

CM  
3-17



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

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

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 1/1/04 AND ENDING 12/31/04  
MM/DD/YY MM/DD/YY

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: October 31, 2004  
Estimated average burden  
hours per response.....12.00

SEC FILE NUMBER  
8-43789



**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER DEALER:

D. H. Blair Investment Banking Corp.

OFFICIAL USE ONLY  
FIRM ID. NO.

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

44 Wall Street

(No. and Street)

New York

New York

10005

(City)

(State)

(Zip Code)

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

David Nachamie

(212) 495-4105

(Area Code --- Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Eisner LLP

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

750 Third Avenue

New York

New York

10017

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

MAR 18 2005

THOMSON  
FINANCIAL

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).

Handwritten initials and date 3/14

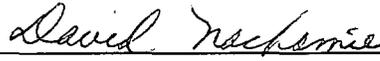
OATH OR AFFIRMATION

I, David Nachamie, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of D.H. Blair Investment Banking Corp., 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:

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

  
JONATHAN D. TURKEL  
NOTARY PUBLIC, State of New York  
No. 02TU5055127  
Qualified in New York County  
Commission Expires February 5, 2006

Notary Public



Signature

Senior Vice President and Treasurer

Title

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (o) Independent Auditors' Report on internal accounting control required by SEC Rule 17a-5.

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

**D.H. BLAIR INVESTMENT BANKING CORP.**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2004**

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
D.H. Blair Investment Banking Corp.  
New York, New York

We have audited the accompanying statement of financial condition of D.H. Blair Investment Banking Corp. as of December 31, 2004, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. 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 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.

As discussed in Notes D and E to the financial statement, investments not readily marketable amounting to \$2,014,828 (2.3% of stockholder's equity) and loans receivable from affiliates and other related parties amounting to \$49,047,541 (55% of stockholder's equity) as of December 31, 2004, have been valued at fair value as determined by management and the Board of Directors. We have reviewed the procedures applied by management and the directors in valuing such investments and loans receivable, and have inspected underlying documentation where available. In our opinion, as related to certain investments and notes, those procedures are not reasonable, and the documentation is not appropriate to determine the fair value of the investments and loans receivable in conformity with accounting principles generally accepted in the United States of America. The effect on the financial statement of not applying adequate valuation procedures is not readily determinable, however, there would be no effect on net capital as these investments and loans are considered not admissible assets.

In our opinion, except for the effects on the financial statement of the valuation of investments and loans receivable determined by management, as described in the preceding paragraph, the statement of financial condition presents fairly, in all material respects, the financial position of D.H. Blair Investment Banking Corp. as of December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.



New York, New York  
February 15, 2005

**D.H. BLAIR INVESTMENT BANKING CORP.**

**Statement of Financial Condition  
December 31, 2004**

**ASSETS**

Cash and cash equivalents	\$ 76,971
Securities owned, at market value	43,004,360
Investments - not readily marketable, at fair value	2,014,828
Loans receivable - affiliates and other related parties	49,047,541
Other assets	<u>4,193,785</u>
	<u>\$ 98,337,485</u>

**LIABILITIES**

Accounts payable and accrued expenses	\$ 5,743,955
Due to clearing broker	<u>3,742,639</u>
	<u>9,486,594</u>

**STOCKHOLDER'S EQUITY**

Capital stock, \$.01 par value; 200 shares authorized; 100 shares issued and outstanding	1
Paid-in capital	70,639,337
Retained earnings	<u>18,211,553</u>
	<u>88,850,891</u>
	<u>\$ 98,337,485</u>

## **D.H. BLAIR INVESTMENT BANKING CORP.**

### **Notes to Statement of Financial Condition December 31, 2004**

#### **NOTE A - ORGANIZATION AND BUSINESS**

D.H. Blair Investment Banking Corp. (the "Company") is a registered broker-dealer in securities under the Securities Exchange Act of 1934. The Company's principal operations are proprietary trading, merchant banking and private investment activities. The Company does not carry securities accounts for customers or perform custodial functions relating to customer securities and, accordingly, is exempt from the Securities and Exchange Commission ("SEC") Rule 15c3-3 pursuant to paragraph (k)(2)(b) thereof. All securities transactions are cleared through clearing brokers pursuant to a clearance agreement or a customer agreement.

#### **NOTE B - SUBORDINATED BORROWINGS AND SECURED DEMAND NOTE RECEIVABLE**

During a portion of 2004, the Company had outstanding a \$3 million subordinated liability consisting of a Secured Demand Note Collateral Agreement payable to a relative of the Company's chairman. The subordinated liability was repaid on March 31, 2004. Interest expense accrued at the rate of 3% per annum and amounted to \$23,000 in 2004.

#### **NOTE C - SIGNIFICANT ACCOUNTING POLICIES**

##### **[1] Financial instruments:**

Purchases and sales of securities and the related revenues and expenses are recorded on a trade-date basis.

Securities owned and securities sold, but not yet purchased, are valued at quoted market price or at management's estimate of fair value for certain positions for which there is a limited market, with related unrealized gains and losses included in principal transactions.

