



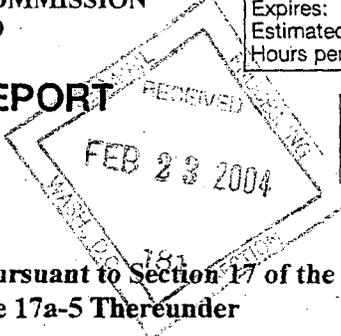
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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



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 01/01/2003 AND ENDING 12/31/2003
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

DebtX Securities, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

101 Arch Street, Suite 410

(No. and Street)

Boston

MA

(City)

(State)

02110
(Zip Code)

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

Troy Quimby

617-443-9199

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Kempisty & Company, Certified Public Accountants, P.C.

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

15 Maiden Lane, Suite 1003

New York

New York

10038

(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 15 2004

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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).

Potential persons who are to 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.

OATH OR AFFIRMATION

I, Troy Quimby, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of DebtX Securities, Inc., as of December 31, 20 03, 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:

Handwritten signature of Dierdre Steinhaus Aimbinder over a line labeled 'Signature' and a line labeled 'Title'.

DIERDRE STEINHAUS AINBINDER
Notary Public, State of New York
No. 01A14899711
Qualified in Nassau County
Commission Expires July 8, 20 05

Handwritten signature of Dierdre Steinhaus Aimbinder over a line labeled '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 Proprietor's Capital.
(f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
(g) Computation of Net Capital.
(h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
(i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
(j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-3 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).



DEBTX SECURITIES, INC.

**FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

**YEAR ENDED DECEMBER 31, 2003
WITH SUPPLEMENTARY REPORT
OF INDEPENDENT PUBLIC AUDITOR**

DEBTX SECURITIES, INC.

DECEMBER 31, 2003

INDEX

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
STATEMENT OF FINANCIAL CONDITION	2
STATEMENT OF OPERATIONS	3
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY	4
STATEMENT OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6-7
<u>SUPPLEMENTARY INFORMATION PURSUANT TO RULE 17a-5 OF THE SECURITIES EXCHANGE ACT OF 1934:</u>	
SCHEDULE I - COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION	9
SCHEDULE II - COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS UNDER RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION	10
SUPPLEMENTARY REPORT OF INDEPENDENT PUBLIC AUDITOR	12-13

KEMPISTY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, P.C.

15 MAIDEN LANE - SUITE 1003 - NEW YORK, NY 10038 - TEL (212) 406-7272 - FAX (212) 513-1930

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
DebtX Securities, Inc.

We have audited the accompanying statement of financial condition of DebtX Securities, Inc. as of December 31, 2003 and the related statements of operations, 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 DebtX Securities, Inc. at December 31, 2003 and the results of its' operations and 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.

Kempisty & Company CPAs, P.C.

Kempisty & Company
Certified Public Accountants PC
New York, New York
February 17, 2004

DEBTX SECURITIES, INC.

STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2003

ASSETS

Cash and cash equivalents	\$	33,555
Prepaid expenses		1,743
Other assets		<u>184</u>
TOTAL ASSETS	\$	<u><u>35,482</u></u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Accounts payable and accrued expenses	\$	2,866
Commitments and Contingencies (Note 6)		-
Stockholder's equity		
Common stock, par value \$0.01, 3,000 shares authorized, 1 share issued and outstanding		-
Paid-in capital		53,123
Deficit		<u>(20,507)</u>
Total Stockholder's Equity		<u>32,616</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$	<u><u>35,482</u></u>

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

DEBTX SECURITIES, INC.

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2003

Revenues:

Fee income	\$	20,339
Interest income		<u>115</u>
Total Revenues		<u>20,454</u>

Expenses:

Professional fees		14,279
Loan preparation costs		2,662
Regulatory fees		2,331
Insurance		587
Miscellaneous		<u>2,405</u>
Total Expenses		<u>22,264</u>

Net loss	\$	<u><u>(1,810)</u></u>
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The accompanying notes are an integral part of these financial statements.

DEBTX SECURITIES, INC.

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2003

	Common Stock		Additional Paid-in Capital	Deficit	Totals
	Shares	Amount			
Balances at January 1, 2003	-	\$ -	\$ 39,838	\$ (18,697)	\$ 21,141
Capital contribution from Parent	-	-	13,285	-	13,285
Net loss	-	-	-	(1,810)	(1,810)
Balances at December 31, 2003	-	\$ -	\$ 53,123	\$ (20,507)	\$ 32,616

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

DEBTX SECURITIES, INC.

