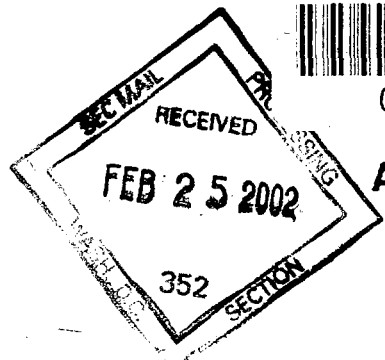


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STATES  
CHANGE COMMISSION  
D.C. 20549

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: September 30, 1998  
Estimated average burden  
hours per response ... 12.00

SEC FILE NUMBER  
8-71

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

**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 01-01-2001 AND ENDING 12-31-2001  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:  
Richards Merrill & Peterson, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
One Skywalk, U.S. Bank Building  
(No. and Street)

Spokane Washington 99201  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Tom McDonald (509) 624-3174  
(Area Code - Telephone No.)

OFFICIAL USE ONLY  
FIRM ID. NO.

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
LeMASTER & DANIELS PLLC  
(Name - if individual, state last, first, middle name)

601 W. Riverside #700 Spokane Washington 99201  
(Address) (City) (State) (Zip Code)

CHECK ONE:  
 Certified Public Accountant  
 Public Accountant  
 Accountant not resident in United States or any of its possessions.

PROCESSED  
MAR 14 2002  
THOMSON  
FINANCIAL

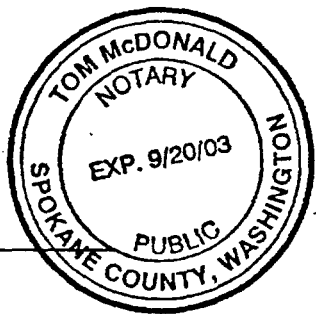
FOR OFFICIAL USE ONLY

\*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).

## OATH OR AFFIRMATION

Steve Larson, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Richards Merrill & Peterson, Inc., as of December 31, ~~19~~2001, 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



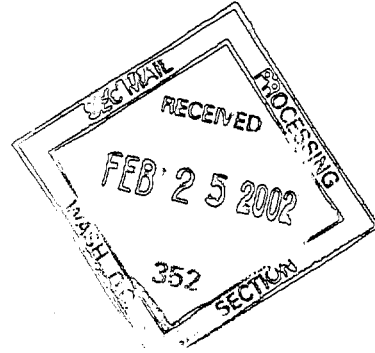
Steve Larson  
Signature  
President  
Title

Tom McDonald  
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~~ Cash Flows
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's 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.
- (o) Independent auditors' report on internal control.

For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



**RICHARDS, MERRILL & PETERSON, INC.**

**Financial Statements and  
Independent Auditors' Report**

**December 31, 2001**

# Richards, Merrill & Peterson, Inc.

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## Contents

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	<u>Page</u>
<i>INDEPENDENT AUDITORS' REPORT</i>	2
<i>FINANCIAL STATEMENTS:</i>	
<i>Statement of financial condition</i>	3
<i>Statement of income</i>	4
<i>Statement of changes in stockholders' equity</i>	5
<i>Statement of changes in liabilities subordinated to claims of general creditors</i>	6
<i>Statement of cash flows</i>	7
<i>Notes to financial statements</i>	8-10
<i>SUPPLEMENTAL INFORMATION:</i>	
<i>Computation of net capital under Rule 15c3-1 of the Securities and Exchange Commission</i>	12
<i>Reconciliation of computation of aggregate indebtedness and net capital with that of the registrant as filed in part II of Form X-17A-5</i>	13
<i>Computation for determination of reserve requirements pursuant to Rule 15c3-3 of the Securities and Exchange Commission</i>	14
<i>Information relating to possession or control requirements under Rule 15c3-3 of the Securities and Exchange Commission</i>	15
<i>Independent auditors' report on internal control required by SEC Rule 17a-5</i>	16-17



LE MASTER &  
DANIELS PLLC

ACCOUNTING

AND

CONSULTING

SERVICES

MEMBER OF

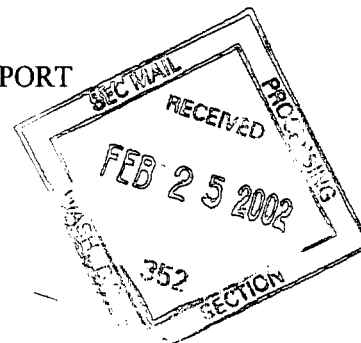
McGLADREY

NETWORK

SPOKANE  
COLFAX  
GRANDVIEW  
MOSES LAKE  
OMAK  
OTHELLO

QUINCY  
TRI-CITIES  
YAKIMA  
WALLA WALLA  
WENATCHEE

## INDEPENDENT AUDITORS' REPORT



Board of Directors  
Richards, Merrill & Peterson, Inc.  
Spokane, Washington

We have audited the accompanying statement of financial condition of Richards, Merrill & Peterson, Inc., as of December 31, 2001, and the related statements of income, changes in stockholders' equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 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 estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Richards, Merrill & Peterson, Inc., as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented on pages 12 through 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplemental information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Le Master & Daniels PLLC*

