

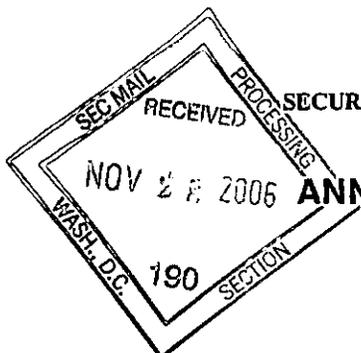
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



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

OMB APPROVAL
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**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 10/01/05 AND ENDING 09/30/06
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
ALTON SECURITIES GROUP, INC.
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

2410 STATE STREET

(No. and Street)

ALTON
(City)

IL
(State)

62002
(Zip Code)

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

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

SCHEFFEL & COMPANY, P.C.

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

322 STATE STREET
(Address)

ALTON
(City)

IL
(State)

62002
(Zip Code)

CHECK ONE:

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

PROCESSED
DEC 06 2006
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)

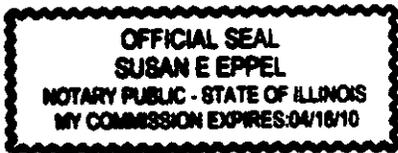
SEC 1410 (06-02)

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12/5

OATH OR AFFIRMATION

I, DENNIS ROSE, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of ALTON SECURITIES GROUP, INC., as of SEPTEMBER 30, 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:



Susan E Eppel
Notary Public

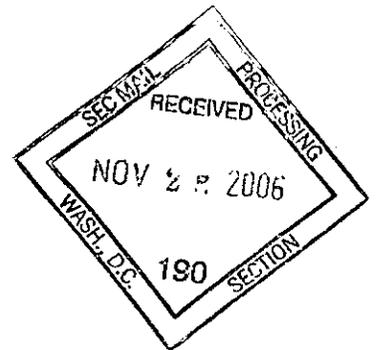
Dennis Rose
Signature
TREASURER
Title

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 15c3-1 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).

ALTON SECURITIES GROUP, INC.
REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
SEPTEMBER 30, 2006



ALTON SECURITIES GROUP, INC.
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Scheffel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Richard C. Scheffel, C.P.A.
Dennis E. Ulrich, C.P.A.
Ronald C. Schneider, C.P.A.
Michael E. Fitzgerald, C.P.A.
Kimberly S. Loy, C.P.A.
Steven P. Langendorf, C.P.A.
Steven C. Pembroke, C.P.A.

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618-498-6841 Fax 498-6842

☐ Rural Rt. 3, Box 129BA
U.S. Highway 67 North
Carrollton, IL 62016
217-942-3821 Fax 942-6614

November 22, 2006

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Alton Securities Group, Inc.
Alton, IL

We have audited the accompanying statement of financial condition of Alton Securities Group, Inc. as of September 30, 2006, and the related statements of income, changes in stockholders' equity, changes in liabilities subordinated to claims of general creditors, 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 Alton Securities Group, Inc. at September 30, 2006, and the results of their operations and their 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 Schedule I 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 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.

Scheffel & Company P.C.

Scheffel & Company, P.C.

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November 22, 2006

REPORT ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5 FOR A BROKER-DEALER CLAIMING AN EXEMPTION FROM SEC RULE 15c3-3

Board of Directors
Alton Securities Group, Inc.
Alton, IL

In planning and performing our audit of the financial statements and supplemental schedule of Alton Securities Group, Inc. for the year ended September 30, 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 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:

1. Making quarterly securities examinations, counts, verifications, comparisons and 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.
3. 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 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 or 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.

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 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 September 30, 2006, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, 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 it is not intended to be and should not be used by anyone other than these specified parties.

Scheffel & Company P.C.

ALTON SECURITIES GROUP, INC.

