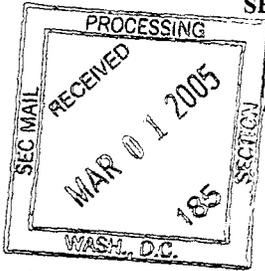


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Washington, D.C. 20549

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

SEC FILE NUMBER
8-37085

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 JAN. 1, 2004 AND ENDING DEC. 31, 2004  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC. OFFICIAL USE ONLY  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
4250 VETERANS MEMORIAL HWAY.  
(No. and Street)  
Holbrook NY. 11741  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
HOLTZ RUBEUSTEIN REMINICK LLP  
(Name - if individual, state last, first, middle name)  
125 Bayliss Rd. MELVILLE NY 11747  
(Address) (City) (State) (Zip Code)

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

PROCESSED  
MAR 23 2005  
J 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)

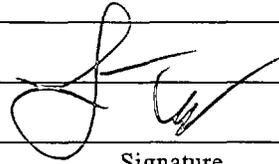
*10-3-05*

OATH OR AFFIRMATION

I, LON T. DOLBER, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of AMERICAN PORTFOLIO INVESTMENT FINANCIAL SERVICES, INC., as of FEBRUARY 28th, 2005, 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:

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

DAVID G. REY  
NOTARY PUBLIC, State of New York  
No. 5010840  
Qualified in Suffolk County  
Commission Expires April 5, 2007



Signature

PRESIDENT

Title

  
\_\_\_\_\_  
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. CASH FLOWS
- (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).

**AMERICAN PORTFOLIOS  
FINANCIAL SERVICES, INC.**

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**REPORT ON AUDIT OF FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

*Year Ended December 31, 2004*

**Contents**

*Year Ended December 31, 2004*

*Pages*

**Financial Statements**

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Computation of Net Capital under SEC Rule 15c3-1	10
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**Financial Statements**



Long Island: 125 Baylis Road, Melville, NY 11747-3823  
Tel: 631.752.7400 Fax: 631.752.1742  
www.hrrllp.com

New York City: 1430 Broadway, New York, NY 10018-3308  
Tel: 212.697.6900 Fax: 212.490.1412

## Independent Auditors' Report

To the Stockholder of  
American Portfolios Financial Services, Inc.  
Holbrook, New York

We have audited the accompanying statement of financial condition of American Portfolios Financial Services, Inc. as of December 31, 2004 and the related statements of earnings, changes in stockholder's equity 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 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 financial statements referred to above present fairly, in all material respects, the financial position of American Portfolios Financial Services, Inc. as of December 31, 2004 and the results of its operations and its 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 contained in the accompanying schedule 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 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Holtz Rubenstein Reminick LLP*

Melville, New York  
February 10, 2005

# AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC.

## Statement of Financial Condition

December 31, 2004

### Assets

Cash	\$ 1,422,517
Deposits with Clearing Organizations	210,047
Receivable from Broker-Dealer and Clearing Organizations	985,304
Miscellaneous Receivable	13,500
Prepaid Insurance and Other	215,346
Due from Parent	15,367
Licenses	100,000
Deferred Tax Asset	71,288
Goodwill	3,503,272
<b>Total Assets</b>	<b><u>\$ 6,536,641</u></b>

### Liabilities and Stockholder's Equity

#### Liabilities:

Accounts payable and accrued expenses	\$ 5,415
Unearned account representative fees	360,915
Commissions payable	1,895,812
<b>Total Liabilities</b>	<b><u>2,262,142</u></b>

#### Commitments

#### Stockholder's Equity:

Common stock, no par value; 1,500 shares authorized; 100 shares issued and outstanding	3,825,001
Additional paid-in capital	828,483
Accumulated deficit	(378,985)
<b>Total Stockholder's Equity</b>	<b><u>4,274,499</u></b>
<b>Total Liabilities and Stockholder's Equity</b>	<b><u>\$ 6,536,641</u></b>

# AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC.

## Statement of Earnings

*Year Ended December 31, 2004*

Revenue:

