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SEC / MR ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

SEC FILE NUMBER
8-66136

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 1/1/2005 AND ENDING 12/31/2005  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **Pipeline Trading Systems, LLC**

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

**60 East 42nd Street, Suite 624**

(No. and Street)

**New York**

**NY**

**10165**

(City)

(State)

(Zip Code)

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PROCESSED

JAN 28 2008

THOMSON  
FINANCIAL

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

**Mr. Louis Karcher**

**(212) 370-8320**

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

**Grant Thornton LLP**

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

**60 Broad Street**

**New York**

**NY**

**10004**

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

SECURITIES AND EXCHANGE COMMISSION	
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05	EXAMINATIONS

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\*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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Handwritten initials and date: 1/24/08



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Member of  
Pipeline Trading Systems, LLC

We have audited the accompanying statement of financial condition of Pipeline Trading Systems, LLC (a wholly-owned subsidiary of Pipeline Financial Group, Inc.) (the "Company") as of December 31, 2005. This financial statement 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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 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 financial statements, 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 statement referred to above presents fairly, in all material respects, the financial position of Pipeline Trading Systems, LLC as of December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

*Grant Thornton LLC*

New York, New York  
February 16, 2006

Pipeline Trading Systems, LLC  
(a wholly-owned subsidiary of Pipeline Financial Group, Inc.)

STATEMENT OF FINANCIAL CONDITION

December 31, 2005

ASSETS

Cash	\$ 2,383,749
Securities Owned, at market value	7,266,254
Receivable from brokers	922,804
Commissions receivable	480,674
Equipment, net of accumulated depreciation of \$ 43,315	217,233
Other	<u>221,763</u>
Total assets	<u>\$11,492,477</u>

LIABILITIES AND MEMBER'S EQUITY

Accounts payable	\$ 180,942
Accrued expenses and other	<u>2,024,179</u>
Total liabilities	<u>2,205,121</u>
Member's equity	<u>9,287,356</u>
Total liabilities and Member's equity	<u>\$ 11,492,477</u>

*The accompanying notes are an integral part of this statement.*

Pipeline Trading Systems, LLC  
(a wholly-owned subsidiary of Pipeline Financial Group, Inc.)

## NOTES TO STATEMENT OF FINANCIAL CONDITION

December 31, 2005

### NOTE A - ORGANIZATION

Pipeline Trading Systems, LLC (the "Company") is a New York City based broker-dealer that is registered with the Securities and Exchange Commission ("SEC") and is a member of the National Association of Securities Dealers, Inc. ("NASD"). The Company operates the Pipeline Alternative Trading System ("ATS"), an electronic marketplace that enables institutions and brokerage firms to quickly and efficiently trade large blocks of NYSE and NASDAQ NMS stocks and Exchange Traded Funds ("ETFs").

The Company generates commission revenue through securities transactions and introduces all customers to its clearing broker pursuant to a fully disclosed clearance agreement. The Company is therefore exempt from the requirements of SEC rule 15c-3 under paragraph k(2)(ii).

The Company is a wholly-owned subsidiary of Pipeline Financial Group, Inc. (the "Parent").

### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Basis of Preparation*

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

#### *Cash and Marketable Securities*

The Company considers its investments in financial instruments with maturities of less than 90 days when issued to be cash equivalents.

#### *Securities Transactions*

The Company records securities transactions executed for its customers and related commissions and expenses on a trade-date basis.

#### *Depreciation*

Office equipment is depreciated over thirty-six months using the straight-line method.

Pipeline Trading Systems, LLC  
(a wholly-owned subsidiary of Pipeline Financial Group, Inc.)

**NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)**

December 31, 2005

**NOTE B (continued)**

*Income Taxes*

No provision for income taxes has been reflected in the accompanying financial statements since a limited liability company is not responsible for the payment of Federal income taxes. All revenues and expenses retain their character and pass through directly to the Member.

*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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial. Actual results could differ from those estimates.

**NOTE C - NET CAPITAL REQUIREMENT**

As a registered broker-dealer, the Company is subject to Uniform Net Capital Rule 15c3-1 of the SEC, which requires that the Company maintain minimum net capital, as defined, of \$5,000 or 6-2/3% of aggregate indebtedness, as defined, whichever is greater. Net capital and aggregate indebtedness change day to day, but as of December 31, 2005, the Company had net capital of \$8,48,349, which was \$8,271,341 in excess of its required minimum net capital of \$147,008. The Company's ratio of aggregate indebtedness to net capital was 0.26 to 1.

