

***XMS CAPITAL PARTNERS, LLC
AND SUBSIDIARIES***

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION AND
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
PURSUANT TO RULE 17a-5
DECEMBER 31, 2018

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
8-67502

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 01/01/18 and ending 12/31/18

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
XMS Capital Partners, LLC

Official Use Only

Firm ID No.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do not use P.O. Box No.):
321 N. Clark Street, Suite 2440

(No. and Street)

Chicago

(City)

Illinois

(State)

60654

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS
REPORT: Theodore Brombach (312) 262-5642

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
DeMarco Sciacotta Wilkens & Dunleavy, LLP

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

9645 Lincolnway Lane, Suite 214A

(No. and Street)

Frankfort

(City)

Illinois

(State)

60423

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant, not resident in United States or any of its possessions

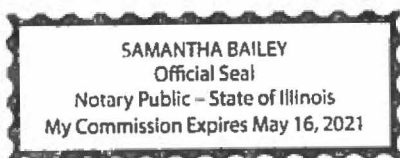
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*Claims for exemption from the requirement that the annual report covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2)

OATH OR AFFIRMATION

I, **Theodore Brombach**, swear (or affirm) that, to the best of my knowledge and belief, the accompanying financial statement and supporting schedules pertaining to the firm of XMS Capital Partners, LLC, as of December 31, 2018, 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.



A handwritten signature in black ink, appearing to read "Theodore Brombach", written over a horizontal line.

Signature

Managing Partner
Title

A handwritten signature in black ink, appearing to read "Samantha Bailey", written over a horizontal line.

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 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 15c-3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c-3-3.
- ☐ (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 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) Exemption report.

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



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
XMS Capital Partners, LLC and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated statement of financial condition of XMS Capital Partners, LLC and Subsidiaries, (the "Company") as of December 31, 2018, and the related notes (collectively referred to as the financial statements). In our opinion, the statement of financial condition presents fairly, in all material respects, the financial position of XMS Capital Partners, LLC and Subsidiaries as of December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

We have served as XMS Capital Partners, LLC and Subsidiaries's auditor since 2013.

DeMarco Sciacotta Wilkens & Dunleavy LLP

Frankfort, Illinois
February 25, 2019

**XMS CAPITAL PARTNERS, LLC
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2018**

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 7,109,556
Receivables:	
Accounts receivable	548,145
Due from related parties	6,949,913
Investments in common stock, at fair value	17,300
Investment in limited liability companies, at cost	92,556
Prepaid expenses and deposits	<u>5,661</u>
Total Current Assets	<u>14,723,131</u>
Property and Equipment	
Vehicles	127,438
Leasehold Improvements	31,917
Office equipment	37,419
Computer equipment and software	11,375
Furniture and fixtures	<u>96,721</u>
	304,870
Less: accumulated depreciation and amortization	<u>236,887</u>
Net Property and Equipment	<u>67,983</u>
TOTAL ASSETS	<u>\$ 14,791,114</u>
LIABILITIES AND MEMBER'S EQUITY	
Current Liabilities	
Accounts payable	\$ 211,032
Capital Lease Obligation	<u>7,296</u>
Total Current Liabilities	<u>218,328</u>
Long-Term Liabilities	
Deferred rent	35,947
Obligations under capital leases	<u>4,084</u>
Total Long-term Liabilities	<u>40,031</u>
Member's Equity	<u>14,532,755</u>
TOTAL LIABILITIES AND MEMBER'S EQUITY	<u>\$ 14,791,114</u>

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

XMS CAPITAL PARTNERS, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018

1 - Nature Of Business

XMS Capital Partners, LLC ("XMS") is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA). XMS serves clients in the United States and abroad.

XMS was organized September 22, 2006, pursuant to the Delaware Limited Liability Company Act. Under the Delaware Limited Liability Company Act, neither a member nor a manager of an LLC is personally liable for a debt, obligation, or liability of the LLC arising in a contract, tort, or otherwise.

XMS claims exemption to SEC Rule 15c3-3 under subparagraph (k)(2)(i), due to its limited business as stated in its FINRA membership agreement.

In 2012, XMS created a wholly-owned subsidiary, XMS Capital Partners Ireland Limited (Ireland Subsidiary), located in Dublin, Ireland. XMS Ireland serves clients abroad and is capitalized with 100 shares authorized at 1 Euro par value.

