MGIC INVESTMENT CORP
Form 4
September 13, 2005

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
CULVER CURT S

(Last) (First) (Middle)

MGIC PLAZA, 250 EAST KILBOURN AVENUE

(Street)

MILWAUKEE, WI 53202

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MGIC INVESTMENT CORP [MTG]

3. Date of Earliest Transaction (Month/Day/Year)
09/12/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
President and CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	09/12/2005		G	V	2,000	D	(1)	175,298	D	
Common Stock								12,369.079 (2)	I	By Issuer's Profit Sharing and Savings Plan

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. P Der Sec (Ins
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Employee Stock Options (Right to Buy)	$ 36.4375							(3)	01/22/2007	Common Stock	125,000	
Employee Stock Options (Right to Buy)	$ 33.8125							(3)	01/22/2007	Common Stock	64,709	
Employee Stock Options (Right to Buy)	$ 46.0625							(3)	05/05/2009	Common Stock	75,000	
Employee Stock Options (Right to Buy)	$ 45.375							(4)	01/26/2010	Common Stock	150,000	
Employee Stock Options (Right to Buy)	$ 57.88							(5)	01/24/2011	Common Stock	75,000	
Employee Stock Options	$ 63.8							(6)	01/23/2012	Common Stock	120,000	

(Right to Buy)							
Employee Stock Options (Right to Buy)	$ 43.7			(7)	01/22/2013	Common Stock	80,000
Employee Stock Options (Right to Buy)	$ 68.2			(8)	01/28/2014	Common Stock	80,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
CULVER CURT S MGIC PLAZA 250 EAST KILBOURN AVENUE MILWAUKEE, WI 53202	X		President and CEO	

Signatures

Dan D. Stilwell, Attorney-in-fact	09/12/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) These securities were given as a gift and no price was paid or received for the securities.

(2) Balance as of December 31, 2004.

(3) All of these options are vested and exercisable in full.

(4) Vesting of these options occurs on January 26 of each of the five years beginning in 2001, at a rate equal to the percent by which the Issuer's earnings per share for the prior fiscal year was of $31.21, subject to at least a 10% increase in the Issuer's earnings per share from the prior fiscal year, and with any portion of the option which has not been vested at January 26, 2005 becoming vested on January 26, 2009.

(5) One-fifth of these options vest on January 24 of each of the five years beginning in 2002.

(6) One-fifth of these options vest on January 23 of each of the five years beginning in 2003.

(7) One-fifth of these options vest on January 22 of each of the five years beginning in 2004.

(8) One-fifth of these options vest on January 28 of each of the five years beginning in 2005.

Remarks:

This Form 4 is being signed by the reporting person's attorney-in-fact pursuant to a previously filed power of attorney.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

