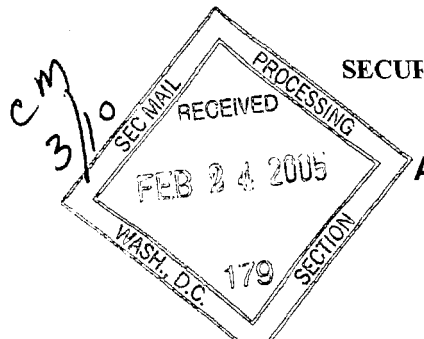




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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

FACING PAGE

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

REPORT FOR THE PERIOD BEGINNING 01/01/04 AND ENDING 12/31/04
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Herndon Plant Oakley Ltd.

OFFICIAL USE ONLY

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

800 North Shoreline Blvd., Suite 2200 South

(No. and Street)

Corpus Christi

(City)

Texas

(State)

PROCESSED

MAR 11 2005

78401

(Zip Code)

**THOMSON
FINANCIAL**

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

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Phillip V. George, PLLC

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

2300 Honey Locust Drive

(Address)

Irving

(City)

Texas

(State)

75063

(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).

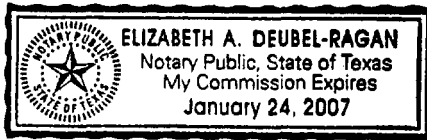
SEC 1410 (06-02)

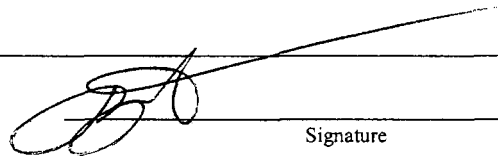
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OATH OR AFFIRMATION

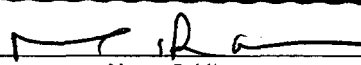
I, Phillip M. Plant, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Herndon Plant Oakley Ltd., as of December 31, 2004, are true and correct. I further swear (or affirm) that neither the company nor 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




Signature

Title
Partner


Notary Public

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

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Cash Flows.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent auditor's report on the internal control as required by SEC rule 17a-5.

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

HERNDON PLANT OAKLEY LTD.

FINANCIAL REPORT

DECEMBER 31, 2004

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PHILLIP V. GEORGE, PLLC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

To the Partners
Herndon Plant Oakley Ltd.

We have audited the accompanying statement of financial condition of Herndon Plant Oakley Ltd. as of December 31, 2004, and the related statements of income, changes in partners' capital, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Partnership'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 Herndon Plant Oakley Ltd. as of December 31, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I 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 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.

Phillip V. George, PLLC

PHILLIP V. GEORGE, PLLC

Irving, Texas
January 25, 2005

HERNDON PLANT OAKLEY LTD.
Statement of Financial Condition
December 31, 2004

ASSETS

Cash and cash equivalents	\$ 619,111
Receivable from clearing broker/dealer	283,074
Investment advisory fees receivable	611,592
Accounts receivable - other	7,840
Prepaid expenses	64,404
Clearing deposit	35,000
Marketable securities	40,800
Non-marketable securities	20,100
Property and equipment, net of accumulated depreciation of \$120,068	63,414
Deposit	<u>3,750</u>
TOTAL ASSETS	<u><u>\$1,749,085</u></u>

LIABILITIES AND PARTNERS' CAPITAL

Liabilities

Accounts payable	\$ 102,860
Accrued expenses	<u>174,511</u>
TOTAL LIABILITIES	<u>277,371</u>

Partners' Capital

Partners' capital	<u>1,471,714</u>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u><u>\$1,749,085</u></u>

HERNDON PLANT OAKLEY LTD.

