

na  
2/28

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

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	April 30, 2013
Estimated average burden hours per response.....	12.00



12011216

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

SEC  
Mail Processing  
Section

SEC FILE NUMBER
8- 51851

FEB 21 2012

AB  
3/19

FACING PAGE

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

Washington, DC  
123

REPORT FOR THE PERIOD BEGINNING January 1, 2011 AND ENDING December 31, 2011  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Stonebridge Securities, LLC  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
16541 Redmond Way, Suite 290C

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street)		
<u>Redmond</u>	<u>Washington</u>	<u>98052</u>
(City)	(State)	(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Michael Hendrickson (206) 770-9700  
(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)

<u>9221 Corbin Avenue, Suite 170</u>	<u>Northridge</u>	<u>California</u>	<u>91324</u>
(Address)	(City)	(State)	(Zip Code)

CHECK ONE:

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

FOR OFFICIAL USE ONLY

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

na  
2/28

OATH OR AFFIRMATION

I, Michael Hendrickson, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Stonebridge Securities, LLC, as of December 31, 20 11, 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:

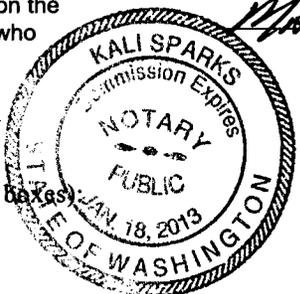
State of WASHINGTON  
County of KING

Subscribed and sworn to (or affirmed) before me on this 23 day of JANUARY, 2012 by MICHAEL HENDRICKSON proved to me on the basis of satisfactory evidences to be the person who appeared before me.

Michael Hendrickson  
Signature

Managing Principal  
Title

Kali Sparks  
Notary Public



- This report \*\* contains (check all applicable boxes):
- (a) Facing Page.
  - (b) Statement of Financial Condition.
  - (c) Statement of Income (Loss).
  - (d) Statement of Changes in Financial Condition.
  - (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
  - (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
  - (g) Computation of Net Capital.
  - (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
  - (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
  - (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
  - (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
  - (l) An Oath or Affirmation.
  - (m) A copy of the SIPC Supplemental Report.
  - (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

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

**SEC**  
Mail Processing  
Section

FEB 21 2012

Washington, DC  
**123**

**Stonebridge Securities, LLC**  
**Report Pursuant to Rule 17a-5 (d)**  
**Financial Statements**  
**For the Year Ended December 31, 2011**



**BREARD & ASSOCIATES, INC.**  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report**

Board of Directors  
Stonebridge Securities, LLC :

We have audited the accompanying statement of financial condition of Stonebridge Securities, LLC (the Company) as of December 31, 2011, and the related statements of operations, changes in member's equity, changes in liabilities subordinated to claims of general creditors, 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 Stonebridge Securities, LLC as of December 31, 2011, 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.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 7 to the financial statements, the Company has suffered losses from operations and minimal revenue which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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, and III 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

Breard & Associates, Inc.  
Certified Public Accountants

Seattle, Washington  
February 16, 2012

9221 Corbin Avenue, Suite 170, Northridge, California 91324  
phone 818.886.0940 fax 818.886.1924 web www.baicpa.com

LOS ANGELES NEW YORK OAKLAND SEATTLE

**WE FOCUS & CARE**

**Stonebridge Securities, LLC**  
**Statement of Financial Condition**  
**December 31, 2011**

**Assets**

Cash and cash equivalents	\$ 16,129
Marketable securities, at market	3,335
Property and equipment, net	<u>1,292</u>
<b>Total assets</b>	<b><u>\$ 20,756</u></b>

**Liabilities and Member's Equity**

**Liabilities**

Accounts payable and accrued expenses	<u>\$ 2,025</u>
<b>Total liabilities</b>	<b>2,025</b>

Commitments and contingencies

**Member's equity**

Member's equity	<u>18,731</u>
<b>Total member's equity</b>	<b><u>18,731</u></b>
<b>Total liabilities and member's equity</b>	<b><u>\$ 20,756</u></b>

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

**Stonebridge Securities, LLC**  
**Statement of Operations**  
**For the Year Ended December 31, 2011**

**Revenues**

Interest and dividend income	\$ 47
Net investment gains (losses)	<u>76</u>
<b>Total revenues</b>	<b>123</b>

