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

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: February 28, 2010  
Estimated average burden  
hours per response ... 12.00

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

SEC FILE NUMBER  
8-00831

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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 01/01/08 AND ENDING 12/31/08  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: MARTIN NELSON & CO., INC.

OFFICIAL USE ONLY

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

FIRM I.D.NO.

1500 WESTLAKE AVE. N., STE 200

SEATTLE WA 98109-3031  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
MARTIN O. NELSON, JR. (206) 682-6261  
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

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

601 UNION ST., STE. 2300 SEATTLE WA 98101  
(Address) (City) (State) (Zip Code)

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 240.17 a-5(e)(2)

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SEC 1410 (06.02)

Handwritten signature

**OATH OR AFFIRMATION**

I, MARTIN O. NELSON, JR., swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of MARTIN NELSON & CO., INC., as of DECEMBER 31, 2008, 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:



Martin O Nelson Jr.  
Signature

President  
Title

[Signature]  
Notary Public

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition. (CASH FLOWS)
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors. (NOT APPLICABLE)
- (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. (NOT APPLICABLE)
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report. (NOT APPLICABLE)
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit. (NOT APPLICABLE)

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

X (O) INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5.

**CERTIFIED PUBLIC ACCOUNTANTS**

601 UNION STREET, SUITE 2300

SEATTLE, WASHINGTON 98101

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Martin Nelson & Co., Inc.  
Seattle, Washington

We have audited the accompanying statement of financial condition of Martin Nelson & Co., Inc. as of December 31, 2008, and the related statements of operations, stockholder's equity, and cash flows for the year then ended. 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. 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 Martin Nelson & Co., Inc. as of December 31, 2008, 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included 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 of the Securities and Exchange Commission. 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.

*Peterson Sullivan LLP*  
January 25, 2009

**MARTIN NELSON & CO., INC.**

**STATEMENT OF FINANCIAL CONDITION**

December 31, 2008

**ASSETS**

Cash	\$	70,726
Accounts receivable		25,286
Income tax refund receivable		42,260
Prepaid expenses		7,089
Securities held for resale		18,000
Investments		1,238,968
Deferred tax asset		40,000
Furniture and equipment, net of accumulated depreciation of \$230,148		76,620
	\$	<u>1,518,949</u>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

<b>Liabilities</b>		
Accounts payable and accrued expenses	\$	72,392
<b>Stockholder's Equity</b>		
Common stock, \$10 par value, 5,000 shares authorized, 1,471 shares issued and outstanding		14,710
Retained earnings		<u>1,431,847</u>
		<u>1,446,557</u>
	\$	<u>1,518,949</u>

See Notes to Financial Statements

**MARTIN NELSON & CO., INC.**

**STATEMENT OF OPERATIONS**  
For the Year Ended December 31, 2008

Revenues	
Commissions	\$ 1,393,935
Gain on securities held for resale	366,165
Fees from municipal underwriting	195,041
Realized gain on securities held as investments	295,876
Unrealized loss on securities held as investments	(1,191,025)
Interest, dividends and other income	243,459
	<hr/>
	1,303,451
Expenses	
Compensation and benefits	1,486,643
Profit sharing contribution	209,025
Rent	241,824
Taxes, other than on income	138,133
Professional fees	68,315
Interest	56,675
Dues and subscriptions	51,092
Telephone	29,479
Auto	20,672
Office supplies	10,815
Data processing	12,227
Depreciation	22,565
Contributions	16,720
Repairs and maintenance	5,403
Other operating expenses	12,271
	<hr/>
	2,381,859
Loss before income tax benefit	(1,078,408)
Income tax benefit	399,891
	<hr/>
<b>Net loss</b>	<b>\$ (678,517)</b>

See Notes to Financial Statements

**MARTIN NELSON & CO., INC.**

**STATEMENT OF STOCKHOLDER'S EQUITY**  
For the Year Ended December 31, 2008

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 2007	\$ 14,710	\$ 2,110,364	\$ 2,125,074
Net loss for 2008		(678,517)	(678,517)
Balance, December 31, 2008	<u>\$ 14,710</u>	<u>\$ 1,431,847</u>	<u>\$ 1,446,557</u>

