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

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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 01/01/2011 AND ENDING 12/31/2011
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: KDC SECURITIES, LP

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
900 THIRD AVENUE - SUITE 1000

(No. and Street)
NEW YORK NY 10022
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
GLEN M FRIEDMAN 212-350-0262
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PRICEWATERHOUSECOOPERS, LLP

(Name - if individual, state last, first, middle name)
300 MADISON AVENUE NEW YORK NY 10022
(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)

OATH OR AFFIRMATION

I, GLEN M. FRIEDMAN, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of KDC SECURITIES, LP, 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:

NO EXCEPTIONS

JENNIFER ECCLES
NOTARY PUBLIC, STATE OF NEW YORK
Registration No. 01EC6211153
Qualified in New York County
Commission Expires September 14, 2013

[Handwritten Signature]

Signature

CHIEF FINANCIAL OFFICER

Title

[Handwritten Signature]
Notary Public

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

- (a) Facing Page.
(b) Statement of Financial Condition.
(c) Statement of Income (Loss).
(d) Statement of Changes in Financial Condition.
(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).

KDC Securities, LP
(Formerly known as
KDC Merger Arbitrage Fund, LP)
Statement of Financial Condition
December 31, 2011



KDC Securities, LP
(Formerly known as
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Statement of Financial Condition
December 31, 2011

KDC Securities, LP
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December 31, 2011

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Report of Independent Auditors

To the Partners of KDC Securities, LP

In our opinion, the accompanying statement of financial condition, including the condensed schedule of investments, presents fairly, in all material respects, the financial position of KDC Securities, LP in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the General Partner. Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by the General Partner, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

February 24, 2012

KDC Securities, LP
Statement of Financial Condition
December 31, 2011

(Expressed in U.S. Dollars)

Assets

Cash	\$ 23,524,653
Investments owned, at fair value (cost \$36,986,245)	37,356,873
Receivable from brokers, dealers and clearing organizations	487,872,173
Dividends and interest receivable	267,778
Other assets	200,167
Total assets	<u>\$ 549,221,644</u>

Liabilities and Partners' Capital

Liabilities

Payable to brokers, dealers and clearing organizations	\$ 463,233,235
Dividends and interest payable	23,973
Unincorporated Business Tax payable	178,466
Other liabilities	314,403
Total liabilities	<u>463,750,077</u>
Partners' capital	<u>85,471,567</u>
Total liabilities and partners' capital	<u>\$ 549,221,644</u>

The accompanying notes are an integral part of this financial statement.

KDC Securities, LP
Condensed Schedule of Investments
December 31, 2011

(Expressed in U.S. Dollars)

Shares or Principal Amount	Description	Fair Value	Percent of Partners' Capital
Investments Owned			
Common Stocks			
United States			
	Banks	\$ 71,308	0.08%
	Conglomerates	58,602	0.07%
	Consumer goods	638,179	0.75%
	Financial Services	76,865	0.09%
	Food and Groceries		
200,000	Sysco Corporation	5,866,000	6.86%
	Health Services	742,920	0.87%
	Indices	2,047,049	2.40%
	Networks and Communications	49,720	0.06%
	Oil and Gas Equipment and Service	1,550,720	1.81%
	Telecommunications Service and Equipment	241,320	0.28%
	Other	12,049	0.01%
	Total common stocks (cost \$11,191,115)	<u>11,354,732</u>	<u>13.28%</u>
Preferred Stocks			
United States			
	Real estate investment trust (cost \$250,000)	251,900	0.29%
United Kingdom			
	Banks (cost \$210,800)	178,240	0.21%
	Total preferred stocks (cost \$460,080)	<u>430,140</u>	<u>0.50%</u>
Debt Securities			
United States			
	Banks	506,300	0.59%
	Education	156,696	0.19%
	Financial	253,483	0.30%
	Software	386,667	0.45%
	Total United States (cost \$1,301,743)	<u>1,303,146</u>	<u>1.53%</u>
Germany			
	Banks (cost \$808,517)	804,944	0.94%
Netherlands			
	Banks (cost \$202,138)	198,970	0.23%
	Total debt securities (cost \$2,312,398)	<u>2,307,060</u>	<u>2.70%</u>
Government Obligations			
United States			
	U.S. Treasury bills (cost \$872,214)	869,616	1.02%
	U.S. Agency bonds (cost \$2,084,934)	2,082,515	2.44%
	Total government obligations (cost \$2,957,148)	<u>2,952,131</u>	<u>3.46%</u>