**Expenses**

Professional fees	4,000
Other operating expenses	<u>3,980</u>
<b>Total expenses</b>	<u>7,980</u>
<b>Net income (loss)</b>	<b><u>\$ (7,857)</u></b>

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

**Stonebridge Securities, LLC**  
**Statement of Changes in Member's Equity**  
**For the Year Ended December 31, 2011**

	<u>Member's Equity</u>
<b>Balance at December 31, 2010</b>	\$ 18,588
Member's contributions	8,000
Net income (loss)	<u>(7,857)</u>
<b>Balance at December 31, 2011</b>	<u>\$ 18,731</u>

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

**Stonebridge Securities, LLC**  
**Statement of Changes in Liabilities Subordinated**  
**to the Claims of General Creditors**  
**For the Year Ended December 31, 2011**

	<b>Amount</b>
<b>Balance at December 31, 2010</b>	<b>\$ -</b>
Increase:	
Issuance of subordinated notes	-
Accrual of interest	-
Decrease:	
Payment of subordinated notes	-
Payment of interest	-
 <b>Balance at December 31, 2011</b>	 <b><u><u>\$ -</u></u></b>

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

**Stonebridge Securities, LLC**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2011**

<b>Cash flow from operating activities:</b>		
Net income (loss)		\$ (7,857)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	\$ 844	
(Increase) decrease in assets:		
Marketable securities, at market	7,191	
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	<u>(14)</u>	
Total adjustments		<u>8,021</u>
<b>Net cash and cash equivalents provided by (used in) operating activities</b>		<b>164</b>
<b>Net cash and cash equivalents provided by (used in) investing activities</b>		<b>-</b>
<b>Cash flow from financing activities:</b>		
Member's contributions	<u>8,000</u>	
<b>Net cash and cash equivalents provided by (used in) financing activities</b>		<u><b>8,000</b></u>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>8,164</b>
<b>Cash and cash equivalents at beginning of year</b>		<u><b>7,965</b></u>
<b>Cash and cash equivalents at end of year</b>		<u><u><b>\$ 16,129</b></u></u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the year for:		
Interest	\$ -	
Income taxes	\$ -	

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

**Stonebridge Securities, LLC**  
**Notes to Financial Statements**  
**December 31, 2011**

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

*General*

Stonebridge Securities, LLC (the "Company"), a Washington limited liability company, was organized on March 19, 1999, under the name of Base Capital Securities, L.L.C. The Company operates as a registered broker/dealer in securities under the provisions of the Securities and Exchange Act of 1934. The Company is a member of the Financial Industry Regulatory Authority ("FINRA").

The Company's services include raising capital for customers through the private placement process by placing securities with accredited investors, providing fee based financial structuring and consulting, and providing mutual funds and variable annuities to customers.

Under its membership agreement with FINRA and pursuant to Rule 15c3-3(k)(1), the Company conducts business on a fully disclosed basis and does not execute or clear securities transactions for customers. Accordingly, the Company is exempt from the requirement of Rule 15c3-3 under the Securities Exchange Act of 1934 pertaining to the possession or control of customer assets and reserve requirements.

*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 and 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.

For purposes relating to the statement of cash flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than three months, that are not held for sale in the ordinary course of business.

The Company receives fees in accordance with terms stipulated in its engagement contracts. Fees are recognized as earned. The Company also receives success fees when transactions are completed. Success fees are recognized when earned, the Company has no further continuing obligations, and collection is reasonably assured.

**Stonebridge Securities, LLC**  
**Notes to Financial Statements**  
**December 31, 2011**

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

The Company has adopted FASB ASC 320, Investments — Debt and Equity Securities. As such, marketable securities held by the Company are classified as trading securities and stated at their fair market value based on quoted market prices. Realized gains or losses from the sale of marketable securities are computed based on specific identification of historical cost. Unrealized gains or losses on marketable securities are computed based on specific identification of recorded cost, with the change in fair value during the period included in income.

Property 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.

The Company is treated as a disregarded entity for federal income tax purposes, in accordance with single member limited liability company rules. All tax effects of the Company's income or loss are passed through to the member. Therefore, no provision or liability for Federal Income Taxes is included in these financial statements.

