

**HERITAGE INVESTORS MANAGEMENT CORPORATION**  
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**ADV Part II**

**March 30, 2011**

**This brochure provides information about the qualifications and business practices of Heritage Investors Management Corporation. If you have questions about the contents of this brochure please contact us at 301-951-0440. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Heritage Investors Management Corporation is available on the Securities and Exchange Commission's website at [www.adviserinfo@sec.gov](mailto:www.adviserinfo@sec.gov). Registration with the Securities and Exchange Commission does not imply a certain level of skill or training.**

**Item 2: Material Changes**

There are no material changes as of this update.

**Item 3: Table of Contents**

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#### **Item 4: Advisory Business**

Heritage Investors Management Corporation, founded in 1974, provides investment supervisory services and is registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940. The firm, owned by its President, Michael S. Cornfeld, offers professional, personalized investment management to meet the individual objectives of our clients. We manage portfolios of stocks, bonds, and money market instruments for individuals, IRAs, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, partnerships, endowment funds, conservatorships, associations, foundations, and guardianships.

Each portfolio is tailored to the needs of the client. We consider each client's risk level, tax situation, age, income and growth needs among other factors when selecting securities for a portfolio. Clients may wish to restrict Heritage from investing in certain types of securities or in certain industries. Such restrictions are respected. The exclusion of tobacco stocks in a portfolio is an example of a restriction.

As of December 31, 2010, Heritage manages \$1,175,000,000 on a discretionary basis and an additional \$5,500,000 on a non-discretionary basis.

#### **Item 5: Fees and Compensation**

Heritage charges a fee for its investment services. Usually a percentage of assets under management is charged, but occasionally an hourly charge or a fixed fee may be negotiated. The fee for the first six months of service is based upon the market value of the account at its inception. Thereafter, the fee is based on the value at the beginning of each subsequent semi-annual period. The annual rate shall equal:

1% on the first \$1,000,000 under management and  
½ of 1% on the balance over a \$1,000,000.  
The minimum fee is \$10,000.

In certain circumstances, the fees may be negotiable.

Accounts of family members are managed separately, but are often combined for fee purposes. Clients are given the option of paying the management fee by check or by having the fee deducted from the client's portfolio. In the event the relationship terminates prior to the end of a billing period, the fee is refunded on a pro-rata basis. Fees will be assessed on all the holdings in the portfolio including mutual funds and exchange traded funds, asset categories which carry their own fees. Heritage does not participate in any sales based compensation. Unless directed otherwise, we do not buy mutual funds for our clients. Thus, we do not have a conflict of interest other advisors might have who may receive asset based sales or service fees.

Occasionally, Heritage will be engaged to consult on a financial matter. Such consulting services are available to individuals and entities that are not clients on an hourly basis not to exceed \$400 per hour. Investment advisory clients are not charged for meetings or consultations.

As a condition of Heritage managing their assets, clients are required to custodian assets either at a trust department, trust Company, or a brokerage firm. Custodians provide many valuable services which include holding the client's assets, settling trades, collecting dividends and interest payments, providing statement to the client, arranging for transfers of cash to the clients, issuing tax statements, and following instructions for collecting fees from the account. In addition, when a client has an account at a trust company or a trust department, it allows Heritage to trade with any number of brokerage firms. We believe that an advantage of this type of relationship is better availability of bonds and better pricing for bond transactions. Many custodians charge asset-based quarterly fees to administer the account. We believe these fees are cost effective.

There are other fees that clients of investment advisory firms are charged. For example, sales of stock are subject to a nominal Securities and Exchange Commission fee. All security trades are subject to negotiated broker commission rates and bid/ask spreads. Heritage is not a brokerage firm and does not receive cash compensation for the trades it does on behalf of its clients. Additional information on Heritage's brokerage practices can be found in Item 12.

#### **Item 6: Performance-Based and Side-by-Side Management**

Heritage does not charge performance-based fees; consequently, we have no incentive to favor one client over another.

#### **Item 7: Types of Clients**

Heritage manages portfolios for individuals, IRAs, pension and profit sharing plans, trusts, estates, charitable organizations, corporations, partnerships, endowment funds, conservatorships, associations, foundations, and guardianships. Our minimum account size for new accounts is \$1,000,000 although exceptions are made from time to time.

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

Heritage utilizes a variety of methods and strategies to analyze stocks, bonds, and portfolios. These include the use of fundamental research, technical analysis, and charting. Our portfolio managers read financial newspapers, news services, magazines, and research materials prepared by analysts, companies, brokerage firms, corporate rating services, and timing services. We analyze corporate annual reports, prospectuses, filings with the SEC, as well as company press releases and online services. We also examine financial reports issued by municipal bond issuers.

The investment strategies used to implement advice given to clients include long-term purchases, short-term purchases, trading (securities sold within 30 days), short sales, margin transactions, and option writing, including covered options, uncovered options or spreading strategies. Heritage engages almost exclusively in long-term purchases of securities.

