

# **HENNION & WALSH, INC.**

Statement of Financial Condition  
Pursuant to Rule 17a-5 under the  
Securities and Exchange Act of 1934  
December 31, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

SEC FILE NUMBER
8-41988

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 01/01/18 AND ENDING 12/31/18  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER:

Hennion & Walsh, Inc.

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

2001 Route 46 Waterview Plaza  
(No. and Street)

Parsippany NJ 07054-1018  
(City) (State) (Zip Code)

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

Debbie Hoffmann (800) 836-8240  
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

WithumSmith + Brown, PC  
(Name - if individual, state last, first, middle name)  
200 Jefferson Park, Suite 400 Whippany NJ 07981  
(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). SEC 1410 (3-91)

# HENNION & WALSH, INC.

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

- ☒ Independent Auditors' Report.
- ☒ Facing Page.
- ☒ Statement of Financial Condition.
- ☐ Statement of Operations.
- ☐ Statement of Changes in Stockholders' Equity.
- ☐ Statement of Cash Flows.
- ☐ Statement of Changes in Liabilities Subordinated to Claims of General Creditors.
- ☐ Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934.
- ☐ Computation for Determination of Reserve Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934.
- ☐ Information Relating to the Possession or Control Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934 (not applicable).
- ☐ A Reconciliation, including appropriate explanations, of the Computation of Net Capital Pursuant to Rule 15c3-1 (included with Computation of Net Capital and the Determination of Reserve Requirements Under Rule 15c3-3).
- ☐ A Reconciliation Between the Audited and Unaudited Statements of Financial Condition With Respect to Methods of Consolidation (not applicable).
- ☒ An Affirmation.
- ☐ A copy of the SIPC Supplemental Report.
- ☐ A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit (Supplemental Report on Internal Control).
- ☐ Report of Independent Registered Public Accounting Firm regarding Rule 15c3-3 exemption report.
- ☐ Management Statement Regarding Exemption from Rule 15c3-3

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

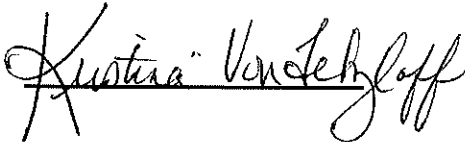
**AFFIRMATION**

I, Debbie Hoffmann, affirm that, to the best of my knowledge and belief, the accompanying statement of financial condition pertaining to Hennion & Walsh, Inc. for the year ended December 31, 2018, are true and correct. I further affirm that neither the Company nor any officer or director has any proprietary interest in any account classified solely as that of a customer.

  
Signature

Chief Financial Officer  
Title

Subscribed and sworn  
to before me



Kristina L Von Tetzlaff  
Notary Public  
New Jersey  
My Commission Expires 3-22-20

**HENNION & WALSH, INC.**

**Index**  
**December 31, 2018**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Hennion & Walsh, Inc.

**Opinion on the Financial Statement**

We have audited the accompanying statement of financial condition of Hennion & Walsh, Inc. (the "Company"), as of December 31, 2018, and the related notes (collectively referred to as the "financial statement"). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

*WithumSmith+Brown, PC*

We have served as the Company's auditor since 2011.

Whippany, New Jersey  
February 27, 2019

# HENNION & WALSH, INC.

## Statement of Financial Condition December 31, 2018

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### Assets

Cash and cash equivalents	\$ 174,861
Marketable securities owned, at fair value	10,048,321
Due from clearing broker	1,650,036
Interest receivable	139,056
Property and equipment, net	215,771
Intangible assets, net	694,032
Due from employees	260,500
Other assets	224,822
<b>Total assets</b>	<b>\$13,407,399</b>

### Liabilities and Stockholders' Equity

#### Liabilities:

Marketable securities sold, not yet purchased - at fair value	\$ 4,400,944
Accounts payable and accrued expenses	1,749,490
Due to affiliates	398,582
Deferred broker credit	278,470
Interest payable	83,728
Deferred rent liability	221,539
Capital lease liability	134,602
<b>Total liabilities</b>	<b>7,267,355</b>

### Commitments and Contingencies (see Notes 11 and 12)

#### Stockholders' Equity

Common stock, no par value; 2,500 shares authorized; 210 shares issued and outstanding	15,000
Additional paid-in capital	897,262
Retained earnings	5,227,782
<b>Total stockholders' equity</b>	<b>6,140,044</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$13,407,399</b>

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

# **HENNION & WALSH, INC.**

## **Notes to Statement of Financial Condition December 31, 2018**

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### **Note 1. Nature of Operations**

Hennion & Walsh, Inc. (the "Company") is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and is a member of the Financial and Industry Regulatory Agency ("FINRA"). The Company is a New Jersey corporation that offers equity and fixed-income products and services to individual investors. In addition, the Company trades for its own account.

