

Att  
9/13/2004

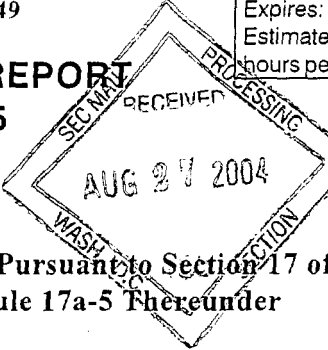


9/3 cm

SEC 04019879 COMMISSION  
Washington, D.C. 20549

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: October 31, 2004  
Estimated average burden  
hours per response..... 12.00

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



SEC FILE NUMBER  
8-53701

**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 July 1, 2003 AND ENDING June 30, 2004  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Herenton Capital Partners, INC.

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

845 Crossover Lane, Suite 150

(No. and Street)

Memphis

Tennessee

38117

(City)

(State)

(Zip Code)

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

Rodney B. Herenton

(901) 435-7907

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Collins Thomas & Associates, PLLC

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

5860 Ridgeway Center Parkway, Suite 250

Memphis, TN

38120

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

PROCESSED  
SEP 20 2004  
THOMSON FINANCIAL

**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)

91-688

OATH OR AFFIRMATION

I, Rodney B. Herenton, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Herenton Capital Partners, Inc., as of June 30, 20 04, 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]  
Signature  
President  
Title

[Signature]  
Notary Public

My Commission Expires 10-12-04

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 15c3-3 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).

*Financial Statements*

**HERENTON CAPITAL PARTNERS, INC.**

**For the Year Ended June 30, 2004**

## TABLE OF CONTENTS

---

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet	2
Statement of Income and Retained Earnings	3
Statement of Cash Flows	4
Statement of Changes in Stockholders' Equity	5
NOTES TO FINANCIAL STATEMENTS	6 - 9
SUPPLEMENTARY SCHEDULES	10 - 12
REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROL	13 - 14

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Herenton Capital Partners, Inc.  
Memphis, Tennessee

We have audited the accompanying balance sheet of Herenton Capital Partners, Inc., as of June 30, 2004 and the related statement of income and retained earnings, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of Herenton Capital Partners, Inc.'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 our 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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Herenton Capital Partners, Inc., as of June 30, 2004, 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.

*Collins Thomas & Associates, PLLC*

August 17, 2004

HERENTON CAPITAL PARTNERS, INC.  
BALANCE SHEET  
June 30, 2004

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	114,347
Cash - deposit account - restricted		100,000
Accounts receivable, related parties		8,900
Prepaid expenses		954
Accrued interest receivable - related parties		135
Deferred tax benefit		5,216
		<u>229,552</u>
TOTAL CURRENT ASSETS		

OTHER ASSETS

Notes receivable - related parties		79,600
Accrued interest receivable - related parties		1,260
		<u>80,860</u>
TOTAL OTHER ASSETS		

\$ 310,412

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$	21,750
Brokers payable		1,125
Accrued income taxes		2,908
Deferred tax liability		300
		<u>26,083</u>

TOTAL CURRENT LIABILITIES 26,083

LONG TERM DEBT

Notes payable - First Tennessee Bank		50,000
--------------------------------------	--	--------

STOCKHOLDERS' EQUITY

Capital stock - common, 1,000 shares authorized, par value \$.001 per share, 170 shares issued and outstanding		0
Capital stock - preferred, 1,000 shares authorized, par value \$.001 per share, 30 shares Series A preferred issued and outstanding		
Liquidation preference of \$3,333.34 per share		0
Additional paid in capital		200,340
Retained earnings		33,989
		<u>234,329</u>

