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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- 71

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/08 AND ENDING 12/31/08 MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

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

OFFICIAL USE ONLY FIRM I.D. NO.

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

One Skywalk, U.S. Bank Building

(No. and Street)

Spokane, WA 99201

(City)

(State)

(Zip Code)

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

Tom McDonald

509-624-3174

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Moss Adams LLP

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

601 West Riverside, Suite 1800

Spokane,

WA

99201

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED SEC Mail Processing Section MAR 13 2009 THOMSON REUTERS FEB 26 2009 Washington, DC 111

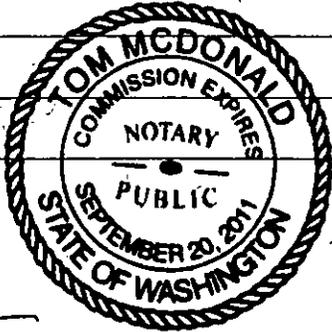
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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

AB 3/12

OATH OR AFFIRMATION

I, Steve Larson, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Richards, Merrill & Peterson, Inc., as of December 31, 20 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:



[Signature]
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 ~~Operations~~ ~~Income~~ ~~Loss~~ ~~Equity~~ ~~Capital~~ ~~Flows~~ Cash Flows
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- (O) Independent Auditor's Report on Internal Control

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial condition of Richards, Merrill & Peterson, Inc. as of December 31, 2008, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of Richards, Merrill & Peterson, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Richards, Merrill & Peterson, Inc. as of December 31, 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 of America.

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

Moss Adams LLP

Spokane, Washington
February 24, 2009

RICHARDS, MERRILL & PETERSON, INC.
STATEMENT OF FINANCIAL CONDITION

ASSETS

| | December 31, 2008 |
|---|----------------------|
| Cash | \$ 1,017,677 |
| Cash segregated under federal regulations | 109,569 |
| Receivable from broker dealers | 4,578 |
| Furniture and equipment, at cost, less accumulated depreciation of \$284,878 | 40,418 |
| Prepaid expenses | 31,446 |
| Federal income taxes receivable | 35,000 |
| | <hr/> |
| TOTAL ASSETS | \$ 1,238,688 |

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

| | |
|--|-----------|
| Payable to customers | \$ 91,144 |
| Accounts payable and accrued liabilities | 17,148 |
| Dividend and interest payable | 2,550 |
| Deferred income taxes, net | 6,558 |
| | <hr/> |
| Total liabilities | 117,400 |

STOCKHOLDERS' EQUITY

| | |
|--|---------------------|
| Common stock \$1 par value; 50,000 shares authorized; 1,021 shares issued and outstanding | 1,021 |
| Additional paid-in capital | 120,339 |
| Accumulated retained earnings | 999,928 |
| | <hr/> |
| Total equity | 1,121,288 |
| | <hr/> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 1,238,688 |

RICHARDS, MERRILL & PETERSON, INC.
STATEMENT OF INCOME

| | Year Ended December 31, 2008 |
|-------------------------------|------------------------------------|
| REVENUES | |
| Fee income | \$ 647,549 |
| Commission income | 2,287,078 |
| Trading gains | 816 |
| | <hr/> |
| | 2,935,443 |
| EXPENSES | |
| Commissions | 1,615,756 |
| Employee compensation | 552,066 |
| Service provider charges | 139,291 |
| Occupancy | 93,742 |
| Taxes other than income taxes | 48,315 |
| Communications | 66,539 |
| Sales expenses | 80,363 |
| Subscriptions | 29,719 |
| Professional services | 98,904 |
| Quotation services | 45,980 |
| Regulatory fees | 38,998 |
| Other operating expenses | 74,621 |
| | <hr/> |
| | 2,884,294 |
| | <hr/> |
| Income from operations | 51,149 |
| OTHER INCOME | |
| Interest and dividends earned | 8,497 |
| Other | 10,185 |
| | <hr/> |
| | 18,682 |
| | <hr/> |
| Income before income tax | 69,831 |
| Income tax expense | |
| Current | 22,702 |
| Deferred | (3,268) |
| | <hr/> |
| | 19,434 |
| | <hr/> |
| NET INCOME | \$ 50,397 |

See accompanying notes.

