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

SEC MAIL RECEIVED NOV 29 2004 WASH, D.C. 202 PROCESSING SECTION

SEC FILE NUMBER
8- 164

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 October 1, 2003 (MM/DD/YY) AND ENDING September 30, 2004 (MM/DD/YY)

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: National Securities Corporation

OFFICIAL USE ONLY
FIRM I.D. NO.

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

1001 Fourth Avenue, Suite 2200
(No. and Street)

Seattle	Washington	98154
(City)	(State)	(Zip Code)

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

Leo Satriawan (206)622-7200
(Area Code – Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Marcum and Kliegman LLP
(Name – *if individual, state last, first, middle name*)

655 Third Avenue	New York	NY	10017
(Address)	(City)	(State)	(Zip Code)

CHECK ONE:

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

PROCESSED
DEC 27 2004
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FINANCIAL

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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)*

OATH OR AFFIRMATION

I, Leo Satriawan, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of National Securities Corporation, as of September 30, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Except as indicated in the footnotes to the consolidated Financial Statements.

UHURA ANN RENEE WALKER
COMMISSION EXPIRES
NOTARY PUBLIC
4-4-07
STATE OF WASHINGTON

Signature

Chief Financial Officer
Title

Uhura Ann Renee Walker
Notary Public

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

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (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.
- X (o) Report of Independent Certified Public Accountants on Internal Control Structure.

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

NATIONAL SECURITIES CORPORATION
AND SUBSIDIARY

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Marcum & Kliegman LLP
Certified Public Accountants & Consultants
A Limited Liability Partnership Consisting of Professional Corporations

INDEPENDENT AUDITORS' REPORT

To the Stockholder and Board of Directors
National Securities Corporation
Seattle, Washington

We have audited the accompanying consolidated statement of financial condition of National Securities Corporation and Subsidiary (a wholly-owned subsidiary of Olympic Cascade Financial Corporation) as of September 30, 2004, and the related consolidated statements of operations, stockholder's equity, changes in subordinated borrowings 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 consolidated 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of National Securities Corporation and Subsidiary as of September 30, 2004 and the results of their operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Marcum & Kliegman LLP

November 4, 2004
New York, New York

655 Third Avenue • 16th Floor • New York, New York 10017 • Tel 212-981-3000 • Fax 212-981-3001
Woodbury New York Greenwich Grand Cayman Riverhead
www.mkllp.com

NATIONAL SECURITIES CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

September 30, 2004

ASSETS

CASH	$ 194,000
DEPOSITS WITH CLEARING ORGANIZATIONS	995,000
RECEIVABLES FROM BROKER-DEALERS AND CLEARING ORGANIZATIONS	3,821,000
OTHER RECEIVABLES, net of reserve for uncollectible accounts of $850,000	889,000
ADVANCES TO REGISTERED REPRESENTATIVES	1,736,000
SECURITIES HELD FOR RESALE, at market	149,000
SECURED DEMAND NOTE	1,000,000
FIXED ASSETS, net	301,000
OTHER ASSETS	310,000
TOTAL ASSETS	$ 9,395,000

See notes to consolidated financial statements.

NATIONAL SECURITIES CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION, Continued

September 30, 2004

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES		
PAYABLES TO BROKER-DEALERS AND CLEARING ORGANIZATIONS		$ 115,000
SECURITIES SOLD, BUT NOT YET PURCHASED, at market		33,000
ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES		4,553,000
		4,701,000
SUBORDINATED BORROWINGS		1,000,000
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDER'S EQUITY		
Common stock, $.02 par value, 5,000,000 shares authorized, 100 shares issued and outstanding	$ --	
Additional paid-in capital	9,281,000	
Accumulated Deficit	(5,587,000)	
TOTAL STOCKHOLDER'S EQUITY		3,694,000
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY		$ 9,395,000

See notes to consolidated financial statements.