The Company has evaluated events subsequent to the balance sheet date for items requiring recording or disclosure in the financial statements. The evaluation was performed through February 16, 2012, which is the date the financial statements were available to be issued. Based upon this review, the Company has determined that there were no events which took place that would have a material impact on its financial statements.

**Note 2: MARKETABLE SECURITIES, AT MARKET**

Marketable securities, at market consist of mutual funds. As discussed in Note 1, marketable securities held by the Company are classified as trading securities and stated at their fair market value based on quoted market prices. At December 31, 2011, these securities are carried at their fair market value of \$3,335. The accounting for the mark-to-market on proprietary account is included in the Statement of Operations as net investment gains of \$76.

**Stonebridge Securities, LLC**  
**Notes to Financial Statements**  
**December 31, 2011**

**Note 3: PROPERTY AND EQUIPMENT, NET**

Property and equipment are recorded net of accumulated depreciation and summarized by major classification as follows:

		Useful Life
Equipment	\$ 13,257	5
Computer	3,586	5
Office furniture	3,432	6-10
Total cost of property and equipment	20,275	
Less: accumulated depreciation	(18,983)	
Property and equipment, net	\$ 1,292	

Depreciation expense for the year ended December 31, 2011 was \$844.

**Note 4: INCOME TAXES**

As discussed in Note 1, the Company is disregarded for federal income tax purposes, therefore the tax effects of the Company's income or loss are passed through to the member. However, the Company is subject to the State of Washington business and occupation tax based upon gross receipts.

**Note 5: FAIR VALUE MEASUREMENT - ACCOUNTING PRONOUNCEMENT**

On January 1, 2009, the Company adopted FASB ASC 820, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income, or cost approach, as specified by FASB ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

**Stonebridge Securities, LLC**  
**Notes to Financial Statements**  
**December 31, 2011**

**Note 5: FAIR VALUE MEASUREMENT - ACCOUNTING PRONOUNCEMENT**  
**(Continued)**

Level 1 - Quoted prices in an active market for identical assets or liabilities;

Level 2 - Observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model derived prices whose inputs are observable or whose significant value drivers are observable;

Level 3 - Assets and liabilities whose significant value drivers are unobservable.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2011:

<b>Assets</b>	<b><u>Fair Value</u></b>	<b><u>Level 1 Inputs</u></b>	<b><u>Level 2 Inputs</u></b>	<b><u>Level 3 Inputs</u></b>
Marketable securities,	\$ 3,335	\$ 3,335	\$ -	\$ -
<b>Total</b>	<b><u>\$ 3,335</u></b>	<b><u>\$ 3,335</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
<b>Liabilities</b>	<b><u>Fair Value</u></b>	<b><u>Level 1 Inputs</u></b>	<b><u>Level 2 Inputs</u></b>	<b><u>Level 3 Inputs</u></b>
Liabilities	\$ -	\$ -	\$ -	\$ -
<b>Total</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

**Note 6: CONCENTRATIONS OF CREDIT RISK**

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

**Stonebridge Securities, LLC**  
**Notes to Financial Statements**  
**December 31, 2011**

**Note 7: COMMITMENTS AND CONTINGENCIES**

*Going-Concern*

The Company had little activity for the year ended December 31, 2011. This inactivity has resulted in substantial operating losses which bring into question the Company's ability to continue as a going concern. To provide needed liquidity, the sole member will continue to capitalize the Company to fund its continuing operations. Additionally, Management has signed multiple contracts to extend the viability of the Company.

