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

SEC FILE NUMBER
B- 30576

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 JULY 1, 2004 AND ENDING JUNE 30, 2005  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: NELSON SECURITIES, INC.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

601 W. MAIN, SUITE 1118

(No. and Street)

SPOKANE

WA

99201

(City)

(State)

(Zip Code)

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

PATRICK K DONAHUE

(509) 838 1313

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

MCDIRMIID, MIKKELSON & SECREST, P.S.

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

926 W. SPRAGUE, SUITE 380

SPOKANE

WA

99201

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED  
SEP 08 2005  
THOMSON  
FINANCIAL

**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)

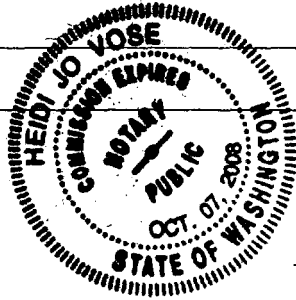
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OATH OR AFFIRMATION

I, ROBERT O. NELSON, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of NELSON SECURITIES, INC., as of JUNE 30, 2005, 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:



Robert Nelson  
Signature

PRESIDENT  
Title

Heidi Jo Vose  
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 15c3-3 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.

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

NELSON SECURITIES, INC.

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**McDIRMID, MIKKELSEN & SECREST, P.S.**

Certified Public Accountants

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

926 W. Sprague, Suite 300  
Spokane, WA 99201.4000  
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FAX 509.838.0508  
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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Nelson Securities, Inc.  
Spokane, Washington

We have audited the accompanying statement of financial condition of Nelson Securities, Inc. as of June 30, 2005 and 2004, and the related statements of operations, changes in stockholder's equity and cash flows for the years then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nelson Securities, Inc. as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

*McDirmid, Mikkelsen & Secrest, P.S.*

August 16, 2005  
Spokane, Washington

**NELSON SECURITIES, INC.**

**STATEMENT OF FINANCIAL CONDITION**

*June 30, 2005 and 2004*

<b>ASSETS</b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Cash and cash equivalents	\$ 145,929	\$ 335,675
Receivable from clearing broker	4,633	2,121
Investment advisory fees and commissions receivable	183,034	209,132
Other receivable		2,664
Federal income tax receivable	9,185	
Trading account at market value	12,571	8,619
Prepaid expenses	33,003	36,117
Deposit with clearing house	50,000	25,000
Furniture and equipment	6,606	13,972
Newsletter publishing rights, less accumulated amortization of \$60,217 and \$54,528	<u>25,130</u>	<u>30,820</u>
	<b><u>\$ 470,091</u></b>	<b><u>\$ 664,120</u></b>
 <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Payable to vendors	\$ 8,358	26,680
Payroll and business taxes payable	24,902	7,262
Accrued bonuses		25,575
Federal and state income taxes payable	25	4,610
Deferred advisory service revenue	31,437	37,704
Deferred subscription revenue	<u>685</u>	<u>4,559</u>
	<u>65,407</u>	<u>106,390</u>
<b>Stockholder's equity:</b>		
Common stock, \$100 par value Authorized, 500 shares; Issued and outstanding, 100 shares	10,000	10,000
Additional paid-in capital	252,734	252,734
Retained earnings	<u>141,950</u>	<u>294,996</u>
	<u>404,684</u>	<u>557,730</u>
	<b><u>\$ 470,091</u></b>	<b><u>\$ 664,120</u></b>

