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

MAY 29 2012

SEC FILE NUMBER
 8-26726

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 4-1-11 AND ENDING 3-31-12
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: MIDKIFF & STONE CAPITAL GROUP, INC.

OFFICIAL USE ONLY
 FIRM I.D. NO.

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

4808 PALMETTO

(No. and Street)

BELLAIRE

(City)

TX

(State)

77401

(Zip Code)

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

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

EVANS, JOHN B. II.

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

3 RIVERWAY, STE 125

(Address)

HOUSTON

(City)

TX

(State)

77076

(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)

SEC 1410 (06-02)

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Old letter

Old letter

OATH OR AFFIRMATION

I, MORRIS E. MIDKIFF, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of MIDKIFF + STONE CAPITAL GROUP, INC., as of MARCH 31, 2012, 20 , are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

- NONE -



M. E. Midkiff
Signature
PRESIDENT
Title

Kelli Lynn Griffith
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).

MIDKIFF AND STONE CAPITAL GROUP, INC

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INDEPENDENT AUDITOR'S REPORT

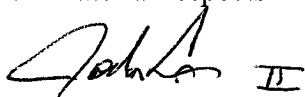
To the Board of Directors and Stockholders of
Midkiff and Stone Capital Group, Inc
Houston, Texas

I have audited the balance sheet of Midkiff and Stone Capital Group, Inc. as of March 31, 2012, and the related statement of income, changes in stockholder's equity and cash flows for the years then ended. These financial statements are the responsibility of Midkiff and Stone Capital Group, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Midkiff and Stone Capital Group, Inc. as of March 31, 2012, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I 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 and Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



John B. Evans II, CPA
Houston, Texas

May 18, 2012

MIDKIFF AND STONE CAPITAL GROUP, INC
BALANCE SHEET
AS OF MARCH, 31 2012

ASSETS

Cash and cash equivalents	\$ 1,378
Accounts receivable	4,690
Investments, at market value	118,304
Advances to shareholder	6,858
Clearance account	<u>10,006</u>

TOTAL ASSETS	<u><u>141,236</u></u>
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LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES

Accounts payable and other liabilities	\$ 62,898
Deferred federal income tax payable	13,652
Commissions payable to shareholder	<u>0</u>

TOTAL LIABILITIES	<u>76,550</u>
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STOCKHOLDER'S EQUITY

Common stock, no par value; 5,000 shares authorized, 200 shares issued and outstanding	1,000
Additional paid-in capital	14,000
Retained earnings	76,291
Treasury stock, 100 shares at cost	<u>(26,605)</u>

TOTAL STOCKHOLDER'S EQUITY	<u>64,686</u>
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TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u><u>\$ 141,236</u></u>
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The accompanying notes are an integral part of this statement.

MIDKIFF AND STONE CAPITAL GROUP, INC
STATEMENT OF INCOME
FOR THE YEAR ENDED MARCH 31, 2012

REVENUES

Securities commissions	\$ 92,257
Mutual fund sales and underwriting	21,017
Securities - Gain/ (Loss)	(46,758)
Investment advisory	50,054
Dividends and interest	<u>1,544</u>
TOTAL REVENUE	<u>118,114</u>

EXPENSES

Commission	78,742
Salaries	44,770
Rental expense - related party	5,628
Regulatory fees	5,837
Payroll taxes	3,589
Employee benefits	7,635
Other expenses	2,834
Auto	606
Office expenses	2,097
Professional fees	3,250
Penalties	8,000
Pension expense	<u>11,193</u>
TOTAL EXPENSES	<u>174,181</u>
Net income before provision for income tax	(56,067)
Income tax expense	(6,828)
NET INCOME	<u><u>\$ (49,239)</u></u>

The accompanying notes are an integral part of this statement

MIDKIFF AND STONE CAPITAL GROUP, INC
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
AS OF MARCH 31, 2012

	<u>COMMON STOCK</u> <u>SHARES</u>	<u>AMOUNT</u>	<u>ADDITIONAL</u> <u>PAID-IN CAPITAL</u>	<u>RETAINED</u> <u>EARNINGS</u>	<u>TOTAL</u>
Balances at March31, 2011	200	\$ 1,000	\$ 14,000	\$ 135,530	\$ 150,530
Dividends paid				(10,000)	(10,000)
Shares buy-back				(26,605)	(26,605)
NET INCOME				(49,239)	(49,239)
Balances at March 31, 2012	<u>200</u>	<u>\$ 1,000</u>	<u>\$ 14,000</u>	<u>\$ 49,686</u>	<u>\$ 64,686</u>

The accompanying notes are an integral part of this statement.