\$ 310,412

HERENTON CAPITAL PARTNERS, INC.  
STATEMENT OF INCOME AND RETAINED EARNINGS  
For the Year Ended June 30, 2004

REVENUES	
Commissions	\$ 242,758
Investment banking fees	2,185
Interest income	2,369
Misc income	117
	<u>247,429</u>
EXPENSES	
Administrative services	54,000
Advertising	5,000
Bank charges	90
Charitable contributions	4,400
Clearing and brokerage	22,548
Commissions	62,783
Contract labor	300
Gifts	1,041
Education and seminars	1,895
Entertainment and meals	2,560
Insurance	1,210
Interest expense	2,747
Licenses & registration	8,840
Penalties	156
Professional fees	40,895
Quotations and research	2,811
Recruiting expense	769
Rent expense	1,200
Telecommunications	3,668
Travel	3,521
	<u>220,434</u>
INCOME (LOSS) BEFORE INCOME TAXES	26,995
PROVISION FOR INCOME TAX (EXPENSE) BENEFIT - CURRENT	(7,250)
PROVISION FOR INCOME TAX (EXPENSE) BENEFIT - DEFERRED	1,225
	<u>(6,025)</u>
NET INCOME (LOSS)	20,970
BEGINNING RETAINED EARNINGS	<u>13,019</u>
ENDING RETAINED EARNINGS (DEFICIT)	<u>\$ 33,989</u>

HERENTON CAPITAL PARTNERS, INC.  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income (loss)	\$ 20,970
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for deferred tax benefit	(1,225)
(Increase) decrease in:	
Accounts receivable, related parties	(2,117)
Prepaid expenses	(930)
Accrued interest receivable	(135)
(Decrease) increase in:	
Accounts payable - trade	11,084
Commissions payable	(6,500)
Brokers payable	(2,239)
Accrued income taxes	(4,645)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>14,263</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Promissory note received for loan to related party	(79,600)
Accrued interest receivable on promissory note	(1,260)
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(80,860)</u>
NET INCREASE (DECREASE) IN CASH	(66,597)
CASH, BEGINNING OF YEAR	<u>180,944</u>
CASH, END OF YEAR	<u>\$ 114,347</u>

HERENTON CAPITAL PARTNERS, INC.  
 STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
 For the Year Ended June 30, 2004

	Capital Stock				Additional Paid-in Capital
	Preferred		Common		
	Shares	Amount	Shares	Amount	
Balances, June 30, 2003	30	\$0	170	\$0	\$200,340
Capital stock activity for year ended June 30, 2004	0	0	0	0	0
Balances, June 30, 2004	<u>30</u>	<u>\$0</u>	<u>170</u>	<u>\$0</u>	<u>\$200,340</u>

## **NOTE A - ORGANIZATION AND NATURE OF BUSINESS**

Herenton Capital Partners, Inc. (HCP) was incorporated in the state of Delaware on October 11, 2001 pursuant to the Company's Bylaws. The Corporation is authorized to issue two classes of stock in the following number of shares: (1) 1,000 shares of common stock, par value of \$.001 per share, and (2) 1,000 shares of preferred stock, par value of \$.001 per share. The preferences, limitations, and relative rights of the above classes of stock shall be as follows:

Each share of Common Stock is entitled to one vote. Upon dissolution of the Corporation, each share of Common Stock is entitled to receive a pro-rata share of the net assets of the Corporation.

Shares of Preferred Stock may be issued in one or more classes or series. Each class or series is given a distinguishing designation. Currently, the Corporation has authorized a Series A Preferred Stock which are preferred over the shares of common stock. Each share of Series A preferred stock shall receive \$3,333.34 upon liquidation or dissolution of the Corporation. Each share of Series A stock is convertible to common stock at \$6,666.67 per share.

The Corporation is registered as a broker-dealer in securities under the Securities and Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. The Corporation maintains offices in Memphis, TN and Atlanta, GA.

As an introducing broker-dealer, the Corporation operates under Rule 15c3-3(k)(2)(ii), which requires that all of the funds and securities of its customers be handled through a clearing broker-dealer. During fiscal year June 30, 2004, the Corporation cleared its securities transactions on a fully disclosed basis through Pershing LLC, 1 Pershing Plaza, Jersey City, NJ.

## **NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Accounting**

HCP maintains its books on the accrual basis of accounting. However, for tax purposes the cash basis of accounting is used.