NATIONAL SECURITIES CORPORATION
AND SUBSIDIARY

CONSOLIDATED STATEMENT OF OPERATIONS

For The Year Ended September 30, 2004

REVENUES		
Commissions	$ 46,881,000	
Investment banking	1,548,000	
Interest and dividends	3,420,000	
Net dealer inventory gains	7,404,000	
Transfer fees and clearing services	2,806,000	
Advisory fees	401,000	
		$ 62,460,000
EXPENSES		
Commissions	43,725,000	
Employee compensation and related expenses	5,449,000	
Clearance fees	2,641,000	
Communications	2,589,000	
Occupancy and equipment costs	2,983,000	
Interest	91,000	
Professional fees	2,188,000	
Taxes, licenses and registration	508,000	
Provision for doubtful accounts	207,000	
Other	1,430,000	
		61,811,000
NET INCOME		$ 649,000

See notes to consolidated financial statements.

NATIONAL SECURITIES CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY

For the Year Ended September 30, 2004

	Common Stock		Additional	Accumulated	
	Shares	Amount	Paid-in Capital	Deficit	Total
BALANCE - October 1, 2003	100	$ --	$ 9,074,000	$ (6,236,000)	$ 2,838,000
Capital contributions	--	--	707,000	--	707,000
Distributions to parent	--	--	(500,000)	--	(500,000)
Net income	--	--	--	649,000	649,000
BALANCE - September 30, 2004	100	$ --	$ 9,281,000	$ (5,587,000)	$ 3,694,000

See notes to consolidated financial statements.

NATIONAL SECURITIES CORPORATION
AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN SUBORDINATED BORROWINGS

For the Year Ended September 30, 2004

Subordinated borrowings at October 1, 2003	$ 1,000,000
Borrowings/repayments during the year	--
Subordinated borrowings at September 30, 2004	$ 1,000,000

See notes to consolidated financial statements.

NATIONAL SECURITIES CORPORATION
AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES		
Net income		$ 649,000
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	$ 165,000	
Provision for doubtful accounts	207,000	
Other	100,000	
Changes in assets and liabilities:		
Deposits with clearing organizations	46,000	
Receivables with broker-dealers, clearing organizations a	(484,000)	
Advances to registered representatives	(1,092,000)	
Securities held for resale, at market	225,000	
Other assets	20,000	
Payable to broker-dealers and clearing organizations	(143,000)	
Securities sold, but not yet purchased, at market	(83,000)	
Accounts payable, accrued expenses and other liabilities	268,000	
TOTAL ADJUSTMENTS		(771,000)
NET CASH USED IN OPERATING ACTIVITIES		(122,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets		(219,000)
NET CASH USED IN INVESTING ACTIVITIES		$ (219,000)

See notes to consolidated financial statements.

NATIONAL SECURITIES CORPORATION
AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS, Continued

For the Year Ended September 30, 2004

CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contributions from parent	$ 607,000	
Distribution to parent	(500,000)	
NET CASH PROVIDED BY FINANCING ACTIVITIES		$ 107,000
NET DECREASE IN CASH		(234,000)
CASH - October 1, 2003		428,000
CASH - September 30, 2004		$ 194,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest		$ 91,000
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Settlement of obligation by payment		$ 100,000

See notes to consolidated financial statements.

NOTE 1 - Organization

National Securities Corporation and Subsidiary, ("National" or the "Company") was incorporated in 1947 under the laws of the State of Washington. Its primary business is to provide financial services and products to the general public and to the financial community as a registered broker-dealer in accordance with the Securities Exchange Act of 1934. The Company has offices throughout the United States with its principal office located in Seattle, Washington. The Company is an introducing broker and clears all transactions through a clearing organization on a fully disclosed basis. Accordingly, the Company is exempt from Rule 15c3-3 of the Securities Exchange Act of 1934.

The Company is a wholly-owned subsidiary of Olympic Cascade Financial Corporation ("Olympic").

