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3/30/04



SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

VF 3-26-04

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

SEC FILE NUMBER  
8-42982

**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 01/01/2003 AND ENDING 12/31/2003  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: WM. H. Murphy & Co. Inc.  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
2200 Post Oak Blvd., Suite 514  
(No. and Street)  
Houston Texas 77056  
(City) (State) (Zip Code)

OFFICIAL USE ONLY  
FIRM I.D. NO.

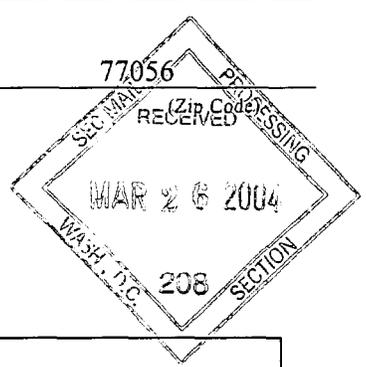
NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Melinda G. LeGaye (281) 367-0380  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
Jim F. Herring, CPA  
(Name - if individual, state last, first, middle name)

770 S. Post Oak Lane, Suite 690 Houston Texas 77056  
(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)

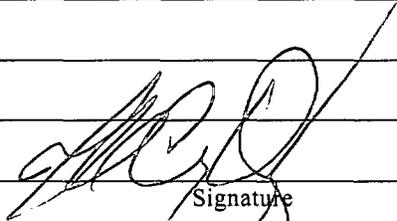
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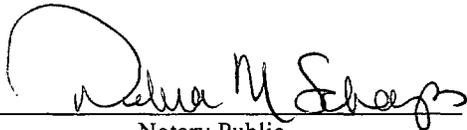
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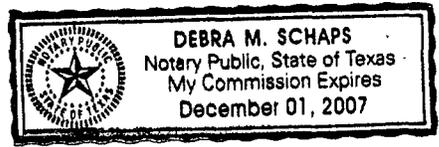
OATH OR AFFIRMATION

I, Melinda G. LeGaye, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of WM. H. Murphy & Co. Inc., as of December 31,, 2003, 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

  
\_\_\_\_\_  
Signature  
**Melinda G. LeGaye** **FINOP**  
\_\_\_\_\_  
Title

  
\_\_\_\_\_  
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. **N/A**
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3. **See Schedule II**
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3. **See Schedule II**
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3. **See Schedule II**
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation. **See Schedule II**
- (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).

# JIM F. HERRING

CERTIFIED PUBLIC ACCOUNTANT  
770 S. POST OAK LANE, SUITE 690  
HOUSTON, TEXAS 77056  
(713) 840-7333 • FAX (713) 840-7117

## Report of Independent Auditors

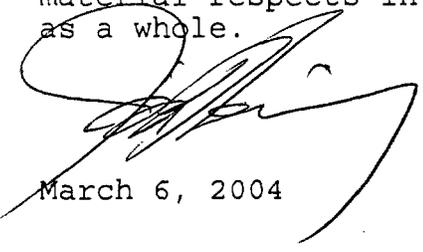
Board of Directors and Stockholder  
Wm. H. Murphy & Co., Inc.

We have audited the accompanying statement of financial condition of Wm. H. Murphy & Co., Inc. as of December 31, 2003 and 2002, and the related statement of operations, changes in stockholder's equity and cash flows for the years then ended. The financial statements are the responsibility of the Company's management. 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 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wm. H. Murphy & Co., Inc. at December 31, 2003 and 2002, and the results of its operations, changes in stockholder's equity and cash flow for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our examination was made for the purpose of forming an opinion on the basic financial statements, taken 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 basic financial statements, but is supplementary information required by rule 17A-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the examination of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



March 6, 2004

**WM. H. MURPHY & CO., INC.**  
**Statement of Financial Condition**  
**December 31, 2003 and 2002**

**ASSETS**

	<u>2003</u>	<u>2002</u>
Cash in banks and in transit	\$ 34,832	\$ 5,089
Deposits with clearing organizations	12,845	12,774
Receivable from brokers and dealers	1,851	3,820
Receivable from customers	25,000	78,400
Receivable from shareholders and employees	12,238	-
Receivable from affiliated companies	31,786	-
Prepaid expenses	-	3,981
Marketable securities owned, at market value	100,606	77,236
Furniture and equipment, at cost, less accumulated depreciation of \$9,467	1,000	1,000
<b>Total assets</b>	<b>\$ 220,158</b>	<b>\$ 182,300</b>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Accounts payable, accrued expenses and other liabilities	\$ 33,661	\$ 10,906
Stockholder's equity:		
Common stock, \$1 par value; 1,000,000 shares authorized; 8,000 shares issued and outstanding	8,000	8,000
Additional paid in capital	673,018	655,018
Accumulated deficit	(494,521)	(491,624)
<b>Total stockholder's equity</b>	<b>186,497</b>	<b>171,394</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 220,158</b>	<b>\$ 182,300</b>

See accompanying notes.

