

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



09055337

ANNUAL AUDITED REPORT  
FORM X-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

OMB APPROVAL	
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SEC FILE NUMBER
8- 30353

REPORT FOR THE PERIOD BEGINNING 01/01/08 AND ENDING 12/31/08  
MM/DD/YYYY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: CAPITOL SECURITIES MANAGEMENT, INC.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPLE PLACE OF BUSINESS: (Do not use P.O. Box No.)  
100 CONCOURSE BOULEVARD

(No. and Street)

GLEN ALLEN VA 23059  
(City) (State) (Zip Code)

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

LIA GOFF 804-612-9712  
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

LARRY D. LIBERFARB, P.C.

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

11 VANDERBILT AVENUE, SUITE 220 NORWOOD MA 02062  
(Address) (State) (Zip Code)

CHECK ONE:

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

PROCESSED

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THOMSON REUTERS

SEC Mail E... 02062  
(State) (Zip Code)

FEB 18 2009

Washington, DC  
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\*Claims for exemption from the requirements 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 240.17-a-8(e)(2)

SEC 1410 (05-01) Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

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OATH OR AFFIRMATION

I, MARK HAMBY, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CAPITOL SECURITIES MANAGEMENT, INC., as of DECEMBER 31, 20 08, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principle officer or director has any proprietary interest in any account classified solely as that of A customer, except as follows:



[Signature]  
Signature

PRESIDENT  
Title

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 15c2-3.
- (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).

**CAPITOL SECURITIES MANAGEMENT, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

LARRY D. LIBERFARB, P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
AND FINANCIAL ADVISORS

11 Vanderbilt Avenue, Suite 220, Norwood, Massachusetts 02062  
Tel. (781) 255-8800 Fax (781) 255-9217  
E-Mail: Info@Liberfarb.com

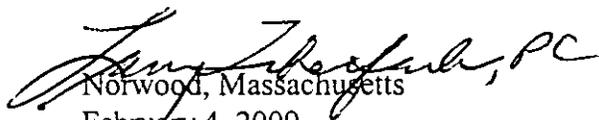
Independent Auditor's Report

To the Board of Directors of  
Capitol Securities Management, Inc.

We have audited the accompanying statement of financial condition of Capitol Securities Management, Inc. as of December 31, 2008, and the related statements of income, changes in stockholder's 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 Capitol Securities Management, Inc. at December 31, 2008, 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.

  
Norwood, Massachusetts  
February 4, 2009

**CAPITOL SECURITIES MANAGEMENT, INC.**

**STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2008**

**ASSETS**

Cash	\$ 242,134
Receivable from broker-dealers and clearing organizations	951,773
Furniture, equipment, and leasehold improvements, at cost, less accumulated depreciation of \$190,311	69,082
Other assets	<u>277,905</u>
	<u>\$ 1,540,894</u>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Liabilities:

Payable to broker-dealers and clearing organizations	\$ 4,778
Income taxes payable	30,000
Accounts payable, accrued expenses and other liabilities	<u>903,436</u>
	938,214

Commitments and contingent liabilities

Stockholder's equity:

Common stock, \$1 par value, authorized 5,000 shares, issued 100 shares	100
Additional paid-in capital	70,900
Retained earnings	<u>531,680</u>
Total stockholder's equity	<u>602,680</u>
	<u>\$ 1,540,894</u>

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

**CAPITOL SECURITIES MANAGEMENT, INC.**

**STATEMENT OF INCOME**

**FOR THE YEAR ENDED DECEMBER 31, 2008**

Revenues:	
Commissions	\$ 17,858,777
Investment advisory fees	976,649
Other	<u>605,622</u>
	<u>19,441,048</u>
Expenses:	
Employee compensation and benefits	3,230,308
Floor brokerage, exchange, and clearance fees	641,080
Communications and data processing	121,275
Interest	2,833
Occupancy	557,758
Other expenses	<u>14,834,267</u>
	<u>19,387,521</u>
Income before income taxes	53,527
Provision for income taxes	<u>30,000</u>
Net income	<u><u>\$ 23,527</u></u>

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

**CAPITOL SECURITIES MANAGEMENT, INC.**

**STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY**

**FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Totals</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In Capital</u>	<u>Earnings</u>	
Balance at January 1, 2008	100	\$ 100	\$ 70,900	\$ 508,153	\$ 579,153
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,527</u>	<u>23,527</u>
Balance at December 31, 2008	<u>100</u>	<u>\$ 100</u>	<u>\$ 70,900</u>	<u>\$ 531,680</u>	<u>\$ 602,680</u>

