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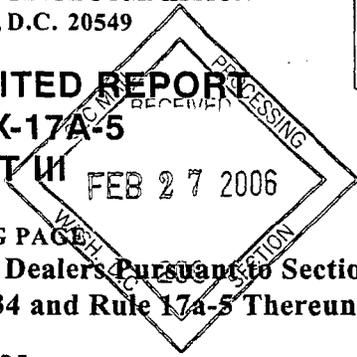
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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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



SEC FILE NUMBER  
8-27683

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 01/01/05 AND ENDING 12/31/05  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Fox-Pitt, Kelton Incorporated

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

55 East 52nd Street

(No. and Street)

New York

NY

10055

(City)

(State)

(Zip Code)

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

Gregory V. Mullen

(212) 317-5629

(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 Avenue

New York

NY

10017

(Address)

(City)

(Zip Code)

PROCESSED

CHECK ONE:

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

MAY 09 2006

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)

Handwritten initials/signature

OATH OR AFFIRMATION

I, Gregory V. Mullen, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Fox-Pitt, Kelton Incorporated, as of December 31, 20 05, 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:

No exceptions

Gregory V. Mullen  
Signature

Financial and Operations Principal  
Title

Monica Corry  
Notary Public

**MONICA CORRY**  
**Notary Public, State of New York**  
**No.01CO5071313**  
**Qualified in Richmond County**  
**Commission Expires January 6, 2007**

This report \*\* contains (check all applicable boxes):

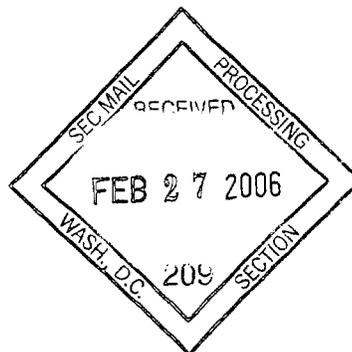
- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims 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 15c3-1 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.

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

# Fox-Pitt, Kelton Incorporated

Statement of Financial Condition

December 31, 2005



**Fox-Pitt, Kelton Incorporated**  
**Index**  
**December 31, 2005**

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**Page(s)**

**This report contains the following:**

**Report of Independent Auditors**..... 1

**Financial Statement**

**Statement of Financial Condition** ..... 2

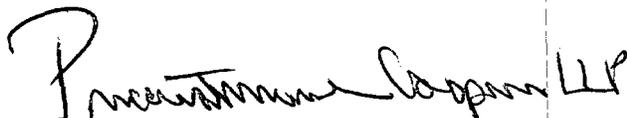
**Notes to the Statement of Financial Condition** ..... 3-6

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

**Report of Independent Auditors**

To the Board of Directors and Stockholder of  
Fox-Pitt, Kelton Incorporated

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of Fox-Pitt, Kelton Incorporated (the "Company") at December 31, 2005 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. Those standards 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 statements, 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.



February 15, 2006

**Fox-Pitt, Kelton Incorporated**  
**Statement of Financial Condition**  
**December 31, 2005**

<b>Assets</b>	
Cash and cash equivalents	\$ 39,167,706
Receivable from clearing broker	442,233
Trading assets, at fair value	167,321
Fixed assets and leasehold improvements at cost, less accumulated depreciation and amortization of \$4,932,859	470,898
Receivable from customers	1,745,838
Income taxes receivable	38,619
Other assets	267,288
<b>Total assets</b>	<b>\$ 42,299,903</b>
<b>Liabilities and Stockholder's Equity</b>	
<b>Liabilities</b>	
Trading liabilities, at fair value	\$ 21,369
Payable to clearing broker	2,144,713
Accounts payable and accrued expenses	741,365
Income taxes payable	1,270
Payable to affiliates	14,483,834
Other liabilities	170,777
<b>Total liabilities</b>	<b>17,563,328</b>
Liability to affiliate subordinated to claims of general creditors	20,000,000
<b>Stockholder's equity</b>	
Common stock, \$1 par value	
50,000 shares authorized;	
10,000 shares issued and outstanding	42,400
Additional paid-in capital	17,445,936
Retained deficit	(12,751,761)
<b>Total stockholder's equity</b>	<b>4,736,575</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 42,299,903</b>

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

**Fox-Pitt, Kelton Incorporated**  
**Notes to the Statement of Financial Condition**  
**December 31, 2005**

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**1. Nature of Operations and Organization of the Company**

Fox-Pitt, Kelton Incorporated (the "Company") is a wholly owned subsidiary of Fox-Pitt, Kelton Corporation ("FKC"), which is a wholly owned subsidiary of Fox-Pitt, Kelton Group Limited ("FKG"), a limited liability company incorporated in England and Wales. FKG is a wholly owned subsidiary of Swiss Re GB PLC, which is a wholly owned subsidiary of the Swiss Reinsurance Company ("Swiss Re"), a limited liability company incorporated in Switzerland.