Investment strategies are dependent upon the requirements and objectives of the clients. Strategies will vary depending upon domestic and international economic and political events and the impact they might have on the stock and bond markets. We do not subscribe to the philosophy that securities can be acquired and held forever. Investments generally are held for a time period to provide maximum after tax returns. We believe strongly in diversification and adjust the proportion of classes of securities to be held at any given time due to economic and market conditions. Very infrequently, we will write covered options, buy securities on margin, and sell securities short, but only after we have consulted with the client to discuss the potential risks and rewards and have obtained written approval.

Our main investment strategy is to buy publicly traded U.S. stocks and bonds for our clients, and in some cases to buy foreign bonds and foreign stocks which in most cases are traded in the U.S. as ADRs (American Depositary Receipts). The value of U.S. stocks will rise and fall due to changes in the financial results of individual companies, the condition of the U.S. and world economies, interest rates, market conditions, and many other factors. While historically the U.S. stock market has generally done well over the long term, there have been many periods during which stock prices have dropped and, in some cases, sharply. The value of U.S. bonds depends on the credit quality and ratings of individual companies, and also on the general level of interest rates, which are affected by the health of the U.S. economy, U.S. government fiscal and monetary policy, and market conditions. At times in the past, interest rates and bond prices have fluctuated sharply, particularly during times of extreme stress in the U.S. economy. In addition to the factors already mentioned, the value of foreign stocks and bonds will also fluctuate due to the state of foreign economies, foreign interest rates, and currency exchange rates. Clients need to recognize that such wide fluctuations will occur and at times substantial losses may occur in their portfolios especially if sales of securities occur at times of low valuations. Historically, patient investors have been rewarded with positive returns.

All investing involves risks and investors should recognize that losses may occur in their portfolios. Over the last few years, swings of 50% have occurred and may occur again. We believe that constructing a diversified portfolio of stocks (by industry), quality bonds (by maturity), and cash instruments will mitigate some but not all of those risks. We believe that by not trading frequently and by focusing the portfolio and the clients on the longer term, the inherent risks in investing may be decreased.

#### **Item 9: Disciplinary Information**

We have never had any disciplinary actions against our firm nor have any of our employees ever been involved in a legal or disciplinary event.

#### **Item 10: Other Financial Industry Activities and Affiliations**

Heritage is not registered as a broker-dealer nor are its employees registered as registered representatives of a broker-dealer firm. Occasionally, Heritage may recommend or suggest accountants, attorneys, or other financial professionals to our clients, but we do not receive compensation directly or indirectly for such activities. We believe that recommending other professionals with whom we have had successful business dealings and who may refer clients to us may appear to create a conflict of interest; therefore, we will acknowledge to our clients existing business relationships at the time such referrals are made or received.

#### **Item 11: Code of Ethics, Participation or Interest in Client Transaction and Personal Trading**

We adopted a Code of Ethics (“the Code”) which sets forth standards of conduct expected of all our personnel and addresses conflicts of interest that may arise from their work in an advisory firm. The Code is intended to promote compliance with fiduciary standards to which advisory firms are required to adhere. We expect all of our employees to conduct themselves with honesty, integrity, and professionalism toward our clients and one another.

The Code covers conflicts of interest with clients, confidentiality of client information, insider trading, and employee personal trading. A copy of the Code will be provided upon request.

One of the purposes of the Code is to prevent the firm, associated persons, and certain relatives from benefiting from any price movement that may be caused by client transactions or the firm’s recommendations regarding such securities. Among other things, the Code requires employees to obtain clearance before they buy or sell any security (other than certain government securities and money market funds) and prohibits transactions when the employee knows that the firm is contemplating effecting similar

transactions in client accounts. As a general rule, the firm does not allow employees to trade in individual securities that clients hold, except for mutual funds and ETFs. Each trade in individual securities is examined to make sure that the employee's trade would not create a conflict of interest at the time of the trade. Employees, quarterly, are required to disclose all reportable personal securities transactions in which they engaged and are required annually to disclose all reportable securities held.

## **Item 12: Broker Practices**

### **Brokerage**

#### *General*

Our clients generally rely on us to determine the broker or dealer through which their transactions will be effected (although some clients may direct us to use a particular broker or dealer for a portion or all of the transactions in their accounts) and we generally make those determinations on a transaction-by-transaction basis. We may use electronic trading networks for equity trades when their use is consistent with the execution quality factors discussed below. Bond trading is usually effected through brokerage firms based on the factors discussed below.

#### *Execution Quality*

In selecting brokers and dealers, the firm's primary objective is to obtain the highest overall quality execution of transactions. In evaluating whether a broker or dealer will be able to provide "best execution," historical net prices (after brokerage commissions, if any, and other transaction costs) on previous transactions is a principal factor, but other, related factors are relevant, including: the execution, clearance and settlement capabilities of the broker or dealer generally and in connection with securities of the type involved; the nature, quality, and quantity of proprietary investment information and research services and products the broker or dealer has provided or is willing to provide; the broker or dealer's ability and willingness to commit its capital to facilitate transactions (by participating for its own account); the broker's or dealer's reliability, integrity, and financial stability; the size of the particular transaction and its complexity in terms of execution and settlement; the importance of speed or confidentiality in the particular transaction; and the market for the security. In light of our consideration of the various factors above, commissions or other transaction compensation paid to brokers and dealers on client transactions may not be the lowest available; however, we believe considering factors beyond commission rates is important to optimizing overall execution quality and overall investment management services.

