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

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

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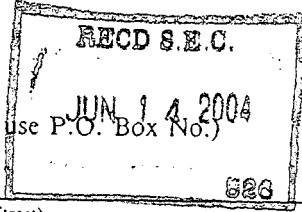
Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING April 1, 2003 AND ENDING March 31, 2004
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Lemley, Yarling & Co.



OFFICIAL USE ONLY
FIRM ID. NO.

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

208 South LaSalle Street, Suite 723

(No. and Street)

Chicago, IL 60604

(City)

(State)

(Zip Code)

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

Ralph J. Lemley

(312)372-2422

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Abrams & Steinberg, P.C.

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

135 Arlington Heights Road, Suite 105, Buffalo Grove, IL 60089

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

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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).

OATH OR AFFIRMATION

I, Ralph J. Lemley, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Lemley, Yarling & Co., as of March 31, 2004, ~~are~~, 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:

[Handwritten Signature]

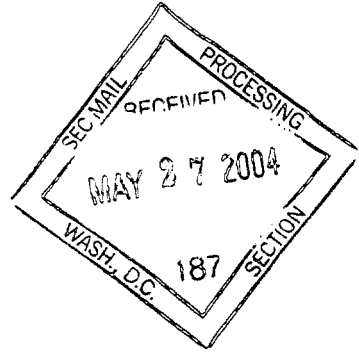
Signature

Title

Marcia E. Rollins
Notary Public
Official Seal
Marcia E. Rollins
Notary Public State of Illinois
My Commission Expires 12/01/07

- Report** contains (check all applicable boxes):
- X (a) Facing page.
 - X (b) Statement of Financial Condition.
 - X (c) Statement of Income (Loss).
 - (d) Statement of Changes in Financial Condition.
 - X (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
 - (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
 - X (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.
 - X (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.

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



**LEMLEY, YARLING & CO.
(AN ILLINOIS CORPORATION)**

**INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

MARCH 31, 2004

LEMLEY, YARLING & CO.
(AN ILLINOIS CORPORATION)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholder
Lemley, Yarling & Co.

We have audited the accompanying statement of financial condition of Lemley, Yarling & Co. (an Illinois Corporation) (the "Company") as of March 31, 2004, and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended. 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 Lemley, Yarling & Co. at March 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit has been conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional information on pages 9-11 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 and Exchange Act of 1934. Such additional 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.

Abrams & Steinberg, P.C.

May 17, 2004
Buffalo Grove, Illinois

LEMLEY, YARLING & CO.
STATEMENT OF FINANCIAL CONDITION
MARCH 31, 2004

ASSETS

Assets		
Cash	\$	66,845
Receivable from clearing organization		<u>47,991</u>
Total assets	\$	<u>114,836</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities		
Management fees payable to Parent	\$	43,192
Income taxes payable to Parent		<u>2,192</u>
Total liabilities		<u>45,384</u>
Stockholder's equity		
Common stock		25,000
Retained earnings		<u>44,452</u>
		<u>69,452</u>
Total liabilities and stockholder's equity	\$	<u>114,836</u>

The accompanying notes are an integral part of this statement.

LEMLEY, YARLING & CO.
STATEMENT OF INCOME
FOR THE YEAR ENDED MARCH 31, 2004

Commission income	<u>\$ 2,376,331</u>
Expenses:	
Management fees to Parent	1,001,166
Clearing related expenses	1,263,925
Miscellaneous expense	<u>30</u>
Total expenses	<u>2,265,121</u>
Income before income taxes	<u>111,210</u>
Provision for income taxes:	
Federal	23,456
State	<u>8,118</u>
Total provision for income taxes	<u>31,574</u>
Net income	<u>\$ 79,636</u>

The accompanying notes are an integral part of this statement.

LEMLEY, YARLING & CO.
 STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
 FOR THE YEAR ENDED MARCH 31, 2004

	Common Stock		Retained Earnings	Total
	Shares*	Amount		
Balance at March 31, 2003	1,000	\$ 25,000	\$ 49,816	\$ 74,816
Net income			79,636	79,636
Dividends paid			(85,000)	(85,000)
Balance at March 31, 2004	1,000	\$ 25,000	\$ 44,452	\$ 69,452

*No par value, 50,000 shares authorized, 1,000 shares issued and outstanding

The accompanying notes are an integral part of this statement.

LEMLEY, YARLING & CO.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2004

Cash flows from operating activities	
Net income	\$ 79,636
Changes in assets and liabilities:	
Receivable from clearing organization	98,855
Management fees payable to parent	(88,939)
Income taxes payable to parent	<u>(3,180)</u>
Net cash provided by operating activities	<u>86,372</u>
Cash flows used in financing activities	
Dividends paid	<u>(85,000)</u>
Net increase in cash	1,372
Beginning of year	<u>65,473</u>
End of year	<u>\$ 66,845</u>
Supplemental disclosure of cash flow information:	
Income taxes paid to parent	<u>\$ 34,754</u>

The accompanying notes are an integral part of this statement.

LEMLEY, YARLING & CO.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004

Note 1--Organization And Significant Accounting Policies

Business Description--the Company is a broker-dealer registered with the Securities and Exchange Commission (SEC). The company is an Illinois corporation that is a wholly-owned subsidiary of Lemley, Yarling Management Co. ("the Parent").

