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

RECEIVED  
MAR 01 2005  
SECTION  
202  
WASH. D.C.

| SEC FILE NUMBER |
|-----------------|
| 8- 66338        |

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

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: American Real Estate Securities, Inc.  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
600 108<sup>th</sup> Avenue NE, Suite 600  
Bellevue WA 98004  
(City) (State) (Zip Code)

| OFFICIAL USE ONLY |
|-------------------|
| FIRM I.D. NO.     |

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
William Lake 425 455-2433  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
Farrell & Co., P.S.  
(Name - if individual, state last, first, middle name)  
17 Central Way Kirkland WA 98033  
(Address) (City) (State) (Zip Code)

**CHECK ONE:**

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

SC PROCESSED  
MAR 23 2005

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|-----------------------|
| THOMSON FINANCIAL     |

\*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)

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OATH OR AFFIRMATION

I, William Lake, 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 Real Estate 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:

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

William J Lake  
Signature  
Vice President  
Title



Jacqueline Rene LeClau  
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.

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

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
American Real Estate Securities, Inc.  
Bellevue, Washington

We have audited the accompanying statement of financial condition of American Real Estate Securities, Inc. as of December 31, 2004, and the related statements of operations, changes in stockholders' 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 Real Estate Securities, 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II 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.

*Farrell & Co., P.S.*

Farrell & Co., P.S.  
Kirkland, Washington  
February 23, 2005

**AMERICAN REAL ESTATE SECURITIES, INC.**  
STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2004

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ASSETS:

|   |                         |
|---|-------------------------|
| Cash and cash equivalents   | \$167,628               |
| Draws paid on unearned commissions                                      | 22,500                  |
| Furniture and equipment, net of accumulated<br>depreciation of \$14,075 | <u>57,063</u>           |
| <b>TOTAL ASSETS</b>   | <b><u>\$247,191</u></b> |

LIABILITIES AND STOCKHOLDERS' EQUITY:

|  |                         |
|--|-------------------------|
| Accounts payable and accrued expenses  | \$ 8,457                |
| Accrued lease expense payable  | <u>13,482</u>           |
| <b>Total liabilities</b>   | <b>21,939</b>           |
| <b>Stockholders' Equity:</b>   |                         |
| Common stock, authorized 30,000 shares,<br>no par value, issued and outstanding 100 shares   | 12,000                  |
| Preferred stock, authorized 10,000 shares,<br>no par value, issued and outstanding no shares |                         |
| Additional paid in capital   | 340,000                 |
| Retained earnings (deficit)  | <u>(126,748)</u>        |
| <b>Total stockholders' equity</b>  | <b><u>225,252</u></b>   |
| <b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>  | <b><u>\$247,191</u></b> |

**AMERICAN REAL ESTATE SECURITIES, INC.**  
STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 2004

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|                            |                    |
|----------------------------|--------------------|
| REVENUES:                  |                    |
| Placement fees             | \$138,159          |
| EXPENSES:                  |                    |
| Payroll and related taxes  | 101,371            |
| Office rent                | 34,374             |
| Depreciation               | 11,369             |
| Advertising                | 2,500              |
| General and administrative | <u>41,925</u>      |
| Total Expenses             | <u>191,539</u>     |
| NET LOSS                   | <u>\$ (53,380)</u> |

**AMERICAN REAL ESTATE SECURITIES, INC.**  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
YEAR ENDED DECEMBER 31, 2004

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|                              |                    |
|------------------------------|--------------------|
| COMMON STOCK:                |                    |
| Balance, beginning of year   | \$ 12,000          |
| Shares issued                | <u>-</u>           |
| Balance, end of year         | <u>\$ 12,000</u>   |
| ADDITIONAL PAID IN CAPITAL:  |                    |
| Balance, beginning of year   | \$125,000          |
| Stockholder investment       | <u>215,000</u>     |
| Balance, end of year         | <u>\$340,000</u>   |
| RETAINED EARNINGS (DEFICIT): |                    |
| Balance, beginning of year   | \$ (73,368)        |
| Net loss                     | <u>(53,380)</u>    |
| Balance, end of year         | <u>\$(126,748)</u> |

**AMERICAN REAL ESTATE SECURITIES, INC.**  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2004

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|   |                  |
|---|------------------|
| OPERATING ACTIVITIES:   |                  |
| Net loss  | \$(53,380)       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |
| Depreciation  | 11,369           |
| Cash used by change in operating activity:  |                  |
| Accounts payable and accrued expenses   | 3,776            |
| Accrued lease liability   | <u>2,072</u>     |
| Cash used by operating activities   | (36,163)         |
| INVESTING ACTIVITIES:   |                  |
| Purchase of furniture and equipment   | (20,688)         |
| FINANCING ACTIVITY:   |                  |
| Contributions by shareholders   | <u>215,000</u>   |
| NET INCREASE IN CASH AND CASH EQUIVALENTS   | 158,149          |
| CASH AND CASH EQUIVALENTS:  |                  |
| Beginning of year   | <u>9,479</u>     |
| End of year   | <u>\$167,628</u> |

## AMERICAN REAL ESTATE SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2004

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Description of business:** American Real Estate Securities, Inc. (the Company), formerly American Exchange Services, Inc., is a broker-dealer registered with the Securities and Exchange Commission and is a member of the National Association of Securities Dealers. The Company is a Washington Corporation.

