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

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

SEC FILE NUMBER
8-52876

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 01/01/10 AND ENDING 12/31/10  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: HALES CAPITAL SECURITIES

OFFICIAL USE ONLY
FIRM I.D. NO.

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

250 PARK AVENUE STE 2050

(No. and Street)

NEW YORK

NY

10177

(City)

(State)

(Zip Code)

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

AMY LEE

415-464-2204

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

ATTI & COMPANY, PLLC

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

1454 RT 22, SUITE A-104, BREWSTER NY 10509

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

**FOR OFFICIAL USE ONLY**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

Potential persons who are to 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.

AB  
3/14

JD  
3/25

OATH OR AFFIRMATION

I, JOHN KRASKA, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of HALES CAPITAL SECURITIES, as of DECEMBER 31, 2010, 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] 2/25/2011  
Signature  
PRESIDENT  
Title

[Signature]  
Notary Public

**JOYCE MARY JOYCE**  
**NOTARY PUBLIC, State of New York**  
**No. 01J04737450**  
**Qualified in Queens County**  
**Commission Expires August 31, 2013**

- 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 15c3-1 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.

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

**HALES CAPITAL SECURITIES**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**FOR THE YEAR ENDED DECEMBER 31, 2010  
with Report of Registered Public Accounting Firm**

**HALES CAPITAL SECURITIES**  
**FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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## Report of Registered Public Accounting Firm

To the Stockholder and Board of Directors  
of Hales Capital Securities

We have audited the accompanying statement of financial condition of Hales Capital Securities (the "Company") as of December 31, 2010 and the related statements of operations, changes in stockholder's equity 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 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. 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 Hales Capital Securities at December 31, 2010 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.

Our audit 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 Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in our audit 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.

*Atti & Company, PLLC*

January 18, 2011

**HALES CAPITAL SECURITIES**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2010**

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**ASSETS**

**Current Assets:**

Cash, including money market account	\$ 580,302
Prepaid expenses	2,897
	<u>583,199</u>

**Other Assets:**

Goodwill	<u>59,270</u>
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<b>Total Assets</b>	<b><u>\$ 642,469</u></b>
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**LIABILITIES AND STOCKHOLDER'S EQUITY**

**Current Liabilities:**

Accrued professional expenses	\$ 4,300
Payable to affiliate	49,652
	<u>53,952</u>

**Stockholder's Equity:**

Common stock, no par value	
Authorized shares – 15,000,000	
Issued and outstanding – 10,000	7,200
Preferred stock, no par value	
Authorized shares – 7,500,000	
Issued and outstanding – 0	-
Additional paid-in-capital	201,104
Retained earnings	380,213
	<u>588,517</u>

<b>Total Liabilities and Stockholder's Equity</b>	<b><u>\$ 642,469</u></b>
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The accompanying notes are an integral part of these financial statements.

**HALES CAPITAL SECURITIES  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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**Revenues:**

Advisory fees	\$ 628,750
Interest and other income	5,404
	<u>634,154</u>

**Expenses:**

Expenses charged by affiliate (Note 4)	303,673
Professional fees	21,102
Consultants	27,937
Other expenses	12,192
	<u>364,904</u>

**Net Income ( Note 5)** \$ 269,250

The accompanying notes are an integral part of these financial statements.

**HALES CAPITAL SECURITIES  
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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	<b>Common Stock</b>	<b>Additional Paid-in- Capital</b>	<b>Retained Earnings</b>	<b>Total Shareholder's Equity</b>
<b>Balance at beginning of year</b>	\$ 7,200	\$ 201,104	\$ 110,963	\$ 319,267
Net income			269,250	269,250
<b>Balance at end of year</b>	<u>\$ 7,200</u>	<u>\$ 201,104</u>	<u>\$ 380,213</u>	<u>\$ 588,517</u>

The accompanying notes are an integral part of these financial statements.