Commission revenue	\$ 26,111,424
Marketing and service fee income	450,700
Interest and dividends	10,504
	<u>26,572,628</u>

Expenses:

Commission expense	23,213,433
Overhead reimbursement	2,580,000
Bank charges	18,610
Continuing education	8,000
Data processing and reporting	440,147
Dues and subscriptions	19,878
Exchange and clearance fees	75,525
Insurance	11,052
Interest expense	11,324
Legal and professional	24,628
Licensing and registration fees	97,409
Office expense	24,015
	<u>26,524,021</u>

Income Before Provision for Income Taxes

48,607

Provision for Income Taxes:

Current	5,657
Deferred	10,788
	<u>16,445</u>

Net Income

\$ 32,162

# AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC.

## Statement of Changes in Stockholder's Equity

*Year Ended December 31, 2004*

	Common Stock		Additional Paid-In Capital	Accumulated Deficit
	Shares	Amount		
Balance, January 1, 2004	100	\$ 3,825,001	\$ 828,483	\$ (411,147)
Net Income	-	-	-	32,162
Balance, December 31, 2004	<u>100</u>	<u>\$ 3,825,001</u>	<u>\$ 828,483</u>	<u>\$ (378,985)</u>

# AMERICAN PORTFOLIOS FINANCIAL SERVICES, INC.

## Statement of Cash Flows

*Year Ended December 31, 2004*

Cash Flows from Operating Activities:

Net income	\$ 32,162
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	268
Deferred taxes	10,788
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Deposits with clearing organizations	43
Receivable from broker-dealer and clearing organizations	(325,323)
Due from affiliate	(15,367)
Due to affiliate	35,945
Miscellaneous receivable	(9,817)
Prepaid insurance	(36,494)
Increase (decrease) in liabilities:	
Payable to broker-dealer and clearing organizations	(11,985)
Accounts payable and accrued expenses	72
Unearned account representative fees	82,099
Commissions payable	600,264
Total adjustments	330,493
Net Cash Provided by Operating Activities	362,655
Net Increase in Cash and Cash Equivalents	362,655
Cash and Cash Equivalents, beginning of year	1,059,862
Cash and Cash Equivalents, end of year	\$ 1,422,517

**Notes to Financial Statements**

*Year Ended December 31, 2004*

**1. Summary of Significant Accounting Policies**

**Nature of business** - American Portfolios Financial Services, Inc. ("APFS" or the "Company") acquired an existing broker-dealer on May 1, 2001 and commenced operations on October 1, 2001 after attaining licensure and registration changes for the company and its network of independent representatives. APFS's primary source of revenue is providing brokerage services to its customers, who are predominately small and middle-market businesses and individuals. These services are marketed by independent representatives located in various states.

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

**Basis of presentation** - APFS is a wholly owned subsidiary of American Portfolios Holdings, Inc. ("APH"). The financial statements reflect APFS's business activities.

**Cash equivalents** - The Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days, that are not held for sale in the ordinary course of business.

**Securities transactions** - Customers' securities transactions are reported on a settlement date basis with related commission income and expenses reported on a trade date basis. Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition.

**Commissions** - Commissions and related expenses are recorded on a trade date basis as securities transactions occur.

**Income taxes** - Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. The Company's federal and New York State tax returns are prepared on a consolidated (combined) basis and accordingly, inclusive in the consolidated group's filings.

**Depreciation and amortization** - Depreciation is provided on an accelerated basis using estimated useful lives of five to ten years. Leasehold improvements are amortized on a straight-line basis over the lesser of the economic useful life of the improvement or the term of the lease.

**Goodwill and intangible assets** - The Company tests goodwill for impairment at least annually. The Company completed its annual impairment test during the third quarter of fiscal 2004. The Company estimated the fair value of the reporting unit based upon a multiple of gross commissions. The estimated fair value was then allocated between tangible and intangible assets. As of September 30, 2004 it concluded that the fair value of the reporting unit exceeded the carrying value of the reporting unit. Therefore, no impairment charge was recognized for the year ended December 31, 2004.

