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

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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 July 1, 2007 AND ENDING June 30, 2008
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: NELSON SECURITIES, INC.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

601 W. MAIN ST. SUITE 1118

(No. and Street)

SPOKANE

WA

99201

(City)

(State)

(Zip Code)

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

PATRICK K DONAHUE

509-838-1313

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

McDIRMID, MIKKELSON & SECREST, P.S.

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

926 W. SPRAGUE, SUITE 380

(Address)

(City)

SPOKANE

(State)

99201

(Zip Code)

PROCESSED

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THOMSON REUTERS

SEC
Mail Drop
Section

AUG 28 2008

**Washington, DC
103**

CHECK ONE:

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

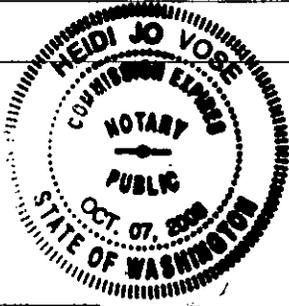
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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

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OATH OR AFFIRMATION

I, ROBERT O. NELSON, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of NELSON SECURITIES, INC., as of JUNE 30, 2008, 20 08, 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:



Heidi Jo Vose
Notary Public

Robert O Nelson
Signature
PRESIDENT
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 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.

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

NELSON SECURITIES, INC.

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McDIRMID, MIKKELSEN & SECREST, P.S.

Certified Public Accountants

James K. McDirmid
Chris D. Mikkelsen
Kenneth E. Secrest
William A. Simer
Andrew J. McDirmid
Marcie M. Harper

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Nelson Securities, Inc.
Spokane, Washington

We have audited the accompanying statement of financial condition of Nelson Securities, Inc. as of June 30, 2008 and 2007, and the related statements of operations, changes in stockholder's equity and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits 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 audits provide 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 Nelson Securities, Inc. as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

McDirmid, Mikkelsen & Secrest, P.S.

August 22, 2008
Spokane, Washington

NELSON SECURITIES, INC.

STATEMENT OF FINANCIAL CONDITION

June 30, 2008 and 2007

ASSETS	<u>2008</u>	<u>2007</u>
Cash	\$ 63,706	\$ 199,221
Receivable from clearing broker	13,833	21,489
Investment advisory fees and commissions receivable	187,049	204,496
Employee receivable	10,000	
Marketable securities owned:		
Trading account	6,782	9,516
Investment account	60,980	53,478
Prepaid expenses	27,878	23,699
Deposit with clearing house	50,000	50,000
Furniture and equipment	5,478	1,355
Newsletter publishing rights, less accumulated amortization of \$77,287 and \$71,597	<u>8,061</u>	<u>13,750</u>
	<u>\$ 433,767</u>	<u>\$ 577,004</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Payable to vendors	\$ 11,163	\$ 12,832
Payroll and business taxes payable	67,838	68,057
Accrued bonuses		24,000
Federal and state income taxes payable	60	25
Deferred advisory service revenue	<u>26,687</u>	<u>31,538</u>
	<u>105,748</u>	<u>136,452</u>
Stockholder's equity:		
Common stock, \$100 par value:		
Authorized, 500 shares;		
Issued and outstanding, 100 shares	10,000	10,000
Additional paid-in capital	252,734	252,734
Retained earnings	<u>65,285</u>	<u>177,818</u>
	<u>328,019</u>	<u>440,552</u>
	<u>\$ 433,767</u>	<u>\$ 577,004</u>

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

NELSON SECURITIES, INC.

