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

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	October 31, 2001
Estimated average burden hours per response.....	12.00

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

SEC FILE NUMBER
8- 17078

SEC RECEIVED PROCESSING MAY 22 2002 WASH, D.C.

FACING PAGE

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

REPORT FOR THE PERIOD BEGINNING 04/01/01 (MM/DD/YY) AND ENDING 03/31/02 (MM/DD/YY)

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Avalon Investment & Securities Group, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

404 Avalon Avenue, Suite 200
(No. and Street)

Muscle Shoals, AL 35661
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Das A. Borden (256) 381-7840
(Area Code – Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Cade & Associates, P.C.
(Name – *if individual, state last, first, middle name*)

2100 Southbridge Parkway, Suite 460 Birmingham, AL 35209
(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 2002
THOMSON FINANCIAL

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 (05-01)

Persons who 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, Das A. Borden, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Avalon Investments & Securities Group, Inc., as of March 31, 2002, 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

Notary Public

My Commission Expires 9/5/2005

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).*

CADE & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
2100 SOUTHBRIDGE PARKWAY - SUITE 460
BIRMINGHAM, ALABAMA 35209

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INDEPENDENT AUDITOR'S REPORT

Director and Stockholder
Avalon Investment & Securities Group, Inc.
Muscle Shoals, Alabama

We have audited the accompanying statement of financial condition of Avalon Investment & Securities Group, Inc. as of March 31, 2002 and the related statements of operations and accumulated deficit, 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 generally accepted auditing standards in the United States of America. These 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 Avalon Investment & Securities Group, Inc. as of March 31, 2002, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles 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 accompanying supplementary information 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 and 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.

Cade & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
Birmingham, Alabama
May 2, 2002

AVALON INVESTMENT & SECURITIES GROUP, INC.

FINANCIAL STATEMENTS AND

SUPPLEMENTARY INFORMATION

March 31, 2002

AVALON INVESTMENT & SECURITIES GROUP, INC.

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AVALON INVESTMENT & SECURITIES GROUP, INC.
Statement of Financial Condition
March 31, 2002

ASSETS:	
Cash	$ 14,162
Advances on Commission	26,000
Investments	3,300
Prepaid Expenses	1,191
TOTAL ASSETS	$ 44,653
LIABILITIES	$ -
STOCKHOLDER'S EQUITY:	
Common Stock, Par Value $ 10 per Share, Authorized 400 Shares, Issued and Outstanding 100 Shares	1,000
Additional Paid-In Capital	66,579
Accumulated Deficit	(22,926)
TOTAL STOCKHOLDER'S EQUITY	44,653
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 44,653

See accompanying notes.

AVALON INVESTMENT & SECURITIES GROUP, INC.
Statement of Operations and Accumulated Deficit
Year Ended March 31, 2002

REVENUE:	
Commissions	$ 407,150
Miscellaneous Income	1,242
Total Revenue	408,392
EXPENSES:	
Commissions	353,188
Administration Expenses	16,200
Rent	11,040
Telephone	7,841
Insurance	4,361
Taxes	4,050
Audit and Tax Preparation	3,231
Miscellaneous Expense	3,148
Travel	2,750
Postage, Printing, Delivery and Reproduction	2,729
Supplies	2,390
Contract Labor	2,200
Dues and Assessments	511
Repairs	293
Licenses and Permits	170
Bank Service Charges	20
Total Expenses	414,122
NET LOSS	(5,730)
ACCUMULATED DEFICIT - APRIL 1, 2001	(17,196)
ACCUMULATED DEFICIT - MARCH 31, 2002	$ (22,926)

See accompanying notes.

AVALON INVESTMENT & SECURITIES GROUP, INC.
Statement of Changes in Stockholder's Equity
Year Ended March 31, 2002

	Common Stock		Additional Paid-In Capital	Accumulated Deficit
	Shares	Amount		
BALANCE - April 1, 2001	100	$ 1,000	$ 66,579	$ (17,196)
NET LOSS	-	-	-	(5,730)
BALANCE - March 31, 2002	100	$ 1,000	$ 66,579	$ (22,926)

See accompanying notes.

AVALON INVESTMENT & SECURITIES GROUP, INC.
Statement of Cash Flows
Year Ended March 31, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Clients	$ 408,392
Cash Paid to Suppliers	(414,072)
Cash Flow from Operating Activities, Net	(5,680)
CASH - APRIL 1, 2001	19,842
CASH - MARCH 31, 2002	$ 14,162

RECONCILIATION OF NET LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Net Loss	$ (5,730)
Adjustments:	
Increase in Advances on Commissions	(1,000)
Decrease in Prepaid Expense	1,050
CASH FLOW FROM OPERATING ACTIVITIES, NET	$ (5,680)

See accompanying notes.

AVALON INVESTMENT & SECURITIES GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2002

Note 1 - **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Avalon Investment & Securities Group, Inc. is a corporation operating as a broker/dealer licensed to sell mutual funds and various insurance products (including variable annuities, variable universal life, etc.) and direct participation programs. The company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The significant accounting policies and practices followed by the company are as follows:

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 amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue and Expense Recognition - Commission revenues and the related expenses are recognized at the settlement date although certain commissions are not received or paid until an extended period after the sale. The company's policy has been to pay out up to 90% of commission revenue as commission expense. Commissions payable are recorded at an appropriate percentage of commissions receivable in accordance with this policy.

