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

SEC FILE NUMBER
8-67498

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 01/01/2013 AND ENDING 12/31/2013  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: POTAMUS TRADING, LLC

OFFICIAL USE ONLY
FIRM I.D. NO.

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

2 SEAPORT LN, FLOOR 5

(No. and Street)

BOSTON

(City)

MA

(State)

02210

(Zip Code)

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

KRISTIN LINNELL - 617 855 8722

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

PRICEWATERHOUSE COOPERS LLP

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

125 HIGH ST

(Address)

BOSTON

(City)

MA

(State)

02110

(Zip Code)

CHECK ONE:

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

SECURITIES AND EXCHANGE COMMISSION

RECEIVED

SEP 17 2014

DIVISION OF TRADING & MARKETS

**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)

DD  
10/23/14

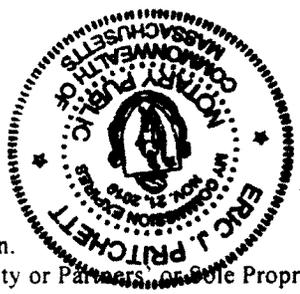
OATH OR AFFIRMATION

I, KRISTIN LINNELL, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of POTAMUS TRADING LLC, as of DECEMBER 31, 2013, 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:

On this 3 day of March, 2014, before me, the undersigned notary public, personally appeared Kristin Linnell and proved to me through satisfactory evidence of identification, which were Personal Relationship to be the person who signed the preceding of attached document in my presence, and who swore or affirmed to me that the contents of the document are truthful and accurate to the best of his/her knowledge and belief. ERIC J. PRITCHETT, Notary Public My Commission Expires November 21, 2019

[Signature] Signature CFO / FINOP Title

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).



## **Independent Auditor's Report**

To the Member of Potamus Trading, LLC

We have audited the accompanying statement of financial condition of Potamus Trading, LLC (the "Company") as of December 31, 2013.

### ***Management's Responsibility for the Statement of Financial Condition***

Management is responsible for the preparation and fair presentation of the statement of financial condition in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a statement of financial condition that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of financial condition. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the statement of financial condition, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the statement of financial condition in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement of financial condition. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of Potamus Trading, LLC at December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

February 28, 2014

**POTAMUS TRADING, LLC**  
**Statement of Financial Condition**  
**December 31, 2013**

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**Assets**

Cash and cash equivalents	\$	797,813
Cash and securities segregated under federal and other regulations		99,931
Deposit with clearing broker		1,074,150
Fees receivable for securities services rendered		257,176
Due from clearing broker		170,061
Furniture, office equipment and leasehold improvements, at cost		
less accumulated depreciation of \$44,024		103,515
Exchange and ATS rebates receivable		3,899
Prepaid and other assets		138,733
Total assets		<u>2,645,278</u>

**Liabilities and Member's Equity**

**Liabilities**

Accrued expenses and other liabilities		250,657
Exchange and ATS fees payable		190,046
Due to clearing broker		76,218
Rebates payable to customers		14,478
Liabilities subordinated to claims of general creditors		1,000,000
Total liabilities		<u>1,531,399</u>

Member's equity		<u>1,113,879</u>
Total liabilities and Member's equity	\$	<u>2,645,278</u>

The accompanying notes are an integral part of this statement of financial condition.

# **POTAMUS TRADING, LLC**

## **Notes to the Statement of Financial Condition**

### **December 31, 2013**

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#### **1. Organization and Description of the Business**

Potamus Trading, LLC (the "Company") is a Delaware limited liability corporation ("LLC") organized in 2006 under the name Greenmoor Financial Group, LLC. The company is a registered broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"), the NASDAQ Stock Market ("Nasdaq"), the BATS Exchanges ("BATS"), the Direct Edge Exchanges ("Edge"), the NASDAQ OMX BX Exchange ("BX"), the NYSE Arca Exchange ("Arca"), the CBOE Stock Exchange ("CBSX") and the Securities Investor Protection Corporation ("SIPC").

The business was reorganized under FINRA rule 1017 in 2012 to include changing the name, member operating agreement, ownership, managing principals, and business lines. The reorganization was approved by FINRA on August 13, 2012 (see note 9).

The Company is a wholesale broker-dealer offering electronic and algorithmic execution services in listed US equities to its customers which consist of other broker-dealers and institutional investors. The Company does not provide custodial services for customer assets and it clears its US transactions through a third-party clearing broker on a fully disclosed basis.

The Company's approved business activities include: broker or dealer retailing corporate equity securities over-the-counter, non-exchange member arranging for transactions in listed securities by exchange member, broker or dealer retailing corporate debt securities, US government securities broker or dealer, put and call broker or dealer or option writer and trading for its own account. FINRA has approved the Company to engage in market making activities in exchange listed equity securities. The Company is registered as a market-maker with a US exchange.