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

**NELSON SECURITIES, INC.**  
**STATEMENT OF OPERATIONS**  
*for the years ended June 30, 2005 and 2004*

	<u>2005</u>	<u>2004</u>
<b>Revenues:</b>		
Investment advisory fees and commissions	\$ 2,289,733	\$ 2,776,821
Trading commissions	137,919	179,455
Trading income	3,616	19,595
Newsletter income	5,635	19,872
Interest and dividend income	8,224	21,362
	<u>2,445,127</u>	<u>3,017,105</u>
<b>Expenses:</b>		
Salaries and commissions	1,485,632	1,838,708
Licenses and regulatory fees	75,661	78,411
Payroll taxes	113,756	125,604
Telephone and utilities	104,720	93,714
Occupancy and leases expense	227,490	235,952
Auto	26,100	26,319
Office expense and postage	117,724	149,316
Travel and entertainment	29,016	49,895
Credit union access fees	67,944	80,555
Consulting expense	16,651	7,582
Newsletter expense	23,538	26,125
Continuing education expense	751	1,201
Business and property taxes, net of refunds	14,919	(70,092)
Dues and subscriptions		4,601
Depreciation and amortization	15,421	17,350
Professional services	18,264	29,716
Insurance	116,867	110,095
Quotation service	31,488	53,604
401(k) plan expense	25,882	25,296
Miscellaneous	90,109	112,723
	<u>2,601,933</u>	<u>2,996,675</u>
<b>Income (loss) before income taxes</b>	<b>(156,806)</b>	<b>20,430</b>
<b>Federal and state income tax (benefit) expense</b>	<b>(3,760)</b>	<b>5,410</b>
<b>Net income (loss)</b>	<b>\$ (153,046)</b>	<b>\$ 15,020</b>

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

**NELSON SECURITIES, INC.**

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY  
*for the years ended June 30, 2005 and 2004*

	<u>Shares</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Balances, July 1, 2003</b>	100	\$ 10,000	\$ 252,734	\$ 279,976	\$ 542,710
<b>Net income for the year ended June 30, 2004</b>				15,020	15,020
<b>Balances, June 30, 2004</b>	100	10,000	252,734	294,996	557,730
<b>Net loss for the year ended June 30, 2005</b>				(153,046)	(153,046)
<b>Balances, June 30, 2005</b>	<b>100</b>	<b>\$ 10,000</b>	<b>\$ 252,734</b>	<b>\$ 141,950</b>	<b>\$ 404,684</b>

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

**NELSON SECURITIES, INC.**

**STATEMENT OF CASH FLOWS**  
*for the years ended June 30, 2005 and 2004*

	<u>2005</u>	<u>2004</u>
<b>Cash flows from operating activities:</b>		
Net income (loss)	<u>\$ (153,046)</u>	<u>\$ 15,020</u>
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	15,421	17,350
Changes in assets and liabilities:		
Net receivable from clearing broker	(2,512)	2,648
Fees and commissions receivable	26,098	(22,197)
Other receivables	2,664	3,561
Federal income tax receivable	(9,185)	236
Trading account at market value	(3,952)	3,357
Prepaid expenses	3,114	(9,175)
Deposits with clearing broker	(25,000)	
Payable to vendors	(18,322)	(4,881)
Payroll and business taxes payable	17,640	(23,049)
Accrued bonuses	(25,575)	25,575
Federal and state income taxes payable	(4,585)	4,585
Deferred advisory service revenue	(6,267)	(26,580)
Deferred subscription revenue	(3,874)	(10,204)
Total adjustments	<u>(34,335)</u>	<u>(38,774)</u>
Net cash used in operating activities	(187,381)	(23,754)
 <b>Cash flows from investing activities:</b>		
Purchase of equipment	<u>(2,365)</u>	<u>          </u>
 Net decrease in cash and cash equivalents	(189,746)	(23,754)
 Cash and cash equivalents at beginning of year	<u>335,675</u>	<u>359,429</u>
 Cash and cash equivalents at end of year	<u>\$ 145,929</u>	<u>\$ 335,675</u>
 Supplemental disclosure of cash paid for income taxes	<u>\$ 825</u>	<u>\$ 825</u>

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



## NELSON SECURITIES, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### 1. The Company and Significant Accounting Policies:

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

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from such estimates.

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

The Company places its cash and cash equivalents with high quality financial institutions. At times, the amount may be in excess of the FDIC insurance limits, however, the Company does not consider this to be a significant credit risk. For purposes of the balance sheet classification and statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of one month or less to be cash equivalents.

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

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

*Continued*

**NELSON SECURITIES, INC.**

NOTES TO FINANCIAL STATEMENTS, *Continued*

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

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

The purchase cost of publishing rights for an investment newsletter is being amortized on the straight-line method over 15 years. Amortization expense was \$5,690 for both years ended June 30, 2005 and 2004.