**WM. H. MURPHY & CO., INC.**  
**Statement of Operations**  
**Years ended December 31, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
Revenues:		
Commissions	\$ 29,933	\$ 37,382
Investment banking income	249,690	206,438
Net dealer investment gains (losses)	21,815	( 12,910)
Other	1,377	1,792
	<hr/>	<hr/>
Total revenues	302,815	232,702
Expenses:		
Salaries, labor and related costs	131,807	129,496
Legal and professional	43,703	47,327
Office rentals	38,216	40,904
Travel and entertainment	26,845	26,063
Clearing charges	10,069	11,611
Telephone and equipment rentals	12,646	10,482
Office supplies, postage and expenses	9,909	8,845
Insurance	5,210	6,207
Regulatory fees and assessments	3,655	3,493
Other	( 3,037)	( 1,459)
	<hr/>	<hr/>
Total expenses	279,023	282,969
Operating income (loss)	23,792	( 50,267)
Interest income	146	779
	<hr/>	<hr/>
Income (loss) before provision for income tax	23,938	( 49,488)
Provision for federal income tax	-	-
	<hr/>	<hr/>
<b>Net income (loss)</b>	<u>\$ 23,938</u>	<u>\$ ( 49,488)</u>

See accompanying notes.

**WM. H. MURPHY & CO., INC.**  
Statement of Changes in Stockholder's Equity  
Years ended December 31, 2003 and 2002

	<u>Common Stock</u>	<u>Additional Paid In Surplus</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balances at January 1, 2002	\$ 8,000	\$ 540,773	\$(442,136)	\$ 106,637
Capital contributions during the year ending December 31, 2002	-	114,245	-	114,245
Net income (loss) for the year ending December 31, 2002	-	-	( 49,488)	( 49,488)
Balances at December 31, 2002	8,000	655,018	(491,624)	171,394
Capital contributions during the year ending December 31, 2003	-	18,000	-	18,000
Dividends paid during the year ending December 31, 2003			( 26,835)	( 26,835)
Net income (loss) for the year ending December 31, 2003	-	-	23,938	23,938
<b>Balances at December 31, 2003</b>	<u>\$ 8,000</u>	<u>\$ 673,018</u>	<u>\$(494,521)</u>	<u>\$ 186,497</u>

See accompanying notes.

**WM. H. MURPHY & CO., INC.**  
Statement of Cash Flows  
Years ended December 31, 2003 and 2002

	<b>2003</b>	<b>2002</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 23,938	\$( 49,488)
Adjustments to reconcile net income to net cash provided (used) in operating activities:		
Increase in deposits	-	( 129)
Decrease (increase) in receivables	( 17,055)	( 75,197)
Decrease (increase) in prepaid expenses	3,981	( 3,981)
Unrealized loss (gain) on investments	(21,815)	12,910
Increase (decrease) in accounts payable and accruals	22,695	3,035
	<u>11,744</u>	<u>(112,850)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions of additional paid in capital	17,999	114,245
	<u>17,999</u>	<u>114,245</u>
Net cash provided by financing activity	17,999	114,245
	<u>17,999</u>	<u>114,245</u>
Net increase (decrease) in cash	29,743	1,395
Cash at beginning of period	5,089	3,694
	<u>5,089</u>	<u>3,694</u>
<b>Cash at end of period</b>	<b>\$ 34,832</b>	<b>\$ 5,089</b>
<b>SUPPLEMENTAL DISCLOSURE:</b>		
Noncash financing transactions-		
Dividend of marketable securities to sole shareholder	\$(26,835)	\$ -
	<u>\$(26,835)</u>	<u>\$ -</u>

See accompanying notes.

WM. H. MURPHY & CO., INC.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2003

1. Organization and significant accounting policies

Wm. H. Murphy & Co., Inc. was incorporated under the laws of the State of Texas on August 14, 1990 and commenced operations as a broker/dealer effective January 1, 1991.

Customer securities transactions are handled through a clearing broker dealer under an agreement dated December 7, 1990. The Company does not hold customer funds or securities and operates pursuant to the exemptive provisions of paragraph k(2)(ii) of SEC Rule 15c3-3 (the "Customer Protection Rule"). Commission income and expenses are recorded on a settlement date basis as reported by the clearing broker dealer. Investment banking revenue is recorded at the time the settlement is made.