**Licenses** - Licenses represent the value of certain broker-dealer licenses acquired through acquisition. These licenses are not subject to amortization, and are tested for impairment at least annually.

**2. Receivable from and Payable to Clearing Organization**

Amounts receivable from and payable to clearing organizations at December 31, 2004 consist of the following:

	Receivable	Payable
Deposits with Clearing Organizations	\$ 210,047	\$ -
Fees and Commissions Receivable/Payable	985,304	1,895,812
	<u>\$ 1,195,351</u>	<u>\$ 1,895,812</u>

## Notes to Financial Statements

*Year Ended December 31, 2004*

The Company clears its customer transactions through an unrelated broker-dealer on a full disclosure basis. The arrangement required the Company to make a \$100,000 deposit, which is in an interest bearing account with the clearing agent. The clearing agent offsets its fees, on a monthly basis, against the Company's commissions. The amount payable to the clearing broker relates to the aforementioned transactions.

The Company has a second clearing arrangement with an unrelated broker-dealer on a full disclosure basis. This arrangement requires the Company to make a \$100,000 deposit, which will be in an interest bearing account, with the clearing agent. The clearing agent offsets its fees against the Company's commissions.

APFS is a clearing member of National Securities Clearing Corporation ("NSCC"). The primary purpose for this arrangement is the Company's participation in NSCC's commission settlement program. The Company receives daily information downloads, and together with information provided from their clearing agent, prepares detailed commission statements for their independent registered representatives. The Company was required to deposit \$10,000 in an interest bearing account with NSCC.

### 3. Receivable from and Payable to Customers

Amounts receivable from and payable to customers include amounts due on cash and margin transactions. Securities owned by customers are held as collateral for receivables. Such collateral is not reflected in the financial statements.

### 4. Commissions Payable and Independent Representative Transactions

The Company conducts business through a network of independent representatives who receive commissions for their services according to the Company's agreed upon commission schedule. As of December 31, 2004 the Company owed its independent representatives approximately \$1,896,000.

In addition, the Company charges the independent representatives maintenance fees for access to certain computer information and customer support services. Fees charged for the year ended December 31, 2004 amounted to \$771,000. These fees are netted against the respective expense accounts.

Unearned account representative fees represent 2005 maintenance fees received in advance.

### 5. Concentration of Credit Risk

The Company is engaged in various brokerage activities, in which customer transactions are cleared through unrelated broker-dealers. In the event that these parties do not fulfill their obligations, the Company may be exposed to risk, inclusive of disrupted operations. The Company has no major dependence on any one broker-dealer as alternative services and products are readily available. If a relationship were to terminate, the disruption in business activity would be similar to any other business. To reduce this risk, the Company periodically monitors these functions.

The Company's revenue is dependent upon economic and market conditions. The Company is vulnerable to risk if economic and market conditions weaken.

The Company is also dependent, to a degree, upon its top ten registered representatives who were responsible for 25% of the Company's gross revenue for the year ended December 31, 2004.

The Company places its cash investments with high credit quality financial institutions. At times, the Company's cash deposits with any one financial institution may exceed the amount insured by the Federal Depository Insurance Corporation ("FDIC"). At December 31, 2004 the excess was approximately \$1,297,000.

**Notes to Financial Statements**

*Year Ended December 31, 2004*

**6. Related Party Transactions**

The Company and its parent maintain an office overhead arrangement by consolidating all the expenses under one monthly reimbursement amount which is determined based on a calculation of the Company's overhead. Reimbursed expenses include, but are not limited to, office and equipment rental, utilities, administrative salaries, and general office expenses. This reimbursement percentage is reviewed on a quarterly basis to determine its adequacy in reimbursing expenses at the appropriate level. The Company reimbursed its parent \$2,580,000 for the year ended December 31, 2004.

