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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

SEC FILE NUMBER  
8-32099

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 October 1, 2003 AND ENDING September 30, 2004  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:  
Lawson Financial Corporation  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY  
FIRM I.D. NO.

3352 East Camelback Road

(No. and Street)

Phoenix

(City)

Arizona

(State)

85018

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Lona M. Nanna (602) 381-8588

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Merlin Schumann & Company, P.C.

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

2505 W. Beryl Ave., Suite 300, Phoenix, AZ 85021

(Address)

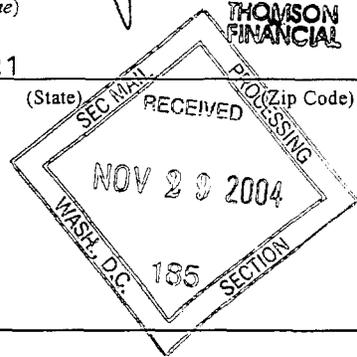
(City)

(State)

THOMSON  
FINANCIAL

PROCESSED

DEC 10 2004



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)

SEC 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, Robert W. Lawson, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Lawson Financial Corporation, as of September 30, 2004, 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

[Signature]  
\_\_\_\_\_

Title

Scott R. Gastineau  
\_\_\_\_\_

Notary Public



Notary Public State of Arizona  
Maricopa County  
Scott R Gastineau  
Expires August 19, 2006

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).

November 12, 2004

Independent Auditors' Report

The Board of Directors  
Lawson Financial Corporation

We have audited the accompanying statement of financial condition of Lawson Financial Corporation, as of September 30, 2004, and the related statements of income and 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 Lawson Financial Corporation at September 30, 2004, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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.

*Merlin Schumann & Company, P.C.*  
Merlin Schumann & Company, P.C.  
Phoenix, Arizona

LAWSON FINANCIAL CORPORATION  
STATEMENT OF FINANCIAL CONDITION  
SEPTEMBER 30, 2004

**ASSETS**

Cash and cash equivalents	\$	65,669
Cash segregated under federal and other regulation		10,308
Commissions Receivable:		
-insurance		319
-limited partnerships		13,739
Securities owned:		
-marketable		1,847,655
-not readily marketable		507
Interest receivable		27,449
Other receivables		6,817
Prepaid expenses		4,934
Furniture, equipment and leasehold improvements net of accumulated depreciation		55,718
Other assets		26,666
		26,666
Total Assets	\$	2,059,781

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Payable to clearing organizations	\$	452,984
Commissions payable		211,809
Accounts payable		337,204
Accrued expenses		25,061
Payable to related party		30,000
		30,000
Total Liabilities		1,057,058
Common stock, \$.01 par value, authorized 100,000 shares, issued 86,000 shares, outstanding 51,000 shares		860
Additional paid-in capital		274,140
Retained earnings		919,727
Less 35,000 shares of treasury stock at cost		(192,004)
		(192,004)
Total Stockholder's Equity		1,002,723
		1,002,723
Total Liabilities and Stockholder's Equity	\$	2,059,781

The accompanying notes are an integral part of the financial statements

LAWSON FINANCIAL CORPORATION  
 STATEMENT OF INCOME AND CHANGES IN STOCKHOLDER'S EQUITY  
 FOR THE YEAR ENDED SEPTEMBER 30, 2004

REVENUES	
Commissions	\$ 975,480
Trading profits	2,687,707
Interest income	113,878
	<hr/>
	3,777,065
	<hr/>
EXPENSES	
Employee compensation and benefits	1,711,661
General and administrative	307,717
Regulatory fees and expenses	206,869
Occupancy and equipment costs	265,344
Professional fees	372,192
Communications and data processing	110,554
Insurance	111,183
Postage	72,172
Advertising	203,900
Interest	50,789
Seminars	35,283
Depreciation	13,655
Miscellaneous expense	62,366
	<hr/>
	3,523,685
	<hr/>
Net income	253,380
Retained earnings, beginning of year	666,347
	<hr/>
Retained earnings, end of year	\$ 919,727
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements

LAWSON FINANCIAL CORPORATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

**Cash flows from operating activities:**

Net income	\$ 253,380
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation	13,655
Increase (decrease) in cash resulting from changes in:	
Commissions receivable	4,797
Securities owned, marketable	(191,629)
Securities owned, not readily marketable	(239)
Interest receivable	(1,712)
Other receivables	(1,817)
Prepaid expenses	(2,403)
Payable to clearing organization	135,478
Accounts payable, accrued expenses, and other liabilities	<u>(213,963)</u>
Net cash used in operating activities	(4,453)

**Cash flows from investing activities:**

Purchase of furniture and equipment	<u>(19,540)</u>
Net decrease in cash and cash equivalents	(23,993)
Cash and cash equivalents, beginning of year	<u>99,970</u>
Cash and cash equivalents, end of year	<u>\$ 75,977</u>

**Supplemental cash flow information:**

Cash paid for interest	<u>\$ 50,789</u>
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**LAWSON FINANCIAL CORPORATION**  
**Notes to Financial Statements**  
**September 30, 2004**

**1. Summary of Significant Accounting Policies**

**a. Basis of Presentation**

Lawson Financial Corporation (the Company) is a self-clearing securities broker-dealer and engages in activities as a market maker with offices in Arizona and Florida. However, the Company conducts most security transactions fully disclosed with Pershing, LLC, which acts as its clearing broker. These statements have been prepared in accordance with established standards for securities broker-dealers. The following is a summary of significant accounting policies followed by the Company. The policies conform with accounting principles generally accepted in the United States of America and require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as disclosures of contingent assets and liabilities in the financial statements. Actual results could differ from those estimates. For the year ended September 30, 2004, there is no difference between the Company's net income and comprehensive income.

**b. Cash Equivalents**

Cash equivalents include highly liquid debt instruments and other short-term investments with an original maturity of three months or less.

Cash equivalents at September 30, 2004 consisted of:

Cash	\$ 65,669
Cash segregated under federal and other regulations	<u>10,308</u>
	<u>\$ 75,977</u>

**c. Securities Transactions**

Securities transactions of the Company and commission income and expenses related to customer transactions are recorded on a trade date basis.

**d. Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements are carried at cost. Depreciation is computed using accelerated methods with estimated lives of five years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

**LAWSON FINANCIAL CORPORATION**  
**Notes to Financial Statements**  
**September 30, 2004**

**1. Summary of Significant Accounting Policies, continued**

**e. Income Taxes**

As of July 1, 1991, the Company elected to be treated as a Subchapter S Corporation under Section 1362 of the Internal Revenue Code. Consequently, the components of the Company's taxable results have been reported on the individual income tax return of the Company's stockholder since that date.

**f. Advertising**

Advertising and promotion costs are expensed as incurred.

**2. Cash Segregated Under Federal and Other Regulations**

Cash of \$10,308 has been segregated in a special reserve bank account for the benefit of customers under rule 15c3-3 of the Securities and Exchange Commission.

**3. Securities Owned**

The amortized cost and estimated market values of investment trading securities at September 30, 2004 are as follows:

	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Estimated market value</u>
Municipal bonds	\$ 1,580,079	13,802	5,908	1,587,973
Other securities	193,966	13,345	5,323	201,988
U.S. and Canadian government obligations	46,819	424	112	47,131
Corporate obligations	10,600	-	37	10,563
	<u>\$ 1,831,464</u>	<u>27,571</u>	<u>11,380</u>	<u>1,847,655</u>

The unrealized gain at September 30, 2004 is \$16,191 and is recognized in the current statement of income.

**LAWSON FINANCIAL CORPORATION**  
**Notes to Financial Statements**  
**September 30, 2004**

**3. Securities Owned, continued**

The amortized cost and estimated market value of investment trading securities at September 30, 2004, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or pre-pay obligations with or without call or prepayment penalties.

