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

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

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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 01/01/2013 AND ENDING 12/31/2013  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Hennion & Walsh, Inc.

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

2001 Route 46, Waterview Plaza

(No. and Street)

Parsippany

New Jersey

07054-1018

(City)

(State)

(Zip Code)

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

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

WithumSmith+Brown PC

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

5 Vaughn Drive

Princeton

NJ

08540

(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)

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DD  
3/24/14

OATH OR AFFIRMATION

I, Debbie Williams, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Hennion & Walsh, Inc., as of December 31, 20 13, 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:

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

Debbie Williams  
Signature  
CFO  
Title

Kristina Von Tetzlaff  
Notary Public  
Kristina Von Tetzlaff  
Notary Public of New Jersey  
My Commission Expires March 22, 2015

- 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).



WithumSmith+Brown, PC  
Certified Public Accountants and Consultants

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**PUBLIC REPORT**

**HENNION & WALSH, INC.**

**Statement of Financial Condition**

**December 31, 2013**

**With Independent Auditors' Report**

**Hennion & Walsh, Inc.**  
**Table of Contents**  
**December 31, 2013**

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Florida, and Colorado

## Independent Auditors' Report

To the Board of Directors,  
Hennion & Walsh, Inc.

### Report on the Financial Statement

We have audited the accompanying statement of financial condition of Hennion & Walsh, Inc. as of December 31, 2013, that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the financial statement.

### Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



**Opinion**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Hennion & Walsh, Inc. as of December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

*Withum Smith & Brown, PC*

Princeton, New Jersey  
February 26, 2014

**Hennion & Walsh, Inc.**  
**Statement of Financial Condition**  
**December 31, 2013**

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**Assets**

Cash and cash equivalents	\$ 514,383
Marketable securities owned - at fair value	3,768,995
Due from clearing broker	10,026,982
Interest receivable	60,333
Property and equipment, net	102,513
Due from affiliate	50,812
Due from employees	185,677
Other assets	<u>452,493</u>
	<u>\$ 15,162,188</u>

**Liabilities and Stockholders' Equity**

Liabilities

Marketable securities sold, not yet purchased - at fair value	\$ 1,523,843
Accounts payable and accrued expenses	1,639,242
Deferred income	1,564,270
Interest payable	<u>30,665</u>
Total liabilities	4,758,020

Stockholders' equity

Common stock, no par; 2,500 shares authorized, 210 shares issued and outstanding	15,000
Additional paid-in capital	897,262
Retained earnings	9,680,612
Less: promissory notes - stock purchases	<u>(188,706)</u>
Total stockholders' equity	<u>10,404,168</u>
	<u>\$ 15,162,188</u>

The Notes to Statement of Financial Condition are an integral part of this statement.

**Hennion & Walsh, Inc.**  
**Notes to Statement of Financial Condition**  
**December 31, 2013**

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**1. Summary of Significant Accounting Policies**

**Nature of Business**

Hennion & Walsh, Inc. (the "Company") is a broker-dealer registered with the Securities and Exchange Commission (the "SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"). The Company is a New Jersey corporation that offers equity and fixed-income products and services to individual investors. In addition, the Company trades for its own account.

**Accounting Basis**

The financial statements of the Company have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America, which require the use of estimates by management.

**Cash and Cash Equivalents**

Cash and cash equivalents are defined as highly liquid investments with an original maturity of three months or less.

**Revenue Recognition**

Principal transactions include gains and losses resulting from market price fluctuations that occur while holding positions in trading security inventory. Commission revenue and related clearing expenses are recorded on a trade-date basis as security transactions occur. Profit and loss arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade-date basis. Investment advisory fee income is earned when the services are performed.

**Marketable Securities**

Securities owned and securities sold, not yet purchased in the statement of financial condition consist of financial instrument carried at fair value with related unrealized gains or losses recognized in principal transactions in the statement of income. Marketable securities are those that can readily be sold, either through a stock exchange or through a direct sales arrangement.

