

AY
3/26



SECI 05039655 SSION

OMB APPROVAL
OMB Number: 3235-0123
Expires: January 31, 2007
Estimated average burden
hours per response..... 12.00

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

SEC FILE NUMBER
8- 51918

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/04 AND ENDING 12/31/04
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Creditex, Inc.

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

26 W 17th St.

(No. and Street)

New York
(City)

NY
(State)

10011
(Zip Code)

OFFICIAL USE ONLY
RECEIVED
FIRM I.D. NO.
MAR 15 2005
WASH. D.C. 185
SECTION

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Robin Csakany 212-633-2908
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers LLP

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

300 Madison Ave.
(Address)

New York
(City)

NY
(State)

10017
(Zip Code)

CHECK ONE:

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

3 PROCESSED
MAR 31 2005
THOMSON 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)

BB

3/28/05
5-5

OATH OR AFFIRMATION

I, Sunil Hirani, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Creditech, Inc., as of December 31, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

KARIN MEITNER
Notary Public, State of New York
No. 02ME6114543
Qualified in New York County
Commission Expires August 16, 2008

[Signature]
Signature
CEO
Title

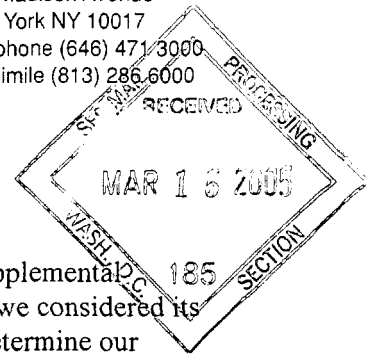
Karin Meitner
Notary Public 3/14/05

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).

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Center
300 Madison Avenue
New York NY 10017
Telephone (646) 471-3000
Facsimile (813) 286-6000



To the Board of Directors of
Creditex, Inc.

In planning and performing our audit of the consolidated financial statements and supplemental schedules of Creditex, 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 consolidated financial statements and not to provide assurance on the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11); and
2. 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 the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13;
2. 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; and
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3;

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control 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 accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Board of Directors
March 9, 2005
Page 2

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 internal control 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 one or more 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 procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2004 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the NASD and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.



March 9, 2005

Creditex, Inc.
Consolidated Statement of
Financial Condition
December 31, 2004



Report of Independent Auditors

To the Board of Directors and Stockholders of
Creditex, Inc. and Subsidiaries

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of Creditex, Inc. and its subsidiaries (the "Company") at December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 8, 2005

Creditex, Inc.
Statement of Financial Condition
December 31, 2004

Assets	
Cash and cash equivalents	\$ 8,666,808
Accounts receivable, net of allowance of \$285,285	5,115,306
Prepaid and other assets	648,700
Property and equipment, net	2,008,124
Security deposits	472,500
Total assets	<u>\$ 16,911,438</u>
Liabilities and Stockholders' Equity	
Accounts payable and accrued expenses	\$ 2,140,262
Accrued payroll and bonus	4,144,508
Deferred revenues	116,421
Deferred rent	94,766
Total liabilities	<u>6,495,957</u>
Commitments and contingencies (see Note 9)	
Stockholders' equity	
Preferred stock, \$0.001 par value, 3,965,468 shares authorized:	
Series A convertible preferred stock, 382,630 shares issued and outstanding (liquidation preference of \$3,826,300)	383
Series B convertible preferred stock, 441,000 shares issued and outstanding (liquidation preference of \$12,839,479)	441
Series C convertible preferred stock, 2,000,000 shares issued and outstanding (liquidation preference of \$6,600,000)	2,000
Common stock, \$0.001 par value; 35,000,000 shares authorized, 13,013,194 shares issued and outstanding	13,013
Additional paid-in capital	35,531,946
Deferred compensation	(2,760,098)
Accumulated deficit	(22,213,562)
Accumulated other comprehensive loss	(158,642)
Total stockholders' equity	<u>10,415,481</u>
Total liabilities and stockholders' equity	<u>\$ 16,911,438</u>

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

Creditex, Inc.

