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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

SEC FILE NUMBER  
B-36305

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MAY 16 2006  
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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

REC'D MAIL ROOM  
MAY 16 2006  
SECTION 1990  
RECEIVED  
MAY 16 2006

REPORT FOR THE PERIOD BEGINNING April 1, 2005 AND ENDING March 31, 2006  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Lemley Yarling & Co  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY  
FIRM I.D. NO.

208 S. 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 Number)

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  
JUN 26 2006  
THOMPSON  
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)

SEC 1410 (06-02)

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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, 2006, 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:



Kathryn F. Klaiber  
Notary Public

[Signature]  
Signature  
[Title]  
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 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).

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

**INDEPENDENT AUDITORS' REPORT AND  
FINANCIAL STATEMENTS**

**MARCH 31, 2006**

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, 2006, 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, 2006, 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 11-14 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 8, 2006

LEMLEY, YARLING & CO.  
STATEMENT OF FINANCIAL CONDITION  
MARCH 31, 2006

ASSETS

Current assets		
Cash	\$	76,156
Receivable from clearing organization		<u>37,946</u>
Total assets	\$	<u><u>114,102</u></u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities		
Management fees payable to Parent	\$	34,152
Income taxes payable to Parent		<u>4,665</u>
Total liabilities		<u>38,817</u>
Stockholder's equity		
Common stock		25,000
Retained earnings		<u>50,285</u>
		<u>75,285</u>
Total liabilities and stockholder's equity	\$	<u><u>114,102</u></u>

The accompanying notes are an integral part of this statement.

LEMLEY, YARLING & CO.  
STATEMENT OF INCOME  
FOR THE YEAR ENDED MARCH 31, 2006

Income	
Commission income	\$ 1,511,782
Dividend income	16
Interest income	<u>22</u>
Total Income	<u>1,511,820</u>
Expenses:	
Management fees to Parent	594,493
Clearing related expenses	851,234
Bank Charges	<u>10</u>
Total expenses	<u>1,445,737</u>
Income before income taxes	<u>66,083</u>
Provision for income taxes:	
Federal	10,334
State	<u>4,745</u>
	<u>15,079</u>
Net income	<u>\$ 51,004</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, 2006

	Common Stock		Retained Earnings	Total
	Shares*	Amount		
Balance at March 31, 2005	1,000	\$ 25,000	\$ 74,292	\$ 99,292
Net income			51,004	51,004
Dividends paid			(75,011)	(75,011)
Balance at March 31, 2006	1,000	\$ 25,000	\$ 50,285	\$ 75,285

\*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, 2006

Cash flows from operating activities	
Net income	\$ 51,004
Adjustments to reconcile net income to net cash flows provided by operating activities:	
Changes in assets and liabilities:	
Receivable from clearing organization	26,680
Management fees payable to parent	(24,012)
Income taxes payable to parent	<u>(12,470)</u>
Net cash provided by operating activities	<u>41,202</u>
Cash flows used in financing activities	
Dividends paid	<u>(75,011)</u>
Net (decrease) in cash	(33,809)
Beginning of year	<u>109,965</u>
End of year	<u>\$ 76,156</u>
Supplemental disclosure of cash flow information:	
Income taxes paid to parent	<u>\$ 27,549</u>

The accompanying notes are an integral part of this statement.

LEMLEY, YARLING & CO.  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006

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.

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.

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--Commitments

The Company has an agreement with Mesirow Financial, whereby the Company transacts, on a fully disclosed basis, all customer business through Mesirow Financial. The Company has guaranteed payment for securities purchased and delivery of securities sold pursuant to this agreement.

See auditors' report

LEMLEY, YARLING & CO.  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006

Note 3--Receivable From Clearing Organization

The Company has an agreement whereby Mesirow Financial, a registered broker dealer in securities, transacts all customer business on a fully disclosed basis. The Company is guarantor for payment of securities purchased and delivery of securities sold pursuant to this agreement. Mesirow Financial pays commissions to the Company, monthly as earned. Commissions receivable from Mesirow at March 31, 2006 was \$37,946.

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, 2006, the Company's net capital and required net capital were \$75,285 and \$5,000, respectively.

See auditors' report

SUPPLEMENTAL INFORMATION

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

**BROKER OR DEALER**

**LEMLEY, YARLING & COMPANY**

as of **March 31, 2006**

**COMPUTATION OF NET CAPITAL**

1. Total ownership equity from Statement of Financial Condition	\$	75,285	3480
2. Deduct ownership equity not allowable for Net Capital		( )	3490
3. Total ownership equity qualified for Net Capital		75,285	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	\$	75,285	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	\$	75,285	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	\$	75,285	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**

<b>BROKER OR DEALER</b>	<b>LEMLEY, YARLING &amp; COMPANY</b>	<b>as of</b> <u>March 31, 2006</u>
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**COMPUTATION OF NET CAPITAL REQUIREMENT**

**Part A**

11. Minimum net capital required (6 2/3% of line 19)	\$	2,588	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)	\$	70,285	3770
15. Excess net capital at 1000% (line 10 less 10% of line 19)	\$	71,403	3780

**COMPUTATION OF AGGREGATE INDEBTEDNESS**

16. Total A.I. Liabilities from Statement of Financial Condition	\$	38,817	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	\$ -
19. Total aggregate indebtedness	\$	38,817	3840
20. Percentage of aggregate indebtedness of net capital (line 19/ line 10)	%	51.56%	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**

<b>BROKER OR DEALER</b>	<b>LEMLEY, YARLING &amp; COMPANY</b>	<u>March 31, 2006</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 |
| B. (k) (2) (A) -- "Special Account for the Exclusive Benefit of customers" maintained                        |      | 4560 |
| C. (k) (2) (B) -- All customer transactions cleared through another broker-dealer on a fully disclosed basis |      |      |
| Name of clearing firm <u>MESIROW FINANCIAL</u>   | 4335 | 4570 |
| D. (k) (3) -- Exempted by order of the Commission (include copy of letter)                                   |      | 4580 |

Lemley, Yarling, & Co.  
Possession or Control of Securities  
Pursuant to Rule 15 C3-3  
For the Year Ended March 31, 2006

NOT APPLICABLE

Lemley, Yarling, & Co.  
Computation of Reserve Requirements  
Pursuant to Rule 15 C3-3  
For the Year Ended March 31, 2006

NOT APPLICABLE

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**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, 2006, 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, 2006, 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 8, 2006