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" (SFAS 109). Under SFAS 109, the deferred tax provision is determined under the liability method. Under this method, deferred tax assets and liabilities are recognized based on differences between the financial statements and the tax bases of assets and liabilities using presently enacted tax rates. As a result of operating losses incurred by the Company since its inception, the deferred tax benefit of operating loss carryforwards has not been recognized as the realization of the deferred asset is not reasonably assured.

Marketable securities are valued at market value. The resulting difference between cost and market is included in income.

Depreciation is provided on a straight line basis using estimated useful lives of seven years.

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

For purposes of the Statement of Cash Flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days that are not held for sale in the ordinary course of business.

2. **Net capital requirements**

The Company is subject to the net capital requirements under Rule 15c3-1 of the Securities and Exchange Act of 1934, which requires the maintenance of minimum net capital, as defined. At December 31, 2003, the Company had net capital, as defined, of \$55,554 which was \$49,554 in excess of its required net capital of \$6,000. At December 31, 2002, the net capital, as defined was \$62,843 in excess of the required net capital.

3. **Fair value of financial investments**

The estimated fair value of the Company's financial instruments at December 31, 2003 and 2002 are as follows:

	<u>2003</u>		<u>2002</u>	
	<u>Carrying amount</u>	<u>Fair Value</u>	<u>Carrying amount</u>	<u>Fair Value</u>
Cash in banks and in transit	\$34,832	\$34,832	\$5,089	\$5,089
Investments for which it is:				
Practical to estimate fair value	100,606	100,606	77,236	77,236
Not practical to estimate fair value	-	-	-	-

The following methods and assumptions were used to estimate fair value of each class of financial instruments:

**Cash in banks** - The carrying amount approximates fair value because of the short maturity of those investments.

**Investments** - Fair value of investments are estimated based upon quoted market prices at the balance sheet date.

4. **Commitments**

The Company leases its office facilities under a forty (40) month lease, which lease became effective on September 1, 2003.

At December 31, 2003, future minimum rental payments under the lease are as follows:

<u>Year ending December 31,</u>	
2004	\$ 37,134
2005	37,134
2006	<u>37,134</u>
Total minimum rental payments	<u>\$111,402</u>

Rent expense for all operating leases totaled \$38,216 and \$40,904, respectively, in the years ended December 31, 2003 and 2002.

5. **Federal Income Taxes**

As of December 31, 2003 and 2002, the Company had net operating loss carryforwards totaling approximately \$396,000 and \$ 420,000, respectively. These net operating loss carryforwards will expire, if not otherwise utilized, in years 2005 - 2021.

6. **Related party transactions**

During the year ended December 31, 2003, the Company advanced funds amounting to \$31,786 to certain partnerships and corporations in which the sole shareholder of the Company is a partner or shareholder of the related parties. Additionally, the Company received revenues amounting to \$10,375 based upon assignments to the Company of contracts in the name of the related parties. Finally, the Company paid certain personal expenses of the sole shareholder in the amount of \$1,420, which payments are reflected as a receivable from the shareholder in the accompanying financial statements.

Schedule I

WM. H. MURPHY & CO., INC.  
 Computation of Net Capital Under Rule 15c3-1 of the  
 Securities and Exchange Act

As of December 31, 2003

Total assets		\$220,158
Less: Total liabilities (exclusive of subordinated debt)		33,661
		<hr/>
Net worth		186,497
Deductions from and/or charges to net worth:		
Total non-allowable assets	\$118,219	
Other deductions or charges	-	
		<hr/>
Total deductions from net worth		118,219
		<hr/>
Net capital before haircuts on securities positions		68,278
Haircuts on securities:		
Certificates of deposit and commercial paper	-	
U.S. and Canadian government obligations	-	
State and municipal government and obligations	-	
Corporate obligations	-	
Stocks and warrants	7,862	
Options	-	
Arbitrage	-	
Other securities	-	
Undue concentration	4,862	
		<hr/>
Total haircuts of securities		12,724
		<hr/>
Net capital		\$ 55,554
		<hr/>
Minimum net capital requirement		\$ 6,000
		<hr/>
Excess net capital		\$ 49,554
		<hr/>
Aggregate indebtedness		\$ 33,661
		<hr/>
Ratio of aggregate indebtedness to net capital		67.9%
		<hr/>
Ratio of subordinated indebtedness to debt/equity total		\$ -
		<hr/>
<b>RECONCILIATION WITH COMPANY'S COMPUTATION:</b>		
Net capital, as reported in Company's Part II (Unaudited) FOCUS report		\$ 59,967
Allowable assets erroneously reported as non-allowable		
Deposits	-	
Investment in common stock	-	
Accrued interest receivable	-	
Difference due to offsetting various assets accounts against related liabilities	-	
Net audit adjustments-accrual of accounts payable	( 4,413)	
Other items, net	-	
		<hr/>
Net capital per above		\$ 55,554
		<hr/>

Schedule II

WM. H. MURPHY & CO., INC.  
Supplementary Information  
Form X-17a-5  
Part III

**Part (h)** Computation for Determination of Reserve Requirements pursuant to Rule 15c3-3.

The Company is not subject to the Reserve Requirements pursuant to Rule 15c3-3 because the Company operates under the exemptive provisions and paragraph k(2)(ii) of SEC Rule 15c3-3.