Statement of Income

Year Ended December 31, 2004

Revenue

Securities commissions	\$ 5,042,025
Investment advisory fees	2,238,042
Other revenue	<u>10,901</u>
TOTAL REVENUE	<u>7,290,968</u>

Expenses

Management fees to General Partner	3,549,866
Compensation and related costs	1,665,454
Clearing and other charges	710,649
Communications	290,647
Occupancy and equipment costs	240,932
Promotional costs	49,215
Regulatory fees and expenses	50,252
Professional fees	139,219
Other expenses	<u>242,507</u>
TOTAL EXPENSES	<u>6,938,741</u>
Net income before other income	352,227

Other Income

Unrealized gain on marketable securities	<u>3,000</u>
NET INCOME	<u><u>\$ 355,227</u></u>

HERNDON PLANT OAKLEY LTD.
Statement of Changes in Partners' Capital
Year Ended December 31, 2004

	<u>General Partner</u>	<u>Limited Partners</u>	<u>Total</u>
Balances at December 31, 2003	\$ 14,195	\$1,405,322	\$ 1,419,517
Net income	3,552	351,675	355,227
Distributions to partners	<u>(3,030)</u>	<u>(300,000)</u>	<u>(303,030)</u>
Balances at December 31, 2004	<u>\$ 14,717</u>	<u>\$1,456,997</u>	<u>\$ 1,471,714</u>

HERNDON PLANT OAKLEY LTD.
Statement of Cash Flows
Year Ended December 31, 2004

Cash flows from operating activities:

Net income	\$ 355,227
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	11,658
Unrealized gain on marketable securities	(3,000)
Changes in assets and liabilities	
Decrease in receivable from clearing broker/dealer	142,764
Increase in investment advisory fees receivable	(117,637)
Increase in accounts receivable - other	(7,840)
Decrease in prepaid expenses	26,114
Increase in accounts payable	8,701
Increase in accrued expenses	52,499
Decrease in distribution payable to General Partner	<u>(758)</u>
Net cash provided by operating activities	<u>467,728</u>

Cash flows from investing activities:

Purchase of property and equipment	<u>(20,552)</u>
------------------------------------	-----------------

Cash flows from financing activities:

Distributions to partners	<u>(303,030)</u>
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Net increase in cash and cash equivalents	144,146
Cash and cash equivalents at beginning of year	<u>474,965</u>
Cash and cash equivalents at end of year	<u><u>\$ 619,111</u></u>

Supplemental Disclosures of Cash Flow Information:

There was no cash paid during the year for interest or income taxes.

HERNDON PLANT OAKLEY LTD.

Notes to Financial Statements

Note 1 - Nature of Business and Summary of Significant Accounting Policies

Nature of Business:

Herndon Plant Oakley Ltd. (the Partnership), a Texas limited partnership, was formed in January 1998 for the purpose of providing financial services, including securities brokerage and investment advisory services. The Partnership is registered as a broker/dealer with the Securities and Exchange Commission (SEC) and is a member of the National Association of Security Dealers, Inc. (NASD). The Partnership is also registered with the SEC pursuant to Section 203 of the Investment Advisors Act of 1940. The Partnership's customers are primarily individuals located throughout the United States.

The general partner of the Partnership is Herndon Plant Oakley I Inc. (General Partner). The General Partner has the authority to manage and control the business affairs of the Partnership.

The Partnership terminates on December 31, 2030, unless sooner terminated or extended as provided in the partnership agreement.

Significant Accounting Policies:

Basis of Accounting

The Partnership operates under the provisions of Paragraph (k)(2)(ii) of Rule 15c3-3 of the SEC and, accordingly, is exempt from the remaining provisions of that Rule. Essentially, the requirements of Paragraph (k)(2)(ii) provide that the Partnership clear all transactions on behalf of customers on a fully disclosed basis with a clearing broker/dealer, and promptly transmit all customer funds and securities to the clearing broker/dealer. The clearing broker/dealer carries all of the accounts of the customers and maintains and preserves all related books and records as are customarily kept by a clearing broker/dealer.

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 the 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.

Cash Equivalents

Money market funds are reflected as cash equivalents in the accompanying statement of financial condition and for purposes of the statement of cash flows.

HERNDON PLANT OAKLEY LTD.

Notes to Financial Statements

Note 1 - Nature of Business and Summary of Significant Accounting Policies (continued)

Marketable Securities

Marketable securities are held for investment purposes and are carried at fair value. The increase or decrease in fair value is credited or charged to operations.

