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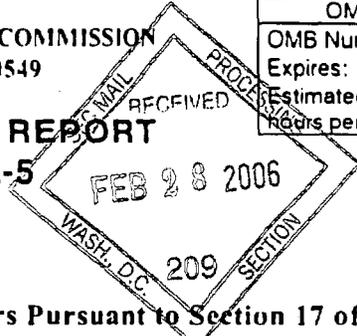
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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**



SEC FILE NUMBER
8. 047846

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: Portfolio Trading, LLC

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
5100 Wheelis Drive, Suite 107

<u>Memphis</u>	(No. and Street) <u>TN</u>	<u>38117</u>
(City)	(State)	(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Thomas L. Wallace 901-762-0080  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Reynolds, Bone & Griesbeck PLC

<u>5100 Wheelis Drive, Suite 300</u>	(Name - if individual, state last, first, middle name) <u>Memphis</u>	<u>TN</u>	<u>38117-4558</u>
(Address)	(City)	(State)	(Zip Code)

CHECK ONE:

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

PROCESSED

APR 11 2006  
THOMSON  
FINANCIAL

<b>FOR OFFICIAL USE ONLY</b>

\*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, Thomas L. Wallace, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Portfolio Trading, LLC, as of December 31, 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:



Diane Moore  
Notary Public

Thomas L. Wallace  
Signature  
Managing Partner  
Title

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).

**PORTFOLIO TRADING, L.L.C.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2005**

# TABLE OF CONTENTS

*Portfolio Trading, L.L.C.*  
*December 31, 2005*

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	<u>Page</u>
Independent Auditor's Report	1
Financial Statements	
Statement of Financial Condition	2
Statement of Income (Loss)	3
Statement of Changes in Members' Equity	4
Statement of Changes in Liabilities Subordinated to Claims of General Creditors	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Supplementary Information	
Schedule I - Computation of Net Capital under Rule 15c3-1 of the Securities and Exchange Commission	8
Schedule II - Computation for Determination of Reserve Requirements for Broker Dealers under Rule 15c3-3	9
Schedule III - Information Relating to the Possession or Control Requirement under Rule 15c3-3	10
Report on Internal Control	11

REYNOLDS  
BONE &  
GRIESBECK PLC

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

**INDEPENDENT AUDITOR'S REPORT**

The Members  
Portfolio Trading, L.L.C.  
Memphis, Tennessee

We have audited the accompanying statement of financial condition of Portfolio Trading, L.L.C., a Tennessee limited liability company, as of December 31, 2005, and the related statements of income (loss), changes in members' 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 Portfolio Trading, L.L.C. as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II and III 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.

*Reynolds, Bone & Griesbeck PLC*

February 7, 2006

Clark Centre  
5100 Wheelis Drive, Suite 300  
Memphis, Tennessee 38117-4558  
www.rbgcpa.com

# STATEMENT OF FINANCIAL CONDITION

*Portfolio Trading, L.L.C.*  
*December 31, 2005*

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## ASSETS

Cash	\$	15,780
Deposit with clearing broker		100,000
Commissions receivable		3,205
Interest receivable		685
Prepaid expenses		<u>1,425</u>
	\$	<u><u>121,095</u></u>

**LIABILITIES - accrued expenses** \$ 6,198

**MEMBERS' EQUITY** 114,897

\$ 121,095

*See notes to financial statements.*

# STATEMENT OF INCOME (LOSS)

*Portfolio Trading, L.L.C.*  
*Year Ended December 31, 2005*

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Revenues		
Commissions on securities transactions	\$	85,637
Interest income		<u>2,237</u>
		87,874
Expenses		
Management fees		53,265
Clearing fees		12,709
Professional fees		23,330
Regulatory fees		8,215
Insurance		285
Trading error		24,215
Miscellaneous		<u>3,495</u>
		<u>125,514</u>
Net income (loss)	\$	<u><u>(37,640)</u></u>

*See notes to financial statements.*

## STATEMENT OF CHANGES IN MEMBERS' EQUITY

*Portfolio Trading, L.L.C.*  
*Year Ended December 31, 2005*

---

Balance at January 1, 2005	\$ 155,837
Net income (loss)	(37,640)
Distribution to member	<u>(3,300)</u>
Balance at December 31, 2005	<u>\$ 114,897</u>

*See notes to financial statements.*

**STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO  
CLAIMS OF GENERAL CREDITORS**

*Portfolio Trading, L.L.C.*  
*Year Ended December 31, 2005*

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Subordinated liabilities at January 1, 2005	\$ -
No activity during year	<u>-</u>
Subordinated liabilities at December 31, 2005	<u><u>\$ -</u></u>