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

**2. Furniture and Equipment:**

Furniture and equipment at June 30, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Furniture and fixtures	\$141,589	\$139,224
Computer equipment	104,424	104,424
Telephone system	<u>56,846</u>	<u>56,846</u>
	<u>302,859</u>	300,494
Less accumulated depreciation	<u>296,253</u>	<u>286,522</u>
	<u>\$ 6,606</u>	<u>\$ 13,972</u>

Depreciation expense for the years ended June 30, 2005 and 2004 was \$9,731 and \$11,390, respectively.

**3. Net Capital Requirements:**

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company was required to maintain minimum net capital of \$50,000, and a net capital ratio of no more than 15 to 1, as defined under such provisions. Net capital and the related net capital ratio will fluctuate on a daily basis. The Company had net capital of \$188,382 and \$465,992 at June 30, 2005 and 2004, respectively. The Company's net capital ratio (aggregate indebtedness to net capital) was .35 to 1 and .23 to 1 at June 30, 2005 and 2004, respectively.

*Continued*

**NELSON SECURITIES, INC.**

NOTES TO FINANCIAL STATEMENTS, *Continued*

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**4. Retirement Plan:**

The Company has adopted a 401(k) plan covering all eligible employees. The plan allows employees to defer up to 12% of their salaries with the Company matching 25% of the participant's deferral. For the years ended June 30, 2005 and 2004, the Company's contribution was \$23,275 and \$23,096, respectively.

**5. Income Taxes:**

Differences between the Company's effective income tax rate and the statutory rate results principally from certain non deductible expenses. The income tax provision at June 30, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Federal income taxes (benefit)	\$ (4,585)	\$ 4,585
State income taxes	<u>825</u>	<u>825</u>
	<u>\$ (3,760)</u>	<u>\$ 5,410</u>

Federal income tax expense for the year ended June 30, 2005 was offset by utilization of the tax benefit from a net operating loss carryover. At June 30, 2005, the Company has an unused operating loss carryforward of \$116,387 that may be applied against future taxable income that expires in 2025.

**6. Lease Commitments:**

The Company leases its Spokane, Orlando and San Diego office space for \$13,203 monthly under operating lease agreements. The Spokane lease expires April 2006, and includes an escalation clause. The Orlando lease expires June 2007. The San Diego agreement expires within one year. Lease expense including utilities for all locations was \$155,351 and \$149,455 for the years ended June 30, 2005 and 2004, respectively.

Future minimum payments under noncancellable office space leases having initial or remaining lease terms in excess of one year as of June 30, 2005, are as follows:

<u>Years ending June 30:</u>	
2006	\$ 97,042
2007	<u>24,371</u>
	<u>\$121,413</u>

*Continued*

NELSON SECURITIES, INC.

NOTES TO FINANCIAL STATEMENTS, *Continued*

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6. **Lease Commitments, *continued*:**

The Company leases various equipment from NFS Leasing, L.L.C., which is owned 100% by the stockholder of the Company. The lease agreements currently provide for rent of \$2,512 per month including applicable sales tax. Rent expense paid under these agreements was \$67,791 and \$86,497 for the years ended June 30, 2005 and 2004, respectively. Future minimum annual rents due under these agreements are as follows:

Years ending June 30:

2006	\$ 30,097
2007	27,034
2008	10,635
2009	1,360
2010	<u>1,134</u>
	<b><u>\$ 70,260</u></b>

**McDIRMID, MIKKELSEN & SECREST, P.S.**

Certified Public Accountants

James K. McDirmid  
Chris D. Mikkelsen  
Kenneth E. Secrest  
William A. Simer  
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509.747.6154  
FAX 509.838.0508  
www.mmsps.com

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY  
INFORMATION REQUIRED BY RULE 17a-5 OF THE SECURITIES AND  
EXCHANGE COMMISSION**

Board of Directors  
Nelson Securities, Inc.  
Spokane, Washington

We have audited the accompanying financial statements of Nelson Securities, Inc. as of and for the year ended June 30, 2005, and have issued our report dated August 16, 2005. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules 1, 2, 3, and 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*McDirmid, Mikkelsen + Secrest, P.S.*

August 16, 2005  
Spokane, Washington

NELSON SECURITIES, INC.