The accompanying notes are an integral part of this financial statement.

KDC Securities, LP
Condensed Schedule of Investments
December 31, 2011

(Expressed in U.S. Dollars)

Shares or Principal Amount	Description	Fair Value	Percent of Partners' Capital
Investments Owned (continued)			
Mutual Funds			
United States			
	Financial	2,348,424	2.75%
	Total mutual funds (cost \$2,523,792)	<u>2,348,424</u>	<u>2.75%</u>
Municipal Bonds			
United States			
	State and local governments and agencies	15,947,096	18.66%
	Total municipal bonds (cost \$15,553,989)	<u>15,947,096</u>	<u>18.66%</u>
Master Limited Partnerships			
United States			
	Coal and coal mining	84,985	0.10%
	Natural gas utilities	271,445	0.32%
	Oil and gas operations	30,525	0.04%
	Oil well service and equipment	94,219	0.11%
	Recreational activities	38,700	0.04%
	Total master limited partnerships (cost \$494,470)	<u>519,874</u>	<u>0.61%</u>
Certificates of Deposit			
United States			
	Other	1,497,416	1.75%
	Total certificates of deposit (cost \$1,493,253)	<u>1,497,416</u>	<u>1.75%</u>
	Total investments owned (cost \$36,986,245)	<u>\$ 37,356,873</u>	<u>43.71%</u>

The accompanying notes are an integral part of this financial statement.

KDC Securities, LP

Notes to the Statement of Financial Condition

December 31, 2011

1. Organization and Activities

KDC Securities, LP (the "Partnership"), formerly known as KDC Merger Arbitrage Fund, LP is a Delaware limited partnership formed on March 12, 1981, and registered as a broker-dealer under Federal and New York State securities laws. Prior to March 2011, the Partnership had engaged in securities lending activities and merger arbitrage trading. As of March 1, 2011, the Partnership spun off the merger arbitrage strategy and associated assets and liabilities, including capital known formerly as "Class A" interests, leaving the primary focus of the remaining broker dealer entity as securities lending.

As of March 1, 2011, KDC Alpha Securities Fund, LP ("Alpha"), a Delaware limited partnership is the sole limited partner of the KDC Securities, LP and invests all of its assets in the Partnership. Prior to the March 1, 2011 reorganization, Alpha's capital was deemed "Class B" interests.

Kellner DiLeo & Co., LLC is the General Partner ("General Partner") of the Partnership.

2. Significant Accounting Policies

Basis of Presentation

The Partnership's records are maintained on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The Partnership has evaluated subsequent events through February 24, 2012.

Cash

Cash includes cash held on deposit. These balances are held at two commercial banks and, at times, may exceed FDIC insurable limits.

Investment Transactions

Financial instruments, including options and other derivative instruments, are recorded at fair value. Purchases and sales of financial instruments are recorded on a trade-date basis. Dividends on investments owned and on investments sold, but not yet purchased, are recognized on the ex-dividend date.