As discussed in Note 12, the Company and Olympic have entered into certain transactions that affect the operations, ownership and working capital available to Olympic and the Company.

NOTE 2 - Summary of Significant Accounting Policies

Principles of Consolidation
The consolidated financial statements include the accounts of National and its wholly-owned subsidiary, National Asset Management, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition
Customer security transactions and the related commission income and expense are recorded as of the trade date. Investment banking revenues include gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking revenues also include fees earned from providing financial advisory services. Investment banking management fees are recorded on the offering date, sales concessions on the settlement date, and underwriting fees at the time the underwriting is completed and the income is reasonably determinable.

NOTE 2 - Summary of Significant Accounting Policies, continued

Revenue Recognition, continued

Customers who are financing their transactions on margin are charged interest. The Company's margin requirements are in accordance with the terms and conditions mandated by First Clearing Corporation ("FCC") and Fiserv Securities, Inc. ("Fiserv"), its clearing firms. The interest is billed on the average daily balance of the margin account.

Net dealer inventory gains result from securities transactions entered into for the account and risk of the Company. Net dealer inventory gains are recorded on a trade date basis.

Transfer fees are attached to each customer's security transactions and are recognized as of the trade date.

Investment advisory fees are account management fees for high net worth clients. These fees are billed quarterly and recognized at such time that collection is probable.

Fixed Assets

Fixed assets are recorded at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the related assets, which range from five to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the leases. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation or amortization are removed from the accounts and any gain or loss on disposal is recognized.

Income Taxes

The Company reports its income for federal tax purposes on a consolidated basis with Olympic; however, the Company's federal income tax has been calculated on a separate return basis for these financial statements. The Company recognizes deferred tax assets and liabilities based on the difference between the financial statement carrying amounts and the tax basis of assets and liabilities, using the effective tax rates in the years in which the differences are expected to reverse. A valuation allowance related to deferred tax assets is also recorded when it is more likely than not that some or the entire deferred amount will not be realized.

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for cash, receivables, accounts payable, accrued expenses, and other liabilities approximate fair value based on the short-term maturity of these instruments.

NOTE 2 - Summary of Significant Accounting Policies, continued

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recovered. At September 30, 2004, the Company believes that there has been no impairment of its long-lived assets.

Other Receivables

The Company extends unsecured credit in the normal course of business to its registered representatives. The determination of the amount of uncollectible accounts is based on the amount of credit extended and the length of time each receivable has been outstanding, as it relates to each individual broker. The allowance for doubtful accounts reflects the amount of loss that can be reasonably estimated by management, and is included in other expenses in the accompanying consolidated statements of operations.

Advances to Registered Representatives

Advances are given to certain registered representatives as an incentive for their affiliation with the Company. The representative signs an independent contractor agreement with National for a specified term, typically a three-year period. The advance is then amortized on a straight-line basis over the amount of time the representative is obligated to be affiliated with National, and is included in commission expense in the accompanying consolidated statements of operations. In the event the representative's affiliation with National terminates prior to the fulfillment of the contract, the representative is required to repay the unamortized balance.

Concentrations of Credit Risk

The Company is engaged in trading and a broad range of securities brokerage and investment services to a diverse retail and institutional clientele, as well as corporate finance and investment banking services to corporations and businesses. Counterparties to the Company's business activities include broker-dealers and clearing organizations, banks and other financial institutions. The Company uses clearing brokers to process transactions and maintain customer accounts on a fee basis for the Company. The Company uses two clearing brokers for substantially all of its business. The Company permits the clearing firms to extend credit to their clientele secured by cash and securities in the client's account. The Company's exposure to credit risk associated with the non-performance by their customers and counterparties in fulfilling their contractual obligations can be directly impacted by volatile or illiquid trading markets, which may impair the ability of customers and counterparties to satisfy their obligations to the Company. The Company has agreed to indemnify the clearing brokers for losses they incur while extending credit to the Company's clients. It is the Company's policy to review, as necessary, the credit standing of their customers and each counterparty. Amounts