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

June 30, 2005

<b>Net capital:</b>		
Stockholders' equity:		
Common stock	\$ 10,000	
Additional paid-in capital	252,734	
Retained earnings	<u>141,950</u>	
Total stockholders' equity		\$ 404,684
Deductions:		
Non-allowable assets:		
Other receivables	132,674	
Federal income tax receivable	9,185	
Prepaid expenses	33,003	
Furniture and equipment at cost, net of accumulated depreciation	6,606	
Newsletter publishing rights, net of accumulated amortization	<u>25,130</u>	
		<u>206,598</u>
Net capital before haircut on securities positions		198,086
Haircuts on securities		<u>9,704</u>
<b>Net capital</b>		<u><u>\$ 188,382</u></u>
<b>Required net capital</b>		<u><u>\$ 50,000</u></u>
<b>Excess net capital</b>		<u><u>\$ 138,382</u></u>
<b>Aggregate indebtedness:</b>		
Payable to vendors	\$ 8,358	
Payroll and business taxes payable	24,902	
Federal and state income taxes payable	25	
Deferred advisory service revenue	31,437	
Deferred subscription revenue	<u>685</u>	
Total aggregate indebtedness		<u><u>\$ 65,407</u></u>
<b>Ratio of aggregate indebtedness to net capital</b>		.35 to 1

**NELSON SECURITIES, INC.**

SCHEDULE 2  
COMPUTATION FOR DETERMINATION OF RESERVE  
REQUIREMENTS UNDER RULE 15c3-3 OF THE SECURITIES  
AND EXCHANGE COMMISSION  
*June 30, 2005*

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

NELSON SECURITIES, INC.

SCHEDULE 3  
RECONCILIATION WITH COMPANY'S COMPUTATION OF NET CAPITAL  
INCLUDED IN PART II OF FORM X-17A-5  
*June 30, 2005*

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**Net capital:**

Net capital as reported on FOCUS REPORT	\$ 191,577	
Audit adjustment to increase accounts payable	(3,581)	
Audit adjustment to increase federal and state income tax payable	(153)	
Audit adjustment to decrease lease expense	<u>539</u>	
Net capital which should have been reported		<u>\$ 188,382</u>
Net capital as computed on page 11		<u>\$ 188,382</u>

**Aggregate indebtedness:**

Aggregate indebtedness as reported on FOCUS REPORT	\$ 62,212	
Audit adjustment to increase accounts payable	3,581	
Audit adjustment to increase federal and state income taxes payable	153	
Audit adjustment to decrease lease expense	<u>(539)</u>	
Aggregate indebtedness which should have been reported		<u>\$ 65,407</u>
Aggregate indebtedness as computed on page 11		<u>\$ 65,407</u>



**NELSON SECURITIES, INC.**

SCHEDULE 4  
INFORMATION RELATING TO POSSESSION OR CONTROL  
REQUIREMENTS UNDER RULE 15c3-3 OF THE  
SECURITIES AND EXCHANGE COMMISSION  
*June 30, 2005*

---

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

**McDIRMID, MIKKELSEN & SECREST, P.S.**

Certified Public Accountants

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

Board of Directors  
Nelson Securities, Inc.  
Spokane, Washington

In planning and performing our audit of the financial statements and supplemental schedules of Nelson Securities, Inc. for the year ended June 30, 2005, we considered its internal controls, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal controls.

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 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.
2. 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.

The management of the Company is responsible for establishing and maintaining internal controls and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal 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 Commission's above-mentioned objectives. The objective of internal controls and the practices and procedures is 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 accordance 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.

*Continued*

Board of Directors  
Nelson Securities, Inc.

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

Our considerations of internal controls would not necessarily disclose all matters in internal controls that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal controls, including procedures 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 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 on our study, we believe that the Company's practices and procedures were adequate at June 30, 2005 to meet the Commission's objectives.

This report is intended solely for the use of the Board of Directors, management, the Securities and Exchange Commission, the New York Stock Exchange and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934, and should not be used for any other purpose.

*McDermid, Mikkelson + Sargent, P.S.*

August 16, 2005  
Spokane, Washington