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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

AM 3-23-2005

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

SEC FILE NUMBER  
8- 51773

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:

**Web Associates, Inc.**

OFFICIAL USE ONLY

FIRM I.D. NO.

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

**3803 NW 65<sup>th</sup> Lane**

(No. and Street)

**Boca Raton**

**Florida**

**33496**

**MAR 29 2005**

(City)

(State)

(Zip Code)

**THOMSON  
FINANCIAL**

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

**Richard Eisenberg**

**(212) 785-0200**

(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)

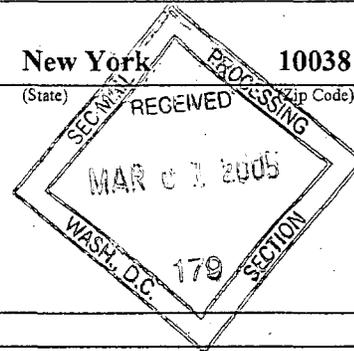
(City)

(State)

(Zip Code)

CHECK ONE:

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



**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.

Handwritten initials and date: 3/23

OATH OR AFFIRMATION

I, Michael M. Becker, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Web Associates, 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

DIERDRE STEINHAUS AINBINDER  
Notary Public, State of New York  
No. 01A14899711  
Qualified in Nassau County  
Commission Expires July 6, 20 05

*Michael M. Becker*

Signature

President

Title

*Dierdre Steinhaus Ainbinder*  
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 cash flows.
- (e) Statement of changes in stockholders' equity or partners' or sole proprietor's capital.
- (f) Statement of changes in liabilities subordinated to claims of general creditors.
- (g) Computation of net capital for brokers and dealers pursuant to Rule 15c3-1.
- (h) Computation for determination of reserve requirements pursuant to Rule 15c3-3.
- (i) Information relating to the possession or control requirements for broker and dealers under Rule 15c3-3.
- (j) A reconciliation, including appropriate explanation, of the computation of net capital under Rule 15c3-1 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.
- (o) Independent auditor's report on internal accounting control.
- (p) Schedule of segregation requirements and funds in segregation – customers regulated commodity futures account pursuant to Rule 171-5.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**WEB ASSOCIATES, INC.**

**FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION**

**YEAR ENDED DECEMBER 31, 2004  
WITH SUPPLEMENTARY REPORT  
OF INDEPENDENT PUBLIC AUDITOR**

**(With Independent Public Auditor's Report Thereon)**

**WEB ASSOCIATES, 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 AUDITORS' REPORT

To the Stockholders' of  
Web Associates, Inc.

We have audited the accompanying statement of financial condition of Web Associates, Inc. as of December 31, 2004 and the related statements of operations, changes in stockholders' 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 Web Associates, 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 Schedule I 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 21, 2005

WEB ASSOCIATES, INC.

STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2004

ASSETS

Due from clearing broker (Note 4)	\$ 322,637,814
Securities owned, at market value (Note 5)	25,011
Secured demand note (Note 10)	5,500,000
JBO investment	15,000
Prepaid taxes	7,549
	<hr/>
TOTAL ASSETS	\$ <u>328,185,374</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Securities sold, not yet purchased, at market value (Note 5)	\$ 319,966,234
Accrued expenses	35,118
	<hr/>
TOTAL LIABILITIES	320,001,352
Commitments and Contingencies (Note 6)	-
Subordinated note	5,500,000
Stockholder's equity	
Common stock, no par value; 100 shares authorized, issued and outstanding	2,500,000
Paid-in capital	-
Retained earnings	184,022
	<hr/>
Total Stockholders' Equity	<u>2,684,022</u>
	<hr/>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>328,185,374</u>

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

**WEB ASSOCIATES, INC.**

**STATEMENT OF OPERATIONS**

**DECEMBER 31, 2004**

Revenues:

Principal trading	\$	775,324
Dividend income		900
Short term capital gains		91
		<hr/>
Total Revenues		776,315
		<hr/>

Expenses:

Secured demand note fees		279,879
Employee compensation and benefits		263,655
Office expenses		151,678
Professional fees		24,478
Regulatory expenses		2,047
Other expenses		984
		<hr/>
Total Expenses		722,721
		<hr/>
Net income before taxes		53,594
Provision for income taxes		16,515
		<hr/>
Net income	\$	<u>37,079</u>

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

WEB ASSOCIATES, INC.

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Common Stock Amount</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Totals</u>
Balances at January 1, 2004	\$ 2,500,000	\$ -	\$ 146,943	\$ 2,646,943
Net income	<u>-</u>	<u>-</u>	<u>37,079</u>	<u>37,079</u>
Balances at December 31, 2004	<u>\$ 2,500,000</u>	<u>\$ -</u>	<u>\$ 184,022</u>	<u>\$ 2,684,022</u>

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

**WEB ASSOCIATES, INC.**

**STATEMENT OF CHANGES IN SUBORDINATED BORROWINGS**

**DECEMBER 31, 2004**

Subordinated borrowings at January 1, 2004	\$ 7,100,000
Cancellation of subordinated borrowings	<u>(1,600,000)</u>
Subordinated borrowings at December 31, 2004	<u>\$ 5,500,000</u>

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

**WEB ASSOCIATES, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR YEAR ENDED DECEMBER 31, 2004**  
Increase (Decrease) in cash

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 37,079
Adjustments to reconcile net income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Decrease in due from clearing broker	263,062,206
Decrease in securities owned, at market	43,909,628
(Increase) in prepaid	(6,565)
(Decrease) in securities sold, not yet purchased, at market	(306,959,787)
(Decrease) in accrued expenses	(42,561)
Total adjustments	(37,079)

NET CASH PROVIDED BY OPERATING ACTIVITIES -

NET INCREASE IN CASH -

CASH

Beginning of year	-
End of year	\$ -

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

**WEB ASSOCIATES, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2004**

**NOTE 1- ORGANIZATION AND NATURE OF BUSINESS**

Web Associates, Inc. (the "Company"), was incorporated in the State of New York in 1999, is registered as a broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the American Stock Exchange ("AMEX").