NOTE 2 - Summary of Significant Accounting Policies, continued

Concentrations of Credit Risk, continued

due from customers that are considered uncollectible are charged back to the Company by the clearing brokers when such amounts become determinable. Upon notification of a charge back, such amounts, in total or in part, are then either (i) collected from the customers, (ii) charged to the broker initiating the transaction and included in other receivables in the accompanying consolidated statements of financial condition, and/or (iii) charged as an expense in the accompanying consolidated statements of financial condition, based on the particular facts and circumstances.

The Company maintains cash with major financial institutions. Cash is insured by the Federal Deposit Insurance Corporation ("FDIC") up to $100,000 at each institution. At times, such amounts may exceed the FDIC limits. At September 30, 2004 the uninsured cash bank balances was $8,000. The Company believes it is not exposed to any significant credit risks for cash.

NOTE 3 - Broker-Dealer and Clearing Organization Receivables and Payables

At September 30, 2004, receivables from broker-dealers and clearing organizations includes fees and commissions. Amounts payable to brokers-dealers and clearing organizations includes principal securities purchased on margin.

NOTE 4 - Securities Held For Resale and Securities Sold, But Not Yet Purchased, at Market

As of September 30, 2004, securities held for resale and securities sold, but not yet purchased include:

	Securities Held For Resale	Securities Sold, But Not Yet Purchased
Corporate stocks	$ 36,000	$ 1,000
Corporate bonds	3,000	--
Government obligations	110,000	32,000
Total	$149,000	$33,000

NOTE 4 - Securities Held For Resale and Securities Sold, But Not Yet Purchased, at Market, continued

Securities held for resale and securities sold, but not yet purchased are recorded at fair value. Fair value is generally based upon quoted market prices. If quoted market prices are not available or if liquidating the Company's position is reasonably expected to impact market prices, fair value is determined based upon other relevant factors, including dealer price quotations, price activity of similar instruments and pricing models. Pricing models consider the time value and volatility factors underlying the financial instruments and other economic measurements.

Securities sold, but not yet purchased commit the Company to deliver specified securities at predetermined prices. The transactions may result in market risk since, to satisfy the obligation, the Company must acquire the securities at market prices, which may exceed the values reflected on the consolidated statement of financial condition.

NOTE 5 - Fixed Assets

Fixed assets as of September 30, 2004 consist of the following:

	Amount	Estimated Useful Lives
Office machines	$147,000	5 years
Furniture and fixtures	170,000	7 years
Telephone system	35,000	5 years
Electronic equipment	322,000	5 years
Leasehold improvements	233,000	Lesser of terms of leases or useful lives
	907,000	
Less: accumulated depreciation and amortization	(606,000)	
	$301,000	

During the year ended September 30, 2004, the Company wrote off approximately $511,000 of retired fixed assets and the related accumulated depreciation. Depreciation and amortization expense for the year ended September 30, 2004 was $165,000.

NOTE 6 - Secured Demand Note

On February 1, 2001, the Company executed a secured demand note collateral agreement with an employee of the Company and a Director of Olympic, to borrow securities, which can be used by the Company for collateral arrangements. These securities have been initially pledged through an unrelated broker-dealer, and have a borrowing value totaling $1 million. This note bears interest at 5% per annum with interest paid monthly. The demand note, which had an original maturity of March 1, 2004 has been extended through March 1, 2005. Certain of the securities have been pledged as collateral for a security deposit for an office lease and two letters of credit, in the amounts of $249,000, $125,000 and $38,000, respectively, executed by Olympic on behalf of the Company. No amounts have been drawn on these letters of credit.