**7. Commitments**

On January 17, 2002 the Company entered into a Registered Representative Recruiting Agreement. The recruiter is to receive five-percent (5%) for the first year and four-percent (4%) for years two through six of any gross concessions APFS derives from independent representatives that register with the Company as a direct result of the recruiters' efforts. The Company, in their sole discretion, has the right to approve or disapprove registration without any obligation to the recruiter.

**8. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. In addition, the rule also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1.

At December 31, 2004, the Company had net capital of \$407,422, which was \$256,605 in excess of its required net capital of \$150,817. The Company's aggregate indebtedness to net capital ratio was 5.6 to 1.

**9. Income Taxes**

The Company is included in the consolidated federal income tax and the combined New York State tax returns filed by its parent. In addition, APFS is required to file returns in several other states.

Tax liabilities, for financial statement reporting purposes, are calculated as if the Company filed separate income tax returns. The current and deferred portions of the income tax expense (benefit) included in the statement of operations are as follows:

	Current	Deferred	Total
Federal	\$ -	\$ 8,630	\$ 8,630
State	5,657	2,158	7,815
	<u>\$ 5,657</u>	<u>\$ 10,788</u>	<u>\$ 16,445</u>

A deferred tax benefit has been recorded on the statement of financial condition as a result of the Company's net operating losses and difference in the tax treatment of organization costs.

**Notes to Financial Statements**

*Year Ended December 31, 2004*

The Company's net operating loss carryforwards as of December 31, 2004, which are available in future years are as follows:

	Net Operating Loss	Begin to Expire
Federal	\$ 270,000	12/31/21
State	\$ 260,000	12/31/21

**10. Common Stock**

The Company is authorized to issue up to 1,500 shares of no par value common stock. December 31, 2004, 100 shares were issued and outstanding, which represent a 100% ownership, to APH.

**11. Supplemental Information - Statement of Cash Flows**

Cash paid for interest during the year ended December 31, 2004 for interest was \$11,337.

Taxes paid during the year ended December 31, 2004 were \$5,657.

**Supplementary Information**

**Supplementary Information - Pursuant to Rule 17a-5  
of the Securities Exchange Act of 1934**

*Year Ended December 31, 2004*

Schedule 1 - Computation of Net Capital Pursuant to Rule 15c3-1:

Net Capital:

Total Stockholders' Equity	<u>\$ 4,274,499</u>
----------------------------	---------------------

Non-Allowable Assets:

Receivables from affiliates	15,367
Receivables from non-customers	109,863
Miscellaneous receivable	13,500
Prepaid expenses	34,337
Furniture, equipment and leasehold improvements	403
Licenses	100,000
Deferred tax	71,288
Goodwill	3,503,272
Fidelity bond excess	19,000
Excess clearing deposit	47
	<u>3,867,077</u>

Excess Net Capital:	<u>\$ 407,422</u>
---------------------	-------------------

Ratio: Aggregate Indebtedness to Net Capital (\$2,262,142 / \$407,422)	5.6 to 1
--	----------

Reconciliation with Computation included in Part II of Form X-17a-5  
as of December 31, 2004

Variiances between this computation of net capital under Paragraph F of Rule 15c3-1 and the Registrant's computation filed with Part II, Form X-17a-5 are not material in amount. Accordingly, no reconciliation is deemed necessary.

Schedule 2 - Computation to Determination of Reserve Pursuant to Rule 15c3-3:

Not applicable

## Independent Auditor' Report on Internal Accounting Control

To the Stockholder of  
American Portfolios Financial Services, Inc.  
Holbrook, New York

In planning and performing our audit of the financial statements and supplemental schedule of American Portfolios Financial Services, Inc. (the "Company") for the year ended December 31, 2004, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 ("SEC"), we have made a study of the practices and procedures followed by American Portfolios Financial Services, Inc. including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications and comparisons.
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 internal control 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 SEC's above mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance 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, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control 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 components does not reduce to a relatively low level the risk that error 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 internal control, 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 SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2004, to meet the SEC's objectives.

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

*Holtz Rubenstein Remnick LLP*

Melville, New York  
February 10, 2005