Repairs and maintenance are expensed as incurred while betterments and improvements are capitalized.

Revenue and Expense Recognition from Securities Transactions

The Company records all securities transactions, including commission revenue and related expenses, on a trade-date basis.

Investment Banking Fees

Investment banking fees include fees, net of syndication expenses, arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking revenues also include fees earned in providing financial advisory services. These revenues are recorded in accordance with the terms of the investment banking agreements.



CAPITAL INVESTMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Income Taxes

The Company's taxable income or loss is included in the consolidated income tax returns of STSHC. Current and deferred income taxes are allocated to the members of the consolidated group as if each member were a separate taxpayer in accordance with SFAS No. 109, "Accounting for Income Taxes".

Income taxes are determined in accordance with SFAS No. 109, which requires an asset and liability approach for financial Accounting and reporting of income taxes. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

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 certain reported amounts of assets and liabilities at the date of the financial statements, as well as their related disclosures. Such estimates and assumptions also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Securities owned

The balance of securities owned consisted of the following at December 31, 2006:

U.S. Government obligations	\$	3,279,400
Equity securities		<u>40,233</u>
	\$	<u>3,319,633</u>

CAPITAL INVESTMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

4. Related party transactions

Loan Agreements

The Company advanced funds to its parent in 2005 and 2006. The original principal amount of the loan was \$1,000,000, but has been increased by periodic advances from the Company to its parent in 2005 and 2006. The loan calls for interest payments to be made annually at the end of each year, however, the Company has deferred payment of the accrued interest until the earlier of such time the parent raises additional capital or the maturity date of the loan. The balance due from STSHC consists of the following at December 31, 2006:

Loan receivable bearing interest at 10% per annum, maturing March 1, 2008, unsecured, included accrued interest of \$297,717	\$ 2,096,517
Non-interest bearing advances, unsecured	<u>656,612</u>
	<u>\$ 2,753,129</u>

Lease Agreement

The Company subleases its Coral Gables office from its parent on a month-to-month basis. Total lease payments were approximately \$34,000 during the year ended December 31, 2006.

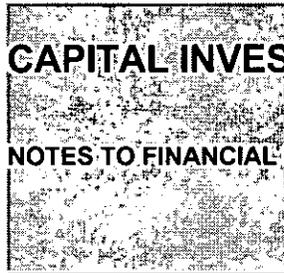
Administrative Support

The Company provides certain administrative support services to CIS Asset Management, Inc. ("CISAM"), a wholly-owned subsidiary of STSHC. CISAM owed the Company approximately \$44,000 at December 31, 2006 which is included in "due from related parties".

5. Note payable

The Company entered into a promissory note agreement with a financial institution in July 2005 for \$400,000. The note bears interest at 5.93% per annum, is payable in monthly installments of \$3,379, including interest through July 2020. The note is secured by a U.S. Treasury notes with a face value of \$400,000. The terms of the note include requirements for maintaining of certain financial covenants. Maturities of the note payable are approximately as follows:

For the Year ending December 31,	
2007	\$ 19,000
2008	20,000
2009	21,000
2010	22,000
Thereafter	<u>293,000</u>
	<u>\$ 375,000</u>



CAPITAL INVESTMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

6. Income taxes

The income tax provision for the year ended December 31, 2006 is summarized as follows:

Current	
Federal	\$ 142,628
State	24,075
	<hr/>
	166,703
Deferred	
Federal	(36,537)
	<hr/>
	\$ 130,166

The Company files consolidated tax returns with its parent. In accordance with SFAS No. 109, "Accounting for Income Taxes", allocation of the consolidated income tax expense is necessary when separate financial statements are prepared for the affiliates. As a result, the Company uses a method that allocates current and deferred taxes to members of the consolidated group by applying the liability method to each member as if it were a separate taxpayer.

Deferred tax benefits and assets result from commissions payable to an individual who is a major stockholder of the Company's parent that are deducted for book purposes but deferred for tax purposes.

7. Employee benefit plan

The Company has established a retirement and savings plan for the benefit of employees who have at least one hour of service and have attained the age of 21 years. Under the provisions of the plan, participants may contribute up to 25 percent of their compensation. The Company has the option of matching a percentage of employee contributions. The Company did not make any contributions to the plan in 2006.