## *Aggregation and Allocation of Orders*

Where we buy or sell the same security for two or more clients, we may place concurrent orders with a single broker, to be executed together as a single “block” in order to facilitate orderly and efficient execution. Securities traded are allocated to client accounts, either before or promptly after the transaction, based on client investment objectives and client guidelines which include factors such as account cash levels, asset allocations, sector weights, and securities holdings. Whenever we do so, each account on whose behalf an order was placed receives the average price and bears a proportionate share of all transaction costs, based on the size of that account’s order. On occasion, we will not block orders because in doing so we may create a block which might result in the clients getting a less advantageous execution. In our experience, the commission paid for large stock orders and small stock orders have been about the same cents per share.

Heritage and employee related accounts generally will not be included in the client aggregations. An exception to this restriction is accounts of clients who are related to our employees. We are mindful of our duty to do the best for clients and to be fair to all clients with no favoritism.

Heritage will normally allocate partially filled orders on a pro rata basis but will consider random allocation at times. For example, a random allocation program may be used to fill client orders of limited availability or thinly-traded securities, in order to avoid allocating tiny blocks of such securities.

## *Research Services*

*Generally.* As indicated above, when selecting broker-dealers for particular transactions, we often consider the value of proprietary research that a broker-dealer has provided or may be willing to provide. This is commonly known as paying for those services or products with “soft dollars.” Because many of those services could be considered to provide a benefit to the firm and, because the commissions used to acquire them are client assets, the firm could be considered to have a conflict of interest in allocating client brokerage business: it could receive valuable benefits by selecting a particular broker or dealer to execute client transactions and the transaction fee charged by that broker or dealer might not be the lowest fee the firm might otherwise be able to negotiate.

During the past fiscal year, we did not direct any client transactions to any broker dealers that may have referred clients to us. We believe that trying to obtain the most favorable execution for our client is more important than receiving client referrals from broker-dealers.

*Proprietary Research and Brokerage Products and Services.* The proprietary research products and services we may receive from brokers may include economic surveys, data and analyses, financial publications, and specific stock recommendations or other information about particular companies and industries (through in-depth research



reports and otherwise). All research products and services received provide lawful and appropriate assistance to the firm in the performance of its investment decision-making responsibilities, consistent with Section 28(e) of the Securities Exchange Act. This section of the law details the circumstances in which client commission dollars can be used by investment advisers to obtain research materials. We use these products and services in the conduct of our investment decision-making generally, not just for those accounts whose commissions may be considered to have been used to pay for the products or services.

The firm's practices in this area are done in a manner that satisfies the requirements of the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934. That safe harbor is available if, among other things, when placing orders with a particular broker we determine, considering all the factors described above, that the commissions to be paid are reasonable in relation to the value of all the brokerage and research products and services provided by the broker-dealer. In making that determination, we typically consider not only the particular transaction or transactions, and not only the value of brokerage and research services and products to a particular client, but also the value of those services in our performance of our overall responsibilities to all of our clients. The commission a broker who provides research charges for a particular transaction or set of transactions may be greater than the commission another broker who did not provide such services or products might charge.

We do not exclude a broker from our list of eligible brokers simply because the broker has not been identified as one providing soft dollar research products and services, although we may not be willing to pay the same commission to those brokers as we would have paid had the broker provided such products and services. Importantly, we have no commitments to place commission business with any brokerage firm.

During the last fiscal year, 2010, we executed the vast majority of our trades through electronic trading networks at what we believe are very low commission rates. In fact, less than 1% of all our non-directed stocks trades were executed at a commission rate higher than that charged by these electronic trading networks.

*Review.* Our Trading Committee is responsible for overseeing the firm's brokerage and trading practices. The Committee is comprised of key personnel who are knowledgeable in trading and compliance practice. They devote time to implementing our broker-dealer selection process and monitor the quality of executions provided by the various brokers and dealers through whom we execute transactions on behalf of clients as well as the reasonableness of the compensation paid to those brokers and dealers in light of all the factors described above.

#### Directed Brokerage

From time to time, some clients may instruct us to use one or more particular brokers or dealers for some or all of the transactions in their accounts. They may decide to choose a brokerage firm as opposed to a Trust Company as their custodian in order to

save the custodian fee as described in Item 5. Clients who may want to direct us to use a particular broker-dealer should understand that their direction may prevent us from aggregating orders with other clients or from effectively negotiating brokerage compensation on their behalf, and they may even prevent us from obtaining the most favorable net price and execution. Bond transactions in particular may be limited and/or have wider spreads (markups and markdowns). Thus, in directing brokerage business, those clients may lose possible advantages that non-designating clients may have. Clients that direct brokerage should consider whether the lower custodial fees offset the higher commission expenses, and different execution, clearance, and settlement capabilities they will obtain.