	<b>Amortized cost</b>	<b>Estimated Market value</b>
Due in one to five years	\$ 10,000	10,026
Due in five to fifteen years	295,255	300,078
Due in fifteen years to twenty years	447,508	453,841
Due in twenty-five years to thirty-five years	822,916	819,778
Due in over thirty-five years	<u>4,400</u>	<u>4,250</u>
	1,580,079	1,587,973
Other Securities	240,785	249,119
Corporate Obligations	<u>10,600</u>	<u>10,563</u>
	<u>\$ 1,831,464</u>	<u>1,847,655</u>

Securities not readily marketable include investment securities (a) for which there is no market on a securities exchange or no independent publicly quoted market, (b) that cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1933, or (c) that cannot be offered or sold because of other arrangements, restrictions, or conditions applicable to the securities or to the Company. At September 30, 2004, the securities owned, not readily marketable consisted of stock with an estimated fair market value of \$507.

**4. Payable to Clearing Broker**

The payable to clearing broker is for customers' and dealers' transactions and is collateralized by securities. Interest is at a fluctuating rate that generally corresponds with the broker call rate.

**5. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (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. At September 30, 2004, the Company had net capital of \$769,749, which was \$519,749 in excess of its required net capital of \$250,000. The Company's aggregate indebtedness to net capital ratio was .78 to 1.

**LAWSON FINANCIAL CORPORATION**  
**Notes to Financial Statements**  
**September 30, 2004**

**6. Lease Commitments**

The Company has obligations under operating leases with initial noncancelable terms in excess of one year. Future minimum lease obligations for office space and equipment at September 30, 2004, are as listed below:

Years ending September 30	
2005	\$ 99,882
2006	95,186
2007	76,398
2008	73,213
2009	<u>5,412</u>
	\$ <u>350,091</u>

Certain leases contain escalation clauses. Rent expense for operating leases for the year ended September 30, 2004 was \$252,437.

**7. Related Party Transactions**

The Company leases a condominium from a stockholder on a month-to-month basis. The rent for the year ended September 30, 2004, was \$8,224, which is included in occupancy and equipment costs.

The Company leases its corporate offices from a company partially owned by the stockholder on a month-to-month basis. The rent during the year ending September 30, 2004 was \$114,000, which is included in occupancy and equipment costs.

The Company has recorded a \$30,000 liability to a related party.

**8. Credit Risk**

The Company, at times, maintains bank accounts with balances in excess of federally insured limits, which exposes the Company to risk in the event of a bank failure. The Company had no deposits in excess of federally insured limits at September 30, 2004.

**9. 401(k) Plan**

The Company has a 401(k) plan, which covers substantially all full-time employees over age 21 with at least one year of service. The plan provides for employee deferrals of up to 15% of annual compensation, or the annual deferral limit as set by the Internal Revenue Code. The Company does not make matching contributions.

**LAWSON FINANCIAL CORPORATION**  
**Notes to Financial Statements**  
**September 30, 2004**

**10. Contingency**

The Company is involved in a dispute regarding attorney fees related to an arbitration that was previously settled. These matters are being brought in front of the National Association of Securities Dealers Dispute Resolution, Inc. forum. Legal counsel does not provide an opinion on the outcome. Accordingly, the accompanying financial statements do not include any adjustments that may result from the ultimate disposition of this matter.

Schedule I

**LAWSON FINANCIAL CORPORATION**  
**Computation of Net Capital Under Rule 15c3-1 of the**  
**Securities and Exchange Commission**  
**As of September 30, 2004**

**Net Capital**

Total stockholder's equity	\$ 1,002,723
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**Nonallowable assets**

Furniture, equipment and leasehold improvements	55,718	
Other assets	26,666	
Receivables	6,817	
Prepaid expenses	4,934	
Securities owned - not readily marketable	507	
Total deductions		94,642
Net capital before haircuts on securities positions		908,081

**Haircuts**

State and municipal government obligations	104,889	
Other securities	33,126	
Corporate obligations	317	
Total haircuts		138,332
Net capital		\$ 769,749

**Aggregate indebtedness**

Accounts payable, accrued expenses, and other liabilities, as adjusted	\$ 604,074
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**Computation of basic net capital requirement**