Non-Marketable Securities

Non-marketable securities are held for investment purposes and are carried at cost.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is provided for using accelerated methods over the estimated useful lives of primarily five to seven years.

Security Transactions

Security transactions and commission revenue and the related expenses are recorded on a trade date basis.

Investment Advisory Fees

Investment advisory fees are earned based on contractual percentages of client assets under management. The fees are billed quarterly in arrears.

Private Placement Revenue

The Partnership recognizes revenue on the sale of interests in private placement offerings when customer subscriptions to such offerings are funded.

Income Taxes

Taxable income or loss of the Partnership is included in the income tax returns of the partners; therefore, no provision for income taxes has been made in the accompanying financial statements.

Note 2 - Transactions with Clearing Broker/Dealer

The agreement with the clearing broker/dealer provides for clearing charges at a fixed rate multiplied by the number of tickets traded by the Partnership. The agreement also requires the Partnership to maintain a minimum of \$35,000 as a deposit in an account with the clearing broker/dealer.

HERNDON PLANT OAKLEY LTD.

Notes to Financial Statements

Note 3 - Net Capital Requirements

The Partnership is subject to the SEC uniform net capital rule (Rule 15c3-1), which requires the maintenance of a minimum amount of net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Rule 15c3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2004, the Partnership had net capital and net capital requirements of \$538,794 and \$250,000, respectively. The Partnership's net capital ratio was .51 to 1.

Note 4 - Marketable/Non-Marketable Securities

Marketable securities consist of 4,000 shares of common stock of the Nasdaq Stock Market, Inc. with a fair value of \$40,800, cost of \$40,000, accumulated unrealized gain of \$800 and unrealized gain for the year ended December 31, 2004 of \$3,000. Non-marketable securities consist of 1,500 warrants of the NASD to purchase shares of common stock of the Nasdaq Stock Market, Inc. at a cost of \$20,100. Each warrant entitles the Partnership to purchase two shares of common stock. The warrants are exercisable as follows:

<u>Shares subject to exercise</u>	<u>Exercisable on or after</u>	<u>Expiration</u>	<u>Exercise Price</u>
1,500	June 28, 2004	June 27, 2005	\$15
1,500	June 28, 2005	June 27, 2006	\$16

Note 5 - Property and Equipment

Property and equipment is carried at cost less accumulated depreciation and consists of the following:

Furniture, fixtures and equipment	\$ 145,007
Leasehold improvements	<u>38,475</u>
	183,482
Accumulated depreciation	<u>(120,068)</u>
	<u>\$ 63,414</u>

Depreciation expense for the year was \$11,658 and is reflected in the accompanying statement of income as occupancy and equipment costs.

HERNDON PLANT OAKLEY LTD.
Notes to Financial Statements

Note 6 - Off-Balance-Sheet Risk and Concentration of Credit Risk

As discussed in Note 1, the Partnership's customers' securities transactions are introduced on a fully-disclosed basis with its clearing broker/dealer. The clearing broker/dealer carries all of the accounts of the customers of the Partnership and is responsible for execution, collection of and payment of funds and, receipt and delivery of securities relative to customer transactions. Off-balance-sheet risk exists with respect to these transactions due to the possibility that customers may be unable to fulfill their contractual commitments wherein the clearing broker/dealer may charge any losses it incurs to the Partnership. The Partnership seeks to minimize this risk through procedures designed to monitor the credit worthiness of its customers and that customer transactions are executed properly by the clearing broker/dealer.

Cash held at a Texas bank exceeded the federally insured limit by \$29,051 at December 31, 2004; however, this at-risk amount is subject to significant fluctuations on a daily basis throughout the year.

The Partnership has \$868,932, or approximately 50%, of its total assets in money market funds, commissions receivable, marketable and non-marketable securities, and a clearing deposit held by or due from its clearing broker/dealer.

Note 7 - Commitments

The Partnership leases office space and equipment under noncancellable operating leases. Future minimum lease payments due for each of the years ending December 31, are as follows:

2005	\$ 81,845
2006	81,845
2007	61,056
2008	59,166
2009	<u>59,166</u>
	<u>\$ 343,078</u>

Office rent and equipment lease expense for the year was \$182,887 (which includes additional rental and proportionate share of operating expenses payable under the lease agreements) and is reflected in the accompanying statement of income as occupancy and equipment costs.