**Part (i)** Information relating to the Possession or Control Requirements under Rule 15c3-3.

The Company is not subject to the Possession and Control Requirements under Rule 15c3-3. The Company does not possess nor control any customer funds or securities that would require disclosure under said rule. The Company operates under the exemptive provisions of paragraph K(2)(ii) of Rule 15c3-3.

**Part (j)** A reconciliation of the computation on the net capital under Rule 15c3-1 and the computation for determination of Reserve Requirements under Exhibit A of Rule 15c3-3.

There were no material differences between the computation of net capital pursuant to Rule 15c3-1 and the corresponding net capital amount prepared by Wm. H. Murphy & Co., Inc. and included in the Company's Part IIA (unaudited) FOCUS report as of December 31, 2003.

The computation for Determination of Reserve Requirements pursuant to Rule 15c3-3 and the Information Relating to Possession or Control Requirements under Rule 15c3-3 have been omitted because the firm is exempt under paragraph K(2)(ii) of SEC Rule 15c3-3.

**Part (k)** Reconciliation between the audited and unaudited statements of financial condition with respect to methods of consolidation.

The Company does not prepare consolidated accounts as it has no subsidiaries to consolidate.

# JIM F. HERRING

CERTIFIED PUBLIC ACCOUNTANT  
770 S. POST OAK LANE, SUITE 690  
HOUSTON, TEXAS 77056  
(713) 840-7333 • FAX (713) 840-7117

## Independent Auditor's Report on Internal Accounting Control Required by SEC Rule 17a-5

March 8, 2004

Board of Directors  
Wm. H. Murphy & Co., Inc.  
Houston, Texas

I have examined the financial statements of Wm. H. Murphy & Co., Inc. for the year ended December 31, 2003, and have issued my report thereon dated March 8, 2004. As part of my examination, I made a study and evaluation of the Company's system of internal accounting control to the extent I considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of my study and evaluation, which included obtaining an understanding of the accounting system, was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the financial statements.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission, I have made a study of the practices and procedures (including test of compliance with such practice and procedures) followed by Wm. H. Murphy & Co., Inc. that I considered relevant to the objectives stated in rule 17a-5(g)(1) in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(II) and the procedures for determining compliance with the exemptive provisions of rule 15c3-3, I determined that the company was in compliance with the conditions of the exemption and that no facts came to my attention that such conditions had not been complied with during the period.

I also made a study for the practices and procedures followed by the Company in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(II) and the procedures for determining compliance with the exemptive provisions of rule 15c3-3. I did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-12 or in complying with the requirements for prompt payment for securities under section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining a system of internal accounting 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 control procedures and of the practices and procedures can be expected to achieve the Commission's above-mentioned objectives. The objectives of a system 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 accordance 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 any internal accounting control procedures or the practices and procedures referred to above, errors or irregularities may nevertheless 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 degree of compliance with them may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of internal accounting control of Wm. H. Murphy & Co., Inc. taken as a whole, however, my study and evaluation disclosed no condition that I believe to be a material weakness.

I understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission 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 objective 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 were adequate at December 31, 2003 to meet the Commission's objectives.

This report is intended solely for the use of management and the Securities and Exchange Commission and should not be used for any other purpose.

Jim Herring, CPA

Houston, Texas

**JIM F. HERRING**

CERTIFIED PUBLIC ACCOUNTANT  
770 S. POST OAK LANE, SUITE 690  
HOUSTON, TEXAS 77056  
(713) 840-7333 • FAX (713) 840-7117

SIPC SUPPLEMENTAL REPORT

March 24, 2003



Board of Directors  
Wm. H. Murphy & Co., Inc.  
2200 Post Oak Blvd., Suite 514  
Houston, Texas 77056

Dear Sirs:

I am an independent certified public accountant with respect to Wm. H. Murphy & Co., Inc., and my recent examination of their Financial Statements was as of December 31, 2003, upon which I reported under date of March 8, 2004.

With respect to the preparation of the SIPC Supplemental Report pursuant to Rule 17A-5(e)(4) of the Securities and Exchange Commission, Wm. H. Murphy & Co., Inc., is adhering to NASD notice to Members 89-25 which included a no action letter from the SEC which waives the preparation of the supplemental accountant's report for any firm that has gross annual revenues of \$500,000 or less.

Yours very truly,

Jim Herring

JFH/jhs