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

SEC FILE NUMBER
8- 41760

**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 09/01/05 AND ENDING 08/31/06
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: WESTHOFF, CONE & HOLMSTEDT
A CALIFORNIA CORPORATION

OFFICIAL USE ONLY

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

FIRM I.D. NO.

1777 BOTHELHO ROAD, SUITE 370

(No. and Street)

WALNUT CREEK,

CALIFORNIA

94596

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
R. Thomas Westhoff (925) 472-8740

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Hendriks, G. Paul

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

1050 Northgate Drive, Suite 52, San Rafael, CA 94903

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

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

PROCESSED
NOV 03 2006
THOMPSON
FINANCIAL

SEP MAIL
OCT 31 2006
SECTION 135
D.C.

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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)

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.

OATH OR AFFIRMATION

I, R. Thomas Westhoff, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Westhoff, Cone & Holmstedt, A California Corporation, as of August 31, 2006, 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:

No Exceptions

R. Thomas Westhoff
Signature

President
Title

Brian Dooley
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 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 15c3-3 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).

- x (o) Reconciliation of the Audited Net Capital Computation and the broker-dealers Corresponding Unaudited Part IIA Net Capital Computation.

WESTHOFF, CONE & HOLMSTEDT,
A CALIFORNIA CORPORATION

FINANCIAL STATEMENTS

For the year ended August 31, 2006

WESTHOFF, CONE & HOLMSTEDT,
A CALIFORNIA CORPORATION

For the year ended August 31, 2006

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Westhoff, Cone & Holmstedt,
A California Corporation:

I have audited the statement of financial condition of Westhoff, Cone & Holmstedt, a California Corporation, as of August 31, 2006, and the related statements of operations and changes in stockholders' equity and cash flows for the year then ended. The financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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. 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 Westhoff, Cone & Holmstedt, a California Corporation, as of August 31, 2006, 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.

My examination has been made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, and III is presented for the purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rules 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



October 23, 2006

WESTHOFF, CONE, & HOLMSTEDT,
A CALIFORNIA CORPORATION

STATEMENT OF FINANCIAL CONDITION

August 31, 2006

ASSETS

Cash	\$254,778
Receivable from broker-dealer	13,378
Remarketing fees receivable	169,302
Marketable securities at market value (cost, \$98,005)	99,732
Dividend receivable	1,275
Office furniture, equipment and leasehold improvements net of accumulated depreciation of \$64,780	39,643
Prepaid income taxes	848
Deposits	<u>6,042</u>
	<u>\$584,998</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable and accrued liabilities	\$262,484
Remarketing commissions payable	125,152
Deferred income tax liability	<u>3,800</u>
Total liabilities	<u>391,436</u>
Stockholders' Equity:	
Common stock – no par value; authorized 100,000 shares, issued and outstanding, 41,600 shares	41,600
Retained earnings	<u>151,962</u>
Total stockholders' equity	<u>193,562</u>
	<u>\$584,998</u>

The accompanying notes are an integral part
of these financial statements

WESTHOFF, CONE & HOLMSTEDT,
A CALIFORNIA CORPORATION

STATEMENT OF OPERATIONS

For the year ended August 31, 2006

Revenue	
Underwriting	\$2,037,514
Remarketing fees	830,605
Investment banking fees	61,440
Investment advisory fees	24,950
Trading revenue (loss)	(457)
Interest and other	<u>11,034</u>
Total revenue	2,965,086
Expenses	
Compensation and benefits	2,144,155
Commissions paid to other brokers	512,221
Communications	32,839
Occupancy	129,672
Promotion	91,341
Regulatory fees	10,458
Professional services and other	<u>55,703</u>
Total expenses	<u>2,976,389</u>
Income (loss) before income taxes	(11,303)
Income tax expense	
Current	2,400
Deferred	<u>(1,800)</u>
Total income tax expense (benefit)	<u>600</u>
Net income (loss)	<u><u>\$ (11,903)</u></u>

The accompanying notes are an integral part
of these financial statements

WESTHOFF, CONE & HOLMSTEDT,
A CALIFORNIA CORPORATION

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the year ended August 31, 2006

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
BEGINNING BALANCE September 1, 2005	\$41,600	\$163,865	\$205,465
Net income (loss)	_____	<u>(11,903)</u>	<u>(11,903)</u>
ENDING BALANCE August 31, 2006	<u>\$41,600</u>	<u>\$151,962</u>	<u>\$193,562</u>

The accompanying notes are an integral part
of these financial statements

WESTHOFF, CONE & HOLMSTEDT,
A CALIFORNIA CORPORATION

STATEMENT OF CASH FLOWS

For the year ended August 31, 2006

Cash flows from operating activities:

