



09041347

CM

SECURITIES AND EXCHANGE COMMISSION

SECURITIES

COMMISSION

Washington, D.C. 20549

RECEIVED

SEP 1 2009

DIVISION OF MARKET REGULATION

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

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	February 28, 2010
Estimated average burden hours per response...	12.00

SEC FILE NUMBER
8-33680

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 01/01/08 AND ENDING 12/31/08
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

First State Securities, Inc.

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

7136 S. Yale, Suite 102

(No. and Street)

Tulsa

(City)

OK

(State)

74136

(Zip Code)

OFFICIAL USE ONLY
FIRM ID. NO.

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

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

CF & Co., L.L.P.

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

14175 Proton Rd.

(Address)

Dallas

(City)

TX

(State)

75244

(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).

8/3/09

FIRST STATE SECURITIES, INC.
REPORT PURSUANT TO RULE 17a-5(d)
YEAR ENDED DECEMBER 31, 2008

FIRST STATE SECURITIES, INC.

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF FINANCIAL CONDITION	2
STATEMENT OF INCOME	3
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY	4
STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS	5
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7 - 10
SUPPORTING SCHEDULES	
Schedule I: Computation of Net Capital Per Uniform Net Capital Rule 15c3-1 of the Securities and Exchange Commission	12 - 13
Schedule II: Computation for Determination of Reserve Requirements Under Rule 15c3-3 of the Securities and Exchange Commission	14
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5	16 - 17



CF & Co., L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

Independent Auditor's Report

Board of Directors
First State Securities, Inc.

We have audited the accompanying statement of financial condition of First State Securities, Inc., as of December 31, 2008, and the related statements of income, changes in stockholder's equity, changes in liabilities subordinated to claims of general creditors, 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 First State Securities, Inc., as of December 31, 2008 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the Schedules I and II 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 under the Securities 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.

CF & Co., L.L.P.
CF & Co., L.L.P.

Dallas, Texas
February 24, 2009

FIRST STATE SECURITIES, INC.

Statement of Financial Condition

December 31, 2008

ASSETS

Cash	\$ 1,239
Money market mutual fund	8,582
Receivable from clearing broker/dealer	36,095
Common stocks owned at market value (cost of \$186,921)	279,032
Income tax assets	6,500
Other assets	<u>1,582</u>
Total Assets	<u>\$ 333,030</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities	<u>\$ --</u>
Total liabilities	<u>--</u>
Stockholder's equity	
Common stock - \$1 par value, 300,000 shares authorized, 27,700 shares issued, less 500 shares of treasury stock	27,200
Additional paid in capital	95,106
Retained earnings	299,873
Due from affiliates	<u>(89,149)</u>
Total stockholder's equity	<u>333,030</u>
Total Liabilities and Stockholder's Equity	<u>\$ 333,030</u>

The accompanying notes are an integral part of these financial statements.

FIRST STATE SECURITIES, INC.
Statement of Income
For the Year Ended December 31, 2008

Revenue	
Commissions	\$ 20,651
Revenue from sale of investment company shares	478
Interest and dividends	34,858
Realized losses on marketable securities	(102,761)
Unrealized losses on marketable securities	<u>(224,344)</u>
	<u>(271,118)</u>
Expenses	
Officer compensation	30,600
Clearance paid to broker	16,301
Communications	4,862
Occupancy costs	3,112
Regulatory fees	1,598
Other	<u>6,521</u>
	<u>62,994</u>
Net loss before income taxes	(334,112)
Provision (benefit) for income taxes	<u>(129,921)</u>
Net Loss	<u><u>\$ (204,191)</u></u>

The accompanying notes are an integral part of these financial statements.

FIRST STATE SECURITIES, INC.
Statement of Changes in Stockholder's Equity
For the Year Ended December 31, 2008

	<u>Common Shares Outstanding</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Due from Affiliates</u>	<u>Total</u>
Balance, December 31, 2007	27,200	\$ 27,200	\$ 95,106	\$ 749,976	\$ --	\$ 872,282
Advances to affiliates					(89,149)	(89,149)
Dividend to Financial				(245,912)		(245,912)
Net loss				(204,191)		(204,191)
Balance, December 31, 2008	<u>27,200</u>	<u>\$ 27,200</u>	<u>\$ 95,106</u>	<u>\$ 299,873</u>	<u>\$(89,149)</u>	<u>\$ 333,030</u>

The accompanying notes are an integral part of these financial statements.