Investments which are listed on a national securities exchange are valued by the Partnership at their last sale price on the date of valuation, or, if no sales occurred on that date, at the mean "bid" and "asked" prices on that date. Investments for which quotations are not readily available or whose quotes are deemed to be inappropriate by the General Partner, are valued at estimated fair value as determined in good faith by the General Partner, based on, among other things, the type of investment or underlying investment, marketability (or absence thereof), cost and quotations from outside brokers. The fair value of financial instruments determined by the General Partner is based upon available information and is not necessarily indicative of an amount that the Partnership could realize in a current transaction. Because of the inherent uncertainty of valuation for these investments, the estimated fair value may not necessarily represent amounts that might be ultimately realized, since such amounts depend on future circumstances, and the difference could be material.

KDC Securities, LP
Notes to the Statement of Financial Condition
December 31, 2011

Securities Lending Activities

Securities borrowed and securities loaned are carried at the amount of cash collateral advanced or received in connection with the transactions and are included in receivables from and payables to brokers and dealers in the Statement of Financial Condition. Securities borrowed transactions require the Partnership to deposit cash collateral with the lender. With respect to securities loaned, the Partnership receives cash collateral from the borrower. The initial collateral advanced or received approximates or is greater than the fair value of securities borrowed or loaned. The Partnership monitors the market value of securities borrowed and loaned on a daily basis with additional collateral obtained or refunded as necessary.

Securities Purchased Under Agreements to Resell

Transactions involving purchases of securities under agreements to resell are treated as collateralized financing transactions and are recorded at their contractual amounts plus accrued interest. As of December 31, 2011 the Partnership had no reverse repurchase agreements outstanding.

Foreign Currency Translation

The accounts of the Partnership are maintained in U.S. dollars. Assets and liabilities denominated in non-U.S. dollar currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates.

In-Kind Subscriptions

During the year, the Partnership received marketable securities with a fair value of \$27,962,472 as of the dates of their contribution. They were recorded as in-kind contributions. In addition, the Partnership had in-kind redemptions of securities with a market value of \$14,011,017.

Withdrawals Payable

The Partnership recognizes withdrawals pursuant to accounting for certain financial instruments with characteristics of both liabilities and equity. Withdrawals are recognized as liabilities, net of incentive allocation, when the amount requested in the withdrawal notice becomes fixed. This generally may occur either at the time of the receipt of the notice, or on the last day of a fiscal period, depending on the nature of the request. As a result, withdrawals paid after the end of the year, but based upon year-end capital balances are reflected as withdrawals payable at year end. As of December 31, 2011, there were no withdrawals payable. Withdrawal notices received for which the dollar amount is not fixed remains in capital until the amount is determined. Withdrawals payable are treated as capital for purposes of allocations of gains and losses pursuant to the Partnership's governing documents.

Income Taxes

The Partnership itself is not subject to U.S. Federal income taxes; each Partner is individually liable for income taxes, if any, on its share of the Partnership's net taxable income. Interest, dividends and other income realized by the Partnership from non-U.S. sources and capital gains realized on the sale of the securities of non-U.S. issuers may be subject to withholding and other taxes levied by the jurisdiction in which the income is sourced.

Certain activities of the Partnership have caused the Partnership to be subject to New York City Unincorporated Business Tax at a rate of 4% of adjusted net taxable income.

The General Partner files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Partnership is subject to examination by federal, state, local and foreign jurisdictions, where applicable.

KDC Securities, LP
Notes to the Statement of Financial Condition
December 31, 2011

In accordance with authoritative guidance under US GAAP, the Partnership adopted the authoritative guidance on accounting for and disclosure of uncertainty in tax positions on January 1, 2009, which required the General Partner to determine whether a tax position of the Partnership is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is reduced by the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. As of December 31, 2011, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations is from the year 2008 forward (with limited exceptions). The General Partner has determined that there were no uncertain tax positions as of December 31, 2011.