**Note 8: RECENTLY ISSUED ACCOUNTING STANDARDS**

In June of 2009, the Financial Accounting Standards Board (the "FASB") implemented a major restructuring of U.S. accounting and reporting standards. This restructuring established the Accounting Standards Codification ("Codification" or "ASC") as the source of authoritative accounting principles ("GAAP") recognized by the FASB. The principles embodied in the Codification are to be applied by nongovernmental entities in the preparation of financial statements in accordance with generally accepted accounting principles in the United States. New accounting pronouncements are incorporated into the ASC through the issuance of Accounting Standards Updates ("ASUs")

For the year ending December 31, 2011, various ASUs issued by the FASB were either newly issued or had effective implementation dates that would require their provisions to be reflected in the financial statements for the year then ended. The Company has reviewed the following ASU releases to determine relevance to the Company's operations:

<u>ASU No.</u>	<u>Title</u>	<u>Effective Date</u>
2010-29	Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (December 2010).	After December 15, 2010
2011-04	Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IRFSs (May 2011).	After December 15, 2011

**Stonebridge Securities, LLC**  
**Notes to Financial Statements**  
**December 31, 2011**

**Note 8: RECENTLY ISSUED ACCOUNTING STANDARDS**

**(Continued)**

2011-05	Comprehensive Income (Topic 220): Presentation of Comprehensive Income (June 2011).	After December 15, 2011
2011-08	Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment (September 2011).	After December 15, 2011

The Company has either evaluated or is currently evaluating the implications, if any, of each of these pronouncements and the possible impact they may have on the Company's financial statements. In most cases, management has determined that the pronouncement has either limited or no application to the company and, in all cases, implementation would not have a material impact on the financial statements taken as a whole.

**Note 9: NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC 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. Rule 15c3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. Net capital and aggregate indebtedness change day to day, but on December 31, 2011, the Company had net capital of \$16,959 which was \$11,959 in excess of its required net capital of \$5,000; and the Company's ratio of aggregate indebtedness (\$2,025) to net capital was 0.12 to 1, which is less than the 15 to 1 maximum allowed.

**Stonebridge Securities, LLC**  
**Schedule I - Computation of Net Capital Requirements**  
**Pursuant to Rule 15c3-1**  
**As of December 31, 2011**

**Computation of net capital**

Member's equity	\$ 18,731	
		<u>18,731</u>
<b>Total member's equity</b>		<b>\$ 18,731</b>
Less: Non-allowable assets		
Property and equipment, net	(1,292)	
		<u>(1,292)</u>
<b>Total non-allowable assets</b>		<b>(1,292)</b>
		 17,439
<b>Net capital before haircuts</b>		<b>17,439</b>
Less: Haircuts on securities		
Haircut on mutual funds	(300)	
Haircut on money markets	(180)	
		<u>(480)</u>
<b>Total haircuts on securities</b>		<b>(480)</b>
		 16,959
<b>Net Capital</b>		<b>16,959</b>
<b>Computation of net capital requirements</b>		
Minimum net capital requirements		
6 2/3 percent of net aggregate indebtedness	\$ 135	
Minimum dollar net capital required	\$ 5,000	
		<u>5,000</u>
Net capital required (greater of above)		<u>(5,000)</u>
<b>Excess net capital</b>		<b>\$ <u>11,959</u></b>
Ratio of aggregate indebtedness to net capital	0.12 : 1	

There was no material difference between net capital computation shown here and the net capital computation shown on the Company's unaudited Form X-17A-5 report dated December 31, 2011.

*See independent auditor's report*

**Stonebridge Securities, LLC**  
**Schedule II - Computation for Determining of Reserve**  
**Requirements Pursuant to Rule 15c3-3**  
**As of December 31, 2011**

A computation of reserve requirements is not applicable to Stonebridge Securities, LLC as the Company qualifies for exemption under Rule 15c3-3(k)(1).

*See independent auditor's report*

**Stonebridge Securities, LLC**  
**Schedule III - Information Relating to Possession or Control**  
**Requirements Pursuant to Rule 15c3-3**  
**As of December 31, 2011**

Information relating to possession or control requirements is not applicable to Stonebridge Securities, LLC as the Company qualifies for exemption under Rule 15c3-3(k)(1).

*See independent auditor's report*

**Stonebridge Securities, LLC**  
**Supplementary Accountant's Report**  
**on Internal Accounting Control**  
**Report Pursuant to 17a-5**  
**For the Year Ended December 31, 2011**



**BREARD & ASSOCIATES, INC.**  
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors

Stonebridge Securities, LLC :

In planning and performing our audit of the financial statements of Stonebridge Securities, LLC (the Company), as of and for the year ended December 31, 2011, 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 the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

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

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

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

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities 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, 2011, 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.

Certified Public Accountants

Seattle, Washington

February 16, 2012