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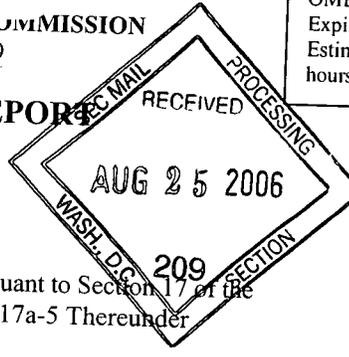
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

**FACING PAGE**

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	January 31, 2007
Estimated average burden hours per response...	12.00
SEC FILE NUMBER	
8-47638	



REPORT FOR THE PERIOD BEGINNING 07/01/05 AND ENDING 06/30/06  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

DLS Capital Partners, Inc.

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

4345 Park Lane

(No. and Street)

Dallas

(City)

TX

(State)

75220

(Zip Code)

OFFICIAL USE ONLY
FIRM ID. NO.

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

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

CF & Co., L.L.P.

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

14175 Proton Rd.

(Address)

Dallas

(City)

TX

(State)

75244

(Zip Code)

**CHECK ONE:**

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

**PROCESSED**

SEP 11 2006

J THOMSON  
FINANCIAL

FOR OFFICIAL USE ONLY
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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)

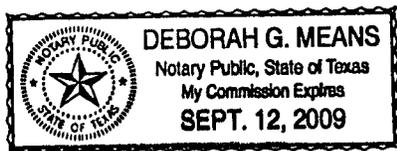
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

*Handwritten signature/initials*

## OATH OR AFFIRMATION

I, Neil Dorflinger, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of DLS Capital Partners, Inc., as of June 30, 2006, 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:

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



Neil Dorflinger  
Signature

Director

Title

Deborah G. Means  
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 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 auditor's report on internal control

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

DLS CAPITAL PARTNERS, INC.

REPORT PURSUANT TO RULE 17a-5(d)

YEAR ENDED

JUNE 30, 2006

DLS CAPITAL PARTNERS, INC.

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*CF & Co., L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors  
DLS Capital Partners, Inc.

We have audited the accompanying statement of financial condition of DLS Capital Partners, Inc., as of June 30, 2006, and the related statements of income, changes in stockholders' equity, changes in liabilities subordinated to claims of general creditors, 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 DLS Capital Partners, Inc., as of June 30, 2006 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the Schedules I and II 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.

*CF & Co., L.L.P.*  
CF & Co., L.L.P.

Dallas, Texas  
August 8, 2006

DLS CAPITAL PARTNERS, INC.  
Statement of Financial Condition  
June 30, 2006

ASSETS

Receivable from broker-dealers and clearing organizations	\$ 921,274
Securities owned at market value	1,518,284
Other assets	<u>659</u>
	<u>\$ 2,440,217</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities	
Accounts payable	\$ 6,879
Payable to clearing broker	1,058,275
Securities sold, not yet purchased, at market value	122,908
Payable to Parent-income taxes	<u>30,050</u>
	<u>1,218,112</u>
Stockholders' equity	
Common stock - \$.01 par value, 10,000 shares authorized, 1,000 shares issued and outstanding	10
Additional paid-in capital	853,672
Retained earnings	<u>368,423</u>
Total stockholders' equity	<u>1,222,105</u>
	<u>\$ 2,440,217</u>

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

DLS CAPITAL PARTNERS, INC.  
Statement of Income  
For the Year Ended June 30, 2006

<b>Revenues</b>	
Gains or losses on firm securities trading accounts	\$ 595,149
Securities commissions	49,446
Interest income	114,515
Other income	<u>25,024</u>
	<u>784,134</u>
<b>Expenses</b>	
Compensation and benefits	341,703
Commissions and clearance paid to all other brokers	53,946
Interest expense	49,585
Communications	24,501
Occupancy and equipment costs	36,616
Regulatory fees and expenses	5,751
Other expenses	<u>169,828</u>
	<u>681,930</u>
Net income before income taxes	102,204
(Provision) benefit for federal income tax	(30,050)
(Provision) benefit for state income tax	<u>(520)</u>
Net income	<u>\$ 71,634</u>

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

DLS CAPITAL PARTNERS, INC.  
Statement of Changes in Stockholders' Equity  
For the Year Ended June 30, 2006