### **Note 2. Summary of Significant Accounting Policies**

#### **Basis of Presentation**

This financial statement was prepared in conformity with accounting principles generally accepted in the United States ("US GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as the date of this financial statement. Actual results could differ from these estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents are defined as highly liquid investments, consisting of money market fund investments and time deposits with original maturities of three months or less.

#### **Fair Value of Financial Instruments**

Certain financial instruments are carried at amounts that approximate fair value due to the short-term nature and negligible credit risk. These instruments include cash, short-term receivables, accounts payable, and other liabilities.

#### **Investment Valuation**

The Company utilizes various methods to measure the fair value of most of its investments on a recurring basis. US GAAP establishes a hierarchy that prioritizes inputs to valuation methods. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. The three levels of inputs are:

Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including the type of security, whether the security is new and not yet

# **HENNION & WALSH, INC.**

## **Notes to Statement of Financial Condition December 31, 2018**

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### **Note 2. Summary of Significant Accounting Policies (Continued)**

#### **Income Taxes**

The Company has elected to have its income taxed under Section 1362 (Subchapter S) of the Internal Revenue Code of 1986 and applicable state statutes, which provide that in lieu of corporate income taxes, the shareholders include their proportionate share of the Company's taxable income or loss on their individual income tax returns. Accordingly, no provision for federal or regular state income taxes is reflected in the financial statement. The Company is subject to various minimum state filing fees.

The stockholders of the Company have concluded that the Company is a pass-through entity for tax purposes and there are no uncertain tax positions that would require recognition in the financial statement. This determination will be subject to ongoing reevaluation as facts and circumstances may require.

#### **Deferred Broker Credit**

In 2013, the Company received \$1,800,000 from its clearing broker for agreeing to extend the Clearing Agreement with the clearing broker for a seven year term. The amount is being amortized by a straight-line method over the term of the agreement. As of December 31, 2018, the balance of the deferred broker credit was \$278,470.

#### **New Accounting Pronouncement**

In May 2014, FASB issued ASU 2016-02 – Leases. The new guidance provides that a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. The Company's leases will be accounted for, both in the income statement and statement of cash flows, in a manner consistent with operating leases under existing GAAP. However, as it relates to the balance sheet, lessees will recognize lease liabilities based upon the present value of remaining lease payments and corresponding lease assets for operating leases with limited exception. The guidance became effective on January 1, 2019. The effect of grossing up the assets and liabilities as of January 1, 2019 will not have a significant impact on the Company's operations.

### **Note 3. Related Party Transactions**

Under an expense sharing agreement, the Company periodically makes advances to two affiliates. Total reimbursed expenses amounted to \$1,174,161. These expenses include rent, payroll and various office expenses. Total reimbursed income amounted to \$1,729,972. This income includes advisory management fees paid by the clients which is collected by our clearing firm on behalf of our affiliate. The net payable totaled \$398,582 as of December 31, 2018 and is non-interest bearing.

In April 2013, in order to finance the purchase of shares of common stock of the Company, three employees made capital contributions, in the amount of \$217,158, with a pledge of promissory notes to the Company. The promissory notes commenced on May 1, 2013, with 60 monthly payments of \$1,240. Each note bears interest at a rate of 1.09% per annum. As of December 31, 2018, the notes were paid in full.

# HENNION & WALSH, INC.

## Notes to Statement of Financial Condition December 31, 2018

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### Note 4. Intangible Assets

On January 1, 2014, the Company entered into an agreement to purchase all applicable assets of P.M.K. Securities & Research, Inc., and P.M.K. Capital Advisors, Inc. ("PMK"), both Florida corporations, at a total cost of \$2,650,000. As a result of this agreement, the Company recorded \$47,867 of fixed assets and \$2,602,133 of intangible assets. The intangible assets consist of customer lists purchased from PMK. Since the purchased corporation did not meet the targeted net revenue, the customer list was reduced from \$2,602,133 to \$1,545,559 in 2014 and 2015.

