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OMB APPROVAL
OMB Number: 3235-0123
Expires: January 31, 2007
Estimates average burden
Hours per response . . . 12.00

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

SEC FILE NUMBER
8 - 49384

**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, 2005 AND ENDING DECEMBER 31, 2005
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER DEALER:

AVALON PARTNERS, INC.

OFFICIAL USE ONLY
FIRM ID. NO.

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

60 BROAD STREET, - SUITE 3403

(No. And Street)

NEW YORK

NY

10004

(City)

(State)

(Zip Code)

PROCESSED

JUN 25 2006

THOMSON FINANCIAL

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

VINCENT AU

212-994-9550

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report *

FULVIO & ASSOCIATES, LLP

ATTN: JOHN FULVIO, CPA

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

60 EAST 42ND STREET

NEW YORK

NY

10165

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

FOR OFFICIAL USE ONLY

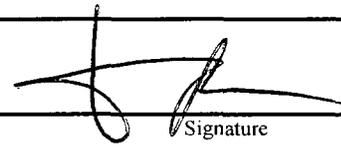
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as basis for the exemption. See section 240.17a-5(e)(2).

OATH OR AFFIRMATION

I, VINCENT AU, 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 PARTNERS, INC., as of

DECEMBER 31, 2005, 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:


Signature

PRESIDENT

Title



Notary Public

SUSAN F. VANVELSON
Notary Public, State of New York
No. 01VA6045572
Qualified in Ulster County
Commission Expires July 31, 2006

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 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 or 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 sin the date of previous audit.
- (o) Supplemental independent Auditors Report on Internal Accounting Control.

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



AVALON PARTNERS, INC.
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2005

AVALON PARTNERS, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2005

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INDEPENDENT AUDITORS REPORT

To the Board of Directors of
Avalon Partners, Inc.:

We have audited the accompanying statement of financial condition of Avalon Partners, Inc. (the "Company"), as of December 31, 2005, and the related statements of operations, changes in stockholders' 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 Avalon Partners, Inc. as of December 31, 2005, 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on pages 11 and 12 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 our 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 and in conformity with the rules of the Securities and Exchange Commission.

Fulvio & Associates LLP

New York, New York
March 20, 2006

AVALON PARTNERS, INC.
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2005

ASSETS

Cash	\$ 37,552
Due from brokers	25,477
Commissions receivable	157,387
Employee advances	73,987
Security deposits	70,000
Property and equipment, (net of accumulated depreciation of \$61,138)	27,308
Prepaid expenses and other assets	<u>42,478</u>
 TOTAL ASSETS	 <u>\$ 434,189</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:

Due to related parties	5,100
Commissions payable	81,078
Accrued expenses and accounts payable	<u>\$ 88,940</u>
 TOTAL LIABILITIES	 175,118

STOCKHOLDERS' EQUITY:

Common stock – no par value, 200 shares authorized, 100 shares issued and outstanding	100
Additional paid – in capital	699,098
Earnings deficit	<u>(440,127)</u>
 Total stockholders' equity	 <u>259,071</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 <u>\$ 434,189</u>

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

AVALON PARTNERS, INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

REVENUE:	
Commissions	\$ 1,882,266
Interest and dividend income	79,455
Other revenue	<u>40,360</u>
Total revenue	<u>2,002,081</u>
EXPENSES:	
Salaries and benefits	1,443,334
Professional fees	192,126
Clearing and other brokerage costs	128,248
Rent	155,668
Execution and regulatory fees	79,425
Data communications	61,635
Office	62,479
NASD settlements	50,143
Insurance	20,403
Depreciation	15,761
Travel and entertainment	7,874
Interest	525
Other	<u>27,277</u>
Total expenses	<u>2,244,898</u>
NET LOSS	<u>\$ (242,817)</u>

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

AVALON PARTNERS, INC.
 STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Common Stock</u>	<u>Additional Paid – In Capital</u>	<u>Earnings Deficit</u>	<u>Total</u>
Balances at January 1, 2005	\$ 100	\$ 699,098	\$ (197,310)	\$ 501,888
Net Loss	_____	_____	<u>(242,817)</u>	<u>(242,817)</u>
Balance at December 31, 2005	<u>\$ 100</u>	<u>\$ 699,098</u>	<u>\$ (440,127)</u>	<u>\$ 259,071</u>

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

AVALON PARTNERS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Loss		\$ (242,817)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	\$ 15,761	
Net changes in operating assets and liabilities:		
Decrease in due from broker	167,346	
Decrease in due from related parties	142,889	
Increase in commissions receivable	(87,089)	
Increase in employee advances	(11,906)	
Increase in prepaid expenses and other assets	(28,197)	
Increase in due to related parties	5,100	
Increase in a commissions payable	81,078	
Decrease in accrued expenses and accounts payable	<u>(55,124)</u>	
Total adjustments		<u>229,858</u>
Net cash used in operating activities		<u>(12,959)</u>
NET DECREASE IN CASH		(12,959)
CASH AT BEGINNING OF YEAR		<u>50,511</u>
CASH AT END OF YEAR		<u>\$ 37,552</u>
Supplemental cash flow disclosure:		
Cash paid for interest		<u>\$ 525</u>

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

AVALON PARTNERS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1. ORGANIZATION AND NATURE OF BUSINESS

Avalon Partners, Inc. (the "Company") is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the Securities Investor Protection Corporation (SIPC) and the National Association of Securities Dealers, Inc. (NASD).

