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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
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 January 1, 2009 AND ENDING December 31, 2009
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.)

5000 Birch Street Suite 3000

Newport Beach and Street)

California

92660

(State)

(Zip Code)

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

Richard Talley

(877)

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

SEC Mail Processing
Section

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Breard & Associates Inc., Certified Public Accountants

FEB 12 2010

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

9221 Corbin Avenue, Suite 170

Northridge

CA

Washington, DC

191324

(Address)

(City)

(State)

(Zip Code)

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)

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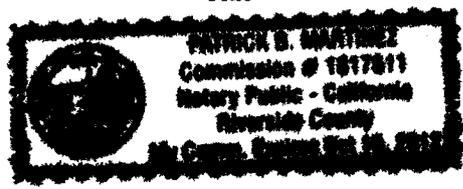
OATH OR AFFIRMATION

I, Ali Taj, 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, 2009, 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:

State of California
County of Orange
Subscribed and sworn to (or affirmed) before me on this 7 day of January, 2010
by ALI TAJ
proved to me on the basis of satisfactory evidence to be the person(s) who appeared before me.

Ali Taj
Signature
MANAGING DIRECTOR
Title

[Signature]
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 Cash Flows
- (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).

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Washington, DC
110

Talley & Company
Report Pursuant to Rule 17a-5 (d)
Financial Statements
For the Year Ended December 31, 2009

Independent Auditor's Report

Board of Directors
Talley & Company:

We have audited the accompanying statement of financial condition of Talley & Company (the Company) as of December 31, 2009, and the related statements of operations, 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 Talley & Company as of December 31, 2009, 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 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.

Breard & Associates, Inc.

Breard & Associates, Inc.
Certified Public Accountants

Northridge, California
February 10, 2010

Talley & Company
Statement of Financial Condition
December 31, 2009

Assets

| | |
|------------------------------------|-------------------------|
| Cash | \$ 10,865 |
| Deposit with clearing organization | 9,975 |
| Prepaid expense | <u>2,150</u> |
| Total assets | <u>\$ 22,990</u> |

Liabilities and Stockholder's Equity

Liabilities

| | |
|---------------------------------------|--------------|
| Accounts payable and accrued expenses | \$ 8,872 |
| Income taxes payable | 800 |
| Loan payable related party | <u>2,500</u> |
| Total liabilities | 12,172 |

Stockholder's equity

| | |
|---|-------------------------|
| Common stock, no par value, 5,000,000 shares authorized, 100,000 shares issued and outstanding | 23,000 |
| Additional paid-in capital | 240,009 |
| Accumulated deficit | <u>(252,191)</u> |
| Total stockholder's equity | <u>10,818</u> |
| Total liabilities and stockholder's equity | <u>\$ 22,990</u> |

The accompanying notes are an integral part of these financial statements.

Talley & Company
Statement of Operations
For the Year Ended December 31, 2009

Revenues

| | |
|-----------------------|----------------|
| Commissions | \$ 241,891 |
| Interest income | 61 |
| Other income | <u>17,654</u> |
| Total revenues | 259,606 |

Expenses

| | |
|--|---------------------------|
| Commissions and floor brokerage | 210,479 |
| Professional fees | 28,310 |
| Communications | 3,956 |
| Occupancy expense | 35,509 |
| Other operating expenses | 26,070 |
| Reimbursed expenses | <u>(380)</u> |
| Total expenses | <u>303,944</u> |
| Net income (loss) before income tax provision | (44,338) |
| Income tax provision | <u>800</u> |
| Net income (loss) | <u>\$ (45,138)</u> |

The accompanying notes are an integral part of these financial statements.

Talley & Company
Statement of Changes in Stockholder's Equity
For the Year Ended December 31, 2009

| | <u>Common Stock</u> | <u>Additional Paid-in Capital</u> | <u>Accumulated Deficit</u> | <u>Total</u> |
|-------------------------------------|-------------------------|---|--------------------------------|------------------|
| Balance at December 31, 2008 | \$ 23,000 | \$ 234,009 | \$ (207,053) | \$ 49,956 |
| Proceeds from paid-in capital | - | 6,000 | - | 6,000 |
| Net income (loss) | - | - | (45,138) | (45,138) |
| Balance at December 31, 2009 | <u>\$ 23,000</u> | <u>\$ 240,009</u> | <u>\$ (252,191)</u> | <u>\$ 10,818</u> |

The accompanying notes are an integral part of these financial statements.