This customer list is being amortized on the straight-line method over a life of ten years. Amortization expense for the year ended December 31, 2018 aggregated \$138,804. The remaining balance of the asset is subject to the conditions set forth in the purchase agreement.

The Company's future amortization expense of customer list is as follows:

Year Ending December 31, 2018	Amounts
2019	\$ 138,806
2020	138,806
2021	138,806
2022	138,807
2023	138,807
	<hr/>
	\$ 694,032
Intangible assets at December 31, 2018	\$ 1,545,559
Accumulated amortization	<hr/> (851,527)
Net value	<hr/> \$ 694,032

### Note 5. Property and Equipment

Major classes of property and equipment consist of the following at December 31, 2018:

Furniture and equipment	\$ 372,718
Leasehold improvements	141,698
Lease equipment under capital lease	<hr/> 162,409
	676,825
Less: accumulated depreciation and amortization	(461,054)
Net property and equipment	<hr/> \$ 215,771

# HENNION & WALSH, INC.

## Notes to Statement of Financial Condition December 31, 2018

### Note 6. Fair Value Measurements

The following table presents information about the Company's assets and liabilities measured at fair value as of December 31, 2018.

	Level 1	Level 2	Level 3	Total
<b>Assets (at fair value)</b>				
<b>Securities owned</b>				
Corporate debt securities	\$ -	\$ 8,198,514	\$ -	\$ 8,198,514
Government debt securities	-	1,848,795	-	1,848,795
Equity securities	254	758	-	1,012
Total	<u>\$ 254</u>	<u>\$ 10,048,067</u>	<u>\$ -</u>	<u>\$ 10,048,321</u>
<b>Liabilities (at fair value)</b>				
<b>Securities sold, not yet purchased</b>				
Corporate debt securities	\$ -	\$ 3,897,712	\$ -	\$ 3,897,712
Government debt securities	-	503,232	-	503,232
Equity securities	-	-	-	-
Total	<u>\$ -</u>	<u>\$ 4,400,944</u>	<u>\$ -</u>	<u>\$ 4,400,944</u>

There were no transfers between levels of the fair value hierarchy for assets and liabilities measured at fair value during the year 2018.

### Note 7. Regulatory Requirements

As a registered municipal securities broker and member of the Financial Industry Regulatory Authority, Inc., (FINRA), the Company is subject to SEC Uniform Net Capital Rule 15c-3-1, 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. As of December 31, 2018, the Company had net capital of \$3,234,906 which was \$2,984,906 in excess of its required net capital of \$250,000. The Company's net capital ratio was .89 to 1 at December 31, 2018.

### Note 8. Concentration of Credit Risk

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

The Company maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Company has not experienced any loss in these accounts and does not believe it is exposed to any significant credit risk on cash.

# **HENNION & WALSH, INC.**

## **Notes to Statement of Financial Condition December 31, 2018**

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### **Note 9. Risk and Uncertainties**

In the normal course of business, the Company enters into transactions in securities sold, not yet purchased. The activity of selling securities short subjects the Company to certain inherent risks. Subsequent market fluctuations may require the Company to purchase the securities sold, not yet purchased, at prices that differ from the fair value reflected in the statement of financial condition.

### **Note 10. Retirement Plan**

The Company has a defined contribution 401(k) plan. Employees are eligible to participate after one year of service with the Company. The Company's contribution amounted to \$99,574 for the year ended December 31, 2018.

### **Note 11. Commitments**

The Company has obligations under operating lease agreements for equipment and office space. These leases will start to expire in 2022.

The Company's future minimum lease commitments under real estate leases are as follows:

<b>Year Ending December 31, 2018</b>	<b>Total Commitments</b>
2019	721,008
2020	724,576
2021	728,252
2022	732,037
2023	370,031
Thereafter	161,512
	<u>\$ 3,437,416</u>

In January 2018, the Company entered into a five year capital lease agreement for furniture for their Boca Raton, Florida location. The value of the capital lease asset and corresponding lease liability at December 31, 2018 is \$162,409.

### **Note 12. Litigation**

On occasion, the Company is involved in claims and other legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, or liquidity. In the event of unfavorable outcomes in these cases, the Company could recognize a loss ranging from \$0 to \$2,200,000. The Company has reserved approximately \$752,000 against a possible loss.