**Due From/To Clearing Broker**

The Company clears all of its brokerage transactions through broker-dealers on a fully disclosed basis. Due from clearing broker amount relates to the aforementioned transactions. The Company monitors the credit standing of the clearing organizations as deemed necessary.

**Property and Equipment**

Property and equipment is stated at cost, less accumulated depreciation. Depreciation of equipment, furniture and fixtures is calculated on a straight-line basis using estimated useful lives of seven years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease. Repair and maintenance costs are expensed when incurred, while additions and improvements are capitalized. The cost and related accumulated depreciation of assets sold or retired are eliminated from the accounts and any gains or losses are reflected in earnings.

**Income taxes**

The Company has elected S corporation status, for federal and state purposes. Earnings and losses are included in the income tax return of the stockholders and taxed depending on the stockholders' tax situation. Accordingly, the Company does not incur income tax obligations, and the financial statements do not include a provision for income taxes.

The Company has adopted the application of "Accounting for Uncertainty in Income Taxes". The Company had no unrecognized tax benefits at December 31, 2013. In addition, the Company has no income tax related penalties or interest for the period.

The Company files tax returns in the U.S. federal jurisdiction and New Jersey. The Company has no open years prior to December 31, 2010.

**Hennion & Walsh, Inc.**  
**Notes to Statement of Financial Condition**  
**December 31, 2013**

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**Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

**Advertising and Marketing**

The Company follows the policy of charging the costs of advertising and marketing to expense as incurred.

**2. Related Party Transactions**

The Company was reimbursed for various operating expenses from an affiliate for 2013. In addition, the Company periodically makes advances to another affiliate. The receivable totaled \$50,812 as of December 31, 2013. As of December 31, 2013, the Company also has receivables from various employees which totaled \$185,677.

In April 2013, in order to finance the purchase of shares of common stock of the Company, three employees made capital contributions, in the amount of \$217,158, with a pledge of promissory notes to the Company. The promissory notes commenced on May 1, 2013, with 60 monthly payments of \$1,206.44. Each note bears interest at a rate of 1.09% per annum.

**3. Property and Equipment**

Property and equipment, at cost, consists of the following at December 31, 2013:

Furniture and equipment	\$ 306,478
Leasehold improvements	<u>105,145</u>
	411,623
Less: accumulated depreciation	<u>309,110</u>
	<u>\$ 102,513</u>

**4. Commitments and Contingencies**

The Company has obligations under operating lease agreements for equipment and office space. These leases will start to expire in 2014. The Company's future minimum lease commitments under operating lease agreements are as follows:

Year Ended	
2014	\$ 433,090
2015	566,820
2016	544,563
2017	545,526
2018	566,775
Thereafter	<u>2,503,258</u>
	<u>\$ 5,160,032</u>

Additionally, from time to time, the Company is involved in ordinary routine litigation incidental to its business. Management believes that the ultimate outcome of this litigation will not be material to the financial statements.

**5. Marketable Securities Owned and Marketable Securities Sold, Not Yet Purchased**

Marketable securities owned and securities sold, not yet purchased, consist of debt securities and are subject to margin requirements. The margin account is interest bearing.

**Hennion & Walsh, Inc.**  
**Notes to Statement of Financial Condition**  
**December 31, 2013**

**6. Fair Value Measurements**

The Company follows FASB's accounting pronouncement, *Fair Value Measurements and Disclosures*. The pronouncement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosure about fair value measurements. Fair value is defined under *Fair Value Measurements and Disclosures* as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under *Fair Value Measurements and Disclosures* must maximize the use of observable inputs and minimize the use of unobservable inputs. The pronouncement describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable.

These levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect one's estimates of assumptions that a market participant would use in pricing the asset or liability. Valuation techniques include use of discounted cash flow models and similar techniques.

The Company estimates fair value of Level 2 assets based on observable inputs in active markets for similar transactions.

