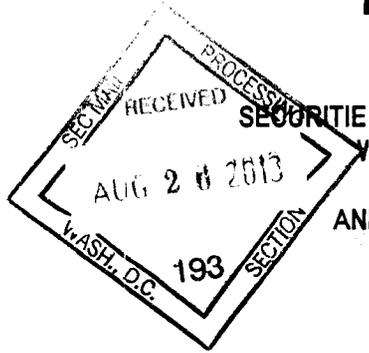


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OMB APPROVAL	
OMB Number:	3235-0123
Expires:	March 31, 2016
Estimated average burden hours per response...	12.00

SEC FILE NUMBER
8-47638

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

FACING PAGE

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

REPORT FOR THE PERIOD BEGINNING 07/01/12 AND ENDING 06/30/13  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

DLS Capital Partners, Inc.

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

5527 Farquhar

(No. and Street)

Dallas

TX

75209

(City)

(State)

(Zip Code)

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

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

CF & Co., L.L.P.

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

8750 N Central Expressway., Suite 300

Dallas

TX

75231

(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).

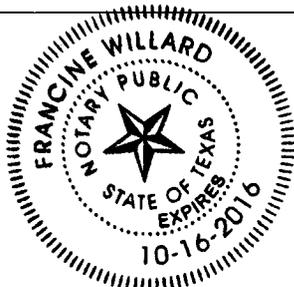
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OATH OR AFFIRMATION

I, Mary Dorflinger, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of DLS Capital Partners, Inc., as of June 30, 2013, 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:

\_\_\_\_\_

\_\_\_\_\_



Mary Dorflinger  
Signature  
Director  
Title

Francine Willard  
Notary Public

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Members' Equity or partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (o) Independent auditor's report on internal control

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

**DLS CAPITAL PARTNERS, INC.**

Report Pursuant to Rule 17a-5(d)

Year Ended June 30, 2013

**DLS CAPITAL PARTNERS, INC.**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
DLS Capital Partners, Inc.

### **Report on the Financial Statements**

We have audited the accompanying statement of financial condition of DLS Capital Partners, Inc. as of June 30, 2013 and the related statements of income, changes in stockholders' equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the year then ended that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DLS Capital Partners, Inc. as of June 30, 2013, 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.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information in Schedules I and II has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in Schedules I and II is fairly stated in all material respects in relation to the financial statements as a whole.

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

Dallas, Texas  
August 20, 2013

DLS CAPITAL PARTNERS, INC.  
Statement of Financial Condition  
June 30, 2013

**ASSETS**

Receivable from broker-dealers and clearing organizations	\$ 1,473,611
Securities owned	233,520
Property and equipment, net of accumulated depreciation of \$9,407	7,287
Other assets	45
Receivable – related party	<u>50,382</u>
	<u>\$ 1,764,845</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Liabilities	
Accounts payable	\$ 66
Payable to clearing broker	156,847
Securities sold, not yet purchased	<u>481,260</u>
	<u>638,173</u>
Stockholders' equity	
Common stock - \$.01 par value, 10,000 shares authorized, 1,000 shares issued and outstanding	10
Additional paid-in capital	853,672
Retained earnings	<u>272,990</u>
Total stockholders' equity	<u>1,126,672</u>
	<u>\$ 1,764,845</u>

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

DLS CAPITAL PARTNERS, INC.  
Statement of Income  
For the Year Ended June 30, 2013

**Revenues**

Gains or losses on firm securities trading accounts	\$ 4,163
Securities commissions	17,203
Other income	<u>25,722</u>
	<u>47,088</u>

**Expenses**

Compensation and benefits	178
Commissions and clearance paid to all other brokers	11,115
Interest expense	3,064
Communications	3,409
Occupancy and equipment costs	2,004
Regulatory fees and expenses	5,912
Other expenses	<u>84,865</u>
	<u>110,547</u>

Net income (loss) before income taxes	(63,459)
Federal income tax benefit (expense)	<u>-0-</u>
Net income (loss)	<u>\$ (63,459)</u>

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

DLS CAPITAL PARTNERS, INC.  
Statement of Changes in Stockholders' Equity  
For the Year Ended June 30, 2013

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balances at June 30, 2012	\$ 10	\$ 853,672	\$ 336,449	\$ 1,190,131
Net income (loss)	_____	_____	(63,459)	(63,459)
Balances at June 30, 2013	<u>\$ 10</u>	<u>\$ 853,672</u>	<u>\$ 272,990</u>	<u>\$ 1,126,672</u>

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

DLS CAPITAL PARTNERS, INC.  
Statement of Changes in Liabilities Subordinated  
to Claims of General Creditors  
For the Year Ended June 30, 2013