The Company is registered as a broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the National Association of Securities Dealers, Inc. ("NASD"). The Company's principal business activity is acting as a broker-dealer for equity securities particularly in the insurance and banking sectors. In addition, the Company underwrites equity securities on behalf of clients to raise necessary capital as well as advises clients on their business strategies. Within those sectors its clients consist principally of institutional investors including investment companies and pension plans. The Company clears its customers' securities transactions through an unaffiliated broker-dealer on a fully disclosed basis. The Company also executes foreign securities transactions for customers which are cleared by an affiliated broker-dealer in the United Kingdom.

**2. Significant Accounting Policies**

**Cash and Cash Equivalents**

Cash and cash equivalents comprise demand-deposits in banks, investments in a money market account and funds held on deposit with clearing broker. Included within cash and cash equivalents is a balance of \$2,141,183 held at the Company's clearing broker, pledged as collateral against securities borrowed.

**Trading Assets and Liabilities**

Trading assets and liabilities comprise U.S. equity securities that are recorded on a trade date basis and are carried at fair value. Fair value is based on listed market prices or broker or dealer quotations.

Trading liabilities represent liabilities resulting from the Company selling securities that the Company does not own. These positions are carried at their fair value and are reported in trading liabilities, at fair value, on the Statement of Financial Condition.

**Fixed Assets and Leasehold Improvements**

Office equipment is depreciated on a straight-line basis using an estimated useful life of three years for computer equipment, three years for telephone equipment and four years for other office equipment. Leasehold improvements are amortized on a straight-line basis over the lesser of the remaining term of the respective leases or the estimated useful life of the improvements.

**Income Taxes**

The Company is a member of a group which files a consolidated federal income tax return and combined state and local income tax returns with FKC. The tax allocation between members provides that each member shall compute and pay its tax liability on a separate return basis. In computing their income tax liability on a separate return basis, member companies have the ability to recover taxes paid in a prior year or offset future taxable income to the extent net operating

**Fox-Pitt, Kelton Incorporated**  
**Notes to the Statement of Financial Condition**  
**December 31, 2005**

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losses or other tax attributes that they generated are carried back or forward in accordance with the taxing authorities.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

**3. Related Party Transactions**

During 2004, the Company entered into a revolving subordinated loan agreement with Swiss Re Financial Products Corporation ("SRFPC"), an affiliate of the Company. Under the terms of the agreement, SRFPC is willing to issue revolving credit loans to the Company not to exceed \$100,000,000 in the aggregate, with the outstanding balance to be included in the computation of net capital pursuant to SEC Rule 15c3-1. This credit line may be drawn down by the Company on a revolving basis or repaid, subject to the provisions of the agreement and regulatory requirements. The facility is available for a period of 5 years. At December 31, 2005 the Company had an outstanding balance on this facility of \$20,000,000, which is included in the Statement of Financial Condition in Liabilities to affiliate subordinated to claims of general creditors. At December 31, 2005, interest of \$133,705 is included in Payable to affiliates on the Statement of Financial Condition.

Under a service agreement with Conning & Company, a wholly owned subsidiary of Swiss Re America Holdings ("SRAH"), the Company is provided certain operational and administrative services for the Hartford office location. At December 31, 2005 an amount of \$53,186 is included in Payable to affiliates on the Statement of Financial Condition related to these costs.

The Company has an agreement with an affiliate, SRFPC, whereby certain services are performed on behalf of the Company. At December 31, 2005 an amount of \$11,129,924 is included in Payable to affiliates on the Statement of Financial Condition related to these costs.

Fox-Pitt, Kelton Limited ("FKL") provides trade execution services in the European equity market to the Company. FKL remits trade commissions and allocates the related clearing expense and other costs to the Company. At December 31, 2005 an amount of \$1,929,910 related to this activity is included in Payable to affiliates on the Statement of Financial Condition.

The Company is a member of a group which files a consolidated federal income tax return and combined state and local income tax returns. At December 31, 2005 an amount of \$889,064 was payable to FKC and an amount of \$84,000 was payable to Conning & Company, and are included in Payable to affiliates on the Statement of Financial Condition.

Fox-Pitt, Kelton Asia ("FKA") provides trade execution services in the Asian equity market to the Company. FKA remits trade commissions and allocates the related clearing expense and other costs to the Company. At December 31, 2005, an amount of \$264,045 is included in Payable to affiliates on the Statement of Financial Condition relating to FKA.

