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

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

REC'D S.E.C.  
FEB 14 2005

SEC FILE NUMBER  
8- 50847

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 10/01/04 AND ENDING 12/31/04  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Kovack Securities, Inc.

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

6451 North Federal Highway, Suite 1201  
(No. and Street)

Fort Lauderdale Florida 33308  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Ronald J. Kovack (954) 491-1733  
(Area Code - Telephone Number)

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FIRM I.D. NO.

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B. ACCOUNTANT IDENTIFICATION

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

Margolies, Fink and Wichrowski  
(Name - if individual, state last, first, middle name)

2201 West Sample Road, #9-1B Pompano Beach, Florida 33073  
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED

FEB 17 2005

THOMSON  
FINANCIAL

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

08-2-14

OATH OR AFFIRMATION

I, Ronald J Kovack, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Kovack Securities Inc, as of December 31, 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: NONE



Carlo A. Bidone, Jr.  
Commission # DD162660  
Expires Nov. 14, 2006  
Aaron Notary  
1-800-350-5151

[Signature]  
Notary Public

[Signature]  
Ronald J Kovack  
Signature  
Chairman  
Title

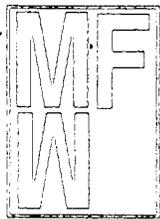
This report \*\* contains (check all applicable boxes):

- (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.

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

**KOVACK SECURITIES, INC.**  
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1. Independent Auditors' Report and Financial Statements
2. Oath of Officer and Form X-17A-5 (Focus Report)
3. Report on Internal Accounting Control



**MARGOLIES, FINK AND WICHROWSKI**

CERTIFIED PUBLIC ACCOUNTANTS  
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A Partnership of Professional Associations

Barry A. Fink, C.P.A., P.A.  
Mark V. Wichrowski, C.P.A., P.A.

Bernard W. Margolies, C.P.A.

Members of  
American Institute of Certified Public Accountants  
Florida Institute of Certified Public Accountants  
New York State Society of Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT**

The Stockholders and Board of Directors  
Kovack Securities, Inc.

We have audited the accompanying balance sheets of Kovack Securities, Inc. as of December 31, 2004 and 2003, and the related statements of income, stockholders equity, changes in subordinated borrowings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kovack Securities, Inc. at December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying reconciliation of net capital is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*Margolies, Fink and Wichrowski*

January 18, 2005

**KOVACK SECURITIES, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2004 AND 2003**

**ASSETS**

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 1,039,599	\$ 594,235
Marketable securities, net of valuation allowance	6,186	5,866
Receivables:		
Clearing broker and insurance companies	289,232	435,152
Accounts receivable officer		15,000
Prepaid expenses	173,057	121,681
Property and equipment, net of accumulated depreciation	166,644	125,739
Deposits	<u>31,940</u>	<u>31,940</u>
	<u>\$ 1,706,658</u>	<u>\$ 1,329,613</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Accounts payable and accrued expenses	\$ 658,491	\$ 507,449
Note payable - insurance	<u>121,264</u>	<u>65,944</u>
	<u>779,755</u>	<u>573,393</u>
Subordinated note payable	<u>225,000</u>	<u>225,000</u>
Stockholders' equity:		
Common stock, no par value per share, 10,000 shares		
Authorized, 1,818, shares issued and outstanding	319,843	319,843
Additional paid-in capital	10,000	10,000
Retained earnings	389,715	219,352
Accumulated other comprehensive income (loss)	<u>(17,655)</u>	<u>(17,975)</u>
Total stockholders' equity	<u>701,903</u>	<u>531,220</u>
	<u>\$ 1,706,658</u>	<u>\$ 1,329,613</u>

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

**KOVACK SECURITIES, INC.**  
**STATEMENTS OF INCOME AND**  
**COMPREHENSIVE INCOME**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Revenues:		
Commissions, and other income	<u>\$10,477,697</u>	<u>\$ 5,554,990</u>
Expenses:		
Commissions	7,669,028	4,103,329
Rent	198,738	153,855
Depreciation and amortization	31,867	28,679
Interest	11,055	11,608
Other	<u>2,246,646</u>	<u>1,158,920</u>
	<u>10,157,334</u>	<u>5,456,391</u>
Net income	320,363	98,599
Other comprehensive income (loss):		
Unrealized gain (loss) on marketable securities	<u>320</u>	<u>(17,975)</u>
Total comprehensive income	<u>\$ 332,683</u>	<u>\$ 80,624</u>