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balances at June 30, 2005	\$ 10	\$ 853,672	\$ 296,789	\$ 1,150,471
Net income	_____	_____	71,634	71,634
Balances at June 30, 2006	<u>\$ 10</u>	<u>\$ 853,672</u>	<u>\$ 368,423</u>	<u>\$ 1,222,105</u>

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

DLS CAPITAL PARTNERS, INC.  
Statement of Changes in Liabilities Subordinated  
to Claims of General Creditors  
For the Year Ended June 30, 2006

Balance at June 30, 2005	\$ -0-
Increases	-0-
Decreases	<u>-0-</u>
Balance at June 30, 2006	<u>\$ -0-</u>

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

DLS CAPITAL PARTNERS, INC.  
Statement of Cash Flows  
For the Year Ended June 30, 2006

<b>Cash flows from operating activities</b>	
Net income	\$ 71,634
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Change in assets and liabilities:	
Decrease in receivable from broker-dealers and clearing organizations	234,097
Increase in securities owned at market value	(61,815)
Decrease in receivable from Parent – income taxes	188,500
Decrease in other assets	85
Increase in accounts payable	2,803
Decrease in securities sold, not yet purchased	(452,704)
Decrease in payable to clearing broker	(12,650)
Increase in payable to Parent-income taxes	<u>30,050</u>
Net cash provided (used) by operating activities	<u>-0-</u>
<b>Cash flows from investing activities</b>	
Net cash provided (used) by investing activities	<u>-0-</u>
<b>Cash flows from financing activities</b>	
Net cash provided (used) by financing activities	<u>-0-</u>
Net increase (decrease) in cash	-0-
Cash at beginning of period	<u>-0-</u>
Cash at end of period	<u>\$ -0-</u>
<b>Supplemental cash flows disclosures:</b>	
Interest payments	<u>\$ 49,585</u>
Income tax payments (paid to Parent)	<u>\$ -0-</u>

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

DLS CAPITAL PARTNERS, INC.  
Notes to Financial Statements  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies

DLS Capital Partners, Inc. (the "Company") operates as a broker-dealer in securities registered with the Securities and Exchange Commission (SEC) under Rule 15c3-3(K)(2)(ii) which provides that all funds and securities belonging to the Company's customers would be handled by a clearing broker-dealer. Substantially all of the Company's revenues are derived from the trading of securities for its own account.

DLS Capital Partners, Inc. is owned by DLS Holdings, Inc., (the "Parent").

Compensated absences have not been accrued because the amount cannot be reasonably estimated.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due. The provision for federal income taxes differs from the expected amount using statutory rates because certain expenses included in the determination of net income are non-deductible for tax reporting purposes.

Purchases and sales of securities are recorded on a trade date basis. Commission revenue and expense are recorded on a settlement date basis, generally the third business day following the transactions. If materially different, commission revenue and expense are adjusted to a trade date basis.

Securities sold but not yet purchased represent an obligation of the Company to deliver specified equity securities at a predetermined price. The Company is obligated to acquire the securities at prevalent market prices in the future to satisfy this obligation.

Marketable securities owned and securities sold but not yet purchased are recorded at quoted market value. Securities and investments which are not readily marketable are carried at fair value as determined by management of the Company. Unrealized gains and losses are credited or charged to operations. The Company's securities are being held by the clearing broker-dealer. Should the clearing broker-dealer fail to deliver securities to the Company, the Company may be required to purchase identical securities on the open market.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DLS CAPITAL PARTNERS, INC.

Notes to Financial Statements

June 30, 2006

Note 2 - Net Capital Requirements

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. Net capital and the related net capital ratio may fluctuate on a daily basis. At June 30, 2006, the Company had net capital of approximately \$988,875 and net capital requirements of \$100,000. The Company's ratio of aggregate indebtedness to net capital was .037 to 1. The Securities and Exchange Commission permits a ratio of no greater than 15 to 1.

Note 3 - Possession or Control Requirements

The Company does not have any possession or control of customer funds or securities. There were no material inadequacies in the procedures followed in adhering to the exemptive provisions of (SEC) Rule 15c3-3(k)(2)(ii) by promptly transmitting all customer funds and securities to the clearing broker who carries the customer accounts.

Note 4 - Securities Owned

Securities owned and sold, not yet purchased represent trading and investment securities at quoted market values, and at June 30, 2006 consist of the following:

	<u>Owned</u>	<u>Sold Not Yet Purchased</u>
Equities	\$ 221,423	\$ 109,780
Corporate bonds	989,886	13,128
Options	3,138	
Registered investment companies	<u>303,837</u>	<u>          </u>
	<u>\$1,518,284</u>	<u>\$ 122,908</u>

Note 5 - Income Taxes

The Company files a consolidated income tax return with the Parent. Income taxes are recorded using the separate company method to comply with FASB Statement 109. Any resulting provision or benefit for income taxes is recorded as receivable from or payable to the Parent.