### **Item 13: Review of Accounts**

Accounts are reviewed periodically to determine achievement of client objectives, adequacy of the cash balances on hand, the diversification of the portfolio, and the appropriateness of the security positions. Reviews may be triggered by economic and political events, client requests, changes in specific company or issuer information, changes in market conditions, and changes in objectives. The portfolios are reviewed by our staff of five portfolio managers, most of whom are Vice Presidents or upper management. Each portfolio manager may be responsible for up to 250 portfolios. Since all of the portfolios are evaluated daily, portfolio managers are always using current information when reviewing the client's portfolio. Complete performance reports are generated monthly and reviewed by portfolio managers.

On a quarterly basis, a performance report and a statement of assets are provided to each client. All holdings on the statement show cost and market value as well as dividend and interest income and indicated yield. At year-end, a schedule of transactions having tax consequences is furnished. The client's independent custodian or brokerage firm also issues reports at least quarterly. Performance reports are provided for the total portfolio and for fixed income, equity, and cash components. Monthly transaction reports are also provided. Heritage will provide additional reports upon request.

### **Item 14: Client Referrals and Other Compensation**

Heritage does not compensate any person who is not an employee for client referrals nor do we receive any compensation from other firms or individuals for any referrals. Occasionally an employee of Heritage may receive a gift of limited value from a service provider or a client. Such gifts are recorded and reviewed to see if the acceptance of the gift might result in a conflict of interest. If the gift were determined to present a conflict of interest, the gift would be returned or donated to charity.

### **Item 15: Custody**

All client assets are held by a brokerage firm, a bank custodian, or a trust company. Brokerage firms send statements to clients on a monthly basis; while bank custodians and trust companies send statements to clients at least quarterly. Clients should review these statements carefully and compare them with the statements Heritage provides. Since Heritage is deemed to have custody of its clients' accounts due to the fact that Heritage is authorized by its clients to have its fees debited from the client's account held by custodians; clients must receive statements quarterly from their qualified custodians.

### **Item 16: Investment Discretion**

Generally, clients grant us, as provided by our advisory agreement, the discretionary authority to select which and how many securities to buy or sell. This authority is granted by a limited power of attorney. We agree to adhere to all investment objectives, guidelines, and restrictions imposed by the client. These may include restrictions limiting our ability to purchase companies in certain industries such as tobacco or alcohol to name a couple. We manage each client's account on an individual basis. When we determine that a particular security should be acquired, the accounts are reviewed to ascertain if the security is suitable and appropriate for the client. We take into consideration many factors. Among them are the client's objectives and risk tolerance level, the diversification needs of the portfolio, the cash position and liquidity needs of the client, and the holdings in the specific industry or similar companies. Only then will a security be purchased for a client's portfolio.

### **Item 17: Voting Client Securities**

Heritage has adopted and implemented policies and procedures that are reasonably designed to ensure that proxies are voted in the best interest of the clients. Authority to vote the proxies is established by our advisory agreement. Upon request by a client, Heritage will provide a copy of these policies and procedures along with a record of how proxies were voted.

Proxies are voted based on what Heritage believes is in the best interest of each client. Heritage believes that the company's recommendation on any issue should be given substantial weight in determining how an issue should be voted. Therefore, our votes may be consistent with the company's recommendations. However, when we believe the company position on an issue is not in the best interests of our clients, we may cast a different vote.

Should there be any material conflicts between Heritage's interests and the clients' interests such conflicts should be resolved in the best interest of the clients. Clients may

direct us to vote their proxies in a specific manner. We document and honor all special requests and vote proxies accordingly.

Where clients have reserved the right to vote their own proxies, the clients will receive their proxies directly from the custodian or the company designated to handle the distribution of proxy voting materials by the custodian. Should these clients wish to discuss the voting of their proxies, they may do so with a portfolio manager.

#### **Item 18: Financial Information**

We believe that our strong financial position is sufficient to allow us to honor all our contractual commitments to our clients.

**HERITAGE INVESTORS  
MANAGEMENT CORPORATION**

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**Balance Sheet  
with  
Report of Independent Auditors  
December 31, 2010**

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**REPORT OF INDEPENDENT AUDITORS**

To the Board of Directors  
Heritage Investors Management Corporation

We have audited the accompanying balance sheet of Heritage Investors Management Corporation at December 31, 2010. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 statement referred to above presents fairly, in all material respects, the financial position of Heritage Investors Management Corporation at December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