STATEMENT OF OPERATIONS
for the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenues:		
Investment advisory fees and commissions	\$ 2,351,908	\$ 2,423,632
Trading commissions	284,730	240,298
Trading income (loss)	(8,357)	2,567
Interest and dividend income	<u>16,232</u>	<u>16,097</u>
	<u>2,644,513</u>	<u>2,682,594</u>
Expenses:		
Salaries and commissions	1,762,886	1,741,637
Licenses and regulatory fees	34,179	63,624
Payroll taxes	98,345	110,737
Telephone and utilities	90,634	99,746
Occupancy and leases expense	160,361	145,732
Auto	22,167	23,650
Office expense and postage	120,734	102,917
Travel and entertainment	43,721	43,971
Consulting expense	60,198	82,332
Newsletter expense	18,000	18,000
Continuing education expense	231	321
Business and property taxes, net of refunds	14,368	18,280
Depreciation and amortization	7,238	6,685
Professional services	20,329	18,675
Insurance	125,298	108,608
Quotation service	20,600	21,221
401(k) plan expense	27,524	26,491
Miscellaneous	<u>39,373</u>	<u>32,523</u>
	<u>2,666,186</u>	<u>2,665,150</u>
Income (loss) before income taxes	(21,673)	17,444
Income tax expense	<u>860</u>	<u>825</u>
Net income (loss)	<u>\$ (22,533)</u>	<u>\$ 16,619</u>

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

NELSON SECURITIES, INC.

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
for the years ended June 30, 2008 and 2007

	<u>Shares</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balances, July 1, 2006	100	\$ 10,000	\$ 252,734	\$ 161,199	\$ 423,933
Net income for the year ended June 30, 2007	_____	_____	_____	16,619	16,619
Balances, June 30, 2007	100	10,000	252,734	177,818	440,552
Dividends paid				(90,000)	(90,000)
Net loss for the year ended June 30, 2008	_____	_____	_____	(22,533)	(22,533)
Balances, June 30, 2008	<u>100</u>	<u>\$ 10,000</u>	<u>\$ 252,734</u>	<u>\$ 65,285</u>	<u>\$ 328,019</u>

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

NELSON SECURITIES, INC.

STATEMENT OF CASH FLOWS
for the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net income (loss)	<u>\$ (22,533)</u>	<u>\$ 16,619</u>
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	7,238	6,685
Changes in assets and liabilities:		
Net receivable from clearing broker	7,656	(12,513)
Fees and commissions receivable	17,447	(46,691)
Employee receivables	(10,000)	
Marketable securities owned, net	(4,768)	(34,152)
Prepaid expenses	(4,179)	75
Payable to vendors	(1,669)	679
Payroll and business taxes payable	(219)	61,024
Accrued bonuses	(24,000)	7,000
Federal and state income taxes payable	35	
Deferred advisory service revenue	<u>(4,851)</u>	<u>115</u>
Total adjustments	<u>(17,310)</u>	<u>(17,778)</u>
Net cash used in operating activities	<u>(39,843)</u>	<u>(1,159)</u>
Cash flows from investing activities:		
Purchase of equipment	(5,672)	
Cash flows from financing activities:		
Dividends paid	<u>(90,000)</u>	
Net decrease in cash	(135,515)	(1,159)
Cash at beginning of year	<u>199,221</u>	<u>200,380</u>
Cash at end of year	<u>\$ 63,706</u>	<u>\$ 199,221</u>
Supplemental disclosure of cash paid for income taxes	<u>\$ 825</u>	<u>\$ 825</u>

The accompanying notes are an integral part of the financial statements.

NELSON SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. The Company and Significant Accounting Policies:

Nelson Securities, Inc. was incorporated under the laws of the State of Washington on October 3, 1983 to operate as a broker/dealer in investment securities. The Company has offices located in Spokane, Washington; San Diego, California; and Orlando, Florida.

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 or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 such estimates.

Customers' securities transactions are recorded on a settlement date basis with the related commission revenues and expenses recorded on a trade date basis. Securities transactions of the Company are recorded on a trade date basis.

The Company places its cash and cash equivalents with high quality financial institutions. At times, the amount may be in excess of the FDIC insurance limits, however, the Company does not consider this to be a significant credit risk.

Continued

NELSON SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS, *Continued*

1. **The Company and Significant Accounting Policies, *continued*:**

The Company's accounts receivable consist primarily of commissions due from various insurance companies and other broker/dealers under contractual agreements. Historically, the Company has not experienced losses related to these receivables and does not consider these amounts to be a significant credit risk.

Marketable securities owned by the Company are stated at market value.