Notes to Consolidated Statement of Financial Condition December 31, 2004

1. Organization and Significant Accounting Policies

Organization

The consolidated financial statements include the accounts of Creditex, Inc., a registered broker-dealer and member of the National Association of Securities Dealers, Inc. ("NASD") and its wholly owned subsidiaries, Creditex International, Ltd., Creditex Asia Pte Limited, and Creditex Australia PTY, Ltd. (collectively the "Company"). The Company's primary business activity is providing clients an electronic credit derivative system via the internet, which allows participants of the derivative markets the ability to research and negotiate trades in an online environment. In connection with providing these services, the Company does not take proprietary positions or enter into transactions as a principal. The Company markets its services primarily to major money center banks and investment banking firms in both the United States, Europe and Asia. The Company became a NASD member during January 2000 and commenced operations as a registered broker-dealer during February 2000. The Company does not carry securities accounts for customers or perform custodial functions relating to customer securities and, therefore, is exempt from the Securities and Exchange Commission Rule 15c3-3, "Customer Protection: Reserves and Custody of Securities."

During the year ending December 31, 2004, it was determined that Creditex Asia Pte., Ltd. ("CAPL") was not in compliance with the minimum capitalization requirement set by the Monetary Authority of Singapore ("MAS"). The MAS has granted CAPL a conditional exemption from the requirements to hold a capital markets services license subject to compliance with certain conditions. One of those conditions is to hold base capital of \$147,500. As of December 31, 2004, \$147,500 capitalization was maintained but, due to CAPL's accumulated losses, the capitalization does not satisfy the base capital definition. In order to resolve this issue, Creditex has elected to make a subvention payment to CAPL in 2005. Creditex believes that the MAS will most likely not have an exception to this resolution and that CAPL will not incur any penalties or interest as a result of the violation.

Principles of Consolidation

The consolidated financial statements include the accounts of Creditex, Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

The Company owns 50% of the outstanding common stock of Credit Derivatives Research ("CDR") that is not consolidated because the Company does not own a majority voting interest, does not control the operations of the joint venture, and does not receive the majority of the income or losses from the joint venture. This joint venture is accounted for under the equity method of accounting. Under the equity method of accounting, the Company initially records its investment at cost. The carrying amount of the joint venture is adjusted to record the Company's proportionate share of distributions and earnings or losses of the joint venture. As of December 31, 2003, the carrying value of the Company's investment in CDR amounted to \$125,801. During 2004, the Company contributed additional cash of \$61,635 into this joint venture investment. During the year ended December 31, 2004, the Company recorded equity in net loss related to this investment in the amount of \$187,436 which reduced its carrying value for this joint venture investment to zero. CDR ceased operations during 2004 and was dissolved.

Creditex, Inc.
Notes to Consolidated Statement of Financial Condition
December 31, 2004

Management's 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include allowance for doubtful accounts, useful lives of fixed assets, certain accrued expenses, fair value of options, and the valuation allowance on net deferred tax assets. Actual results may differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

Investments

On January 7, 2004, Market-It Partners Limited, a privately held company, acquired all of the outstanding shares of LoanX in exchange for 1,680,000 shares of Class C common stock and \$1,426,371 in cash. At the time of the acquisition Creditex held 4,600,000 shares of common stock and an option to acquire an additional 179,628 shares. This investment was accounted for under the cost method and had no carrying value as the initial investment was acquired in exchange for the rights to technologies with no determinable fair value. In connection with the merger, the Company sold their 179,628 options for proceeds of \$22,720. The Company received cash of \$174,133 and 178,319 Class C common shares of Market-It Partner Limited in exchange for the Company's investment in LoanX which had a carrying value of zero. During the year ended December 31, 2004, the Company recorded a gain of \$174,133 based upon the cash proceeds received of \$174,133. No value was ascribed to the Mark-It Partners common shares received as such value was not determinable within reasonable limits.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method of depreciation over the estimated useful lives of the assets, which range from three to five years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful lives of the related assets or the lease term. Repairs and maintenance costs are expensed as incurred.

