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

FEB 11 2008

SEC FILE NUMBER  
8- 49213

**FACING PAGE Washington, DC  
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 January 1, 2007 AND ENDING December 31, 2007  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Capital Research Brokerage Services, LLC

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

107 S. Fair Oaks Avenue, Suite 215

(No and Street)

Pasadena

CA

91105

(State)

(Zip Code)

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

John Odell

(626) 944-1441

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Breard & Associates Inc., Certified Public Accountants

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

9221 Corbin Avenue Suite 170

Northridge

CA

91324

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

**PROCESSED  
FEB 22 2008**

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THOMSON  
FINANCIAL

\*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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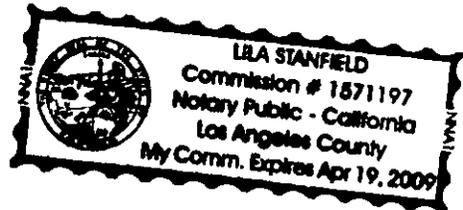
OATH OR AFFIRMATION

I, John Odell, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Capital Research Brokerage Services, LLC, as of December 31, 2007, 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:

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

State of California  
County of Los Angeles  
Subscribed and sworn (or affirmed) to before me this 10th day of January, 2008  
[Signature]  
Notary Public

[Signature]  
Signature  
Principal  
Title



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 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).

**BREARD & ASSOCIATES, INC.**  
Certified Public Accountants

Independent Auditor's Report

Board of Directors  
Capital Research Brokerage Services, LLC:

We have audited the accompanying statement of financial condition of Capital Research Brokerage Services, LLC (the Company) as of December 31, 2007 and the related statements of income, change in members' 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 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 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 Capital Research Brokerage Services, LLC as of December 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 contained in Schedules I, II, III and IV is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary 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.

*Breard & Associates, Inc.*

Breard & Associates, Inc.  
Certified Public Accountants

Northridge, California  
February 6, 2008

***We Focus & Care<sup>SM</sup>***

**Capital Research Brokerage Services, LLC**  
**Statement of Financial Condition**  
**December 31, 2007**

**Assets**

Cash and cash equivalents	\$ 24,207
Cash and securities segregated under federal and other regulations	10,970
Receivable from broker/dealer	20,988
Marketable securities, at market	342,930
Other receivables	700
Furniture and equipment, net	<u>3,094</u>
<b>Total assets</b>	<b><u>\$ 402,889</u></b>

**Liabilities and Members' Equity**

<b>Liabilities</b>	
Accounts payable	\$ 7,642
Income taxes payable	<u>2,500</u>
<b>Total liabilities</b>	10,142
<b>Members' equity</b>	<u>392,747</u>
<b>Total liabilities and members' equity</b>	<b><u>\$ 402,889</u></b>

*The accompanying notes are an integral part of these financial statements.*

**Capital Research Brokerage Services, LLC**  
**Statement of Income**  
**For the Year Ended December 31, 2007**

**Revenue**

Commissions income	\$ 720,595
Interest and dividends	12,286
Net dealer inventory and investment gains (losses)	811
Other income	<u>43,475</u>

**Total revenue** 777,167

**Expenses**

Commissions	1,231
Occupancy and equipment rental	13,671
Taxes, other than income taxes	16,688
Administrative expenses – related party	106,665
Other operating expenses	<u>291,926</u>

**Total expenses** 430,181

**Net income (loss) before income tax provision** 346,986

**Income tax provision** 3,300

**Net income (loss)** \$ 343,686

*The accompanying notes are an integral part of these financial statements.*

**Capital Research Brokerage Services, LLC**  
**Statement of Changes in Members' Equity**  
**For the Year Ended December 31, 2007**

	<u>Members'</u> <u>Equity</u>
Balance at December 31, 2006	\$ 363,061
Members' distributions	(314,000)
Net income (loss)	<u>343,686</u>
Balance at December 31, 2007	<u>\$ 392,747</u>