RICHARDS, MERRILL & PETERSON, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

| | Common Stock | Additional Paid-In Capital | Retained Earnings | Total |
|--------------------------------|-----------------|----------------------------------|----------------------|---------------------|
| Balance, December 31, 2007 | \$ 1,155 | \$ 136,133 | \$ 1,131,636 | \$ 1,268,924 |
| Net income | - | - | 50,397 | 50,397 |
| Dividends paid to shareholders | - | - | (50,950) | (50,950) |
| Stock repurchase | (134) | (15,794) | (131,155) | (147,083) |
| Balance, December 31, 2008 | <u>\$ 1,021</u> | <u>\$ 120,339</u> | <u>\$ 999,928</u> | <u>\$ 1,121,288</u> |

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

| | Year Ended December 31, 2008 |
|---|------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Net income | \$ 50,397 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Cash segregated under federal regulations | (18,271) |
| Depreciation | 26,152 |
| Change in assets and liabilities | |
| Receivable from customers | 5,258 |
| Other receivables | (4,578) |
| Other assets | (1,273) |
| Payable to customers | 23,690 |
| Accounts payable and accrued liabilities | (1,785) |
| Due to brokers | (107,952) |
| Dividends and interest payable | (3,163) |
| Federal income taxes receivable | (104,562) |
| Deferred federal income taxes | (3,268) |
| Net cash provided by operating activities | <u>(139,355)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of equipment | <u>(5,835)</u> |
| Net cash used by investing activities | <u>(5,835)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Stock repurchase | (147,083) |
| Dividends paid to shareholders | <u>(50,950)</u> |
| Net cash used by investing activities | <u>(198,033)</u> |
| NET CHANGE IN CASH | (343,223) |
| Cash, beginning of year | <u>1,360,900</u> |
| Cash, end of year | <u>\$ 1,017,677</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION | |
| Cash paid during the year for income taxes | <u>\$ 55,000</u> |

See accompanying notes.

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

Note 1 - Organization and Nature of Business

Richards, Merrill & Peterson, Inc. (the Company) is a registered broker/dealer engaged primarily in providing brokerage and investment advisory services to clients in Spokane, Washington, and the surrounding area.

The Company is incorporated in the state of Washington and is registered with the Securities and Exchange Commission (SEC). The Company is also a member of the Financial Industry Regulatory Authority (FINRA).

Note 2 - Significant Accounting Policies

Basis of accounting:

Customers' securities transactions are recorded on a settlement-date basis, generally three business days after trade date for municipal, corporate, and equity securities and one business day after trade date for U.S. government securities. Related commission income and expenses are recorded on a settlement date basis. As of December 31, 2008, and for the year then ended, the Company's financial condition and results of operations using the settlement date basis are not materially different from recording transactions on a trade date basis.

Cash and cash equivalents:

For the purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks.

Depreciation:

Furniture and equipment are stated at cost, less accumulated depreciation. Depreciation is computed by straight-line and accelerated methods over estimated useful lives of 5 to 7 years. Depreciation expense for the year ended December 31, 2008, was \$26,152.

Paid time off:

Employees are entitled to paid vacation, sick, and personal days off depending on job classification, length of service, and other factors. These benefits do not carry over and must be used by year end. Accordingly, no provision for such benefits is appropriate in the accompanying financial statements.

Accounting 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.

Commissions:

Commissions and related clearing expenses are recorded on a settlement date basis as securities transactions occur.

Note 2 - Significant Accounting Policies (Continued)

Investment advisory income:

Investment advisory fees are billed on a quarterly basis at the beginning of each quarter.