#### **2. Significant Accounting Policies**

##### **Cash and Cash Equivalents**

The Company defines cash equivalents as short-term interest bearing investments with maturities at the time of purchase of three months or less, that are not held for sale in the ordinary course of business. The cash and cash equivalents balance at December 31, 2013 was \$797,813.

##### **Furniture, Office Equipment and Leasehold Improvements**

Furniture, office equipment and leasehold improvements are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based upon estimated useful lives as follows: furniture and office equipment, three to five years, and leasehold improvements, the shorter of their useful lives or the remainder of the lease term. Maintenance and repairs are charged to expense when incurred. Depreciation expense for the year ended December 31, 2013 was \$29,397 and is included in Other in the Statement of Operations.

##### **Due to/Due from Clearing Broker**

The amounts due to and due from the clearing broker reflect profits and losses on principal transactions, clearing fees, regulatory fees and other income and expenses incurred in the clearing account which have been accrued but remain unpaid as of December 31, 2013.

**POTAMUS TRADING, LLC**  
**Notes to the Statement of Financial Condition**  
**December 31, 2013**

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**Commissions**

All securities transactions, including revenues, are recorded on a trade date basis. Commissions are earned for acting as an agent.

**Principal Transactions**

Principal transactions and the related gains and losses are recorded on a trade date basis. Securities owned are reported at fair value, with gains included in principal transactions in the Statement of Operations. At December 31, 2013 the Company did not hold any securities.

**Exchange and ATS Rebates**

Exchange and ATS rebates are recorded when earned.

**Interest Income and Interest Expense**

Interest income and expense are recognized in the income statement on an accrual basis.

**Income Taxes**

No provision for federal, state and local income taxes has been made in the accompanying financial statements, as individual members of Potamus Management, LLC are responsible for their proportionate share of the Company's taxable income.

The Company complies with authoritative guidance on accounting for and disclosure of uncertainty in tax positions, which requires the Managing Member to determine whether a tax position of the Company is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is reduced by the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. The Managing Member has determined that there are no reserves for uncertain tax positions necessary for the period ended December 31, 2013. The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal, state and local jurisdictions, where applicable. As of December 31, 2013, the tax year that remains subject to examination by the major tax jurisdictions under the statute of limitations is the year ended December 31, 2012.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") 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 statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**3. Regulatory Requirements**

The Company is subject to the rules of the SEC, FINRA, the principal exchanges with which it is licensed to transact, and the SIPC. In particular, the Company is subject to the SEC's Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital.

**POTAMUS TRADING, LLC**  
**Notes to the Statement of Financial Condition**  
**December 31, 2013**

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The Company has elected to use the standard method, defined by Rule 15c3-1, which requires that the Company maintain minimum net capital, as defined by the SEC and FINRA. At December 31, 2013, the Company had net capital of \$1,755,928, which was \$1,505,928 in excess of the minimum required amount of \$250,000.

The Company operates as an introducing broker by clearing all transactions with and for customers through its U.S. clearing broker and claims exemption from SEC Rule 15c3-3 under section (k)(2)(ii). As it relates to the Company's commission rebate program the Company operates pursuant to SEC Rule 15c3-3 section (k)(2)(i) and maintains a *Special Reserve Account for the Exclusive Benefit of Customers* at Bank of America.

**4. Prepaid and Other Assets and Accrued Expenses and Other Liabilities**

The Company's prepaid and other assets as of December 31, 2013 are primarily comprised of prepaid operating expenses including \$104,060 of invoices paid in 2013 for services that will be rendered in 2014, and a CD in the amount of \$34,452 at Boston Private Bank and Trust which secures a letter of credit for the benefit of East Office Operating Limited Partnership care of Pembroke Real Estate.

The Company's accrued expenses and other liabilities are comprised of accrued clearing and exchange and other trading fees, accrued audit and tax fees and accrued but unpaid operating expenses. The total of these items as of December 31, 2013 was \$437,109.

As of December 31, 2013 the loan subordinated to claims of general creditors and accrued interest totaled \$1,094,290 (see note 8).

**5. Employee Benefit Plans**

**401(k) Plan**

The Company offers a 401(k) plan ("the Plan") sponsored by Alerus Retirement Solutions. All employees are eligible to participate up to the IRS limits for such contributions. Contributions are implemented through payroll deductions that are determined by individual participants and approved by the CFO. For the year ended December 31, 2013, the Company had \$8,381 of expenses associated with the plan.

