

506/14/05



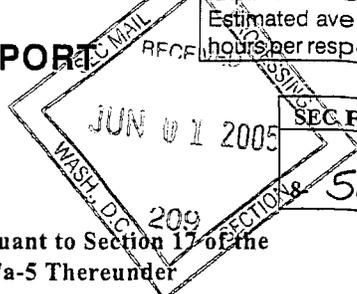
SECUI

05042089

MISSION

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	October 31, 2001
Estimated average burden hours per response.....	12.00

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



SEC. FILE NUMBER
52772

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 April 1, 2004 AND ENDING March 31, 2005  
 MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: 3 Mark Equities, Inc.  
 ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
2900 Wilcrest Suite 245

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street)

Houston Texas 77042  
 (City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Betsy E. Riley 713-780-1616 X208  
 (Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Hein + Associates LLP

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

717 17th Street Suite 1600 Denver CO 80202  
 (Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED  
 JUN 20 2005

3

FOR OFFICIAL USE ONLY
THOMSON FINANCIAL

\*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 (05-01)

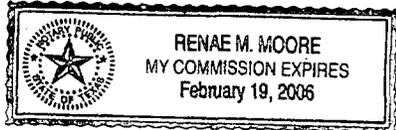
Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

K9  
6/1/05

6/1/05

OATH OR AFFIRMATION

I, Betsy E. Riley, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of 3 Mark Equities, Inc., as of March 31, 2005, 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:



Betsy E. Riley  
Signature  
CFO  
Title

Renae M. Moore  
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.
- (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.
- A(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- a(m) A copy of the SIPC Supplemental Report.
- a(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).



**3 Mark Equities, Inc.**

*Financial Statements and Supplemental Schedules  
For the Years Ended March 31, 2005 and 2004  
Independent Auditors' Report and  
Supplemental Report on  
Internal Control Structure*

**3 MARK EQUITIES, INC.**

**TABLE OF CONTENTS**

	<u>PAGE</u>
<b>Report of Independent Registered Public Accounting Firm</b> .....	2
<b>Statements of Financial Condition</b> – As of March 31, 2005 and 2004 .....	3
<b>Statements of Income</b> – For the Years Ended March 31, 2005 and 2004 .....	4
<b>Statements of Changes in Stockholder’s Equity</b> – For the Years Ended March 31, 2005 and 2004 .....	5
<b>Statements of Cash Flows</b> – For the Years Ended March 31, 2005 and 2004 .....	6
<b>Notes to Financial Statements</b> .....	7
<b>Schedules:</b>	
I.    Computation of Net Capital Pursuant to Rule 15c3-1 .....	9
II.   Exemption Claimed from the Provisions of Rule 15c3-3 under the Securities and Exchange Act of 1934 .....	10
<b>Report of Independent Registered Public Accounting Firm</b> .....	11



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors  
3 Mark Equities, Inc.  
Houston, Texas

We have audited the accompanying statements of financial condition of 3 Mark Equities, Inc. (a wholly-owned subsidiary of 3 Mark Financial, Inc.), as of March 31, 2005 and 2004, and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (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 audits provide 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 3 Mark Equities, Inc. as of March 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, III and IV is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities 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.

*Hein & Associates LLP*

HEIN & ASSOCIATES LLP

Denver, Colorado  
April 22, 2005

717 17th Street, Suite 1600  
Denver, Colorado 80202  
Phone: 303-298-9600  
Fax: 303-298-8118  
[www.heincpa.com](http://www.heincpa.com)

3 MARK EQUITIES, INC.

STATEMENTS OF FINANCIAL CONDITION

ASSETS

	AS OF MARCH 31,	
	<u>2005</u>	<u>2004</u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 19,543	\$ 11,679
Commissions receivable	<u>20,749</u>	<u>10,370</u>
<b>TOTAL ASSETS</b>	<u>\$ 40,292</u>	<u>\$ 22,049</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

<b>LIABILITIES:</b>		
Commissions payable	\$ <u>16,599</u>	\$ <u>8,296</u>
Total liabilities	<u>16,599</u>	<u>8,296</u>
<b>STOCKHOLDER'S EQUITY:</b>		
Common stock, \$.01 par value; 1,000 shares authorized, 1,000 shares issued and outstanding	10	10
Additional paid-in capital	9,990	9,990
Retained earnings	<u>13,693</u>	<u>3,753</u>
Total stockholder's equity	<u>23,693</u>	<u>13,753</u>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<u>\$ 40,292</u>	<u>\$ 22,049</u>

