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

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

SEC Mail Processing Section

APR 01 2009

Washington, DC

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

SEC FILE NUMBER 8- 21802

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 01/01/2008 AND ENDING 12/31/2008 MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Highland Securities Co.

OFFICIAL USE ONLY

FIRM I.D. NO.

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

120 Broadway

(No. and Street)

New York

New York

10005

(City)

(State)

(Zip Code)

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

Stephen Abramowitz

(212) 964-5545

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

Kempisty & Company, Certified Public Accountants, P.C.

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

15 Maiden Lane, Suite 1003

New York

New York

10038

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- [X] 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).

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, Harry Muller, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of

Highland Securities Co., as

of December 31, 20 08, 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:

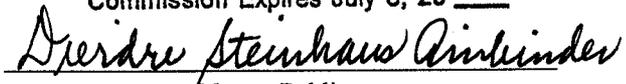
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

  
\_\_\_\_\_  
Signature

**General Partner**

\_\_\_\_\_  
Title

DIERDRE STEINHAUS AINBINDER  
Notary Public, State of New York  
No. 01A14899711  
Qualified in Nassau County 11  
Commission Expires July 6, 20 11

  
\_\_\_\_\_  
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.

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

**HIGHLAND SECURITIES CO.**

Statement of Financial Condition

December 31, 2008

(With Independent Auditor's Report Thereon)

**HIGHLAND SECURITIES CO.**

**DECEMBER 31, 2008**

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# KEMPISTY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, P.C.

15 MAIDEN LANE - SUITE 1003 - NEW YORK, NY 10038 - TEL (212) 406-7272 - FAX (212) 513-1930

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## INDEPENDENT AUDITORS' REPORT

To the Partners of  
Highland Securities Co.

We have audited the accompanying statement of financial condition of Highland Securities Co. as of December 31, 2008. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement 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 statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition 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 Highland Securities Co. as of December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

*Kempisty & Company CPAs PC*

Kempisty & Company  
Certified Public Accountants PC  
New York, New York  
March 30, 2009

**HIGHLAND SECURITIES CO.**

**STATEMENT OF FINANCIAL CONDITION**

**December 31, 2008**

**ASSETS**

Cash	\$	99,350
Securities and options owned, at fair value (Note 4)		23,041,998
Interest and dividends receivable		336,569
Securities held at agent		668,455
JBO investment		<u>10,905</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>24,157,277</u></b>

**LIABILITIES AND PARTNERS' CAPITAL**

Securities and options sold, not yet purchased, at fair value (Note 4)	\$	3,316,884
Due to clearing broker (Note 3)		18,253,606
Accounts payable and accrued expenses		<u>8,100</u>
<b>TOTAL LIABILITIES</b>		<b>21,578,590</b>
Partners' capital		<u>2,578,687</u>
<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<b>\$</b>	<b><u>24,157,277</u></b>

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

**HIGHLAND SECURITIES CO.**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

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

Highland Securities Co. (the "Company") is a partnership that is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and is a member of the NYSE Amex (formerly the American Stock Exchange).

The Company is engaged as a specialist on the NYSE Amex. The company hedges its risk with either equities and/or the related equity options .

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

Cash and Cash Equivalents

All short-term investments with an original maturity of three months or less are considered to be cash equivalents.

Concentration of Credit Risk

The Company is engaged in various investment and brokerage activities in which 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 creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments

Options are carried at fair value. Generally, fair value consists of the market value assigned by the Company's clearing broker, determined by closing market prices. Fair value is employed when strongly correlated positions whose prices, due to markets closing at different times, lead to disparity among them. Fair value aims to substantially remove such disparity among strongly correlated positions.

**HIGHLAND SECURITIES CO.**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Company does not apply hedge accounting as defined in FASB Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities", as amended, as all financial instruments are marked to market, with changes in fair values reflected in earnings. Therefore, the disclosures required in paragraphs 44 and 45 of the Statement are generally not applicable with respect to these financial instruments.

Fair values of options contracts are reported on the Statement of Financial Condition as a component of securities and options contracts owned and securities and options contracts sold, not yet purchased, as appropriate.