*The accompanying notes are an integral part of these financial statements.*

**Capital Research Brokerage Services, LLC**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2007**

<b>Cash flows from operating activities:</b>		
Net income (loss)		\$ 343,686
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	\$ 1,996	
Valuation of marketable securities to market	(811)	
(Increase) decrease in:		
Cash and securities segregated	(9,990)	
Receivable from broker/dealer	33,806	
(Decrease) increase in:		
Accounts payable	<u>(39,953)</u>	
Total adjustments		<u>(14,952)</u>
<b>Net cash provided by (used in) operating activities</b>		<b>328,734</b>
 <b>Cash flows from investing activities:</b>		
Proceeds from sale of securities	<u>(1,358)</u>	
<b>Net cash provided by (used in) investing activities</b>		<b>(1,358)</b>
 <b>Cash flows from financing activities:</b>		
Members' distributions	<u>(314,000)</u>	
<b>Net cash provided by (used in) financing activities</b>		<b><u>(314,000)</u></b>
 <b>Net increase (decrease) in cash and cash equivalents</b>		 <b>13,376</b>
 <b>Cash at beginning of year</b>		 <b><u>10,831</u></b>
 <b>Cash at end of year</b>		 <b><u>\$ 24,207</u></b>
 <b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for:		
Interest	\$ -	
Income taxes	\$ 3,300	

*The accompanying notes are an integral part of these financial statements.*

**Capital Research Brokerage Services, LLC**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 1: GENERAL & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General*

Capital Research Brokerage Services, LLC (the "Company") was organized as a California Limited Liability Company ("LLC") on November 12, 1997. In May 2000, the Company acquired The Oakwood Group of Michigan, LLC., a broker/dealer organized on February 14, 1996, in the State of North Carolina as a Limited Liability Company. The surviving company maintained the broker/dealer under the name Capital Research Brokerage Services, LLC. The Company operates in all 50 states, but maintains its main office in Pasadena, California. The Company is a registered broker/dealer under the Securities and Exchange Act of 1934 and the Financial Industry Regulatory Authority ("FINRA").

The Company serves as a broker of record for mutual fund activity for the clients of a related company.

The Company has approximately seventeen (17) total clients, with four (4) of the clients accounting for 80% of the Company's commission revenues.

*Summary of Significant Accounting Policies*

The presentation 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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Securities transactions are recorded on a trade date basis with related commission income and expenses also recorded on a trade date basis.

For purposes relating to the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company also includes money market accounts as cash equivalents.

Receivables from broker/dealer are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial.

Marketable securities are valued at market value. Mark-to-market accounting is used for purposes of determining unrealized gains/losses on security positions in proprietary trading and investment accounts. The securities are sold on a first-in, first-out basis; however, certain securities are inventoried on a specific identification basis. Haircuts are deductions from net capital of certain specified percentages of the market value of securities that are long and short in the capital and proprietary accounts of the broker-dealer.

**Capital Research Brokerage Services, LLC**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 1: GENERAL & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

Furniture and equipment are stated at cost. Repairs and maintenance to these assets are charged to expense as incurred; major improvements enhancing the function and/or useful life are capitalized. When items are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gains or losses arising from such transactions are recognized. Furniture and equipment are depreciated over their estimated useful lives ranging from five (5) to seven (7) years using the straight-line method.

The Company, with the consent of its Members, has elected to be a Limited Liability Company. For tax purposes the Company is treated like a partnership, therefore in lieu of business income taxes, the Members are taxed on the Company's taxable income. Accordingly, no provision or liability for Federal Income Taxes is included in these financial statements. The State of California has similar treatment, although there exists a provision for a gross receipts tax and a minimum Franchise Tax of \$800.

**Note 2: CASH AND SECURITIES SEGREGATED UNDER FEDERAL AND OTHER REGULATIONS**

Cash of \$10,970 has been segregated in a special reserve bank account for the benefit of customers under rule 15c3-3 of the Securities and Exchange Commission.

**Note 3: MARKETABLE SECURITIES, AT MARKET**

Marketable securities, at market consisted of certificates of deposit with varying maturities, valued at \$342,930 on December 31, 2007. The company included \$811 unrealized securities gains in income from operations.

**Note 4: FURNITURE AND EQUIPMENT, NET**

The furniture and equipment are recorded at cost.

		<u>Depreciable Life Years</u>
Furniture & fixtures	\$ 11,744	7
Machinery & equipment	<u>5,263</u>	5
	17,007	
Less: accumulated depreciation	<u>(13,913)</u>	
Furniture and equipment, net	<u>\$ 3,094</u>	

Depreciation expense for the year ended December 31, 2007, was \$1,996.

