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



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

SEC FILE NUMBER  
8 053394

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 01/01/2004 AND ENDING 12/31/2004  
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.)

133 Federal Street, 10<sup>th</sup> Floor

(No. and Street)

Boston

MA

02110

(City)

(State)

(Zip Code)

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

Troy Quimby

617-531-3435

(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 02 2005

TRIMSON  
FINANCIAL

FOR OFFICIAL USE ONLY

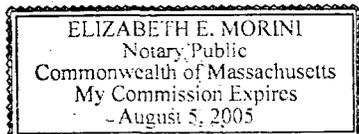
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2).

50  
3/1/05  
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.

### 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 04, 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:



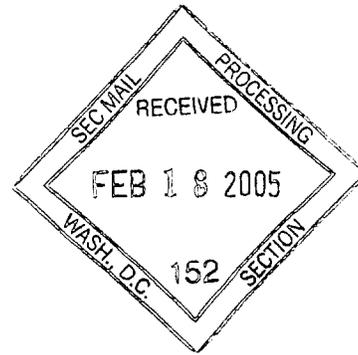
Troy Quimby  
Signature  
Fin Op  
Title

Elizabeth E. Morini  
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, 2004  
WITH SUPPLEMENTARY REPORT  
OF INDEPENDENT AUDITOR**

**DEBTX SECURITIES, INC.**

**DECEMBER 31, 2004**

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# KEMPISTY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, P.C.

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

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## INDEPENDENT AUDITOR'S 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, 2004 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, 2004 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 11, 2005

**DEBTX SECURITIES, INC.**

**STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2004**

**ASSETS**

Cash and cash equivalents	\$	102,784
Prepaid expenses		<u>1,736</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u>104,520</u></b>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Liabilities:

Accounts payable and accrued expenses	\$	3,299
Payable to parent		<u>11,340</u>
		<u>14,639</u>

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

Retained earnings

36,758

Total Stockholder's Equity

89,881

**TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY**

**\$ 104,520**

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

**DEBTX SECURITIES, INC.**

**STATEMENT OF OPERATIONS**

**FOR THE YEAR ENDED DECEMBER 31, 2004**

Revenues:		
Fee income	\$	103,429
Interest income		<u>347</u>
Total Revenues		<u>103,776</u>
Expenses:		
Sales expense		19,010
Professional fees		6,052
Loan preparation costs		5,316
Regulatory fees		2,894
Miscellaneous		<u>1,755</u>
Total Expenses		<u>35,027</u>
Income before taxes		68,749
Provision for income taxes		<u>(11,484)</u>
Net income	\$	<u><u>57,265</u></u>

**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, 2004**

	Common Stock		Additional Paid-in Capital	Deficit	Totals
	<u>Shares</u>	<u>Amount</u>			
Balances at January 1, 2004	-	\$ -	\$ 53,123	\$ (20,507)	\$ 32,616
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,265</u>	<u>57,265</u>
Balances at December 31, 2004	<u>-</u>	<u>\$ -</u>	<u>\$ 53,123</u>	<u>\$ 36,758</u>	<u>\$ 89,881</u>

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

**DEBTX SECURITIES, INC.**

**STATEMENT OF CASH FLOWS**

**FOR YEAR ENDED DECEMBER 31, 2004**

Increase (Decrease) in cash

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ 57,265
Adjustments to reconcile net loss to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Decrease in prepaid expenses	7
Decrease in other assets	184
Increase in accounts payable and accrued expenses	433
Increase in payable to parent	11,340
Total adjustments	<u>11,964</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>69,229</u>
NET INCREASE IN CASH	69,229
CASH - Beginning of year	<u>33,555</u>
CASH - End of year	<u><u>\$ 102,784</u></u>

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

## DEBTX SECURITIES, INC.

### NOTES TO FINANCIAL STATEMENTS

December 31, 2004

#### 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, 2006.

#### 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, 2004

#### NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Income Taxes

The Company is included in the consolidated federal income tax return filed by the Parent. Federal income taxes are calculated as if the companies filed on a separate return basis, and the amount of current tax or benefit calculated is either remitted to or received from the Parent. The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in deferred tax liabilities or assets between years.