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

**CAPITOL SECURITIES MANAGEMENT, INC.**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED DECEMBER 31, 2008**

Cash flows from operating activities:	
Net income	\$ 23,527
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	18,068
Decrease in receivable from broker-dealers and clearing organizations	465,942
Decrease in securities owned	1,085
Decrease in other assets	21,047
Increase in payable to broker-dealers and clearing organizations	2,953
Decrease in securities sold, not yet purchased	(23,549)
Increase in income taxes payable	27,500
Decrease in accounts payable, accrued expenses and other liabilities	<u>(450,295)</u>
Total adjustments	<u>62,751</u>
Net cash provided by operating activities	86,278
Cash flows from investing activities:	
Purchase of furniture and equipment	(6,339)
Cash flows from financing activities:	
None	<u>-</u>
Increase in cash	79,939
Cash at beginning of the year	<u>162,195</u>
Cash at end of the year	<u>\$ 242,134</u>
Cash paid during the year for:	
Income taxes	\$ 9,903
Interest	\$ 2,833

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

**CAPITOL SECURITIES MANAGEMENT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

**NOTE 1- ORGANIZATION AND NATURE OF BUSINESS**

The Company is a broker-dealer registered with the Securities and Exchange Commission (SEC), and is a member of the Financial Industry Regulatory Authority, Inc. (FINRA).

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Securities Transactions and Revenue Recognition**

Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

Investment advisory fees are received quarterly, but are recognized as earned.

**Marketable Securities**

Marketable securities are valued at market, cost is determined on the specific identification method. Realized and unrealized gains and losses for trading securities are reflected in revenue.

**Depreciation**

Depreciation is provided on an accelerated basis using estimated lives of five to seven years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

**Statement of Cash Flows**

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**Income Taxes**

The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expense and benefits are recognized in the financial statements for the changes in deferred tax liabilities or asset between years.

**Advertising Expense**

The Company expenses the cost of advertising and promotions as incurred.

**CAPITOL SECURITIES MANAGEMENT, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**DECEMBER 31, 2008**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued.**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

**NOTE 3- OFF BALANCE-SHEET RISK AND CONCENTRATION OF CREDIT RISK**

The Company's customers' securities transactions are introduced on a fully disclosed basis with a clearing broker/dealer. The clearing broker/dealer carries all of the accounts of the customers of the Company and is responsible for execution, collection of and payment of funds, and receipts and delivery of securities relative to customer transactions. Off-balance-sheet risk exists with respect to these transactions due to the possibility that customers may be unable to fulfill their contractual commitments wherein the clearing broker/dealer may charge any losses it incurs to the company. The Company seeks to minimize this risk through procedures designed to monitor the credit worthiness of its customers, and that customer transactions are executed properly by the clearing broker/dealer.

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

**NOTE 4 – NET CAPITAL**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which 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. The Company had net capital of \$244,010 which was \$181,462 in excess of its required net capital of \$62,548. The Company's net capital ratio was 3.85 to 1.

**CAPITOL SECURITIES MANAGEMENT, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**DECEMBER 31, 2008**

**NOTE 5 – EMPLOYEE BENEFITS**

The Company provides a 401(k) savings plan which covers substantially all employees meeting minimum age and service requirements. The Company at its discretion may match employer contributions to the plan. For the year ending December 31, 2008, the Company's matching contribution amounted to \$114,198.

**NOTE 6 – INCOME TAXES**

Income tax expense for the year ended December 31, 2008 consist of the following items:

Taxes currently payable:

Federal	\$ 20,000
State	<u>10,000</u>
Total	<u>\$ 30,000</u>

The income tax provision differs from the expense that would result from applying federal and state statutory tax rates to income before income taxes because of the statutory exclusion for certain items such as corporate meals and entertainment expense and officers' life insurance expense.

**NOTE 7- PROPERTY AND EQUIPMENT**

As of December 31, 2008, major classes of property and equipment consisted of the following:

Computer equipment	\$ 107,196
Furniture and fixtures	122,948
Leasehold improvements	<u>29,249</u>
	259,393
Less: Accumulated depreciation	<u>190,311</u>
	<u>\$ 69,082</u>

Depreciation expense for 2008 was \$18,068.

**CAPITOL SECURITIES MANAGEMENT, INC.**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**DECEMBER 31, 2008**

**NOTE 8 – LONG TERM LEASES**

The Company leases office space at five locations, at the rate of \$46,781 per month. The leases expire between March, 2009 and November, 2012. Some of the leases contain excess operating expense clauses. Rent expense for 2008 was \$550,308.

Future minimum lease payments for non-cancelable operating leases as of December 31, 2008 are as follows:

Years Ended <u>December 31,</u>	
2009	558,231
2010	278,706
2011	203,263
2012	<u>138,906</u>
	<u>\$1,179,106</u>

**NOTE 9 – RELATED PARTY TRANSACTIONS**

The Company receives consulting services from its parent company, CS Financial Group, Inc. (CSF). The related party charged \$235,929 for these services for the year ending December 31, 2008. At December 31, 2008, the Company owed \$ 0 to the related party. Since the Company is a 100% subsidiary of CSF, operating results could vary significantly from those that would be obtained if the entities were autonomous.