 Of the 13 loans in process as of March 31, 2005, all 13 were originated by the Companys retail sales personnel or from the Companys executive staff. Total operating expenses for the year ended December 31, 2004 were $782,654, a decrease of $436,797 or 35.8% from the $1,219,451 incurred in the prior year. The $436,797 decrease in operating expenses was the result of an absence of land development costs for the year ended December 31, 2004 compared to $186,765 in land development costs in the prior year, a decrease in interest expense of $218,337 or approximately 82.3% to $46,911 from $265,248 in the prior year due to interest charged on a lesser amount of closed loans and borrowed funds, a decrease of $77,212 or approximately 20.0% in employee compensation and commissions to $308,634 from $385,846 in the prior year, and a decrease in other expenses of $30,432 or 8.01% to $344,609 from $375,041 in the prior year, and an $82,500 net loss on derivative instruments compared to a net loss of $6,551 in the prior year. Other expenses are primarily attributable to legal and accounting fees, associated warehouse and loan processing fees, and rent. Expressed as a percentage of revenues, operating expenses increased to approximately 217.9% in 2004 from 106.6% in 2003, reflecting an increase in expenses and a decrease in revenues discussed above. Due to the foregoing, the Company incurred a net loss of $423,458 for 2004 compared to a net loss of $75,223 for 2003 and, after payment and accrual of preferred stock dividends of $23,500 in 2004 and $23,500 in 2003, a loss attributable to common stockholders of $446,958, or a $0.34 loss per basic and diluted share, for the year ended December 31, 2004 compared to a loss of $98,723, or $.08 per basic and diluted share for the year ended December 31, 2003. The Company had a deferred tax asset at December 31, 2004, arising from federal and state net operating loss ("NOL") carryforwards of approximately $4,088,000 and $3,205,000 respectively. The NOL carryforwards expire between 2005 and 2022. A valuation allowance has been recorded in the amount of $1,582,247 at December 31, 2004, due to the uncertainty of future utilization of the Company's NOL carryforwards. No provision for income taxes was made in 2004 and 2003 due to net operating losses. LIQUIDITY AND CAPITAL RESOURCES From 2002 through 2004 the Company continued to take actions that it believes are necessary to improve future operating results. Such actions included, but were not limited to, moving its offices to Parsippany, New Jersey during April 2002 and expanding its space within the same building in January 2003 which has enabled the Company to reduce the cost of rent as compared to the expired lease costs in its former office lease that expired in 2002, added additional outside sources of mortgage loans from wholesale accounts such as other mortgage bankers and brokers. During December 2002, the Company's warehouse line was increased from $6,000,000 to $8,000,000 and during January 2003, the warehouse credit line was increased to $9,000,000, and again during April 2003 increased to $10,000,000 as the Company's mortgage closings had increased to require a greater credit line available to fund its monthly mortgage closing obligations. As of March 31, 2004, the Company allowed the $10,000,000 warehouse credit line to expire. On March 11, 2004 the Company was approved and commenced utilizing a new $7,000,000 warehouse credit line with a different commercial lending institution. The terms of this new credit line provide the Company with lower interest rate and fees charged than with the previous credit line. The Company has renewed this credit line effective April 1, 2005 and it expires June 30, 2005. The Company has requested that the line be reduced to $4,000,000 as the present $7,000,000 line has been under utilized and the Company wishes to avoid paying the non-use fees. The Company believes that it could increase the line to $7,000,000 again should its business warrant an increase. The Companys capital resources during the year ended December 31, 2004, have primarily been derived from revenues generated by its mortgage banking operations. The Company's cash position decreased in 2004 primarily as a result of a loss from operations of $423,458. The loss from operations was partially offset by an increase of $93,682 in accounts payable and accrued expenses and a $309,495 increase in notes payable. On December 31, 2004, the Company had a working capital deficiency of $262,627 compared to positive working capital of $179,718 on December 31, 2003. As of December 31, 2004, the Company had cash and cash equivalents of $308,387 compared to $345,947 at December 31, 2003, a decrease of $37,560 or approximately 10.8%. The decrease was primarily attributable to net cash used in investing activities of $103,260 and net cash used in operating activities of $217,420. These decreases were partially offset by the net cash provided by financing activities of $290,620. Net cash used in operating activities was the result of a net loss of $423,458, and a decrease in the warehouse finance facility of $456,905. These amounts were partially offset by an addback for a derivative loss of $82,500, an increase in prepaid expenses and other current assets of $6,113 and a decrease in mortgage loans held for sale of $469,493 and an absence of land development costs as compared to $163,590 of such assets during 2003, depreciation and amortization of $3,655, and an increase in accounts payable, accrued expenses and other current liabilities of $93,682 and non-cash interest expense of $7,500. Net cash used in investing activities during the year ended December 31, 2004 were an increase in other assets of $958, cash used in purchase of derivative instrument of $104,218, which was offset by the absence of purchases of property and equipment and an absence of proceeds from derivative instrument. Net cash used in financing activities during the year ended December 31, 2004 were $18,005 of payments on notes payable and $18,875 in preferred stock dividends paid and $320,000 of proceeds from issuance of notes payable. The Company incurred a loss of approximately $423,000 during the year ended December 31, 2004. Also, as of December 31, 2004, the Company had its current liabilities exceeding current assets by approximately $262,627. These matters caused the Companys auditors to add an explanatory paragraph in Their auditors report which raises substantial doubt about the Companys ability to continue as a going concern. Managements plans include raising additional proceeds from debt transactions with related parties to fund operations and to increase revenue and cut expenses to reduce the loss from operations. However, there can be no assurances that the Company will be successful in this regard or will be able to eliminate both its working capital deficit and its operating losses. The accompanying consolidated financial statements do not contain any adjustment which may be required as a result of this uncertainty. EFFECTS OF RECENT ACCOUNTING PRONOUNCEMENTS In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 149 requires that contracts with comparable characteristics be accounted for similarly and clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative and when a derivative contains a financing component. SFAS No. 149 also amends the definition of an underlying to conform it to language used in FIN No. 45, Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. SFAS No. 149 was effective for contracts entered into or modified after June 30, 2003, with certain exceptions. The adoption of SFAS No. 149 did not have a impact on the Companys historical financial position or results of operations. In March, 2004 the Securities and Exchange Commission issued Staff Accounting Bulletin No.105- Application of Accounting Principles to Loan Commitments. The staff accounting bulletin summarizes the view of the SEC staff regarding the application of generally accepted accounting principles to loan commitments accounted for as derivative instruments. The bulletin indicates that loan commitments should be accounted for as derivative instruments and measured at fair value. The staff also indicated a Company should disclose it accounting policy for loan commitments pursuant to APB Opinion no. 22 Disclosure of Accounting Policies. The staff also indicates that they would expect all loan commitments accounted for as derivatives and entered into after March 31, 2004 to apply the accounting described in this bulletin. This interpretation by the SEC staff did not have a material effect on the Companys consolidated results of operations and financial condition. ITEM 7. FINANCIAL STATEMENTS FINANCIAL STATEMENTS PAGE NO. Report of Independent Registered Public Accounting Firm F-1 Consolidated Balance Sheets - December 31, 2004 and 2003 F-2 Consolidated Statements of Operations - for the years ended December 31, 2004 and 2003 F-3 Consolidated Statements of Stockholders' Equity (Deficit)- for the years ended December 31, 2004 and 2003 F-4 Consolidated Statements of Cash Flows - for the years ended December 31, 2004 and 2003 F-5 Notes to Consolidated Financial Statements F-6 - F-16 ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES None. Item 8A. Controls and Procedures. An evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) who also serves as the Companys Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2004. Based on that evaluation, the CEO/CFO has concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. During the quarter ended December 31, 2004, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. Item 8B. Other Information During March 2004 the Company borrowed a total amount of $100,000 in demand notes at an annual interest rate of 10% from two directors of the Company, Bernard Gitlow and Russell Frayko, in the amount of $50,000 each. During the quarter ended September 30, 2004, the Company borrowed an additional $25,000 from a board member in the form of a demand note bearing interest at 10% per annum. During