FIRST STATE SECURITIES, INC.
Statement of Cash Flows
For the Year Ended December 31, 2008

Cash Flows from Operating Activities	
Net loss	\$ (204,191)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:	
Deferred income tax expense	(127,571)
Realized losses on investment securities	102,761
Unrealized losses on investment securities	224,344
Change in assets and liabilities:	
Decrease in receivable from brokers	(5,995)
Increase in income tax assets	(6,500)
Increase in other assets	80
	<hr/>
Net cash provided (used) by operating activities	(17,072)
Cash Flows from Investing Activities	
Net advances to Financial and affiliate	4,750
Proceeds from sale of long-term investment securities	264,543
	<hr/>
Net cash provided (used) by investing activities	269,293
Cash Flows from Financing Activities	
Dividend to Financial	(245,912)
	<hr/>
Net cash provided (used) by financing activities	(245,912)
Net increase in cash and cash equivalents	6,309
Beginning cash and cash equivalents	3,512
	<hr/>
Ending cash and cash equivalents	\$ 9,821
	<hr/> <hr/>
Supplemental Disclosures	
Cash paid for:	
Interest	\$ --
	<hr/> <hr/>
Income taxes	\$ --
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

FIRST STATE SECURITIES, INC.
Notes to Financial Statements
December 31, 2008

Note 1 - Organization and Nature of Business

First State Securities, Inc. ("Securities") is a wholly-owned subsidiary of First State Financial, Inc. ("Financial"). First State Investment Advisors, Inc. ("Advisors"), an affiliate that is also wholly-owned by Financial, provides investment advisory services to Securities' customers.

Securities is a broker/dealer in securities registered with the Securities and Exchange Commission under the exemptive provisions of (SEC) Rule 15c3-3 (k)(2)(ii). These provisions provide that all funds and securities belonging to customers be handled by a clearing broker/dealer.

Securities customers are primarily individuals residing in the Tulsa, Oklahoma metropolitan area. Securities' clearing broker/dealer is located in Dallas, Texas. Receivable from clearing broker/dealer is primarily a clearing deposit.

Note 2 - Summary of Significant Accounting Policies

Common Stocks Owned

Common stocks owned are carried at market value as determined by quoted market prices. The resulting difference between cost (determined by specific identification) and market (or fair value) is included in income. Common stocks are held for long-term investment and consist of shares in U.S. companies which are listed on a national exchange and operate in various industries. Securities transactions (and related commission revenue and expense) are recorded on a trade date basis.

Cash Equivalents

Securities treats money market mutual funds and all highly liquid debt instruments with original maturities of three months or less as cash equivalents for purposes of the statement of cash flows. Cash and cash equivalents at December 31, 2008 are as follows:

Cash	\$ 1,239
Money market mutual funds	<u>8,582</u>
	<u>\$ 9,821</u>

FIRST STATE SECURITIES, INC.
Notes to Financial Statements
December 31, 2008

Note 2 - Summary of Significant Accounting Policies, continued

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 reporting period. Actual results could differ from those estimates.

Income Taxes

Securities files a consolidated income tax return with Financial. Income taxes are recorded using the separate company method to comply with Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*. Any resulting provision or benefit for income taxes is recorded in the statement of income.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of assets and liabilities for financial and income tax reporting. Deferred tax assets and liabilities represent future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses that are available to offset future taxable income, subject to a valuation allowance.

On December 30, 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Entities" which permits Securities to defer the implementation of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") until its fiscal year beginning January 1, 2009. FIN 48 clarifies that management is expected to evaluate an income tax position taken, or expected to be taken, for likelihood of realization, before recording any amounts for such position in the financial statements. FIN 48 also requires expanded disclosure with respect to income tax positions taken that are not certain to be realized. Securities has elected to defer the implementation of FIN 48 while the FASB develops guidance on the application of FIN 48 by pass-through entities and amends the disclosure requirements for FIN 48 for nonpublic enterprises.

FIRST STATE SECURITIES, INC.

Notes to Financial Statements

December 31, 2008

Note 2 - Summary of Significant Accounting Policies, continued

Securities currently accounts for income taxes on an as-filed or to-be-filed basis, such that current or deferred tax assets and liabilities are immediately recognized when the related tax position is taken (or is expected to be taken) in its income tax returns. Management evaluates the ultimate realizability of current and deferred tax benefits and, if necessary, records a valuation allowance.

Note 3 - Fair Value Measurements

In accordance with SFAS No. 157, *Fair Value Measurements*, Securities categorizes its marketable securities recorded at fair value into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Securities' securities owned are classified as Level 1 assets because valuations are based on quoted prices in active markets for identical assets that Securities has the ability to access.

