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

SEC FILE NUMBER  
8-48921

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 01-01-2012 AND ENDING 12-31-2012  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Higgins Capital Management, Inc.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

2223 Avenue De La Playa, Suite 210

(No. and Street)

La Jolla

(City)

CA

(State)

92037

(Zip Code)

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

Deborah Higgins

858-459-2993

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Joseph Yafeh, CPA

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

11300 West Olympic Blvd., Suite 875

(Address)

Los Angeles

(City)

CA

(State)

90064

(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)

KW  
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OATH OR AFFIRMATION

I, Deborah Higgins, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Higgins Capital Management, Inc., as of December 31,, 2012, 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

Deborah M. Higgins

Signature

President

Title

NOTARY JURAT ATTACHED

[Signature] 2-22-2013

Notary Public L. TURNER

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.

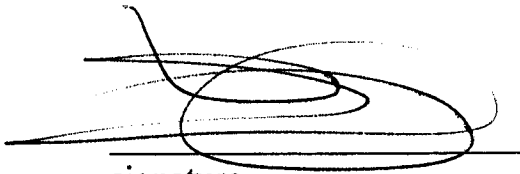
\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

JURAT

State of California  
County of SAN DIEGO

Subscribed and affirmed before me on this 22 day of Feb.,  
2013, by DEBORAH M. HIGGINS

proved to me on the basis of satisfactory evidence to be the person(s)  
who appeared before me.



signature



(seal)

OPTIONAL INFORMATION

Date of Document \_\_\_\_\_

Type of title of document ANNUAL AUDITED FORM  
X-17A-5, PART III (U.S. SEC.)

Number of pages in document 2

Thumbprint of signer



**Higgins Capital Management, Inc.**

**Report Pursuant to Rule 17a-5 (d)**

**Financial Statements**

**For the Year Ended December 31, 2012**

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**Joseph Yafeh CPA, Inc.**  
*A Professional Accounting Corporation*  
11300 W. Olympic Blvd., Suite 875  
Los Angeles CA 90064  
310-477-8150 ~ Fax 310-477-8152  
[joeyafeh@cpasocal.com](mailto:joeyafeh@cpasocal.com)  
PCAOB # 3346

### **Report of Independent Auditor**

Board of Directors  
Higgins Capital Management, Inc.  
La Jolla, California

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

I have audited the accompanying statement of financial condition of Higgins Capital Management, Inc., as of December 31, 2012 and related statements of income, changes in stockholders' equity and changes in financial condition for the year then ended. These financial statements are being filed pursuant to Rule 17a-5 of the Securities Exchange Act of 1934 and include the supplemental schedule of the net capital computation required by rule 15c3-1. These financial statements are the responsibility of Higgins Capital Management, Inc.'s management.

#### **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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 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 Company'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 Company's internal control. Accordingly, I 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.

Board of Directors  
Higgins Capital Management, Inc.  
Page 2

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Higgins Capital Management, Inc. as of December 31, 2012, and the results of its operations and its changes in financial position for the year ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, III and IV 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 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, II and III 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 my opinion, the information in Schedules I, II, III and IV is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Joseph Yafeh, CPA

Los Angeles, California  
January 24, 2013

**Higgins Capital Managements, Inc.**  
**Statement of Financial Condition**  
**December 31, 2012**

**Assets**

Cash in bank	\$ 60,364
Commissions receivable	41,140
Securities	23,890
Clearing broker's deposit	50,000
Deposits - lease	<u>1,885</u>
<b>Total Assets</b>	<b><u>\$177,279</u></b>

**Liabilities and Stockholders' Equity**

**Liabilities**

Accounts payable	<u>\$ 4,288</u>
<b>Total Liabilities</b>	<b><u>4,288</u></b>

**Stockholders' Equity**

Common Stock - Authorized 1,000,000 Shares; issued and outstanding 10,000 shares at a stated value of \$1.00 per share	10,000
Paid-in-capital	17,875
Retained earnings	<u>145,116</u>
<b>Total Stockholders' Equity</b>	<b><u>\$172,991</u></b>
<b>Total Liabilities and Stockholders' Equity</b>	<b><u>\$177,279</u></b>

