

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 January 1, 2007 AND ENDING December 31, 2007
MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER Falcon Research, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do not use P O Box No)
33 N. Garden Avenue, Suite 770

(No. and Street)

Clearwater

FL

33755

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Kimberly Schuster (650) 688-3100

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Breard & Associates, Inc. Certified Public Accountants

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

9221 Corbin Avenue, Suite 170

Northridge

CA

91324

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

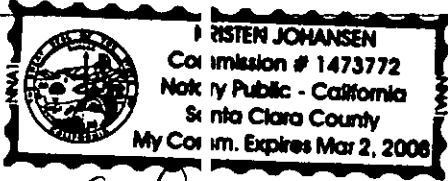
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THOMSON FINANCIAL

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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)

THA
3/24

I, Kimberly A. Schuster, swear (or affirm) that, to the best of my knowledge and belief of the accompanying financial statement and supporting schedules pertaining to the firm of Falcon Research, Inc., as of December 31, 2007, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows



[Signature]
Notary Public

Kimberly A. Schuster
Signature
CFO
Title

This report ** contains (check all applicable boxes)

- (a) Facing Page
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss)
- (d) Statement of Changes in Cash Flows
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors
- (g) Computation of Net Capital
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 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 IIPC 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)

Independent Auditor's Report

Board of Directors
Falcon Research, Inc.:

We have audited the accompanying statement of financial condition of Falcon Research, Inc. (the Company) as of December 31, 2007, and the related statements of operations, changes in stockholder's equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Falcon Research, Inc. as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 9 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 9. 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 whole.



Breard & Associates, Inc.
Certified Public Accountants

Northridge, California
January 29, 2008

We Focus & CareSM

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Assets	
Cash	\$ 1,339
Deposit with clearing organization	96,218
Receivable from clearing organization	37,000
Marketable securities, at market value	11,430
Receivable from related parties	17,171
Furniture, equipment, and leasehold improvements, net	<u>8,714</u>
Total assets	<u>\$ 171,872</u>
Liabilities and Stockholder's Equity	
Liabilities	
Accounts payable and accrued expenses	<u>\$ 42,331</u>
Total liabilities	42,331
Stockholder's equity	
Common stock, no par value, 500,000 shares authorized, 83,113 shares issued and outstanding	261,139
Additional paid-in capital	130,300
Accumulated deficit	<u>(261,898)</u>
Total stockholder's equity	<u>129,541</u>
Total liabilities and stockholder's equity	<u>\$ 171,872</u>

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

Revenues

Commissions	\$ 527,167
Management fees	20,169
Net dealer inventory and investment gains (losses)	(13,013)
Other income	<u>80,721</u>

Total revenue 615,044

Expenses

Employee compensation and benefits	348,024
Commissions, clearing fees and floor brokerage	147,253
Professional fees	50,074
Occupancy & equipment rental	86,883
Interest expense	3,951
Other operating expenses	<u>187,817</u>

Total expenses 824,002

Net income (loss) before income tax provision (208,958)

Income tax provision 800

Net income (loss) \$ (209,758)

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

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>(Accumulated Deficit)</u>	<u>Total</u>
Balance at December 31, 2006	\$ 261,139	-	\$ (44,640)	\$ 216,499
Capital contributions	-	130,300	-	130,300
Capital distributions	-	-	(7,500)	(7,500)
Net income (loss)	<u>-</u>	<u>-</u>	<u>(209,758)</u>	<u>(209,758)</u>
Balance at December 31, 2007	<u>\$ 261,139</u>	<u>\$ 130,300</u>	<u>\$ (261,898)</u>	<u>\$ 129,541</u>

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

Cash flows from operating activities:

Net income (loss)		\$ (209,758)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	\$ 14,487	
(Increase) decrease in:		
Deposit with clearing organization	(1,987)	
Receivable from broker and dealer	60,058	
Marketable securities, at market value	9,125	
Deposits	1,252	
(Decrease) increase in:		
Accounts payable and accrued expense		3,885
Payable to clearing organization	<u>(16,368)</u>	
Total adjustments		<u>70,452</u>
Net cash provided by (used in) operating activities		(139,306)

Cash flows from investing activities:

Purchase of furniture & equipment	<u>(545)</u>	
Net cash provided by (used in) investing activities		(545)

Cash flows from financing activities:

Proceeds from capital infusion	130,300	
Capital distributions	<u>(7,500)</u>	
Net cash provided by (used in) investing activities		<u>122,800</u>

Net increase (decrease) in cash (17,051)

Cash at beginning of year 18,390

Cash at end of year \$ 1,339

Supplemental disclosure of cash flow information:

Cash paid during the year for:

Interest	\$ 3,951
Income taxes	\$ 800

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

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

Falcon Research, Inc. (the "Company") was incorporated in the State of California on November 8, 1983. The Company is a registered broker-dealer in securities under the Securities and Exchange Act of 1934, a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investors Protection Corporation ("SIPC").