Spokane, Washington  
January 16, 2002

# Richards, Merrill & Peterson, Inc.

## Statement of Financial Condition

December 31, 2001

### *Assets*

Cash	\$ 804,904
Cash segregated under federal regulations	100,165
	<u>905,069</u>
Receivable from customers	17,838
Dividends and interest receivable	15,046
Federal income tax receivable	31,500
Secured demand note, collateralized by marketable securities	150,000
Furniture and equipment, at cost, less accumulated depreciation of \$178,748	64,041
Other assets	12,003
	<u>1,195,497</u>

### *Liabilities and Stockholders' Equity*

#### *LIABILITIES:*

Payable to customers	\$ 113,097
Accounts payable and accrued liabilities	16,230
Due to brokers	2,214
Federal income tax, deferred	7,300
	<u>138,841</u>

#### *LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS*

150,000

Total liabilities

288,841

#### *COMMITMENTS AND CONTINGENCIES*

#### *STOCKHOLDERS' EQUITY:*

Common stock -- 50,000 shares, \$1 par value, authorized;	
1,155 shares issued and outstanding	\$ 1,155
Additional paid-in capital	136,133
Retained earnings	769,368
	<u>906,656</u>
Total stockholders' equity	906,656
	<u>\$1,195,497</u>

See accompanying notes to financial statements.

# Richards, Merrill & Peterson, Inc.

## Statement of Income

Year Ended December 31, 2001

<i>COMMISSION INCOME</i>		\$2,223,707
<i>EXPENSES:</i>		
Commissions	\$1,197,554	
Employee compensation	217,468	
Occupancy	61,919	
Taxes other than income taxes	108,045	
Communications	54,922	
Interest	15,437	
Other operating expenses	450,478	
		<u>2,105,823</u>
<i>INCOME FROM OPERATIONS</i>		117,884
<i>OTHER INCOME:</i>		
Interest and dividends earned	5,120	
Other	7,493	
		<u>12,613</u>
<i>INCOME BEFORE INCOME TAX</i>		130,497
<i>FEDERAL INCOME TAX:</i>		
Current	46,373	
Deferred	(1,800)	
		<u>44,573</u>
<i>NET INCOME</i>		<u>\$ 85,924</u>

See accompanying notes to financial statements.

# Richards, Merrill & Peterson, Inc.

## Statement of Changes in Stockholders' Equity

Year Ended December 31, 2001

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
<i>BALANCES, BEGINNING OF YEAR</i>	\$ 1,155	\$ 136,133	\$ 683,444	\$ 820,732
<i>ADD:</i>				
Net income	<u>-</u>	<u>-</u>	<u>85,924</u>	<u>85,924</u>
<i>BALANCES, END OF YEAR</i>	<u>\$ 1,155</u>	<u>\$ 136,133</u>	<u>\$ 769,368</u>	<u>\$ 906,656</u>

See accompanying notes to financial statements.



# Richards, Merrill & Peterson, Inc.

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## Statement of Changes in Liabilities

Subordinated to Claims of General Creditors

Year Ended December 31, 2001

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<i>SUBORDINATED LIABILITIES, JANUARY 1, 2001</i>	\$ 200,000
<i>AMOUNTS REPAID PURSUANT TO SUBORDINATION AGREEMENTS</i>	(50,000)
<i>NEW SUBORDINATION AGREEMENTS</i>	<u>-</u>
<i>SUBORDINATED LIABILITIES, DECEMBER 31, 2001</i>	<u><u>\$ 150,000</u></u>

---

See accompanying notes to financial statements.

# Richards, Merrill & Peterson, Inc.

## Statement of Cash Flows

Year Ended December 31, 2001

### *Increase (Decrease) in Cash*

#### *CASH FLOWS FROM OPERATING ACTIVITIES:*

Net income	\$ 85,924
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	29,149
Loss on sale of assets	5,518
Decrease (increase) in assets:	
Receivable from customers	154,592
Dividends and interest receivable	(15,046)
Federal income tax receivable	(31,500)
Other assets	241
Increase (decrease) in liabilities:	
Payable to customers	(36,345)
Accounts payable and accrued liabilities	874
Due to brokers	(11,486)
Federal income tax, current	(1,800)
Federal income tax, deferred	(22,133)
Net cash provided by operating activities	<u>157,988</u>

#### *CASH FLOWS FROM INVESTING ACTIVITIES:*

Purchase of equipment	<u>(17,362)</u>
-----------------------	-----------------

*NET INCREASE IN CASH* 140,626

*CASH, BEGINNING OF YEAR* 764,443

*CASH, END OF YEAR* \$ 905,069

#### *Supplemental Disclosures of Cash Flows Information:*

Cash paid for interest \$ 15,437

Cash paid for income taxes \$ 100,006

#### Noncash financing activities:

Reduction in secured demand note and subordinated debt \$ 50,000

See accompanying notes to financial statements.