*See accompanying notes to these financial statements.*

**3 MARK EQUITIES, INC.**  
**STATEMENTS OF INCOME**

	FOR THE YEARS ENDED MARCH 31,	
	<u>2005</u>	<u>2004</u>
<b>REVENUES</b>	\$ 1,162,206	\$ 759,565
<b>EXPENSES:</b>		
Commissions	929,765	622,839
Management fee	<u>120,000</u>	<u>100,000</u>
	<u>1,049,765</u>	<u>722,839</u>
<b>INCOME BEFORE INCOME TAXES</b>	112,441	36,726
<b>INCOME TAXES</b>	<u>(32,064)</u>	<u>(10,282)</u>
<b>NET INCOME</b>	<u>\$ 80,377</u>	<u>\$ 26,444</u>

*See accompanying notes to these financial statements.*

*3 MARK EQUITIES, INC.*

**STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY**

**FOR THE YEARS ENDED MARCH 31, 2005 AND 2004**

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL STOCKHOLDER'S EQUITY
<b>BALANCES, April 1, 2003</b>	\$ 10	\$ 9,990	\$ 240,360	\$ 250,360
Distributions to Parent			(263,051)	(263,051)
Net income	—	—	<u>26,444</u>	<u>26,444</u>
<b>BALANCES, March 31, 2004</b>	10	9,990	3,753	13,753
Distributions to Parent	—	—	(70,437)	(70,437)
Net income	—	—	<u>80,377</u>	<u>80,377</u>
<b>BALANCES, March 31, 2005</b>	<u>\$ 10</u>	<u>\$ 9,990</u>	<u>\$ 13,693</u>	<u>\$ 23,693</u>

*See accompanying notes to these financial statements.*

**3 MARK EQUITIES, INC.**

**STATEMENTS OF CASH FLOWS**

	FOR THE YEARS ENDED	
	MARCH 31,	
	2005	2004
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 80,377	\$ 26,444
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Commissions receivable	(10,379)	2,070
Receivable from affiliate	-	31,242
Commissions payable	8,303	(412)
Net cash provided by operating activities	78,301	59,344
<b>FINANCING ACTIVITIES:</b>		
Capital distributions, net	(70,437)	(263,051)
Net cash used in financing activities	(70,437)	(263,051)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	7,864	(203,707)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	11,679	215,386
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 19,543	\$ 11,679
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid to Parent for income taxes	\$ 32,064	\$ 10,282

*See accompanying notes to these financial statements.*

### 3 MARK EQUITIES, INC.

#### NOTES TO FINANCIAL STATEMENTS

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

*Organization and Nature of Operations* – 3 Mark Equities, Inc. (the “Company”) was incorporated in Delaware on February 16, 2000. The Company is a registered broker and dealer in securities under the Securities Exchange Act of 1934 and was established as a limited broker and dealer involved with wholesaling variable insurance products. The Company receives gross dealer concessions or wholesale concessions from other designated brokers and dealers for sales of mutual funds, unit investment trusts, corporate debt and equity securities. The Company is a wholly owned subsidiary of 3 Mark Financial, Inc., (the “Parent”). Except for the initial capital contribution in March 2000, the Company had no transactions prior to January 2001.

*Cash Equivalents* – The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

*Income Taxes* – The Company provides for deferred income taxes under the liability method. The Company has no temporary differences between the book and tax bases of its assets and liabilities.

The operating results of the Company are included in the consolidated income tax returns filed by the Parent and its affiliates. The Parent’s policy is to allocate income tax liabilities or benefits to the Company on a separate return basis as net income or losses are incurred.

*Commission Income and Expense* – The Company earns commissions from the sale of mutual funds, unit investment trusts, corporate debt and equity securities through a network of registered representatives of affiliated broker/dealers. The managers of those registered representatives are paid commissions, which generally are approximately 80% of the commission earned by the Company.

*Use of Estimates* – The preparation of the Company’s financial statements in conformity with generally accepted accounting principles requires the Company’s management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

2. **RELATED PARTY TRANSACTIONS:**

The Company has no full-time employees and shares facilities with its Parent and its affiliates. Accordingly, the Company is economically dependent on its Parent. The Company paid its parent \$120,000 and \$100,000 in management fees for fiscal 2005 and 2004, respectively. Management fees are based upon the Parent’s estimate of allocable costs, including labor, rent and overhead costs, incurred by the Parent on behalf of the Company. The Parent allocates these costs to the Company based on labor hours and square footage. In addition, the Company paid approximately \$930,000 and \$623,000 in commissions in fiscal 2005 and 2004, respectively, based on 80% of revenues received.

As of March 31, 2005 and 2004, the Company had made overpayments to the Parent, totaling \$70,437 and \$263,051, respectively, which have been reflected as a distribution in the accompanying financials.