Clearing Agreement

The Partnership clears all of its investments (except for those contributed in-kind) through a clearing broker on a fully disclosed basis. Pursuant to the terms of the agreement between the Partnership and the clearing broker, the clearing broker has the right to charge the Partnership for losses that result from a counterparty's failure to fulfill its contractual obligations. As the right to charge the Partnership has no maximum amount and applies to all trades executed through the clearing broker, the Partnership believes that there is no determinable amount assignable to this right. At December 31, 2011, the Partnership has recorded no liabilities with regard to this right.

In addition, the Partnership has the right to pursue collection or performance from the counterparties who do not perform their contractual obligations. The Partnership monitors the credit standings of the clearing broker and all counterparties with which it conducts business.

Use of Estimates and Indemnifications

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 this consolidated financial statement. Actual results could differ from those estimates.

In the normal course of business, the Partnership enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Partnership's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Partnership that have not yet occurred. However, based on experience, the Partnership expects the risk of loss to be remote.

KDC Securities, LP
Notes to the Statement of Financial Condition
December 31, 2011

3. Receivable from and Payable to Brokers, Dealers and Clearing Organizations

Amounts receivable from and payable to brokers, dealers and clearing organizations at December 31, 2011 consist of the following:

Securities borrowed	\$ 476,758,228
Other amounts due from brokers, dealers and clearing organizations	<u>11,113,946</u>
Total receivable	<u>\$ 487,872,174</u>
Securities loaned	\$ 459,903,155
Other amounts payable to brokers, dealers and clearing organizations	<u>3,330,080</u>
Total payable	<u>\$ 463,233,235</u>

The Partnership has loaned to brokers and dealers, securities having a market value of \$436,297,054. In addition, the Partnership has borrowed from brokers and dealers, securities having a market value of \$454,551,574.

4. Investments Owned and Investments Sold, but Not Yet Purchased

Under authoritative guidance under US GAAP on accounting for transfers of financial assets and repurchase financing transactions, investments owned which can be resold or re-hypothecated by the holder have been reclassified on the Statement of Financial Condition to investments owned and held by clearing broker.

Investments sold, but not yet purchased, represent obligations of the Partnership to deliver specified investments at the contracted prices and thereby create a liability to repurchase the investments in the market at prevailing prices. Accordingly, these transactions result in off-balance sheet market risk, as the Partnership's ultimate obligation to satisfy investments sold, but not yet purchased, may exceed the amount recognized in the financial statement.

5. Financial Instruments

The Partnership enters into transactions in derivative financial instruments with varying degrees of off-balance sheet risk as part of its normal proprietary trading activities and in order to reduce its exposure to market risk in connection with these activities. The values of these instruments are a function of the underlying securities values and volatilities and interest rates. These transactions include the purchases and sales of equity option contracts. A buyer of an option has the right to purchase (in the case of a call option) or sell (in the case of a put option) a specified quantity of a specific financial instrument at a specified price prior to or on a specified expiration date. A writer of an option is exposed to the risk of loss if the market price of the underlying financial instrument declines (in the case of a put option) or increases (in the case of a call option). A writer of a call option can never profit by more than the premium paid by the buyer, but can lose an unlimited amount.

The Partnership may enter into contracts for differences ("CFD") as part of its investment strategies. A CFD is an agreement between two parties to exchange the difference between the opening price and the closing price of an underlying security, at the close of the contract, multiplied by the number of shares specified within the contract. Such transactions are stated at fair value and are subject to margin and collateral requirements as stipulated by the counterparty.

KDC Securities, LP

Notes to the Statement of Financial Condition

December 31, 2011

The majority of the Partnership's transactions relate to trading in quoted securities on national securities exchanges with a diverse group of corporate and institutional counterparties. The securities loaned and securities borrowed transactions are collateralized and executed with major domestic and international brokers and dealers. The Partnership's exposure to credit risk associated with the nonperformance of these counterparties in fulfilling their contractual obligations for such transactions can be directly impacted by a volatile trading market which may impair the counterparties' ability to satisfy their obligations to the Partnership. Securities loaned and securities borrowed transactions are entered into to facilitate the trading operations and as part of a conduit business. Exposure is monitored on a daily basis, with additional collateral obtained or refunded as necessary.