NOTE 7 - Income Taxes

At September 30, 2004, the Company had net operating loss carryforwards of approximately $8,503,000 that may be applied against future taxable income and expire at various dates through 2023, subject to limitations. The Company has a deferred tax asset arising from such net operating loss deduction and has recorded a valuation allowance for the full amount of such deferred tax asset since the likelihood of realization of the tax benefits cannot be determined.

Deferred tax asset:	
Net operating loss carryforwards	$2,891,000
Reserve for uncollectible accounts	289,000
Other temporary differences	234,000
Total deferred tax asset	3,414,000
Valuation allowance	(3,414,000)
Net deferred tax asset	$ --

During the year ended September 30, 2004, the valuation allowance declined by $167,000 due principally to the utilization of net operating loss carryforwards.

The difference between income tax expense at the federal statutory rate and actual tax expense is due to the utilization of net operating loss carryforwards.

NOTE 8 - Net Capital Requirements

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital. As of September 30, 2004, the Company is required to maintain a minimum net capital of $250,000. The net capital and excess net capital deficiency amounts for the Company are as follows:

Net capital	$1,404,000
Excess net capital	$1,154,000

On December 12, 2003, the Company was advised by the National Association of Securities Dealers ("NASD") that, pursuant to the Company's pledge of its assets as security for loans to Olympic from FCC, National was not in compliance with its net capital requirements. As discussed in Note 12, on December 15, 2003, the Company corrected the aforementioned compliance requirement by obtaining a release of the security agreement from FCC.

NOTE 9 - Commitment

Leases

As of September 30, 2004, the Company leases office space and equipment in various states expiring at various dates through 2012 and is committed under operating leases for future minimum payments as follows:

For the Year Ending September 30,	Amount
2005	$1,716,000
2006	1,649,000
2007	1,548,000
2008	1,423,000
2009	546,000
Thereafter	1,585,000
Total	$8,467,000

NOTE 9 - Commitment, continued

Leases, continued

In February 2003, in connection with the signing of a lease extension in the New York office, the Company was given a deferral of rent totaling $360,000, over twelve months, commencing with the March 2003 rent payment. Such deferral, accruing interest at 6.25% per annum, is to be repaid in monthly installments of approximately $19,000 starting in September 2006.

Rental expense under all operating leases for the year ended September 30, 2004 was $2,006,000.

NOTE 10 - Contingencies

A former officer of National and Olympic brought an action in an arbitration proceeding against the Company and Olympic claiming a breach of his employment contract, and sought seeking approximately $850,000 in damages. During the year ended September 30, 2004, the case was resolved in arbitration for approximately $400,000, including interest, all of which was paid by Olympic.

In June 2002, the Company was named, together with others as a defendant in a class action lawsuit relating to a series of private placements of securities in Fastpoint Communications, Inc. ("Fastpoint") in the Superior Court for the State of California for the County of San Diego. Plaintiffs are seeking approximately $14.0 million, but no specific amount of damages has been sought against National in the complaint. National filed its answer in April 2003. In January 2004, the court entered an order denying class certification. As a result of this order denying class certification, the only remaining claims against National are the individual claims asserted by the two class representatives totaling $60,000. Plaintiffs have filed an appeal of this order and it is in the process of being briefed. The action in the lower court, including a pending motion for summary judgment, has been stayed. National believes it has meritorious defenses and intends to vigorously defend this action, although the ultimate outcome of the matter cannot be determined at this time. Accordingly, no adjustments have been made in the consolidated financial statements in response to this matter.

NOTE 10 - Contingencies, continued

The Company filed its answer, believes it has meritorious defenses and intends to vigorously contest class certification and defend this action; however, the ultimate outcome of the matter cannot be determined at this time. Therefore, no adjustments have been made in the consolidated financial statements in response to this matter.

The NASD conducted an industry-wide investigation of mutual fund trading activities. National was one of numerous broker-dealers that were contacted by the NASD with respect to this investigation. The NASD identified certain customer mutual fund transactions ordered through National during the time period from October 2000 to February 2003 that it believed constituted mutual fund timing and/or excessive trading activity. National settled the matter, without admitting or denying any violations, and agreed to make both restitution and pay a fine to the NASD that aggregates approximately $600,000. As of September 30, 2004, the Company has paid $75,000 in fines to the NASD and has accrued the remaining $525,000.