See Accompanying Notes to the Financial Statements



**Higgins Capital Managements, Inc.**  
**Statement of Income**  
**For the Year Ended December 31, 2012**

Revenue:	
Commissions	\$ 406,733
Other	<u>16,763</u>
Total Revenue	<u>423,496</u>
Unrealized loss	( 6,730)
Operating expenses (Schedule Page 14)	<u>407,349</u>
Income Before Income Taxes	9,417
Income Taxes	<u>1,700</u>
Net Income	<u>\$ 7,717</u>

See Accompanying Notes to the Financial Statements

**Higgins Capital Managements, Inc.**  
**Statement of Stockholders' Equity**  
**Year Ended December 31, 2012**

	Shares Issued	Common Stock	Paid-In Capital	Retained Earnings	Stockholders' Equity
Balance December 31, 2011	10,000	\$10,000	\$17,875	\$ 137,399	\$ 165,274
Net Income	_____	_____	_____	<u>7,717</u>	<u>7,717</u>
Balance December 31, 2012	<u>10,000</u>	<u>\$10,000</u>	<u>\$17,875</u>	<u>\$ 145,116</u>	<u>\$ 172,991</u>

See Accompanying Notes to the Financial Statements

**Higgins Capital Managements, Inc.**  
**Statement of Changes in Financial Condition**  
**Year Ended December 31, 2012**

Cash Flows from Operations:	
Net Income	\$ 7,717
Depreciation	0
Commissions Receivable	(24,016)
Securities	6,730
Accounts Payable	<u>333</u>
Cash Flows Used by Operations	<u>( 9,236)</u>
Acquisition Activities	0
Investing Activities	<u>0</u>
Decrease in Cash	( 9,236)
Cash in Bank, beginning	<u>69,600</u>
Cash in Bank, ending	<u>\$ 60,364</u>
Supplemental Data:	
Cash Paid for Interest	<u>\$ 0</u>
Cash Paid for Income Tax	<u>\$ 1,700</u>

See Accompanying Notes to the Financial Statements

**Higgins Capital Management, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012**

**Note 1 – Organization and Nature of Business**

Higgins Capital Management, Inc., (the Company), was incorporated June 24, 1996 and approved as a broker-dealer by the NASD on February 18, 1997. The NASD and NYSE Member Regulation consolidated in 2007 to form the Financial Industry Regulatory Agency (“FINRA”).

**Note 2 – Significant Accounting Policies**

**Basis of Presentation** – The Company conducts business on a fully disclosed basis. The Company does not hold customer funds and/or securities. The Company currently conducts several types of business as a securities broker-dealer, including:

- Broker or dealer retailing corporate equity securities over-the-counter
- Broker or dealer selling corporate debt securities
- U.S. government securities dealer
- U.S. government securities broker
- Municipal securities dealer
- Municipal securities broker
- Investment advisory services

Under its membership agreement with FINRA and pursuant to Rule 15c3 (k) (2) (ii), the Company conducts business on a fully disclosed basis and does not execute or clear securities transactions for customers. Accordingly, the Company is exempt from the requirement of Rule 15c3-3 under the Securities Exchange Act of 1934 pertaining to the possession or control of customer assets and reserve requirements.

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

**Commissions** – Based upon the income reported, the commissions earned from the sale of mutual funds and investment company shares represent the major portion of the business.

**Income Taxes** – The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in deferred tax liabilities or assets between years.

**Higgins Capital Management, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012**

**Note 2 – Significant Accounting Policies (continued)**

**Income Taxes (continued)**

The Company recognizes and measures its unrecognized tax benefits in accordance with FASB ASC 740, *Income Taxes*. Under that guidance the Company assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change.

**Depreciation** – Depreciation is calculated on the accelerated method over estimated economic lives. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease. Property and equipment are carried at cost.

