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

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

SEC FILE NUMBER  
8. 35085

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 9/1/2006 AND ENDING 8/31/2007  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **CONOVER SECURITIES CORPORATION**

OFFICIAL USE ONLY  
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
**11250 KIRKLAND WAY, SUITE 100**

(No. and Street)

**KIRKLAND**

**WA**

**98033**

(City)

(State)

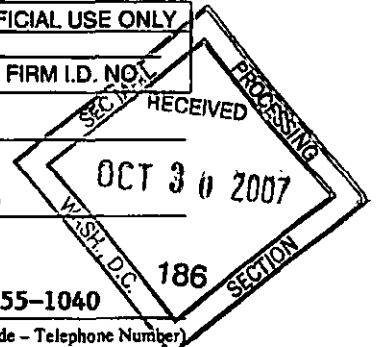
(Zip Code)

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

**MARY ANN ALLEN**

**(405) 455-1040**

(Area Code - Telephone Number)



**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, SUITE 700**

**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

**PROCESSED**

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**NOV 09 2007**

**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)

SEC 1410 (06-02)

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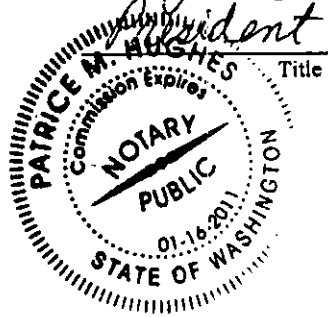
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**OATH OR AFFIRMATION**

I, MARY ANN ALLEN, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of CONOVER SECURITIES CORPORATION, as of AUGUST 31,, 20 07, 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:

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

Mary Ann Allen  
 Signature



Patrice M. Hughes  
 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.
- (o) Independent auditors' report on internal control structure.

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

**CONOVER SECURITIES CORPORATION**

**Financial Statements and  
Independent Auditors' Report**

**August 31, 2007**

# Conover Securities Corporation

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LE MASTER &  
DANIELS PLLC

SPOKANE  
COLFAX  
GRANDVIEW  
MOSES LAKE  
OMAK  
OTHELLO

QUINCY  
TRI-CITIES  
WALLA WALLA  
WENATCHEE  
YAKIMA  
BOISE

ACCOUNTING

## INDEPENDENT AUDITORS' REPORT

AND

CONSULTING

SERVICES

Board of Directors  
Conover Securities Corporation  
Kirkland, Washington

MEMBER OF

McGLADREY

NETWORK

We have audited the accompanying statement of financial condition of Conover Securities Corporation as of August 31, 2007, and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities and 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 Conover Securities Corporation as of August 31, 2007, 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 10-11 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 and 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.

Spokane, Washington  
October 23, 2007

# Conover Securities Corporation

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## Statement of Financial Condition

August 31, 2007

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### *Assets*

Cash	\$ 68,721
Commissions receivable	1,942
Common stock investment, at fair value	<u>22,862</u>
	<u>\$ 93,525</u>

### *Liabilities and Stockholders' Equity*

#### *LIABILITIES:*

Commissions payable	\$ 1,017
Accrued liabilities	7,619
Rent payable	25,000
Deferred income taxes	<u>1,379</u>
Total liabilities	<u>35,015</u>

#### *STOCKHOLDERS' EQUITY:*

Common stock – no par value; 50,000 shares authorized; 1,000 shares issued and outstanding	\$ 4,500
Retained earnings	<u>54,010</u>
Total stockholders' equity	<u>58,510</u>
	<u>\$ 93,525</u>

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See accompanying notes to financial statements.

# Conover Securities Corporation

## Statement of Operations

Year Ended August 31, 2007

### REVENUES:

Commissions, listed transactions	\$ 3,706
Commissions, mutual funds	140,403
Other commissions and fees	<u>268,786</u>
	412,895

### EXPENSES:

Commissions	\$ 137,328
Salaries and wages	204,010
Regulatory fees	3,721
Legal and accounting	10,423
Rent, office	25,000
Business and payroll taxes	21,627
Office expenses and postage	2,511
Other expenses	<u>2,482</u>
	<u>407,102</u>
	5,793

### OTHER INCOME (EXPENSE):

Unrealized gains on marketable securities	2,905
Other expense	(40)
Interest income	<u>28</u>
	<u>2,893</u>

### INCOME BEFORE INCOME TAX

8,686

### FEDERAL INCOME TAX

-

### NET INCOME

\$ 8,686

See accompanying notes to financial statements.

# Conover Securities Corporation

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## Statement of Changes in Stockholders' Equity

Year Ended August 31, 2007

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	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>		
<i>BALANCES, BEGINNING OF YEAR</i>	1,000	\$ 4,500	\$ 45,324	\$ 49,824
<i>ADD:</i>				
Net income	<u>-</u>	<u>-</u>	<u>8,686</u>	<u>8,686</u>
<i>BALANCES, END OF YEAR</i>	<u>1,000</u>	<u>\$ 4,500</u>	<u>\$ 54,010</u>	<u>\$ 58,510</u>

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See accompanying notes to financial statements.