Commission Income--Commission income is recognized as earned.

Income Taxes--The Company files a consolidated federal income tax return with the Parent. Federal and State income taxes are calculated as if the companies filed separate tax returns.

Use of Estimates--The preparation of financial statements in conformity with generally accepted accounting principles 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2--Receivable From and Payable to Clearing Organization:

The Company has an agreement with ABN-AMRO Incorporated, whereby the Company transacts, on a fully disclosed basis, all customer business through ABN-AMRO Incorporated. The Company has guaranteed payment for securities purchased and delivery of securities sold pursuant to this agreement. The amounts receivable from the clearing organization represents commissions earned on the securities transactions net of related clearing expenses payable to the Company. The amount receivable on March 31, 2004 was \$47,991.

Note 3--Related Party Transactions

Operations of the Company are conducted in facilities and by personnel shared with its parent. The Company pays a management fee equal to 90% of revenues, net of clearing related expenses, to its parent in lieu of occupancy, salary and other operating expenses.

See accountants' report

LEMLEY, YARLING & CO.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004

Note 4--Net Capital Requirements

The Company is a broker-dealer subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1). The Company is required to maintain "adjusted net capital" equivalent to \$5,000 or 6 2/3% of "aggregate indebtedness" whichever is greater, as defined.

At March 31, 2004, the Company's net capital and required net capital were \$69,452 and \$5,000 respectively.

See accountants' report

SUPPLEMENTAL INFORMATION

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER	LEMLEY, YARLING & COMPANY	as of <u>March 31, 2004</u>
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COMPUTATION OF NET CAPITAL

1. Total ownership equity from Statement of Financial Condition	\$	69,452	3480
2. Deduct ownership equity not allowable for Net Capital		()	3490
3. Total ownership equity qualified for Net Capital		69,452	3500
4. Add:			
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital			3520
B. Other (deductions) or allowable credits (List)			3525
5. Total capital and allowable subordinated liabilities	\$	69,452	3530
6. Deductions and/or charges:			
A. Total nonallowable assets from Statement of Financial Condition (Notes B and C)	\$	3540	
B. Secured demand note delinquency		3590	
C. Commodity futures contracts and spot commodities-- proprietary capital charges		3600	
D. Other deductions and/or charges		3610	(-) 3620
7. Other additions and/or allowable credits (List)			3630
8. Net capital before haircuts on securities positions	\$	69,452	3640
9. Haircuts on securities (computed, where applicable, pursuant to 15c3-1(f)):			
A. Contractual securities commitments	\$	3660	
B. Subordinated securities borrowings		3670	
C. Trading and investment securities:			
1. Exempted securities		3735	
2. Debt securities		3733	
3. Options		3730	
4. Other securities		3734	
D. Undue Concentration		3650	
E. Other (List)		3736	(-) 3740
10. Net Capital	\$	69,452	3750

OMIT PENNIES

There are no material differences between the above computation and the Company's corresponding unaudited FOCUS - Part IIA filing.

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER	LEMLEY, YARLING & COMPANY	as of <u>March 31, 2004</u>
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COMPUTATION OF NET CAPITAL REQUIREMENT

Part A

11. Minimum net capital required (6 2/3% of line 19)	\$	3,026	3756
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	5,000	3758
13. Net capital requirement (greater of line 11 or 12)	\$	5,000	3760
14. Excess net capital (line 10 less 13)	\$	64,452	3770
15. Excess net capital at 1000% (line 10 less 10% of line 19)	\$	64,914	3780

COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.I. Liabilities from Statement of Financial Condition	\$	45,384	3790
17. Add:			
A. Drafts for immediate credit	\$		3800
B. Market value of securities borrowed for which no equivalent value is paid or credited	\$		3810
C. Other unrecorded amounts (List)	\$	3820	\$ - border: 1px solid black; text-align: right;">3830
19. Total aggregate indebtedness	\$	45,384	3840
20. Percentage of aggregate indebtedness of net capital (line 19/ line 10)	%	65.35%	3850
21. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)	%		3860

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART IIA**

BROKER OR DEALER	LEMLEY, YARLING & COMPANY	<u>March 31, 2004</u>
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Exemptive Provision Under Rule 15c3-3

25. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based (check one only)

A. (k) (1) -- \$2,500 capital category as per Rule 15c3-3

	4550
	4560

B. (k) (2) (A) -- "Special Account for the Exclusive Benefit of customers" maintained

C. (k) (2) (B) -- All customer transactions cleared through another broker-dealer on a fully disclosed basis

Name of clearing firm ABN AMRO INCORPORATED 4335

	4570
X	4580

D. (k) (3) -- Exempted by order of the Commission (include copy of letter)

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

The Board of Directors
Lemley, Yarling & Co.

In planning and performing our audit of the financial statements of Lemley, Yarling & Co. (the Company) for the year ended March 31, 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 and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making quarterly securities examinations, counts, verifications, and comparisons and the recordation of differences required by Rule 17a-13 or in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities.

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 accordance 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, errors 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 errors 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 March 31, 2004, to meet the SEC's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, the National Association of Securities Dealers, Inc., and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and should not be used for any other purpose.

Abrams & Steinberg, P.C.

May 17, 2004