# Richards, Merrill & Peterson, Inc.

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## Notes to Financial Statements

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### ***NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:***

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#### *Organization:*

Richards, Merrill & Peterson, Inc. (the Company) is a registered broker/dealer engaged primarily in providing brokerage and investment advisory services to clients in Spokane, Washington, and the surrounding area.

#### *Summary of Significant Accounting Policies:*

- a. Customers' securities transactions are recorded on a settlement-date basis with related commission income and expenses recorded on a trade-date basis.
- b. Furniture and equipment are stated at cost, less accumulated depreciation. Depreciation is computed by straight-line and accelerated methods over estimated useful lives of 5 to 7 years. Depreciation expense for the year ended December 31, 2001, was \$29,149.
- c. Employees are entitled to paid vacation, sick, and personal days off depending on job classification, length of service, and other factors. These benefits do not carry over and must be used by year-end. Accordingly, no provision for such benefits is appropriate in the accompanying financial statements.
- d. 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 statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ***NOTE 2 — LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS:***

---

Borrowing under subordination agreements at December 31, 2001, was as follows:

Stockholders, interest bearing at 9.5%, due February 1, 2003	\$ 150,000
	<u>                    </u>

The above notes are secured by marketable securities. Interest paid in 2001 was approximately \$15,000.

The subordinated borrowing is covered by an agreement approved by the National Association of Securities Dealers, Inc. and is thus available in computing net capital under the Securities and Exchange Commission's uniform net capital rule. To the extent that such borrowing is required for the Company's continued compliance with minimum net capital requirements, the amount may not be repaid (see note 3).

# **Richards, Merrill & Peterson, Inc.**

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## **Notes to Financial Statements**

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### ***NOTE 3 — NET CAPITAL REQUIREMENT:***

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The Company is subject to the Securities and Exchange Commission's uniform net capital rule (Rule 15c3-1) which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 1,500% (15 to 1). At December 31, 2001, the Company had net capital of \$941,913, which was \$691,913 in excess of its required net capital of \$250,000. The Company's ratio of aggregate indebtedness to net capital was .04 to 1.

### ***NOTE 4 — CASH SEGREGATED UNDER FEDERAL REGULATIONS:***

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Under Rule 15c3-3 of the Securities and Exchange Commission, cash of \$100,165 has been segregated in a special reserve bank account for the benefit of customers.

### ***NOTE 5 — SECURITIES OWNED:***

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The Company did not own any securities at December 31, 2001.

### ***NOTE 6 — LINE OF CREDIT:***

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The Company has available a \$1,000,000 unsecured line of credit from a bank. Borrowings bear interest at the bank's prime rate. The agreement expires March 31, 2002. No borrowings were outstanding at December 31, 2001.

### ***NOTE 7 — DEFINED CONTRIBUTION 401(k) PLAN:***

---

The Company sponsors a defined contribution 401(k) plan that covers all employees who regularly work 1,000 hours or more per year. Employees may contribute up to 17% of eligible compensation up to a federally mandated maximum. Employer contributions are discretionary with a minimum contribution of 3% of participants' compensation. For the year ended December 31, 2001, the Company contributed \$33,424.

### ***NOTE 8 — CONCENTRATION OF CREDIT RISK:***

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The Company occasionally carries balances in excess of \$100,000 with one financial institution. The Federal Deposit Insurance Corporation insures such balances up to \$100,000.

# **Richards, Merrill & Peterson, Inc.**

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## **Notes to Financial Statements**

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### ***NOTE 9 — LEASE AGREEMENT:***

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The Company is leasing office space on a month-to-month basis. Monthly rental beginning January 1, 2002, is \$5,390.

### ***NOTE 10 — INCOME TAXES:***

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The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." SFAS No. 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax return. In estimating future tax consequences, SFAS No. 109 generally considers all expected future events other than enactments of changes in the tax law or rates.

Federal income tax was computed at statutory rates after giving effect to nondeductible items and general business tax credits and contribution carryovers.

The deferred tax liability at December 31, 2001, relates to differences between book and tax depreciation.