MIDKIFF AND STONE CAPITAL GROUP, INC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss)	\$ (49,239)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Changes in:	
Receivable from clearing broker-dealer	233
Investments	56,758
Accounts payable and other liabilities	14,515
Deferred income tax	(14,954)
Commissions payable	<u>(3,094)</u>
Net cash provided by operating activities	<u>4,219</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Advances to shareholder	31,586
Dividends paid	(10,000)
Shares buy back	<u>(26,605)</u>
Net cash used in financing activities	<u>(5,019)</u>

NET CHANGE IN CASH

	(800)
Cash at beginning of year	2,178
Cash at beginning of year unreported in prior year report	

CASH AND CASH EQUIVALENTS AT END OF YEAR

1,378

Supplemental Disclosures of Cash Flow Information:

Cash paid for income taxes	<u>\$</u>
Cash paid for interest expense	<u>\$ 114</u>

The accompanying notes are an integral part of this statement.

MIDKIFF AND STONE CAPITAL GROUP, INC.

Notes to the Financial Statements

March 31, 2012

Note 1 – Nature of Business

Midkiff & Stone Capital Group, Inc. was incorporated and commenced operations on April 23, 1981. Midkiff & Stone is engaged in investment banking, brokerage and investment research activities and is a member of the Financial Industry Regulatory Authority (FINRA). Midkiff & Stone operates under the provisions of Paragraph K(2)(ii) of Rule 15c3-3 of the SEC, and accordingly is exempt from the remaining provisions of that Rule. Customers consist primarily of individuals located throughout the United States of America.

Note 2 – Significant Accounting Policies

Basis of Accounting

These financial statements are presented on the accrual basis of accounting in accordance with generally accepted principles in the United States of America. Revenues are recognized in the period earned and expenses when incurred.

Use of Estimates

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, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Investments

Marketable securities consist of publicly traded securities. Dividends are recorded on the ex-dividend date. The cost of the marketable securities sold is determined on the specific identification method. Securities are carried at market value.

Cash Equivalents

For purposes of the statement of cash flows, Midkiff & Stone considers short-term investments, which may be withdrawn at any time without penalty, and restricted cash, which will become available within one year from the date of the financial statements, to be cash equivalents.

MIDKIFF AND STONE CAPITAL GROUP, INC.
Notes to the Financial Statements
March 31, 2012
(Continued)

Securities Transactions

Securities transactions and the related commission revenues and expenses are recorded on a trade date basis.

Investment Advisory

Investment advisory fees are received monthly in arrears and are recognized as earned.

Financial Instruments and Credit Risk

Financial instruments that potentially subject the Company to credit risk include cash and cash equivalents, receivables from broker-dealers and clearing organizations, concessions receivables, securities owned and securities sold, not yet purchased, and advances to and notes from employees. In 2012 and 2011, federally insured limits on accounts covered by the Federal Deposit Insurance Corporation (FDIC) were \$250,000 until December 31, 2013 after which the limit will return to \$100,000. The Company did not have cash and cash balances in excess of the federally insured limits. Securities owned and securities sold, not yet purchased consist of securities held for trading purposes. Securities that are marketable are stated at fair value (as determined by quoted market prices) and securities not readily marketable are carried at fair value as determined by management of the Company. The increase or decrease in net unrealized appreciation or depreciation of securities is credited or charged to operations.

Customer Funds

Midkiff & Stone is approved to sell private securities and limited partnership interests but is not approved to hold customer funds on account.

Income Taxes

Midkiff & Stone accounts for income tax in accordance with FASB ACS 740 – Income Taxes. This statement prescribes the use of the asset and liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Realization of the deferred income tax asset is dependent on Midkiff & Stone generating sufficient taxable income in future years.

MIDKIFF AND STONE CAPITAL GROUP, INC.

Notes to the Financial Statements

March 31, 2012

(Continued)

Note 3 – Impact of recently issued accounting standards

The Company has assessed the recently issued or proposed accounting standards from the Financial Accounting Standards Board or other standards-setting bodies. They are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Note 4 – Fair Value of Financial Instruments

Midkiff & Stone's financial instruments consist of cash, receivables, investments in marketable securities and payables. The carrying amount of cash, receivables and payables approximates fair value because of the short-term nature of these items.

As defined in FASB ACS 820 – Fair Value Measurements & Disclosures, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price methodology). FASB ACS 820 establishes a framework for measuring fair value that includes a hierarchy used to classify inputs in measuring fair value. The hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels which are either observable or unobservable. Observable inputs reflect market data obtained from independent sources while unobservable inputs reflect an entity's view of market assumptions in the absence of observable market information. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The three levels of the fair value hierarchy defined by FASB ACS 820 are as follows:

Level 1: Fair value is based on unadjusted quoted prices in active markets that are accessible to Midkiff & Stone for identical assets and liabilities. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. These generally provide the most reliable evidence and are used to measure fair value whenever available. Midkiff & Stone's Level 1 assets include exchange traded equities and equity options. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2: Fair value is based upon significant inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable for substantially the full term of the asset or liability through corroboration with observable market data as of the reporting date. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets and liabilities, model-derived valuations whose inputs are observable or whose significant value drivers are observable and other observable inputs.

MIDKIFF AND STONE CAPITAL GROUP, INC.
Notes to the Financial Statements
March 31, 2012
(Continued)

Level 3: Fair value is based on significant unobservable inputs which reflect the entity's or third party pricing service assumptions about the assumptions market participants would use in pricing an asset or liability. Valuations are estimated based on non-binding broker prices or internally developed valuation models or methodologies, discounted cash flow models and other similar techniques.