*3 MARK EQUITIES, INC.*

**NOTES TO FINANCIAL STATEMENTS**

3. **MINIMUM NET CAPITAL REQUIREMENT:**

Pursuant to the Uniform Net Capital requirements of the Securities and Exchange Commission under Rule 15c3-1, the Company is required to maintain a minimum net capital balance and requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1, as defined under such rule. At March 31, 2005, the Company had net capital of \$23,693, which was \$18,693 greater than its required net capital of \$5,000. At March 31, 2004, the Company had net capital of \$13,753, which was \$8,753 greater than its required net capital of \$5,000.

4. **RECONCILIATION OF FOCUS REPORT TO AUDITED FINANCIAL STATEMENTS:**

The accompanying audited 2005 and 2004 financial statements reflect certain adjustments to amounts previously reported in the 2005 and 2004 fourth quarter Financial and Operational Combined Uniform Single reports ("FOCUS Reports") filed with the Securities and Exchange Commission. Specifically, the \$313,488 receivable due from the Parent and reported in the 2005 fourth quarter FOCUS Report as a non-allowable asset has been netted within retained earnings against distributions to the Parent. The \$263,051 receivable due from the Parent and reported in the 2004 fourth quarter FOCUS Report as a non-allowable asset has been netted within retained earnings against distributions to the Parent.

*3 MARK EQUITIES, INC.*

**SCHEDULE I**

**COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1  
OF THE SECURITIES AND EXCHANGE COMMISSION  
AS OF MARCH 31, 2005 AND 2004**

	MARCH 31,	
	<u>2005</u>	<u>2004</u>
<b>COMPUTATION OF NET CAPITAL:</b>		
Total stockholder's equity (from statement of financial condition)	<u>\$ 23,693</u>	<u>\$ 13,753</u>
Net capital	<u>\$ 23,693</u>	<u>\$ 13,753</u>
<b>COMPUTATION OF AGGREGATE INDEBTEDNESS:</b>		
Total aggregate indebtedness	<u>\$ 16,599</u>	<u>\$ 8,296</u>
Percentage of aggregate indebtedness to net capital	<u>70.06%</u>	<u>60.32%</u>
<b>COMPUTATION OF BASIC NET CAPITAL REQUIREMENTS:</b>		
Minimum net capital required (6-2/3% of aggregate indebtedness)	<u>\$ 1,106</u>	<u>\$ 553</u>
Minimum dollar net capital requirement	<u>\$ 5,000</u>	<u>\$ 5,000</u>
Net capital requirement (greater of above amounts)	<u>\$ 5,000</u>	<u>\$ 5,000</u>
Net capital surplus	<u>\$ 18,693</u>	<u>\$ 8,753</u>

The computation of net capital included in the Company's Form X-17A-5 (Focus Report, Part II) as of March 31, 2005 does not differ materially from the above presentation.

*3 MARK EQUITIES, INC.*

**SCHEDULE II**

**EXEMPTION CLAIMED FROM THE PROVISIONS OF RULE 15c3-3  
UNDER THE SECURITIES AND EXCHANGE ACT OF 1934  
AS OF MARCH 31, 2005**

Exemption is claimed from the provisions of Rule 15c3-3 of the Securities and Exchange Commission under Section 15c3-3(k)(2)(ii), since, as an introducing broker and dealer, the Company clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and promptly transmits all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of Rules 17a-3 and 17a-4, as are customarily made and kept by a clearing broker or dealer.



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
ON INTERNAL CONTROL STRUCTURE**

Board of Directors  
3 Mark Equities, Inc.  
Houston, Texas

Dear Sirs:

In planning and performing our audits of the financial statements and supplemental schedules of 3 Mark Equities, Inc. (the Company) for the years ended March 31, 2005 and 2004, on which we have issued our report dated April 22, 2005, 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, we have made a study of the practices and procedures followed by the Company including tests of compliance with 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 the reserve required by Rule 15c3-3(e). We did not review the practices and procedures followed by the Company in complying with the requirements in making quarterly securities examinations, counts, verifications and comparisons as required by Rule 17a-13, because the Company did not hold any securities at March 31, 2005 or 2004, or during the years then ended. We did not review the practices and procedures followed by the Company 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 and in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3, because the Company does not carry security accounts for customers.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's 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 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 preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

717 17th Street, Suite 1600  
Denver, Colorado 80202  
Phone: 303-298-9600  
Fax: 303-298-8118  
[www.heincpa.com](http://www.heincpa.com)

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 the internal control would not necessarily disclose all matters in the 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 Company's practices and procedures were adequate at March 31, 2005 and 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, the National Association of Securities Dealers, Inc., and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and should not be used for any other purpose.

Yours truly,

A handwritten signature in cursive script that reads "Heine & Associates LLP".

**HEIN & ASSOCIATES LLP**

Denver, Colorado  
April 22, 2005