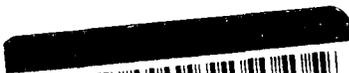


12-6-2004



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UNITED STATES EXCHANGE COMMISSION  
Washington, D.C. 20549

VF 12-3-04

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

SEC FILE NUMBER
8-45650

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 October 1, 2003 AND ENDING September 30, 2004  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Sword Securities Corp.

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

OFFICIAL USE ONLY
FIRM I.D. NO.

34 Chambers Street  
(No. and Street)

Princeton NJ 08542  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
William Sword Jr. 609-924-6710  
(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

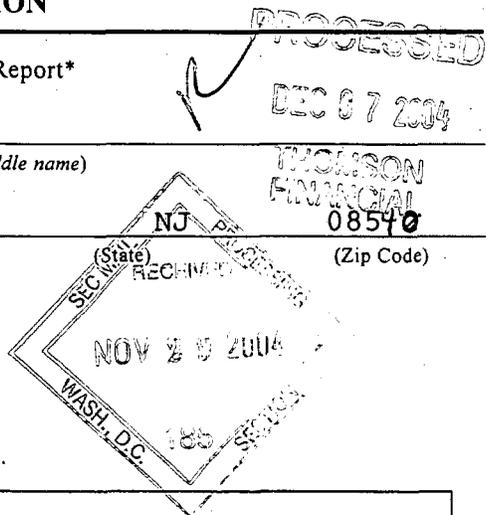
INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Withum Smith & Brown  
(Name - if individual, state last, first, middle name)

5 Vaughn St Princeton 08540  
(Address) (City) (Zip Code)

CHECK ONE:

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



FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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.

2002

OATH OR AFFIRMATION

I, William Sword Jr., swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Sword Securities Corporation, as of September 30, 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 Sword Jr.  
Signature

Managing Director  
Title

Kathleen Camisa  
Notary Public

**KATHLEEN CAMISA**  
**NOTARY PUBLIC OF NEW JERSEY**  
**Commission Expires 2/6/2006**

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).



**SWORD SECURITIES CORPORATION**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2004**

**SWORD SECURITIES CORPORATION  
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SEPTEMBER 30, 2004**

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Additional Offices in New Jersey  
and Pennsylvania

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Sword Securities Corporation:

We have audited the accompanying statements of financial condition of Sword Securities Corporation as of September 30, 2004 and 2003, and the related statements of operations, changes in stockholder's equity 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 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 audits provide 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 Sword Securities Corporation as of September 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the supplementary schedules of computation of net capital pursuant to Rule 15c3-1 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audits 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.

November 8, 2004

**SWORD SECURITIES CORPORATION  
STATEMENTS OF FINANCIAL CONDITION  
SEPTEMBER 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
Cash	\$ 103,741	\$ 1,603
Restricted cash	4,105	24,052
Receivable from correspondent broker	13,183	5,785
Prepaid expenses	--	469
Deposits	638	58
Equipment, net of accumulated depreciation of \$937 and \$-0-, respectively	<u>1,873</u>	<u>--</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 123,540</u></b>	<b><u>\$ 31,967</u></b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 70,297	\$ 5,207
Income taxes payable	<u>2,715</u>	<u>500</u>
Total Liabilities	73,012	5,707
<b>Stockholder's Equity:</b>		
Common stock, \$1 par value; authorized 3,000 shares, issued and outstanding 100 shares	100	100
Additional paid-in capital	112,691	110,568
Accumulated deficit	<u>(62,263)</u>	<u>(84,408)</u>
Total Stockholder's Equity	<u>50,528</u>	<u>26,260</u>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b><u>\$ 123,540</u></b>	<b><u>\$ 31,967</u></b>

The Notes to Financial Statements are an integral part of these statements.

**SWORD SECURITIES CORPORATION**  
**STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Revenues:		
Brokerage commissions	\$ 141,961	\$ 73,691
Management fees	80,660	--
Interest	95	241
Total Revenues	<u>222,716</u>	<u>73,932</u>
Costs and Expenses:		
Commissions	17,808	17,128
Communications and research	--	2,438
Trading expenses	21	4,175
Regulatory fees	5,937	7,794
Insurance	--	10,612
Interest	--	342
Accounting	3,725	4,234
Legal	1,120	50
Payroll	--	6,157
Payroll taxes	--	524
Consulting	130,790	12,557
Travel	17	62
Business meals and entertainment	--	4,662
Telephone	--	3,432
Printing and supplies	482	840
Postage	1,508	838
Miscellaneous	152	416
Dues and subscriptions	--	110
Management fee - related party	35,000	--
Contributions	250	--
Depreciation	936	764
Total Costs and Expenses	<u>197,746</u>	<u>77,135</u>
Income (Loss) Before Provision for Income Taxes	24,970	(3,203)
Provision for Income Taxes		
Current	2,825	660
Total Provision for Income Taxes	<u>2,825</u>	<u>660</u>
Net Income (Loss)	<u>\$ 22,145</u>	<u>\$ (3,863)</u>

The Notes to Financial Statements are an integral part of these statements.