The following table sets forth Midkiff & Stone's assets that are measured at fair value on a recurring basis as of March 31, 2012:

Description	Total	Level 1	Level 2	Level 3
Securities owned:				
Equity securities and funds	105,265	105,265	-	-
Mutual funds	13,039	13,039	-	-
Total Assets	\$ 118,304	\$ 118,304	\$ -	\$ -

Note 5 – Pension and Profit-Sharing Plan

Midkiff & Stone has a money purchase plan in effect covering substantially all employees and may make annual contributions to the plan up to 25% of compensation of qualified employees. Forfeitures of non-vested benefits occurring during a year are credited against the profit-sharing expense for that year. This money purchase plan is a defined contribution plan, which is intended to qualify under Section 401(a) of the Internal Revenue Code. As a defined contribution plan, it is not covered under Title IV of ERISA and, therefore, benefits are not insured by the Pension Benefit Guaranty Corporation. The money purchase plan expense for the year ended March 31, 2012 was \$11,193.

Note 6 – Net Capital Contribution

Midkiff & Stone is subject to the SEC 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 8 to 1 during

MIDKIFF AND STONE CAPITAL GROUP, INC.

Notes to the Financial Statements

March 31, 2012

(Continued)

the first year of operations and 15 to 1 thereafter. Rule 15c3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At March 31, 2012, Midkiff & Stone had net capital and net capital requirements, as defined, of \$31,900 and \$5,000, respectively. Midkiff & Stone's aggregate indebtedness to net capital ratio was 1.02 to 1.

Note 7 – Commitments and Contingencies

Included in Midkiff & Stone's clearing agreement contains an indemnification clause. This clause related to instances where Midkiff & Stone's customers fail to settle security transactions. In the event this occurs, Midkiff & Stone will indemnify the clearing broker-dealer to the extent of the net loss on any unsettled trades. At March 31, 2012, management of Midkiff & Stone had not been notified by the clearing broker-dealer, nor were they otherwise aware, of any potential losses relating to this indemnification.

Midkiff & Stone currently leases office space on a month-to-month basis from its majority shareholder.

Note 8 – Related Party Transactions

At March 31, 2012, Midkiff & Stone had the following related party account balances:

<u>Description</u>	<u>2011</u>
Advances to shareholders	\$ 6,858
Demand note payable	\$ 30,432

Advances to shareholders are due on demand and earn interest at a rate commiserate with the money market rate the Company earns on cash. Demand note is payable upon call by the lender.

Midkiff & Stone had the following related party transactions reflected in the statements of operations and cash flows for the years ended March 31, 2012:

<u>Description</u>	<u>2011</u>
Commission expense	\$ 78,742
Lease expense to shareholder	\$ 5,628
Dividends paid	\$ 10,000
Shares buy back	\$ 26,605

MIDKIFF AND STONE CAPITAL GROUP, INC.
Notes to the Financial Statements
March 31, 2012
(Continued)

Note 9 – Income Taxes

The taxable income was \$0 for year ended March 31, 2012. The Company took a credit of \$6,828 against the deferred tax liability.

Midkiff & Stone is subject to state income tax in Connecticut. In Texas, Midkiff & Stone is subject to the Texas margin tax, which is calculated as a percentage of Midkiff & Stone's taxable margin, as defined by law, rather than on net income.

Note 10 – Subsequent Events

Midkiff & Stone has evaluated the impact of subsequent events on these financial statements through May 18, 2012.

MIDKIFF AND STONE CAPITAL GROUP, INC
SCHEDULE I - COMPUTATION OF NET CAPITAL UNDER RULE
15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION
As of March 31, 2012

NET CAPITAL	
Total stockholder's equity	\$ 64,686
Deduct stockholder's equity not allowable for net capital	
Non-qualified Accounts Receivable	4,690
Excess Clearance deposit	6
Note from Stockholders	<u>6,858</u>
Total deductions and charges	<u>11,554</u>
 Net capital before haircuts on securities	 53,132
 Haircuts on securities	 <u>(21,232)</u>
 Net Capital	 <u>\$ 31,900</u>
 Aggregate indebtedness	
Accounts payable and other liabilities	<u>32,466</u>
 Total aggregate indebtedness	 <u>\$ 32,466</u>
 COMPUTATION OF BASIC NET CAPITAL REQUIREMENT	
Minimum net capital required (greater of \$5,000 or 6 2/3% of aggregate indebtedness)	<u>\$ 5,000</u>
 Net capital in excess of minimum requirement	 <u>\$ 27,466</u>
 Ratio of aggregate indebtedness to net capital	 <u>1.02</u>

Note: The above computation does not differ from the computation of net capital under Rule 15c3-1 as of March 31, 2012 as reported by Midkiff & Stone Capital Group, Inc. on un-amended Form X-17A-5. Accordingly, no reconciliation is deemed necessary.

The accompanying notes are an integral part of this statement