Long-Term Assets

The Company continually reviews the carrying value of long-term assets, primarily consisting of property and equipment and other assets, to determine whether there are any indications of impairment losses. An impairment loss is indicated if the sum of the expected net cash flows is less than the carrying amount of the asset being evaluated. Measurement of any impairment is calculated as the difference between the carrying amount of the asset being evaluated and the fair value. Fair value is based upon the anticipated future cash flows discounted at rates commensurate with the risks involved.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents, accounts receivable and restricted cash. The Company places its cash with high quality financial institutions. The Company performs ongoing credit evaluations of its customers and generally requires no collateral. The Company maintains

Creditex, Inc.
Notes to Consolidated Statement of Financial Condition
December 31, 2004

reserves for potential credit losses and historically such losses have not been significant. The carrying amounts of financial instruments held by the Company approximate fair value.

Foreign Currency Translation

The functional currency of each of the Company's foreign subsidiaries is its local currency. Financial statements of these foreign subsidiaries are translated to U.S. dollars for consolidation purposes using current rates of exchange for assets and liabilities and average rates of exchange for revenues and expenses. The effects of currency translation adjustments are included as a component of other comprehensive income (loss) in the statement of stockholders' equity. Gains and losses on foreign currency transactions for the year ended December 31, 2004 were not significant.

Security Deposits

Security deposits consists of funds held in interest-bearing, depository accounts as security on the operating lease in New York City (Note 9). These deposits are stated at cost, which approximates fair value.

Computer Software Developed or Obtained for Internal Use

The Company capitalizes the costs associated with the development or acquisition of software for internal use in accordance with AICPA Statement of Position 98-1, *Accounting for the Cost of Computer Software Developed or Obtained for Internal Use* ("SOP 98-1"). SOP 98-1 provides guidance regarding the accounting for computer software developed or acquired for internal use including the requirement to capitalize certain costs and amortization of these costs.

Costs incurred prior to the application development stage are expensed as incurred. Costs incurred during the application development stage, typically costs of employees and consulting services directly associated with the development of internal use computer software, are capitalized. The Company commences amortization of the software on a straight-line basis over the estimated useful life of the software, typically three years, when it is ready for its intended use. Capitalized computer software developed or obtained for internal use approximated \$1,022,844 for the year ended December 31, 2004. Amortization expense amounted to \$952,438 during the year ended December 31, 2004.

The Company periodically evaluates impairment of capitalized computer software developed or obtained for internal use by considering, among other factors, whether the software is not expected to provide substantive service potential, and a significant change is made or will be made to the software program. A loss is recognized when the fair value of the software is determined to be less than the carrying value.

Income Taxes

The accompanying financial statements have been prepared in conformity with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). In accordance with SFAS 109, deferred taxes are determined based on the temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Deferred taxes are measured using the enacted tax rates expected to apply when temporary differences are settled or realized. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized.

Creditex, Inc.**Notes to Consolidated Statement of Financial Condition
December 31, 2004**

2. Property and Equipment

	Useful life (in years)	December 31, 2004
Computer software developed or obtained for internal use	3	\$ 7,443,409
Computer equipment	3	2,047,762
Furniture and fixtures	5	333,705
Leasehold improvements	3 - 8	<u>79,606</u>
		9,904,482
Less: Accumulated depreciation and amortization		<u>(7,896,358)</u>
		<u>\$ 2,008,124</u>

Depreciation and amortization expense amounted to \$1,411,165 during the year ended December 31, 2004.

3. Fair Value of Financial Instruments and Concentrations of Credit Risk

Statement of Financial Accounting Standards No. 107, *Disclosure About Fair Value of Financial Instruments* ("SFAS 107"), requires disclosures about the fair values of financial instruments for which it is practical to estimate fair value. Fair value is defined in SFAS 107 as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Substantially all of the Company's financial assets and liabilities are carried at historical cost which approximate fair value because of their short-term nature. Fair value is estimated at a specific point in time, based on relevant market information.

For the year ended December 31, 2004, no single customer accounted for more than 10% of revenue. As of December 31, 2004, two customers represented 20% and 13% of accounts receivable, respectively.

4. Stockholders' Equity**Common Stock**

The Company's articles of incorporation permit the Company to issue 35,000,000 shares of common stock. Each share of common stock is entitled to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to the prior rights of holders of all classes of preferred stock outstanding.