The Company is engaged in the activity of trading options and other securities.

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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.

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 mark to market basis.

**WEB ASSOCIATES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2004**

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.

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.

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.

**WEB ASSOCIATES, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2004**

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

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- INCOME TAXES**

Provisions for federal, state and local income taxes are calculated on reported financial statement pretax income based on current tax law. The income tax provision for the year ended December 31, 2004 consists of the following:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ 6,433	\$ -	\$ 6,433
State and local	10,082	-	10,082
	<u>\$ 16,515</u>	<u>\$ -</u>	<u>16,515</u>

**NOTE 4- RECEIVABLE FROM BROKER-DEALERS AND CLEARING ORGANIZATIONS**

Amounts receivable from and payable to the Company's clearing organization at December 31, 2004, consist of the following:

Receivable from clearing broker	\$ <u>322,637,814</u>
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**NOTE 5- SECURITIES OWNED AND SOLD BUT NOT YET PURCHASED**

Marketable securities owned and sold but not yet purchased consist of trading securities at quoted market values, as illustrated below:

	<u>Purchased</u>	<u>Sold But Not Yet Purchased</u>
Common stocks and options	\$ <u>25,011</u>	\$ <u>319,966,234</u>

**WEB ASSOCIATES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2004**

**NOTE 6- COMMITMENTS AND CONTINGENCIES**

The Company utilizes office space provided by officers of the Company.

**NOTE 7- NET CAPITAL REQUIREMENTS**

The Company is a member of the American Stock Exchange and is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1. This Rule requires that the ratio of aggregate indebtedness to net capital may not exceed 15 to 1, and equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2004, the Company's net capital was \$4,962,061 which was \$4,862,061 in excess of its required net capital of \$100,000. The Company's aggregate indebtedness to net capital ratio was 0.007 to 1.

**NOTE 8- EXEMPTION FROM RULE 15c3-3**

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".

**NOTE 9- OFF BALANCE SHEET RISK**

Pursuant to a clearance agreement, the Company clears all of its securities transactions through its sole clearing broker. Under certain conditions as defined in the clearance agreement, the Company has agreed to indemnify the clearing broker for losses, if any, which the clearing broker may sustain from carrying securities transactions initiated by the Company. In accordance with industry practice and regulatory requirements, the Company and the clearing broker monitor collateral on the securities transactions introduced by the Company.

**NOTE 10- SECURED DEMAND NOTES**

Principals and relatives of the principals have loaned the Company \$5,500,000, which is subordinated to the claims of general creditors. This debt is supported by secured demand notes in an amount equal to the subordinated loans. The secured demand notes are collateralized by securities and cash valued at approximately \$6,467,826.

**WEB ASSOCIATES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2004**

**NOTE 11- GUARANTEES**

FASB Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, requires the Company to disclose information about its obligations under certain guarantee arrangements. FIN 45 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or non occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. FIN 45 also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

Indemnifications

In the normal course of its business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. The maximum potential amount of future payments that the Company could be required to make under the indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The Company may also provide standard indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the consolidated financial statements for these indemnifications.

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

WEB ASSOCIATES, INC.

SCHEDULE I  
 COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE  
 SECURITIES AND EXCHANGE COMMISSION  
 DECEMBER 31, 2004

NET CAPITAL:		
Stockholders' equity		\$ 2,684,022
Add: allowable subordinated liabilities	\$ <u>5,500,000</u>	5,500,000
Less non-allowable assets and deductions:		
Organization costs, less accumulated amortization	7,549	
JBO investment	<u>15,000</u>	<u>22,549</u>
Net capital before haircuts		8,161,473
Less: Haircuts on securities positions		<u>3,199,412</u>
NET CAPITAL		\$ <u><u>4,962,061</u></u>
TOTAL AGGREGATE INDEBTEDNESS		\$ <u><u>35,118</u></u>
MINIMUM NET CAPITAL REQUIRED (6 2/3% of aggregate indebtedness)		\$ <u><u>2,341</u></u>
MINIMUM NET CAPITAL DOLLAR REQUIREMENT		\$ <u><u>100,000</u></u>
MINIMUM NET CAPITAL REQUIRED		\$ <u><u>100,000</u></u>
EXCESS NET CAPITAL (\$4,962,061 - \$100,000)		\$ <u><u>4,862,061</u></u>
PERCENTAGE OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	\$ <u>35,118</u> \$ <u>4,962,061</u>	<u><u>0.71%</u></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.**

**WEB ASSOCIATES, INC.**

**INDEPENDENT PUBLIC 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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The Stockholders of  
Web Associates, Inc.  
New York, New York

In planning and performing our audit of the financial statements of Web Associates, 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.

Web Associates, 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 recognizes that it is not practicable in an organization the size of Web Associates, Inc. to achieve all the divisions of duties and cross-checks generally included in a system of internal control, and that, alternatively, greater reliance must be placed on surveillance by management.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the American Stock Exchange 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 21, 2005