December 2004 the Company borrowed $125,000 for one year at a variable rate of interest indexed to the Prime Rate from one of its directors, Bernard Gitlow. As of March 31, 2005 the rate was 6.5% per annum. Additionally, the Company borrowed $20,000 and $50,000 from the Companys President and a relative of the Companys President respectively, through the issuance of demand notes at 10% per annum. PART III ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS OF THE REGISTRANT; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT The Company's executive officers and directors are as follows: POSITION WITH NAME AGE THE COMPANY Richard G. Gagliardi 58 Chairman of the Board, President, Chief Executive Officer and Chief Financial Officer Bernard Gitlow 78 Director Russell D. Frayko 42 Director RICHARD G. GAGLIARDI has been Chairman, President, Chief Executive Officer and Chief Financial Officer of the Company since its inception on July 1, 1988.Mr. Gagliardi was employed as a Registered Representative at the investment banking firm of L. C. Wegard & Co., Inc. ("Wegard") from October 1989 to September 1991, and served as a Vice President of Wegard from October 1989 to July 1991. BERNARD GITLOW has been a director of the Company since June 1993. He has been Executive Vice President of Victor Kramer, Co., Inc. a consulting company in the laundry and linen supply industry since August 1990. Since January 1988, Mr. Gitlow has also served as a consultant to the linen supply, laundry, and dry cleaning industry. RUSSELL FRAYKO has been a director of the Company since June 2002. He has been employed as President of Joint Venture Antiques since 1983, a company in the antique and modern furniture restoration and sales business. Mr. Frayko is also President of Joint Venture Promotions, an affiliate company involved in the promotion of furniture and antique dealer trade shows. Directors are elected to serve until the next annual meeting of shareholders or until their respective successors are elected and qualified. The executive officers of the Company are elected by the Company's Board of Directors. Each executive officer will hold office until his successor is duly elected and qualified, until his resignation or until he shall be removed in the manner provided by in the Company's By-Laws. The Company has an Audit Committee of the Board of Directors, which supervises the audit and financial procedures of the Company. The members of the Audit Committee are Messrs. Gitlow (Chairman) and Frayko, each of whom is an independent director as defined under the rules of the NASD. The Companys Audit Committee does not have a member that qualifies as a financial expert under the federal securities laws. Each of the members of the Audit Committee have been active in the business community and have broad and diverse backgrounds, and financial experience. The Company believes that the current members of the Audit Committee are able to fully and faithfully perform the functions of the Audit Committee and that the Company does not need to install a financial expert on the Audit Committee. Compliance with Section 16(a) of the Securities Exchange Act Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than 10 percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (SEC). Officers, directors, and greater than 10 percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. To the Companys knowledge, based solely on a review of the copies of such reports furnished to the Company, all reports under Section 16(a) required to be filed by its officers, directors and greater than ten-percent beneficial owners were timely filed. Code of Business Conduct and Ethics The Company has not adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting office (controller) and persons performing similar functions. In light of the fact that the Company's Chief Executive Officer acts as the Company's principal executive, accounting and financial officer and the relatively small number of persons employed by the Company, the Company did not previously adopt a formal written Code of Business Conduct and Ethics but is in the process of developing a comprehensive Code of Business Conduct and Ethics to cover all of its employees. Copies of the Company's Code of Business Conduct and Ethics, which is expected to be adopted during 2005 can be obtained, when available, upon written request, addressed to: American Asset Management Corporation 1280 Route 46 West Parsippany, New Jersey 07054 Attention: Chief Executive Officer ITEM 10. EXECUTIVE COMPENSATION The following table sets forth for the periods presented the compensation paid by the Company and its subsidiaries for services rendered during the fiscal year ended December 31, 2004 to the Company's Chief Executive Officer (the named executive). No other executive officer of the Company received an annual salary, bonus or other compensation in excess of $100,000 for the fiscal year ended December 31, 2004. SUMMARY COMPENSATION TABLE ANNUAL COMPENSATION LONG-TERM COMPENSATION Name and Principal Other Annual Position Year Salary Compensation Richard G. Gagliardi 2004 $121,154(3) $12,225(2) Chairman of the Board, 2003 139,970 12,225(2) President, Chief 2002 110,000 11,225(2) Executive Officer and Chief Financial

