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SECURITIES AND EXCHANGE COMMISSION
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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8- 37664

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 01/01/11 AND ENDING 12/31/11
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: TLS Financial Services, Inc. OFFICIAL USE ONLY
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
920 Providence Road
(No. and Street)
Towson Maryland 21286-2977
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Thomas L. Schmidt 410-825-1295
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
Kuczak & Associates, P.A.
(Name - if individual, state last, first, middle name)
139 North Main Street Bel Air Maryland 21014
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

FOR OFFICIAL USE ONLY

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

3/13

OATH OR AFFIRMATION

I, Thomas L. Schmidt, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of TLS Financial Services, Inc., as of December 31, 2011, 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:

Thomas L. Schmidt
Signature
President
Title

Daba J. Kalender
Notary Public
My Commission Expires: 06/11/2015

This report ** contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole 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.

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

TLS FINANCIAL SERVICES, INC.

FINANCIAL STATEMENTS

December 31, 2011

KUCZAK & ASSOCIATES, P.A.
CERTIFIED PUBLIC ACCOUNTANTS / BUSINESS CONSULTANTS

SEC
Multi-Processing
Sector

REC'D
FEB 27 2012

Washington, DC
122

TLS FINANCIAL SERVICES, INC.

FINANCIAL STATEMENTS

December 31, 2011

SEC
Mail Processing
Section
FEB 27 2019
Washington, DC
122

CONTENTS

	Page
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.....	1
FINANCIAL STATEMENTS	
Balance Sheet.....	2
Statements of Income and Retained Earnings.....	3
Statement of Cash Flows	4
Notes to Financial Statements.....	5-6
SUPPLEMENTAL INFORMATION	
Annual Audited Report Form X-17A-5 Part III.....	7-8
Statement Pertaining to Exemptive Provisions Under 15c3-3(k)(2)(i).....	9
Schedule of Computation of Aggregate Indebtedness and Net Capital.	10
Focus Report Form X-17A-5 Part II-A.....	11-18
REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROL AS REQUIRED BY SEC RULE 17A-5.....	19-20

139 North Main Street, Suite 300
Bel Air, MD 21014

Report of Independent Registered Public Accounting Firm

The Board of Directors
TLS Financial Services, Inc.
Towson, Maryland

We have audited the accompanying statement of financial condition of TLS Financial Services, Inc. as of December 31, 2011, and related statements of income, changes in stockholders' 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 the financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 TLS Financial Services, Inc. as of December 31, 2011 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 Financial and Operational Combined Uniform Single Report IIa and Statement Pertaining to Exemptive Provisions Under 15c3-3(k)(2)(i) are presented for purposes of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by rule 17a-5 of the Securities and Exchange Commission. 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.

Kuczak & Associates, P.A.

Bel Air, Maryland
February 2, 2012

TLS FINANCIAL SERVICES, INC.

Balance Sheet

See Auditor's Report

December 31, 2011

ASSETS

Current Assets:

Cash and cash equivalents \$ 51,484

Total Assets \$ 51,484

LIABILITIES AND STOCKHOLDER'S EQUITY

Current Liabilities:

Accounts payable \$ 500
500

Stockholders' Equity:

Common stock \$1.00 par value; authorized 100,000 shares
Issued and outstanding 100 shares 100
Additional paid-in capital 28,731
Retained earnings 22,153
Total stockholders' equity 50,984

Total Liabilities and Stockholders' Equity \$ 51,484

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

TLS FINANCIAL SERVICES, INC.

Statements of Income and Retained Earnings

See Auditor's Report

December 31, 2011

INCOME

Commissions \$ 33,439

EXPENSES

Commissions 16,958

Management fee 6,000

Professional fees 4,060

Insurance 2,273

Other expenses 340

29,631

Net income **\$ 3,808**

RETAINED EARNINGS

Retained earnings, beginning of year \$ 18,345

Net income 3,808

Retained earnings, end of year **\$ 22,153**

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

TLS FINANCIAL SERVICES, INC.

