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

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ANNUAL AUDITED REPORT

FORM X-17A-5  
PART III

REC'D S.E.O.

FEB 26 2009

SEC FILE NUMBER

8-37664

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: TLS Financial Services, Inc. OFFICIAL USE ONLY  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.) FIRM I.D. NO.  
920 Providence Road SUITE 203  
(No. and Street)  
Towson Maryland 21286-2977  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Thomas L. Schmidt 410-825-1295  
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
Kuczak & Associates, P.A.  
(Name - if individual, state last, first, middle name)  
139 North Main Street Bel Air Maryland 21014  
(Address) (City) (Zip Code)

CHECK ONE:

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

PROCESSED  
MAR 11 2009  
THOMSON REUTERS

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\*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, Thomas L. Schmidt, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of TLF Financial Services, Inc., as of December 31, 2008, 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:

Thomas L. Schmidt

Signature

PRESIDENT

Title

Debra J. Kalandak

Notary Public

My Commission Expires 06/01/2011

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).

**TLS FINANCIAL SERVICES, INC.  
STATEMENT PERTAINING TO EXEMPTIVE  
PROVISIONS UNDER 15C3-3(K)  
December 31, 2008**

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**Computation for Determination of Reserve  
Requirement Under Exhibit A  
Of Rule-15c3-3**

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Member exempt under 15c3-3(k)

**Information Relating to Possession  
and Control Requirements  
Under Rule 15c3-3**

Member exempt under 15c3-3(k)

Independent Auditors' Report on Internal Accounting Control  
Required by SEC Rule 17a-5

Board of Directors  
TLS Financial Services, Inc.

In planning and performing our audit of the financial statements of TLS Financial Services, Inc. for the year ended December 31, 2008, 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 internal control.

We also made a study of the practices and procedures followed by the Company in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of rule 15c3-3. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13 or in complying with the requirements for prompt payment for securities under section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining an internal control structure 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 internal control structure policies and procedures 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 Commission's above-mentioned objectives. Two of the objectives of an internal control structure 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 accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure of the practices and procedures referred to above, errors or irregularities 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 the internal control structure would not necessarily disclose all matters in the internal control structure that might be a reportable condition 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 structure elements does not reduce to a relatively low level that 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 the following matter involving segregation of duties that we consider to be a material weakness as described above. This condition was considered in determining the nature, timing and extent of procedures performed in our audit of TLS Financial Services, Inc., for the year ended December 31, 2008 and this report does not affect our report thereon dated January 20, 2009.

The Company does not have an adequate segregation of duties over accounting transactions. This condition increases the possibility that errors or irregularities may occur and not be detected on a timely basis. When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission 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, 2008, to meet the Commission's objectives.

This report is intended solely for the use of the Board of Directors, management, the Securities and Exchange Commission, the New York Stock Exchange 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 for any other purpose.

*Kunzle Associates, P.A.*

Baltimore, Maryland  
January 20, 2009

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**TLS FINANCIAL SERVICES, INC.**

**FINANCIAL STATEMENTS**

**December 31, 2008**

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Washington, DC  
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9 North Main Street, Suite 300  
P. Air, MD 21014

Independent Auditor's Report

The Board of Directors  
TLS Financial Services, Inc.  
Towson, Maryland

We have audited the accompanying statement of financial condition of TLS Financial Services, Inc. as of December 31, 2008, and related statements of income, changes in stockholders' 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 the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 TLS Financial Services, 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Financial and Operational Combined Uniform Single Report IIa and Statement Pertaining to Exemptive Provisions Under 15c3-3 (k) are presented for purposes of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by rule 17a-5 of the Securities and Exchange Commission. 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.