### **Revenue Recognition**

HCP derives substantially all of its revenues from commissions earned on the trading of securities by customers. Commission revenues, commission fees, and related clearing charges are recognized on a trade date basis.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **NOTE C - NET CAPITAL REQUIREMENTS**

HCP is subject to the net capital requirements of the Securities and Exchange Commission under Rule 15c3-1. The Commission requirements also provide that equity capital may not be withdrawn or cash dividends paid if certain minimum net capital requirements are not met. At June 30, 2004 the Corporation had net capital of \$171,341, which was \$71,341 in excess of the amount required to be maintained at that date. HCP's ratio of aggregate indebtedness to net capital is 0.15-to-1.

#### **NOTE D - RESTRICTED CASH-DEPOSIT ACCOUNT**

The clearing broker-dealer agreement with Pershing LLC requires HCP to establish a Deposit Account ("Account"). This Account assures the Corporation's performance of its obligations under the agreement. The Account does not represent an ownership interest in Pershing LLC. The Account balance required as of June 30, 2004 is \$100,000. Restricted cash is not considered as cash or a cash equivalent.

#### **NOTE E - NOTE PAYABLE TO RELATED PARTY**

On March 10, 2003 the Corporation entered into a \$50,000 Subordinated Loan Agreement ("Agreement") with a bank related to the minority stockholder. The Agreement was approved by National Association of Securities Dealers.

Under a subordinated loan, the funds loaned can be used without restriction by the Corporation, the loan is not protected by the Securities Investor Protection Corporation, and the lender's claim against the Corporation is subordinate to all other parties.

The loan matures on March 30, 2006 and bears interest at 4.9% per annum. No principal payments are due until maturity. Interest payments are made monthly. The outstanding balance at June 30, 2004 was \$50,000.

#### **NOTE F - ADMINISTRATIVE SERVICES AND LEASES**

The Corporation is headquartered in Memphis, TN with a branch office located in Atlanta, GA. HCP is provided office space and receives administrative services from a stockholder for \$4,500 per month. The agreement may be terminated upon thirty days notice to stockholder. Administrative services include financial services, marketing, public relations, and communication services.

HCP also subleases an office from an unrelated party in Atlanta, GA for \$100 per month. This lease is renewable on an annual basis.

#### NOTE G - INCOME TAXES

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due and deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes.

The deferred tax asset and deferred tax liability arises from the accrual basis being used for financial statement purposes and the cash basis used for tax purposes.

The components of income tax expense related to operations are as follows:

<i>Federal</i>	
Current Expense	(\$4,739)
Deferred (expense) benefit related to:	
Timing difference of accrued interest receivable	(209)
Timing difference of accounts payable	1,663
Timing difference of commission payable	(975)
Timing difference of accrued state income tax	377
	<u>856</u>
<i>State</i>	
Current Expense	(2,511)
Deferred (expense) benefit related to:	
Timing difference of accrued interest receivable	(91)
Timing difference of accounts payable	720
Timing difference of commission payable	(423)
Timing difference of accrued state income tax	163
	<u>369</u>
Total income tax (expense) benefit	<u>(\$6,025)</u>

#### NOTE H - RELATED PARTY TRANSACTIONS

The Company has open accounts receivable (including accrued interest receivable) from the majority stockholder for \$6,248 as of June 30, 2004. In addition, HCP has an open accounts receivable (including accrued interest receivable) from a related company with common ownership by the majority stockholder for \$670 as of June 30, 2004.

**NOTE H - RELATED PARTY TRANSACTIONS - (CONTINUED)**

On July 31, 2003, the Company entered into an agreement to loan \$60,000 to a company related to the majority stockholder. The agreement calls for interest to accrue at 2% per annum, with the principal and interest due July 31, 2008. At the option of the related company, but not at the option of HCP, all or any part of the principal and interest may be repaid prior to the maturity date.

On August 18, 2003, the Company entered into an agreement to loan \$19,600 to a company related to the majority stockholder. The agreement calls for interest to accrue at 2% per annum, with the principal and interest due July 31, 2008. At the option of the related company, but not at the option of HCP, all or any part of the principal and interest may be repaid prior to the maturity date.