See Notes to Financial Statements

**MARTIN NELSON & CO., INC.**

**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2008

Cash Flows from Operating Activities	
Net loss	\$ (678,517)
Adjustments to reconcile net loss to cash flows from operating activities	
Depreciation	22,565
Deferred tax benefit	(400,000)
Loss on securities held as investments	895,149
Changes in operating assets and liabilities	
Accounts receivable	(16,913)
Securities held for resale	184,513
Prepaid expenses	(5,771)
Accounts payable and accrued expenses	(19,946)
Income tax payable	(101,478)
	<hr/>
Cash flows from operating activities	(120,398)
Cash Flows from Investing Activities	
Proceeds from sale of investments	403,949
Purchase of investments	(258,740)
Purchase of furniture and equipment	(83,153)
	<hr/>
Cash flows from investing activities	62,056
	<hr/>
<b>Decrease in cash</b>	<b>(58,342)</b>
Cash balance, beginning of year	129,068
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Cash balance, end of year	<u><u>\$ 70,726</u></u>
Supplemental Cash Flow Information	
Cash paid during the year for:	
Federal income tax	<u><u>\$ 101,587</u></u>
Interest	<u><u>\$ 56,675</u></u>

See Notes to Financial Statements

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Organization and Significant Accounting Policies

#### **Organization**

Martin Nelson & Co., Inc. ("the Company") is a securities broker and dealer as approved by the Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority, Inc. ("FINRA"). Security transactions are recorded on a settlement date basis which is not materially different from transactions recorded on a trade date basis. The Company's customers are primarily individuals located in the Pacific Northwest. In the normal course of business, the Company's customer, trading, and correspondent clearance activities involve the execution, settlement, and financing of various securities transactions. These activities may expose the Company to off-balance sheet risk in the event the other party to the transaction is unable to fulfill its contractual obligations.

#### **Estimates**

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 certain reported amounts and disclosures. Actual results could differ from these estimates.

#### **Cash**

The Company maintains its cash balances in large commercial banks and with a large brokerage institution. Bank balances are insured up to \$250,000 by the Federal Deposit Insurance Corporation and brokerage balances are insured up to \$500,000 by the Security Investors Protection Corporation.

Cash balances are available for immediate withdrawal.

#### **Securities Held for Resale**

Securities held for resale are carried at fair value based on quoted prices in active markets (Level 1 observable market inputs within the fair value hierarchy), such as the New York Stock Exchange, and consist of equity securities. Realized (calculated using the average cost method) and unrealized gains and losses are reflected in the results of operations for the year.

## **Investments**

Investments consist of various common stocks and are recorded at fair value based on quoted prices in active markets (Level 1 of observable market inputs within the fair value hierarchy), such as the New York Stock Exchange. Realized (calculated using the average cost method) and unrealized gains and losses are reflected in the results of operations for the year.

Two issuers of common stock represented 34% of investments. No other individual stock was in excess of 10% of total investments.

## **Furniture and Equipment**

Furniture and equipment are stated at cost and are depreciated using straight-line methods over estimated useful lives of five to seven years.

## **Income Tax**

Income tax is determined using an asset and liability approach which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement basis and tax basis of assets and liabilities at the applicable enacted tax rates.

The Company's deferred tax assets result from unrealized losses on investments and differences in depreciation rates on property. At December 31, 2008, the components of deferred tax assets are follows:

Furniture and equipment	\$ 19,000
Investments	21,000
	<hr/>
	\$ 40,000
	<hr/> <hr/>

The income tax benefit is composed of:

Current provision	\$ (109)
Deferred income tax benefit	400,000
	<hr/>
	\$ 399,891
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The provision for federal income tax may differ from the statutory rate due to interest income that is exempt from tax and the dividends received deduction.

The Company has elected to defer the application of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," for its year ended December 31, 2008. The Company reviews uncertain tax positions on a transaction by transaction basis and tax positions taken, or expected to be taken in future filings, in accordance with Financial Accounting Standards Board Statement No. 5, "Accounting for Contingencies".

## **Note 2. Clearing Organizations**

The Company has an agreement with another securities broker and dealer to act as a clearing organization for the Company. The clearing organization clears all security transactions and maintains customer accounts. In addition, the clearing organization holds most of the Company's securities held for resale and investments.

## **Note 3. Related Party Transactions**

The Company has an office lease agreement with a company owned in part by the Company president. The office space is leased on a month-to-month basis. The total rent expense paid to the related party amounted to \$241,824 for the year ended December 31, 2008.