Talley & Company
Statement of Cash Flows
For the Year Ended December 31, 2009

Cash flow from operating activities:

| | | |
|---|-----------|-----------------|
| Net income (loss) | | \$ (45,138) |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| (Increase) decrease in assets: | | |
| Deposit with clearing organization | \$ 17,907 | |
| Commissions receivable | 156 | |
| Prepaid expense | (700) | |
| Deposits | 4,599 | |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 7,509 | |
| Total adjustments | | 29,471 |
| Net cash provided by (used in) operating activities | | (15,667) |

Net cash provided by (used in) investing activities

-

Cash flow from financing activities:

| | | |
|--|-------|------------------|
| Proceeds from loan payable related party | 2,500 | |
| Proceeds from contribution of additional paid-in capital | 6,000 | |
| Net cash provided by (used in) financing activities | | 8,500 |
| Net increase (decrease) in cash | | (7,167) |
| Cash at beginning of year | | 18,032 |
| Cash at end of year | | \$ 10,865 |

Supplemental disclosure of cash flow information:

Cash paid during the year for:

| | | |
|--------------|----|-----|
| Interest | \$ | - |
| Income taxes | \$ | 800 |

The accompanying notes are an integral part of these financial statements.

Talley & Company
Notes to Financial Statements
December 31, 2009

Note 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Talley & Company (the "Company"), was originally incorporated in the State of California on August 7, 1991, as Yaeger Capital Markets Inc. On June 1, 2000, the Company amended its name to Talley & Company. The Company is registered as a broker/dealer with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"), and the Securities Investor Protection Corporation ("SIPC").

The Company engages in selling limited partnerships in primary distributions, and private placements of securities. The Company earns commissions through the sale of retail equity securities over the counter.

Under its membership agreement with FINRA and pursuant to Rule 15c3-3(k)(2)(ii), the Company conducts business on a fully disclosed basis and does not execute or clear securities transactions for customers. Accordingly, the Company is exempt from the requirement of Rule 15c3-3 under the Securities Exchange Act of 1934 pertaining to the possession or control of customer assets and reserve requirements.

Summary of Significant Accounting Policies

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Securities transactions are recorded on a settlement date basis with the related commission revenues and expenses also recorded on a settlement date basis.

The Company has elected to be an S Corporation and accordingly has its income taxed under Section 1361-1379 of the Internal Revenue Code. Subchapter S of the Code provides that in lieu of corporate income taxes, the stockholders are taxed on the Company's taxable income. Therefore, no provision or liability for Federal Income Taxes is included in these financial statements. The State of California has similar regulations, although there exists a provision for a minimum franchise tax and a tax rate of 1.5% over the minimum franchise fee of \$800.

Talley & Company
Notes to Financial Statements
December 31, 2009

Note 2: DEPOSIT WITH CLEARING ORGANIZATION

The Company has a brokerage agreement with Wedbush Morgan Securities ("Clearing Broker") to carry its account and the accounts of its clients as customers of the Clearing Broker. This Clearing Broker has custody of the Company's cash balances which serve as collateral for any amounts due to the Clearing Broker as well as collateral for securities sold short or securities purchased on margin. Interest is paid monthly on these cash deposits at the average overnight repurchase rate. The balance at December 31, 2009 was \$9,975.

Note 3: INCOME TAXES

As discussed in the Summary of Significant Accounting Policies (Note 1), the Company has elected the S Corporate tax status, therefore no federal income tax provision is provided. The tax provision provided is the California minimum franchise tax of \$800.

Note 4: OCCUPANCY EXPENSE

During the year ended December 31, 2009, the Company entered into a two year lease for office space which expires in June of 2011. Rent expense for the year ended December 31, 2009, is as

| | |
|-------------|------------------|
| Office rent | \$ <u>35,509</u> |
|-------------|------------------|

Note 5: RELATED PARTY TRANSACTIONS

The Company provided a substantial portion of its services to one customer that is affiliated with management. During the year ended December 31, 2009, services to that customer aggregated \$212,022 in revenues.

The loan payable at December 31, 2009, of \$2,500, is a payable to an officer of the Company. This payable is non-interest bearing, and due on demand.

Included in other income is \$17,654, the Company collected for providing administrative services for a fund that is affiliated with the Company.

It is possible that the terms of certain of the related-party transaction are not the same as those that would result from transactions among wholly unrelated parties.

Talley & Company
Notes to Financial Statements
December 31, 2009

Note 6: CONCENTRATIONS OF CREDIT RISK

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

Note 7: RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board (the "FASB") issued a new professional standard in June of 2009 which resulted in a major restructuring of U.S. accounting and reporting standards. The new professional standard, issued as ASC 105 ("ASC 105"), establishes the Accounting Standards Codification ("Codification or ASC") as the source of authoritative accounting principles ("GAAP") recognized by the FASB. The principles embodied in the Codification are to be applied by nongovernmental entities in the preparation of financial statements in accordance with generally accepted accounting principles in the United States. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") issued under authority of federal securities laws are also sources of GAAP for SEC registrants. Existing GAAP was not intended to be changed as a result of the Codification, and accordingly the change did not impact the financial statements of the Company.

