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SECURITIES AND EXCHANGE COMMISSION RECEIVED



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

SEC FILE NUMBER
8- 66479

DIVISION OF MARKET REGULATION

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 09/28/04 AND ENDING 09/30/05
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: BATTENKILL CAPITAL, INC.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

7252 MAIN STREET

(No. and Street)

MANCHESTER CENTER

VT

05255

(City)

(State)

(Zip Code)

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

ROBYN HARRINGTON

(802) 549-5400

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

STEPHEN J. SUSSMAN, PLLC CERTIFIED PUBLIC ACCOUNTANT

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

12 PARMENTER ROAD

LONDONDERRY

NH

03053

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

JAN 23 2006

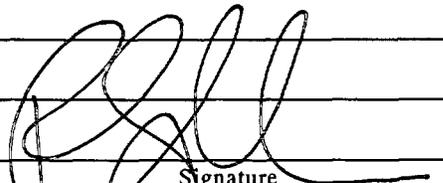
FOR OFFICIAL USE ONLY
THOMSON FINANCIAL

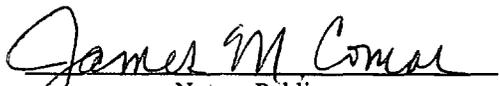
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

CM
KAT 1/20/06

OATH OR AFFIRMATION

I, ROBYN HARRINGTON, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of BATTENKILL CAPITAL, INC., as of SEPTEMBER 30, 2005, 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:


Signature
CHIEF FINANCIAL OFFICER
Title



Notary Public
JAMES COMAR, Notary Public

My Commission Expires 2/10/07
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).

BATTENKILL CAPITAL, INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

STEPHEN J. SUSSMAN

Certified Public Accountant

12 PARMENTER ROAD

LONDONDERRY, NH 03053

TEL (603) 437-1910
FAX (603) 437-3676

Independent Auditor's Report

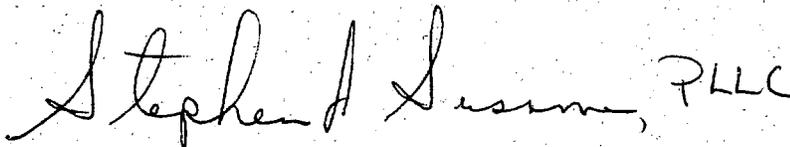
To the Board of Directors of
Battenkill Capital, Inc.
Manchester Center, VT

We have audited the accompanying statement of financial condition of Battenkill Capital, Inc. (the Company) as of September 30, 2005 and the related statements of income, changes in stockholders' equity, changes in liabilities subordinated to claims of general creditors, 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 Battenkill Capital, Inc. as of September 30, 2005, and the results of their operations and their 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, II, III, and IV, 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.



Stephen J. Sussman, PLLC
Certified Public Accountant
Londonderry, New Hampshire
November 25, 2005

BATTENKILL CAPITAL, INC.

STATEMENT OF FINANCIAL CONDITION

SEPTEMBER 30, 2005

ASSETS

Cash and cash equivalents	\$ 418,681
Deposits with clearing organizations	167,747
Receivable from customers	41,714
Prepaid expenses	1,146
Furniture and equipment, at cost less, accumulated depreciation of \$17,837	52,797
Not readily marketable securities, at estimated fair value	158,070
Security deposits	<u>6,817</u>
Total Assets	<u>\$ 846,972</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable, accrued expenses, and other liabilities	<u>\$ 274,114</u>
Liabilities subordinated to claims of general creditors	<u>310,000</u>
Total Liabilities	<u>584,114</u>
Stockholders' Equity	
Common stock, no par value, 10,000 shares authorized, issued and outstanding	340,000
Retained deficit	<u>(77,142)</u>
Total Stockholders' Equity	<u>262,858</u>
Total Stockholders' Equity and Liabilities	<u>\$ 846,972</u>

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

BATTENKILL CAPITAL, INC.