STATEMENT OF CASH FLOWS

FOR YEAR ENDED DECEMBER 31, 2003

Increase (Decrease) in cash

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$	(1,810)
Adjustments to reconcile net loss to net cash used by operating activities:		
Changes in operating assets and liabilities:		
Decrease in prepaid expenses		322
(Increase) in other assets		(184)
(Decrease) in accounts payable and accrued expenses		(3,134)
Total adjustments		<u>(2,996)</u>

NET CASH USED BY OPERATING ACTIVITIES (4,806)

CASH FLOWS FROM FINANCING ACTIVITIES:

Capital contribution from Parent 13,285

CASH PROVIDED BY FINANCING ACTIVITIES 13,285

NET INCREASE IN CASH 8,479

CASH - Beginning of year 25,076

CASH - End of year \$ 33,555

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

DEBTX SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE 1- ORGANIZATION AND NATURE OF BUSINESS

DebtX Securities, Inc. (the "Company"), a wholly owned subsidiary of The Debt Exchange, Inc. (the "Parent"), is a registered broker-dealer under the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. The Company assists the Parent with selling assets classified as securities by the Securities and Exchange Commission. The Parent has committed to continue providing financial support through, at a minimum, March 31, 2005.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Securities transactions and related income and expenses are recorded on the books on a trade date basis.

Cash and Cash Equivalents

All short-term investments with an original maturity of three months or less are considered to be cash equivalents.

Concentration of Credit Risk

The Company is engaged in various investment and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

DEBTX SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive Income

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). SFAS No. 130 requires an entity to report comprehensive income and its components and increases financial reporting disclosures. This standard has no impact on the Company's financial position, cash flows or results of operations since no elements of the Company's comprehensive income exist other than the loss from operations.

NOTE 3- NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1(2)(vi), which requires the maintenance of minimum net capital of \$5,000. At December, 31 2003, the Company had net capital of \$30,689, which was \$25,689 In excess of its required net capital of \$5,000. The Company's aggregate indebtedness to net capital ratio was 0.0934 to 1.

NOTE 4- RELATED PARTY TRANSACTIONS

During the year ended December 31, 2003, the Parent provided administrative and other services (including office space) to the Company. There were no amounts paid to the Parent for these services.

During the year ended December 31, 2003, the Parent paid \$13,285 of expenses directly attributable to the Company. The amount due to the Parent of \$13,285 was contributed to the Company as additional paid-in capital.

NOTE 5- INCOME TAXES

It was determined by the Parent during 2003 that it was in their best interest to file separate tax returns, instead of filing on a consolidated basis. At December 31, 2003, the Company has an available net operating loss carryforward of approximately \$18,000, which expires in 2023. The Company has recorded a valuation allowance for the full amount of the deferred tax asset associated with the operating loss carryforward as it is more likely than not that the deferred tax asset will not be realized.

NOTE 6- COMMITMENTS AND CONTINGENCIES

The Parent provides office space to the Company at no cost.

SUPPLEMENTARY INFORMATION PURSUANT TO RULE 17a-5
OF THE SECURITIES EXCHANGE ACT OF 1934

DEBTX SECURITIES, INC.

**SCHEDULE I
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE
SECURITIES AND EXCHANGE COMMISSION
DECEMBER 31, 2003**

NET CAPITAL:		
Stockholder's equity		\$ 32,616
Less non-allowable assets and deductions:		
Prepaid expenses	1,743	
Undeposited funds	<u>184</u>	
		1,927
Less: Haircuts		0
NET CAPITAL		\$ <u>30,689</u>
AGGREGATE INDEBTEDNESS, total liabilities		\$ <u>2,866</u>
MINIMUM NET CAPITAL REQUIRED (6.67% of aggregate indebtedness)		\$ <u>191</u>
MINIMUM NET CAPITAL DOLLAR REQUIREMENT		\$ <u>5,000</u>
MINIMUM NET CAPITAL REQUIRED		\$ <u>5,000</u>
EXCESS NET CAPITAL (\$30,689 - \$5,000)		\$ <u>25,689</u>
PERCENTAGE OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	\$ <u>2,866</u> \$ 30,689	<u>9.34%</u>

There are no material differences between the above computation and the computation included in the Company's corresponding unaudited form X-17A-5 Part IIA filing.

DEBTX SECURITIES, INC.

**SCHEDULE II
COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
UNDER RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION
DECEMBER 31, 2003**

The Company is exempt from the Securities and Exchange Commission Rule 15c3-3 and, therefore, is not required to maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers".

DEBTX SECURITIES, INC.

**INDEPENDENT PUBLIC ACCOUNTANTS' SUPPLEMENTARY REPORT ON
INTERNAL ACCOUNTING CONTROL**

DECEMBER 31, 2003

KEMPISTY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, P.C.

15 MAIDEN LANE - SUITE 1003 - NEW YORK, NY 10038 - TEL (212) 406-7272 - FAX (212) 513-1930

DebtX Securities, Inc.
Boston, Ma

In planning and performing our audit of the financial statements of DebtX Securities, Inc. (the "Company") for the year ended December 31, 2003, 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 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 paragraphs. 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 generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

DebtX Securities, Inc.

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, 2003 to meet the Commission's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, and other regulatory agencies which 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.

Kempisty & Company CPAs, P. C.

Kempisty & Company
Certified Public Accountants PC
New York, New York
February 17, 2004