Officer (1) The 2004 salary of Mr. Gagliardi was $150,000. As of December 24, 2004 the Company owed Mr. Gagliardi approximately $28,846 in salary. This amount has been forgiven by Mr. Gagliardi as of December 31, 2004. (2) Represents the approximate reimbursement cost of an automobile leased and insured by Mr. Gagliardi for business purposes. Also includes a 2% contribution aggregating approximately $2,680 during 2003 and $2,000 during 2002 in the Simple IRA retirement plan established in June 1998 by Capital for all employees. OPTION GRANTS IN THE LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUES No options were granted to the named executive during fiscal 2004. The following table sets forth information concerning the number of options owned by the named executive and the value of any in-the-money unexercised options owned by the named executive as of December 31, 2004. No options were exercised by the named executive during the year ended December 31, 2004 and no options were owned by the named executive at December 31, 2004: AGGREGATED OPTION EXERCISES AND YEAR-END OPTION VALUES Number of Securities Value of Unexercised Underlying Unexercised In-The-Money Options/SARs at 12/31/2004 Options/SARs at 12/31/2004 Exercisable Unexercisable Exercisable Unexercisable Richard G. Gagliardi 0 0 $0 $0 COMPENSATION OF DIRECTORS Directors of the Company receive $200 for each regular meeting they attend and $400 for attending an annual meeting. During 2004 the Company paid a total of $800 in director fees for Board of Director meeting attendance. There were no options granted to directors during the year ended December 31, 2004. ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS The following table sets forth certain information as of March 31, 2005 based on information obtained from the persons named below, with respect to the beneficial ownership of shares of Common Stock by (i) each person known by the Company to be the beneficial owner of more than five percent of the outstanding shares of Common Stock, (ii) the named executive, (iii) each of the Company's directors and (iv) all directors and executive officers as a group: AMOUNT AND NATURE PERCENTAGE OF NAME AND ADDRESS OF BENEFICIAL OUTSTANDING BENEFICIAL OWNER OWNERSHIP (2) SHARES OWNED Richard G. Gagliardi(1) 503,490 (1) 38.2% Bernard Gitlow 180,751 (1)(5) 13.7% Nathan Low 149,000 (1)(3) 11.3% Sunrise Foundation Trust 68,000 (1)(4) 5.1% Brian Gonnelli 68,000 (1) 5.1% Russell Frayko 61,301 (6)(7) 4.7% All directors and executive officers as a group (three persons) 745,542 (5),(6),(7) 56.7% -------------------------------- (1) The address of Mr. Gagliardi is 1280 Route 46 West, Parsippany, New Jersey 07054. The address of Mr. Low and Sunrise Foundation Trust is 135 E. 57th Street, New York, NY 10022. The address of Mr. Gonnelli is 22 Kathryn Drive, Whippany, NJ 07981. The address of Mr. Gitlow is 1280 Route 46 West, Parsippany, NJ 07054. (2) Unless otherwise noted, the Company believes that all persons named in the table have sole voting and investment power with respect to all shares of Common Stock beneficially owned by them. (3) According to a joint Schedule 13D filed with the Securities and Exchange Commission represents (i) 31,000 shares of Common Stock owned by Mr. Low (ii) 68,000 shares of Common Stock owned by the Sunrise Foundation Trust, of which Mr. Low is a trustee and (iii) 50,000 shares of Common Stock owned by the Nathan Low Individual Retirement Account f/b/o Low. (4) According to a joint Schedule 13D filed with the Securities and Exchange Commission these shares are also beneficially owned by Nathan Low as Reflected in footnote 3 (iii) above. (5) Includes 175,000 shares of Common Stock issuable upon conversion of 150,000 shares of the Companys 10% Series A Cumulative Convertible Participating Preferred Stock and 25,000 shares of the Company 10% Series B, Cumulative Convertible Participating Preferred Stock. (6) Includes 26,301 shares of Common Stock owned by Mr. Fraykos family. (7) Includes 10,000 shares of Common Stock issuable upon conversion of 10,000 shares of the Companys 10% Series A Cumulative Convertible Participating Preferred Stock. EQUITY COMPENSATION PLAN The following table provides certain information with respect to all of the Companys equity compensation plans in effect as of December 31, 2004: Number of Securities Weighted Average Number of Securities to be issued upon exercise price of remaining available exercise of out- outstanding for issuance under standing options, options, warrants compensation plans warrants and rights and rights (excluding securi- ties reflected in column (a)) Plan Category: (a) (b) (c) Equity compensation Plans approved by security holders: 0 $0.00 0 Equity compensation Plans not approved by Security holders: 0 $0.00 0 Total 0 $0.00 0 ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS During March 2004 the Company borrowed a total amount of $100,000 in demand notes at an annual interest rate of 10% from two directors of the Company, Bernard Gitlow and Russell Frayko, in the amount of $50,000 each. During the quarter ended September 30, 2004, the Company borrowed an additional $25,000 from a board member in the form of a demand note bearing interest at 10% per annum. During December 2004 the Company borrowed $125,000 for one year at a variable rate of interest indexed to the Prime Rate from one of its directors, Bernard Gitlow. As of March 31, 2005 the rate was 6.5% per annum. Additionally, the Company borrowed $20,000 and $50,000 from the Companys President and a relative of the Companys President respectively, through the issuance of demand notes at 10% per annum. ITEM 13. EXHIBITS (a) EXHIBITS *3.1(a) Certificate of Incorporation as Amended **3.1(b) Amendment to Certificate of Incorporation filed February 1995 ***3.1(c) Amendment to Certificate of Incorporation filed January 1998 ***3.1(d) Amendment to Certificate of Incorporation filed December 2001 ***3.1(e) Amendment to Certificate of Incorporation filed December 2002 *3.2 By-Laws ***10.1 Executive Office Lease 21 Subsidiaries of the Company 31.1 Certification of the Principal Executive Officer and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. 32.1 Certification of Principal Executive Officer and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. 99.1 Warehouse Credit Line Extension 99.2 Demand Notes From Officer and Directors _________________________ * Incorporated by reference to the corresponding exhibits in the Company's Registration Statement of Form S-1 (SEC File No. 33-34145). ** Incorporated by reference to the corresponding exhibit in the Company's Form 10-KSB for the year ended December 31, 1994.90 *** Incorporated by reference to the corresponding exhibit in the Companys Form 10-KSB for the year ended December 31, 2002. Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES Independent Auditor Fees Fees for professional services provided by the Companys independent auditors, WithumSmith + Brown, P.C., for the years ended December 31, 2004 and 2003 are as follows: 2004 2003 Audit Fees $62,500 $46,000 Audit-related fees $ 1,500 $ 1,500 Tax fees -0- -0- All other fees -0- -0- Totals $64,000 $47,500 Audit Fees Audit fees consist of fees relative to the audit of the Companys year-end financial statements and review of the Companys quarterly reports on Form 10-QSB. Audit Related Fees Audit Related Fees consists of the Companys agreed upon procedures engagement relating to the Companys HUD filing for the years ended December 31, 2004 and 2003. Audit Committee Pre-Approval Policy It is the policy of the Companys audit committee to approve all engagements of the Companys independent auditors to render audit or non-audit services prior to the initiation of such services. SIGNATURES In accordance with Section 13 or 15(d) of the Exchange Act, the registrant cause this report to be signed on its behalf by the undersigned, thereunto duly authorized. AMERICAN ASSET MANAGEMENT CORPORATION (Registrant) /S/_Richard G. Gagliardi________ 04/15/05 Richard G. Gagliardi Date President In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. /S/_Richard G. Gagliardi________ 04/15/05 Richard G. Gagliardi Date President (Principal Executive, Financial and Accounting Officer) (Signature) 04/15/05 /S/_Bernard Gitlow_______________ Date Bernard Gitlow Director (Signature) 04/15/05 /S/_Russell Frayko_______________ Date Russell Frayko Director (Signature) REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM To the Board of Directors and Stockholders, American Asset Management Corporation and Subsidiaries: We have audited the accompanying consolidated balance sheets of American Asset Management Corporation and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity (deficit) 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 the standards of the Public Company Accounting Oversight Board (United States). 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 audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Asset Management Corporation and Subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully discussed in Note 1 to the financial statements, the Company has suffered significant losses in 2004 and 2003 and has a working capital deficiency of $262,627 and a stockholders deficit of $200,137 as of December 31, 2004. These conditions raise substantial doubt about the Companys ability to continue as going concern. Managements plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that may result from the outcome of this uncertainty. /s/ WithumSmith+Brown, P.C. New Brunswick, New Jersey February 25, 2005, except for Note 12 as to which the date is April 1, 2005 F-1 AMERICAN ASSET MANAGEMENT CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2004 AND 2003 2004 2003 ASSETS Current Assets: Cash $ 308,387 $ 345,947 Mortgage loans held for sale 360,400 829,893 Prepaid expenses and other current assets 8,174 14,287 Total Current Assets 676,961 1,190,127 Property and Equipment, Net 4,524 8,179 Other Assets 57,966 58,924 TOTAL ASSETS $ 739,451 $1,257,230 LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT) Current Liabilities: Warehouse line of credit $ 356,796 $ 813,701 Derivative instrument -- 21,718 Accounts payable, accrued expenses and other current liabilities 255,292 156,985 Notes payable -- 18,005 Notes payable related parties 327,500 -- Total Current Liabilities 939,588 1,010,409 Stockholders Equity (Deficit): Series A Cumulative Convertible Participating Preferred stock, no par value (liquidation preference $210,000); 600,000 shares authorized, 210,000 shares issued and outstanding 205,000 205,000 Series B Cumulative Convertible Participating Preferred stock, no par value; (liquidation Preference $25,000); 300,000 shares authorized, 25,000 shares issued and outstanding 25,000 25,000 Common stock, no par value; 10,000,000 shares authorized; 1,316,989 shares issued and outstanding 3,852,825 3,852,825 Additional paid-in capital 171,998 171,998 Accumulated deficit (4,454,960) (4,008,002) Total Stockholders Equity (Deficit) (200,137) 246,821 TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT) $ 739,451 $1,257,230 The Notes to Consolidated Financial Statements are an integral part of these statements. F-2 AMERICAN ASSET MANAGEMENT CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 2004 2003 Revenues: Net gain from sale of mortgages $ 71,594 $ 731,329 Broker revenue 249,131 -- Interest income 38,471 237,899 Land sales -- 175,000 Total Revenues 359,196 1,144,228 Expenses: Employee compensation and commissions 308,634 385,846 Other expenses 344,609 375,041 Land and development costs -- 186,765 Losses on derivative instruments, net 82,500 6,551 Interest expense 46,911 265,248 Total Expenses 782,654 1,219,451 Net Loss (423,458) (75,223) Dividends on Preferred Stock 23,500 23,500 Net Loss Attributable to Common Stockholders $ (446,958) $ (98,723) Net Loss Per Common Share: Basic $(0.34) $(0.08) Diluted $(0.34) $(0.08) Weighted Average Number of Shares of Common Stock Outstanding: Basic 1,316,989 1,301,225 Diluted 1,316,989 1,301,225 The Notes to Consolidated Financial Statements are an integral part of these statements. F-3 AMERICAN ASSET MANAGEMENT CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 Series A Series B Additional Preferred Stock Preferred Stock Common Stock Paid-In Accumulated Shares Amount Shares Amount Shares Amount Capital Deficit Treasury Stock Shares Amount Total Balance, January 1, 2003 210,000 $205,000 25,000 $25,000 1,316,989 $3,852,825 $231,207 $(3,909,279) (21,019) $(71,145) $333,608 Sale of Treasury Stock -- -- -- -- -- -- (59,209) -- 21,019 71,145 11,936 Preferred Stock Dividends -- -- -- -- -- -- -- (23,500) -- -- (23,500) Net Loss -- -- -- -- -- -- -- (75,223) -- -- (75,223) Balance, December 31, 2003 210,000 205,000 25,000 25,000 1,316,989 3,852,825 171,998 (4,008,002) -- -- 246,821 Preferred Stock Dividends -- -- -- -- -- -- -- (23,500) -- -- (23,500) Net Loss -- -- -- -- -- -- -- (423,458) -- -- (423,458) Balance, December 31, 2004 210,000 $205,000 25,000 $25,000 1,316,989 $3,852,825 $171,998 $(4,454,960) -- $ -- $(200,137) The Notes to Consolidated Financial Statements are an integral part of these statements. F-4 AMERICAN ASSET MANAGEMENT CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 2004 2003 Cash Flows From Operating Activities: Net loss $ (423,458) $ (75,223) Adjustments