Furniture and equipment are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are charged to expense when incurred. Additions and major improvements are capitalized.

The purchase cost of publishing rights for an investment newsletter is being amortized on the straight-line method over 15 years. Amortization expense was \$5,690 for both years ended June 30, 2008 and 2007.

The Company's policy is to expense advertising costs when incurred.

2. **Furniture and Equipment:**

Furniture and equipment at June 30, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Furniture and fixtures	\$112,579	\$116,405
Computer equipment	43,665	43,665
Telephone system	<u>56,846</u>	<u>56,846</u>
	213,090	216,916
Less accumulated depreciation	<u>207,612</u>	<u>215,561</u>
	<u>\$ 5,478</u>	<u>\$ 1,355</u>

Depreciation expense for the years ended June 30, 2008 and 2007 was \$1,548 and \$995, respectively.

Continued

NELSON SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS, *Continued*

3. Net Capital Requirements:

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company was required to maintain minimum net capital of \$50,000, and a net capital ratio of no more than 15 to 1, as defined under such provisions. Net capital and the related net capital ratio will fluctuate on a daily basis. The Company had net capital of \$81,998 and \$244,197 at June 30, 2008 and 2007, respectively. The Company's net capital ratio (aggregate indebtedness to net capital) was 1.29 to 1 and .56 to 1 at June 30, 2008 and 2007, respectively.

4. Retirement Plan:

The Company has adopted a 401(k) plan covering all eligible employees. The plan allows employees to defer up to 12% of their salaries with the Company matching 25% of the participant's deferral. For the years ended June 30, 2008 and 2007, the Company's contribution was \$27,524 and \$26,491, respectively.

5. Income Taxes:

The income tax provision for the years ended June 30, 2008 and 2007 was for state income tax expense. Federal income tax expense for the years ended June 30, 2008 and 2007 was offset by utilization of the tax benefit from a net operating loss carryover. At June 30, 2008, the Company has an unused operating loss carryforward of approximately \$77,000 that may be applied against future taxable income through 2027.

6. Lease Commitments:

The Company leases its Spokane and San Diego office space for \$7,819 monthly under operating lease agreements. The Spokane lease expires October 2009 and the San Diego lease expires September 2009. The Company also leases its Orlando office space for \$1,850 per month under a month to month agreement. Lease expense including utilities for all locations was \$117,009 and \$99,717 for the years ended June 30, 2008 and 2007, respectively.

Continued

NELSON SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS, *Continued*

6. Lease Commitments, *continued*:

Future minimum payments under noncancellable office space leases having initial or remaining lease terms in excess of one year as of June 30, 2008, are as follows:

Years ending June 30:

2009	\$ 95,370
2010	<u>29,994</u>
	<u>\$125,364</u>

The Company leases various equipment from NFS Leasing, L.L.C., which is owned 100% by the stockholder of the Company. The lease agreements currently provide for rent of \$3,131 per month including applicable sales tax. Rent expense paid under these agreements was \$43,352 and \$46,016 for the years ended June 30, 2008 and 2007, respectively. Future minimum annual rents due under these agreements are as follows:

Years ending June 30:

2009	\$ 37,570
2010	27,405
2011	16,431
2012	12,906
2013	<u>4,302</u>
	<u>\$ 98,614</u>

McDIRMID, MIKKELSEN & SECREST, P.S.

Certified Public Accountants

James K. McDirmid
Chris D. Mikkelsen
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**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY
INFORMATION REQUIRED BY RULE 17a-5 OF THE SECURITIES AND
EXCHANGE COMMISSION**

Board of Directors
Nelson Securities, Inc.
Spokane, Washington

We have audited the accompanying financial statements of Nelson Securities, Inc. as of and for the year ended June 30, 2008, and have issued our report dated August 22, 2008. 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 1, 2, 3, and 4 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 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.

McDirmid, Mikkelsen + Secrest, P.S.

August 22, 2008
Spokane, Washington

NELSON SECURITIES, INC.

