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



SEC FILE NUMBER
8-45345

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 01/01/2005 AND ENDING 12/31/2005
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
AC Trading, Inc.
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

17621 Irvine Blvd. Ste 104

(No. and Street)

Tustin

(City)

CA

(State)

92780

(Zip Code)

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

Valarie Barber

714-665-3112

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
Coons, Timothy Alan

4241 Jutland Drive Ste 304-A

(Address)

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

(City)

CA

(State)

92117

(Zip Code)

CHECK ONE:

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

PROCESSED

JUN 15 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)

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.

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OATH OR AFFIRMATION

I, Valarie Barber, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of AC Trading Inc., 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:

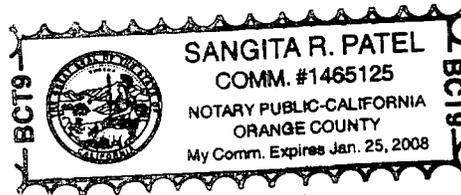
STATE OF CALIFORNIA
COUNTY OF ORANGE
SUBSCRIBED AND SWORN TO BEFORE ME
THIS 27th DAY OF February, 2006
BY Valarie Barber

Valarie Barber
Signature

President
Title

NOTARY

Sangita R. Patel
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 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).

AC Trading, Inc.

Index to Financial Statements

Rule 17a – 5 (d) (1)

Auditor's Report

Statement of Financial Condition December 31, 2005

Statement of Income (Loss) December 31, 2005

Statement of Changes in Stockholder's Equity December 31, 2005

Statement of Cash Flows December 31, 2005

Notes to Financial Statements December 31, 2005

Schedule I Computation of Net Capital December 31, 2005

Schedule II Computation of Net Capital Requirement December 31, 2005

Schedule III Computation of Aggregate Indebtedness December 31, 2005

Auditor's Report on Internal Controls

All other financial statements and schedules for which provision has been made in the applicable accounting regulations of the Security and Exchange Commission are not required or are inapplicable, and have been omitted.

TIMOTHY A COONS, CPA
4241 JUTLAND DRIVE, SUITE 304A
SAN DIEGO, CALIFORNIA 92117
858-274-5573
FAX 858-309-4144

To the stockholder of
AC Trading, Inc.

I have audited the accompanying statement of financial condition of AC Trading, Inc. (a California Corporation) as of December 31, 2005, and the related statements of income (loss), changes in stockholder's equity and cash flows for the year then ended and the schedules of computation of net capital, computation of net capital requirement, and computation of aggregate indebtedness as of December 31, 2005. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards. Those standards require that I 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 statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of A.C. Trading, Inc. as of December 31, 2005, and the results of its operations and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles. Further, in my opinion, the data shown in the schedules of computation of net capital, computation of net capital requirement and computation of aggregate indebtedness as of December 31, 2005, presents fairly, in all material aspects the information set forth therein.


Timothy A Coons, CPA

San Diego, California, USA
February 20, 2006

AC Trading, Inc.

Statement of Financial Condition December 31, 2005

ASSETS

	Allowable	Non- Allowable	Total
Cash	\$ 65,855	\$ -	\$ 65,855
Accounts Receivable	<u>\$ 22,596</u>	<u>\$ -</u>	<u>\$ 22,596</u>
Total Assets	<u>\$ 88,451</u>	<u>\$ -</u>	<u>\$ 88,451</u>

LIABILITIES AND EQUITY

Liabilities:

Due Related Company	\$ 29,000
Accounts Payable	<u>8,807</u>
Total Liabilities	37,807

Stockholder's Equity

Capital Stock	2,000
Added Paid in Capital	20,549
Retained Earnings (Deficit)	<u>28,095</u>
Total Stockholder's Equity	<u>50,644</u>
Total Liabilities and Equity	<u>\$88,451</u>

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

AC Trading, Inc.

Statement of Income (Loss) For the Year Ended December 31, 2005

Revenues:

Commissions	\$ 827,757
Other Revenues	<u>251</u>
Total Revenues	828,008

Costs and Expenses:

Management Fees	783,976
Regulatory Fees	1,637
Service Charges	266
Licenses and Permits	290
Professional Fees	<u>1,388</u>

Total Costs and Expenses 787,557

Net Income(Loss) Before Taxes 40,451

Taxes 9,107

Net Income(Loss) for the Year \$ 31,344

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

AC Trading, Inc.

Statement of Changes in Stockholder's Equity For the Year Ended December 31, 2005

	1,000 Shares of Common <u>Stock</u>	Added Paid in <u>Capital</u>	(Deficit) Retained <u>Earnings</u>
Balances, December 31, 2004	\$ 2,000	\$20,549	\$(3,249)
Net Income(Loss) for the Year	_____	_____	____31,344
Balances, December 31, 2005	<u>\$ 2,000</u>	<u>\$ 20,549</u>	<u>\$ 28,095</u>

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

AC Trading, Inc.

Statement of Cash Flows For the Year Ended December 31, 2005

Cash Flow from Operating Activities-	
Net Income(Loss) for the Year	\$ 31,344
Add (Deduct) –	
Decrease in accounts receivable	121,798
Decrease in due related company	(113,000)
Increase in accounts payable	<u>8,257</u>
Net Cash Provided (Used) by Operating Activities	48,399
Cash Balance, December 31, 2003	<u>\$ 17,456</u>
Cash Balance, December 31, 2004	<u>\$ 65,855</u>

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

AC Trading, Inc.