HERNDON PLANT OAKLEY LTD.
Notes to Financial Statements

Note 8 - Related Party Transactions

The Partnership and the General Partner are under common control and the existence of that control creates a financial position and operating results significantly different than if the companies were autonomous.

The General Partner manages and controls the business affairs of the Partnership and is entitled to receive a management fee for such services. The management fee is determined by the affirmative vote of a majority in interest of the limited partners and is not consummated on terms equivalent to arms length transactions. The management fee for the year ended December 31, 2004 was \$3,549,866.

Note 9 - Defined Contributions Plan

The Partnership adopted the Herndon Plant Oakley LTD. 401(k) Profit Sharing Plan (the Plan) effective June 1, 1999. The Partnership and eligible employees both may contribute to the Plan. The Plan is on a calendar year. All employees, except part time employees, are eligible to participate after reaching the age of 21 and completing one year of service. Employee salary deferral contributions and earnings on these contributions are 100% vested. The Partnership will contribute an amount of matching contributions determined by the Partnership at its discretion. The Partnership may or may not choose to make matching contributions for a particular year in an amount it will determine each year. Partnership matching and profit sharing contributions are subject to the following vesting schedule:

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 2	0%
2 or more	100%

The Partnership did not contribute any matching amounts for 2004.

The Plan also provides a profit sharing component where the Partnership can make a discretionary contribution to the Plan, which is allocated based on the compensation of eligible employees. Contributions for the year totaled \$44,753 and are reflected in the accompanying statement of income as compensation and related costs.

Schedule I

**HERNDON PLANT OAKLEY LTD.
Computation of Net Capital and Aggregate Indebtedness
Pursuant to Rule 15c3-1
December 31, 2004**

Total partners' capital qualified for net capital	<u>\$ 1,471,714</u>
Deductions and/or charges	
Non-allowable assets:	
Petty cash	101
Receivable from clearing broker/dealer	145,800
Investment advisory fees receivable	611,592
Accounts receivable - other	7,840
Prepaid expenses	64,404
Non-marketable securities	20,100
Property and equipment, net	63,414
Deposit	<u>3,750</u>
Total deductions and/or charges	<u>917,001</u>
Net capital before haircuts	<u>554,713</u>
Haircuts on securities:	
Money market funds	9,799
Marketable securities	<u>6,120</u>
Total haircuts on securities	<u>15,919</u>
Net Capital	<u><u>\$ 538,794</u></u>
Aggregate indebtedness	
Accounts payable	\$ 102,860
Accrued expenses	<u>174,511</u>
Total aggregate indebtedness	<u><u>\$ 277,371</u></u>
Computation of basic net capital requirement	
Minimum net capital required (greater of \$250,000 or 6 2/3% of aggregate indebtedness)	<u><u>\$ 250,000</u></u>
Net capital in excess of minimum requirement	<u><u>\$ 288,794</u></u>
Ratio of aggregate indebtedness to net capital	<u><u>.51 to 1</u></u>

Note: The above computation does not differ from the computation of net capital under Rule 15c3-1 as of December 31, 2004 by Herndon Plant Oakley Ltd. on Form X-17A-5. Accordingly, no reconciliation is deemed necessary.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL**

To the Partners
Herndon Plant Oakley Ltd.

In planning and performing our audit of the financial statements and supplemental schedule of Herndon Plant Oakley Ltd. (the Partnership) for the year ended December 31, 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 internal control.

Also as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Partnership including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Partnership 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 Partnership in any of the following:

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

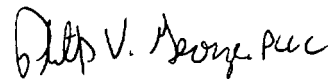
The management of the Partnership is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Partnership 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 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, 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.

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 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 control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Partnership's practices and procedures were adequate at December 31, 2004 to meet the SEC's objectives.

This report is intended solely for use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc. 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.



PHILLIP V. GEORGE, PLLC

Irving, Texas
January 25, 2005