In 2013, XMS created a wholly-owned subsidiary, XMS Capital Partners UK Limited (UK Subsidiary), located in London, England. XMS UK is capitalized with 65,000 shares at 1 Sterling a share.

XMS Holdings, LLC was created on April 20, 2016 and is owned by the two members who owned XMS Capital Partners, LLC. XMS Holdings, LLC owns XMS Capital Partners, LLC and its subsidiaries and it owns XMS Asset Management, LLC which owns XA Investments, LLC.

In January of 2018, XMS Holdings LLC created a wholly-owned subsidiary of XMS Asset Management called X3 Mining LLC. X3 Mining LLC is a cryptocurrency mining and trading company.

2 - Summary Of Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the United States of America ("GAAP").

These consolidated financial statements include the accounts of the XMS Capital Partners, LLC and its wholly-owned subsidiaries, XMS Capital Partners Ireland Limited and XMS Capital Partners UK Limited (collectively "Company"). All significant intercompany balances and transactions have been eliminated.

The preparation of consolidated financial statements in conformity with GAAP 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and equipment are stated at cost. Significant costs of improvements are capitalized and repair costs are charged to expense as incurred. The cost of assets sold, retired, or abandoned and the related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is included in earnings. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, which range from five to ten years.

No provision for federal taxes on income is required since the member reports its proportionate shares of taxable income in its respective income tax returns. The Company is subject to certain state taxes.

XMS CAPITAL PARTNERS, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018

2 - Summary Of Significant Accounting Policies cont.

In accordance with GAAP, the tax effects from an uncertain tax position can be recognized in the consolidated financial statements, only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized, upon ultimate settlement with the relevant tax authority. The Company did not have any uncertain tax positions as of December 31, 2018.

The Company is no longer subject to examination by taxing authorities for years prior to December 31, 2015.

The Company's investments in common stock are classified as available for sale and reported at fair value, with unrealized gains and losses reported on the income statement. The fair value is determined by the quoted market price on the last business day of the year using prevailing financial market information.

The Company's investments in limited liability companies are stated at cost.

On January 1, 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers ("Topic 606") using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. There was no impact to member's equity as of January 1, 2018 as revenue recognition and timing of revenue did not change as a result of implementing ASC Topic 606.

Success Fee Revenue

Success Fee revenue represents fees charged to client when an engagement has come to a close within terms of the engagement letter agreed upon with the client. The revenues are recorded on the closing date of the transaction.

Consulting Fee Revenue

Consulting Fee revenue represents fees charged to clients when an engagement has come to a close within terms of the engagement letter agreed upon with the client.

Retainer Fee Revenue

Retainer fee revenue represents fees charged to clients for an ongoing investment advice or monthly analysis being completed leading up to a success fee. Retainer fees often are halted if the specified engagement is not being worked on during a particular month and will remain halted until work resumes on the specified project noted per the engagement letter with the client. At December 31, 2018 there were no material unearned fees related to retainer income.

Management establishes an allowance for doubtful accounts based on its knowledge of the client, historic loss experience, and current economic conditions. Losses are charged off to the allowance when management deems further collection efforts will not produce additional recoveries. Management has determined no allowance for doubtful is needed as of December 31, 2018.

**XMS CAPITAL PARTNERS, LLC
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3 - Concentration Of Credit Risk

The Company maintains cash accounts at two financial institutions in the United States, one in Dublin, Ireland and one in London, England and has credit risk for balances in excess of federally insured limits. There are three functional currency cash accounts in Dublin, Ireland; one is in Euros, one is in Sterling, and one is in USD. The functional currency of the cash account in London, England is Sterling. Monetary assets and liabilities are translated at exchange rates in effect at the end of the year. Revenue and expense accounts are translated at historical rates. There were no material gains or losses from the translation of Euros or Sterling into U.S. dollars for the year ended December 31, 2018.

4 - Major Customers

Revenue from three clients amounted to approximately 54% of total revenue for the year ended December 31, 2018.

5 - Marketable Securities And Fair Value Measurements

Financial Accounting Standards Board Codification 820, Fair Value Measurements and Disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of observable inputs other than quoted market prices for identical assets; and Level 3 inputs have the lowest priority. The Company uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Company measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 and Level 2 inputs are not available.