6. Fair Value Measurement

In accordance with the authoritative guidance on Fair Value Measurements and Disclosures under US GAAP, the Partnership establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under Fair Value Measurements are as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Partnership has the ability to access at the measurement date;
- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;
- Level 3 Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the General Partner. The General Partner considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the General Partner's perceived risk of that instrument.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within level 1, include active listed equities, mutual funds, government obligations and master limited partnerships. The General Partner does not adjust the quoted price for such instruments, even in situations where the Partnership holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs, such as certificates of deposit, debt securities, and municipal bonds, are classified within level 2. As level 2 investments are not traded in active markets and/or are subject to transfer restrictions, valuations may

KDC Securities, LP
Notes to the Statement of Financial Condition
December 31, 2011

be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include warrants on non public entities and securities which are non-transferable. When observable prices are not available for these securities, the General Partner uses one or more valuation techniques (e.g., the market approach or the income approach) for which sufficient and reliable data is available. Within level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

The inputs used by the General Partner in estimating the value of level 3 investments include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the General Partner in the absence of market information. The fair value measurement of level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the General Partner due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Partnership's results of operations.

The following table presents the financial instruments carried on the Statement of Financial Condition by caption and by level within the valuation hierarchy as of December 31, 2011.

	Assets at Fair Value as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Investments owned, at fair value	\$ 17,593,251	\$ 19,751,573	\$ 12,049	\$ 37,356,873
Total	\$ 17,593,251	\$ 19,751,573	\$ 12,049	\$ 37,356,873

The following table includes a rollforward of the amounts for the year ended December 31, 2011 for financial instruments classified within level 3. The classification of a financial instrument within level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement. There were no transfers between the levels of the valuation hierarchy during the period ended December 31, 2011.

	Fair Value Measurements using Level 3 Inputs
Investments owned	
Balance at December 31, 2010	\$ 163,505
Transfer to KDC Merger Arbitrage Fund, LP	(151,456)
Gains/(Losses)	
Realized	-
Net change in unrealized gain	-
Balance at December 31, 2011	\$ 12,049

KDC Securities, LP
Notes to the Statement of Financial Condition
December 31, 2011

7. Commitments and Contingencies

At December 31, 2011, the Partnership is contingently liable for one letter of credit in the amount of \$14,750, which is not collateralized by any of the Partnership's marketable securities. In addition, at December 31, 2011, the Partnership had \$7,314,875 of investments owned, which have been deposited as collateral with a clearing organization to satisfy margin deposits.

8. Related Party Transactions

In the normal course of business, the Partnership pays certain expenses on behalf of its affiliated entities. The timing and payment of these amounts periodically causes payables and receivables between the Partnership and the affiliated entities.

The Partnership provided administrative services to certain affiliated entities in January and February of 2011. The Partnership was reimbursed for all expenses incurred in connection with the provision of services to such affiliated entities. As stipulated in the Partnership's service agreement, the Partnership receives a monthly fee based upon the net assets of the affiliated entities.

At December 31, 2011, approximately \$446,000 of the limited partner's capital is owned or controlled by members or affiliates of the General Partner.

Other assets at December 31, 2011 include receivables from affiliated entities totaling approximately \$146,500.

9. Net Capital Requirements

The Partnership is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (Rule 15c3-1 or "the Rule"), which requires the maintenance of minimum net capital. The Partnership has elected to use the alternative method permitted by the Rule, which requires that it maintain minimum net capital, as defined, of \$250,000. The Partnership has net capital of \$80,716,947 at December 31, 2011, which exceeds requirements by \$80,466,947.

The Partnership claims exemption under the exemptive provisions of the Securities and Exchange Commission's Rule 15c3-3 pursuant to paragraph (k)(2)(i), since it maintains no customer accounts.