Income Taxes - For financial reporting purposes, the tax effects of transactions are recognized in the same periods as the related items of income and expense, regardless of when they are recognized for tax purposes.

AVALON INVESTMENT & SECURITIES GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2002

Note 2 - **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 March 31, 2002, the company had net capital of $ 14,162, which was $ 9,162 in excess of its required net capital of $5,000. The company's ratio of aggregate indebtedness to net capital was .000 to 1.

Note 3 - **LIABILITIES SUBORDINATED TO CLAIMS OF CREDITORS** - There were no liabilities subordinated to claims of creditors as of March 31, 2002 or during the year then ended.

Note 4 - **INCOME TAXES** - The Company has net operating losses of approximately $17,500 available to reduce future taxable income. These net operating losses will expire in the fiscal years from 2001 through 2011.

Note 5 - **RELATED PARTY TRANSACTIONS** - Certain general and administrative services are being performed at no charge or on a shared cost arrangement by a company related through common ownership. These services include secretarial, accounting, communication, and other general office costs.

The advances on commissions are to a related party.

Note 6 - **INVESTMENTS** – The Company has 300 warrants exercisable for a maximum 300 shares of common stock of The Nasdaq Stock Market, Inc. The Nasdaq Stock Market, Inc. is slated for an initial public offering pending meeting requirements for "exchange" status. The warrants are exercisable June 28, 2002 through June 27, 2003 for $13.00 per share, June 30, 2003 through June 25, 2004 for $14.00 per share, June 28, 2004 through June 27, 2005 for $15.00 per share, and June 28, 2005 through June 27, 2006 for $16.00 per share.

SUPPLEMENTARY INFORMATION

AVALON INVESTMENT & SECURITIES GROUP, INC.
Computation of Net Capital Under Rule 15c3-1 of the
Securities and Exchange Commission
As of March 31, 2002

NET CAPITAL:		
Total Stockholder's Equity		$ 44,653
Deduct Stockholder's Equity Not Allowable for Net Capital		-
Total Stockholder's Equity Qualified for Net Capital		44,653
Add:		
A. Allowable Subordinated Liabilities		-
B. Other Deductions or Credits		-
Total Capital and Allowable Subordinated Liabilities		44,653
Deductions and/or Charges:		
A. Non-Allowable Assets		
Advances on Commissions	$ 26,000	
Investments	3,300	
Prepaid Expenses	1,191	(30,491)
B. Secured Demand Note Deficiency		-
C. Capital Charges for Spot and Commodity Futures		-
D. Other Deductions and/or Charges		-
Net Capital before Haircuts on Securities Positions		14,162
Haircuts on Securities:		
A. Contractual Commitments		-
B. Subordinated Debt		-
C. Trading and Investment Securities:		
1. Exempted Securities	-	
2. Debt Securities	-	
3. Options	-	
4. Other Securities	-	-
D. Undue Concentration		-
E. Other		-
NET CAPITAL		$ 14,162

See accompanying notes.

AVALON INVESTMENT & SECURITIES GROUP, INC.
Computation of Net Capital Under Rule 15c3-1 of the
Securities and Exchange Commission
As of March 31, 2002

AGGREGATE INDEBTEDNESS	$ -
COMPUTATION OF BASIC NET CAPITAL REQUIREMENT:	
Minimum Net Capital Required	$ 5,000
EXCESS NET CAPITAL	$ 9,162
EXCESS NET CAPITAL AT 1000%	$ 14,162
RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	.000 to 1

NOTE: A reconciliation of the above computation to the company's computation (included in Part II of Form X-17A-5 as of March 31, 2002) is not included because there were no material differences.

See accompanying notes.

AVALON INVESTMENT & SECURITIES GROUP, INC.
EXEMPTIVE PROVISION UNDER RULE 15c3-3
As of March 31, 2002

An exemption from Rule 15c3-3 is claimed by the company. The exemption is based on subsection (k) (1). Section (k) (1) states:

(k)(1) The provisions of this section shall not be applicable to a broker or dealer:

(i) whose dealer transactions (as principal for his own account) are limited to the purchase, sale, and redemption of mutual funds, and/or variable annuities only.

If this statement is true, the broker-dealer is exempt from Rule 15c3-3.

The company is in compliance with the above exemptive provision of Rule 15c3-3 at March 31, 2002. Nothing came to the attention of the auditors to indicate such conditions had not been materially complied with for the fiscal year ended March 31, 2002.

See accompanying notes.

CADE & ASSOCIATES, P.C.
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE REQUIRED BY SEC RULE 17a-5

Director and Stockholder
Avalon Investment & Securities Group, Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Avalon Investment & Securities Group, Inc. (the Company) for the year ended March 31, 2002, 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 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. 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
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 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 SEC'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 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 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, 2002 to meet the SEC's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, the New York Stock Exchange 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.

Cade & Associates P.C.

CERTIFIED PUBLIC ACCOUNTANTS
Birmingham, Alabama
May 2, 2002