The Company is a defendant in various other arbitrations and administrative proceedings, lawsuits and claims seeking damages aggregating approximately $1,100,000 (exclusive of specified punitive damages of approximately $300,000 and expected insurance coverage). Also, the Company has filed a counter claim for approximately $200,000 in one such proceeding. These matters arise out of the normal course of business. The Company intends to vigorously defend itself in these actions. However, the ultimate outcome of these matters cannot be determined at this time. The amount related to such matters that are reasonably estimable and which has been accrued at September 30, 2003 is $688,000.

In October 2003, the Company settled a claim from the State of Hawaii Department of Taxation for prior years' unpaid Hawaii general excise and use taxes of approximately $70,000. Such amount was accrued by the Company as of September 30, 2003.

NOTE 11 - Employee Benefits

The Company has a 401(k) profit sharing plan which covers substantially all employees. Participants may contribute up to 25% of eligible compensation, as defined in the plan, subject to certain limitations. The Company's annual contributions are made at the discretion of the Board of Directors. During the year ended September 30, 2004, the Company made no contributions to the plan.

NOTE 12 - Clearing Agreements

In August 2001, the Company entered into a ten-year agreement with FCC, a wholly-owned subsidiary of Wachovia Corporation, under which FCC would provide clearing and related services for the Company. The conversion to FCC began in December 2001 and was completed in March 2002.

In connection with the clearing agreement, Olympic entered into a ten-year, $6,000,000 promissory note agreement whereby FCC would make advances to Olympic in varying amounts according to the terms of the agreement.

The amount of the note that was repayable each anniversary date is the principal and accrued interest then outstanding divided by the remaining life of the note. However, the note agreement provided for the forgiveness of the amount payable based on certain business performance and trading volumes over the life of the loan. As a result of a settlement agreement among the Company, its former clearing broker, and FCC, the loan requirement that Olympic maintain shareholders' equity of no less than $2 million was reduced to $1 million, and no further borrowings under the note agreement are available. The agreement also required the payment of a termination fee ranging from $2,000,000 to $400,000 if terminated within years one through six of the agreement. Olympic pledged its shares of common stock of the Company to secure the aforementioned note. Substantially all of the assets of the Company were collateralized for the aforementioned loans.

As discussed in Note 8, the Company was advised by the NASD on December 12, 2003 that it was not in compliance with its net capital requirements. On December 15, 2003, Olympic and FCC agreed to the following: (1) the Company's clearing deposit was reduced from $1,000,000 to $500,000, (2) the excess $500,000 was paid to FCC to reduce Olympic's outstanding loan balance on its promissory note and (3) the Security Agreement between the Company and FCC was terminated. Furthermore, on February 11, 2004, the Company and FCC mutually agreed to terminate their clearing relationship effective June 30, 2004 and the termination fees were waived by FCC. In connection with the termination, as of September 30, 2004, the Company has accrued $300,000 of expenses related to the conversion, primarily for fees anticipated to be charged by FCC. As of September 30, 2004, the conversion from FCC to a new clearing broker had not been completed.

On June 22, 2004, National entered into an agreement with Fiserv to clear its brokerage business, effective October 1, 2004, for a period of five years. In connection with the agreement, Fiserv agreed to give the Company an $800,000 conversion assistance payment, $250,000 of which was paid in June 2004 upon execution of the agreement, $250,000 of which was paid in August 2004 and $300,000 of which was paid in October 2004. The Company has recorded the conversion assistance payment ratably over the four-month conversion period commencing in June 2004.

