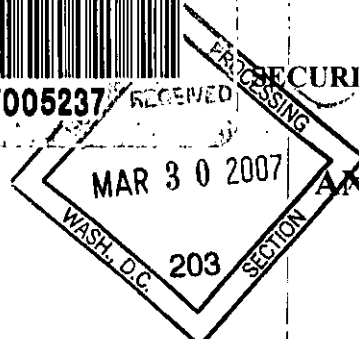




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UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

OMB Number: 3235-0123 Expires: February 28, 2007 Estimated average burden hours per response..... 12.00

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

SEC FILE NUMBER 8-44161

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 1/1/06 AND ENDING 12/31/06 MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Talley & Company

OFFICIAL USE ONLY FIRM I.D. NO.

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

10940 Wilshire Blvd.

(No. and Street)

Los Angeles, CA 90024-3915

(City)

(State)

(Zip Code)

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

Richard Talley

(949) 622-5590

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

BOROS & FARRINGTON

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

11770 Bernardo Plaza Court, Suite 210, San Diego, CA 92128

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED APR 17 2007 THOMSON FINANCIAL SC

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).

BBB 4/12

OATH OR AFFIRMATION

I, Richard Talley, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Talley & Company, as of December 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:

None

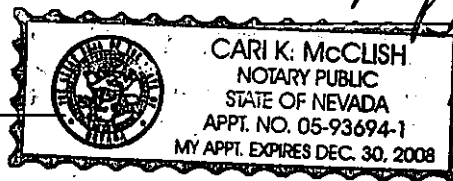
Signature

President

Title

Cari K. McClish

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 Cash Flows.
- (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.
- (g) Computation of Net Capital.
- (h) Computation of Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the 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).

TALLEY & COMPANY

Table of Contents

	<i>Page</i>
Independent Auditor's Report	1
Audited Financial Statements:	
Statement of Financial Condition.....	2
Statement of Income.....	3
Statement of Changes in Stockholders' Equity	4
Statement of Liabilities Subordinated to Claims of General Creditors.....	4
Statement of Cash Flows.....	5
Notes to Financial Statements.....	6-7
Other Financial Information:	
Schedule I - Computation of Net Capital Pursuant to Rule 15c3-1	8
Independent Auditor's Supplementary Report on Internal Control Structure Required by Rule 17a-5	9-10

Boros & Farrington

CERTIFIED PUBLIC ACCOUNTANTS
A Professional Corporation

11770 Bernardo Plaza Court, Suite 210
San Diego, CA 92128-2424
(858) 487-8518 Fax (858) 487-6794

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Talley & Company

We have audited the accompanying statement of financial condition of Talley & Company as of December 31, 2006, and the related statements of operations, changes in stockholders' equity, liabilities subordinated to claims of general creditors, 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 Talley & Company at December 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 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 of the Securities Exchange Commission. 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.

Boros & Farrington APC

March 23, 2007
San Diego, California

TALLEY & COMPANY

Statement of Financial Condition

December 31, 2006

ASSETS

Cash and cash equivalents	
Cash in bank	\$ 6,493
Deposits with clearing organization	<u>25,237</u>
Total cash and cash equivalents	31,730
Deposit and other assets	<u>1,738</u>
Total assets	<u>\$ 33,468</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities	
Accounts payable and accrued liabilities	\$ 2,000
Due to stockholder	<u>3,000</u>
Total liabilities	<u>5,000</u>
Stockholders' equity	
Common stock, 5,000,000 shares authorized	23,000
Paid-in capital	221,510
Accumulated deficit	<u>(216,042)</u>
Total stockholders' equity	<u>28,468</u>
	<u>\$ 33,468</u>

See notes to financial statements.