Net income (loss)	\$ (11,903)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciating and amortization	24,242
(Increase) decrease in receivable from broker-dealer	1,224
(Increase) decrease in remarketing fees receivable	(3,250)
(Increase) decrease in marketable securities owned	457
(Increase) decrease in prepaid expenses	6,191
(Increase) decrease in dividend receivable	(723)
(Increase) decrease in prepaid income taxes	2,460
(Increase) decrease in fixed assets	(5,296)
Increase (decrease) in accounts payable	56,188
Increase (decrease) in deferred income tax liability	(1,790)
Increase (decrease) in remarketing commissions payable	<u>603</u>
Net cash provided (used) by operating activities	68,403
Net increase (decrease) in cash	68,403
Cash and cash equivalents at beginning of period	<u>186,375</u>
Cash at end of period	<u><u>\$254,778</u></u>
Supplemental information:	
Income taxes paid	\$ 0

The accompanying notes are an integral part
of these financial statements

WESTHOFF, CONE & HOLMSTEDT,
A CALIFORNIA CORPORATION

NOTES TO FINANCIAL STATEMENTS

August 31, 2006

Note 1) Organization

The Company was incorporated on October 2, 1989 in the state of California. In November 1989 the Company became registered with the Securities and Exchange Commission as a broker-dealer in securities pursuant to Section 15 (B) of the Securities and Exchange Act of 1934. On November 30, 1989 the Company became a member of the National Association of Securities Dealers, Inc.

The Company's primary business is to underwrite municipal securities.

Note 2) Summary of Significant Accounting Policies

Office furniture, equipment, software and equipment acquired under capital lease is depreciated using the straight line method over useful lives of five to seven years.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

Note 3) Provisions for Taxes on Income

The provisions for income taxes consists of the following:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal income taxes	\$ 1,600	\$ (900)	\$ 700
State income taxes	<u>800</u>	<u>(900)</u>	<u>(100)</u>
Total	<u>\$ 2,400</u>	<u>\$ (1,800)</u>	<u>\$ 600</u>

As of August 31, 2006, the Company had prior tax year overpayments of \$1,600 in federal corporation income taxes and \$1,500 in state franchise taxes which were applied as payments for the year ended August 31, 2006. The prepaid income tax as of August 31, 2006 was \$858.

The deferred income tax liability of \$3,800 as of August 31, 2006 is due primarily to differences in depreciation expense for book purposes versus depreciation expense for income tax purposes.

WESTHOFF, CONE & HOLMSTEDT,
A CALIFORNIA CORPORATION

NOTES TO FINANCIAL STATEMENTS

August 31, 2006

Note 4) Marketable Securities Owned

Marketable securities owned in the amount of \$97,857 consists of marketable securities at current market values plus accrued interest. Net unrealized losses of \$457 are included in securities trading revenue (loss) for the year ended August 31, 2006 and are the result of net changes between the market value of the security at August 31, 2005 and the market value of security owned at August 31, 2006.

Note 5) Net Capital Requirements

The Company is required to maintain minimum net capital as defined by rule 15c3-1 of the Securities and Exchange Commission. On August 31, 2006, the Company's net capital was \$138,940, the amount of which is \$38,940 in excess of the required net capital. The Company's ratio of aggregate indebtedness to net capital also may not exceed 15 to 1. On August 31, 2006, the Company's net capital ratio was 2.82 to 1.

Note 6) Concentration of Credit Risk

As of August 31, 2006, the Company has \$254,778 deposited in a money market account with Wells Fargo Bank. This amount is not protected by deposit insurance through the Federal Deposit Insurance Corporation, and, therefore, could result in a loss if Wells Fargo Bank could not meet its deposit obligations.

Note 7) Lease Obligations

In August 2000 the Company entered into an operating lease to rent office premises commencing July 1, 2001 with a lease expiration of June 30, 2008. In October 2000, the Company executed a sublease agreement with a third party with a commencement date of July 1, 2001 and a lease expiration of June 30, 2008.

The minimum lease payments and receipts to be made over the terms of the leases are as follows:

<u>For year ended</u>	<u>Lease Payments</u>	<u>Sublease Income</u>
August 31, 2007	193,318	122,011
August 31, 2008	<u>163,372</u>	<u>103,111</u>
Total future minimum lease payments / receipts	<u>\$ 356,690</u>	<u>\$225,122</u>

WESTHOFF, CONE & HOLMSTEDT,
A CALIFORNIA CORPORATION

NOTES TO FINANCIAL STATEMENTS

August 31, 2006

Note 8) Pension Plan

In 2002 the Company established a defined contribution pension and profit sharing and salary deferral plan. The Company may make a discretionary contribution to the plan. Eligible employees of the company may also elect to participate in a salary tax deferral plan. For the year ended August 31, 2006 the Company elected to contribute \$133,818 to this plan.