Statement of Cash Flows

See Auditor's Report

December 31, 2011

Cash flows from operating activities:

Net income	\$ 3,808
Adjustments needed to reconcile net income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Increase decrease in	
Decrease in commissions receivable	230
Decrease in accounts payable and other liabilities	<u>(115)</u>
Net cash provided by operating activities	<u>3,923</u>
Increase in cash and cash equivalents	3,923
Cash and cash equivalents, beginning of year	<u>47,561</u>
Cash and cash equivalents, end of year	<u><u>\$ 51,484</u></u>

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

TLS FINANCIAL SERVICES, INC.

Notes to Financial Statements

See Auditor's Report

December 31, 2011

1. Line of Business and Summary of Significant Accounting Policies

Nature of Business and Reporting Entity

TLS Financial Services, Inc. was incorporated in Maryland in 1986. The Company advises investors in the Mid-Atlantic region, in the purchase of mutual fund investments and acts as an agent, receiving commissions from mutual fund families when their clients purchase mutual fund investments. The Company's business is limited to mutual funds.

Revenue and Cost Recognition

Revenues are derived primarily from brokerage commissions. They are recorded on the accrual basis.

Cash and Equivalents

For the purposes of the cash flow presentation, the Company considers all cash on deposit and money market funds as cash and equivalents.

Commissions Receivable

Commissions receivable represent commissions due from various mutual fund families. These receivables are generally fully collected within 30 days. As a result, management has not provided an allowance for doubtful accounts on these receivables.

Income Taxes

The stockholder of the Company has elected to be taxed in accordance with the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, in lieu of corporate income taxes, the individual shareholder is taxed on his proportionate share of the taxable income of the Company. Therefore, no provision or liability for federal or state income taxes has been included in the financial statements.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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. The accompanying financial statements contain no significant estimates.

TLS FINANCIAL SERVICES, INC.

Notes to Financial Statements (continued)

See Accountant's Review Report

For the year ended December 31, 2011

2. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission uniform net capital rule (Rule 15c3-1) which requires the maintenance of a minimum amount of net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1.

At December 31, 2011, the Company had net capital requirements of approximately \$50,984 and \$5,000, respectively. The Company's aggregate indebtedness to net capital ratio was .01 to 1.

3. Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash.

The Company maintains cash with one financial institution, but is within the FDIC limits. As part of its cash management process, the Company performs periodic evaluations of its credit standing of the financial institution.

4. Related Party Transactions

TLS Advisory Services, Inc. a related party through common ownership maintains office space used by the Company. During the year the Company paid TLS Advisory Services, Inc. \$500 per month under a month-to-month arrangement as a management fee for their use of office space and supplies. The management fee for the year ended December 31, 2011 was \$6,000.

The Company paid commissions in the amount of \$16,958 to the sole stockholder during the year ended December 31, 2011.

**TLS FINANCIAL SERVICES, INC.
STATEMENT PERTAINING TO EXEMPTIVE
PROVISIONS UNDER 15C3-3(K)(2)(i)
December 31, 2011**

**Computation for Determination of Reserve
Requirement Under Exhibit A
Of Rule 15c3-3(k)(2)(i)**

Member exempt under 15c3-3(k)(2)(i)

**Information Relating to Possession
and Control Requirements
Under Rule 15c3-3(k)(2)(i)**

Member exempt under 15c3-3(k)(2)(i)

TLS FINANCIAL SERVICES, INC.
SCHEDULE OF COMPUTATION OF AGGREGATE INDEBTEDNESS
AND NET CAPITAL
(PURSUANT TO SECURITIES AND EXCHANGE COMMISSION RULE 15c3-1)
DECEMBER 31, 2010

COMPUTATION OF AGGREGATE INDEBTEDNESS

Liabilities included in aggregate indebtedness:	
Accounts payable	\$ 500
Aggregate Indebtedness	<u>\$ 500</u>

COMPUTATION OF NET CAPITAL

Total stockholders' equity	\$ 50,984
Less: Total Non-Allowable Assets	-
Net Capital	<u>\$ 50,984</u>

CAPITAL REQUIREMENTS

Net capital required	\$ 5,000
Net capital in excess of requirements	<u>45,984</u>
Net capital, as shown above	<u>\$ 50,984</u>
Ratio of aggregated indebtedness to net capital	<u>.01 to 1</u>

RECONCILIATION WITH COMPANY'S COMPUTATION

Net capital, as reported in Company's Part II (Unaudited) Focus Report	<u>\$ 50,984</u>
Net Capital Per Above	<u>\$ 50,984</u>
Aggregate indebtedness, as reported in Company's Part II (Unaudited) Focus Report	\$ 500
No changes required, as noted during audit	-
Aggregate indebtedness, Per Above	<u>\$ 500</u>

There were no material differences between the audited computation of net capital and the broker/dealer's corresponding Unaudited Part II A.