TALLEY & COMPANY

Statement of Operations Year Ended December 31, 2006

Revenues	
Commissions	\$142,870
Interest	<u>1,123</u>
Total revenues	<u>143,993</u>
Expenses	
Outside services	63,640
Rent and utilities	23,914
Commissions and clearing charges	3,176
Licenses and registrations	1,050
Interest	404
Other	<u>811</u>
Total expenses	<u>92,995</u>
Income before income taxes	50,998
Income taxes	<u>(837)</u>
Net income	<u>\$ 50,161</u>

See notes to financial statements.

TALLEY & COMPANY

Statement of Changes in Stockholders' Equity Year Ended December 31, 2006

	<i>Common Stock</i>		<i>Paid-in</i>	<i>Accumulated</i>
	<i>Shares</i>	<i>Amount</i>	<i>Capital</i>	<i>Deficit</i>
Balance, beginning of year	23,000	\$23,000	\$263,675	\$(266,203)
Capital contributions	-	-	41,290	-
Capital distributions	-	-	(83,455)	-
Net income	-	-	-	50,161
Balance, end of year	<u>23,000</u>	<u>\$23,000</u>	<u>\$221,510</u>	<u>\$(216,042)</u>

Statement of Liabilities Subordinated to Claims of General Creditors Year Ended December 31, 2006

Balance, beginning of year	\$	-	
Increases		-	
Decreases		-	
Balance, end of year	\$	-	

See notes to financial statements.

TALLEY & COMPANY

Statement of Cash Flows

Year Ended December 31, 2006

Cash flows from operating activities	
Net income	\$ 50,161
Adjustments to reconcile net income to net cash from operating activities	
Changes in operating assets and liabilities	
Deposit and other assets	(688)
Due to clearing organization	(251)
Accounts payable and accrued liabilities	<u>(775)</u>
Net cash from operating activities	<u>48,447</u>
Cash flows from financing activities	
Capital contributions	41,290
Capital contributions	<u>(83,455)</u>
Net cash from financing activities	<u>(42,165)</u>
Net decrease in cash and cash equivalents	6,282
Cash and cash equivalents, beginning of year	<u>25,448</u>
Cash and cash equivalents, end of year	<u>\$ 31,730</u>
Supplemental disclosure of cash flow information:	
Interest paid	<u>\$ 404</u>
Taxes paid	<u>\$ 1,637</u>

See notes to financial statements.

TALLEY & COMPANY

Notes to Financial Statements

1. THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES

The Company. Talley & Company (the "Company"), a California corporation, is a registered broker-dealer licensed by the United States Securities and Exchange Commission ("SEC") and is a member of the National Association of Securities Dealers and the Securities Investor Protection Corporation. The Company provides broker-dealer services as an introducing broker-dealer clearing customer transactions through another broker-dealer on a fully disclosed basis.

Accounting Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates 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 may differ from those estimates.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash in bank and deposits with clearing organization which may be withdrawn on demand without penalty.

Revenue Recognition. Security transactions and the related commission revenue are recorded on a settlement date basis.

Income Taxes. The Company has elected S corporation status under the state and federal tax laws. Accordingly, income or losses pass through to the Company's stockholders, and no provision for federal income taxes has been reflected in the accompanying financial statements. State income taxes have been provided at the reduced rate applicable to S corporations.

Concentration of Credit Risk. The Company maintains accounts with various financial institutions. No credit losses have been experienced on these accounts. Management believes that any potential credit losses would be minimal and, accordingly, no reserve for such losses has been established.

Financial Instruments. The carrying values reflected in the statement of financial condition at December 31, 2006 reasonably approximate the fair values for financial instruments. In making such assessment, the Company has utilized discounted cash flow analyses, estimates, and quoted market prices as appropriate. No allowance for potential credit losses was considered necessary at December 31, 2006.

2. RENTAL OF FACILITIES

The Company leases its offices under a short-term operating lease which provides for monthly rentals of \$1,170. Rent expense was \$20,771 for the year ended December 31, 2006.