**Medical and Dental**

The Company offers all employees 100% paid medical and dental coverage from Blue Cross and Blue Shield of Massachusetts. A company provided Health Savings Account from Wells Fargo Bank supplements the medical plan. For the year ended December 31, 2013, the Company had \$123,349 of expenses associated with medical and dental benefits.

**Life and LTD**

The Company offers Group Term Life and Long-Term Disability benefits provided by Principal Financial Group and MetLife to all employees. For the year ended December 31, 2013, the Company had \$13,484 of expenses associated with life and LTD.

**6. Equity Based Compensation**

The Company awarded LLC interests of PhaseCapital Potamus Holdings LLC to certain employees during 2013 which qualify as equity awards. These awards vest over various periods from 13

**POTAMUS TRADING, LLC**  
**Notes to the Statement of Financial Condition**  
**December 31, 2013**

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months to two years, and a compensation charge based on the fair value of the award on grant date is recorded over the vesting period. For the year ended 2013, \$67,234 was recorded and is included in compensation and benefits in the statement of operations. The unvested amount of \$106,249 will be recorded as compensation expense during 2014.

**7. Off Balance Sheet Risk**

In the normal course of business, the Company is involved in the execution and settlement of various securities transactions. The Company introduces all of its customer domestic transactions, which are not reflected in these financial statements, to a clearing broker, who clears such transactions on a "fully disclosed" basis. Pursuant to the terms of the agreement with the clearing broker, the clearing broker may charge the Company for counterparty nonperformance. The Company has the right to pursue collection or performance from the counterparties who do not perform under their contractual obligations.

As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing broker, the Company believes there is no maximum amount assignable to this right. At December 31, 2013, the Company has recorded no liabilities with regard to the right, as it does not currently expect the final outcome of any such matter to have a material adverse effect on its financial position.

**8. Related Party Transactions**

- a) **Subordinated Debt**– On August 27, 2012, FINRA approved and the Company received a Subordinated Loan from Potamus Management, LLC in the amount of \$1,000,000. The loan matures on August 27, 2015 and carries interest of 7% per annum. Interest expense of \$70,000 was accrued during the year ended December 31, 2013.
- b) **Members** – Potamus Management, LLC wholly owns Potamus Trading, LLC. As of December 31, 2013, the Members of Potamus Management, LLC include: PhaseCapital Potamus Holdings LLC (88%) and Lightspeed Financial, LLC (12%).
- c) **Lightspeed Trading, LLC** – Lightspeed Trading, LLC is controlled by Lightspeed Financial, LLC and is a customer of Potamus Trading, LLC. The total revenue earned on commissions from Lightspeed Trading, LLC was \$798,202 in 2013 and the total amount receivable from Lightspeed Trading, LLC as of December 31, 2013 was \$257,176.

**9. Member Capital**

Potamus Management LLC, is the sole Member of Potamus Trading, LLC. Therefore member interest in Potamus Trading LLC is reflected by the member interest composition of Potamus Management LLC. Potamus Management LLC became the sole member of Potamus Trading, LLC upon FINRA 1017 approval of the change of ownership on August 13, 2012. Initial funding effecting the 1017 application consisted of \$1,300,000 as of May 1, 2012 provided equally by PhaseCapital Potamus Holdings LLC ("PCPH") and Lightspeed Financial LLC ("LS"). \$400,000 of this initial amount consisted of cash on the balance sheet of Greenmoor Financial Group LLC at the time of this transaction (see note 1). Resulting member interests as of the 1017 application were 50% PCPH and 50% LS even as the actual change in ownership pended the 1017 approval. Pursuant to the Potamus Management LLC agreement, capital contributions during 2012 resulted in member interests as of December 31, 2012 of approximately 64% PCPH and 36% LS.

# **POTAMUS TRADING, LLC**

## **Notes to the Statement of Financial Condition**

### **December 31, 2013**

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On January 1, 2013 PCPH contributed an additional \$2,000,000 to Potamus Management LLC. Resulting member interests changed to approximately 81% PCPH and 19% LS. On July 1, 2013 PCPH contributed an additional \$2,500,000. Resulting member interests changed to approximately 88% PCPH and 12% LS, where they remained as of December 31, 2013.

#### **10. Business Risks**

##### **Going Concern**

As of December 31, 2013 the Company has \$797,813 of cash and cash equivalents available to support operating expenses. The projected 2014 total operating expense of the Company is \$4,275,236.

Meeting the Company's projected goals will require specific performance in customer acquisition, trading system performance, and cost management, and there is no assurance this performance will occur. Any material development that keeps the company from meeting these commercial objectives could materially impair the company's ability to continue to operate without significant additional Member capital contributions.