**HALES CAPITAL SECURITIES  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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**Cash flows from operating activities:**

Net income	\$ 269,250
Decrease in receivables and prepaid expenses	37,033
Increase in payable and accrued expenses	<u>45,022</u>
<b>Net cash provided by operating activities</b>	<b>351,305</b>
<b>Cash at beginning of year</b>	<u>228,997</u>
<b>Cash at end of year</b>	<u><u>\$ 580,302</u></u>

The accompanying notes are an integral part of these financial statements.

**HALES CAPITAL SECURITIES  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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**1. Summary Description of Business Activities**

Hales Capital Securities (the “Company”) was formed on August 21, 2000 in the state of California. The Company received its license from Financial Industry Regulatory Authority to become a licensed securities broker-dealer in May 2001 and is registered as a broker-dealer with the Securities and Exchange Commission (“SEC”). The Company provides placement securities services for securities-based transactions, financial advisory services and fairness opinions. It is a wholly owned subsidiary of Hales Group, Inc.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”).

Effective July 16, 2002, all of the common stock of the Company was acquired for cash by Hales Group, Inc. The acquisition resulted in a new basis of accounting for the Company. The net purchase price, plus acquisition costs, of \$59,270, was recorded as goodwill in the Company’s financial statements.

As a wholly-owned subsidiary, the financial statements of the Company do not necessarily reflect the results of operations or financial condition that would have existed had the Company been an independent entity.

**Use of Estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of 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. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from those estimates.

**Fee Income**

Advisory fees are recognized as revenue when the services related to the underlying transaction are completed under the terms of the engagement.

**HALES CAPITAL SECURITIES  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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**3. Net Capital Requirement**

As a registered broker-dealer, the Company is subject to the SEC's Uniform Net Capital Rule 15c3-1 (the "Rule") that requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital not exceed 15 to 1, both as defined by the Rule. At December 31, 2010, the Company had net capital of \$ 521,350 in excess of its required net capital of \$5,000. The Company's ratio of aggregate indebtedness to net capital was .102 to 1 at December 31, 2010.

**4. Fee and Services From Affiliate**

Hales and Company, Inc., a wholly owned subsidiary of Hales Group, Inc., provides professional staff, general and administrative services to the Company. Total charges amounted to \$303,673 in 2010 and comprised:

Salaries and benefits	\$ 273,783
Rent	17,472
Other	<u>12,418</u>
	<u>\$ 303,673</u>

**5. Income Taxes**

The Company is a qualified Subchapter-S subsidiary of Hales Group, Inc. Subchapter-S corporations do not pay income taxes. Income and deductions are passed through to the shareholders. Accordingly, there is no provision for income taxes in the accompanying financial statements.

**6. FINRA**

The Financial Industry Regulatory Authority (FINRA) has completed its Sales Practice examination of the Company. The results had no material impact on the Company's financial statements.

SCHEDULE I

**HALES CAPITAL SECURITIES  
COMPUTATION OF NET CAPITAL REQUIREMENT UNDER RULE 15c3-1  
DECEMBER 31, 2010**

**Net capital**

Total shareholder's equity	\$ 588,517
Less non-allowable assets	<u>(62,167)</u>
<b>Net capital</b>	<b><u>\$ 526,350</u></b>

**Aggregate indebtedness**

Items included in statement of financial condition:	
Payable and accrued expenses	\$ <u>53,952</u>
<b>Total aggregate indebtedness</b>	<b><u>\$ 53,952</u></b>

**Computation of basic net capital requirement**

Net capital	\$ 526,350
Minimum net capital required (greater of \$5,000 or 6.67% of indebtedness)	<u>(5,000)</u>
<b>Excess net capital</b>	<b><u>\$ 521,350</u></b>

**Ratio: Aggregate indebtedness to net capital** .102 to 1

There are no material differences between the preceding computation and the Company's corresponding unaudited part II of Form X-17A-5 as of December 31, 2010.

**HALES CAPITAL SECURITIES  
STATEMENT REGARDING RULE 15c3-3  
DECEMBER 31, 2010**

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The Company is exempt from Rule 15c3-3 of the Securities and Exchange Commission under paragraph (k)(2)(ii) of that Rule.