10. Subsequent Events

For the period January 1, 2012 through February 24, 2012, there were additional capital contributions of approximately \$7.7 million. The Partnership has performed an evaluation of subsequent events through February 24, 2012, which is the date the financial statement was available to be issued, and has determined that there were no additional subsequent events requiring adjustment or disclosure to the financial statement.



**Report of Independent Auditors on
Internal Control Required By SEC Rule 17a-5**

To the Partners of KDC Securities, LP:

In planning and performing our audit of the financial statements of KDC Securities, LP (the "Partnership") as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Partnership's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of the Partnership's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Partnership, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in making the following:

1. Making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11);
2. Determining compliance with the exemptive provisions of Rule 15c3-3
3. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13

Because the Partnership 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 Partnership in any of the following:

1. 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 Partnership 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 previously 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 Partnership has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.



A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first, second and third 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 previously.

We understand that practices and procedures that accomplish the objectives referred to in the second and third 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 Partnership's practices and procedures, as described in the second and third paragraphs of this report, were adequate at December 31, 2011 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, Financial Industry Regulatory Authority, 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.

A handwritten signature in black ink, appearing to read "Priscilla A. Cooper" followed by a stylized flourish.

February 24, 2012



Report of Independent Accountants

To the Partners of KDC Securities, LP

In accordance with Rule 17a-5(e)(4) of the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying General Assessment Reconciliation (Form SIPC-7) of the Securities Investor Protection Corporation (SIPC) of KDC Securities, LP for the year ended December 31, 2011, which were agreed to by KDC Securities, LP, the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and the Securities Investor Protection Corporation (collectively, the "specified parties") solely to assist the specified parties in evaluating KDC Securities, LP's compliance with the applicable instructions of Form SIPC-7 during the year ended December 31, 2011. Management is responsible for KDC Securities, LP's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments on page 1, items 2B and 2F of Form SIPC-7 with the respective cash disbursement records entries, as follows: Payment in the amount of \$8,569 dated February 22, 2012 was compared to check number 12889. No differences noted.
2. Compared the Total revenue amount of \$37,600,217 reported on page 2, item 2a of Form SIPC-7 for the year ended December 31, 2011 to the sum of the following amounts reported on page 5 of the audited Form X-17A-5 for the year ended December 31, 2011: Stock borrow fee income (net of stock loan fees), Interest income, Dividend income, Management fee income, Administrative fee income, Other income, Net realized and unrealized gain on investments, and Stock loan fees, less Dividend expense. No differences noted.
3. Compared any adjustments reported on page 2, items 2b and 2c of Form SIPC-7 with the supporting schedules and working papers, as follows:
 - a. Compared additions in 2b on line 4, Interest and dividend expense deducted in determining item 2a, of \$59,764 to Dividend expense on page 5 of the audited Form X-17A-5 for the year ended December 31, 2011. No differences noted.
 - b. Compared deductions in 2c on line 3, Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions of \$234,112 to Clearance charges on page 5 of the audited Form X-17A-5 for the year ended December 31, 2011. No differences noted.
 - c. Compared deductions in 2c on line 8, Other revenue not related either directly or indirectly to the securities business of \$53,698 to the summation of the following amounts: Management fee income on page 5 of the audited Form X-17A-5 for the year



ended December 31, 2011, Administrative fee income on page 5 of the audited Form X-17A-5 for the year ended December 31, 2011, and Miscellaneous income on the Trial balance of KDC Securities, LP for the year ended December 31, 2011. No differences noted.