**Capital Research Brokerage Services, LLC**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 5: INCOME TAXES**

The Company is a registered limited liability company. The Federal taxation is similar to a partnership, whereby the taxes are paid at the member level. All tax effects of a partnership's income or loss are passed through to the partners individually.

The Company is subject to a limited liability company gross receipts fee, with a minimum provision of \$800. For the year ended December 31, 2007, the Company recorded the gross receipts fee for a limited liability company of \$2,500.

**Note 6: RELATED PARTY TRANSACTIONS**

The Company maintains its operations utilizing the office space and staff of another company related by common ownership. The majority of the Company's clients are clients of the other Company. The Company has entered into various related party agreements. On April 29, 2004, the Company entered into a "shared expense" agreement in complying with FINRA and SEC rules and regulations. The agreement is between the Company and SBG Capital Management, Inc., Arroyo Investment Group and Capital Research and Consulting, LLC. Under the agreement, the Company will record monthly fees for office space and facilities, administration advisory services and other fees. For the year ended December 31, 2007, the Company paid under this agreement \$138,118. This consists of the following:

Administration fees	\$ 106,665
Rent	13,671
Other fees	<u>17,782</u>
	<u>\$ 138,118</u>

Arroyo Investment Group, SBG Capital Management, Inc, and Capital Research Consulting, LLC are related parties through common ownership.

The Company also received \$700 a month from a related party, as reimbursement for advertising expenses that benefits the related party. For the year ending December 31, 2007, the Company included \$8,400 in fees received from the related party in other income.

**Capital Research Brokerage Services, LLC**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 7: RECENTLY ISSUED ACCOUNTING STANDARDS**

*Accounting for Certain Hybrid Financial Instruments*

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155 ("SFAS 155"), "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB statements No. 133 and 140." The statement allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) as long as the entire instrument is valued on a fair value basis. SFAS 155 also resolves and clarifies other specific issues contained in SFAS 133 and 140. The statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after December 15, 2006. The adoption of SFAS 155 has not had a material impact upon the Company's financial statements.

*Accounting for Uncertainty in Income Taxes*

In June 2006 the FASB issued Financial Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109." which prescribes a 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. FIN 48 requires that the Company recognize in its financial statements the impact of a tax position if it is more likely than not that such position will be sustained on audit based on its technical merits. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The effective date of the provisions of FIN 48 for all nonpublic companies has been postponed to fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact of this statement, but does not expect that it will have a material impact upon the Company's financial statements.

*Fair Value Measurements*

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements". The statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those pronouncements that fair value is a relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of this statement, but does not expect the pronouncement will have a material impact upon the Company's financial statements.

**Capital Research Brokerage Services, LLC**  
**Notes to Financial Statements**  
**December 31, 2007**

**Note 7: RECENTLY ISSUED ACCOUNTING STANDARDS**  
**(Continued)**

*Retirement Plans*

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements Nos. 87, 106, and 132(R)" ("SFAS 158"). SFAS 158 requires companies to recognize on a prospective basis the funded status of their defined benefit pension and postretirement plans as an asset or liability and to recognize changes in that funded status in the year in which the changes occur as a component of other comprehensive income, net of tax. The effective date of the pronouncement is a function of whether the Company's equity securities are traded publicly. If the entity has publicly traded securities, the effective date is for fiscal years ending after December 15, 2006. Entities without publicly traded securities must adopt the standard for fiscal years ending after June 15, 2007. Adoption of the new standard has not had a material effect on the Company's financial statements.

*Fair Value Option*

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ("SFAS 159"), "Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115". SFAS 159 is expected to expand the use of fair value accounting but does not affect existing standards which require certain assets or liabilities to be carried at fair value. The objective of this pronouncement is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Under SFAS 159, a company may choose at specified election dates, to measure eligible items at fair value and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of this statement, but does not expect that it will have a material impact upon the Company's financial statements.

**Note 8: NET CAPITAL REQUIREMENTS**

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. Net capital and aggregate indebtedness change day to day, but on December 31, 2007, the Company's net capital of \$388,499, which was \$138,499 in excess of its required net capital of \$250,000; and the Company's ratio of aggregate indebtedness (\$10,142) to net capital was 0.03:1, which is less than the 15 to 1 maximum ratio allowed.