Mr. Stu Porter is the largest direct owner of PhaseCapital Research LLC ("PCR"), which owns 85% of PhaseCapital Potamus Holdings LLC ("PCPH"), which is the majority interest holder of Potamus Management LLC ("PM"), which is the sole owner of Potamus Trading LLC ("Potamus"). Mr. Porter's involvement in Potamus is recorded on the FINRA CRD system, where Potamus discloses that it is under the common control of Mr. Porter, the other entities listed here, and various other entities under Mr. Porter's control. Mr. Porter has reiterated his financial support of the Company and its plan of operations, committing to provide financing for on-going operating expenses, as they may arise, and as requested by the Company through the proper capital call mechanisms in place. This financial commitment carries through March 31, 2015 or until the Company no longer needs financing for operations, whichever comes first.

##### **Market Risk**

As a broker-dealer, the Company's business lines rely heavily on trading volumes in the US equity markets. Since 2009, when the market peaked at just over 10 billion shares traded daily, the average daily trading volumes have declined and stood at over 6 billion shares traded per day in 2013. While the Company believes it is well positioned for success in the current volume environment, further material decreases in equity trading volumes from the current level could adversely impact the Company's business plan.

##### **Counterparty Risk**

The Company is exposed to a variety of counterparty risks, including exposure to its clearing firm's financial health and ability to continue to provide services. The company is also exposed to the ability of its customers to continue to operate and meet financial obligations arising from the Company's provision of securities services. While the Company does periodic and on-going due diligence on all of its key counterparties, any unforeseen material adverse development among the counterparties could adversely impact the Company's business plan.

##### **Securities Services Performance Risk**

The Company's core securities services, upon which 100% of revenue relies, are of a highly specialized nature. If the Company's services are materially worse in quality or cost with respect to its industry peers it could suffer slower than expected customer acquisition.

**POTAMUS TRADING, LLC**  
**Notes to the Statement of Financial Condition**  
**December 31, 2013**

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**Trading System Risk**

The Company's core securities services are offered via a highly proprietary electronic trading platform. Operational errors in the design of logic or the deployment of computer codes and hardware that make up the system could potentially lead to catastrophic losses, including losses that exceed the Company's capital.

**Regulatory Risk**

The Company's securities services are in a category of services that is under constant review by the SEC, FINRA, Congress, and those exchanges with which it is licensed to transact. Adverse developments compelled by these decision-making bodies, which materially impacts the Company's ability to continue offering its services, could adversely impact the Company's business plan.

**Large Customer Risk**

The Company's business currently consists of three customers. The Company's revenue plan for 2014 is highly dependent on specific performance of these customers.

**Concentration of Credit Risk**

The Company's exposure to credit risk associated with nonperformance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets which may impair the customer's ability to satisfy their obligations to the Company. The Company does not anticipate nonperformance by customers in these situations.

**11. Subsequent Events**

The Company has evaluated subsequent events occurring after the balance sheet date December 31, 2013, through February 28, 2014. Based on this evaluation, the Company has determined that there have been no material subsequent events that have occurred that would require disclosure or recognition in the financial statements beyond the following:

On February 1, 2014 PCPH contributed an additional \$1,000,000 to Potamus Management, LLC which was further contributed to Potamus Trading, LLC. As a result, member interests of Potamus Management, LLC changed to approximately 89% PCPH and 11% LS. This contribution increased cash and cash equivalents available for the operating expenses of Potamus Trading, LLC in 2014 by \$1,000,000 as of February 1, 2014 (see Note 9, "Going Concern").

On February 14, 2014 the Company converted its clearing operations from Wedbush Securities Inc to Merrill Lynch, Pierce, Fenner & Smith Incorporated.

**12. Commitments and Guarantees**

**Lease**

The Company occupies office space under a noncancelable operating lease that expires in 2017. The lease agreement contains operating expense escalation clauses. Rent expense is recognized on a straight-line basis over the applicable lease term. For the year ended December 31, 2013, rent expense was \$73,092, and is included in rent and facilities in the statement of operations. Future minimum commitments under this lease are as follows:

2014	\$ 70,583
2015	73,715

**POTAMUS TRADING, LLC**  
**Notes to the Statement of Financial Condition**  
**December 31, 2013**

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2016	75,168
2017	34,870

A guarantee is a contract that contingently requires the Company to pay a third party based on changes in an underlying asset, liability or capital security of the guaranteed party. In the normal course of business, the Company enters into contracts that contain a variety of representations and warranties, and which provide general indemnifications. The Company's maximum exposure in connection with these contracts is unknown, as this would involve future claims that may be made against the Company that have not occurred. However, based on its experience, the Company expects the risk of loss to be remote.