### ***NOTE 11 — NASD PUBLIC DISCLOSURE PROGRAM:***

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The National Association of Security Dealers, Inc. (NASD) has created the Public Disclosure Program. This program allows investors to learn about the professional background, business practices, and conduct of NASD member firms or its brokers. To request disclosable information under this program, call (800)289-9000, a toll-free hotline number operated by the NASD, or visit the NASD Regulation Web site at [www.nasdr.com](http://www.nasdr.com). For additional information concerning this program, NASD has created an investor brochure that can be obtained by calling the hotline number or visiting its Web site.

**SUPPLEMENTAL INFORMATION**

# Richards, Merrill & Peterson, Inc.

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## Computation of Net Capital Under Rule 15c3-1 of the Securities and Exchange Commission

December 31, 2001

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### *NET CAPITAL:*

Total stockholders' equity		\$ 906,656
Add liabilities subordinated to claims of general creditors allowable in computation of net capital		<u>150,000</u>
		1,056,656

### Deduct nonallowable assets:

Furniture and equipment	\$ 64,041	
Other assets (including accounts doubtful of collection)	<u>50,702</u>	
		<u>114,743</u>

<i>NET CAPITAL</i>		\$ 941,913
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### *AGGREGATE INDEBTEDNESS:*

Total liabilities	\$ 288,841
Deduct, allowable subordinated liabilities	(150,000)
Deduct, deferred federal income tax	(7,300)
Deduct, adjustments based upon deposits in Special Reserve Bank Account	<u>(96,733)</u>

<i>TOTAL AGGREGATE INDEBTEDNESS</i>	\$ 34,808
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### *COMPUTATION OF BASIC NET CAPITAL REQUIREMENT:*

Net capital	\$ 941,913
Minimum net capital required	<u>250,000</u>

<i>CAPITAL IN EXCESS OF MINIMUM REQUIREMENT</i>	\$ 691,913
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<i>RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL</i>	<u>.04 to 1</u>
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# Richards, Merrill & Peterson, Inc.

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## Reconciliation of Computation of Aggregate Indebtedness and Net Capital With That of the Registrant as Filed in Part II of Form X-17A-5

December 31, 2001

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### *AGGREGATE INDEBTEDNESS:*

Aggregate indebtedness as reported by registrant	\$ 34,808
Net audit adjustments	<u>-</u>
Aggregate indebtedness as computed on page 12	<u><u>\$ 34,808</u></u>

### *NET CAPITAL:*

Net capital as reported by registrant	\$941,913
Net audit adjustments	<u>-</u>
Net capital as computed on page 12	<u><u>\$941,913</u></u>



# Richards, Merrill & Peterson, Inc.

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## Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2001

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### *CREDIT BALANCES:*

Free credit balances and other credit balances in customers' security accounts	\$113,097
Customers' securities failed to receive	1,280
Other	<u>935</u>
Total credits	<u>\$115,312</u>

### *DEBIT BALANCES:*

Debit balances in customers' cash accounts excluding unsecured accounts and accounts doubtful of collection	\$ 17,615
Other	<u>5,570</u>
Total debits	<u>\$ 23,185</u>

### *RESERVE COMPUTATION:*

Excess credits over debits	<u>\$ 92,127</u>
Required deposit	<u>\$ 96,733</u>
Amount held on deposit	\$100,165
Amount deposited into account *	<u>3,000</u>
New amount in reserve bank account	<u>\$103,165</u>

\* Deposit made on 1/3/2002

**Richards, Merrill & Peterson, Inc.**

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**Information Relating to Possession or Control  
Requirements Under Rule 15c3-3 of the Securities  
and Exchange Commission**

**December 31, 2001**

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1. Customers fully paid securities and excess margin securities not in the respondent's possession or control as of the report date (for which instructions to reduce to possession or control had been issued as of the report date) but for which the required action was not taken by the respondent within the time frames specified under Rule 15c3-3.

Amount	\$ -
	=====
Number of items	-
	=====

2. Customers fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of the report date, excluding items arising from temporary lags which result from normal business operations as permitted under Rule 15c3-3.

Amount	\$ -
	=====
Number of items	-
	=====

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See accompanying independent auditors' report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL  
CONTROL REQUIRED BY SEC RULE 17a-5

Board of Directors  
Richards, Merrill & Peterson, Inc.  
Spokane, Washington

In planning and performing our audit of the financial statements of Richards, Merrill & Peterson, Inc. (the Company) for the year ended December 31, 2001, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures, that we considered relevant to the objectives stated in Rule 17a-5(g) in the following: [1] making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e); [2] making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13; [3] complying with the requirements for prompt payment for securities under section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System; and [4] obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC 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 our study, we believe that the Company's practices and procedures were adequate at December 31, 2001, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers and is not intended to be and should not be used by anyone other than these specified parties.

*LeMaster & Daniels PLLC*

Spokane, Washington  
January 16, 2002