*Kuczak & Associates, P.A.*

January 20, 2009

**TLS FINANCIAL SERVICES, INC.**

**Balance Sheet**

See Auditor's Report

December 31, 2008

**ASSETS**

Current Assets:

Cash and cash equivalents \$ 48,689

**Total Assets** \$ 48,689

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Current Liabilities:

Accounts payable \$ 500  
500

Stockholders' Equity:

Common stock \$1.00 par value; authorized 100,000 shares  
Issued and outstanding 100 shares 100  
Additional paid-in capital 28,731  
Retained earnings 19,358  
Total stockholders equity 48,189

**Total Liabilities and Stockholders' Equity** \$ 48,689

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

**TLS FINANCIAL SERVICES, INC.**

**Statements of Income and Retained Earnings**

See Auditor's Report

December 31, 2008

**INCOME**

Commissions \$ 50,805

**EXPENSES**

Commissions 25,689

Management fee 6,000

Professional fees 3,740

Insurance 2,173

Other expenses 300

37,902

**Net income** **\$ 12,903**

**RETAINED EARNINGS**

Retained earnings, beginning of year \$ 56,455

Net income 12,903

Distributions to stockholder (50,000)

**Retained earnings, end of year** **\$ 19,358**

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

**TLS FINANCIAL SERVICES, INC.**

**Statement of Cash Flows**

See Auditor's Report

December 31, 2008

**Cash flows from operating activities:**

Net income	\$ 12,903
Adjustments needed to reconcile net income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Increase-decrease in:	
Decrease in commissions receivable	75
Decrease in accounts payable and other liabilities	(38)
Net cash provided by operating activities	<u>12,940</u>
<b>Cash flows from operating activities:</b>	
Distributions to stockholders	<u>(50,000)</u>
<b>Increase in cash and cash equivalents</b>	(37,060)
Cash and cash equivalents, beginning of year	<u>85,749</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 48,689</u>

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

# TLS FINANCIAL SERVICES, INC.

## Notes to Financial Statements

See Auditor's Report

December 31, 2008

### 1. Line of Business and Summary of Significant Accounting Policies

#### Nature of Business and Reporting Entity

TLS Financial Services, Inc. was incorporated in Maryland in 1986. The Company advises investors in the Mid-Atlantic region, in the purchase of mutual fund investments and acts as an agent, receiving commissions from mutual fund families when their clients purchase mutual fund investments. The Company's business is limited to mutual funds.

#### Revenue and Cost Recognition

Revenues are derived primarily from brokerage commissions. They are recorded on the accrual basis.

#### Cash and Equivalents

For the purposes of the cash flow presentation, the Company considers all cash on deposit and money market funds as cash and equivalents.

#### Commissions Receivable

Commissions receivable represent commissions due from various mutual fund families. These receivables are generally fully collected within 30 days. As a result, management has not provided an allowance for doubtful accounts on these receivables.

#### Income Taxes

The stockholder of the Company has elected to be taxed in accordance with the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, in lieu of corporate income taxes, the individual shareholder is taxed on his proportionate share of the taxable income of the Company. Therefore, no provision or liability for federal or state income taxes has been included in the financial statements.

#### Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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. The accompanying financial statements contain no significant estimates.

**TLS FINANCIAL SERVICES, INC.**

**Notes to Financial Statements (continued)**

See Accountant's Review Report

For the year ended December 31, 2008

**2. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission uniform net capital rule (Rule 15c3-1) which requires the maintenance of a minimum amount of net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1.

At December 31, 2008, the Company had net capital requirements of approximately \$48,190 and \$5,000, respectively. The Company's aggregate indebtedness to net capital ratio was .01 to 1.

**3. Concentrations of Credit Risk**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash.

The Company maintains cash with one financial institution, but is within the FDIC limits. As part of its cash management process, the Company performs periodic evaluations of its credit standing of the financial institution.

**4. Related Party Transactions**

TLS Advisory Services, Inc. a related party through common ownership maintains office space used by the Company. During the year the Company paid TLS Advisory Services, Inc. \$500 per month under a month-to-month arrangement as a management fee for their use of office space and supplies. The management fee for the year ended December 31, 2008 was \$6,000.

The Company paid commissions in the amount of \$23,073 to the sole stockholder during the year ended December 31, 2008.

**END**