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

**KOVACK SECURITIES, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>Common Shares</u>	<u>Amount</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
Balance December 31, 2002	1,818	\$ 319,843	\$ 10,000	\$ 350,650	\$ -	\$ 680,493
Distributions				(229,897)		(229,897)
Unrealized loss on Marketable securities					(17,975)	(17,975)
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,599</u>	<u>-</u>	<u>98,599</u>
Balance December 31, 2003	1,818	319,843	10,000	219,352	(17,975)	531,220
Distributions				(150,000)		(150,000)
Unrealized gain on Marketable securities					320	320
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>320,363</u>	<u>-</u>	<u>320,363</u>
Balance December 31, 2004	<u>\$ 1,818</u>	<u>\$ 319,843</u>	<u>\$ 10,000</u>	<u>\$ 389,715</u>	<u>\$ (17,655)</u>	<u>\$ 701,903</u>

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

**KOVACK SECURITIES, INC.**  
**STATEMENT OF CHANGES IN SUBORDINATED BORROWINGS**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

Subordinated borrowing at December 31, 2002	\$ 225,000
Increase (decrease) in subordinated borrowings	<u>          -</u>
Subordinated borrowing at December 31, 2003	225,000
Increase (decrease) in subordinated borrowings	<u>          -</u>
Subordinated borrowing at December 31, 2004	<u>\$ 225,000</u>

The accompanying notes are an integral part of these financial statements

**KOVACK SECURITIES, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Net income	\$ <u>320,363</u>	\$ <u>98,599</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,867	28,679
Loss on disposal of fixed assets		16,406
Accounts receivables	145,920	(266,650)
Accounts receivable officer	15,000	29,008
Prepaid expenses	85,510	24,489
Accounts payable and accrued expenses	<u>151,042</u>	<u>292,628</u>
Total adjustments	<u>429,339</u>	<u>124,560</u>
Total cash flows from operating activities	<u>749,702</u>	<u>223,159</u>
Cash flows (used in) investing activities:		
Purchase of property and equipment	<u>(72,772)</u>	<u>(28,687)</u>
Cash flows from (used in) financing activities:		
Receipt of stock subscription		
Stockholder distributions	(150,000)	(229,897)
Principal payments on notes payable insurance, net	<u>(81,566)</u>	<u>(51,111)</u>
Total cash flows (used in) financing activities	<u>(231,566)</u>	<u>(281,008)</u>
Net increase (decrease) in cash and cash equivalents	445,364	(86,536)
Cash and cash equivalents, beginning of period	<u>594,235</u>	<u>680,771</u>
Cash and cash equivalents, end of period	<u>\$1,039,599</u>	<u>\$ 594,235</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 11,056</u>	<u>\$ 11,608</u>
Insurance financed with debt	<u>\$ 132,608</u>	<u>\$ 70,967</u>

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

**KOVACK SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**1. BUSINESS**

The Company was incorporated in the State of Florida on April 23, 1997, as a registered securities broker-dealer. The Company's headquarters are located in Fort Lauderdale, Florida.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Cash and cash equivalents** - The Company considers all unrestricted deposits and highly liquid investments, readily convertible to known amounts, with an original maturity of three months or less to be cash equivalents.

**Marketable securities** - Marketable securities are carried at their fair market value. The resulting difference between cost and market is included in other comprehensive income. Securities not readily marketable are value at fair value as determined by management.

**Property and equipment** - Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method.

**Revenue recognition** - Purchases and sales of securities are recorded on the settlement date. Investment banking income is recorded at the time the services are completed and the income is reasonably determinable.

**Accounting estimates** - Management of the Company occasionally uses accounting estimates in determining certain revenues and expenses. Estimates are based on subjective as well as objective factors and, as a result, judgment is required to estimate certain amounts at the date of the financial statements.

**Fair value of financial instruments** - The fair value of the Company's financial instruments such as cash and cash equivalents, accounts receivable, accounts payable, capital lease obligations, and subordinated notes payable approximate their carrying value.

**Income taxes** - The Company with the consent of its shareholders, elected to be an "S" Corporation under the Internal Revenue Code. All taxable income or loss flows through to the shareholders. Accordingly, no income tax expense or liability is recorded in the accompanying financial statements.

**KOVACK SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS**

**3. PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2004 and 2003 consists of the following:

	<u>2004</u>	<u>2003</u>	<u>Estimated useful lives</u>
Office equipment and furniture	\$ 214,116	\$ 155,258	5 years
Automobile	22,115	22,115	5 years
Leasehold improvements	<u>19,987</u>	<u>6,073</u>	7 years
	256,218	183,446	
Less accumulated depreciation	<u>(89,574)</u>	<u>(57,707)</u>	
	<u>\$ 166,644</u>	<u>\$ 125,739</u>	

Depreciation expense charged to income was \$31,867 and \$28,679 in 2004 and 2003, respectively.

