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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

SEC FILE NUMBER
8- 12676

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: DIVERSIFIED SECURITIES, INC.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

6700 E. PACIFIC COAST HWY., SUITE 150

(No. and Street)

LONG BEACH

CALIFORNIA

90803

(City)

(State)

(Zip Code)

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

ROBERT J. CONWAY

562/493-8881

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

GOODRICH, BARON, GOODYEAR, LLP

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

6700 E. PACIFIC COAST HWY., SUITE 150, LONG BEACH, CA 90803

(Address)

(City)

(State)

(Zip Code)

SEC Mail Processing
Section

CHECK ONE:

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

FEB 26 2009

Washington, DC
111

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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)

SEC 1410 (06-02)

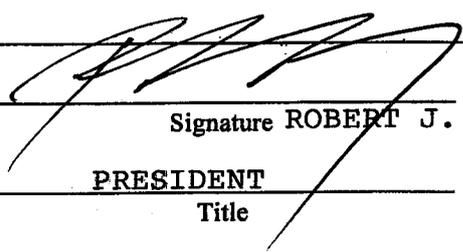
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DM

OATH OR AFFIRMATION

I, ROBERT J. CONWAY, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of DIVERSIFIED SECURITIES, 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:

NONE


Signature ROBERT J. CONWAY
PRESIDENT
Title

See attached.
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~~ **Cash Flows**
- (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.
- (o) **Independent Auditors' Report on Internal Accounting Control**

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

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

State of California

County of LOS ANGELES

On FEBRUARY 24, 2009 before me, CHERYL L. NEIFFER, NOTARY PUBLIC

personally appeared ROBERT J. CONWAY

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature Cheryl L. Neiffer
Signature of Notary Public



Place Notary Seal Above

OPTIONAL

Though the information below is not required by law, it may prove valuable to persons relying on the document and could prevent fraudulent removal and reattachment of this form to another document.

Description of Attached Document

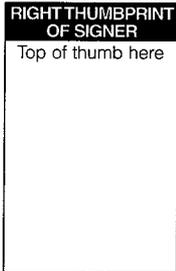
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Signer(s) Other Than Named Above: _____

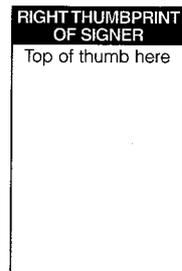
Capacity(ies) Claimed by Signer(s)

- Signer's Name: _____
- Individual
 - Corporate Officer — Title(s): PRESIDENT
 - Partner — Limited General
 - Attorney in Fact
 - Trustee
 - Guardian or Conservator
 - Other: _____



Signer Is Representing: _____

- Signer's Name: _____
- Individual
 - Corporate Officer — Title(s): _____
 - Partner — Limited General
 - Attorney in Fact
 - Trustee
 - Guardian or Conservator
 - Other: _____



Signer Is Representing: _____

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GOODRICH·BARON·GOODYEAR LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Diversified Securities, Inc.
Long Beach, California

We have audited the accompanying statement of financial condition of Diversified Securities, Inc. as of December 31, 2008, and the related statements of income and comprehensive income (loss), 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 Diversified 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on pages 10 through 13 is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of 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.

A handwritten signature in cursive script that reads "Goodrich Baron Goodear LLP".

Long Beach, California
February 20, 2009

DIVERSIFIED SECURITIES, INC.
STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2008

ASSETS

Cash	\$	257,200
Cash - Reserve bank account		<u>174,099</u>
Total cash		431,299
Receivables:		
Others		124,564
Deposit - Pershing		100,000
Marketable equity securities		37,065
Property and equipment, at cost, less \$287,361 of accumulated depreciation		47,280
Other assets		<u>24,269</u>
Total assets	\$	<u>764,477</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities:		
Payable to customers	\$	69,599
Accounts payable and accrued expenses		11,590
Commissions payable		21,627
Other liabilities		33,094
Due to affiliates		11,982
Income taxes payable		800
Deferred income taxes payable		<u>6,000</u>
Total liabilities		154,692
Commitments		
-		
Stockholder's equity:		
Common stock, \$5 par value; 20,000 shares authorized; 4,335 shares issued and outstanding	\$	21,675
Additional paid-in capital		31,323
Retained earnings		521,383
Accumulated other comprehensive income		<u>35,404</u>
Total stockholder's equity		<u>609,785</u>
Total liabilities and stockholder's equity	\$	<u>764,477</u>