See Independent Auditors' Report

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Date: 1/16/12 8:12 AM
Status: Accepted

FORM
X-17A-5

FOCUS REPORT
(FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT)
PART IIA [12]

(Please read instructions before preparing Form)

This report is being filed pursuant to (Check Applicable Block(s)):

- 1) Rule 17a-5(a) 16
- 2) Rule 17a-5(b) 17
- 3) Rule 17a-11 18
- 4) Special request by designated examining authority 19
- 5) Other 26

NAME OF BROKER-DEALER

TLS FINANCIAL SERVICES, INC. [13]

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

920 PROVIDENCE RD, SUITE 203 [20]

(No. and Street)

TOWSON [21] MD [22] 21286-2977 [23]

(City)

(State)

(Zip Code)

SEC. FILE NO.

8-37664 [14]

FIRM ID NO.

19625 [15]

FOR PERIOD BEGINNING (MM/DD/YY)

10/01/11 [24]

AND ENDING (MM/DD/YY)

12/31/11 [25]

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT (Area code) - Telephone No.

Thomas L. Schmidt [30]

(410) 825-1295 [31]

NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT

OFFICIAL USE

[32]

[33]

[34]

[35]

[36]

[37]

[38]

[39]

DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNTS ?

YES 40 NO 41

CHECK HERE IF RESPONDENT IS FILING AN AUDITED REPORT

42

EXECUTION:

The registrant/broker or dealer submitting this Form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated the 16TH day of JANUARY 20 12

Manual Signatures of:

1) Thomas L. Schmidt
Principal Executive Officer or Managing Partner

2) Thomas L. Schmidt
Principal Financial Officer or Partner

3) Thomas L. Schmidt
Principal Operations Officer or Partner

ATTENTION - Intentional misstatements or omissions of facts constitute Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 78f (a))

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

Date: 1/16/12 8:12 AM
Status: Accepted

BROKER OR DEALER
TLS FINANCIAL SERVICES, INC.

as of 12/31/11

**STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING,
NONCLEARING AND CERTAIN OTHER BROKERS OR DEALERS
LIABILITIES AND OWNERSHIP EQUITY**

<u>Liabilities</u>	<u>A.I. Liabilities</u>	<u>Non-A.I. Liabilities</u>	<u>Total</u>
13. Bank loans payable	\$ 1045	\$ 1255	\$ 1470
14. Payable to brokers or dealers:			
A. Clearance account	1114	1315	1560
B. Other	1115	1305	1540
15. Payable to non-customers	1155	1355	1610
16. Securities sold not yet purchased, at market value		1360	1620
17. Accounts payable, accrued liabilities, expenses and other	500 1205	1385	500 1685
18. Notes and mortgages payable:			
A. Unsecured	1210		1690
B. Secured	1211	1390	1700
19. Liabilities subordinated to claims of general creditors:			
A. Cash borrowings:			
1. from outsiders \$	970		
2. Includes equity subordination (15c3-1(d)) of	980		
B. Securities borrowings, at market value from outsiders \$	990		
C. Pursuant to secured demand note collateral agreements			
1. from outsiders \$	1000		
2. includes equity subordination (15c3-1(d)) of	1010		
D. Exchange memberships contributed for use of company, at market value		1430	1740
E. Accounts and other borrowings not qualified for net capital purposes	1220	1440	1750
20. TOTAL LIABILITIES	\$ 500 1230	\$ 1450	\$ 500 1760
 <u>Ownership Equity</u>			
21. Sole proprietorship			\$ 1770
22. Partnership (limited partners)	\$ 1020		\$ 1780
23. Corporation:			
A. Preferred stock			1791
B. Common stock		100	1792
C. Additional paid-in capital		28,731	1793
D. Retained earnings		22,153	1794
E. Total		50,984	1795
F. Less capital stock in treasury			(1796)
24. TOTAL OWNERSHIP EQUITY			\$ 50,984 1800
25. TOTAL LIABILITIES AND OWNERSHIP EQUITY			\$ 51,484 1810