##### 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.

##### Recent Accounting Pronouncements

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities. In December 2003, the FASB issued FIN No. 46 (Revised) ("FIN 46-R") to address certain FIN 46 implementation issues. This interpretation requires that the assets, liabilities, and results of activities of a Variable Interest Entity ("VIE") be consolidated into the financial statements of the enterprise that has a controlling interest in the VIE. FIN 46R also requires additional disclosures by primary beneficiaries and other significant variable interest holders. For entities acquired or created before February 1, 2003, this interpretation is effective no later than the end of the first interim or reporting period ending after March 15, 2004, except for those VIE's that are considered to be special purpose entities, for which the effective date is no later than the end of the first interim or annual reporting period ending after December 15, 2003. For all entities that were acquired subsequent to January 31, 2003, this interpretation is effective as of the first interim or annual period ending after December 31, 2003. The adoption of FIN 46 did not have a material impact on the Company's results of operations or financial position.

**DEBTX SECURITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2004**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. Management believes that this statement did not have a material impact on the Company's results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 clarifies the accounting for certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those financial instruments were classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of the provisions of SFAS No. 150 did not have a material effect on the Company's financial position.

**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 2004, the Company had net capital of \$88,145, which was \$83,145 In excess of its required net capital of \$5,000. The Company's aggregate indebtedness to net capital ratio was 0.166 to 1.

**NOTE 4- RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2004, the Parent provided administrative and other services to the Company. Under the terms of the Administrative Services Agreement, the Parent was reimbursed for all expenses directly attributable to the Company. In addition the agreement provides for payments of \$1,000 per month for occupancy, administrative and record keeping expenses. Reimbursements totaled \$25,474 in 2004. The Parent waived the \$1,000 per month administrative fee for 2004.

**DEBTX SECURITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2004**

**NOTE 5- INCOME TAXES**

The Company is included in the consolidated federal and state income tax returns filed by its Parent. Federal income taxes are calculated as if the Company filed a separate federal income tax return. The current and deferred portions of the income tax expense (benefit) included in the statement of operations as determined in accordance with FASB Statement No. 109, Accounting for Income Taxes, are as follows:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ 6,756	\$ -	\$ 6,756
State	4,728	-	4,728
	<u>\$ 11,484</u>	<u>\$ -</u>	<u>\$ 11,484</u>

A reconciliation of the difference between the expected income tax expense or income computed at the U.S. statutory income tax rate and the Company's income tax expense is shown in the following table:

Expected income tax expense at U.S. statutory tax rate	\$ 23,375
The effect of:	
Net operating loss carryforward	(6,455)
State income tax net of federal tax benefit	4,019
Reduction due to lower tax bracket	<u>(9,455)</u>
Income tax expense	<u>\$ 11,484</u>

**NOTE 6- COMMITMENTS AND CONTINGENCIES**

The Parent provided office space to the Company at no cost during 2004.

**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, 2004

NET CAPITAL:		
Stockholder's equity		\$ 89,881
Less non-allowable assets and deductions:		
Prepaid expenses	<u>1,736</u>	1,736
Less: Haircuts		0
NET CAPITAL		<u>\$ 88,145</u>
AGGREGATE INDEBTEDNESS, total liabilities		<u>\$ 14,639</u>
MINIMUM NET CAPITAL REQUIRED (6.67% of aggregate indebtedness)		<u>\$ 976</u>
MINIMUM NET CAPITAL DOLLAR REQUIREMENT		<u>\$ 5,000</u>
MINIMUM NET CAPITAL REQUIRED		<u>\$ 5,000</u>
EXCESS NET CAPITAL (\$88,145 - \$5,000)		<u>\$ 83,145</u>
PERCENTAGE OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	<u>\$ 14,639</u> <u>\$ 88,145</u>	<u>16.61%</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, 2004**

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 AUDITOR'S SUPPLEMENTARY REPORT ON  
INTERNAL ACCOUNTING CONTROL**

**DECEMBER 31, 2004**

# KEMPISTY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, P.C.

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

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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, 2004, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission ("SEC"), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness 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, 2004 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 11, 2005