DLS CAPITAL PARTNERS, INC.  
Notes to Financial Statements  
June 30, 2006

Note 6 - Related Party Transactions

During the year ended June 30, 2006 the Company paid rent of \$30,000 to a shareholder of the Parent.

Note 7 - Payable to Clearing Broker

The payable to clearing broker represents the amount due for unsettled trading securities owned. Interest is charged on this payable at the prevailing margin rate, which was 7.5% at June 30, 2006.

Note 8 - Commitments and Contingencies

Included in the Company's clearing agreement with its clearing broker-dealer, is an indemnification clause. This clause relates to instances where the Company's customers fail to settle security transactions. In the event this occurs, the Company will indemnify the clearing broker-dealer to the extent of the net loss on the unsettled trade. At June 30, 2006, management of the Company had not been notified by the clearing broker-dealer, nor were they otherwise aware, of any potential losses relating to this indemnification.

Supplemental Information  
Pursuant to Rule 17a-5  
of the Securities Exchange Act of 1934  
as of  
June 30, 2006

**Schedule I**

DLS CAPITAL PARTNERS, INC.  
Computation of Net Capital Under Rule 15c3-1  
of the Securities and Exchange Commission  
As of June 30, 2006

**COMPUTATION OF NET CAPITAL**

Total stockholders' equity qualified for net capital			\$ 1,222,105
Deduction and/or charges:			
Other assets			<u>(659)</u>
Net capital before haircuts on securities positions			1,221,446
Haircuts on securities (computed, where applicable, pursuant to rule 15c3-1(f)):			
Debt securities	\$	152,563	
Other securities		58,895	
Undue concentration		<u>21,113</u>	<u>(232,571)</u>
Net capital			<u>\$ 988,875</u>

**AGGREGATE INDEBTEDNESS**

Accounts payable	\$	6,879	
Payable to Parent-income taxes		<u>30,050</u>	
Total aggregate indebtedness			<u>\$ 36,929</u>

**Schedule I (continued)**

DLS CAPITAL PARTNERS, INC.  
Computation of Net Capital Under Rule 15c3-1  
of the Securities and Exchange Commission  
As of June 30, 2006

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

Minimum net capital required (6 2/3% of total aggregate indebtedness)	<u>\$ 2,463</u>
Minimum dollar net capital requirement of reporting broker or dealer	<u>\$ 100,000</u>
Net capital requirement (greater of above two minimum requirement amounts)	<u>\$ 100,000</u>
Net capital in excess of required minimum	<u>\$ 888,875</u>
Excess net capital at 1000%	<u>\$ 985,182</u>
Ratio: Aggregate indebtedness to net capital	<u>.037 to 1</u>

**RECONCILIATION WITH COMPANY'S COMPUTATION**

The differences in the computation of net capital under Rule 15c3-1 from the Company's computation are as follows:

Net capital per Company's (unaudited) Focus II report	\$1,016,383
Decrease in non-allowable assets	2,542
Increase in payable to Parent-income taxes	<u>(30,050)</u>
Net capital per audited report	<u>\$ 988,875</u>

**Schedule II**

DLS CAPITAL PARTNERS, INC.  
Computation for Determination of Reserve Requirements Under  
Rule 15c3-3 of the Securities and Exchange Commission  
As of June 30, 2006

**EXEMPTIVE PROVISIONS**

The Company has claimed an exemption from Rule 15c3-3 under section (k)(2)(ii), in which all customer transactions are cleared through another broker-dealer on a fully disclosed basis.

Company's clearing firm: First Southwest Company

Independent Auditor's Report

On Internal Control

Required By SEC Rule 17a-5

For the Year Ended

June 30, 2006



**CF & Co., L.L.P.**

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL REQUIRED BY SEC RULE 17a-5

The Board of Directors  
DLS Capital Partners, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of DLS Capital Partners, Inc., (the "Company"), for the year ended June 30, 2006, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

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 tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. 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
2. 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

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 accordance with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors 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.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including 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 June 30, 2006, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc., 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.

  
CF & Co., L.L.P.

Dallas, Texas  
August 8, 2006