Schedule I Computation of Net Capital December 31, 2005

Net Capital –	
Stockholder's Equity	\$ 50,644
Additions (Deductions) from Equity	
Non-allowable assets	(-)
Net Capital	<u>\$ 50,644</u>

Schedule II Computation of Net Capital Requirement December 31, 2005

Minimum Net Capital Based on 6.67% Aggregate Indebtedness	\$ 2,520
Minimum Dollar Requirement	5,000
Excess Net Capital	45,644
Excess Net Capital @ 1000%(Net Cap-10%A.I.)	46,863

Schedule III Computation of Aggregate Indebtedness December 31, 2005

Total aggregated indebtedness from liabilities	
From financial condition	\$ 37,807
Ratio of aggregated indebtedness to net capital	74.7%

There were no differences between the company's audited and initial unaudited computation of net capital requirement and computation of aggregate indebtedness reported by the company on its Form X-17A-5, Part IIA for the year ended December 31, 2005.

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

AC Trading, Inc.

Notes to Financial Statements

December 31, 2005

Note 1: Significant Accounting Policies –

As a registered broker-dealer in securities, the Company is subject to the Securities Exchange Act of 1934. The Company uses the accrual method of accounting for financial reporting purposes.

Allowance for doubtful accounts – bad debt expense. The Company does not record an allowance for doubtful accounts in its books because all accounts listed in the accounts receivable are collected within a thirty day period.

The Company has executed agreements with Merrill Lynch for the handling of customer securities transactions on a fully disclosed basis.

The Company introduces and forwards all customer and principal transactions involving purchases and sales of securities to another broker or dealer who carries such accounts on a fully disclosed basis. The Company promptly forwards all funds and securities received in connection with its activities with other brokers and does not otherwise hold funds or securities for or owe money or securities to customers.

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and demand deposits at banks and security firms.

In conformity with generally accepted accounting principles, preparation of financial statements may require the use of management's estimates.

Note 2: Capital Requirement –

The Company, as a registered broker-dealer in securities, is required to comply with the net capital provisions of the Securities Exchange Act of 1934. Under that rule, the Company had net capital, as defined, of \$50,644, which is \$45,644 in excess of the minimum amount required to be maintained. There were no differences between the Company's audited and initial unaudited computation of net capital, computation of net capital requirement and the computation of aggregate indebtedness reported by the Company on its unaudited Form X-17A-5, Part IIA for the year ended December 31, 2005.

Initial unaudited net capital	\$50,644
Audited net capital	\$50,644

Note 3: Capital Stock and Earnings Data –

The Company is authorized to issue 100,000 shares of its common stock. The net income per share on the 1,000 shares of common stock outstanding during 2005 was \$31.34.

Note 4: Exemption for Computing Reserve Requirement and other Provisions

The company is exempt from computing the Reserve Requirement for the period ending December 31, 2005 as per the Security and Exchange Commission Rule 15c3-3 and is also exempt from the provisions of the Possession or Control provision per the Security and Exchange Commission Rule 15c3-3(k)(2)(ii).

TIMOTHY A COONS, CPA
4241 JUTLAND DRIVE, SUITE 304A
SAN DIEGO, CALIFORNIA 92117

858-274-5573
FAX 858-309-4144

To the Stockholder and Board of Directors
AC Trading, Inc.

I have examined the financial statements of AC Trading, Inc. (a California corporation) as of December 31, 2005 and have issued an auditor's report thereon dated February 20, 2006.

As part of that examination, I made a study and evaluation of the systems of internal control to the extent I considered necessary to evaluate the system as required by U.S. generally accepted auditing standards and Rule 17a-5 of the Securities and Exchange Commission. This study and evaluation included the accounting system, the procedures for safeguarding securities, and the practices and procedures followed in making the (i) periodic computations of aggregate indebtedness and net capital under Rule 17-a-3(a)(11) and the reserve required by Rule 15c3-3(e), (ii) for safe guarding securities that may be received for transmittal to a clearing organization, (iii) required prompt payment for securities of Section 4(c) of Regulation T of the Board of Governors and, (iv) in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3. Rule 17a-5 states that the scope of the study and evaluation should be sufficient to provide reasonable assurance that any material weakness existing at the date of my examination would be disclosed. Under U.S. generally accepted auditing standards and Rule 17a-5, the purposes of such a study and evaluation are to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures necessary for expressing an opinion on the financial statements and to provide a basis for reporting material weaknesses in internal accounting control.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance concerning the safeguarding of assets against loss from unauthorized use or disposition and concerning the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognize that the evaluation of these factors necessarily requires estimates and judgements by management. However, for the purposes of the report under Rule 17a-5, the determination of weakness to be reported was made without considering the practicability of corrective action by management within the framework of a cost/benefit relationship.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from the misunderstanding of instruction, mistakes of judgement, carelessness, or other personal factors. Control procedures whose effectiveness depends on segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgements required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to risk that the procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation of the system of internal accounting control for the year ended December 31, 2005 which was made for the purposes set forth in the first paragraph above and would not necessarily disclose all weaknesses in the system that may have existed during that period, disclosed no weaknesses that I consider to be material.

I understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission 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 my study, I believe that the company's practices and procedures were adequate at December 31, 2005 to meet the Commission's objectives. Since this work disclosed no material inadequacies, in my opinion, no material inadequacy report is required.


Timothy A. Coons, CPA

San Diego, California USA
February 20, 2006