**CAPITOL SECURITIES MANAGEMENT, INC.**

**SUPPLEMENTARY SCHEDULES**

**DECEMBER 31, 2008**

LARRY D. LIBERFARB, P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
AND FINANCIAL ADVISORS

11 Vanderbilt Avenue, Suite 220, Norwood, Massachusetts 02062  
Tel. (781) 255-8800 Fax (781) 255-9217  
E-Mail: Info@Liberfarb.com

**Independent Auditor's Report on  
Supplementary Information Required by Rule 17a-5 of the  
Securities and Exchange Commission**

To the Board of Directors of  
Capitol Securities Management, Inc.

We have audited the accompanying financial statements of Capitol Securities Management, Inc. as of and for the year ended December 31, 2008, and have issued our report thereon dated February 4, 2009. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in 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.



Larry D. Liberfarb, PC

Norwood, Massachusetts  
February 4, 2009

# SCHEDULE I

## CAPITOL SECURITIES MANAGEMENT, INC.

### COMPUTATION OF AGGREGATE INDEBTEDNESS AND NET CAPITAL PURSUANT TO RULE 15c3-1

DECEMBER 31, 2008

#### AGGREGATE INDEBTEDNESS:

Payable to broker-dealers and clearing organizations	\$ 4,778
Income taxes payable	30,000
Accounts payable, accrued expenses and other liabilities	<u>903,436</u>
	<u>\$ 938,214</u>

#### NET CAPITAL:

Common stock	\$ 100
Additional paid-in capital	70,900
Retained earnings	<u>531,680</u>
	602,680

#### ADJUSTMENTS TO NET CAPITAL:

Furniture, equipment, and leasehold improvements	(69,082)
Other assets	(277,905)
Haircuts	<u>(11,683)</u>
Net capital, as defined	244,010

NET CAPITAL REQUIREMENT 62,548

NET CAPITAL IN EXCESS OF REQUIREMENT \$ 181,462

RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL 3.85 to 1

#### Reconciliation with Company's computation of net capital:

Net capital as reported in Company's Part IIA (unaudited)	
Focus Report	\$ 296,374
Net audit adjustments	(77,166)
Decrease in non-allowables and haircuts	<u>24,802</u>
Net capital per above	<u>\$ 244,010</u>

**SCHEDULE II**

**CAPITOL SECURITIES MANAGEMENT, INC.**

**COMPUTATION FOR DETERMINATION OF  
RESERVE REQUIREMENTS FOR BROKER/DEALERS UNDER  
RULE 15c3-3 OF THE SECURITIES EXCHANGE ACT OF 1934**

**DECEMBER 31, 2008**

Capitol Securities Management, Inc. is exempt from Rule 15c3-3 of the Securities and Exchange Commission since it does not hold customer funds or securities. The conditions for the exception were complied with for the period ending December 31, 2008.

The Company does not carry accounts of, or for, customers and conducts its business in accordance with the following condition and does not engage in any other securities activities.

The Company acts as an introducing broker or dealer, clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and who promptly transmits all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of Rules 17a-3 and 17a-4, as are customarily made and kept by a clearing broker or dealer.

LARRY D. LIBERFARB, P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
AND FINANCIAL ADVISORS

11 Vanderbilt Avenue, Suite 220, Norwood, Massachusetts 02062  
Tel. (781) 255-8800 Fax (781) 255-9217  
E-Mail: Info@Liberfarb.com

**Independent Auditor's Report on Internal  
Control Required by Rule 17a-5**

To the Board of Directors of  
Capitol Securities Management, Inc.

In planning and performing our audit of the financial statements of Capitol Securities Management, 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 (internal control) 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 and 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 (or aggregate debits) and net capital under rule 17a-3(a)(11) and determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions, 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 recordations 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 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.

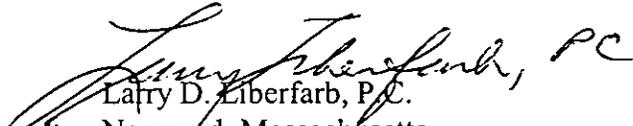
A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control 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 considered 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 the Company's practices and procedures, as described in the second paragraph of the report, were adequate at December 31, 2008, to meet the SEC's objectives.

This report is intended solely for the information and use of management, the SEC, the Financial Industry Regulatory Authority, Inc., 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.

  
Larry D. Liberfarb, P.C.  
Norwood, Massachusetts  
February 4, 2009

*END*