*Grossberg Company LLP*

February 10, 2011

HERITAGE INVESTORS MANAGEMENT CORPORATION

BALANCE SHEET

DECEMBER 31, 2010

<u>Assets</u>	
<b>Current assets:</b>	
Cash and cash equivalents (Note 2)	\$ 1,392,783
Short-term marketable securities (Note 3)	759,337
Accounts receivable - trade	913,623
Accrued interest receivable	13,237
Prepaid expenses	61,900
<b>Total current assets</b>	<b>3,140,880</b>
Furniture and equipment, net of accumulated depreciation of \$281,816	72,235
Cash value of insurance policy (Note 4)	93,607
Long-term marketable securities (Note 3)	781,537
	<b>\$ 4,088,259</b>
<u>Liabilities and Stockholder's Equity</u>	
<b>Current liabilities:</b>	
Accrued compensation	\$ 43,029
Accrued profit sharing plan contribution	15,077
Deferred fee revenue	1,414,856
<b>Total current liabilities</b>	<b>1,472,962</b>
Deferred rent obligation (Note 6)	5,513
<b>Total liabilities</b>	<b>1,478,475</b>
<b>Stockholder's equity:</b>	
Common stock - no par value; 250 shares authorized; 135 shares issued and 35 shares outstanding	8,500
Additional paid-in capital	700,000
Retained earnings	2,203,111
Accumulated other comprehensive income	1,173
	<b>2,912,784</b>
Treasury stock, 100 shares	(303,000)
<b>Stockholder's equity - net</b>	<b>2,609,784</b>
	<b>\$ 4,088,259</b>

See accompanying notes.



HERITAGE INVESTORS MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

1. *Accounting policies*

Nature of operations - Heritage Investors Management Corporation operates from a single location in Bethesda, Maryland. We provide investment advisory services to clients on a for-fee basis.

Use of estimates - We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), which require management to make estimates and assumptions that affect certain 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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents include currency on hand, demand deposits with banks and other financial institutions, and all highly-liquid debt instruments purchased with an original maturity of three months or less.

Marketable securities - Marketable securities are classified as available-for-sale and are carried at fair value, with related unrealized gains and losses reported as accumulated other comprehensive income, a separate component of stockholder's equity. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in investment income, along with interest and dividends. The cost of securities sold is based on the specific identification method; realized gains and losses resulting from such sales are included in investment income.

Investment securities are reviewed for impairment in accordance with FASB Accounting Standards Codification Topic 302, *Investments - Debt and Equity Securities*. We periodically review our investments for indications of other than temporary impairment considering many factors, including the extent and duration to which a security's fair value has been less than its cost, overall economic and market conditions, and the financial condition and specific prospects for the issuer. Impairment of investment securities results in a charge to income when a market decline below cost is other than temporary.

Accounts receivable and bad debts - Accounts receivable are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. U.S. GAAP requires that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Property and equipment - We record property and equipment at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the related assets, which range from five to ten years. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter. Depreciation expense for the year ended December 31, 2010 aggregated \$12,674.

Revenue recognition - We recognize fees for services in revenue ratably over the billing period. Generally, our fees are billed in advance of the service period. Fee payments received and billed in advance of the service period are deferred.

HERITAGE INVESTORS MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

1. *Accounting policies (continued)*

Subsequent Events - The Company has evaluated subsequent events through February 10, 2011, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2010 have been incorporated into these statements.

2. *Cash and cash equivalents*

At December 31, 2010, we had invested \$1,359,515 of our excess cash in a money market mutual fund. The fund invests in short-term debt instruments and seeks to maintain a stable \$1 per share value. This account is not insured by the FDIC. We have not experienced any losses in such account and do not believe we are exposed to any significant credit risk on cash and cash equivalents.

3. *Marketable securities*

	<u>Cost</u>	<u>Fair Value</u>	<u>Accumulated Unrealized Gain</u>	<u>Accumulated Unrealized Loss</u>
Municipal debt securities				
Due in 2011	\$ 757,646	\$ 759,337	\$ 1,691	\$ -
Due in 2012 - 2016	74,884	74,890	6	-
Due after 2022	707,171	706,647	182	(706)
	<u>\$ 1,539,701</u>	<u>\$ 1,540,874</u>	<u>\$ 1,879</u>	<u>\$ (706)</u>

The following table sets forth by level, within the fair value hierarchy, the Company's assets which are measured at fair value in the accompanying balance sheet at December 31, 2010.

	<u>Fair Value</u>	<u>Level 1</u>
Municipal debt securities	\$ 1,540,874	\$ 1,540,874

Statement of Financial Accounting Standards Codification Topic 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Level 3 inputs are used only when Level 1 or Level 2 inputs are not available for specific assets. The Company uses appropriate valuation techniques based on the available inputs to measure the fair value of its assets. When available, the Company measures fair value using Level 1 or 2 inputs because they generally provide the most reliable evidence of fair value. No Level 3 or 2 inputs were needed to determine fair value of investments held at December 31, 2010.

HERITAGE INVESTORS MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

3. **Marketable securities**

Level 1 fair value measurements - The fair values of securities are determined by reference to quoted prices (unadjusted) in active markets and other relevant information generated by market transactions that the reporting entity has the ability to access at the measurement date.

4. **Cash value of officer's life insurance**

We are the owner and beneficiary of insurance policies with a face value aggregating \$500,000 on the life of the president/stockholder. The liquidation value of the policies was \$93,607 at December 31, 2010.