Proprietary accounts held at the Clearing Broker ("PAIB assets") are considered allowable assets in the computation of net capital pursuant to an agreement between the Company and the Clearing Broker which requires, among other things, that the Clearing Broker perform a computation of PAIB assets similar to the customer reserve computation set forth in Rule 15c3-3.

**NOTE D - RELATED PARTY TRANSACTIONS**

The Company has entered into a series of administrative agreements (the "Agreements") with the Parent under which the Parent provides its employees and other services as may be required by the Company for which the Company pays the Parent. Such expenses include salaries of certain personnel, office space, legal services, use of the trading system and related computer equipment and technical support services. Pursuant to the Administrative Agreement in place at December 31, 2005, the Company agreed to pay the Parent approximately \$800,000 (commencing August 1, 2005) per month for such

Pipeline Trading Systems, LLC  
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NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)

December 31, 2005

**NOTE D (continued)**

expenses. Pursuant to the prior Administrative Agreement in place January 1, 2005 – July 31, 2005, required the Company to pay the parent approximately \$600,000 per month for such expenses. At December 31, 2005, the Company had no amount payable to the Parent for an administrative fee.

**NOTE E - COMMITMENTS AND CONTINGENCIES**

*License Agreement and Other*

Pursuant to a License Agreement (the "License Agreement") as amended July 13, 2005 entered into by the Parent and a third party, the Parent has a commitment to pay the third party royalties in connection with the use of any information provided by the third party in the Company's trading system. Pursuant to the Agreement, such royalty payments are based on the amount of the Company's quarterly net revenues and may be accrued until certain milestones are reached in that regard. Obligations under the License Agreement arising from the Company's operations are recognized at the Company level. As of December 31, 2005, the Company has recorded an accrued expense to the third party in the amount of approximately \$1,002,287.

The Company is obligated under arrangements with certain subscriber customers to pay for investment-related services. For the year ended December 31, 2005, the Company recorded \$328,634 of such expenses, which is included in selling, general and administrative expenses on the statement of operations, of which \$313,082 is payable at December 31, 2005 and is included in accrued expenses and other on the statement of financial condition.

*Operating Lease*

The Company leases office space in Boston, Massachusetts under a non cancelable operating lease agreement expiring on September 30, 2008 and providing monthly rental expense of \$2,126.

The Company leases office space in San Francisco, California under a non cancelable operating lease agreement expiring on October 31, 2006 and providing monthly rental expense of \$2,440.

Pipeline Trading Systems, LLC  
(a wholly-owned subsidiary of Pipeline Financial Group, Inc.)

**NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)**

December 31, 2005

**NOTE E (continued)**

The following is a schedule by years of future minimum annual rental payments under noncancelable operating leases:

	<u>December 31, 2005</u>
2006	\$ 49,912
2007	25,512
2008	<u>25,512</u>
	<u>\$100,936</u>

**NOTE F - TRANSACTIONS WITH CLEARING BROKER**

The Company conducts business with its Clearing Broker on an agency basis on behalf of its customers and occasionally for its own proprietary account. The Company earns commissions as an introducing broker for the transactions of its customers. The clearing and depository operations for the Company's customer accounts are performed by its clearing broker pursuant to a clearance agreement.

The Company has agreed to indemnify its Clearing Broker for losses the clearing broker may sustain as a result of the failure of the Company's customers to satisfy their obligations in connection with their securities transactions.

**NOTE G - OFF-BALANCE-SHEET RISK, CONCENTRATION RISK AND CREDIT RISK**

In the normal course of business, the Company executes with its Clearing Broker, as agent, transactions on behalf of its customers where the risk of potential loss due to market fluctuations (market risk) or failure of the other party to the transaction to perform (credit risk) exceeds the amounts recorded for the transactions. Should a counterparty not fulfill its obligations in any of these transactions, the Company may be required to buy or sell the securities at prevailing market prices in the future on behalf of its customers.

Pipeline Trading Systems, LLC  
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**NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)**

December 31, 2005

**NOTE H - DEFERRED REVENUE**

The Company has received commission revenue in advance of services provided and will recognize this revenue in the period in which the customer performs security transactions. At December 31, 2005, the Company had recorded \$500,000 of deferred revenue.

**END**