STATEMENT OF INCOME (LOSS)

FOR THE PERIOD SEPTEMBER 28, 2004 THROUGH SEPTEMBER 30, 2005

Revenues:

Commissions	\$ 553,695
Fee income	1,307,882
Unrealized gain/(loss)	<u>14,372</u>
	<u>1,875,949</u>

Expenses:

Employee compensation and benefits	305,127
Clearance fees, data services and brokerage expenses	1,181,201
Communications	7,297
Occupancy	43,591
Taxes, other than income taxes	25,359
Interest expense	13,254
Other expenses	<u>323,500</u>

1,899,329

Income (Loss) Before Income Taxes (23,380)

Provision for Income Taxes 250

Net Income (Loss) \$ (23,630)

BATTENKILL CAPITAL, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEAR ENDED SEPTEMBER 30, 2005

	<u>Common Stock</u>	<u>Retained Defecit</u>	<u>Treasury Stock</u>	<u>Total</u>
Balance at September 27, 2004	\$ 50,000	\$ (53,512)	\$ -	\$ (3,512)
Capital contributions	510,000			510,000
Shareholder withdrawals	(220,000)			(220,000)
Net Income (Loss)		(23,630)		(23,630)
Balance at September 30, 2005	<u>\$ 340,000</u>	<u>\$ (77,142)</u>	<u>\$ -</u>	<u>\$ 262,858</u>

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

BATTENKILL CAPITAL, INC.
STATEMENT OF CHANGES IN SUBORDINATED BORROWINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Subordinated borrowings at September 27, 2004	\$ 100,000
Increases:	
Issuance of subordinated notes	<u>210,000</u>
Subordinated borrowings at September 30, 2005	<u>\$ 310,000</u>

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

BATTENKILL CAPITAL, INC.**STATEMENT OF CASH FLOWS****FOR THE YEAR ENDED SEPTEMBER 30, 2005**

Cash flows from operating activities:	
Net income (loss)	\$ (23,630)
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	\$ 17,837
Unrealized (gain) loss	(14,372)
Expense of startup costs	10,000
(Increase) decrease in operating assets:	
Increase in receivable from customers	(41,714)
Increase in prepaid expenses	(1,146)
Increase in deposit receivable	(142,747)
Increase (decrease) in operating liabilities:	
Increase in accounts payable, accrued expenses	<u>260,042</u>
Total adjustments	<u>87,900</u>
Net cash provided by operating activities	64,270
Cash flows from investing activities	
Purchase of furniture and equipment	(30,648)
Deposits with clearing organizations	(25,000)
Non-marketable securities in lieu of cash	(118,698)
Purchase of non-marketable securities	<u>(25,000)</u>
Net cash used by investing activities	(199,346)
Cash flows from financing activities	
Capital contributions	510,000
Issuance of subordinated loans	210,000
Shareholder withdrawals	<u>(220,000)</u>
Net cash provided by financing activities	<u>500,000</u>
Net increase in cash	364,924
Cash at beginning of the year	<u>53,757</u>
Cash at end of the year	<u>\$ 418,681</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:	
Interest payments	<u>\$ 13,253</u>
Income tax payments	<u>\$ 250</u>

Disclosure of accounting policy:

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

BATTENKILL CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

NOTE 1- SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

The Company was incorporated on January 13, 2004. It serves as a broker/dealer in securities and provides investment banking services to its clients. Related commission revenue and expenses are recorded on a settlement date basis.

Fixed Assets

Furniture and equipment are being depreciated using the straight-line method over their estimated useful lives, ranging from three to seven years. For the fiscal year ended September 30, 2005, depreciation expense was \$17,837.

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 amount of assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Securities Transactions

Marketable securities are valued at market value, and securities not readily marketable are valued at fair value as determined by management. These securities include investment securities (a) for which there is not a market on a securities exchange or no independent publicly quoted market, (b) that cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1933, or (c) that cannot be offered or sold because of other arrangements, restrictions, or conditions applicable to the securities or to the Company. At September 30, 2005, these securities at estimated fair value consist of equities valued at \$158,070.

Allowance for Bad Debts

The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

Compensated Absences

Employees of the Company are entitled to paid vacations, paid sick days, and personal days off, depending on the job classification, length of service, and other factors. The accrual cannot be reasonably estimated, and accordingly, no liability has been recorded in the accompanying financial statements. The Company's policy is to recognize the costs of compensated absences when actually paid to employees.