OMIT PENNIES

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA

Date: 1/16/12 8:12 AM
 Status: Accepted

BROKER OR DEALER

TLS FINANCIAL SERVICES, INC.

as of

12/31/11

COMPUTATION OF NET CAPITAL

1. Total ownership equity from Statement of Financial Condition	\$	50,984	<u>3480</u>
2. Deduct ownership equity not allowable for Net Capital	(		<u>3490</u>)
3. Total ownership equity qualified for Net Capital		50,984	<u>3500</u>
4. Add:			
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital			<u>3520</u>
B. Other (deductions) or allowable credits (List)			<u>3525</u>
5. Total capital and allowable subordinated liabilities	\$	50,984	<u>3530</u>
6. Deductions and/or charges:			
A. Total non-allowable assets from			
Statement of Financial Condition (Notes B and C)	\$		<u>3540</u>
B. Secured demand note deficiency			<u>3590</u>
C. Commodity futures contracts and spot commodities-proprietary capital charges			<u>3600</u>
D. Other deductions and/or charges			<u>3610</u>
			() <u>3620</u>
7. Other additions and/or allowable credits (List)			<u>3630</u>
8. Net Capital before haircuts on securities positions	\$	50,984	<u>3640</u>
9. Haircuts on securities (computed, where applicable, pursuant to 15c3-1(f)):			
A. Contractual securities commitments	\$		<u>3660</u>
B. Subordinated securities borrowings			<u>3670</u>
C. Trading and investment securities:			
1. Exempted securities			<u>3735</u>
2. Debt securities			<u>3733</u>
3. Options			<u>3730</u>
4. Other securities			<u>3734</u>
D. Undue concentration			<u>3650</u>
E. Other (List)			<u>3736</u>
			() <u>3740</u>
10. Net Capital	\$	50,984	<u>3750</u>

OMIT PENNIES

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

Date: 1/16/12 8:12 AM
Status: Accepted

BROKER OR DEALER

TLS FINANCIAL SERVICES, INC.

as of 12/31/11

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A

11. Minimum net capital required (6-2/3% of line 19)	\$	33	3756
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	5,000	3758
13. Net capital requirement (greater of line 11 or 12)	\$	5,000	3760
14. Excess net capital (line 10 less 13)	\$	45,984	3770
15. Net capital less greater of 10% of line 19 or 120% of line 12	\$	44,984	3780

COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.I. liabilities from Statement of Financial Condition	\$	500	3790
17. Add:			
A. Drafts for immediate credit	\$	3800	
B. Market value of securities borrowed for which no equivalent value is paid or credited	\$	3810	
C. Other unrecorded amounts (List)	\$	3820	
19. Total aggregate indebtedness	\$	500	3840
20. Percentage of aggregate indebtedness to net capital (line 19 divided by line 10)	%	0.98	3850
21. Percentage of debt to debt-equity total computed in accordance with Rule 15c-3-1(d)	%	0.00	3860

COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT

Part B

22. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of net capital computation including both brokers or dealers and consolidated subsidiaries' debits	\$	3870
23. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	3880
24. Net capital requirement (greater of line 22 or 23)	\$	3760
25. Excess net capital (line 10 less 24)	\$	3910
26. Net capital in excess of the greater of: 5% of combined aggregate debit items or 120% of minimum net capital requirement	\$	3920

NOTES:

(A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:

1. Minimum dollar net capital requirement, or
2. 6-2/3% of aggregate indebtedness or 4% of aggregate debits if alternative method is used.

(B) Do not deduct the value of securities borrowed under subordination agreements or secured demand notes covered by subordination agreements not in satisfactory form and the market values of the memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.