On August 4, 2004, the Company executed a contract to appoint a new investor as a director and advisor of the Company. This contract required the newly appointed director to purchase 500,000 shares of the Company's common stock, on or before November 1, 2004, at a price of \$1.00 per share. On October 1, 2004, this investor purchased 500,000 shares of common stock and the Company received cash proceeds of \$500,000. The contract also provided this investor with an option grant to purchase 461,811 shares at an exercise price of \$0.50 per share. The options vest over a two-year period provided that this investor remains a director of the Company and provides advisory services, as defined in the agreement. The fair value of the common stock on the date of

Creditex, Inc.
Notes to Consolidated Statement of Financial Condition
December 31, 2004

purchase was determined to be \$715,000, which is \$215,000 in excess of the cash proceeds received of \$500,000. The fair value of the options, estimated at \$531,083 using the Black-Scholes model, will be charged to operations over the vesting period which also represents the required service period. The Company charged \$66,385 to operations for vesting during the year ended December 31, 2004. The aggregate compensation charge recorded during 2004, related to the common stock and options granted to this director, amounted to \$281,385. The following assumptions were used to determine the Black-Scholes fair value: risk-free rate of 3.5%, no expected dividend yield, term of 5 years and expected volatility of 75%.

Convertible Preferred Stock

The Company's articles of incorporation, as amended through December 2004, permit the Company to issue up to 3,965,468 shares of preferred stock, of which 382,630 shares have been designated as Series A convertible preferred stock ("Series A"), 441,000 shares as Series B convertible preferred stock ("Series B") and 3,141,838 shares as Series C convertible preferred stock ("Series C"). At December 31, 2004, 10,280,844 shares of the Company's common stock were reserved for issuance upon the conversion of Series A, Series B and Series C shares. The Series A, Series B and Series C shares have the following characteristics:

Voting

The holders of the preferred stock are entitled to vote, together with the holders of common stock, on all matters submitted to stockholders for a vote. Each preferred stockholder is entitled to the number of votes equal to the number of shares of common stock into which each preferred share is convertible at the time of such vote. The holders of preferred stock are also entitled to elect two directors and, together with the holders of common stock, can elect one additional director.

Dividends

The holders of the Series A and Series C shares are entitled to receive, when and as declared by the Board of Directors and out of funds legally available, dividends payable in preference and priority to any payment of any dividend on common stock. No dividends or other distributions shall be made with respect to the common stock, until all declared dividends on the Series A, Series B and Series C shares have been paid. The holders of Series B shares are entitled to receive cumulative dividends, at a rate of 8% per annum, in preference and priority to payment of any dividends to Series A and Series C stockholders. In the event of a conversion of Series B shares into common stock, all accrued and unpaid dividends on such converted shares will be payable in common stock at the conversion price effective on such date. As of December 31, 2004, accrued dividends on Series B shares amounted to \$4,019,479. Through December 31, 2004, no dividends have been declared or paid by the Company.

Liquidation Preference

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, the holders of the then outstanding Series A, Series B and Series C shares shall receive an amount equal to the sum of \$10.00, \$20.00 and \$3.30 per share, respectively, plus all accrued or declared but unpaid dividends, payable in preference and priority to any payments made to the holders of the then outstanding common stock. Series B stockholders also participate pro rata, based on the number of shares of common stock into which the Series B shares convert, along with the holders of common stock in any surplus assets remaining after payment of the liquidation preferences to all preferred stockholders. If the assets of the Company are insufficient to pay the full preferential amounts to the preferred stockholders, the assets shall be distributed ratably among

Creditex, Inc.
Notes to Consolidated Statement of Financial Condition
December 31, 2004

the outstanding Series A, Series B and Series C shares in proportion to the aggregate liquidation preference amounts.

Conversion

Each share of preferred stock, at the option of the holder, is convertible into a number of fully paid shares of common stock as determined by dividing the respective preferred stock liquidation price by the conversion price in effect at the time. The initial conversion prices of Series A, Series B and Series C shares are \$1.00, \$1.98 and \$3.30, respectively, and shall be subject to adjustment in accordance with antidilution provisions contained in the Company's Certificate of Incorporation. Such provisions include the subsequent issuance of common stock, options and securities for consideration less than \$1.98 and \$1.82 for Series B and Series C shares, respectively. Conversion shall be automatic immediately upon the closing of a firm commitment underwritten public offering in which the public offering price equals or exceeds \$6.00 per share (adjusted to reflect subsequent stock dividends, stock splits or recapitalization) and the aggregate gross proceeds (before underwriting discounts and commissions) raised exceed \$30,000,000.