BATTENKILL CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2005

Intangibles

The Company has adopted the provisions of SFAS No. 142 *Goodwill and Other Intangible Assets* and therefore expensed the startup costs for financial statement purposes. For income tax purposes these costs will be amortized over 5 years.

Commissions

The Company receives restricted stock as part of its compensation when it raises capital for private companies. This is recorded at its fair market value as determined by management and is included in commission income. For the fiscal year ended September 30, 2005, the Company received \$118,698 in restricted stock in lieu of cash.

NOTE 2- NET CAPITAL

As a broker dealer, the Company is subject to the Securities and Exchange Commission's regulations and operating guidelines, which require the Company to maintain a specified amount of net capital as defined, and a ratio of aggregate indebtedness to net capital as derived, not exceeding 15 to 1. The Company's net capital as computed under 15c3-1, was \$354,028 as of September 30, 2005, which exceeded required net capital of \$250,000 by \$104,028. The ratio of aggregate indebtedness to net capital at September 30, 2005 was 77.4%.

NOTE 3- TAXES ON INCOME

The Company and its stockholders elected to be subject to the S corporation provisions of the Internal Revenue Code. Accordingly, all income or losses and applicable tax credits are reported on the stockholders' individual income tax returns. Vermont levies a minimum entity tax on Subchapter S corporations which is reflected in the current period expenses.

NOTE 4- COMMITMENTS AND CONTINGENCIES

The Company is committed to operating leases for office space and office equipment. The Approximate future minimum lease payments of all non-cancelable operating leases for the next two years are as follows:

2006	\$19,859
2007	20,183
	<u>\$ 40,042</u>

Rent expense for the office space for the fiscal year 2005 was \$21,500.

BATTENKILL CAPITAL, INC.

NOTES TO FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2005

NOTE 5- CONCENTRATION OF CREDIT RISK

The Company maintains its checking account in one commercial bank. Cash in this checking account at times exceeded \$100,000. The checking account is secured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

The Company is engaged in various trading and brokerage activities with counterparties. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the credit worthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

NOTE 6- SUBORDINATED LOANS - STOCKHOLDERS

The stockholders agreed to subordinate the right to receive principal and interest to the prior payment or provision for payment in full against all claims of all present and future creditors of the Company. The borrowings under subordination agreements at September 30, 2005, are listed in the following:

Subordinated notes 6.25 percent, due September 30, 2007	\$100,000
Subordinated notes 6.25 percent, due October 31, 2007	75,000
Subordinated notes 10 percent, due August 31, 2010	<u>135,000</u>
	\$310,000

The subordinated borrowings are available in computing net capital under the SEC's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

BATTENKILL CAPITAL, INC.

SUPPLEMENTARY SCHEDULES

FOR THE YEAR ENDED SEPTEMBER 30, 2005

BATTENKILL CAPITAL, INC.

SCHEDULE I

**COMPUTATION OF AGGREGATE INDEBTEDNESS AND NET CAPITAL
PURSUANT TO RULE 15c3-1**

SEPTEMBER 30, 2005

Total ownership equity from statement of financial condition	\$ 262,858
Liabilities subordinated to claims of general creditors	310,000
Total nonallowable assets from statement of financial condition	<u>(218,830)</u>
Net capital before haircuts on securities positions	379,028
Haircuts on securities	<u>-</u>
Net capital	<u>\$ 354,028</u>
Aggregate indebtedness:	
Total A.I. liabilities from statement of financial condition	<u>\$ 274,114</u>
Total aggregate indebtedness	<u>\$ 274,114</u>
Percentage of aggregate indebtedness to net capital	<u>77.4%</u>
Computation of basic net capital requirement:	
Minimum net capital required (6-2/3% of A.I.)	<u>\$ 18,274</u>
Minimum dollar net capital requirement of reporting broker or dealer	<u>\$ 250,000</u>
Net capital requirement	<u>\$ 250,000</u>
Excess net capital	<u>\$ 104,028</u>

BATTENKILL CAPITAL, INC.