**Management estimates and assumptions:** Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

**Cash and cash equivalents:** The Company considers all short term investments with an original maturity of three months or less to be cash equivalents.

**Furniture and equipment:** Furniture and equipment is stated at cost and is depreciated over the estimated useful lives of the assets of five years, using the straight-line method.

**Security transactions:** The Company had no security transactions during the year ended December 31, 2004 nor did the Company transact or hold funds or securities for, or owe money or securities to customers.

**Federal income taxes:** The Company is an S corporation; accordingly, the shareholders are responsible for the payment of taxes on the Company's taxable income.

### NOTE 2: 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 ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. The Company is also required by NASD to maintain a minimum net capital of \$5,000. At December 31, 2004 the Company had net capital of \$145,689, which was \$140,689 in excess of its required net capital of \$5,000. The Company's net capital ratio was in excess of 15 to 1.

### NOTE 3: LEASES

The Company leases its office space and certain equipment under operating leases. The office space lease, which expires in 2009, requires monthly lease payments that increase over

the term of the lease. Lease expense is recorded on a straight-line basis over the life of the lease and therefore a liability is accrued for lease expense accrued but not paid.

Minimum annual required lease payments for the office space and equipment rentals over the next five years are as follows:

|      |          |
|------|----------|
| 2005 | \$41,400 |
| 2006 | 42,300   |
| 2007 | 41,000   |
| 2008 | 39,300   |
| 2009 | 3,300    |

**Schedule I**

**American Real Estate Securities, Inc.**  
**Computation of Net Capital Under Rule 15c3-1 of**  
**the Securities and Exchange Commission**  
**As of December 31, 2004**

|                               | As filed in<br>Part II<br>Focus Report<br>(unaudited) | Differences (1) | Amount<br>based on<br>audit<br>report |
|-------------------------------|---|-----------------|---------------------------------------|
| Net capital:                  |   |                 |                                       |
| Total stockholder's equity    | \$252,895   | 27,643          | \$225,252                             |
| Less nonallowable assets      |   |                 |                                       |
| Commission draws              | 22,500  |                 | 22,500                                |
| Capitalized formation costs   | 14,161  | 14,161          |                                       |
| Furniture and Equipment, net  | <u>57,063</u>   | <u>-</u>        | <u>57,063</u>                         |
| Net capital                   | <u>\$159,171</u>                                      | <u>\$13,482</u> | <u>\$145,689</u>                      |
| Total aggregate indebtedness  | <u>\$8,457</u>  | <u>\$13,482</u> | <u>\$21,939</u>                       |
| Minimum net capital required* | <u>\$1,057</u>  | <u>\$406</u>    | <u>\$1,463</u>                        |
| Net capital requirement       | <u>\$5,000</u>  | <u>\$ -</u>     | <u>\$5,000</u>                        |
| Excess net capital            | <u>\$154,171</u>                                      | <u>\$13,482</u> | <u>\$140,689</u>                      |

- Minimum per Rule 15c3-1

(1) The differences relate to an organization cost adjustment and a lease liability accrual adjustment made subsequent to the filing of the Focus II report.

**Schedule II**

**American Real Estate Securities, Inc.**  
Other Required Schedules  
As of December 31, 2004

The Company is exempt from the provisions of Rule 15c3-3 under paragraph (k)(2)(1) of the Rule because the Company does not carry margin accounts, promptly transmits all customer funds and delivers all securities received in connection with its activities as a broker or dealer, does not otherwise hold funds or securities for, or owe money or securities to, customers.

**Report of Independent Accountants on Internal Control Required  
By SEC Rule 17a-5**

Board of Directors  
American Real Estate Securities, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of American Real Estate Securities, 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 the Company 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 (or aggregate debits) 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 security 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 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 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 information and use of the Board of Directors, management, the SEC, the National Association of Security Dealers, Inc., 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 is not intended to be and should not be used by anyone other than these specified parties.

*Farrell & Co., P.S.*

Farrell & Co., P.S.  
Kirkland, Washington  
February 23, 2004