NOTE 13 - Subsequent Event

On October 12, 2004, Olympic entered into a preliminary letter of intent for a merger or other similar combination with First Montauk Financial Corp. The letter of intent is subject to numerous conditions, including satisfactory completion of due diligence, finalization of the terms of the combination and structure of the transaction; negotiation, preparation and execution of definitive transaction documents, compliance with state and federal securities laws and regulations, and corporate, shareholder and regulatory approvals.

NATIONAL SECURITIES CORPORATION AND SUBSIDIARY

COMPUTATION OF NET CAPITAL IN ACCORDANCE WITH RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION

	September 30, 2004	
NET CAPITAL		
Total stockholder's equity	$ 3,694,000	
Add: subordinated borrowings allowable in computation of net capital	1,000,000	
TOTAL CAPITAL AND ALLOWABLE SUBORDINATED BORROWINGS		$ 4,694,000
DEDUCTIONS AND CHARGES		
Nonallowable assets:		
Fixed assets	301,000	
Advances, receivables and other assets	2,972,000	
		3,273,000
NET CAPITAL BEFORE HAIRCUTS ON SECURITIES POSITION		$ 1,421,000
HAIRCUTS ON SECURITIES		
Corporate stocks	$ 6,000	
Corporate bonds	1,000	
U.S. government obligations	10,000	
		$ 17,000
NET CAPITAL		$ 1,404,000

NATIONAL SECURITIES CORPORATION AND SUBSIDIARY

COMPUTATION OF NET CAPITAL IN ACCORDANCE WITH RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION, Continued

		September 30, 2004
Reconciliation with Company's computation (included in Part II of Form X-17A-5 as of September 30, 2003) of Net Capital, as reported in Part II of the Company's Focus Report (unaudited)		$ 1,715,000
Audit Adjustments:		
Cash	(94,000)	
Receivable, net	93,000	
Payable, net	(310,000)	
Total audit adjustments		(311,000)
NET CAPITAL		$ 1,404,000
COMPUTATION OF ALTERNATE CAPITAL REQUIREMENT		
2% of aggregate debit items as shown in formula for reserve requirements pursuant to Rule 15c3-3 prepared as of date of net capital computation		$ --
MINIMUM NET CAPITAL REQUIREMENT - electing the alternative method		$ 250,000
NET CAPITAL REQUIREMENT - greater of minimum net capital requirement or 2% of aggregate debit items under the reserve requirement		$ 250,000
EXCESS NET CAPITAL - net capital less capital requirement		$ 1,154,000
NET CAPITAL in excess of 5% of combined aggregate debit items or $120,000		$ --

Marcum & Kliegman LLP
Certified Public Accountants & Consultants
A Limited Liability Partnership Consisting of Professional Corporations

INDEPENDENT AUDITORS' REPORT ON INTERNAL ACCOUNTING CONTROL REQUIRED BY SEC RULE 17a-5

To the Stockholder and Board of Directors
National Securities Corporation
Seattle, Washington

In planning and performing our audit of the consolidated financial statements of National Securities Corporation and Subsidiary (the "Company") for the year ended September 30, 2004, we considered its internal control structure, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for the 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

2. Recordation of differences required by Rule 17a-13

3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the Securities and Exchange Commission's above-mentioned objectives.

655 Third Avenue • 16th Floor • New York, New York 10017 • Tel 212-981-3000 • Fax 212-981-3001
Woodbury New York Greenwich Grand Cayman Riverhead
www.mkllp.com

Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control structure practices and procedures to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Securities and Exchange Commission to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at September 30, 2004, to meet the Commission's objectives.

This report is intended solely for the use of the Board of Directors, management, the Securities and Exchange Commission, the Chicago Stock Exchange and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Marcum & Kliegman LLP

November 4, 2004
New York, New York

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NATIONAL SECURITIES CORPORATION AND SUBSIDIARY

(SEC I.D. No. 8-164)

(A Wholly-Owned Subsidiary of Olympic Cascade Financial Corporation)

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

For the Year Ended September 30, 2004