to reconcile net loss to net cash (used in) provided by operating activities: Depreciation 3,655 2,795 Non-cash interest expense 7,500 -- Losses on derivative instrument 82,500 6,551 Changes in: Mortgage loans held for sale 469,493 3,939,621 Prepaid expenses and other current assets 6,113 (8,900) Land and development costs -- 163,590 Warehouse line of credit (456,905) (3,837,600) Accounts payable, accrued expenses and other current liabilities 93,682 (23,060) Net Cash Provided by(Used in)Operating Activities (217,420) 167,774 Cash Flows From Investing Activities: Purchases of property and equipment - (8,796) Purchases of derivative instrument (104,218) -- Proceeds from derivative instrument -- 15,167 Decrease (increase) in other assets 958 (40,680) Net Cash Used In Investing Activities (103,260) (34,309) Cash Flows From Financing Activities: Payments on notes payable (18,005) (141,068) Proceeds from issuance of notes payable related parties 320,000 -- Payment of preferred stock dividends (18,875) (22,875) Net Cash Provided by(Used In) Financing Activities 283,120 (163,943) Net Decrease In Cash (37,560) (30,478) Cash at Beginning of Year 345,947 376,425 Cash at End of Year $308,387 345,947 Supplemental Disclosure of Cash Flow Information: Cash paid during the year for: Interest $ 46,911 $ 275,176 Income taxes $ -- $ 10,133 Supplemental Schedule of Non-Cash Investing and Financing Activities: Sale of treasury stock resulting in reduction of note payable $ -- $ 11,936 Accrued preferred stock dividends $ 10,500 $ 5,875 The Notes to Consolidated Financial Statements are an integral part of these statements. F-5 AMERICAN ASSET MANAGEMENT CORPORATION AND SUBSIDIARIES- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS. Note 1 - Significant Accounting Policies: Nature of Business Operations American Asset Management Corporation (the Company) through its wholly owned subsidiary, Capital Financial Corp. (CFC) is engaged in originating and selling loans secured primarily by first mortgages on one-to-four family residential properties. CFC is a licensed mortgage banker in the State of New Jersey. CFC also acts as mortgage broker, in that CFC does not make mortgage loans or close loans in its own name, but receives compensation at closing from the borrower for assisting in obtaining a mortgage from a third part investor (purchase of the mortgage) and/or from the investor for referring the loan to such investor. Principles of Consolidation The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Going Concern Uncertainty The Company has incurred operating losses over the past two years in the amount of approximately $498,681. During the year ended December 31, 2004 the Company incurred a net loss $423,458 and used $217,420 of cash to fund operating activities. As of December 31, 2004, the Company had a working capital deficiency $262,627 and a stockholders deficit of $200,137. These conditions raised substantial doubt about the Companys ability to continue as a going concern. Managements plans include raising additional cash in the form of related party loans payable and increased revenue to generate profitable operations. However, there can be no assurances that management will be successful in this regard. The accompanying consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as going concern. Geographic and Customer Concentration and Significant Risks The Company's mortgage banking activities are primarily concentrated in the New Jersey market. The Company's origination and premium fees are derived from loan sales to various investors. During 2004, the Company sold loans to eight different investors, three of which accounted for 60 percent of total volume. During 2003, the Company sold loans to six different investors, two of which accounted for 94 percent of total volume. The Company receives certain of its funds for mortgage banking activities from one mortgage warehouse lending facility (see Note 7). Use of Estimates In preparing financial statements in conformity with accounting principals generally accepted in the United States of America, management makes estimates and assumptions in determining the reported amounts of assets and liabilities and disclosures 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. Property and Equipment Property and equipment are stated at cost. Depreciation and amortization are computed by using the straight-line method over the estimated useful lives of three to five years for computer equipment, furniture and fixtures and office equipment and over the life of the lease for leasehold improvements. Repairs and maintenance expenditures are expensed as incurred. Expenditures for betterments and major renewals are capitalized and, therefore, are included in property and equipment. Reclassifications During 2004, the Company completed a review of its operating statement classifications and determined that changes were required to conform its presentation to industry and accounting standards. The following represents the effects of these changes on the Companys previously reported 2003 operating statement: Operating Statement Caption As Previously Reported As Adjusted Mortgage Origination Fees $1,561,396 $- Net Gain from Sale of Mortgages $- $731,329 Interest Income $408,521 $237,899 Application and Loan Commitment Fees $204,792 $- Employee Compensation $363,516 $385,846 Commissions $1,081,834 $- Other Expenses $521,018 $375,041 There was no effect on the Companys loss for 2003 as a result of the above reclassifications. The Company also made certain reclassifications to its December 31, 2003 consolidated balance sheet. However, these reclassifications were immaterial. Derivative Instruments The Company had purchased in 2003, derivative instruments to stabilize its risk associated with market fluctuations in interest rates. Such derivative instruments do not constitute an effective hedging strategy in accordance with generally accepted accounting principles and therefore these purchases are treated as speculative investments. The fair market value of the derivative instruments are marked to market at each reporting date on the Companys balance sheet and all unrealized gains and losses are recognized in earnings currently. The unrealized loss on the Companys freestanding derivative contract was $21,718 as of December 31, 2003. There were no open derivative contracts at December 31, 2004. Mortgage Loans Held for Sale Mortgage loans held for sale represent mortgage loans originated and held pending sale to interim or permanent investors. The mortgages are carried at the lower of cost or market as determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate loan basis. The