RECONCILIATION OF NET CAPITAL PURSUANT TO RULE 15c3-1
(X-17A-5)
AT SEPTEMBER 30, 2005

SCHEDULE I (CONTINUED)

	FOCUS REPORT - PART IIA QUARTER ENDED September 30, 2005	ADJUSTMENTS	ANNUAL FINANCIAL STATEMENTS AT September 30, 2005
COMPUTATION OF NET CAPITAL			
Total ownership equity from statement of financial condition	\$ 156,479	\$ 106,379	\$ 262,858
Additions:			
Liabilities subordinated to claims of general creditors allowable in computation of net capital	310,000	-	310,000
Total capital and allowable subordinated liabilities	466,479	106,379	572,858
Deductions and/or charges:			
Total nonallowable assets from statement of financial condition	87,451	106,379	218,830
Haircuts on securities	25,000	(25,000)	-
Total deductions	112,451	81,379	218,830
Net capital	\$ 354,028	\$ (0)	\$ 354,028

SCHEDULE II

BATTENKILL CAPITAL, INC.

**INFORMATION RELATING TO POSSESSION OR CONTROL
REQUIREMENTS UNDER RULE 15c3-3**

SEPTEMBER 30, 2005

The Company had no items reportable as customers' fully paid securities: (1) not in the Company's possession or control as of the audit date (for which instructions to reduce to possession or control had been issued as of the audit date) but for which the required action was not taken by the Company within the time frames specified under Rule 15c3-3 or (2) for which instructions to reduce to possession or control had not been issued as of the audit date, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3.

SCHEDULE III

BATTENKILL CAPITAL, INC.

**SCHEDULE OF SEGREGATION REQUIREMENTS AND FUNDS
IN SEGREGATION FOR CUSTOMERS' REGULATED
COMMODITY FUTURES AND OPTION ACCOUNTS**

SEPTEMBER 30, 2005

The Company claims exemption from the segregation requirements of the Commodities Futures Act since it has no commodity customers as the term is defined in Regulation 1.3(k).

SCHEDULE IV

BATTENKILL CAPITAL, INC.

**COMPUTATION FOR DETERMINATION OF
RESERVE REQUIREMENTS FOR BROKER/DEALER UNDER
RULE 15c3-3 OF THE SECURITIES EXCHANGE ACT OF 1934**

SEPTEMBER 30, 2005

Battenkill Capital, Inc., is exempt from the reserve requirements of Rule 15c3-3 as its transactions are limited, such that they do not handle customer funds or securities, accordingly, the computation for determination of reserve requirements pursuant to Rule 15c3-3 and information relating to the possession or control requirement pursuant to Rule 15c3-3 are not applicable.

STEPHEN J. SUSSMAN

Certified Public Accountant

12 PARMENTER ROAD

LONDONDERRY, NH 03053

TEL. (603) 437-1910

FAX (603) 437-3676

Independent Auditor's Report on Internal Control Structure Required by SEC Rule 17a-5

Board of Directors
Battenkill Capital, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Battenkill Capital, Inc., (the Company), for the year ended September 30, 2005, 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.

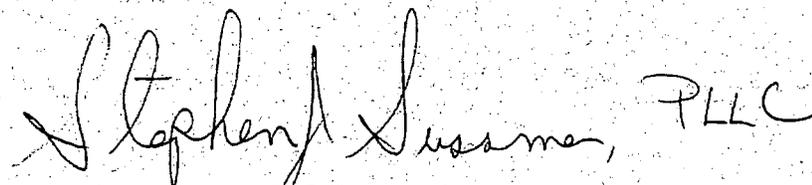
The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs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

Because of inherent limitations in 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, our study and evaluation disclosed that a lack of segregation of function exists. Although this condition may be considered to be a material weakness in internal control, it is a common condition in entities of this size. This condition was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of Battenkill Capital, Inc. for the year ended September 30, 2005 and this report does not affect our report thereon dated November 25, 2005.

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 September 30, 2005, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission, the National Association of Securities Dealers Regulation, Inc. 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.



Stephen J. Sussman, PLLC
Certified Public Accountant
Londonderry, New Hampshire
November 25, 2005

STEPHEN J. SUSSMAN
Certified Public Accountant