Level 1 Fair Value Measurements

The fair value of investments in common stock shown below is based on the quoted market price of the shares held by the Company at the end of the year.

	Cost	Unrealized Loss	Fair Value
Collectar Biosciences	\$ 150,000	\$ (134,500)	\$ 15,500
EnSync Inc	<u>18,500</u>	<u>(16,700)</u>	<u>1,800</u>
Total	<u>\$ 168,500</u>	<u>\$ (151,200)</u>	<u>\$ 17,300</u>

**XMS CAPITAL PARTNERS, LLC
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018**

6 - Lease Commitments

The Company leases a copier in accordance with the terms of a capital lease requiring monthly payments of \$557 through March 2021. The cost of the copier is included in office equipment, and the total accumulated amortization is noted in the table below. Amortization on the copier, included in amortization expense, was \$6,300 for the year ended December 31, 2018

Assets recorded under capital lease consisted of the following at December 31, 2018:

Copier	\$ 31,500
Less: accumulated amortization	<u>15,225</u>
Net equipment held under capital lease	<u>\$ 16,275</u>

The Company leases office space in Chicago, Illinois under an operating lease agreement expiring February 28, 2024, with an option to extend for 5 years. The lease requires the Company to maintain as a security deposit an irrevocable letter of credit in the amount of \$120,000. The Letter of Credit is provided by RiverWood bank. Rent expense, including the operating and tax expenses, was \$252,434 for the year ended December 31, 2018.

Future minimum lease payments under all non-cancelable leases are as follows:

<u>Years ending December 31,</u>	<u>Operating</u>
2019	121,108
2020	124,003
2021	126,898
2022	129,793
2023	132,688
Thereafter	<u>22,195</u>
Total	<u>\$ 656,683</u>

XMS Capital Partners Ireland Limited rents office space with a month to month agreement for 1,687 Euros per month plus applicable value added tax.

XMS Capital Partners UK Limited started renting "virtual" office space in 2015 on a month-to-month basis for 200 Sterling per month plus applicable value added tax.

7 - Letter of Credit

In March of 2018, the Company entered into an unsecured line of credit with RiverWood Bank for \$120,000. The letter of credit bears interest at 5.00% with an expiration date of March 02, 2019. At December 31, 2018, no amounts have been drawn on the letter of credit.

XMS CAPITAL PARTNERS, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018

8 - Defined Contribution Plan

The Company sponsors a defined contribution plan in connection with its agreement with a co-employer that covers all eligible employees of the Company, as defined in the plan. There were no employer contributions to the plan for the year ended December 31, 2018.

9 - Commitments

The Company is expecting to make discretionary distributions to the members in first or second quarter of 2019. The amount is expected to be approximately \$1,000,000 to cover 2018 income tax expense to the partners and normal distributions.

10 - Related Party Transactions

The Company has related party transactions with its affiliate XA Investments, LLC. XA Investments, LLC is a subsidiary of XMS Holdings, LLC, which is the parent company to XMS Capital Partners, LLC. The transactions are primarily comprised of advances for payroll, rental space expense and various office expenses. As of December 31, 2018, the amount due was \$6,939,764. XAI has begun to generate revenue as of October 2017. The members of XMS Holdings LLC have committed to making capital contributions to XAI if needed.

The Company has related party transactions with its affiliate X3 Mining. X3 Mining is a subsidiary of XMS Holdings, LLC, which is parent company to XMS Capital Partners, LLC. The transactions are primarily for fixed assets and office expenses. As of December 31, 2018, the amount due was \$10,149.

11 - Net Capital Requirements

Net Capital Requirements are only calculated on XMS Capital Partners USA entity. XMS Capital Partners USA is subject to the Securities and Exchange Act of 1934 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 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). XMS Capital Partners USA's net capital requirement is the greater of \$5,000 or 6 2/3% of the total aggregate indebtedness, calculated to be \$26,453. As of December 31, 2018, XMS Capital Partners USA had net capital of \$6,301,661 as calculated in accordance with Rule 15c3-1, which was \$6,275,208 in excess of its required net capital. XMS Capital Partners USA's aggregate indebtedness to net capital ratio was 0.06 to 1.