Income taxes:

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. SFAS No. 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax return. In estimating future tax consequences, SFAS No. 109 generally considers all expected future events other than enactments of changes in the tax law or rates.

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

Pursuant to Financial Staff Position (FSP) Interpretation (FIN) 48-3, management has elected to defer the application of FIN No. 48, *Accounting for Uncertainty in Income Taxes*, to fiscal years beginning after December 15, 2008.

For the December 31, 2008, financial statements, the Company has accounted for uncertain tax positions in accordance with SFAS No. 5, *Accounting for Contingencies*, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and was reasonably estimable. As of December 31, 2008, the Company had no accrual.

Note 3 - Net Capital Requirement

The Company is subject to the Securities and Exchange Commission's uniform net capital rule (Rule 15c3-1), which requires the maintenance of minimum net capital of \$250,000. The SEC also requires the ratio of aggregate indebtedness to net capital shall not exceed 1,500% (15 to 1). At December 31, 2008, the Company had net capital of \$1,014,425, which was \$764,425, in excess of its total Rule 15c3-1 required net capital of \$250,000. The Company's ratio of aggregate indebtedness to net capital was 0.017 to 1.

The Company is also subject to the Depository Trust Company and the National Securities Clearing Corporation \$500,000 capital requirement. At December 31, 2008, the Company exceeded this requirement by \$514,425.

Note 4 - Cash Segregated Under Federal Regulations

Under Rule 15c3-3 of the Securities and Exchange Commission, cash of \$109,569 has been segregated in a special reserve bank account for the benefit of customers.

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

Note 5 - Receivable From and Payable to Broker-Dealers and Clearing Organizations

Accounts receivable from and payable to broker-dealers and clearing organizations at December 31, 2008, consist of the following:

| | <u>Receivable</u> | <u>Payable</u> |
|---|-------------------|----------------|
| Receivable from broker-dealers and clearing | \$ 4,578 | \$ - |

Note 6 - Securities Owned

The Company did not own any securities at December 31, 2008.

Note 7 - Line of Credit

The Company has available a \$ 1,000,000 unsecured line of credit from a bank. Borrowings bear interest at the bank's prime rate, which averaged 5.09% for 2008. The agreement expires March 31, 2009. No borrowings were outstanding at December 31, 2008.

Note 8 - Defined Contribution 401(k) Plan

The Company sponsors a defined contribution 401(k) plan that covers all employees who regularly work 1,000 hours or more per year. Employees may contribute up to 100% of eligible compensation up to a federally mandated maximum. Employer contributions are discretionary with a minimum contribution of 4% of participants' compensation. For the year ended December 31, 2008, the Company contributed \$57,426.

Note 9 - Concentration of Credit Risk

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

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

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

Note 10 - Lease Agreement

The Company is leasing office space on a month-to-month basis. Monthly rental expense at year end was \$6,621. Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2008, pertaining to premises and equipment, future minimum rent commitments under various operating leases are as follows (in thousands):

| | |
|-------------------------------------|---------------------|
| Years Ended December 31, | |
| 2009 | \$ 2,880 |
| 2010 | 2,880 |
| 2011 | <u>480</u> |
| TOTAL MINIMUM PAYMENTS REQUIRED | <u>\$ 6,240</u> |

Note 11 - Income Taxes

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

The components of income tax expense consist of the following at December 31, 2008:

| | |
|------------------------|----------------------|
| Current tax expense | \$ 22,702 |
| Deferred tax benefit | <u>(3,268)</u> |
| INCOME TAX EXPENSE | <u>\$ 19,434</u> |

The deferred tax liability at December 31, 2008, relates to differences between book and tax depreciation. The components of the net deferred income tax liability in the statement of financial condition are as follows:

| | |
|-------------------------|-----------------|
| Deferred tax liability: | |
| Depreciation | <u>\$ 6,558</u> |

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

Note 11 - Income Taxes (Continued)