On April 12, 2004 HCP entered into a contract with a company that is 100% owned by the minority shareholder of HCP. The 100% owned company of the minority shareholder is contracted to provide certain investment brokerage and research services on behalf of one of HCP clients. HCP pays compensation for this service equal to 50% of total net commissions. During the year ended June 30, 2004, HCP paid \$58,673 in commissions to this 100% owned company of the minority shareholder. Also, HCP has an open accounts receivable from the 100% owned company of the minority stockholder in the amount of \$2,117 as of June 30, 2004.

**NOTE I - CONCENTRATIONS OF RISK**

The amount of cash and certificates of deposit on deposit in one institution exceeds the federally insured limit of \$100,000. HCP cash balances total \$138,260 as of June 30, 2004.

HCP serves institutional investors exclusively. Fluctuations in the investing activities of institutions and the economy will affect HCP revenues.

**NOTE J - CASH FLOW INFORMATION**

For purposes of the statement of cash flows, the Company considers all short-term debt securities purchased with a maturity of three months or less to be equivalents. Cash payments for interest and income taxes are as follows:

Income taxes	<u>\$7,992</u>
Interest	<u>\$2,747</u>

## **Supplementary Schedules**

HERENTON CAPITAL PARTNERS, INC.  
STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS  
June 30, 2004

---

Balance, beginning of period	\$	50,000
Increases		0
Decreases		<u>0</u>
Balance, end of period		<u><u>\$50,000</u></u>

HERENTON CAPITAL PARTNERS, INC.  
 COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1  
 June 30, 2004

**COMPUTATION OF NET CAPITAL**

Total stockholders' equity	\$ 234,329
Add: Liabilities subordinated to claims of general creditors allowable in computation of net capital	<u>50,000</u>
<b>TOTAL CAPITAL AND ALLOWABLE SUBORDINATED</b>	<u><u>284,329</u></u>

**DEDUCTIONS AND/OR CHARGES**

Receivable from related parties	89,895
Pershing - riskless principal	16,923
Deferred tax benefit	5,216
Other deductions	<u>954</u>
<b>TOTAL DEDUCTIONS AND/OR CHARGES</b>	<u><u>112,988</u></u>

**NET CAPITAL** \$ 171,341

**AGGREGATE INDEBTEDNESS**

Items included in the statement of financial condition	
Accounts payable	\$ 21,750
Brokers payable	1,125
Accrued income taxes payable	2,908
Deferred tax liability	<u>300</u>
<b>AGGREGATE INDEBTEDNESS</b>	<u><u>\$ 26,083</u></u>

**COMPUTATION OF NET CAPITAL REQUIREMENT**

Minimum net capital required (6 2/3% of aggregate indebtedness)	\$ <u>1,740</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>71,341</u>
Excess net capital at 1000%	\$ <u>168,733</u>
Ratio: aggregate indebtedness to net capital	<u>0.15 to 1</u>

Reconciliation with Company's computation included in Part II of Form X-17A-5 as of June 30, 2004:

Net capital, as reported in Company's Part II (unaudited) FOCUS report	\$ 169,704
Audit adjustments, net 6/30/2004	<u>1,637</u>
Net capital per above	<u><u>\$ 171,341</u></u>

HERENTON CAPITAL PARTNERS, INC.  
COMPUTATION OF DETERMINATION OF RESERVE REQUIREMENTS UNDER RULE 15c3-3  
June 30, 2004

---

The Corporation is exempt from SEC Rule 15c3-3 pursuant to paragraph (k)(2)(ii) of the Rule.

**Report of Independent Accountants  
on Internal Control**

Report of Independent Accountants  
On Internal Control  
Required by SEC Rule 17a-5

To the Board of Directors of  
Herenton Capital Partners, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Herenton Capital Partners, Inc. (the "Corporation") for the year ended June 30, 2004, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Corporation, including tests of compliance with such practices and procedures, that we considered relevant to the objectives stated in Rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11); and
2. Determining compliance with the exemptive provisions of Rule 15c3-3.

Because the Corporation 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 Corporation in any of the following:

1. Making the quarterly securities examinations, counts, verifications, and comparisons, and the 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; and
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Corporation 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 control 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 Corporation 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 internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including procedures 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 Corporation's practices and procedures were adequate at June 30, 2004 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 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.

*Collins Thomas & Associates, PLLC*

August 17, 2004