Note 4 - Related Party Transactions

Advisors provides personnel, office space and other administrative services to Securities under an expense sharing agreement. Expenses incurred under this agreement aggregated \$35,548 in 2008. At December 31, 2008

Note 5 - Commitments and Contingencies

Securities is required to indemnify its clearing broker/dealer if a customer fails to settle a securities transaction, according to its clearing agreement. Management was neither aware, nor had it been notified of any potential indemnification loss at December 31, 2008.

FIRST STATE SECURITIES, INC.
Notes to Financial Statements
December 31, 2008

Note 6 - Net Capital Requirements

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities and Exchange Act of 1934, a minimum net capital requirement must be maintained, as defined under such provisions. Net capital and the related net capital ratio may fluctuate on a daily basis.

There were no material inadequacies in the computation of the ratio of aggregate indebtedness to net capital at December 31, 2008 and the procedures followed in making the periodic computations required. At December 31, 2008, Securities had net capital of approximately \$250,731 and net capital requirements of \$100,000. The ratio of aggregate indebtedness to net capital was 0 to 1 at December 31, 2008. The Securities and Exchange Commission permits a ratio of no greater than 15 to 1.

Note 7 - Possession or Control Requirements

Securities does not have any possession or control of customer funds or securities. There were no material inadequacies in the procedures followed in adhering to the exemptive provisions of (SEC) Rule 15c3-3(k)(2)(ii) by promptly transmitting all customer funds and securities to the clearing broker who carries the customer accounts.

Note 8 - Income Taxes

The provision for income taxes consists of a current income tax benefit of \$2,350 and a deferred income benefit of \$127,571.

Income tax assets consist of the following:

Deferred taxes

Capital loss carryforwards (asset)	\$ 40,077
Unrealized gains on investment securities (liability)	<u>(35,927)</u>
Net deferred tax assets	4,150
Current income tax benefit	<u>2,350</u>
Total income tax assets	<u>\$ 6,500</u>

Supplemental Information
Pursuant to Rule 17A-5
of the Securities Exchange Act of 1934
For the Year Ended
December 31, 2008

Schedule I

FIRST STATE SECURITIES, INC.

Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission

As of December 31, 2008

Computation of Net Capital

Total stockholder's equity qualified for net capital		\$ 333,030
Deductions and/or charges		
Non-allowable assets:		
Income tax assets	\$ 6,500	
Other assets	1,582	(8,082)
Net capital before haircuts on securities positions		324,948
Haircuts on securities (computed, where applicable, pursuant to Rule 15c3-1(f)):		
Money market mutual fund	172	
Common stocks	41,855	
Undue concentration	32,191	(74,217)
Net capital		<u>\$ 250,731</u>

Aggregate Indebtedness

Items included in statement of financial condition

Liabilities		<u>\$ --</u>
Total aggregate indebtedness		<u>\$ --</u>

Schedule I (continued)

FIRST STATE SECURITIES, INC.

Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission

As of December 31, 2008

Computation of Basic Net Capital Requirement

Minimum net capital required (6 2/3% of total aggregate indebtedness)	<u>\$ --</u>
Minimum dollar net capital requirement of reporting broker or dealer	<u>\$ 100,000</u>
Minimum net capital requirement (greater of two minimum requirement amounts)	<u>\$ 100,000</u>
Net capital in excess of minimum required	<u>\$ 150,731</u>
Excess net capital at 1000%	<u>\$ 250,731</u>
Ratio: Aggregate indebtedness to net capital	<u>0.00 to 1</u>

Reconciliation with Company's Computation

There were no material differences in the computation of net capital under rule 15c3-1 from the Company's computation.

Schedule II

FIRST STATE SECURITIES, INC.

Computation for Determination of Reserve Requirements Under
Rule 15c3-3 of the Securities and Exchange Commission
As of December 31, 2008

Exemptive Provisions

The Company has claimed an exemption from Rule 15c-3-3 under section (k)(2)(ii), in which all customer transactions are cleared through another broker-dealer on a fully disclosed basis.

Company's clearing firm: Southwest Securities, Inc.

Independent Auditor's Report

On Internal Control

Required By SEC Rule 17a-5

Year Ended December 31, 2008



CF & Co., L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL REQUIRED BY SEC RULE 17a-5

Board of Directors
First State Securities, Inc.

In planning and performing our audit of the financial statements and supplemental information of First State Securities, Inc. (the "Company"), as of and for the year ended December 31, 2008 in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included 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 and recordation of differences required by rule 17a-13
2. 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 the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and 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, as described in the second paragraph of this report, were adequate at December 31, 2008, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the Financial Industry Regulatory Authority, and other regulatory agencies that 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.


CF & Co., L.L.P.

Dallas, Texas
February 24, 2009