The following table represents the Company's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of December 31, 2013:

	<b>Total</b>	<b>Quoted Prices Active Markets (Level 1)</b>	<b>Observable Measurement Criteria (Level 2)</b>
<b>Assets (at fair value)</b>			
<b>Securities owned</b>			
Corporate debt securities	\$ 793,421	\$ --	\$ 793,421
State and municipal government debt securities	2,974,200	--	2,974,200
Equity securities	<u>1,374</u>	<u>1,374</u>	<u>--</u>
	<u>\$ 3,768,995</u>	<u>\$ 1,374</u>	<u>\$ 3,767,621</u>
<b>Liabilities (at fair value)</b>			
<b>Securities sold, not yet purchased</b>			
Corporate debt securities	\$ 868,943	\$ --	\$ 868,943
State and municipal government debt securities	<u>654,900</u>	<u>--</u>	<u>654,900</u>
	<u>\$ 1,523,843</u>	<u>\$ --</u>	<u>\$ 1,523,843</u>

**7. Net Capital Requirements**

As a registered municipal securities broker and member of the Financial Industry Regulatory Authority, Inc., (FINRA), the Company is subject to SEC Uniform Net Capital rule 15c3-1, which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital both as defined, shall not exceed 15 to 1. At December 31, 2013, the Company had net capital of \$9,021,342, which was \$8,771,342 in excess of its required net capital of \$250,000. The Company's net capital ratio was .36 to 1 at December 31, 2013.

**Hennion & Walsh, Inc.**  
**Notes to Statement of Financial Condition**  
**December 31, 2013**

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**8. Concentrations of Credit Risk**

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the credit worthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

The Company maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Company has not experienced any loss in these accounts and does not believe it is exposed to any significant credit risk on cash.

**9. Risks and Uncertainties**

In the normal course of business, the Company enters into transactions in securities sold, not yet purchased. The activity of selling securities short subjects the Company to certain inherent risks. Subsequent market fluctuations may require the Company to purchase the securities sold, not yet purchased, at prices that differ from the fair value reflected in the statement of financial condition.

**10. Retirement Plan**

The Company has a defined contribution 401(k) plan. Employees are eligible to participate after one year of service with the Company.

**11. Subsequent Events**

The Company has evaluated subsequent events occurring after the balance sheet date through February 26, 2014, which is the date the financial statements were available to be issued. Based on this evaluation, the Company has determined that the following subsequent event requires disclosure in the financial statements:

On January 1, 2014, the Company entered into an agreement to purchase all applicable assets of P.M.K. Securities & Research, Inc., and P.M.K. Capital Advisors, Inc., both Florida corporations, at a total cost of \$2,650,000. The Company made a deposit of \$265,000 in December 2013 and paid \$1,085,000 at closing in January 2014. The remaining balance is due in two equal installments of \$650,000 through February, 2016, subject to the conditions set forth in the asset purchase agreement.



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Florida, and Colorado

### **Report on Internal Control Required by SEC Rule 17a-5(g)(1) for a Broker-Dealer Claiming an Exemption from SEC Rule 15c3-3**

To the Board of Directors,  
Hennion & Walsh, Inc.

In planning and performing our audit of the financial statements of Hennion & Walsh, Inc. (the "Company") as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's 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 Company, including consideration of control activities for safeguarding securities. This study included 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 (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company 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 Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and 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

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding two paragraphs. 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 previously 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 the 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 paragraphs.

Because of inherent limitations in internal control and 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.



A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be a material weakness, as defined previously.

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, as described in the second paragraph of this report, were adequate at December 31, 2013, to meet the SEC's objectives.

This report recognizes that it is not practicable in an organization the size of Hennion & Walsh, Inc. to achieve all the divisions of duties and cross checks generally included in an internal control system and that, alternatively, greater reliance must be placed on surveillance by management.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the Financial Industry Regulatory Authority, 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.

*WithumSmith+Brown, PC*

Princeton, NJ  
February 26, 2014