Company defers net loan origination fees as a component of mortgage loans held for sale on the balance sheet. Revenue and Cost Recognition Net Gain from Sale of Mortgages The Company records gain on sale of mortgages in accordance with SFAS No. 140, which provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. This statement also provides standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. The Company does not engage in servicing mortgages held for sale. Gains or losses resulting from sales of mortgage loans are recognized at the date of settlement and are based on the difference between the selling price and the carrying value of the related loans sold. Nonrefundable fees and direct costs associated with the origination of mortgage loans are deferred and recognized when the loans are sold. Loan sales are accounted for as sales when control of the loans is surrendered. Interest Recognition Interest income is accrued as earned. Loans are placed on a nonaccrual status when any portion of the principal or interest is 90 days past due or earlier when concern exists as to the collectibility of principal or interest. The Company had no loans on nonaccrual status at December 31, 2004 and 2003. Loans return to accrual status when principal and interest become current and are anticipated to be fully collectible.Interest expense is recorded on outstanding borrowings on the Companys warehouse line of credit based on the lines effective interest rate. Broker Revenue In 2004, the Company began generating revenue by acting as a broker of sub- prime credit quality loans. The Company does not fund these loans from their warehouse line, and therefore, does not sell them to investors. The Company recognizes revenue from these loans when it receives its broker fee, which is typically when the loan closes. Concentration of Credit Risk The Company maintains cash balances, at times, with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation. Management monitors the soundness of these institutions and considers the Companys risk negligible. Net Loss Per Common Share Net loss per share is computed by dividing net loss attributable to common stockholders by the weighted number of common shares outstanding. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Basic and diluted net loss per common share for 2004 and 2003 are the same because the effect of the preferred stock conversions would be anti-dilutive. Income Taxes Deferred income tax assets and liabilities are computed for differences between financial statement and tax basis of assets and liabilities that will result in future taxable or deductible amounts, based on the enacted tax laws and rates to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The primary deferred tax items are net operating loss carryforwards. All deferred tax assets are fully reserved for because it is more likely than not that the benefit will not be realized. Effects of Recent Accounting Pronouncements In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 149 requires that contracts with comparable characteristics be accounted for similarly and clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative and when a derivative contains a financing component. SFAS No. 149 also amends the definition of an underlying to conform it to language used in FIN No. 45, Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. SFAS No. 149 was effective for contracts entered into or modified after June 30, 2003, with certain exceptions. The adoption of SFAS No. 149 did not have a impact on the Companys historical financial position or results of operations. In March 2004, the Securities and Exchange Commission issued Staff Accounting Bulletin No.105 - Application of Accounting Principles to Loan Commitments. The staff accounting bulletin summarizes the view of the SEC staff regarding the application of generally accepted accounting principles to loan commitments accounted for as derivative instruments. The bulletin indicates that loan commitments should be accounted for as derivative instruments and measured at fair value. The staff also indicated a Company should disclose its accounting policy for loan commitments pursuant to APB Opinion no. 22 Disclosure of Accounting Policies. The staff also indicates that they would expect all loan commitments accounted for as derivatives and entered into after March 31, 2004 to apply the accounting described in this bulletin. The interpretation by the SEC staff did not have a material effect on the Companys consolidated results of operations and financial condition. Note 2 - Fair Value of Financial Instruments: The fair value of the Companys mortgage loans held for sale, warehouse line of credit, notes payable and derivative instrument approximate carrying value as of December 31, 2004 and 2003 due to the short term maturity of these items. Note 3 - Property and Equipment: Property and equipment at December 31 consist of: 2004 2003 Computer equipment $ 79,529 $ 79,529 Furniture and fixtures 19,291 19,291 Office equipment 46,080 46,080 Leasehold improvements 2,240 2,240 147,140 147,140 Less: Accumulated depreciation and amortization 142,616 138,961 Property and Equipment, Net $4,524 $8,179 Depreciation and amortization expense was $3,655 and $2,795 for the years ended December 31, 2004 and 2003, respectively. Note 4 - Retirement Plan: The Company maintains a SIMPLE individual retirement account plan under section 408(p) of the Internal Revenue Code whereby eligible employees are permitted salary reduction contributions. The Company may make nonelective contributions equal to 2 percent of compensation for the calendar year to the SIMPLE IRA of each eligible employee. For the years ended December 31, 2004 and 2003, the Company contributed $130 and $3,450 to employee retirement plans. Note 5 - Accounts Payable, Accrued Expenses and Other Current Liabilities: Accounts payable, accrued expenses and other current liabilities consist of the following at December 31: 2004 2003 Accounts payable $ 60,792 $102,646 Legal and accounting fees 130,629 16,613 Accrued expenses and other current liabilities 53,371 31,851 Preferred stock dividends 10,500 5,875 Total $255,292 $156,985 The Companys Chairman has forgiven $28,846 of salary owed to him for services provided during 2004. This reduced his annual compensation from $150,000 to $121,154. Note 6 - Notes Payable: Notes payable consists of the following at December 31: 2004 2003 Note payable (face amount $8,750 as of December 31, 2003) - imputed interest at 7.5 percent per annum, personally guaranteed by the Companys President, final payment made September 2004 $ -- $ 18,500 Related party notes payable, unsecured, interest at various fixed and variable rates per annum, payable on demand 327,500 -- Related party notes payable consist of the following at December 31, 2004: Notes payable to Chairman of the Board $ 20,000 Notes payable to relative of Chairman 50,000 Notes payable to other Board Members 250,000 Accrued interest payable 7,500 Total $327,500 Interest expense on the related party notes payable amounted to $7,500 for the year ended December 31, 2004. Note 7 - Warehouse Line of Credit: The Company has a warehouse line of credit of $7,000,000 with a financial institution, which was scheduled to expire on March 31, 2005 (see Note 12). This line bears various interest rates from prime plus 3/4 to prime plus 1 1/2 percent, based on the type of loan written. The prime rate at December 31, 2004 was 5.25 percent. Funds from this line of credit are used for short-term financing of mortgage loans held for sale, and are secured by residential mortgage loans and a personal guarantee of the Companys President. The investor pays the line of credit at the time of the closing. As of December 31, 2004, two loans, amounting to $360,400 had yet to be delivered to investors, resulting in a warehouse loan payable of $356,796. As of December 31, 2003, three loans, amounting to $829,893, had yet to be delivered to investors, resulting in a warehouse loan payable of $813,701. The Company is required to maintain several financial covenants including: 1) maintaining a minimum adjusted net worth of $550,000 and 2) not exceeding a maximum leverage ratio of 20 to 1. The Company did not meet the minimum adjusted net worth requirement as of March 11, 2004 (the inception date of the agreement) and December 31, 2004. The bank has informed the Company in writing