5. **Deferred fee revenue**

Under the terms of the contracts with our clients, all deferred fee revenue is refundable upon cancellation of such contracts by the clients. Approximately \$777,000 of unpaid customer billings at December 31, 2010 are included in deferred fee revenue.

6. **Lease**

We conduct our operations in office space rented under an operating lease which expires March 31, 2018 as extended on December 31, 2010. Rent expense for the year ended December 31, 2010 was \$160,152, including \$509, net of a reconciliation adjustment, attributable to our share of increases in the lessor's operating expenses and real estate taxes.

Future minimum payments under this lease are as follows:

<u>Year ending December 31,</u>	
2011	\$ 139,000
2012	132,000
2013	136,000
2014	140,000
2015	143,000
Thereafter	336,000
	<hr/>
	\$ 1,026,000

Our lease agreement provides for fixed annual escalations of rental payments. As required by U.S. GAAP, we recognize the portion of our rental payments that represent base rents in expense ratably over the term of the lease. The deferred lease obligation at December 31, 2010 represents the cumulative amount of rent expense recognized for financial statement purposes in excess of our actual cash payments for base rents through such date.

HERITAGE INVESTORS MANAGEMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

**7. Retirement plans**

We maintain a qualified defined contribution cash or deferred arrangement profit sharing and 401(k) plan (the Plan) covering substantially all employees. Annual contributions to the Plan are at the sole discretion of the Board of Directors, but are limited to 25% of the compensation paid or otherwise accrued to all participants during the year. In October of 2006, we amended the Plan to permit participants to make Roth 401(k) contributions. Expense recognized for safe-harbor contributions to the Plan was \$46,523 for the year ended December 31, 2010. Expense recognized for other employer contributions to the Plan for the year ended December 31, 2010 was \$155,077.

**8. Income taxes**

We elected S corporation status under the Internal Revenue Code effective July 1, 2001. In lieu of corporate income taxes, the stockholders of an S corporation are required to report on their personal federal and state income tax return their proportionate share of our taxable income.

Our Company is no longer subject to U.S. Federal or state income tax examinations by tax authorities for years prior to 2007.

## **Part 2B**

### **Item 1. Cover Page**

Michael S. Cornfeld

Heritage Investors Management Corporation  
7101 Wisconsin Avenue, Suite 1112  
Bethesda, MD 20814  
Telephone: 301-951-0440

March 30, 2011

This brochure supplement provides information about Michael S. Cornfeld that supplements the Heritage Investors Management Corporation brochure. You should have received a copy of that brochure. Please contact Gayl Tjornehoj, Vice President of Administration if you did not receive the Heritage Investors Management Corporation's brochure or if you have questions about the contents of this supplement.

**Item 2: Education Background and Business Experience:**

Michael S. Cornfeld  
Year of Birth: 1949

**Education:**

Columbia University, MA 1973  
Cornell University, BA 1971  
Chartered Financial Analyst 1978  
Chartered Investment Counselor 1984

**Business Background:**

Heritage Investors Management Corporation:  
Chairman of the Board of Directors, September 1990 to present  
President and Treasurer, October 1985 to present  
Chief Compliance Officer, October 2004 to present  
Vice President, January 1975 to October 1985

**Item 3: Disciplinary Information**

There have been no disciplinary events for Mr. Cornfeld.

**Item 4: Other Business Activities**

Mr. Cornfeld is not engaged in any other investment-related business.

**Item 5: Additional Compensation**

Mr. Cornfeld's sole source of compensation is from Heritage Investors and he has no other business compensation.

**Item 6: Supervision**

Mr. Cornfeld is the President of Heritage Investors Management Corporation and is an active participant in and supervisor of the investment management process. As the Chief Executive Officer, Mr. Cornfeld is responsible for the day-to-day activities of the entire firm. Mr. Cornfeld is also the Chief Compliance Officer. As President, Mr. Cornfeld is deemed to supervise himself.

**Item 1. Cover Page**

Derek R. Stone

Heritage Investors Management Corporation  
7101 Wisconsin Avenue, Suite 1112  
Bethesda, MD 20814  
Telephone: 301-951-0440

March 30, 2011

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**Item 2: Education Background and Business Experience:**

Derek R. Stone  
Year of Birth: 1958

**Education:**

University of Pennsylvania, Wharton School, MBA 1982  
Harvard College, BA 1980  
Chartered Financial Analyst 1985  
Chartered Investment Counselor 1985

**Business Background:**

Heritage Investors Management Corporation:  
Vice President, July 1992 to present  
Portfolio Manager and Analyst, July 1982 to present

**Item 3: Disciplinary Information**

There have been no disciplinary events for Mr. Stone.

**Item 4: Other Business Activities**

Mr. Stone is not engaged in any other investment-related business.

**Item 5: Additional Compensation**

Mr. Stone's sole source of compensation is from Heritage Investors and he has no other business compensation.