The Company does not hold customer funds or securities and conducts business on a fully disclosed basis, whereby all transactions are cleared by another broker/dealer.

The Company primarily earns commissions through the sale of equities. The Company also provides investment banking services by engagement and trades securities for its own account.

In the latter part of 2004, the Company elected to move its Office of Supervisory Jurisdiction to Clearwater, Florida. The move occurred in January 2005. In order to register the Company to conduct business in the state of Florida, the Company was required to register a new corporation name, Falcon Research of Tampa Bay, Inc., and then file to operate in Florida under the name Falcon Research Inc.

In the normal course of business, the Company's customer activities involve the execution and settlement of various customers securities and financial instrument transactions. These activities may expose the Company to off-balance-sheet credit risk in the event the customer is unable to fulfill its contractual obligations.

On September 7, 2007, the FINRA granted the membership application of the Company with regard to the Membership Agreement Change reducing the minimum net capital requirement from \$100,000 to \$5,000.

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.

Commissions receivable are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial.

Securities transactions are recorded on a trade date basis for both the Company's customers and the Company. Marketable securities owned by the Company are accounted for at market value, with market value based on current published market prices. The resulting difference between cost and market (or fair value) is included in income.

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

Other income includes interest, dividend, and rent income earned from subleasing a portion of the Company's of ice space in Florida.

Furniture, equipment, and leasehold improvements 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. Property and equipment are depreciated over their estimated useful lives of five (5) years by the straight-line method.

The Company, with the consent of its Stockholder, has elected to be an S Corporation and, accordingly, has its income taxed under Sections 1361-1379 of the Internal Revenue Code. Subchapter S of the Code provides that the Stockholder, rather than the Company, is subject to tax on the Company's taxable income. Therefore, no provision or liability for Federal Income Taxes is included in these financial statements. The State of California has similar regulations, although there exists a provision for a minimum Franchise Tax and a tax rate of 1.5% over the minimum Franchise Fee of \$800.

The Company has elected to report the statement of changes in stockholder's equity without disclosing the accumulated adjustment account and other equity accounts pertinent to an S Corporation. There is no financial impact to these financial statements.

Note 2: DEPOSITS WITH CLEARING ORGANIZATION

The Company has a brokerage agreement with Penson Financial Services, Inc. ("Clearing Broker") to carry its account and the accounts of its customers as customers of the Clearing Broker. The Clearing Broker has custody of the Company's cash balances which serve as collateral for any amounts due to the Clearing Broker as well as collateral for securities sold short or securities purchased on margin. Interest is paid monthly on these cash deposits at the average overnight repurchase rate. The balance at December 31, 2007, includes interest earned for a deposit total of \$96,218.

Note 3: MARKETABLE SECURITIES, AT MARKET

Marketable securities, at market value consist of corporate stocks. At December 31, 2007, the stocks are recorded at their fair market value of \$11,430. The accounting for the mark-to-market on the proprietary trading is included in net dealer inventory and investment gains (losses) account as net unrealized losses of \$2,195, and net realized losses of \$10,818.

Note 4: FURNITURE, EQUIPMENT AND LEASEHOLDS, NET

Furniture, equipment and leaseholds are recorded at cost and summarized by major classifications as follows:

		<u>Depreciable Life Years</u>
Furniture & equipment	\$ 193,274	5
Leasehold improvements	<u>5,917</u>	5
	199,191	
Less: accumulated depreciation	<u>(190,477)</u>	
Furniture, equipment and leaseholds, net	<u>\$ 8,714</u>	

Depreciation expense for the year ended December 31, 2007 was \$14,487.

Note 5: INCOME TAXES

As discussed in the Summary of Significant Accounting Policies (Note 1), the Company has elected the S Corporate tax status, therefore no federal income tax provision is provided. The tax provision provided is the California franchise tax minimum of \$800.

