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

CW

SEC FILE NUMBER
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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:

Gallatin Capital, LLC

OFFICIAL USE ONLY
 FIRM ID. NO.

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

444 Madison Avenue

(No. and Street)

New York

New York

10022

(City)

(State)

(Zip Code)

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

John Youngblood

(212) 891-7990

(Area Code -- Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Rothstein, Kass & Company, P.C.

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

4 Becker Farm Road

Roseland

New Jersey

07068

(Address)

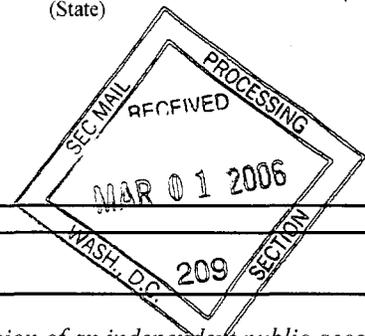
(City)

(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)

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GALLATIN CAPITAL, LLC
STATEMENT OF FINANCIAL CONDITION
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2005

GALLATIN CAPITAL, LLC

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Certified
Public
Accountants

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Roseland, NJ 07068
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Walnut Creek

Rothstein Kass

INDEPENDENT AUDITORS' REPORT

To the Members of
Gallatin Capital, LLC

We have audited the accompanying statement of financial condition of Gallatin Capital, LLC (the "Company") as of December 31, 2005. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition 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 statement of financial condition is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit of the statement of financial condition provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Gallatin Capital, LLC as of December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Rothstein, Kass & Company, P.C.

Roseland, New Jersey
January 26, 2006

GALLATIN CAPITAL, LLC

STATEMENT OF FINANCIAL CONDITION

December 31, 2005

ASSETS

Cash and cash equivalents	\$	217,291
Fees receivable		1,490,948
Prepaid income tax		28,000
Property and equipment, net		77,288
Deferred income tax asset		21,750
Other assets		<u>46,068</u>
	\$	<u>1,881,345</u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities

Accounts payable and accrued expenses	\$	12,270
Members' compensation payable		1,105,000
Deferred income tax liability		<u>60,750</u>
Total liabilities		1,178,020

Members' equity, authorized 1,000 Class A Units and
1,000 Class B Units, issued and outstanding 200 Class A Units

703,325

\$ 1,881,345

GALLATIN CAPITAL, LLC

NOTES TO FINANCIAL STATEMENTS

1. Nature of business

Gallatin Capital, LLC (the "Company") is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers, Inc. (NASD). The Company engages in private placement of securities.

2. Summary of significant accounting policies

Cash and Cash Equivalents

The Company considers all highly-liquid debt instruments with original maturities of three months or less to be cash equivalents.

Fee Receivable

The Company carries its fees receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its fees receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions.

Fee Revenues

Fee revenues are recognized based on the terms of the related contracts and financial information received by management reflecting the performance of the fund managers.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. The Company provides for depreciation and amortization as follows:

Asset	Useful Life	Principal Method
Furniture and fixtures	7 years	Straight-line
Office equipment	5 years	Straight-line
Computer software	3 years	Straight-line

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 amounts disclosed in the financial statements. Actual results could differ from those estimates.

GALLATIN CAPITAL, LLC

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Income Taxes

The Company complies with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce the deferred income tax assets to the amount expected to be realized.

3. Property and equipment

Details of property and equipment at December 31, 2005 are as follows:

Furniture and fixtures	\$	35,103
Office equipment		101,863
Computer software		16,289
		<u>153,255</u>
Less accumulated depreciation and amortization		<u>75,967</u>
	\$	<u>77,288</u>

4. Net capital requirement

The Company is subject to the SEC Uniform Net Capital Rule 15c3-1. This Rule requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 and that equity capital may not be withdrawn if the resulting net capital ratio would exceed 10 to 1. At December 31, 2005, the Company's net capital was approximately \$205,000, which was approximately \$200,000 in excess of its minimum requirement of approximately \$5,000.

5. Exemption from Rule 15c3-3

The Company is exempt from the SEC Rule 15c3-3 pursuant to the exemptive provision under sub-paragraph (k)(2)(i) and, therefore, is not required to maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers".

GALLATIN CAPITAL, LLC

NOTES TO FINANCIAL STATEMENTS

6. Commitment

At December 31, 2005, the Company is obligated under a lease for office space which expires in March 2007. Rent expense under the agreement for the year ended December 31, 2005 was approximately \$89,000.

Approximate future annual rental payments under the lease are as follows:

Year ending December 31,	
2006	\$ 78,800
2007	<u>19,800</u>
	<u>\$ 98,600</u>

7. 412(i) defined benefit plan

The Company maintains a participating 412(i) defined benefit plan (the "Plan"). This Plan is for the benefit of all eligible employees. The Company is required to make annual contributions to the Plan based on a fee schedule provided by the plan administrator. Future contributions may be reduced depending on the actual dividend rate earned by the annuity contracts maintained within the plan. The Plan also contains life insurance for the eligible employees. The Company made contributions of approximately \$502,000 to the Plan for the year ended December 31, 2005. The Company anticipates it will make contributions of approximately \$452,000 to the Plan for the year ended December 31, 2006.

8. Income taxes

No provision for federal and state income taxes has been recorded because the Company is a limited liability company and files its tax return as a partnership. Accordingly, the members report their share of the Company's income or loss on their income tax returns.

Current income tax expense results from the New York City unincorporated business tax.

Deferred income tax expense results from differences between the book and tax basis of assets and liabilities resulting from the Company being a cash basis taxpayer. Deferred income tax liability is mainly attributable to the timing difference related to fees receivable.

9. Major customer

For the year ended December 31, 2005 approximately \$5,303,000 of fee revenues were earned from one customer. Fees receivable from this customer was approximately \$1,381,000 at December 31, 2005.

GALLATIN CAPITAL, LLC

NOTES TO FINANCIAL STATEMENTS

10. Concentration of credit risk

The Company maintains its cash balance at one financial institution in excess of the amount insured by the Federal Deposit Insurance Corporation. Management regularly monitors the financial condition of this institution in order to keep the potential risk to a minimum.