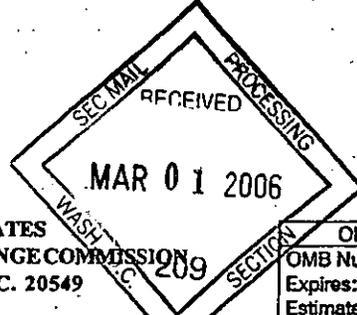




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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549



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OMB APPROVAL  
OMB Number: 3235-0123  
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**BEST AVAILABLE COPY** ANNUAL AUDITED REPORT  
**FORM X-17A-5**  
**PART III**

SEC FILE NUMBER  
8-32683 36803

**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 January 1, 2005 AND ENDING December 31, 2005  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: A.B. Watley Direct, Inc.

OFFICIAL USE ONLY

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

FIRM I.D. NO.

50 Broad Street, Suite 1728

(No. and Street)

New York, N.Y. 10004

(City)

(State)

(Zip Code)

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

Robert Malin

(888) 733-9000

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Marcum & Kliegman LLP

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

655 Third Avenue New York N.Y. 10017

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

**PROCESSED**

**MAY 25 2008**

**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.

MA  
5/24

OATH OR AFFIRMATION

I, Robert Malin, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of A.B. Watley Direct, 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:

SUSAN JOHN
Notary Public, State of New York
No. 01JO6054584
Qualified in Queens County
My Commission Expires May 24, 2007

Signature: [Handwritten Signature]
Title: President

[Handwritten Signature]
Notary Public

2/23/06

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).

A.B. WATLEY DIRECT, INC.  
(A Wholly-Owned Subsidiary of A.B. Watley Group Inc.)

STATEMENT OF FINANCIAL CONDITION

December 31, 2005

ASSETS

Cash and cash equivalents	\$ 25,148
Receivables from clearing brokers	292,369
Receivable from parent and affiliate	904,758
Prepaid and other assets	<u>61,580</u>

TOTAL ASSETS \$1,283,855

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES

Accounts payable	\$ 138,883
Accrued liabilities	<u>48,634</u>

TOTAL LIABILITIES \$ 187,517

COMMITMENTS AND CONTINGENCIES

STOCKHOLDER'S EQUITY

Common stock - \$0.50 par value; 10,000 shares authorized; 1,000 shares issued and outstanding	500
Additional paid-in capital	95,468
Retained earnings	<u>1,000,370</u>

TOTAL STOCKHOLDER'S EQUITY 1,096,338

TOTAL LIABILITIES AND STOCKHOLDER'S  
EQUITY \$1,283,855

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