**Capital Research Brokerage Services, LLC**  
**Schedule I - Computation of Net Capital Requirements**  
**Pursuant to Rule 15c3-1**  
**As of December 31, 2007**

**Computation of net capital**

<b>Members' equity</b>		<b>\$ 392,747</b>
Less: Non-allowable assets		
Other receivables	(700)	
Furniture and equipment, net	<u>(3,094)</u>	
Total adjustments		<u>(3,794)</u>
<b>Net capital before haircuts</b>		<b>388,953</b>
Less: Haircuts and undue concentration		
Haircuts on securities	(432)	
Haircuts on money market accounts	<u>(22)</u>	
Total haircuts		<u>(454)</u>
<b>Net capital</b>		<b>388,499</b>

**Computation of net capital requirements**

Minimum net capital requirements		
6 2/3 percent of net aggregate indebtedness	\$ 675	
Minimum dollar net capital required	\$ 250,000	
<b>Net capital required (greater of above)</b>		<u><b>250,000</b></u>

**Excess net capital** **\$ 138,499**

Percentage of aggregate indebtedness to net capital 0.03:1

There was no difference between net capital shown here and net capital as reported on the Company's unaudited Form X-17A-5 report dated December 31, 2007.

*See independent auditor's report.*

**Capital Research Brokerage Services, LLC**  
**Schedule II - Computation for Determination of Reserve**  
**Requirements Pursuant to Rule 15c3-3**  
**As of December 31, 2007**

**Credit Balances**

Free credit balances and other credit balances in customers' security accounts	\$ 6,442	
Customers' securities failed to receive	—	
Total credits	—	\$ 6,442

**Debit Balances**

Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection net of deductions pursuant to Note E, Exhibit A, Rule 15c3-3	—	
Failed to deliver of customers' securities not older than 30 calendar days	—	
Total debits	—	—

**Reserve Computation**

Excess of total credits over total debits	<u>\$ 6,442</u>
Reserve required at 105%	<u>\$ 6,764</u>
Amount held on deposit in reserve account at December 31, 2007	\$ 10,970
Amounts deposited (withdrawn) after year end	—
Amount in reserve account	<u>\$ 10,970</u>

There was no difference between reserve requirements here and reserve requirements as reported on the Company's unaudited Form X-17A-5 report dated December 31, 2007.

*See independent auditor's report.*

**Capital Research Brokerage Services, LLC**  
**Schedule III - Reconciliation of Net Capital and**  
**Reserve Requirements Under Rule 15c3-3**  
**As of December 31, 2007**

Net Capital as calculated per audit report	\$ 388,499
Net Capital as calculated per broker-dealer's most recent filing of Form X-17a-5, Part II, December 31, 2007	<u>388,499</u>
Net difference in computation of net capital	<u>\$ -</u>
Reserve requirement as calculated per audit report	\$ 6,764
Reserve requirement as calculated per broker-dealer's most recent filing of Form X-17a-5, Part II, December 31, 2007	<u>6,764</u>
Net difference in computation of reserve requirements	<u>\$ -</u>

*See independent auditor's report.*

**Capital Research Brokerage Services, LLC**  
**Schedule IV - Information Relating to Possession or Control**  
**Requirements Under Rule 15c3-3**  
**As of December 31, 2007**

The Company is a self-clearing firm and is subject to the possession or control requirements under Rule 15c3-3 of the Securities and Exchange Commission. The Company is in compliance with these requirements and there were no instances noted during our audit of securities that were required to be in possession or control that had not been reduced to possession or control in the proper time frame.

*See independent auditor's report.*

**Capital Research Brokerage Services, LLC**

**Supplementary Accountant's Report**

**on Internal Accounting Control**

**Report Pursuant to 17a-5**

**For the Year Ended December 31, 2007**

# **BREARD & ASSOCIATES, INC.**

Certified Public Accountants

Board of Directors

Capital Research Brokerage Services, LLC:

In planning and performing our audit of the financial statements and of Capital Research Brokerage Services, LLC (“the Company”) as of and for the year ended December 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 audit procedures for the purpose of expressing our opinion on the 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 compliance with such practices and procedures that we considered relevant to 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 customers as required by rule 15c3-3

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 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 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 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 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 December 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 SEC, Financial Industry Regulatory Authority 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.

*Breard & Associates, Inc.*

Breard & Associates, Inc.  
Certified Public Accountants

Northridge, California  
February 6, 2008

END