Minimum net capital required (6 2/3% of aggregate indebtedness)	\$ 40,272
Minimum dollar net capital requirement	\$ 250,000
Net capital requirement (greater of above)	\$ 250,000
Excess net capital	\$ 519,749
Excess net capital at 1000%	\$ 709,342
Ratio: Aggregate indebtedness to net capital	.78 to 1

Schedule I, (continued)

**LAWSON FINANCIAL CORPORATION**  
**Computation of Net Capital Under Rule 15c3-1 of the**  
**Securities and Exchange Commission**  
**As of September 30, 2004**

**Reconciliation of the computation of net capital with the computations included  
in Part IIA of Form X17A-5 as of the same date.**

Net capital per focus report	\$ 698,980
Changes resulting from audit adjustments	
Increase in inventory	19,525
Decrease in due to clearing broker	53,298
Increase in haircuts	<u>(2,054)</u>
Net capital per audit report	<u>\$ 769,749</u>

**Schedule II**

**LAWSON FINANCIAL CORPORATION**  
**Computation for Determination of Reserve Requirements**  
**Under Rule 15c3-3 of the Securities and Exchange Commission**  
**As of September 30, 2004**

**Credit balances**

Free credit balances and other credit balances in customers' security accounts	\$	-
Monies borrowed, collateralized by securities carried for the accounts of customers		-
Monies payable against customers' securities loaned		-
Customers' securities failed to receive		-
Credit balances in firm accounts which are attributable to principal sales to customers		-
Market value of stock dividends, stock splits and similar distributions receivable outstanding over thirty calendar days		-
Market value of short security count differences over thirty calendar days old		-
Market value of short securities and credits (not to be offset by longs or by debits) in all suspense accounts over thirty calendar days		-
Market value of securities which are in transfer in excess of forty calendar days and have not been confirmed to be in transfer agent or issuer during the forty days		-
Total credit items		<u>-</u>

**Debit balances**

Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection and net of deductions pursuant to Rule 15c3-3		-
Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver		-
Failed to deliver customers' securities not older than thirty calendar days		-
Margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in customer accounts		-
Total debit items		<u>-</u>
Excess of total credits over total debits	\$	<u>-</u>

**Reserve Computation**

105% of total credits over total debits	\$	<u>-</u>
Amount held on deposit in reserve bank accounts	\$	<u>10,308</u>

**Note:** The Computation of Reserve Requirements under Rule 15c3-3 as of September 30, 2004 computed by Lawson Financial Corporation in its Form X-17A-5, Part II filed with the National Association of Security Dealers, Inc. on November 1, 2004, agrees with that shown above.

Schedule III

**LAWSON FINANCIAL CORPORATION**  
**Information relating to Possession or Control Requirements**  
**Under Rule 15c3-3 of the Securities and Exchange Commission**  
**As of September 30, 2004**

1. Customers' fully paid and excess margin securities not in the respondent's possession or control as of September 30, 2004 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 respondent within the time frames specified under rule 15c3-3.

\$           -

A. Number of items

          -

2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of September 30, 2004, excluding items arising from "temporary lags which result from normal business operations" as permitted under rule 15c3-3.

\$           -

A. Number of items

          -

Independent Auditors' Report on the Internal Control  
Structure Required by SEC Rule 17a-5

Board of Directors  
Lawson Financial Corporation

In planning and performing our audit of the statements and supplemental schedules of Lawson Financial Corporation (the Company), for the year ended September 30, 2004, we considered its internal control, including control activities 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 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 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. Although the Company has the ability to conduct business as a self clearing-broker, for the year ended September 30, 2004 they were conducting business as an introducing broker-dealer. Because the Company did 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 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

Independent Auditors' Report on the Internal Control Structure  
Required by SEC Rule 17a-5(Continued)

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

Our consideration of internal control would not necessarily disclose all matters in internal control 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 components does not reduce to a relatively low level the risk that error or fraud 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 internal control, including 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 were adequate at September 30, 2004, 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.

*Merlin Schumann & Company, P.C.*  
Merlin Schumann & Company, P.C.  
Phoenix, Arizona  
November 12, 2004