8. Net capital requirement

The Company is a member of the NASD and is subject to the SEC Uniform Net Capital Rule 15c3-1. This Rule requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 and that equity capital may not be withdrawn or dividends paid if the resulting net capital ratio would exceed 10 to 1. The Company is also subject to the Commodity Futures Trading Commission's minimum financial requirements which require that the Company maintain net capital, as defined for securities brokers and dealers, equal to or in excess of the greater of \$45,000 or the amount of net capital required by the SEC Rule 15c3-1. At December 31, 2006, the Company's net capital was approximately \$3.4 million which was approximately \$3.3 million in excess of its minimum requirement of \$100,000.

CAPITAL INVESTMENT SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

9. Exemption from Rule 15c3-3

The Company is exempt from the SEC Rule 15c3-3 pursuant to the exemptive provision under sub-paragraph (k)(2)(ii) and, therefore, is not required to maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers."

10. Concentration of risk

Off-balance Sheet Risk

Pursuant to a clearance agreement, the Company introduces all of its securities transactions to a clearing broker on a fully-disclosed basis. All of the customers' money balances and long and short security positions are carried on the books of the clearing broker. In accordance with the clearance agreement, the Company has agreed to indemnify the clearing broker for losses, if any, which the clearing broker may sustain from carrying securities transactions introduced by the Company. In accordance with industry practice and regulatory requirements, the Company and the clearing broker monitor collateral on the customers' accounts. In addition, the receivable from clearing broker is pursuant to the clearance agreement.

In the normal course of business, the Company's customer activities 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 the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

Credit Risk

The Company maintains its cash in financial institutions, which at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not subject to any significant credit risk on cash.

11. Commitments and contingencies

Legal Claims

As of December 31, 2006, the Company is party to one claim for arbitration. The Company believes that it has meritorious defenses to the claim and that the proceedings can be successfully defended. However, the outcome of this matter is not predictable with assurance.

Operating Leases

At December 31, 2006, the Company is obligated under leases for office space that expire in October 2007. These leases provide for increases in operating expenses over base year amounts. Approximate future aggregate annual rental payments under the leases for the year ending December 31, 2007 would be approximately \$45,000. Rent expense under these lease agreements for the year ended December 31, 2006 was approximately \$52,000.

CAPITAL INVESTMENT SERVICES, INC.

SUPPLEMENTARY INFORMATION

COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION AND REGULATION 1.17 OF THE COMMODITY FUTURES TRADING COMMISSION

December 31, 2006

Net capital		
Total stockholder's equity		<u>\$ 6,479,962</u>
Less: non-allowable assets		
Commissions receivable		102,974
Other receivables		36,453
Property and equipment, net		34,125
Due from related parties		2,793,577
Deferred tax asset		<u>54,800</u>
		<u>3,021,929</u>
Net capital before haircuts		3,458,033
Less: haircuts		<u>58,766</u>
Net capital		<u>\$ 3,399,267</u>
Aggregate indebtedness		<u>\$ 1,069,294</u>
Computed minimum net capital required (6-2/3% of aggregate indebtedness)		<u>\$ 71,286</u>
Minimum net capital required (under SEC Rule 15c3-1)		<u>\$ 100,000</u>
Excess net capital		<u>\$ 3,299,267</u>
Percentage of aggregate indebtedness to net capital	<u>\$ 1,069,294</u>	
	<u>\$ 3,399,267</u>	
		<u>31%</u>

CAPITAL INVESTMENT SERVICES, INC.

SUPPLEMENTARY INFORMATION RECONCILIATION OF COMPUTATION OF NET CAPITAL UNDER RULE 17a-5(d)(4) OF THE SECURITIES AND EXCHANGE COMMISSION

December 31, 2006

Net capital , as reported on the Company's Part II-A Focus Report (<i>unaudited</i>)	\$ 3,121,706
Audit adjustments:	
Reclassification from non-allowable to allowable assets	422,992
Decrease in aggregated indebtedness due to audit adjustments, net	<u>(145,431)</u>
	<u>277,561</u>
Net capital , as adjusted	<u>\$ 3,399,267</u>