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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 Section
PART III FEB 27 2009

SEC FILE NUMBER
8-22911

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: CAPITALQUEST SECURITIES, INC.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

105 FIFTH AVE. S., SUITE 300

(No. and Street)

MINNEAPOLIS

MINNESOTA

55401

(City)

(State)

(Zip Code)

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

DARLY P. EKSTROM

(612) 604-0951

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

BLANSKI PETER KRONLAGE & ZOCH, P.A.

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

7500 OLSON MEMORIAL HWY, SUITE 200 MINNEAPOLIS

MN

55427

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED
 MAR 13 2009
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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) 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.

BB
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OATH OR AFFIRMATION

I, DARRYL P. EKSTROM, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CAPITALQUEST 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:

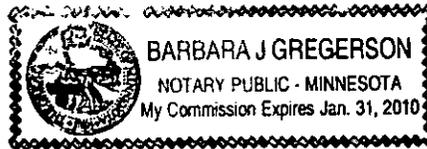
D P Ekstrom

Signature

PRESIDENT

Title

Barbara J Gregerson
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 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 control

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

CAPITALQUEST SECURITIES, INC.

**REPORT ON EXAMINATION OF
FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION PURSUANT TO
RULE 17A-5 OF THE SECURITIES AND
EXCHANGE COMMISSION**

YEARS ENDED DECEMBER 31, 2008 AND 2007

CAPITALQUEST SECURITIES, INC.
YEARS ENDED DECEMBER 31, 2008 AND 2007

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Going beyond what MUST be done...to what CAN be done.®

**Board of Directors
CapitalQuest Securities, Inc.
Minneapolis, Minnesota**

We have audited the accompanying statements of financial condition of **CapitalQuest Securities, Inc.** (S Corporation) as of December 31, 2008 and 2007, and the related statements of operations, changes in stockholder's equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the years 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 **CapitalQuest Securities, Inc.** as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on page 10 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.

Blanski Peter Kronlage & Zoch, PA

February 25, 2009

7500 Olson Memorial Hwy, Ste 200, Minneapolis, MN 55427

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CAPITALQUEST SECURITIES, INC.
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2008 AND 2007

	ASSETS	
	2008	2007
Current assets:		
Cash	\$ 18,841	\$ 27,241
Receivables from brokers or dealers	41,902	74,981
Investments	7,413	14,847
Other accounts receivable	24,572	26,056
Prepaid expense	54,684	32,418
Total current (all) assets	\$ 147,412	\$ 175,543

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 4,197	\$ 2,572
Commissions payable	32,894	48,436
Total current liabilities	37,091	51,008
Liabilities subordinated to claims of general creditors (Note 6)	25,000	25,000
Stockholders' equity:		
Common stock - \$1 par value; (authorized - 25,000 shares; issued - 2,940 shares)	2,940	2,940
Additional paid-in capital	47,060	47,060
Retained earnings	35,321	49,535
	85,321	99,535
	\$ 147,412	\$ 175,543

CAPITALQUEST SECURITIES, INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Revenues:		
Commissions	\$ 548,850	\$ 539,319
Unrealized gain (loss) on securities	(7,434)	5,610
Interest income	28	-
Other	-	35,000
	<u>541,444</u>	<u>579,929</u>
Expenses:		
Commissions (Note 5)	380,387	398,336
Professional fees	20,679	7,575
Regulatory fees	7,914	5,842
Interest	2,511	1,990
Depreciation	-	390
Insurance expense	25,472	25,126
Office expense	31,016	34,200
Other operating expenses (Note 5)	30,725	28,983
Rent expense	21,989	21,728
Administrative fee (Note 5)	34,965	16,178
	<u>555,658</u>	<u>540,348</u>
Net income (loss)	\$ <u>(14,214)</u>	\$ <u>39,581</u>

CAPITALQUEST SECURITIES, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 2006	\$ 2,940	\$ 47,060	\$ 9,954	\$ 59,954
Net income	_____	_____	<u>39,581</u>	<u>39,581</u>
Balance, December 31, 2007	2,940	47,060	49,535	99,535
Net loss	_____	_____	<u>(14,214)</u>	<u>(14,214)</u>
Balance, December 31, 2008	\$ <u>2,940</u>	\$ <u>47,060</u>	\$ <u>35,321</u>	\$ <u>85,321</u>