# Conover Securities Corporation

## Statement of Cash Flows

Year Ended August 31, 2007

### *Increase (Decrease) in Cash*

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

Cash received from customers	\$ 411,227
Cash paid to suppliers and employees	(368,713)
Interest income received	28
Net cash provided by operating activities	<u>42,542</u>

*CASH, BEGINNING OF YEAR*

26,179

*CASH, END OF YEAR*

\$ 68,721

### *Reconciliation of Net Income to Net Cash Provided by Operating Activities*

Net income	\$ 8,686
Adjustments to reconcile net income to net cash provided by operating activities:	
Unrealized gains on marketable securities	\$ (2,905)
(Increase) decrease in assets:	
Prepaid expenses	4,000
Commissions receivable	(1,668)
Employee receivable	1,000
Increase in liabilities:	
Commissions payable	810
Accrued liabilities	7,619
Rent payable	<u>25,000</u>
	<u>33,856</u>
Net cash provided by operating activities	<u>\$ 42,542</u>

See accompanying notes to financial statements.

# Conover Securities Corporation

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## Notes to Financial Statements

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

*Organization:*

Conover Securities Corporation (the Company) is a broker and dealer in securities located in Kirkland, Washington, and is a member of the National Association of Security Dealers. The Company deals primarily in mutual funds and clears all customer individual stock and bond transactions through Pershing LLC. The Company was purchased by Abacus Group LLC effective October 1, 2004.

*Summary of Significant Accounting Policies:*

*Cash* – Cash includes checking accounts and money market accounts.

*Commissions receivable* – An allowance for doubtful commissions receivable has not been provided as it is management's opinion that all amounts are collectible.

*Furniture and equipment* – Furniture and equipment are stated at cost. Furniture and equipment are depreciated using the straight-line method with estimated useful lives of three to seven years for financial reporting purposes, while expense elections under Internal Revenue Service Section 179 or estimated useful lives of five to seven years are utilized for tax purposes.

*Income taxes* – The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. Under the asset and liability method prescribed by SFAS No. 109, deferred income taxes are provided for temporary differences between the financial reporting and tax bases of assets and liabilities. The major temporary difference includes unrealized gains on securities and net operating loss carryforwards. The deferred tax liability represents future tax return consequence of this difference which will be taxable when assets and liabilities are recovered or settled.

*Use of estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### NOTE 2 — FURNITURE AND EQUIPMENT:

Furniture and equipment are comprised of the following:

Furniture and fixtures	\$ 8,487
Data processing equipment	<u>6,087</u>
	14,574
Less accumulated depreciation	<u>14,574</u>
	\$ -

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# Conover Securities Corporation

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## Notes to Financial Statements

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### ***NOTE 3 — FEDERAL INCOME TAXES:***

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No provision for federal income taxes is required due to a net operating loss carryover. At August 31, 2007, net deferred tax liabilities totaled \$1,379. The Company has a net operating loss carryforward of approximately \$3,000 which will expire in 2026.

### ***NOTE 4 — NET CAPITAL REQUIREMENTS:***

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The Company is subject to the Securities and Exchange Commission 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 15 to 1. At August 31, 2007, the Company had net capital of \$54,374 which was \$49,374 in excess of its required net capital of \$5,000. The Company's net capital ratio was 0.62 to 1 at August 31, 2007.

### ***NOTE 5 — RELATED-PARTY TRANSACTIONS:***

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The Company shares office space with Abacus Group LLC, which is composed of three separate companies: Conover Securities Corp., Conover Tax and Accounting, and Conover Capital Management, a Registered Investment Advisor firm. During the year ended August 31, 2007, the Company recorded rent expense payable to Abacus Group LLC in the amount of \$25,000.

**SUPPLEMENTAL INFORMATION**

# Conover Securities Corporation

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

August 31, 2007

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### NET CAPITAL:

Total stockholders' equity \$ 58,510

### DEDUCTIONS AND CHARGES:

Nonallowable assets:  
Employee receivable 125

*HAIRCUTS ON SECURITIES* 4,011

*NET CAPITAL* \$ 54,374

### AGGREGATE INDEBTEDNESS:

Commissions payable \$ 1,017  
Accrued liabilities 7,619  
Rent payable 25,000

*TOTAL AGGREGATE INDEBTEDNESS* \$ 33,636

### COMPUTATION OF BASIC NET CAPITAL REQUIREMENT:

Minimum net capital, the greater of \$5,000 or 6 $\frac{2}{3}$ % of  
aggregate indebtedness \$ 5,000

*CAPITAL IN EXCESS OF MINIMUM REQUIREMENT* \$ 49,374

*RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL* 0.62 to 1

### RECONCILIATION WITH COMPANY'S COMPUTATION:

Net capital as reported in Company's Part II FOCUS report \$ 80,862  
Adjustments to payables (25,000)  
Adjustments to wages payable (7,534)  
Adjustments to federal income taxes 5,759  
Other adjustments 287

\$ 54,374

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See accompanying independent auditors' report.

# **Conover Securities Corporation**

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## **Computation of Determination of Reserve Requirements Under Rule 15c3-3 of the Securities and Exchange Commission**

**August 31, 2007**

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### Exemptive Provisions:

The Company has claimed an exemption from Rule 15c3-3 under Section (9k)(2)(ii), in which all customer transactions are cleared through another broker on a fully disclosed basis.

### Company's clearing firm:

Pershing LLC

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

Board of Directors  
Conover Securities Corporation  
Kirkland, Washington

In planning and performing our audit of the financial statements of Conover Securities Corporation (the Company) as of and for the year ended August 31, 2007, 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 the August 31, 2007, 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 (SEC), 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 such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13.
2. 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.

The management of the Company is responsible for establishing and maintaining internal control 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 the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and 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.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and 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 and 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, as described in the second paragraph of this report, were adequate at August 31, 2007, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission, the National Association of Securities Dealers, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities and 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  
October 23, 2007

END