Note 6: RELATED PARTY TRANSACTIONS

The Company shares office space, services and common personnel with Feshbach Investment, LLC, an affiliate through common ownership. There is no allocation of expenses for rent, equipment and certain common personnel services in the Company's main office.

Periodic short-term advances are also made to and from Feshbach Investment, LLC and employees. As of December 31, 2007, \$17,171 was due from the related parties.

Note 7: OCCUPANCY AND EQUIPMENT RENTAL

The Company leases its office space and certain equipments under operating lease expiring at various dates through the year 2007. As of December 31, 2007 the Company incurred \$86,883 in rent and lease expense.

Note 8: 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.

Note 9: CONTINGENCIES*Contingencies*

The Company maintains bank accounts at a financial institution. These accounts are insured by the Federal Deposit Insurance Commission ("FDIC"), up to \$100,000. At times during the year ended December 31, 2007, cash balances held in this financial institution were in excess of the FDIC's insured limits. The Company has not experienced any losses in such accounts and management believes that it has placed its cash on deposit with a financial institution which is financially stable.

Going Concern

The Company had little revenue, as compared to operating expenses, for the year ended December 31, 2007. The lack of business activities has resulted in recurring operating loss. Management has a plan to be more of a going concern. The Company is continuing its marketing efforts and has increased the number of contracted engagements during this fiscal year. Regarding liquidity, the sole shareholder will continue to capitalize the Company to fund its continuing operations.

Note 10: RECENTLY ISSUED ACCOUNTING STANDARDS*Accounting for Certain Hybrid Financial Instruments*

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

Note 10: RECENTLY ISSUED ACCOUNTING STANDARDS**(Continued)***Accounting for Uncertainty in Income Taxes*

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

Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SAS 157"), "Fair Value Measurements". The statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements.

This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those pronouncements that fair value is a relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of this statement, but does not expect the pronouncement will have a material impact upon the Company's financial statements.

Retirement Plans

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

Note 10: RECENTLY ISSUED ACCOUNTING STANDARDS
(Continued)

Fair Value Option

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

Note 11: 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. Net capital and aggregate indebtedness change day to day, but on December 31, 2007, the Company had net capital of \$101,741, which was \$ 96,741 in excess of its required net capital of \$ 5,000; and the Company's ratio of aggregate indebtedness (\$42,331) to net capital was 0.42 to 1, which is less than the 15 to 1 maximum ratio allowed of a broker/dealer.

Computation of net capital

Stockholder's equity

Common stock	\$ 261,139
Additonal paid-in capital	130,300
Accumulated deficit	<u>(261,898)</u>

Total stockholder's equity \$ 129,541

Less: Non-allowable assets

Receivable from related parties	(17,171)
Furniture, equipment & leasehold improvements, net	(8,714)
Petty cash	<u>(200)</u>
Total adjustments	<u>(26,085)</u>

Net capital before haircuts 103,456

Less: Adjustments to net capital

Haircut on securities	<u>(1,715)</u>
Total adjustments to net capital	<u>(1,715)</u>

Net capital 101,741

Computation of net capital requirements

Minimum net capital requirements

6 2/3 percent of net aggregate indebtedness	\$ 2,822
Minimum dollar net capital required	<u>5,000</u>
Net capital required (greater of above)	<u>5,000</u>

Excess net capital \$ 96,741

Ratio of aggregate indebtedness to net capital 0.42: 1

There was a \$2 rounding difference between net capital shown here and net capital as reported on the Company's unaudited Form X-17A-5 report dated December 31, 2007.

See independent auditor's report.

**Requirements Pursuant to Rule 15c3-3
As of December 31, 2007**

A computation of reserve requirements is not applicable to Falcon Research, Inc. as the Company qualifies for exemption under Rule 15c3-3(k)(2)(ii).

See independent auditor's report.

**Requirements Under Rule 15c3-3
As of December 31, 2007**

Information relating to possession or control requirements is not applicable to Falcon Research, Inc. as the Company qualifies for exemption under Rule 15c3-3(k)(2)(ii).

See independent auditor's report.

Falcon Research, Inc.
Supplementary Accountant's Report
on Internal Accounting Control
Report Pursuant to 17a-5
For the Year Ended December 31, 2007

In planning and performing our audit of the financial statements of Falcon Research, Inc. (the Company), as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our 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 11 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, 2007, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, Financial Industry Regulatory Authority, and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Breard & Associates, Inc.

Breard & Associates, Inc.
Certified Public Accountants

Northridge, California
January 29, 2008