**Item 6: Supervision**

Michael Cornfeld is the manager of the firm's portfolio managers. In that role, he sets the team's overall strategic objectives. On a day-to-day basis, he approves trades by reviewing each managers proposed portfolio changes and reviews those trades after execution. In addition, portfolio manager client calls and meetings are documented and then reviewed by him. Mr. Cornfeld, President of Heritage, can be reached at 301-951-0440.



**Item 1. Cover Page**

Kenneth J. Long

Heritage Investors Management Corporation  
7101 Wisconsin Avenue, Suite 1112  
Bethesda, MD 20814  
Telephone: 301-951-0440

March 30, 2011

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**Item 2: Education Background and Business Experience:**

Kenneth J. Long  
Year of Birth: 1968

**Education:**

Duke University, Fuqua School of Business, MBA 1995  
University of Maryland, Baltimore County, BA 1990  
Chartered Financial Analyst 1998  
Chartered Investment Counselor 1991  
Certified Public Accountant, State of Maryland 1990

**Business Background:**

Heritage Investors Management Corporation:  
Vice President, December 2002 to present  
Portfolio Manager and Analyst, August 1995 to present  
Coopers and Lybrand, CPA's:  
Staff Accountant, July 1990 to July 1993

**Item 3: Disciplinary Information**

There have been no disciplinary events for Mr. Long.

**Item 4: Other Business Activities**

Mr. Long is not engaged in any other investment-related business.

**Item 5: Additional Compensation**

Mr. Long's sole source of compensation is from Heritage Investors and he has no other business compensation.

**Item 6: Supervision**

Michael Cornfeld is the manager of the firm's portfolio managers. In that role, he sets the team's overall strategic objectives. On a day-to-day basis, he approves trades by reviewing each managers proposed portfolio changes and reviews those trades after execution. In addition, portfolio manager client calls and meetings are documented and then reviewed by him. Mr. Cornfeld, President of Heritage, can be reached at 301-951-0440.

**Item 1. Cover Page**

Jean M. Kennedy

Heritage Investors Management Corporation  
7101 Wisconsin Avenue, Suite 1112  
Bethesda, MD 20814  
Telephone: 301-951-0440

March 30, 2011

This brochure supplement provides information about Jean M. Kennedy that supplements the Heritage Investors Management Corporation brochure. You should have received a copy of that brochure. Please contact Gayl Tjornehoj, Vice President of Administration if you did not receive the Heritage Investors Management Corporation's brochure or if you have questions about the contents of this supplement.

**Item 2: Education Background and Business Experience:**

Jean M. Kennedy  
Year of Birth: 1960

**Education:**

Tulane University, A.B. Freeman School of Business, MBA 1986  
Stanford University, BA 1981  
Chartered Financial Analyst 1989  
Chartered Investment Counselor 2006

**Business Background:**

Heritage Investors Management Corporation:

Vice President, July 2007 to present

Portfolio Manager and Analyst, September 2000 to present

SOL Capital Management Company:

Vice President, Relationship Manager, January 1999 to August 2000

Alex, Brown & Sons:

Vice President, Equity Research, January 1994 to February 1995

Brice Enviro Ventures:

Strategy Consultant, October 1990 to January 1994

Bear, Stearns:

Equity Research Analyst, August 1986 to July 1990

**Item 3: Disciplinary Information**

There have been no disciplinary events for Ms. Kennedy.

**Item 4: Other Business Activities**

Ms. Kennedy is not engaged in any other investment-related business.

**Item 5: Additional Compensation**

Ms. Kennedy's sole source of compensation is from Heritage Investors and she has no other business compensation.

**Item 6: Supervision**

Michael Cornfeld is the manager of the firm's portfolio managers. In that role, he sets the team's overall strategic objectives. On a day-to-day basis, he approves trades by reviewing each managers proposed portfolio changes and reviews those trades after execution. In addition, portfolio manager client calls and meetings are documented and then reviewed by him. Mr. Cornfeld, President of Heritage, can be reached at 301-951-0440.

**Item 1. Cover Page**

Michael DeMayo

Heritage Investors Management Corporation  
7101 Wisconsin Avenue, Suite 1112  
Bethesda, MD 20814  
Telephone: 301-951-0440

March 30, 2011

This brochure supplement provides information about Michael DeMayo that supplements the Heritage Investors Management Corporation brochure. You should have received a copy of that brochure. Please contact Gayl Tjornehoj, Vice President of Administration if you did not receive the Heritage Investors Management Corporation's brochure or if you have questions about the contents of this supplement.

**Item 2: Education Background and Business Experience:**

Michael DeMayo  
Year of Birth: 1959

**Education:**

University of San Diego, School of Law, JD 1988  
Pace University, Lubin School of Business, BBA, MBA 1981  
Certified Public Accountant (inactive), State of California 1990  
Personal Financial Specialist, AICPA 2004  
Chartered Financial Analyst, November, 2007

**Business Background:**

Heritage Investors Management Corporation:  
Portfolio Manager and Analyst, November 2007 to present  
Research Analyst and Trader, November 2004 to November 2007  
Duncan-Hurst Capital Management:  
Chief Financial Officer, December 2003 to November 2004  
Vice President, Finance & Legal, January 1998 to November 2003  
Controller, January 1995 to December 1997

**Item 3: Disciplinary Information**

There have been no disciplinary events for Mr. DeMayo.