The effective tax rate differs from the statutory federal rate at December 31, 2008, presented as follows:

| | |
|---------------------------------------|----------------------|
| Federal income tax at statutory rates | \$ 23,743 |
| Effect of permanent differences | 3,749 |
| Effect of lower brackets | (11,750) |
| Other | <u>3,692</u> |
| INCOME TAX EXPENSE | <u>\$ 19,434</u> |

SUPPLEMENTAL INFORMATION

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

| | December 31, 2008 |
|---|----------------------|
| NET CAPITAL | |
| Total stockholders' equity | \$ 1,121,288 |
| Deduct nonallowable assets | 106,863 |
| NET CAPITAL | \$ 1,014,425 |
| AGGREGATE INDEBTEDNESS | |
| Total liabilities | \$ 117,400 |
| Deduct deferred federal income tax | 6,558 |
| Deduct adjustments based upon deposit in Special Reserve Bank Account | 93,619 |
| TOTAL AGGREGATE INDEBTEDNESS | \$ 17,223 |
| COMPUTATION OF BASIC NET CAPITAL REQUIREMENT | |
| Net capital | \$ 1,014,425 |
| Minimum net capital required | 250,000 |
| CAPITAL IN EXCESS OF MINIMUM REQUIREMENT | \$ 764,425 |
| RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL | 1.70% |

The computation of net capital pursuant to SEC Rule 15c3-1 as of December 31, 2008, computed by the Company in its Form X-17A-5, Part IIA, does not differ materially from the above computation, which is based on the audited financial statements.

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

RICHARDS, MERRILL & PETERSON, INC.
SCHEDULE II - COMPUTATION OF RESERVE REQUIREMENTS UNDER
SEC RULE 15c3-3

CREDIT BALANCES

| | |
|--|--------------|
| Free credit balances and other credit balances in customers' security accounts | \$ 91,144 |
| Dividend and interest payable | <u>2,550</u> |

| | |
|---------------|------------------|
| TOTAL CREDITS | <u>\$ 93,694</u> |
|---------------|------------------|

DEBIT BALANCES

| | |
|--|----------|
| Debit balances in customers' cash accounts excluding unsecured accounts and accounts doubtful of collection | - |
| Failed to deliver customer securities no older than 30 days (including debit balances in continuous net settlement accounts) | 4,578 |
| Other | <u>-</u> |

| | |
|--|-----------------|
| | <u>\$ 4,578</u> |
|--|-----------------|

RESERVE COMPUTATION

| | |
|---|------------------|
| Excess of total credits over total debits | <u>\$ 89,116</u> |
|---|------------------|

| | |
|---|------------------|
| 105% of credit balances in excess of debit balances | <u>\$ 93,572</u> |
|---|------------------|

| | |
|------------------|-------------|
| Required deposit | <u>\$ -</u> |
|------------------|-------------|

| | |
|------------------------------------|-------------------|
| NET AMOUNT IN RESERVE BANK ACCOUNT | <u>\$ 109,569</u> |
|------------------------------------|-------------------|

The computation of reserve requirements pursuant to SEC Rule 15c3-3 as of December 31, 2008, computed by the Company in its Form X-17A-5, Part IIA, does not differ materially from the above computation, which is based on the audited financial statements.

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

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

Amount None

Number of items None

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

Amount None

Number of items None

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

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

In planning and performing our audit of Richards, Merrill & Peterson, Inc. for the year ended December 31, 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 Richards, Merrill, and Peterson, Inc.'s financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in the following:

1. Making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3-3(e);
2. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by rule 17a-13;
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System; 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 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 accounting principles generally accepted in the United States of America. 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 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 accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements, which 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 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 the Company's practices and procedures were adequate at December 31, 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, National Association of Securities Dealers, Inc., and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be, and should not be used by anyone other than these specified parties.

Mass Adams LLP

Spokane, Washington
February 24, 2009

END