## **Note 4. Net Capital Requirement**

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1). Accordingly, the Company is required to maintain a minimum level of net capital (as defined) of \$250,000. At December 31, 2008, the Company had computed net capital of \$967,611, which was in excess of the required net capital level by \$717,611. In addition, the Company is not allowed to have a ratio of aggregate indebtedness to net capital (as defined) in excess of 15 to 1. At December 31, 2008, the Company's ratio of aggregate indebtedness to net capital was .07 to 1.

S U P P L E M E N T A R Y   I N F O R M A T I O N

**MARTIN NELSON & CO., INC.**

**SCHEDULE I**  
**COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1**  
December 31, 2008

**COMPUTATION OF NET CAPITAL**

Total stockholder's equity per the financial statements	\$ 1,446,557
Deductions:	
Furniture and equipment	76,620
Unsecured accounts receivable	25,286
Income tax receivable	42,260
Deferred tax asset	40,000
Prepaid expenses and other	7,139
	<hr/>
	191,305
Haircuts on securities:	
Money market funds	1,510
Municipal bonds	7,200
Equity securities	252,606
Undue concentration haircuts	26,325
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	287,641
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Total deductions and haircuts	478,946
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Net capital	967,611
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Minimum Net Capital	250,000
	<hr/>
Excess Net Capital	\$ 717,611
	<hr/> <hr/>

**COMPUTATION OF AGGREGATE INDEBTEDNESS**

Aggregate indebtedness	
Accounts payable and accrued expenses	\$ 72,392
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**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

Minimum net capital required (6 2/3% of total aggregate indebtedness or \$250,000, whichever is greater)	\$ 250,000
Percentage of aggregate indebtedness to net capital	7%
Ratio of aggregate indebtedness to net capital	.07 to 1

**MARTIN NELSON & CO., INC.**

**SCHEDULE II  
COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS  
UNDER RULE 15c3-3**

December 31, 2008

Credit balances	\$ -
Debit balances	<u>                    </u>
Excess total credits over debits	<u>\$ -</u>
Amount required to be on deposit (Excess credits over debits x 105%)	<u>\$ -</u>
Amount held on deposit in reserve bank accounts	<u>\$ 8,116</u>

**MARTIN NELSON & CO., INC.**

**SCHEDULE III**  
**SCHEDULES OF RECONCILIATIONS PURSUANT TO RULE 17a-5(d)(4)**  
**December 31, 2008**

**COMPUTATION FOR DETERMINATION OF RESERVE**  
**REQUIREMENTS UNDER RULE 15c3-3**

Excess of total credits over debits as reported by the Company	<u>\$ -</u>
Excess of total credits over debits, as audited	<u>\$ -</u>

**RECONCILIATION OF COMPUTATION OF NET CAPITAL**  
**UNDER RULE 15c3-1**

Net capital, per the broker's unaudited Focus Report, Part II A, and net capital as audited (there were no reconciling items)	<u>\$ 967,611</u>
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**MARTIN NELSON & CO., INC.**

**SCHEDULE IV  
INFORMATION FOR POSSESSION OR CONTROL REQUIREMENTS  
UNDER RULE 15c3-3  
December 31, 2008**

The market value and number of items of:

1. Customers' fully paid securities and excess margin securities not in the Company's possession or control as of the audit date (for which instructions to reduce to possession or control had been issued as of the audit date) but for which the required action was not taken by the Company within the time requirements specified under Rule 15c3-3.

NONE

Number of items

NONE

2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of the audit date, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3.

NONE

Number of items

NONE

**CERTIFIED PUBLIC ACCOUNTANTS**

601 UNION STREET, SUITE 2300

SEATTLE, WASHINGTON 98101

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL**  
**REQUIRED BY SEC RULE 17a-5(g)(1)**

To the Board of Directors  
Martin Nelson & Co., Inc.  
Seattle, Washington

In planning and performing our audit of the financial statements of Martin Nelson & Co., Inc. ("the Company"), as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States, 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, 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 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; and
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 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 Securities and Exchange Commission'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 accounting principles generally accepted in the United States. 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 Securities and Exchange Commission 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 were adequate at December 31, 2008, to meet the Securities and Exchange Commission's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission, the Financial Industry Regulatory Authority, 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.

*Peter S. Sallie*  
January 25, 2009

**MARTIN NELSON & CO., INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2008**

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**MAR 05 2009**

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