**Item 4: Other Business Activities**

Mr. DeMayo is not engaged in any other investment-related business.

**Item 5: Additional Compensation**

Mr. DeMayo's sole source of compensation is from Heritage Investors and he has no other business compensation.

**Item 6: Supervision**

Michael Cornfeld is the manager of the firm's portfolio managers. In that role, he sets the team's overall strategic objectives. On a day-to-day basis, he approves trades by reviewing each managers proposed portfolio changes and reviews those trades after execution. In addition, portfolio manager client calls and meetings are documented and then reviewed by him. Mr. Cornfeld, President of Heritage, can be reached at 301-951-0440.

## Appendix A

### Qualifications Required for Professional Designation Credentials

Heritage Investors Management Corporation  
7101 Wisconsin Avenue, Suite 1112  
Bethesda, MD 20814  
Tel: 301-951-0440

## **CFA Institute Financial Adviser Statement for SEC Form ADV**

The Chartered Financial Analyst (CFA) charter is a globally respected, graduate-level investment credential established in 1962 and awarded by CFA Institute — the largest global association of investment professionals.

There are currently more than 90,000 CFA charter holders working in 134 countries. To earn the CFA charter, candidates must: 1) pass three sequential, six-hour examinations; 2) have at least four years of qualified professional investment experience; 3) join CFA Institute as members; and 4) commit to abide by, and annually reaffirm, their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

### **High Ethical Standards**

The CFA Institute Code of Ethics and Standards of Professional Conduct, enforced through an active professional conduct program, require CFA charter holders to:

- Place their clients' interests ahead of their own
- Maintain independence and objectivity
- Act with integrity
- Maintain and improve their professional competence
- Disclose conflicts of interest and legal matters

### **Global Recognition**

Passing the three CFA exams is a difficult feat that requires extensive study (successful candidates report spending an average of 300 hours of study per level). Earning the CFA charter demonstrates mastery of many of the advanced skills needed for investment analysis and decision making in today's quickly evolving global financial industry. As a result, employers and clients are increasingly seeking CFA charter holders—often making the charter a prerequisite for employment.

Additionally, regulatory bodies in 22 countries and territories recognize the CFA charter as a proxy for meeting certain licensing requirements, and more than 125 colleges and universities around the world have incorporated a majority of the CFA Program curriculum into their own finance courses.

### **Comprehensive and Current Knowledge**

The CFA Program curriculum provides a comprehensive framework of knowledge for investment decision making and is firmly grounded in the knowledge and



skills used every day in the investment profession. The three levels of the CFA Program test a proficiency with a wide range of fundamental and advanced investment topics, including ethical and professional standards, fixed-income and equity analysis, alternative and derivative investments, economics, financial reporting standards, portfolio management, and wealth planning.

The CFA Program curriculum is updated every year by experts from around the world to ensure that candidates learn the most relevant and practical new tools, ideas, and investment and wealth management skills to reflect the dynamic and complex nature of the profession.

To learn more about the CFA charter, visit [www.cfainstitute.org](http://www.cfainstitute.org).

### **CIC – Chartered Investment Counselor**

The Chartered Investment Counselor (CIC) charter is a professional designation established in 1975 and awarded by the Investment Adviser Association (IAA). The Charter was designed to recognize the special qualifications of persons employed by IAA member firms whose primary duties involve investment counseling and portfolio management.

A key educational component of the program is the requirement that candidates hold the Chartered Financial Analyst® (CFA®) designation, administered by CFA Institute (see <http://www.cfainstitute.org/cfaprogram/Pages/index.aspx>). In addition to successful completion of the CFA program, the CIC designation requires candidates to demonstrate significant experience (at least 5 cumulative years) in a position performing investment counseling and portfolio management responsibilities. At the time the charter is awarded, candidates must be employed by an IAA member firm in a such a position, must provide work and character references, must endorse the IAA's Standards of Practice, and must provide professional ethical information. For more information, see: <https://www.investmentadviser.org/eweb/dynamicpage.aspx?webcode=cic>.

## **CPA – Certified Public Accountant**

### Initial requirements

- Complete an approved accounting college curriculum
- Pass the Uniform CPA Examination
- Earn 2,000 hours of experience in accounting-related activities

### Continuing requirements

- For active status, complete 80 of continuing education hours every two years (not required for inactive status)

## **PFS – Personal Financial Specialist**

### Initial requirements

- Hold a CPA license
- Be a member of the American Institute of Certified Public Accountants (AICPA)
- Agree to the AICPA Code of Professional Conduct
- Complete 80 hours of personal financial planning education
- Complete two years of experience in personal financial planning
- Pass a personal financial planning related exam

### Continuing requirements

- Complete 60 hours of continuing professional education CPE
- Hold a CPA license
- Be a member of the American Institute of Certified Public Accountants (AICPA)
- Agree to the AICPA Code of Professional Conduct