FOCUS REPORT – PART II

as of August 31, 2006

Firm Name: WESTHOFF, CONE & HOLMSTEDT, A CALIFORNIA CORPORATION
Firm ID: 25502

1	Total ownership equity		\$	193,562
2	Deduct o/e not allowable for net capital			
3	Total o/e qualified for net capital			193,562
Add:				
A	Allowable subordinated liabilities			
B	Other deductions or credits			
	Description	Amount		
5	Total cap & allowable subloans			193,562
6	Deductions and/or charges			
A	Total non allowable assets	\$ 46,534		
B	Secured demand note deficiency			
C	Commodity futures contracts- proprietary cap charges			
D	Other deductions and/or charges			
	Total deductions and/or charges			(46,534)
7	Other additions and/or allowable credits-			
	Description	Amount		
	Deferred income tax liability			0
8	Net capital before haircuts			147,028
9	Haircuts on securities:			
A	Contractual commitments			
B	Subordinated debt			
C	Trading and investment securities			
1	Exempted securities			
2	Debt securities			(2,992)
3	Options			
4	Other securities			
D	Undue concentration			
E	Other	Description: Money Market fund		(5,096)
10	Net Capital		\$	138,940

FOCUS REPORT – PART II

as of August 31, 2006

Firm Name: WESTHOFF, CONE & HOLMSTEDT, A CALIFORNIA CORPORATION
Firm ID: 025502

11	Minimum net capital requirement: (based on Aggregate Indebtedness)	26,097
12	Minimum Dollar Requirement	<u>100,000</u>
13	Net capital required (greater of line 11 or 12)	<u>100,000</u>
14	Excess net capital (line 10 less line 13)	38,940
15	Excess net capital @ 1000% (net cap – 10% of AI)	99,796
Computation of Aggregate Indebtedness		
16	Total AI liability from balance sheet	391,436
17	Add:	
A	Drafts for immediate credit	
B	Market value of securities borrowed where no equivalent value is paid or credited	
C	Other unrecorded amounts	
	Descriptions	Amount
19	Total Aggregate Indebtedness	<u>391,436</u>
20	Percentage of aggregate indebtedness to net capital	282
21	Percentage of aggregate indebtedness to net capital after anticipated withdrawals	

WESTHOFF, CONE & HOLMSTEDT,
A CALIFORNIA CORPORATION

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
FOR BROKER-DEALERS UNDER RULE 15c3-3
AUGUST 31, 2006

An exemption from Rule 15c3-3 is claimed based upon section (k) (2) (ii).
All customer transactions are cleared through another broker-dealer on a fully disclosed
basis. The Company clears its securities transactions through Southwest Securities, Inc.
(SEC # 8-45123).

INFORMATION FOR POSSESSION OR CONTROL REQUIREMENTS UNDER
RULE 15c3-3

Not applicable.

WESTHOFF, CONE & HOLMSTEDT,
A CALIFORNIA COMPANY

RECONCILIATION OF THE AUDITED NET CAPITAL COMPUTATION
AND THE BROKER-DEALER'S CORRESPONDING UNAUDITED PART IIA
NET CAPITAL COMPUTATION

August 31, 2006

(Additional Information)

Net capital per unaudited statements (as amended)	\$142,740
Add: (deduct) audit differences:	
Increase in deferred tax liability	3,800

Net capital per audited statements	\$138,940
	=====

Report of Independent Public Accountant

To the shareholders of Westhoff, Cone & Holmstedt,
A California Corporation:

In planning and performing my audit of the financial statements of Westhoff, Cone & Holmstedt, a California Corporation, for the year ended August 31, 2006, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my 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), I have made a study of the practices and procedures followed by Westhoff, Cone & Holmstedt, a California Corporation, including tests of compliance with such practices and procedures, and that I considered relevant to the objectives stated in Rule 17a-5(g), (1) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a) (11) and the procedures for determining compliance with exemptive provisions of Rule 15c3-3. I did not review the practices and procedures followed by the company (i) in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of the differences for prompt payment for securities of Section 8 of Regulation T of the Board of Governors of the Federal Reserve System; or (iii) in obtaining and maintaining physical possession and control; of all fully paid and excess margin securities of customers as required by Rule 15c3-3 because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining an internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements 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 from loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of the inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projections of any evaluation of them to future periods are 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.

My consideration 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 errors 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, I noted no matters involving internal control that I consider to be a material weakness as defined above.

I 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 those 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 August 31, 2006 to meet the SEC's objectives.

This report is intended solely for the 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 and should not be used for any other purpose.

A handwritten signature in black ink, appearing to read "Paul H. Smith", with a long horizontal line extending to the right.

San Rafael, California
October 23, 2006