that they will not consider a net worth deficiency as an event of default under the line of credit. Note 8 - Income Taxes: There was no provision for income taxes for the years ended December 31, 2004 and 2003, due to the losses generated in each year. All deferred tax assets are fully reserved for because it is more likely than not that the deferred tax asset will not be realized. Deferred income taxes, consisting primarily of net operating loss carryforwards, are summarized as follows at December 31: 2004 2003 Deferred Income Tax Asset $1,582,247 $1,418,202 Valuation Allowance (1,582,247) (1,418,202) Net Deferred Income Tax Asset -- -- Deferred Income Tax Liability -- -- Net Deferred Income Tax Liability $ -- $ -- The Company has federal net operating loss carryforwards available to offset future taxable income of approximately $4,088,000 at December 31, 2004, which expire in 2006 through 2018, and state net operating loss carryforwards of approximately $3,205,000 which expire in 2006 through 2011. The use of New Jersey net operating loss carryforwards is partially suspended until 2005. For the years ended December 31, 2004 and 2003, the Companys effective tax rate differs from the federal statutory rate principally due to net operating losses and other temporary differences for which no benefit was or has been recorded. Note 9 - Stockholders Equity: The Company has also authorized the issuance of 600,000 shares of Series A Cumulative Convertible Participating Preferred Stock with no par value. The holder is entitled to annual dividends of $.10 per preferred share, accruing from the date of original issue and payable in cash on a quarterly basis at a rate of $.025 per preferred share. Preferred shares rank senior to the common stock with respect to dividends and liquidating distributions or any future capital stock that ranks junior to the preferred shares. Each preferred share may be converted by the holders thereof, at any time, into one share of common stock of the Company at a conversion price equal to $1.00, subject to certain adjustments, which include: payment of stock dividends on common stock, common stock splits, or combinations affecting the common stock and recapitalizations, mergers or reorganizations. Preferred stock holders have no voting rights, except where required by law or upon conversion to common stock. The Company authorized the issuance of 300,000 shares of Series B Cumulative Convertible Participating Preferred Stock with no par value. The holder is entitled to annual dividends of $.10 per preferred share, accruing from the date of original issuance and payable in cash on a quarterly basis at a rate of $.025 per preferred share. Series B Preferred shares rank senior to the common stock and are on parity with the Series A Preferred Stock with respect to dividends and liquidating distributions or any future capital stock that ranks junior to the preferred shares. Each preferred share may be converted by the holders thereof, at any time, into one share of common stock of the Company at a conversion price equal to $1.00, subject to certain adjustments, which include: payment of stock dividends on common stock, common stock splits, or combinations affecting the common stock and recapitalizations, mergers or reorganizations. Preferred stock holders have no voting rights, except where required by law or upon conversion to common stock. Cumulative unpaid declared dividends on all preferred stock totaled $10,500 and $5,875 as of December 31, 2004 and 2003, respectively. In August 2001, the Company issued a note payable (See Note 6) to purchase 21,019 shares of its outstanding common stock as part of a settlement. In 2003, the treasury stock was sold by a state government and the proceeds were remitted directly to the noteholder to reduce the balance of the note payable. Note 10 - Commitments and Contingent Liabilities: Operating Leases The Company has entered into various operating lease agreements for office space and office equipment. The leases expire periodically through December 2006. The future minimum rental commitments under non-cancelable operating leases are as follows: Year Amount 2005 $54,111 2006 6,528 Thereafter -- Total $60,639 Rental costs under operating leases included in other expenses amounted to $56,382 and $56,646 for the years ended December 31, 2004 and 2003, respectively. Pending Litigation On March 25, 1999, the Company, its President, and the Companys wholly owned subsidiaries Capital Financial Corp. and American Asset Development Corporation (the Company Defendants) and one of the Companys former directors together with other individuals were named in an action filed in the Superior Court of New Jersey, Chancery Division by two New Jersey limited liability companies (the LLCs). The plaintiffs allege the Companys former director and other defendants other than the Company Defendants (Other Defendants) misappropriated assets and opportunities of the LLCs for their own use, engaged in self-dealing with respect to the LLCs, breached the operating agreements of the LLCs and converted and embezzled assets and funds of the LLCs. The Company Defendants are alleged to have aided and abetted the Companys former director in converting the assets of the LLCs by accepting loans and payments from the LLCs and the Companys former director and repaying loans to the Companys former director in the form of cash and Company stock. The LLCs seek declaratory and injunctive relief against the Company Defendants; an accounting of (1) all shares of Company stock purchased by the Companys former director and Other Defendants and (2) all payments to or from the Company and the Companys former director and Other Defendants; imposition of a lien or equitable trust in favor of the LLCs on shares of the Companys stock issued to the Companys former director and Other Defendants; and certain unspecified compensatory and punitive damages, attorneys fees and costs. Pending Litigation In April 1999, the Court granted a preliminary injunction, which among other things, enjoins the Companys Defendants from allowing the transfer of any Company stock held in the name of the Companys former director and Other Defendants and directs the Company Defendants to provide an accounting of all such stock. The case is scheduled for a June 2005 trial. The plaintiffs had previously demanded a payment of $588,000 from the Company and related Defendants and have currently reduced their demand to $300,000. There is no settlement offer currently pending from the Company. The Company denies any wrongdoing and believes that the claims against the Company Defendants are without merit, and that it has meritorious defenses and intends to defend the action vigorously. However, at this time the Company cannot predict their ultimate liability, if any, that may result from this action. Minimum Net Capital Requirements CFC is a HUD non-supervised mortgagee, and as such is required to maintain certain levels of minimum net worth and is subject to certain report filing requirements. CFC was in compliance with the minimum net worth requirement as of December 31, 2004. The Company did not file the financial statements of CFC with HUD by the required due date of March 31, 2005. Note 11 - Stock Based Compensation: The Company adopted a 1992 Stock Option Plan, whereby the Company may grant incentive and new qualified options to eligible participants that vest upon grant date. The plan provided for the issuance of options with terms of not more than ten years. The plan included a provision whereby stock options granted by the Company may not exceed 100,000 shares of common stock, and accordingly has reserved 100,000 shares for this purpose. The plan was terminated on May 22, 2002. All outstanding options that had been granted under this plan expired in 2003. Note 12 - Subsequent Event On April 1, 2005, the Company renewed its existing warehouse line of credit at substantially the same terms, except the amount available under the line was reduced to $4,000,000. This line has an expiration date of June 30, 2005. The line contains various financial covenants including the maintenance of a minimum adjusted net worth of $250,000 and a maximum permitted debt to adjusted net worth ratio of 20 to 1. Exhibit No. 21 SUBSIDIARIES OF THE COMPANY JURISDICTION NAME OF INCORPORATION American Asset Development Corporation New Jersey Capital Financial Corp. New Jersey