- d. Compared deductions in 2c on line 9(i), Total interest and dividend expense of \$29,093,882 to the summation of the following amounts on page 5 of the audited Form X-17A-5 for the year ended December 31, 2011: Stock loan fees, Interest expense and Dividend expense. No differences noted.
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers obtained in procedure 3, as follows:
- a. Recalculated the mathematical accuracy of the Total deductions amount on page 2, in 2c of \$29,381,692. No differences noted.
 - b. Recalculated the mathematical accuracy of the SIPC Net Operating Revenues on page 2, line 2d and the General Assessment @ .0025 on page 2, line 2e of \$8,278,289 and \$20,696, respectively, of the Form SIPC-7. No differences noted.
 - c. Recalculated the mathematical accuracy of the Assessment balance due on page 1, item 2D of \$8,569. No differences noted.
5. Compared the amount of overpayment applied to the current assessment on page 1, item 2C of Form SIPC-7 of \$0 with page 1, item 2H of the Form SIPC-7 filed for the prior period ended December 31, 2010 which was returned, stamped, and reviewed by SIPC. No differences noted.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Company's preparation of Form SIPC-7 in accordance with the applicable instructions. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management and the board of directors of KDC Securities, LP, the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and the Securities Investor Protection Corporation and is not intended to be and should not be used by anyone other than these specified parties.

February 24, 2012

SIPC-7

(33-REV 7/10)

SECURITIES INVESTOR PROTECTION CORPORATION
P.O. Box 92185 Washington, D.C. 20090-2185
202-371-8300

General Assessment Reconciliation

SIPC-7

(33-REV 7/10)

For the fiscal year ended _____, 20____
(Read carefully the instructions in your Working Copy before completing this Form)

TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

025976 FINRA DEC
KDC SECURITIES LP 8*8
900 3RD AVE 10TH FL
NEW YORK NY 10022-4728

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact respecting this form.

- 2. A. General Assessment (item 2e from page 2) \$ 20,696
- B. Less payment made with SIPC-6 filed (exclude interest) (12,127)
6/30/11
Date Paid
- C. Less prior overpayment applied (_____)
- D. Assessment balance due or (overpayment) 8,569
- E. Interest computed on late payment (see instruction E) for _____ days at 20% per annum _____
- F. Total assessment balance and interest due (or overpayment carried forward) \$ 8,569
- G. PAID WITH THIS FORM:
Check enclosed, payable to SIPC
Total (must be same as F above) \$ 8,569
- H. Overpayment carried forward \$(_____)

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

KDC Securities, LP
(Name of Corporation, Partnership or other organization)
Chief
(Authorized Signature)
CFO
(Title)

Dated the 22 day of February, 2012.

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

SIPC REVIEWER Dates: Postmarked Received Reviewed

Calculations Documentation Forward Copy

Exceptions:

Disposition of exceptions:

**DETERMINATION OF "SIPC NET OPERATING REVENUES"
AND GENERAL ASSESSMENT**

Amounts for the fiscal period
beginning 1/1, 20 11
and ending 12/31, 20 11

Eliminate cents

Item No.

2a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)

\$ 37,600,217

2b. Additions:

(1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above.

(2) Net loss from principal transactions in securities in trading accounts.

(3) Net loss from principal transactions in commodities in trading accounts.

(4) Interest and dividend expense deducted in determining item 2a.

(5) Net loss from management of or participation in the underwriting or distribution of securities.

(6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities.

(7) Net loss from securities in investment accounts.

59,764

Total additions

59,764

2c. Deductions:

(1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products.

(2) Revenues from commodity transactions.

(3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions.

(4) Reimbursements for postage in connection with proxy solicitation.

(5) Net gain from securities in investment accounts.

(6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date.

(7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act).

(8) Other revenue not related either directly or indirectly to the securities business.
(See Instruction C):

(234,112)

(53,698)

(Deductions in excess of \$100,000 require documentation)

(9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income.

\$ (29,093,882)

(ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960).

\$ _____

Enter the greater of line (i) or (ii)

(29,093,882)

Total deductions

(29,381,692)

1. SIPC Net Operating Revenues

\$ 8,278,289

2. General Assessment @ .0025

\$ 20,696

(to page 1, line 2.A.)



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