Balance at June 30, 2012	\$ -0-
Increases	-0-
Decreases	<u>-0-</u>
Balance at June 30, 2013	<u>\$ -0-</u>

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

DLS CAPITAL PARTNERS, INC.  
Statement of Cash Flows  
For the Year Ended June 30, 2013

<b>Cash flows from operating activities</b>	
Net income (loss)	\$ (63,459)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	2,004
Change in assets and liabilities:	
Increase in receivable from broker-dealers and clearing organizations	(456,931)
Increase in securities owned	(92,649)
Decrease in other assets	1,704
Decrease in receivable – related party	26,250
Increase in accounts payable	66
Increase in payable to clearing broker	101,755
Increase in securities sold, not yet purchased	<u>481,260</u>
Net cash provided (used) by operating activities	<u>-0-</u>
<b>Cash flows from investing activities</b>	
Net cash provided (used) by investing activities	<u>-0-</u>
<b>Cash flows from financing activities</b>	
Net cash provided (used) by financing activities	<u>-0-</u>
Net increase (decrease) in cash	-0-
Cash at beginning of year	<u>-0-</u>
Cash at end of year	<u>\$ -0-</u>
<b>Supplemental cash flows disclosures:</b>	
Interest payments	<u>\$ 3,064</u>
Income tax payments (paid to Parent)	<u>\$ -0-</u>

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

DLS CAPITAL PARTNERS, INC.  
Notes to Financial Statements  
June 30, 2013

Note 1 - Summary of Significant Accounting Policies

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

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

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

Receivables from broker-dealer and clearing organizations are generally collected in full in the month following their accrual. As such, management has not recorded an allowance for doubtful accounts on these receivables. Management records an allowance for bad debts based on a collectability review of specific accounts. Any receivables deemed uncollectible are written off against the allowance.

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

Income tax returns are generally subject to examination by the respective federal and state authorities over various statutes of limitations generally three to five years from date of filing.

Property and equipment are recorded at cost. Depreciation is recorded using an accelerated method over the useful life of the assets.

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

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

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

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. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique.

DLS CAPITAL PARTNERS, INC.  
Notes to Financial Statements  
June 30, 2013

Note 1 - Summary of Significant Accounting Policies, continued

These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the year ended June 30, 2013, the application of valuation techniques applied to similar assets and liabilities has been consistent. The fair value of investments are deemed to be Level 1 and Level 2 investments, see Note 4.

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

The inputs used to measure fair value may fall into different levels of fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls into its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Note 2 - Net Capital Requirements

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. Net capital and the related net capital ratio may fluctuate on a daily basis. At June 30, 2013, the Company had net capital of approximately \$824,500 and net capital requirements of \$100,000. The Company's ratio of aggregate indebtedness to net capital was .00 to 1. The Securities and Exchange Commission permits a ratio of no greater than 15 to 1.

DLS CAPITAL PARTNERS, INC.  
Notes to Financial Statements  
June 30, 2013

Note 3 - Possession or Control Requirements

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

Note 4 - Securities Owned

A description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value on a recurring basis as follows:

Equity securities: Securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded, and valuation adjustments are not applied, they are categorized in Level 1 of the fair value hierarchy.

Corporate bonds and certain obligations of government agencies or states, municipalities and political subdivisions are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Securities owned represent trading and investment securities at fair value and at June 30, 2013 consist of the following (presented based upon classification in fair value hierarchy):

	Securities Owned			
	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 43,650	\$ --	\$ --	\$ 43,650
Corporate Bonds	--	189,870	--	189,870
	\$ 43,650	\$ 189,870	\$ --	\$ 233,520

	Securities Sold, Not Yet Purchased			
	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 481,260	\$ --	\$ --	\$ 481,260
	\$ 481,260	\$ --	\$ --	\$ 481,260

Note 5 - Property and Equipment

Property and equipment and related accumulated depreciation are as follows.

	Cost	Accumulated Depreciation	Net
Property and equipment	\$ 16,694	\$ (9,407)	\$ 7,287

Depreciation expense for the period ended June 30, 2013 was \$2,004 and is shown in occupancy and equipment costs.

DLS CAPITAL PARTNERS, INC.  
Notes to Financial Statements  
June 30, 2013

Note 6 - Concentration Risk

The Company has a substantial investment in non-investment grade, non-convertible debt securities (some of which are in default).

Note 7 - Payable to Clearing Broker

The payable to clearing broker represents the amount due for unsettled trading securities owned. Interest is charged on this payable at the prevailing margin rate, which was 1.88% at June 30, 2013.

Note 8 - Federal Income Taxes

The Company files a consolidated income tax return with the Parent. Income taxes are recorded using the separate company method to comply with Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 740. Any resulting provision or benefit for income taxes is recorded as receivable from or payable to the Parent.