For the year ending December 31, 2009, various accounting pronouncements or interpretations by the Financial Accounting Standards Board were either newly issued or had effective implementation dates that would require their provisions to be reflected in the financial statements for the year then ended. The Company has reviewed the following Statements of Financial Accounting Standards ("SFAS") /Accounting Standards Codification ("ASC") topics for the year to determine relevance to the Company's operations:

| <u>Statement No.</u> | <u>Title</u> | <u>Effective Date</u> |
|-------------------------|--|-------------------------|
| SFAS 141(R)/ ASC 805 | Business Combinations | After December 15, 2008 |
| SFAS 157/ ASC 820 | Fair Value Measurements | After November 15, 2008 |
| SFAS 161/ ASC 815 | Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133 | After December 15, 2008 |
| SFAS 165/ ASC 855 | Subsequent Events | After June 15, 2009 |

Talley & Company
Notes to Financial Statements
December 31, 2009

Note 7: RECENTLY ISSUED ACCOUNTING STANDARDS
(Continued)

| | | |
|-----------------------|--|--------------------------|
| SFAS 166*/ ASC 860 | Accounting for Transfers of Financial Assets – an Interpretation of FASB Statement No. 140 | After November 15, 2009 |
| SFAS 167*/ ASC 810 | Amendments to FASB Interpretation No. 46(R) | After November 15, 2009 |
| SFAS 168/ ASC 105 | The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement 162 | After September 15, 2009 |

*Currently being processed for inclusion in the Codification

The Company has either evaluated or is currently evaluating the implications, if any, of each of these pronouncements and the possible impact they may have on the Company's financial statements. In most cases, management has determined that the pronouncement has either limited or no application to the Company and, in all cases, implementation would not have a material impact on the financial statements taken as a whole.

Note 8: NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC 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. Rule 15c3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. Net capital and aggregate indebtedness change day to day, but on December 31, 2009, the Company had net capital of \$8,668 which was \$3,668 in excess of its required net capital of \$5,000; and the Company's ratio of aggregate indebtedness (\$12,172) to net capital was 1.4 to 1, which is less than the 15 to 1 maximum allowed.

Note 9: RECONCILIATION OF AUDITED NET CAPITAL TO UNAUDITED FOCUS

There is a difference of \$3,301 between the computation of net capital under net capital SEC Rule 15c3-1 and the corresponding unaudited FOCUS part IIA.

| | |
|------------------------------------|-----------------|
| Net capital per unaudited schedule | \$ 11,969 |
| Adjustments: | |
| Accumulated deficit | \$ (3,301) |
| Total adjustments | <u>(3,301)</u> |
| Net capital per audited statements | <u>\$ 8,668</u> |

Talley & Company
Schedule I - Computation of Net Capital Requirements
Pursuant to Rule 15c3-1
As of December 31, 2009

Computation of net capital

| | | |
|-----------------------------------|------------------|-----------------------|
| Common stock | \$ 23,000 | |
| Additional paid-in capital | 240,009 | |
| Accumulated deficit | <u>(252,191)</u> | |
| Total stockholder's equity | | \$ 10,818 |
| Less: Non-allowable assets | | |
| Prepaid expense | <u>(2,150)</u> | |
| Total non-allowable assets | | <u>(2,150)</u> |
| Net capital | | 8,668 |

Computation of net capital requirements

| | | |
|---|-----------------|------------------------|
| Minimum net capital requirements | | |
| 6 2/3 of net aggregate indebtedness | \$ 811 | |
| Minimum dollar net capital required | <u>\$ 5,000</u> | |
| Net capital required (greater of above) | | <u>(5,000)</u> |
| Excess net capital | | <u>\$ 3,668</u> |

Ratio of aggregate indebtedness to net capital 1.4 : 1

There was a difference of \$3,301 between net capital computation shown here and the net capital computation shown on the Company's unaudited Form X-17A-5 report dated December 31, 2009. See Note 9.

See independent auditor's report

Talley & Company
Schedule II - Computation for Determining of Reserve
Requirements Pursuant to Rule 15c3-3
As of December 31, 2009

A computation of reserve requirements is not applicable to Talley & Company as the Company qualifies for exemption under Rule 15c3-3(k)(2)(ii).

See independent auditor's report

Talley & Company
Schedule III - Information Relating to Possession or Control
Requirements Pursuant to Rule 15c3-3
As of December 31, 2009

Information relating to possession or control requirements is not applicable to Talley & Company as the Company qualifies for exemption under Rule 15c3-3(k)(2)(ii).

See independent auditor's report

Talley & Company
Supplementary Accountant's Report
on Internal Accounting Control
Report Pursuant to 17a-5
For the Year Ended December 31, 2009

Board of Directors
Talley & Company:

In planning and performing our audit of the financial statements of Talley & Company (the Company), as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's 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 consideration of control activities for safeguarding securities. This study included 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 the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by rule 17a-13
2. 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 judgements 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 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 and 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.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and 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, as described in the second paragraph of this report, were adequate at December 31, 2009, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, Financial Industry Regulatory Authority, 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.

Breard & Associates, Inc.

Breard & Associates, Inc.

Certified Public Accountants

Northridge, California

February 10, 2010