TALLEY & COMPANY

Notes to Financial Statements

3. NET CAPITAL REQUIREMENTS

Under Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital (as defined) and a ratio of aggregate indebtedness to net capital (as defined) not exceeding 15 to 1.

The Company's ratio at December 31, 2006 was 0.20 to 1. The basic concept of the Rule is liquidity, its object being to require a broker-dealer in securities to have at all times sufficient liquid assets to cover its current indebtedness. At December 31, 2006, the Company had net capital of \$24,530 which was \$19,530 in excess of the amount required by the SEC.

4. INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS FOR BROKER DEALERS PURSUANT TO RULE 15c3-3

The Company is exempt from Rule 15c3-3 under the exemptive provisions of paragraph (k)(2)(ii) and, accordingly, has no possession or control requirements.

5. COMPUTATION OF DETERMINATION OF RESERVE REQUIREMENTS FOR BROKER DEALERS PURSUANT TO RULE 15c3-3

Because the Company does not hold funds or securities for the account of any customers, as defined by Securities and Exchange Commission Rule 15c3-3, no reserve is required. Consequently, a reserve requirement was not calculated and a reconciliation to that calculation is not included herein.

6. OFF BALANCE SHEET RISK

As discussed in Note 1, the Company does not hold customer segregated cash or securities balances. Transactions are processed by a clearing firm on a fully disclosed basis. In conjunction with this arrangement, the Company is contingently liable for any unsecured debit balances in the customer accounts introduced by the Company. These customer activities may expose the Company to off-balance-sheet credit risk in the event the introduced customer is unable to fulfill its contracted obligations. The Company seeks to control such credit risk by monitoring its exposure to the risk of loss daily, on an account-by-account basis. At December 31, 2006, the Company was not responsible for any unsecured debits and did not have any open positions in its trading accounts.

TALLEY & COMPANY

Computation of Net Capital Pursuant to Rule 15c3-1

December 31, 2006

	<i>Audited Financial Statements</i>	<i>FOCUS X-17A-5 Part IIA</i>	<i>Differences</i>
Total stockholders' equity	\$28,468	\$27,694	\$ 774
Less non-allowable assets			
Cash and cash equivalents	2,200	-	(2,200)
Deposit and other assets	<u>1,738</u>	<u>-</u>	<u>(1,738)</u>
Net capital	<u>\$24,530</u>	<u>\$27,694</u>	<u>\$(3,164)</u>
Total aggregate indebtedness	<u>\$ 5,000</u>	<u>\$ 5,629</u>	<u>\$ (629)</u>
Ratio of aggregate indebtedness to net capital	<u>0.20</u>	<u>0.20</u>	
Minimum net capital required	<u>\$5,000</u>	<u>\$5,000</u>	

Note: The differences result primarily from audit adjustments to accounts payable and the recognition of non-allowable assets.

**INDEPENDENT AUDITOR'S SUPPLEMENTARY
REPORT ON INTERNAL CONTROL STRUCTURE**

Board of Directors
Talley & Company

In planning and performing our audit of the financial statements of Talley & Company (the "Company") for the year ended December 31, 2006, we considered its internal control structure, 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 control structure.

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 (including tests of compliance with such practices and procedures) followed by the Company 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)(1) and in complying with the conditions of exemption from Rule 15c3-3. We did not review the practices and procedures followed by the Company in making the 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 of securities under section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining an internal control structure 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 internal control structure policies and procedures 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. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure 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 may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure 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 structure 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 control structure, including procedures for safeguarding securities, that we consider to be a material weakness as defined above.

We understand that the 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 December 31, 2006, to meet the Commission's objectives. In addition, the Company was in compliance with the exemptive provisions of Rule 15c3-3 at December 31, 2006 and, further, no facts came to our attention indicating that the Company was not in compliance with such conditions during the year ended December 31, 2006.

This report is intended solely for the use of management and the Securities and Exchange Commission 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.

Beros & Farrington APC

March 23, 2007
San Diego, California

END