The Company has a net operating loss carryforward of approximately \$63,460 available to offset future taxable income and expires as follows:

Year Ended	
<u>June 30,</u>	
2032	<u>\$ 63,460</u>

The tax benefit of \$10,900 from the net operating loss carryforward of \$63,460 has not been reported in these financial statements because the Company believes there is at least a 50% chance that the carryforwards will expire unused. Accordingly, the tax benefit has been offset by a valuation allowance of the same amount. The following reflects the changes in the tax benefit:

	Deferred Tax Asset June 30, 2012	Current Period Changes	Deferred Tax Asset June 30, 2013
Federal	\$ -0-	\$ 10,900	\$ 10,900
Valuation allowance	-0-	(10,900)	(10,900)
Amount per balance sheet	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Management evaluates income tax positions based on whether it is more likely than not the positions taken will be sustained on examination. Uncertain tax positions are reduced by a liability for a contingent loss that is recorded either when the more likely than not threshold is no longer met or when it becomes probable that a payment will be made to the taxing authority. Any potential interest and penalty associated with a tax contingency, should one arise, would be included as a component of income tax expense in the period in which the assessment arises.

DLS CAPITAL PARTNERS, INC.  
Notes to Financial Statements  
June 30, 2013

Note 9 - Commitments and Contingencies

Included in the Company's clearing agreement with its clearing broker-dealer, is an indemnification clause. This clause relates to instances where the Company's customers fail to settle security transactions. In the event this occurs, the Company will indemnify the clearing broker-dealer to the extent of the net loss on the unsettled trade. At June 30, 2013, management of the Company had not been notified by the clearing broker-dealer, nor were they otherwise aware, of any potential losses relating to this indemnification.

Supplemental Information  
Pursuant to Rule 17a-5  
of the Securities Exchange Act of 1934  
as of  
June 30, 2013

## Schedule I

DLS CAPITAL PARTNERS, INC.  
Computation of Net Capital Under Rule 15c3-1  
of the Securities and Exchange Commission  
As of June 30, 2013

### COMPUTATION OF NET CAPITAL

Total stockholders' equity qualified for net capital		\$ 1,126,672
Deduction and/or charges:		
Property and equipment, net	\$ 7,287	
Other assets	45	
Receivable – related party	<u>50,382</u>	<u>(57,714)</u>
Net capital before haircuts on securities positions		1,068,958
Haircuts on securities (computed, where applicable, pursuant to Rule 15c3-1(f)):		
Debt securities	\$ 24,526	
Other securities	56,155	
Undue concentration	<u>163,777</u>	<u>(244,458)</u>
Net capital		<u>\$ 824,500</u>

### AGGREGATE INDEBTEDNESS

Accounts payable	\$ <u>66</u>
Total aggregate indebtedness	<u>\$ 66</u>

Schedule I (continued)

DLS CAPITAL PARTNERS, INC.  
Computation of Net Capital Under Rule 15c3-1  
of the Securities and Exchange Commission  
As of June 30, 2013

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

Minimum net capital required (6 2/3% of total aggregate indebtedness)	<u>\$ 4</u>
Minimum dollar net capital requirement of reporting broker or dealer	<u>\$ 100,000</u>
Net capital requirement (greater of above two minimum requirement amounts)	<u>\$ 100,000</u>
Net capital in excess of required minimum	<u>\$ 724,500</u>
Excess net capital at 1000%	<u>\$ 824,493</u>
Ratio: Aggregate indebtedness to net capital	<u>.00 to 1</u>

**RECONCILIATION WITH COMPANY'S COMPUTATION**

There were no material differences in the computation of net capital under Rule 15c3-1 from the Company's computation.

## Schedule II

DLS CAPITAL PARTNERS, INC.  
Computation for Determination of Reserve Requirements Under  
Rule 15c3-3 of the Securities and Exchange Commission  
As of June 30, 2013

### EXEMPTIVE PROVISIONS

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

Company's clearing firm: First Southwest Company

Independent Auditor's Report

On Internal Control

Required By SEC Rule 17a-5

For the Year Ended

June 30, 2013



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

The Board of Directors  
DLS Capital Partners, Inc.

In planning and performing our audit of the financial statements and supplemental information of DLS Capital Partners, Inc. (the "Company"), as of and for the year ended June 30, 2013 in accordance with auditing standards generally accepted in the United States of America, we considered the Company'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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in 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 deficiency in internal control 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 and second paragraphs and was not designed to identify all deficiencies in internal control that might be material weaknesses and therefore, there can be no assurance that all material weaknesses have been identified. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at June 30, 2013, to meet the SEC's objectives.

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

*CF & Co. 228*  
CF & Co., L.L.P.

Dallas, Texas  
August 20, 2013