(C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA

Date: 1/16/12 8:12 AM
 Status: Accepted

BROKER OR DEALER
 TLS FINANCIAL SERVICES, INC.

For the period (MMDDYY) from 10/01/11 3932 to 12/31/11 3933
 Number of months included in this statement 3 3931

REVENUE STATEMENT OF INCOME (LOSS)

1. Commissions:		
a. Commissions on transactions in exchange listed equity securities executed on an exchange	.....	\$ <u>3935</u>
b. Commissions on listed option transactions	.....	<u>3938</u>
c. All other securities commissions	.....	<u>3939</u>
d. Total securities commissions	.....	<u>3940</u>
2. Gains or losses on firm securities trading accounts		
a. From market making in options on a national securities exchange	.....	<u>3945</u>
b. From all other trading	.....	<u>3949</u>
c. Total gain (loss)	.....	<u>3950</u>
3. Gains or losses on firm securities investment accounts		
4. Profits (losses) from underwriting and selling groups		<u>3952</u>
5. Revenue from sale of investment company shares		<u>3955</u>
6. Commodities revenue		7,201 <u>3970</u>
7. Fees for account supervision, investment advisory and administrative services		<u>3990</u>
8. Other revenue		<u>3975</u>
9. Total revenue		\$ 7,201 <u>4030</u>

EXPENSES

10. Salaries and other employment costs for general partners and voting stockholder officers	.....	3,469 <u>4120</u>
11. Other employee compensation and benefits	.....	171 <u>4115</u>
12. Commissions paid to other brokers-dealers	.....	<u>4140</u>
13. Interest expense	.....	<u>4075</u>
a. Includes interest on accounts subject to subordination agreements	..... <u>4070</u>	
14. Regulatory fees and expenses	.....	380 <u>4195</u>
15. Other expenses	.....	1,500 <u>4100</u>
16. Total expenses	.....	\$ 5,520 <u>4200</u>

NET INCOME

17. Net Income (loss) before Federal income taxes and items below (Item 9 less Item 16)	.....	\$ 1,681 <u>4210</u>
18. Provision for Federal income taxes (for parent only)	.....	<u>4220</u>
19. Equity in earnings (losses) of unconsolidated subsidiaries not included above	.....	<u>4222</u>
a. After Federal income taxes of	..... <u>4238</u>	
20. Extraordinary gains (losses)	.....	<u>4224</u>
a. After Federal income taxes of	..... <u>4239</u>	
21. Cumulative effect of changes in accounting principles	.....	<u>4225</u>
22. Net income (loss) after Federal income taxes and extraordinary items	.....	\$ 1,681 <u>4230</u>

MONTHLY INCOME

23. Income (current month only) before provision for Federal Income taxes and extraordinary items	<u>4,827</u> <u>4211</u>
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**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

Date: 1/16/12 8:12 AM
Status: Accepted

BROKER OR DEALER
TLS FINANCIAL SERVICES, INC.

For the period (MMDDYY) from 10/01/11 to 12/31/11

**STATEMENT OF CHANGES IN OWNERSHIP EQUITY
(SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)**

1. Balance, beginning of period	.....	\$	49,303	<u>4240</u>
A. Net income (loss)	.....		1,681	<u>4250</u>
B. Additions (includes non-conforming capital of	.....	\$	<u>4262</u>	) <u>4260</u>
C. Deductions (includes non-conforming capital of	.....	\$	<u>4272</u>	) <u>4270</u>
2. Balance, end of period (from item 1800)	.....	\$	50,984	<u>4290</u>

**STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED
TO CLAIMS OF GENERAL CREDITORS**

3. Balance, beginning of period	.....	\$		<u>4300</u>
A. Increases	.....			<u>4310</u>
B. Decreases	.....			<u>4320</u>
4. Balance, end of period (from item 3520)	.....	\$		<u>4330</u>

OMIT PENNIES

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

Date: 1/16/12 8:12 AM
Status: Accepted

BROKER OR DEALER
 TLS FINANCIAL SERVICES, INC. as of 12/31/11

Exemptive Provision Under Rule 15c3-3

25. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based :