**Fox-Pitt, Kelton Incorporated**  
**Notes to the Statement of Financial Condition**  
**December 31, 2005**

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**4. Income Taxes**

The Company has recorded no benefit for the future tax benefit of its current year net operating loss due to cumulative losses in recent years. In accordance with the criteria of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," a full valuation allowance of \$14,585,733 has been recorded against the Company's net deferred tax asset at December 31, 2005. The valuation allowance increased by \$5,442,216, as additional net operating losses were generated during the year, for which there was no future tax benefit recorded.

At December 31, 2005 the Company has net operating loss carryforwards of approximately \$30,862,693 and \$33,073,693 available for federal and state and local income tax purposes, respectively. These losses will expire between 2023 and 2025. These losses, and basis differences in connection with fixed assets, comprise the Company's net deferred tax asset.

At December 31, 2005, the effective tax rate was lower than the statutory federal tax rate, primarily due to the impact of state and local taxes, non deductible expenses, deferred tax verification and an increase in the valuation allowance against the Company's net deferred tax asset.

**5. Estimated Fair Value of Financial Instruments**

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments, for which it is practicable to estimate the value, whether or not recognized on the Statement of Financial Condition. As a registered broker-dealer, securities owned are recorded at market value. The fair value of primarily all other financial assets and liabilities are considered to approximate the recorded value due to their short-term nature.

**6. Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk**

As a securities broker-dealer, the Company is engaged in various securities trading and brokerage activities. The Company's securities transactions as principal and as agent are executed with and on behalf of institutional investors, including other brokers and dealers, commercial banks, insurance companies, pension plans, mutual funds and other financial institutions. In the normal course of business, securities transactions of brokerage customers of the Company are introduced and cleared through a clearing broker.

In the normal course of business, the Company executes, as agent, foreign securities transactions on behalf of customers. In the event that the counterparties to transactions do not fulfill their obligations, the Company may be exposed to credit risk to the extent such obligation is unsecured. Also, if securities are not received, the Company is subject to risk of loss if the market value of such securities has increased over the contract amount of the transactions. The Company's exposure to credit risk associated with the nonperformance of counterparties in fulfilling their contractual obligations can be directly impacted by volatile trading markets which may impair their ability to satisfy their obligations to the Company.

The Company's policy is to monitor its market exposure and counterparty risk. The Company has a policy of reviewing, as considered necessary, the credit standing of each counterparty and customer with which it conducts business.

**Fox-Pitt, Kelton Incorporated**  
**Notes to the Statement of Financial Condition**  
**December 31, 2005**

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The Company's securities positions are cleared through an unaffiliated broker-dealer in the United States and through an affiliated broker-dealer in the United Kingdom. These securities are held in custody at major international financial institutions which have worldwide custody facilities and are members of major securities exchanges. The Company is subject to credit risk to the extent that this institution may be unable to fulfill its obligation to return the Company's securities or cash held at the broker. The Company had \$39,410,756 of cash on deposit at its unaffiliated clearing broker as of December 31, 2005 of which \$39,160,756 is included in cash and cash equivalents and \$250,000 is included in Receivable from clearing broker on the statement of financial condition.

Pursuant to the terms of the agreements between the Company and these clearing brokers, the clearing brokers have the right to charge the Company for losses that result from a counterparty's failure to fulfill its contractual obligations. At December 31, 2005, there were no outstanding claims against the Company and the Company made no payments to the clearing broker related to these guarantees.

In addition, the Company has the right to pursue collection or performance from the counterparties who do not perform under their contractual obligations. The Company monitors the credit standing of the clearing brokers and all counterparties with which it conducts business.

**7. Commitments and Guarantees**

In the normal course of business, the Company enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company believes the risk of loss to be remote.

**8. Net Capital Requirements**

The Company is subject to the SEC Uniform Net Capital Rule 15c3-1 (the "Rule"), which requires the maintenance of minimum net capital. Under the Rule, the Company is required to maintain minimum net capital, equal to the greater of \$250,000 or 6-2/3% of aggregate indebtedness, as defined. At December 31, 2005, the Company had net capital of \$30,117,108, which was \$28,947,645 in excess of its required net capital of \$1,169,463. The Company's ratio of aggregate indebtedness to net capital was 0.58:1.

**9. Subsequent Event**

On February 10, 2006, Swiss Re GB Plc reached agreement to sell the entire share capital of FKG to an investor group, which is expected to include members of Fox-Pitt, Kelton management. As part of the transaction, Swiss Re will acquire preferred interest and convertible preferred interest in the purchaser. Management expects this transaction to be completed in 2006 pending all necessary regulatory approvals and certain other closing conditions.