**4. NOTE PAYABLE - INSURANCE**

Notes payable - insurance at December 31, 2004 and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
Installment note payable, due in 9 and installments of interest and principal of \$ 15,158 and \$7,327, interest at 6.00% and 6.25% in 2004 and 2003 respectively, unsecured	<u>\$ 121,264</u>	<u>\$ 65,944</u>

**5. SUBORDINATED NOTE PAYABLE**

Subordinated note payable at December 31, 2004 and 2003 consists of the following:

	<u>2004</u>	<u>2003</u>
Subordinated note payable, with interest at 4% payable annually, maturing on November 30, 2015, unsecured.	<u>\$ 225,000</u>	<u>\$ 225,000</u>

**KOVACK SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**6. LEASES**

The Company has several non-cancelable leases for transportation equipment, office facilities and equipment that expire over the next three years. The following is a schedule of future minimum lease payments for operating leases as of December 31, 2004, 2005 - \$204,853, 2006 - \$208,935, 2007 - \$201,586, 2008 - \$202,035, 2009 - \$206,116, thereafter - \$210,198.

**7. PROFIT SHARING PLAN**

The Company has a noncontributory profit-sharing plan offered to all full-time employees after 12 months of service. The Company makes annual contributions to the profit-sharing plan at the discretion of the Company. Participants become 100 percent vested after six years. The Company made contributions of \$-0-, to the plan for the years ended December 31, 2004.

**8. COMMITMENTS AND CONTINGENCIES**

The Company is party to certain claims and legal actions arising in the ordinary course of business. In some cases, plaintiffs are seeking compensatory and punitive damages. It is the opinion of management that ultimate disposition of these matters will not have a material adverse effect on the Company's financial condition. The Company has accrued \$33,000 of settlement costs in 2004.

**9. REQUIREMENTS OF RULE 15c3-3**

The Company is a non-clearing broker, exempt from making computations of amounts on deposit in the Special Reserve Bank Account for the Exclusive Benefits of Customers, under the provisions of paragraph (k) of Rule 15c3-3 under the Securities and Exchange Act of 1934.

**10. NET CAPITAL PROVISION OF RULE 15c3-1**

The Company is subject to Rule 15c3-1 under the Securities and Exchange Act of 1934. The rule provides the aggregate indebtedness may not exceed 8 times net capital for 12 months after commencing business as a broker-dealer and 15 times net capital thereafter.

The net capital of the Company, as defined by the rule was \$550,217 at December 31, 2004. The ratio of aggregate indebtedness to net capital was 1.42 to 1.

**KOVACK SECURITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**11. REPORTING REQUIREMENTS UNDER RULE 17a-5**

The Company is subject to the reporting requirements of Rule 17a-5 of the Securities and Exchange Act of 1934, which requires certain brokers and dealers to file annual statements of financial condition with the Securities and Exchange Commission. The Company has met this requirement by filing Form X-17A-5 with the Commission. Copies of Parts I and II of Form X-17A-5 and any comments as to weaknesses found in the accounting system, the internal accounting controls or procedures for safeguarding securities are available for examination at the Fort Lauderdale, Florida, office of the Company, and in the regional office of the Securities and Exchange Commission.

**KOVACK SECURITIES, INC.**  
**COMPUTATION AND RECONCILIATION OF NET CAPITAL**  
**UNDER RULE 15c3-1 OF THE**  
**SECURITIES AND EXCHANGE COMMISSION**  
**DECEMBER 31, 2004**

**NET CAPITAL COMPUTATION:**

Total stockholders equity qualified for net capital	\$ 701,903
Add:	
Allowable subordinated liabilities	<u>225,000</u>
Total capital and allowable subordinated liabilities	926,903
Deducts and or charges:	
Total non-allowable assets	<u>(376,686)</u>
Net capital before haircuts	<u>550,217</u>
Haircuts on securities:	
Other securities	
Undue concentrations	
Money markets	<u>-</u>
	<u>-</u>
Net capital	<u>\$ 550,217</u>

**RECONCILIATION:**

Net capital, per page 10 of the December 31, 2004 un-audited Focus Report, as originally filed	\$ 550,217
Net audit adjustments	<u>-</u>
Net capital, per December 31, 2004 audited report, as filed	<u>\$ 550,217</u>