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

DIVERSIFIED SECURITIES, INC.
STATEMENT OF INCOME AND COMPREHENSIVE INCOME (LOSS)

YEAR ENDED DECEMBER 31, 2008

Revenues:	
Concessions:	
Mutual funds	\$ 20,304
Tax shelters and limited partnerships	139,425
Other commissions	2,150
Reimbursements	296,036
Interest	6,499
Other revenues	253,904
Management fees - related party	480,000
Other management fees	<u>264,563</u>
Total revenues	1,462,881
Expenses:	
Commission expense	\$ 137,741
Clerical and administrative employees' expenses	829,938
Communications	84,699
Occupancy and equipment costs	299,827
Promotional costs	17,473
Regulatory fees, assessments and professional fees	26,964
Other	<u>40,869</u>
Total expenses	<u>1,437,511</u>
Income before income taxes	25,370
Income taxes	<u>800</u>
Net income	<u>24,570</u>
Other comprehensive income:	
Unrealized loss on securities	<u>(37,170)</u>
Other comprehensive income before tax	(37,170)
Deferred income tax expense (benefit) related to other comprehensive income	<u>(7,400)</u>
Other comprehensive income (loss), net of tax	<u>(29,770)</u>
Comprehensive income (loss)	<u>\$ (5,200)</u>

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

DIVERSIFIED SECURITIES, INC.
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

YEAR ENDED DECEMBER 31, 2008

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance, beginning of year	\$ 21,675	31,323	496,813	65,174	614,985
Net income for the year ended December 31, 2008	-	-	24,570	-	24,570
Other comprehensive income (loss)	-	-	-	(29,770)	(29,770)
Balance, at end of year	<u>\$ 21,675</u>	<u>31,323</u>	<u>521,383</u>	<u>35,404</u>	<u>609,785</u>

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

DIVERSIFIED SECURITIES, INC.**STATEMENT OF CASH FLOWS**

YEAR ENDED DECEMBER 31, 2008

Cash flows from operating activities:	
Net income	\$ 24,570
Adjustments to reconcile loss to net cash provided by operating activities:	
Depreciation	\$ 11,044
Unrealized loss in equity securities	7,400
(Increase) decrease in:	
Accounts receivable - Other	(73,732)
Prepaid expenses	19,948
Other assets	5,092
Increase (decrease) in:	
Payable to customers	69,500
Accounts payable and accrued expenses	(19,877)
Commissions payable	21,627
Other liabilities	33,094
Due to affiliates	1,312
Deferred income taxes payable	<u>(7,400)</u>
Total adjustments	<u>68,008</u>
Net cash flows provided by operating activities	92,578
Cash flows from investing activities	
	-
Cash flows from financing activities	
	-
Net increase in cash	92,578
Cash, beginning of year	<u>338,721</u>
Cash, end of year	<u>\$ 431,299</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:	
Interest	\$ -
Income taxes	<u>\$ 800</u>

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

DIVERSIFIED SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Company is a wholly-owned subsidiary of DSI Financial, Inc. The Company acts as an introducing broker/dealer and clears limited partnership transactions with and for its customers. The Company's primary business consists of facilitating limited partnership transfers for its affiliate, DSI Properties, Inc.

The Company's main office is located in Long Beach, California. It also maintains branch offices in Santa Ana, West Covina, and Visalia, California and Bend, Oregon. The Company's trading business is affected by economic fluctuations in the broker-dealer industry.

Security Transactions

Security transactions are reported on a trade date basis which is in conformity with generally accepted accounting principles.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is provided over their estimated useful lives ranging from five to ten years using the straight-line method.

Income Taxes

The Company files consolidated Federal and State corporate tax returns with its parent, DSI Financial, Inc., and is allocated a portion of the consolidated tax liability based upon its share of net income. Refunds which are the result of loss carrybacks are allocated based on the Company's share of the net loss. Deferred income taxes result primarily from timing differences in the reporting of California franchise tax expense for financial and tax purposes and the use of the accelerated cost recovery system for depreciating assets for Federal tax purposes.

Cash Equivalents

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. There were no cash equivalents at December 31, 2008.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting stockholder's equity that, under United States generally accepted accounting principles, are excluded from net income, such as gains and losses related to certain investment securities.

