

BB 3/2



07000906

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

OMB APPROVAL
OMB Number: 3235-0123
Expires: October 31, 2004
Estimated average burden
hours per response..... 12.00

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

SEC FILE NUMBER
8- 71

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 01/01/06 AND ENDING 12/31/06
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

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

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
One Skywalk, U.S. Bank Building
(No. and Street)
Spokane, WA 99201
(City) (State) (Zip Code)

PROCESSED
MAR 06 2007
THOMSON FINANCIAL

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Tom McDonald 509-624-3174
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

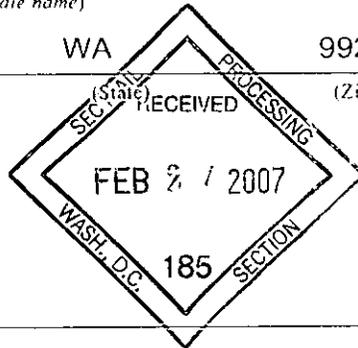
Moss Adams LLP

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

601 West Riverside, Suite 1800 Spokane, WA 99201
(Address) (City) (State) (Zip Code)

CHECK ONE:

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



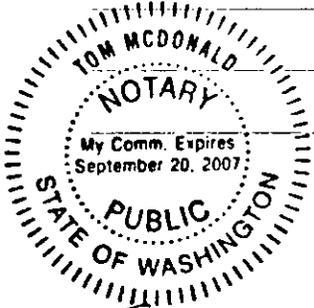
FOR OFFICIAL USE ONLY

*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)

PTA 3/5/07

OATH OR AFFIRMATION

I, 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 , 20 06 , 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:



[Signature]
Signature

President
Title

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 ~~XXXXXX~~ 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.
- (O) Independent Auditor's 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.
INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS

DECEMBER 31, 2006

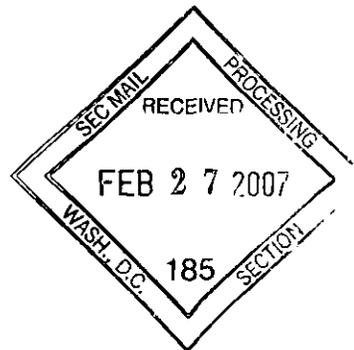


TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of financial condition	2
Statement of income	3
Statement of changes in stockholders' equity	4
Statement of cash flows	5
Notes to financial statements	6-10
SUPPLEMENTAL INFORMATION	
Schedule I - Computation of net capital under SEC Rule 15c3-1	11
Schedule II - Computation of Reserve Requirements Under SEC Rule 15c3-3	12
Schedule III - Information relating to the possession or control requirements under SEC Rule 15c3-3	13
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE REQUIRED BY SEC RULE 18a-5	14-16

INDEPENDENT AUDITOR'S REPORT

To the Stockholders and 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, 2006, and the related statements of income, changes in stockholders' equity, 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 Richards, Merrill & Peterson, Inc.'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 that 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, 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented on pages 11 through 13 contained in Schedules I, II, and III is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is information required by Rule 17a-5 of the Securities and Exchange Commission (SEC). Such information has been subjected to the auditing procedures applied in the audits 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.

Moss Adams LLP

Spokane, Washington
February 19, 2007

RICHARDS, MERRILL & PETERSON, INC.
STATEMENT OF INCOME

	Year Ended December 31, 2006
REVENUES	
Fee income	\$ 443,172
Commission income	2,150,978
Trading gains	49
	2,594,199
EXPENSES	
Commissions	1,514,905
Employee compensation	472,916
Service Provider Charges	130,978
Occupancy	92,069
Taxes other than income taxes	38,125
Communications	54,838
Sales Expenses	56,513
Professional Services	60,384
Other operating expenses	138,498
	2,559,226
Income from operations	34,973
OTHER INCOME	
Interest and dividends earned	3,252
Other	10,225
	13,477
Income before income tax	48,450
Income tax expense	
Current	10,903
Deferred	-
	10,903
NET INCOME	\$ 37,547

See accompanying notes.

RICHARDS, MERRILL & PETERSON, INC.
STATEMENT OF CASH FLOWS

	Year Ended December 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ 37,547
Adjustments to reconcile net income to net cash provided by operating activities:	
Cash segregated under federal regulations	57,546
Depreciation	20,203
Change in assets and liabilities	
Receivable from customers	21,436
Dividends and interest receivable	(44,553)
Other assets	1,810
Payable to customers	165,363
Accounts payable and accrued liabilities	(734)
Due to brokers	95,727
	<hr/>
Net cash provided by operating activities	354,345
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of equipment	<hr/> (16,121)
Net cash used by investing activities	<hr/> (16,121)
NET CHANGE IN CASH	
	338,224
Cash, beginning of year	<hr/> 938,723
Cash, end of year	<hr/> \$ 1,276,947
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION	
Cash paid during the year for:	
Income taxes	<hr/> \$ 13,204

RICHARDS, MERRILL & PETERSON, INC.
NOTES TO FINANCIAL STATEMENTS

Note 2 - Significant Accounting Policies (Continued)

Income taxes:

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.