See notes to financial statements

CAPITALQUEST SECURITIES, INC.
STATEMENTS OF CHANGES IN LIABILITIES SUBORDINATED
TO CLAIMS OF GENERAL CREDITORS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>Total</u>
Balance, December 31, 2006	\$ 25,000
Changes	<u>0</u>
Balance, December 31, 2007	25,000
Changes	<u>0</u>
Balance, December 31, 2008	<u>\$ 25,000</u>

CAPITALQUEST SECURITIES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net income (loss)	\$ (14,214)	\$ 39,581
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation	-	390
Investments	7,434	(5,610)
 (Increase) decrease in assets:		
Receivables from brokers or dealers	33,079	5,401
Other accounts receivable	1,484	(85,428)
Prepaid expense	(22,266)	10,215
 Increase (decrease) in liabilities:		
Accounts payable	1,625	387
Commissions payable	<u>(15,542)</u>	<u>(13,867)</u>
 Net cash used by operating activities - decrease in cash	(8,400)	(48,931)
 Cash at beginning of year	<u>27,241</u>	<u>76,172</u>
 Cash at end of year	<u>\$ 18,841</u>	<u>\$ 27,241</u>
 Supplemental information:		
Interest paid during the year	<u>\$ 2,511</u>	<u>\$ 1,990</u>

CAPITALQUEST SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

1. Organization and nature of business:

CapitalQuest Securities, Inc. (the Company) is a securities broker-dealer under the Securities and Exchange Act of 1934 and is a member of the National Association of Securities Dealers (NASD). The Company is a registered broker-dealer in the state of Minnesota.

Securities transactions are recorded on a settlement date basis, generally the third business day following the transaction date. Commission income and expense related to securities transactions executed but not settled was not significant.

2. Summary of significant accounting policies:

Use of estimates:

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Investments:

The Company invests in certain debt and equity securities which are classified as trading securities. These investments are reported at fair value, with unrealized gains and losses included in earnings.

Following is a summary of trading securities at December 31, 2008:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Holding Gains Prior</u>	<u>Unrealized Holding Losses Current</u>	<u>Unrealized Holding Gains Total</u>
Debt and equity securities	<u>\$ 3,300</u>	<u>\$ 7,413</u>	<u>\$ 11,547</u>	<u>\$ (7,434)</u>	<u>\$ 4,113</u>

Following is a summary of trading securities at December 31, 2007:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Holding Gains Prior</u>	<u>Unrealized Holding Gains Current</u>	<u>Unrealized Holding Gains Total</u>
Debt and equity securities	<u>\$ 3,300</u>	<u>\$ 14,847</u>	<u>\$ 5,937</u>	<u>\$ 5,610</u>	<u>\$ 11,547</u>

CAPITALQUEST SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2008 AND 2007

2. Summary of significant accounting policies (continued):

Receivables from brokers or dealers and other accounts receivable:

The Company records amounts receivable for commissions and expenses due from broker-dealers. The balances are unsecured, and the Company does not charge interest on past due amounts

An allowance for doubtful accounts has not been established at December 31, 2008 and 2007. Based on the Company's past collection experience and management's analysis of outstanding balances as of December 31, 2008 and 2007, an allowance is not considered necessary. Amounts not paid within 30 days are considered past due. Management charges off uncollectible accounts based on prior experience and analysis of the balance. No balances were outstanding over 90 days as of December 31, 2008 and 2007.

Income taxes:

The Company, with the consent of its shareholders, has elected under the Internal Revenue Code to be an S Corporation. In lieu of corporation income taxes the shareholder of an S Corporation is taxed personally on the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in these financial statements.

Reclassifications:

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

3. Exemption:

The Company does not hold customer securities or perform custodial functions relating to customer accounts and, therefore, is exempt from the possession and control requirements of Rule 15c3-3 under the provisions of Rule 15c3-3 Paragraph k (2) (i).

4. Net capital requirements:

The Company is subject to the Securities and Exchange Commission's uniform net capital rule (Rule 15c3-1) which requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed fifteen to one. Net capital and the related net capital ratio fluctuate on a daily basis; however, at December 31, 2008 and 2007 the Company had net capital of \$23,315 and \$38,237, respectively, which exceeded the minimum capital requirement by \$18,315 and \$33,237, respectively. The ratio of aggregate indebtedness to net capital was 1.591 to 1 and 1.334 to 1, respectively, as of December 31, 2008 and 2007.