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company is engaged in a single line of business as a securities broker-dealer, which comprises several classes of services, including agency transactions.

Use of Estimates

The preparation 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Securities Transactions

Customers' securities transaction, commission income, commission expense and related clearing expenses are reported on a settlement date basis. There are no significant differences between settlement and trade date commissions.

Income Taxes

The Company is considered a taxable entity and as a result files Federal, New York State and New York City income tax returns and has accrued for the applicable taxes for 2006.

Depreciation

Depreciation is provided on a straight-line basis using estimated useful lives of five to ten years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

AVALON PARTNERS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005
(continued)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising

Advertising costs are expensed as incurred and included in other expenses.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2005 consisted of the following:

Computer equipment	\$ 34,951
Furniture and fixtures	46,495
Telephone equipment	<u>7,000</u>
Total Fixed Assets, at cost	88,446
Less: accumulated depreciation	<u>61,138</u>
Net Fixed Assets	<u>\$ 27,308</u>

NOTE 4. DUE TO RELATED PARTIES

At December 31, 2005, there was a balance due to related parties in the amount of \$5,100.

NOTE 5. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET CREDIT RISK

The Company's activities involve the introduction of transactions on a fully disclosed basis with U.S. Clearing ("clearing broker") on behalf of customers. Through contractual agreement with the clearing broker, the Company is liable in the event the customers are unable to fulfill their contracted obligations with the clearing broker.

The customers' activities are transacted on either a cash or margin basis through the facilities of the clearing broker. In margin transactions, the clearing broker extends credit to customers, subject to various regulatory and margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the clearing

AVALON PARTNERS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005
(continued)

NOTE 5. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET CREDIT RISK
(continued)

broker executes and clears customers' transactions involving the sale of securities that are not yet purchased ("short sales"). These transactions may expose the Company to significant off-balance-sheet risk in the event the customers fail to satisfy their obligations to the clearing broker. The Company may then be required to compensate the clearing broker for losses incurred on behalf of the customers.

The Company, through its clearing broker, seeks to control the risks associated with its customers' activities by requiring customers to maintain margin collateral in compliance with various regulatory and the clearing brokers' internal guidelines. The clearing broker monitors required margin levels daily and, pursuant to such guidelines, requires the customers to deposit additional collateral, or reduce positions, when necessary.

NOTE 6. LEASE COMMITMENTS

The Company signed a 10 year lease commencing on October 1, 2002. Future minimum lease payments required under this lease are as follows:

2006	\$ 159,877
2007	172,840
2008	172,840
2009	172,840
2010	172,840
Thereafter	<u>144,033</u>
Total	<u>\$ 995,270</u>

NOTE 7. NET CAPITAL REQUIREMENTS

The Company is subject to the SEC Uniform Net Capital Rule, 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 December 31, 2005, the Company had net capital of \$45,298, which was \$33,624 in excess of its required net capital of \$11,674.

SUPPLEMENTAL INFORMATION

AVALON PARTNERS, INC.
 COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1
 OF THE SECURITIES AND EXCHANGE COMMISSION
 AS OF DECEMBER 31, 2005

Credits:

Shareholders' equity	\$ 259,071
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Debits:

Non-allowable assets	<u>213,773</u>
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Net capital before haircuts on securities positions	45,298
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Haircuts on securities positions

-

Net Capital	45,298
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Computation of Minimum Net Capital Requirement:

Minimum Net Capital: The greater of 5,000 or 6.67% of aggregate indebtedness)	<u>11,674</u>
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Excess Net Capital	<u>\$ 33,624</u>
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Total Aggregate Indebtedness	\$ 175,118
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Ratio of Aggregate Indebtedness to Net Capital	<u>3.87 to 1</u>
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No material differences existed between the above computation and the computation included on the Company's unaudited Form X-17A-5 Part IIA filing, as submitted.

AVALON PARTNERS, INC.
COMPUTATION FOR DETERMINATION OF THE RESERVE REQUIREMENTS
AND INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS
FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-3
FOR THE YEAR ENDED DECEMBER 31, 2005

The Company does not effect transactions for anyone defined as a customer under Rule 15c3-3. Accordingly, there are no items to report under the requirements of this Rule.

**SUPPLEMENTARY REPORT
OF INDEPENDENT AUDITORS**

*Certified Public Accountants*60 East 42nd Street
New York, New York 10165
TEL: 212-490-3113
FAX: 212-986-3679
www.fulviollp.com**INDEPENDENT AUDITORS' SUPPLEMENTARY REPORT
ON INTERNAL ACCOUNTING CONTROL**

To the Board of Directors of
Avalon Partners, Inc.:

In planning and performing our audit of the financial statements and supplemental schedules of Avalon Partners, Inc. (the "Company") for the year ended December 31, 2005, 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 (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:

- Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13
- 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.
- Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

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 practice 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 accounting principles generally accepted in the United States of America. 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, error or fraud may occur and not be detected. Also, projection or 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 one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error 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 purpose 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 our study, we believe that the Company's practices and procedures were adequate at December 31, 2005, to meet the SEC's objectives.

This report recognizes that it is not practicable in an organization the size of Avalon Partners, Inc. to achieve all the divisions of duties and cross-checks generally included in a system of internal accounting control and that alternatively greater reliance must be placed on surveillance by management.

This report is intended solely for the information and use of management, the Securities and Exchange Commission, the National Association of Securities Dealers, Inc. 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 those specified parties.

Fulvio & Associates LLP

New York, New York
March 20, 2006