- A. (k) (1) - Limited business (mutual funds and/or variable annuities only) \$ 4550
- B. (k) (2) (i) - "Special Account for the Exclusive Benefit of customers" maintained X 4560
- C. (k) (2) (ii) - All customer transactions cleared through another broker-dealer on a fully disclosed basis.
 Name(s) of Clearing Firm(s) - Please separate multiple names with a semi-colon
 _____ 4335 _____ 4570
- D. (k) (3) - Exempted by order of the Commission 4580

**Ownership Equity and Subordinated Liabilities maturing or proposed to be
 withdrawn within the next six months and accruals, (as defined below),
 which have not been deducted in the computation of Net Capital.**

Type of Proposed Withdrawal or Accrual (See below for code to enter)	Name of Lender or Contributor	Insider or Outsider ? (In or Out)	Amount to be with- drawn (cash amount and/or Net Capital Value of Securities)	(MMDDYY) Withdrawal or Maturity Date	Expect to Renew (Yes or No)
<u>4600</u>	<u>4601</u>	<u>4602</u>	<u>4603</u>	<u>4604</u>	<u>4605</u>
<u>4610</u>	<u>4611</u>	<u>4612</u>	<u>4613</u>	<u>4614</u>	<u>4615</u>
<u>4620</u>	<u>4621</u>	<u>4622</u>	<u>4623</u>	<u>4624</u>	<u>4625</u>
<u>4630</u>	<u>4631</u>	<u>4632</u>	<u>4633</u>	<u>4634</u>	<u>4635</u>
<u>4640</u>	<u>4641</u>	<u>4642</u>	<u>4643</u>	<u>4644</u>	<u>4645</u>
<u>4650</u>	<u>4651</u>	<u>4652</u>	<u>4653</u>	<u>4654</u>	<u>4655</u>
<u>4660</u>	<u>4661</u>	<u>4662</u>	<u>4663</u>	<u>4664</u>	<u>4665</u>
<u>4670</u>	<u>4671</u>	<u>4672</u>	<u>4673</u>	<u>4674</u>	<u>4675</u>
<u>4680</u>	<u>4681</u>	<u>4682</u>	<u>4683</u>	<u>4684</u>	<u>4685</u>
<u>4690</u>	<u>4691</u>	<u>4692</u>	<u>4693</u>	<u>4694</u>	<u>4695</u>
TOTAL			\$ <u>4699</u>		

OMIT PENNIES

Instructions: Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c) (2) (iv)), which could be required by the lender on demand or in less than six months.

WITHDRAWAL CODE:	DESCRIPTION
1.	Equity Capital
2.	Subordinated Liabilities
3.	Accruals
4.	15c3-1(c) (2) (iv) Liabilities

Independent Auditors' Report on Internal Accounting Control
Required by SEC Rule 17a-5

Board of Directors
TLS Financial Services, Inc.

In planning and performing our audit of the financial statements of TLS Financial Services, Inc. for the year ended December 31, 2011, 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.

We also made a study of the practices and procedures followed by the Company in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of rule 15c3-3(k)(2)(i). We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13 or in complying with the requirements for prompt payment for securities under section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining an internal control structure 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 internal control structure policies and procedures 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 Commission's above-mentioned objectives. Two of the objectives of an internal control structure 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 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 paragraph.

Because of inherent limitations in any internal control structure of the practices and procedures referred to above, errors or irregularities 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 the internal control structure would not necessarily disclose all matters in the internal control structure that might be a reportable condition 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 structure elements does not reduce to a relatively low level that risk that errors 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 the following matter involving segregation of duties that we consider to be a material weakness as described above. This condition was considered in determining the nature, timing and extent of procedures performed in our audit of TLS Financial Services, Inc., for the year ended December 31, 2011 and this report does not affect our report thereon dated February 2, 2012.

The Company does not have an adequate segregation of duties over accounting transactions. This condition increases the possibility that errors or irregularities may occur and not be detected on a timely basis. When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission 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, 2011, to meet the Commission's objectives.

This report is intended solely for the use of the Board of Directors, management, the Securities and Exchange Commission, the New York Stock Exchange and other regulatory agencies which 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 for any other purpose.

Kunzle & Associates, P.A.

Baltimore, Maryland
February 2, 2012