**Statement of Changes in Financial Condition** – The Company has defined cash equivalents as highly liquid investments, with original maturities of less than three months that are not held for sale in the ordinary course of business.

**Note 3 - Fair Value**

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.)

**Higgins Capital Management, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012**

**Note 3 - Fair Value (continued)**

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2012.

<b>Fair Value Measurements on a Recurring Basis</b>				
<b>As of December 31, 2012</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash	\$ 60,364	\$ -	\$ -	\$ 60,364
Clearing Deposit	<u>50,000</u>	<u>          </u>	<u>          </u>	<u>50,000</u>
	<u>\$110,364</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$110,364</u>

**Note 4 – Receivable From and Payable to Broker-Dealers and Clearing Organizations**

Amounts receivable from and payable to broker-dealers and clearing organizations at December 31, 2012, consist of the following:

	<b>Receivable</b>	<b>Payable</b>
Fees and commissions receivable/payable	\$ 41,140	\$ 0

**Note 5 - Concentration of Credit Risk**

The Company is engaged in various trading and brokerage activities in which counter-parties primarily include broker-dealers, banks, and other financial institutions. In the event counter-parties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counter-party or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counter-party.

**Note 6 – Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 5c3-1) which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Net capital and aggregate indebtedness change day by day, but on December 31, 2012, the Company had net capital of \$167,523 which was \$142,523 in excess of its required net capital requirement of \$25,000. The Company's ratio of aggregate indebtedness, \$4,288 to net capital was 2.56%.

**Higgins Capital Management, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012**

**Note 7 – Provision for Income Taxes**

The Company files its Federal tax return on the cash basis. There are no Federal and state taxes owed. The provision for income taxes for the year consists of the following:

Federal	\$ 0
State – Minimum tax	<u>1,700</u>
	<u>\$1,700</u>

**Note 8 – Deposit – Clearing Organization**

The Company is registered under SEC Rule 15c3-3(k) (2) (ii) which provides that all the funds and securities belonging to the Company's customers are handled by a correspondent broker-dealer. The Company has a clearing agreement with RBC Dain Rauscher. The Company's deposits are as follows:

Cash	<u>\$ 50,000</u>
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**Note 9 – Commitments**

The Company has a three year extended lease. Future lease payments are:

2013	\$29,811
2014	30,519
2015	<u>7,674</u>
	<u>\$68,004</u>

**Note 10 – Exemption from the SEC Rule 15c3-3**

The Company is an introducing broker-dealer that clears all transactions with and for customers on a fully disclosed basis with an independent securities clearing company and promptly transmits all customer funds and securities to the clearing company, which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of the SEC Rule 17a-3 and 17a-4, as are customarily made and kept by a clearing broker or dealer

**Note 11 -- SIPC Supplementary Report Requirement**

During the year ended December 31, 2012, SIPC raised its member's assessment to 0.0025 of each member's securities business total revenue. The Company is not required to complete the SIPC Supplementary Report under SEC Rule 17a-5(e) (4) for fiscal year ending December 31, 2012 because the Company's SIPC Net Operating Revenues are under \$500,000.

**Higgins Capital Management, Inc.**  
**Notes to Financial Statements**  
**December 31, 2012**

**Note 12 – Subsequent Events**

Management has reviewed the results of operations for the period of time from its year end December 31, 2012 through January 24, 2013, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying combined financial statements nor have any subsequent events occurred, the nature of which would require disclosure.