DIVERSIFIED SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

DECEMBER 31, 2008

(2) MARKETABLE EQUITY SECURITIES

Marketable equity securities, which are stated at market, are held for an indefinite period and thus are classified as available for sale. The aggregate fair value at December 31, 2008 was \$37,065. Unrealized holding gain on such securities, which was shown as accumulated other comprehensive income in the stockholder's equity, was \$35,404.

(3) CASH - RESERVE BANK ACCOUNTS

Cash of \$174,099 has been segregated in a special reserve bank account for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission.

(4) PROPERTY AND EQUIPMENT

Property and equipment is comprised of:

Office equipment	\$ 199,874
Leasehold improvements	<u>134,767</u>
	334,641
Less accumulated depreciation	<u>(287,361)</u>
Net property and equipment	\$ <u>47,280</u>

Depreciation expense for the year ended December 31, 2008, was \$11,044.

(5) RELATED PARTY TRANSACTIONS

The Company pays rent and administrative service costs totaling \$480,000 on behalf of affiliated companies. The entire amount was reimbursed as of December 31, 2008, and is shown as "Management fees - related party" in the accompanying Statement of Income and Comprehensive Income (Loss).

The following schedule identifies the components of the related party receivable(payable) balance:

DSI Financial, Inc.	\$ 1,466
DSI Properties, Inc.	<u>(13,448)</u>
	\$ <u>(11,982)</u>

(6) RESERVE REQUIREMENT - SEC RULE 15c3-3

The Company is subject to the full provision of SEC Rule 15c3-3 and prepares a computation of the Reserve Formula on a weekly basis.

DIVERSIFIED SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

DECEMBER 31, 2008

(7) INCOME TAXES

Income taxes consist of the following:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Current	\$ -	\$ 800	\$ 800
Deferred	<u>(4,600)</u>	<u>(2,800)</u>	<u>(7,400)</u>
	<u>\$ (4,600)</u>	<u>\$ (2,000)</u>	<u>\$ (6,600)</u>

Under the provisions of Financial Accounting Standards No. 109 (FAS 109), Accounting for Income Taxes, income taxes are accounted for using an asset and liability approach. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of other assets and liabilities.

Deferred income taxes result from the differences in recognition of California Franchise tax for accounting and tax purposes and the use of the accelerated cost recovery system for depreciating assets for Federal tax purposes. The tax effect of these timing differences was not material at December 31, 2008. Deferred income taxes benefit resulted from other gains and losses affecting stockholder's equity that are excluded from net income, such as gains and losses related to certain investment securities.

The Company is included in consolidated tax returns filed by the parent. The following is the aggregate income taxes for the parent and its subsidiaries:

	DSI Financial, Inc.	Diversified Securities, Inc.	DSI Properties, Inc.	Total
Federal:				
Current	\$ -	\$ -	\$ -	\$ -
Deferred	<u>-</u>	<u>(4,600)</u>	<u>-</u>	<u>(4,600)</u>
	<u>\$ -</u>	<u>\$ (4,600)</u>	<u>\$ -</u>	<u>\$ (4,600)</u>
State:				
Current	\$ 800	\$ 800	\$ 800	\$ 2,400
Deferred	<u>-</u>	<u>(2,800)</u>	<u>-</u>	<u>(2,800)</u>
Total income tax expense	<u>\$ 800</u>	<u>\$ (2,000)</u>	<u>\$ 800</u>	<u>\$ (400)</u>

DIVERSIFIED SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED

DECEMBER 31, 2008

(8) COMMITMENTS

The Company entered into operating leases relating to its offices in Long Beach, Santa Ana, Visalia, and West Covina, California. The lease agreements expire in various years through 2013.

The remaining minimum future rental payments under non-cancelable operating leases as of December 31, 2008, are approximately as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2009	\$ 318,772
2010	188,027
2011	193,655
2012	98,585
2013	<u>25,168</u>
Total minimum future rental payments	\$ <u>824,207</u>

The Company entered into a month-to-month lease for its office in Bend, Oregon. The monthly rent is \$850.

Rent expense for the year was \$124,769.

(9) CONCENTRATION OF CREDIT RISK FOR CASH HELD AT BANKS

The Company maintains a cash account at Union Bank which had a bank balance of \$419,079 at December 31, 2008. Accounts at this institution are insured up to \$250,000 by the Federal Deposit Insurance Corporation.