5. Related party transactions:

During the years ended December 31, 2008 and 2007 commissions paid to shareholders totaled \$181,264 and \$169,885, respectively, which is included in Commissions in the accompanying Statements of Operations.

CAPITALQUEST SECURITIES, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2008 AND 2007

5. Related party transactions (continued):

The Company currently leases office space from an entity affiliated with the three minority shareholders on a month-to-month basis. In addition, the Company pays a monthly fee to this same entity as reimbursement for shared administrative personnel. Total rent expense of \$21,989 and \$21,728 was charged to operations during the years ended December 31, 2008 and 2007, respectively. Total charges for the administrative fee were \$25,000 for both the years ended December 31, 2008 and 2007 and are included in other operating expenses in the accompanying Statements of Operations.

In addition, during the years ended December 31, 2008 and 2007 the Company paid an administrative fee of \$34,965 and \$16,178, respectively, to a company affiliated with the majority shareholder.

6. Liabilities subordinated to claims of general creditors:

Effective July 31, 2004 the Company entered into a subordinated loan agreement under which the Company borrowed \$25,000. Interest is due and payable quarterly at 10%. Repayment of the note balance was due July 31, 2007. During the year ended December 31, 2007 the subordinated amount was renewed under two agreements, one with the majority shareholder and one with a related party owned by the minority shareholders. The notes expire July and December 2010 and bear interest at 10% per annum. Interest expense and accrued interest to the majority shareholder under one of the notes was \$1,276 and \$538 for the years ended December 31, 2008 and 2007, respectively. Advances on the second note were effective as of December 31, 2007. Interest expense under the second note was \$1,235 for the year ended December 31, 2008.

The Agreements have been approved by the National Association of Securities Dealers, Inc. as subordinated loans, and thus are available in the computation of net capital under the Securities and Exchange Commission's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with the minimum net capital requirements, they cannot be repaid.

CAPITALQUEST SECURITIES, INC.
COMPUTATION OF NET CAPITAL, MINIMUM NET CAPITAL
REQUIREMENT, AND AGGREGATE INDEBTEDNESS
DECEMBER 31, 2008

Net Capital		
Stockholders' equity		\$ 85,321
Add subordinated notes payable		<u>25,000</u>
Total capital and allowable subordinated liabilities		110,321
Deductions:		
Non-allowable receivables	\$ 31,210	
Prepaid expense	<u>54,684</u>	
		<u>85,894</u>
Net capital before haircuts on security positions		24,427
Less: haircuts on security positions		<u>(1,112)</u>
Net capital		<u><u>\$ 23,315</u></u>
Computation of Minimum Net Capital Requirement		
Minimum net capital required		<u><u>\$ 5,000</u></u>
Excess net capital		<u><u>\$ 18,315</u></u>
Aggregate Indebtedness		
Accounts payable		\$ 4,197
Commissions payable		<u>32,894</u>
Total aggregate indebtedness		<u><u>\$ 37,091</u></u>
Ratio: Aggregate indebtedness to net capital		<u><u>1.591 to 1</u></u>

There were no material variances between this computation of net capital and the Registrant's computation filed with Part IIA Form X-17A-5. Accordingly, no reconciliation is necessary.

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**INDEPENDENT AUDITORS' SUPPLEMENTARY
REPORT ON INTERNAL CONTROL
REQUIRED BY SEC RULE 17a-5**

Board of Directors
CapitalQuest Securities, Inc.
Minneapolis, Minnesota

In planning and performing our audit of the financial statements and supplemental schedules of **CapitalQuest 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, including 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 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) including making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemption provisions of Rule 15c3-3(e). 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 the recordation of differences required by rule 17a-3.
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.
3. Obtaining and maintaining the 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 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

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Because of inherent limitations in internal control or 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 accounting principles generally accepted in the United States of America 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 result 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 were adequate at December 31, 2008 to meet the SEC's objectives.

In addition, our review indicated that **Capitalquest Securities, Inc.** was in compliance with the conditions of exemption from Rule 15c3-3 pursuant to paragraph k(2)(i) as of December 31, 2008, and no facts came to our attention to indicate that such conditions had not been complied with during the period.

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.

Blanski Peter Kronlogel + Zoch, P.A.

February 25, 2009

END