**Higgins Capital Management, Inc.**  
**Schedule I**  
**Computation of New Capital Requirements Pursuant**  
**To Rule 15c3-1**  
**December 31, 2012**

Computation of Net Capital

Total stockholders' equity from statement of financial condition	\$172,991
Less: Non allowable assets - Page 13	( 1,885)
Haircuts – Page 13	<u>( 3,583)</u>
Net Capital	<u>\$167,523</u>

Computation of Net Capital Requirements

Minimum net capital required 6-2/3 of total liabilities	<u>\$ 286</u>
Minimum dollar net capital required	<u>\$ 25,000</u>
Net Capital required greater of above amounts	<u>\$ 25,000</u>
Excess Capital	<u>\$142,523</u>
Excess net capital at 1000% (net capital) less 10% of aggregate indebtedness	<u>\$167,094</u>

Computation of Aggregate Indebtedness

Total liabilities (from Statement of Financial Condition)	<u>\$ 4,288</u>
Percentage of aggregate indebtedness to net capital	<u>2.56%</u>
Percentage of debt to equity to total Computed in accordance with Rule 15c3-1(d)	<u>N/A</u>

Reconciliation

The following is a reconciliation as of December 31, 2012 of the above net capital computation with the Company's corresponding unaudited computation pursuant to Rule 179-5(d)(4).

Net capital unaudited	<u>\$167,523</u>
Net capital audited	<u>\$167,523</u>

See Accompanying Notes to Financial Statements

**Higgins Capital Management, Inc.**  
**Schedule I**  
**Computation of Net Capital Requirements Pursuant**  
**To Rule 15c3-1**  
**December 31, 2012**

Schedule for Non-Allowable Assets

Deposit - Lease	<u>\$ 1,885</u>
	<u>\$ 1,885</u>
Haircut	
Securities	<u>\$ 3,583</u>

See Accompanying Notes to the Financial Statements

**Higgins Capital Managements, Inc.**  
**Schedule II**  
**Operating Expenses**  
**Year Ended December 31, 2012**

Automobile	\$ 20,319
Clearing cost	44,036
Compliance	11,847
Information technology	42,622
Insurance	26,887
Legal & professional	7,849
Licenses and Fees	7,075
Marketing	11,541
Medical pay plan	16,169
Office expense	12,201
Payroll expenses	175,492
Rent	29,333
Taxes	( 6,052)
Telephone	4,239
Travel and entertainment	<u>3,791</u>
Total Operating Expenses	<u>\$407,349</u>

See Accompanying Notes to the Financial Statements

**Higgins Capital Management, Inc.**  
**Schedule III – Computation for Determination of Reserve**  
**Requirements Pursuant to Rule 15c3-3**  
**As of December 31, 2012**

A computation of reserve requirement is not applicable to Higgins Capital Management, Inc. as the Company qualifies for exemption under Rule 15c3-3 (k) (2) (ii).

**Higgins Capital Managements, Inc.**  
**Schedule IV – Information Relating to Possession or Control**  
**Requirements under Rule 15c3-3**  
**As of December 31, 2012**

Information relating to possession or control requirements is not applicable to Higgins Capital Management, Inc. as the Company qualifies for exemption under Rule 15c3-3 (k) (2) (ii).

**Joseph Yafeh CPA, Inc.**  
*A Professional Accounting Corporation*  
**11300 W. Olympic Blvd., Suite 875**  
**Los Angeles CA 90064**  
**310-477-8150 ~ Fax 310-477-8152**  
[joeyafeh@cpasocal.com](mailto:joeyafeh@cpasocal.com)  
PCAOB # 3346

PART II

Report on Internal Control Required by SEC Rule 17a-5(g)(1) for a  
Broker-Dealer Claiming an Exemption from SEC Rule 15c3-3

To the Board of Directors  
Higgins Capital Management, Inc.  
La Jolla, California

In planning and performing my audit of the financial statements of Higgins Capital Management, Inc. (the Company), as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, I considered the Company's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, I 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 and Exchange Commission (SEC), I 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 I considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) 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, I 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 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 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 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.

To the Board of Directors  
Higgins Capital Management, Inc.  
Page 2

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.

My consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. I did not identify any deficiencies in internal control and control activities for safeguarding securities that I consider to be material weaknesses, as defined previously.

I 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 my study, I believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2012 to meet the SEC's objectives.

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



Joseph Yafeh, CPA

Los Angeles, California  
January 24, 2013