The Company also maintains a reserve bank account at the same bank. This account is required by the Securities and Exchange Commission and is fully insured by Securities Investor Protection Corporation.

(10) NET CAPITAL

The Company is subject to a \$250,000 minimum net capital requirement under SEC Rule 15c3-1 which requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. Net capital and the related net capital ratio fluctuate on a daily basis; however, as of December 31, 2008, the net capital ratio was .25 to 1 and net capital was \$407,512 which exceeded the required minimum capital by \$157,512.

DIVERSIFIED SECURITIES, INC.
COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
UNDER RULE 15c3-3

YEAR ENDED DECEMBER 31, 2008

Credits:	
Free credit and other credit balances in customer's accounts	\$ 69,599
Customers' securities failed to receive	<u>-</u>
	69,599
Debits	
	<u>-</u>
Excess of total credits over total debits	69,599
Amounts held on deposit in "Reserve Bank Account" at year-end	
	\$ 174,099
Amount of deposit (withdrawal) in "Reserve Bank Account" on January 2, 2009	<u>(99,500)</u>
Net amount in "Reserve Bank Account" after deposit	<u>74,599</u>
Amount in excess of that required to be deposited	<u>\$ 5,000</u>

The audited Computation for Determination of Reserve Requirements under Rule 15c3-3 as reported above agrees with the computation included in the unaudited Part IIA filing.

DIVERSIFIED SECURITIES, INC.
COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1

DECEMBER 31, 2008

Total ownership equity		\$ 609,785
Less non-allowable assets:		
Petty cash	\$ (600)	
Other receivable	(124,564)	
Property and equipment, net	(47,280)	
Other assets - deposits	<u>(24,269)</u>	
		<u>(196,713)</u>
Net capital before haircut		413,072
Haircut:		
Marketable equity securities (15% of \$37,065)	<u>(5,560)</u>	
		<u>(5,560)</u>
Net capital		<u>\$ 407,512</u>

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Minimum net capital required (6-2/3% of aggregate indebtedness)	\$ <u>6,908</u>
Minimum dollar net capital required	\$ <u>250,000</u>
Net capital requirement (greater of above two figures)	\$ <u>250,000</u>
Excess net capital	\$ <u>157,512</u>

COMPUTATION OF RATIO OF AGGREGATE INDEBTEDNESS

Total liabilities	\$ 154,692
Less:	
Other liabilities	(33,094)
Due to affiliates	(11,982)
Deferred income taxes	<u>(6,000)</u>
Total aggregate indebtedness	\$ <u>103,616</u>
Ratio of aggregate indebtedness to net capital	<u>.25 to 1</u>
Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)	<u>N/A</u>

DIVERSIFIED SECURITIES, INC.
RECONCILIATION OF NET CAPITAL

DECEMBER 31, 2008

Net capital as reported in unaudited Focus Report Part IIA		\$	401,424
Adjustments:			
Other receivable	\$	12,323	
Due to affiliates		1,312	
Income taxes - deferred		(7,400)	
Miscellaneous difference		<u>(147)</u>	
			<u>6,088</u>
Net capital as reported in audited financial statements		\$	<u>407,512</u>

The computation of net capital as reported in the unaudited Part IIA filing differs from the audited net capital for the reasons noted above. While such differences are material, the Company is in compliance with the minimum net capital requirement.

DIVERSIFIED SECURITIES, INC.
INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS
UNDER RULE 15c3-3

DECEMBER 31, 2008

1. Customers' fully paid securities not in the respondent's possession or control as of the report date (for which instructions to reduce to possession or control has been issued as of the report date) but for which the required action was not taken by respondent within the time frames specified under Rule 15c3-3.

\$ -

A. Number of items

 -

2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of the report date, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3.

\$ -

B. Number of items

 -

GOODRICH·BARON·GOODYEAR LLP

Certified Public Accountants

REPORT ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5

The Board of Directors
Diversified Securities, Inc.
Long Beach, California

In planning and performing our audit of the financial statements of Diversified 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 (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 17a5(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 compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e)
2. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13
3. 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
4. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

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, 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.



Long Beach, California
February 20, 2009

DIVERSIFIED SECURITIES, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

(With Independent Auditors' Report Thereon)

SEC Mail Processing
Section

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