FIN No. 48, Accounting for Uncertainty in Income Taxes:

On July 13, 2006, FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*, was issued. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN No. 48 also prescribes a consistent recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The new FASB standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The evaluation of a tax position in accordance with FIN No. 48 is a two-step process. The first step is a recognition process whereby the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is a measurement process whereby a tax position that meets the more-likely-than-not recognition threshold is calculated to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

The provisions of FIN No. 48 are effective for fiscal years beginning after December 15, 2006. Earlier application is permitted as long as the enterprise has not yet issued financial statements, including interim financial statements, in the period of adoption. The provisions of FIN No. 48 are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN No. 48. The cumulative effect of applying the provisions of FIN No. 48 should be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year. FIN No. 48 is not expected to have a material impact on the Company.

RICHARDS, MERRILL & PETERSON, INC.
NOTES TO FINANCIAL STATEMENTS

Note 8 - 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 100% of eligible compensation up to a federally mandated maximum. Employer contributions are discretionary with a minimum contribution of 4% of participants' compensation. For the year ended December 31, 2006, the Company contributed \$50,697.

Note 9 - Concentration of Credit Risk

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty of issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

The Company places its cash with high credit quality institutions. The amount on deposit fluctuates, and frequently exceeds the insured limit by the U.S. Federal Deposit Insurance Corporation, which potentially subjects the Company to credit risk.

Note 10 - Lease Agreement

The Company is leasing office space on a month-to-month basis. Monthly rental expense was \$5,997 until June 30, 2006, and \$6,110 thereafter.

Note 11 - Income Taxes

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

The components of income tax expense consist of the following:

Current tax expense	\$ 10,903
Deferred tax expense	<u>-</u>
INCOME TAX EXPENSE	<u>\$ 10,903</u>

SUPPLEMENTAL INFORMATION

RICHARDS, MERRILL & PETERSON, INC.
SCHEDULE I - COMPUTATION OF NET CAPITAL UNDER SEC
RULE 15c3-1

	<u>December 31,</u> <u>2006</u>
NET CAPITAL	
Total stockholders' equity	\$ 1,109,884
Deduct nonallowable assets	<u>91,064</u>
NET CAPITAL	<u>\$ 1,018,820</u>
 AGGREGATE INDEBTEDNESS	
Total liabilities	\$ 455,944
Deduct deferred federal income tax	11,442
Deduct adjustments based upon deposit in Special Reserve Bank Account	<u>92,573</u>
TOTAL AGGREGATE INDEBTEDNESS	<u>\$ 351,929</u>
 COMPUTATION OF BASIC NET CAPITAL REQUIREMENT	
Net capital	\$ 1,018,820
Minimum net capital required	<u>250,000</u>
CAPITAL IN EXCESS OF MINIMUM REQUIREMENT	<u>\$ 768,820</u>
RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	<u>34.5%</u>

The computation of net capital pursuant to SEC Rule 15c3-1 as of December 31, 2006, computed by the Company in its Form X-17A-5, Part IIA, does not differ materially from the above computation, which is based on the audited financial statements.

Additions and deductions were made under Rule 15c3-1. This is really an addition to the calculation (reduction to liabilities) as it relates to nonallowable assets, which were already a reduction above. If it isn't added back, net capital is reduced twice.

RICHARDS, MERRILL & PETERSON, INC.
SCHEDULE III - INFORMATION RELATING TO THE POSSESSION OR
CONTROL REQUIREMENTS UNDER SEC RULE 15c3-3

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 None

Number of items None

2. Customers' fully paid securities and excess margin securities for which instruction 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 None

Number of items None

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL STRUCTURE REQUIRED
BY SEC RULE 18a-5**

To the Stockholders and Board of Directors
Richards, Merrill & Peterson, Inc.
Spokane, Washington

In planning and performing our audit of Richards, Merrill & Peterson, Inc. for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on Richards, Merrill, and Peterson, Inc.'s financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included 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 (or aggregate debits) 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
4. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customer as required by Rule 15c3-3.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, 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.

Mess Adams LLP

Spokane, Washington
February 19, 2007

END