**SCHEDULE 1
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE
SECURITIES AND EXCHANGE COMMISSION**

June 30, 2008

Net capital:		
Stockholders' equity:		
Common stock	\$ 10,000	
Additional paid-in capital	252,734	
Retained earnings	<u>65,285</u>	
Total stockholders' equity		\$ 328,019
Deductions:		
Non-allowable assets:		
Other receivables	179,166	
Employee receivables	10,000	
Prepaid expenses	27,878	
Furniture and equipment at cost, net of accumulated depreciation	5,478	
Newsletter publishing rights, net of accumulated amortization	<u>8,061</u>	
		<u>230,583</u>
Net capital before haircut on securities positions		97,436
Haircuts on securities	10,657	
Undue concentration	<u>4,781</u>	
		<u>15,438</u>
Net capital		<u>\$ 81,998</u>
Required net capital		<u>\$ 50,000</u>
Excess net capital		<u>\$ 31,998</u>
Aggregate indebtedness:		
Payable to vendors	\$ 11,163	
Payroll and business taxes payable	67,838	
Federal and state income taxes payable	60	
Deferred advisory service revenue	<u>26,687</u>	
Total aggregate indebtedness		<u>\$ 105,748</u>
Ratio of aggregate indebtedness to net capital		1.29 to 1

NELSON SECURITIES, INC.

**SCHEDULE 2
COMPUTATION FOR DETERMINATION OF RESERVE
REQUIREMENTS UNDER RULE 15c3-3 OF THE SECURITIES
AND EXCHANGE COMMISSION**

June 30, 2008

Nelson Securities, Inc. acts strictly as an introducing broker-dealer, clearing all transactions with and for customers on a fully disclosed basis with the clearing broker, which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto. Therefore, Nelson Securities, Inc. is not required to carry a "Special Reserve Bank Account for the Exclusive Benefit of Customers", as stated under Exemption Rule 15c3-3.

NELSON SECURITIES, INC.

SCHEDULE 3
RECONCILIATION WITH COMPANY'S COMPUTATION OF NET CAPITAL
INCLUDED IN PART II OF FORM X-17A-5
June 30, 2008

Net capital:

Net capital as reported on FOCUS REPORT	\$ 84,388	
Audit adjustment to correct payroll taxes payable	(2,229)	
Audit adjustment to increase federal and state income tax payable	(60)	
Audit adjustment to increase undue concentration	(99)	
Rounding	<u>(2)</u>	
Net capital which should have been reported		<u>\$ 81,998</u>
Net capital as computed on page 11		<u>\$ 81,998</u>

Aggregate indebtedness:

Aggregate indebtedness as reported on FOCUS REPORT	\$ 103,458	
Audit adjustment to correct payroll taxes payable	2,229	
Audit adjustment to increase federal and state income tax payable	60	
Rounding	<u>1</u>	
Aggregate indebtedness which should have been reported		<u>\$ 105,748</u>
Aggregate indebtedness as computed on page 11		<u>\$ 105,748</u>

NELSON SECURITIES, INC.

**SCHEDULE 4
INFORMATION RELATING TO POSSESSION OR CONTROL
REQUIREMENTS UNDER RULE 15c3-3 OF THE
SECURITIES AND EXCHANGE COMMISSION**

June 30, 2008

Nelson Securities, Inc acts strictly as an introducing broker-dealer, clearing all transactions with and for customers on a fully disclosed basis with the clearing broker, which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto. Therefore, Nelson Securities, Inc. is exempt under Rule 15c3-3.

McDIRMID, MIKKELSEN & SECREST, P.S.

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS
REQUIRED BY THE SECURITIES AND EXCHANGE
COMMISSION RULE 17a-5**

Board of Directors
Nelson Securities, Inc.
Spokane, Washington

In planning and performing our audit of the financial statements of Nelson Securities, Inc. as of and for the year ended June 30, 2008 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 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

Continued

Board of Directors
Nelson Securities, Inc.

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 or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

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 our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at June 30, 2008 to meet the SEC's objectives.

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

McDermid, Mikkelsen & Sewart, P.S.

August 22, 2008
Spokane, Washington

END