Investments in private companies for which the Company has influence but does not benefit from the processes, products or services and does not participate in the affiliates' management are not consolidated nor accounted for under the equity method. Private investments are valued using methods determined in good faith by management after consideration of all relevant information, including original cost, private market values, operating results and financial position. The related gains and losses on investments are included in principal transactions. Management estimates of fair value may differ from the eventual realizable value of the underlying securities, which may fluctuate over time in light of business and economic conditions and the financial leverage of the issuer. These differences may be material.

Dividends earned and dividends paid on securities sold, but not yet purchased, are recognized on the ex-dividend date, and interest is recognized on the accrual basis.

##### **[2] Cash and cash equivalents:**

Cash and cash equivalents include cash in bank accounts.

##### **[3] Income taxes:**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for operating loss and tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled or recovered. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

## **D.H. BLAIR INVESTMENT BANKING CORP.**

### **Notes to Statement of Financial Condition December 31, 2004**

#### **NOTE C - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **[4] Use of estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

#### **NOTE D - LOANS RECEIVABLE, AFFILIATES AND OTHER RELATED PARTIES**

Loan receivables from affiliates and other related parties include a \$31.5 million demand loan at 6% and a \$5.4 million demand loan at 6½%, both receivable from Lawrence Ventures, LLC ("Lawrence"), an affiliated entity substantially owned by the stockholder of the Company. Lawrence's sole business is an investment in Diablo Grande Limited Partnership ("Diablo"), whose sole asset is a real estate project in central California. The \$31.5 million loan is convertible, at any time and at the option of the Company, into approximately 68% fully diluted equity interest in Lawrence. These loans are recorded at cost, without interest accruals.

#### **NOTE E - FINANCIAL INSTRUMENTS AND RELATED RISKS**

Securities owned at December 31, 2004 consist of marketable equity securities not readily marketable.

In the normal course of its business, the Company trades various financial instruments and enters into various financial transactions where the risk of potential loss due to changes in the market (market risk) exceeds the related amounts recorded. These transactions include securities sold, but not yet purchased, and financial futures contracts.

Securities sold, but not yet purchased, represent obligations of the Company to deliver the specified security at the contracted price and thereby creates a liability to repurchase the security at prevailing future market prices. Accordingly, these transactions result in off-balance sheet risk, as the Company's ultimate obligation to satisfy the sale of securities sold, but not yet purchased, may exceed the amount recognized in the financial statements.

The Company executes financial futures contracts to limit its risk. Derivative financial instruments derive their value based upon an underlying asset, index or reference rate. These instruments are subject to various risks similar to nonderivative financial instruments including market, credit liquidity and operational risks. The Company's open futures positions are based on quoted market prices. The net trading loss is treated as a component of principal transactions.

The Company's securities transactions are transacted with one clearing broker pursuant to a clearance agreement and one broker pursuant to a customer agreement. The Company is subject to credit risk at December 31, 2004, as securities owned, primarily all investments at fair value and balances due from the clearing broker and the customer account broker, reflected on the statement of financial condition, are securities, investments and cash balances held by such brokers, which act as custodians.

## **D.H. BLAIR INVESTMENT BANKING CORP.**

### **Notes to Statement of Financial Condition December 31, 2004**

#### **NOTE F - CONTINGENCIES**

The Company has been named as defendant in numerous lawsuits and arbitration proceedings along with D.H. Blair & Co. Inc. ("DHBC"), a broker-dealer that ceased operations in 1997, whose majority shareholders are relatives (related by blood or marriage) of the stockholder of the Company. During 2004, the Company paid approximately \$1.9 million to resolve all but one of the remaining actions previously discussed.

Although it is possible that the Company's future liability for the remaining action could be material, management of the Company believes that the allegations are without merit and the eventual outcome of these legal actions will not have a material adverse effect on the financial position of the Company.

#### **NOTE G - COMMITMENTS**

The Company leases its premises pursuant to a lease expiring on June 30, 2009. Under the terms of the lease, the Company is obligated to pay escalation charges for certain of the landlord's operating expenses and real estate taxes. Future noncancelable minimum lease payments are approximately \$400,000 per year.

#### **NOTE H - NET CAPITAL REQUIREMENT**

As a registered broker-dealer and a member of The New York Stock Exchange, Inc. (the "Exchange"), the Company is subject to the SEC's net capital rule adopted and administered by the Exchange. The Company is subject to the Exchange's alternative net capital rule, which requires net capital, as defined, to be at least \$250,000. At December 31, 2004, the Company had net capital of \$14,357,138 or \$14,107,138 in excess of the minimum required.

#### **NOTE I - INCOME TAXES**

The difference between the income tax expense and the tax computed by applying the statutory federal income tax rate (34%) to income before income tax is primarily attributable to state and local taxes and reversal of the prior year valuation allowance for deferred tax assets. The current state and local tax expense consists of taxes on capital.

The Company has a net operating loss ("NOL") carryforward of approximately \$27.2 million for federal and \$42.3 million for state and local tax purposes and a capital loss carryforward of approximately \$38.5 million. The NOL and capital loss carryforwards expire in various amounts from 2020 to 2024.

The temporary differences that give rise to the Company's deferred tax asset relate to net operating loss and capital loss carryforwards. The deferred tax liability arises from unrealized gains on securities owned, investments and loans receivable from affiliates and other related parties.

Due to the uncertainty of future realization, a valuation allowance of \$4.9 million has been established to offset in full any related deferred tax assets. During the year ended December 31, 2004, the valuation allowance decreased by \$5.2 million.