**SWORD SECURITIES CORPORATION**  
**STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance, September 30, 2002	\$ 100	\$ 90,587	\$ (80,545)	\$ 10,142
Additional Capital Contribution	--	19,981	--	19,981
Net Loss	--	--	<u>(3,863)</u>	<u>(3,863)</u>
Balance, September 30, 2003	100	110,568	(84,408)	26,260
Additional Capital Contribution	--	2,123	--	2,123
Net Income	--	--	<u>22,145</u>	<u>22,145</u>
Balance, September 30, 2004	<u>\$ 100</u>	<u>\$ 112,691</u>	<u>\$ (62,263)</u>	<u>\$ 50,528</u>

The Notes to Financial Statements are an integral part of these statements.

**SWORD SECURITIES CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$ 22,145	\$ (3,863)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	936	764
Cash provided by (used for) changes in:		
Restricted cash	19,947	948
Receivable from correspondent broker	(7,398)	(5,683)
Prepaid expenses	469	150
Deposits	(580)	(58)
Accounts payable and accrued expenses	67,214	6,223
Accounts payable-related party	--	2,267
Income taxes payable	2,215	260
Net Cash Provided by Operating Activities	104,948	1,008
<b>Cash Flows from Investing Activities:</b>		
Purchase of equipment	(2,810)	--
Net Cash Used for Investing Activities	(2,810)	--
Net Increase in Cash	102,138	1,008
Cash at Beginning of Year	1,603	595
Cash at End of Year	\$ 103,741	\$ 1,603
 <u>Supplemental Disclosure of Cash Flow Information:</u>		
Cash paid during the year for:		
Interest	\$ --	\$ 342
Income taxes	\$ 610	\$ 100

Supplemental Disclosures of Non-Cash Investing and Financing Activities:

During the years ended September 30, 2004 and 2003, the parent company forgave \$2,123 and \$19,981 of net expenses paid on behalf of the Company, which were considered capital contributions.

The Notes to Financial Statements are an integral part of these statements.

**SWORD SECURITIES CORPORATION  
NOTES TO FINANCIAL STATEMENTS**

**Note 1 - Summary of Significant Accounting Policies:**

Significant accounting policies followed by the Company in the preparation of the accompanying financial statements are summarized below:

**A. Nature of Business Operations**

Sword Securities Corporation was incorporated in September 1992 under the laws of the State of Delaware and was registered as a broker-dealer on May 21, 1993 pursuant to Section 15(b) of the Securities Exchange Act of 1934, as amended. The Company is a wholly owned subsidiary of Wm Sword & Co. Incorporated.

**B. Use of Estimates**

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

**C. Revenue Recognition**

In accordance with industry practice, brokerage commissions on securities transactions are recorded on a settlement date basis, generally the third business day following the transaction date. There would be no material effect on the financial statements if such transactions were recorded on the trade date.

**D. Receivables and Credit Policies**

Receivables from correspondent broker consist of commissions earned through the Company's clearing agreement and are generally payable within 30 days. Amounts receivable over 30 days are considered delinquent. Management assesses the need to record an allowance for uncollectible receivables based on past due amounts. There are no delinquent accounts as of September 30, 2004.

**E. Depreciation**

Depreciation is computed using the straight-line method over the asset's economic useful lives. The depreciable life of the Company's equipment is three to five years.

**F. Income Taxes**

Deferred income tax assets and liabilities are recognized for the differences between financial and income tax reporting basis of assets and liabilities based on enacted tax rates and laws. The deferred income tax provision or benefit generally reflects the net change in deferred income tax assets and liabilities during the year.

**Note 2 - Restricted Cash:**

The Company maintained an escrow account with its clearing broker, Pershing & Company, in the amount of \$25,000, pursuant to its clearing agreement. In May, 2003, Pershing terminated the clearing agreement and the Company expects to recover the escrow account balance, less certain administrative expenses. The balance in the account as of September 30, 2004 was \$4,105.

**Note 3 - Correspondent Broker Agreements**

In May 2003, Pershing & Company terminated its clearing agreement with the Company. The Company entered an agreement with another correspondent broker, Bear Stearns.

**Note 4 - Receivable from Correspondent Broker:**

The receivable from correspondent broker represents commissions earned from another broker-dealer with whom the Company acts as an introducing broker-dealer, forwarding all of the transactions of its customers to the correspondent broker-dealer for clearing on a fully disclosed basis. Receivables from correspondent brokers amounted to \$13,183 and \$5,785 as of September 30, 2004 and 2003, respectively.