Warrants

In connection with the issuance of the Series B shares by the Company in February 2000, the Company issued warrants to purchase 500,000 common shares at an exercise price of \$4.00. The warrants were immediately exercisable and expired unexercised in February 2003.

5. Option Plans

1999 Stock Option Plan

In 1999, the Company adopted the 1999 Stock Option Plan (the "1999 Plan") under which 7,900,000 shares of the Company's common stock have been reserved for issuance to employees, directors and consultants as of December 31, 2003. Options granted under the Plan may be incentive stock options or non-statutory stock options. Incentive stock options may only be granted to employees. The exercise price of incentive stock options shall be no less than 100% of the fair market value per share of the Company's common stock on the grant date. If an individual owns stock representing more than 10% of the outstanding shares, the exercise price of each share shall be at least 110% of fair market value, as determined by the Board of Directors.

Unless otherwise determined by the Board of Directors, the options begin to vest and become exercisable at a rate of 25% one year following the date of hire and ratably over the remaining thirty-six month period, with a maximum option term of ten years.

Creditex, Inc.
Notes to Consolidated Statement of Financial Condition
December 31, 2004

The following table summarizes the activity of the 1999 Stock Option Plan:

	December 31, 2004	
	Number of options	Weighted average exercise price
Outstanding - beginning of period	5,361,495	\$ 1.11
Granted	3,921,811	0.50
Exercised	(10,535)	1.82
Cancelled	(1,758,172)	1.01
Outstanding - end of period	<u>7,514,599</u>	<u>\$ 0.81</u>
Exercisable at end of period	<u>4,579,784</u>	<u>\$ 0.56</u>

On May 6, 2004, the Board of Directors approved a resolution to reduce the exercise price, for \$3,215,600 outstanding options, to \$0.50. As a result of this modification of stock options, the Company recorded a charge of \$1,957,609 based upon incremental intrinsic value on the modification and through December 31, 2004, to the extent such amount was in excess of the intrinsic values at the original grant date and just prior to the modification date. The charge was recorded over the remaining vesting period for the modified options. As of December 31, 2004, unamortized deferred compensation related to the modification amounted to \$622,155.

The following table summarizes information about stock options outstanding at December 31, 2004:

Exercise Price	Number Outstanding	Weighted Average Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.03	154,500	4.38	\$ 0.03	154,500	\$ 0.03
\$0.50	6,369,563	7.74	0.50	3,909,059	0.50
\$1.00	685,811	9.19	1.00	211,500	1.00
\$1.25	304,725	7.48	1.25	304,725	1.25
	<u>7,514,599</u>	7.54	\$ 0.81	<u>4,579,784</u>	\$ 0.56

6. Related Party Transactions

Cash Held at Affiliate of a Stockholder Banks

At December 31, 2004, cash balances of approximately \$4,086,661 was held in operating and money market investment accounts at affiliates of two stockholder banks.

Stockholder Banks as Customers

The Company provides its services and earns commissions from both stockholders and non-stockholders. During the year ended December 31, 2004, \$10,778,329 of commission revenue was earned from customers that were also stockholders or warrant holders. At December 31, 2004, \$1,966,625 of accounts receivable was due from customers that were also stockholders.

Creditex, Inc.
Notes to Consolidated Statement of Financial Condition
December 31, 2004

7. Commitments and Contingencies

Operating Lease

The Company leases office facilities under a noncancelable operating lease which expires in 2009. The future minimum lease payments under such leases at December 31, 2004 are as follows:

Year Ending December 31,	
2005	\$ 539,744
2006	421,127
2007	425,105
2008	436,796
Thereafter	<u>404,000</u>
Total minimum lease payments	<u>\$2,226,772</u>

Rent expense charged to operations amounted to \$710,209 for the year ended December 31, 2004.