*See notes to financial statements.*

## STATEMENT OF CASH FLOWS

*Portfolio Trading, L.L.C.*  
*Year Ended December 31, 2005*

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Cash flows from operating activities	
Net income (loss)	\$ (37,640)
Change in operating assets and liabilities	
Deposit with clearing broker	(75,000)
Commissions receivable	(3,205)
Interest receivable	(685)
Prepaid expenses	(1,425)
Accrued expenses	<u>(37,094)</u>
Net cash provided by (used for) operating activities	(155,049)
Cash at beginning of year	<u>170,829</u>
Cash at end of year	<u>\$ 15,780</u>
Supplemental disclosure	
Noncash investing activity - investment distributed to member	\$ 3,300

*See notes to financial statements.*

## NOTES TO FINANCIAL STATEMENTS

*Portfolio Trading, L.L.C.*  
*December 31, 2005*

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### 1. NATURE OF BUSINESS

Portfolio Trading, L.L.C. (the Company), a Tennessee limited liability company, is engaged in the business of general securities brokerage, including sale of variable life insurance and annuities.

The Company offers accounts on a fully disclosed basis through a contractual agreement with a clearing broker. Accordingly, the Company operates under the exemptive provisions of Securities and Exchange Commission (SEC) rule 15c3-3(k)(2)(ii). Substantially all of the Company's clients are also clients of a registered investment advisor, affiliated through mutual ownership.

Securities transactions are recorded on a trade date basis.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

### 2. NET CAPITAL REQUIREMENTS

As a registered broker-dealer, the Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (rule 15c3-1), which requires the maintenance of minimum net capital. At December 31, 2005, the Company had net capital of \$106,776, which was \$101,776 in excess of its minimum net capital required of \$5,000.

### 3. INCOME TAXES

As a single-member limited liability company, the Company is not subject to federal income tax. The member reports the net income (loss) of the Company on his personal income tax return.

### 4. RELATED PARTY TRANSACTIONS

Management fees totaling \$53,265 were paid to entities affiliated through mutual ownership. These fees were paid under a month-to-month management agreement and covered expenses related to the Company's operations including rent, utilities, salaries, equipment and other general and administrative expenses.

**COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES  
AND EXCHANGE COMMISSION  
SCHEDULE I**

*Portfolio Trading, L.L.C.  
December 31, 2005*

**NET CAPITAL**

Total members' equity	\$ 114,897
Liabilities subordinated to claims of general creditors allowable in computation of net capital	-
Total capital and allowable subordinated liabilities	<u>114,897</u>
Deductions and/or charges for nonallowable assets:	
Nonallowable asset	3,121
Fidelity bond deductible	5,000
	<u>8,121</u>
Net capital	<u>\$ 106,776</u>

**AGGREGATE INDEBTEDNESS**

Liabilities from statement of financial condition	<u>\$ 6,198</u>
Total aggregate indebtedness	<u>\$ 6,198</u>

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

Minimum net capital required	<u>\$ 5,000</u>
Excess net capital	<u>\$ 101,776</u>
Excess net capital at 1000%	<u>\$ 106,156</u>
Ratio of aggregate indebtedness to net capital	<u>.06 to 1</u>

No material difference exists between the above computation of net capital under Rule 15c3-1 and that filed with the Company's unaudited December 31, 2005 FOCUS report.

**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS FOR  
BROKERS-DEALERS UNDER RULE 15c3-3  
SCHEDULE II**

*Portfolio Trading, L.L.C.*  
*December 31, 2005*

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The Company is exempt from provisions of SEC rule 15c3-3 as an introducing broker or dealer clearing all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and who promptly transmits all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of SEC rules 17a-3 and 17a-4, as are customarily made and kept by a clearing broker or dealer. This exemption is in accordance with provisions of SEC rule 15c3-3(k)(2)(i).

**INFORMATION RELATING TO THE POSSESSION OR CONTROL REQUIREMENT  
UNDER RULE 15c3-3  
SCHEDULE III**

*Portfolio Trading, L.L.C.*  
*December 31, 2005*

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The Company is exempt from provisions of SEC rule 15c3-3 as an introducing broker or dealer clearing all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and who promptly transmits all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of SEC rules 17a-3 and 17a-4, as are customarily made and kept by a clearing broker or dealer. This exemption is in accordance with provisions of SEC rule 15c3-3(k)(2)(ii).

**REPORT ON INTERNAL CONTROL REQUIRED BY  
SEC RULE 17a-5 FOR A BROKER DEALER CLAIMING AN  
EXEMPTION FROM SEC RULE 15c3-3**

The Members  
Portfolio Trading, L.L.C.  
Memphis, Tennessee

In planning and performing our audit of the financial statements and supplemental schedules of Portfolio Trading, L.L.C. (the Company) for the year ended December 31, 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 (or aggregate debits) 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 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.

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CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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, 2005, to meet the SEC's objectives.

This report is intended solely for the information and use of the Members, management, the SEC, the National Association of Securities Dealers, 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.

*Reynolds, Bone & Griesbeck PLC*

February 7, 2006