**SWORD SECURITIES CORPORATION  
NOTES TO FINANCIAL STATEMENTS**

**Note 5 - Net Capital Requirements:**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of a minimum net capital amount and requires that the ratio of aggregate indebtedness to net capital, as defined, shall not exceed 15.0 to 1.0. At September 30, 2004 the Company had net capital of \$48,017, which was \$43,017 in excess of its required minimum net capital of \$5,000. Also, at September 30, 2004, the Company's ratio of aggregate indebtedness to net capital was 1.5 to 1.0.

**Note 6 - Special Account for the Exclusive Benefit of Customers:**

The Company is exempt from the provisions of Rule 15c3-3 of the Securities Exchange Act of 1934 and, therefore, is not required to maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers" since it meets the requirements of Rule 15c3-3(k)(2)(B), which, among other provisions, requires the Company to clear all transactions with and for customers on a fully-disclosed basis with a clearing broker or dealer, and to promptly transmit all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers.

**Note 7 - Income Taxes:**

Temporary differences which give rise to significant deferred income tax assets and (liabilities) at September 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Assets:		
Capital Loss Carryforwards	\$ 8,727	\$ 8,727
Net Operating Loss Carryforwards	--	2,696
Valuation Allowance	<u>(8,727)</u>	<u>(11,423)</u>
Deferred Tax Asset, Net	<u>\$ --</u>	<u>\$ --</u>

The provision for income tax expense (benefit) for the years ended September 30 consist of the following components:

	<u>2004</u>	<u>2003</u>
Federal-Current	\$ 3,524	\$ --
State-Current	1,997	660
Benefit of Net Operating Loss Carryforwards	(2,696)	--
Deferred	--	--
Total	<u>\$ 2,825</u>	<u>\$ 660</u>

The income tax provisions differ from the expected tax computed at the federal statutory rates due to non-deductible expenses and the use of net operating loss carryforwards.

**Note 8 - Related Party Transactions:**

During the years ended September 30, 2004 and 2003, the parent company paid total expenses on behalf of the Company in the amount of \$2,123 and \$19,981 and forgave those amounts which were considered additional paid-in capital contributions on the statement of financial condition.

For the year ended September 30, 2004, the Company paid its Parent a management fee of \$35,000 to cover overhead and other expenses.

**Note 9 - Concentration of Credit Risk:**

The Company maintains cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on its cash balances.

**SWORD SECURITIES CORPORATION**  
**SCHEDULES OF COMPUTATION OF NET CAPITAL**  
**PURSUANT TO RULE 15c3-1**  
**SEPTEMBER 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Total Stockholder's Equity	\$ 50,528	\$ 26,260
Less Nonallowable Assets:		
Deposits	638	58
Other assets	--	469
Equipment, net	<u>1,873</u>	<u>--</u>
Total Nonallowable Assets	<u>2,511</u>	<u>527</u>
Haircuts	<u>--</u>	<u>--</u>
Net Capital	48,017	25,733
Minimum Net Capital Required	<u>5,000</u>	<u>5,000</u>
Net Capital Over Minimum Requirement	<u>\$ 43,017</u>	<u>\$ 20,733</u>
Reconciliation with Company's Computation, Included in Part II A of Form X-17A-5, as of September 30, 2004 and 2003:		
Net Capital as Reported in Company's September 30, 2004 and 2003 FOCUS Reports	\$ 50,233	\$ 25,621
Cash	-	124
Correspondent broker receivable	(1)	488
Income taxes payable	<u>(2,215)</u>	<u>(500)</u>
Net Capital, as Stated Above	<u>\$ 48,017</u>	<u>\$ 25,733</u>

See Independent Auditors' Report.



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Additional Offices in New Jersey  
and Pennsylvania

## INDEPENDENT AUDITORS' REPORT ON INTERNAL ACCOUNTING CONTROL

To the Board of Directors,  
Sword Securities Corporation:

In planning and performing our audit of the financial statements of Sword Securities Corporation for the year ended September 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We also made a study of the practices and procedures followed by the Company in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company (1) in making the quarterly securities examinations, counts, verifications and comparisons, and the recording of differences required by Rule 17a-13 or (2) in complying with the requirements for prompt payment for securities of section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining an internal control structure 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 internal control structure policies and procedures 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 Commission's above-mentioned objectives. Two of the objectives of an internal control structure 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 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.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities 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 the internal control structure would not necessarily disclose all matters in the internal control structure 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 structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 the internal control structure 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 Commission 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 September 30, 2004 to meet the Commission's objectives.

This report is intended solely for the information and use of management, the Securities and Exchange Commission, the National Association of Securities Dealers, The New York Stock Exchange, and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.



November 8, 2004