Revenue Recognition

Securities and options contract transactions and related revenue and expenses are recorded on a trade date basis with their resulting gains and losses based on a daily mark-to-market of all security and options positions. Securities and options contracts owned, and securities and options contracts sold, not yet purchased, are stated at fair value, with related changes in unrealized appreciation and depreciation reflected in trading gains on the statement of income.

The fair value of securities and options contracts owned and securities and options contracts sold, not yet purchased, are generally stated at closing market prices, per the Company's clearing broker. If listed market prices are not available, or are inconsistent with other correlated securities and options contracts in the Company's portfolio of securities and options contracts, the Company will employ theoretical pricing, relying on fair values that more accurately represent the portfolio's value in its entirety.

Comprehensive Income

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). SFAS No. 130 requires an entity to report comprehensive income and its components and increases financial reporting disclosures. This standard has no impact on the Company's financial position, cash flows or results of its operations since the Company's comprehensive income is the same as its reported income for the six months ended June 30, 2007.

Recent Accounting Pronouncements

The Company does not expect the adoption of recent accounting pronouncements to have any material impact on its financial condition or the results of its operations.

HIGHLAND SECURITIES CO.

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

The Company adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"), effective January 1, 2008. The provisions of SFAS 157 are to be applied prospectively.

SFAS 157 clarifies that fair value is an estimate of the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., the exit price at the measurement date). Under SFAS 157, fair value measurements are not adjusted for transaction cost. SFAS 157 provides for use of a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three levels:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Company.
- Level 3: Unobservable inputs. Unobservable inputs reflect the assumptions that the Company develops based on available information about what market participants would use in valuing the asset or liability.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. The Company uses judgment in determining fair value of assets and liabilities and Level 3 assets and liabilities involve greater judgment than Level 1 and Level 2 assets or liabilities.

NOTE 3- FAIR VALUE OF INVESTMENTS

The following are the Company's investments owned and securities sold short by level within the fair value hierarchy at December 31, 2008.

<u>Assets</u>	<u>Fair Value</u>	<u>Fair Value Hierarchy</u>
Marketable securities	\$ <u>23,041,998</u>	Level 1
Stock held at agent	\$ <u>668,455</u>	Level 1
<u>Liabilities</u>		
Marketable securities sold short	\$ <u>3,316,884</u>	Level 1

HIGHLAND SECURITIES CO.

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 4- PAYABLE TO BROKER-DEALERS

Amounts payable to the Company's clearing broker at December 31, 2008, consist of the following:

	<u>Payable</u>
Due to clearing broker	\$ <u>18,253,606</u>

NOTE 5- NET CAPITAL REQUIREMENTS

The Company is a member of the American Stock Exchange and is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1. This Rule requires that the ratio of aggregate indebtedness to net capital may not exceed 15 to 1, and equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2008, the Company's net capital was \$1,532,631 which was \$1,432,631 in excess of its required net capital of \$100,000. The Company's aggregate indebtedness to net capital ratio was 0.0529 to 1.

NOTE 6- OFF-BALANCE SHEET RISKS

Pursuant to a clearance agreement, the Company will introduce all of its securities transactions to its sole clearing broker on a fully disclosed basis. Therefore, all of the Company's money balances and long and short security positions will be carried on the books of the clearing broker. Under certain conditions as defined in 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 securities transactions introduced by the Company.

NOTE 7- GUARANTEES

FASB Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, requires the Company to disclose information about its obligations under certain guarantee arrangements. FIN 45 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or non occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. FIN 45 also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

**HIGHLAND SECURITIES CO.**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**NOTE 7- GUARANTEES (continued)**

Indemnifications

In the normal course of its business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. The maximum potential amount of future payments that the Company could be required to make under the indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The Company may also provide standard indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the consolidated financial statements for these indemnifications.

**NOTE 8- SUBSEQUENT EVENTS**

Regulatory Notice

On December 31, 2008 a notice was sent by FINRA regarding deficiencies it discovered during a routine examination. Included in that report it was found that the Company was not properly calculating its haircuts on its securities positions for undue concentration and for seven proprietary accounts that held securities the Company does not specialize in. The firm was to submit corrected net capital calculations and FOCUS report for the periods.