Statement of Financial Condition

September 30, 2006

ASSETS

Cash and cash equivalents	\$ 15,836
Deposit with clearing broker	50,000
Receivable from clearing broker	85,104
Receivable from Alton Capital Management, Inc.	454
Note receivable from stockholder	6,441
Prepaid insurance	3,086
Prepaid state income tax	905
Prepaid federal income tax	<u>2,700</u>
	<u>164,526</u>
Furniture, and equipment, at cost, less accumulated depreciation of \$36,692	<u>495</u>
Deferred tax asset – federal	4,780
Deferred tax asset – state	<u>2,745</u>
	<u>7,525</u>
Total assets	<u>\$172,546</u>

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

ALTON SECURITIES GROUP, INC.

Statement of Financial Condition

September 30, 2006

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:

Accounts payable	\$ 60,733
Accrued payroll	26,314
Accrued pension	4,873
State income taxes payable	10
Payroll taxes payable	1,317
Deferred tax liability – federal	38
Deferred tax liability – state	<u>12</u>

93,297

Subordinated borrowings:

Notes payable to stockholders	<u>29,800</u>
-------------------------------	---------------

Stockholders' equity:

Common stock, class A, \$100 par value, authorized 2,250 shares, issued and outstanding 1,052 shares	105,200
Common stock, class B, \$100 par value, authorized 15,000 shares, issued 301 shares, outstanding 0 shares	30,100
Treasury stock, class B, \$100 par value, 301 shares, at cost	(30,100)
Additional paid-in capital	19,241
Retained earnings (deficit)	<u>(74,992)</u>

Total stockholders' equity 49,449

Total liabilities and stockholders' equity \$172,546

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

ALTON SECURITIES GROUP, INC.

Statement of Income

For the Year Ended September 30, 2006

Revenues:	
Commissions and fees	\$1,494,423
Interest income	<u>123,862</u>
Total revenues	<u>1,618,285</u>
Expenses:	
Employee compensation and benefits	186,119
Client settlement and fines	17,500
Commissions	143,044
Contractual commissions	695,406
Communications/Informational systems	353,210
Contributions	350
Occupancy and equipment rental	45,607
Interest	1,788
Taxes, other than income taxes	42,414
Advertising	10,104
Depreciation	2,918
Insurance	25,930
License and fees	6,673
Professional fees	36,220
Travel and entertainment	15,603
Telephone	8,389
Repairs and maintenance	8,181
Supplies	6,418
Subscriptions	26,023
Utilities	12,550
Other operating expenses	<u>3,937</u>
Total expenses	<u>1,648,384</u>
Income (loss) before income taxes	(30,099)
Provision for income taxes, including net deferred taxes of \$(5,375)	<u>(5,320)</u>
Net income (loss)	<u>\$ (24,779)</u>
Earnings (loss) per share of common stock	<u>\$ (23.55)</u>

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

ALTON SECURITIES GROUP, INC.
Statement of Changes in Stockholders' Equity
For the Year Ended September 30, 2006

	<u>Common Stock</u>		<u>Treasury Stock</u> <u>Class B</u>	<u>Additional</u> <u>Paid-in</u> <u>Capital</u>	<u>Retained</u> <u>Earnings</u> <u>(Deficit)</u>	<u>Total</u> <u>Stockholders'</u> <u>Equity</u>
	<u>Class A</u> <u>Shares</u>	<u>Class B</u> <u>Shares</u>				
Balances at October 1, 2005	1,052	301	\$30,100	\$19,241	\$(50,213)	\$ 74,228
Net income (loss)	—	—	—	—	(24,779)	(24,779)
Balances at September 30, 2006	<u>1,052</u>	<u>301</u>	<u>\$30,100</u>	<u>\$19,241</u>	<u>\$(74,992)</u>	<u>\$ 49,449</u>

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

ALTON SECURITIES GROUP, INC.
Statement of Changes in Liabilities Subordinated to Claims of General Creditors
For the Year Ended September 30, 2006

Subordinated borrowings at October 1, 2005	\$29,800
Increases:	
Issuance of subordinated notes	0
Decreases:	
Payment of subordinated notes	<u>0</u>
Subordinated borrowings at September 30, 2006	<u>\$29,800</u>

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

ALTON SECURITIES GROUP, INC.
Statement of Cash Flows
For the Year Ended September 30, 2006

Cash Flows from Operating Activities:	
Net income (loss)	\$ (24,779)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation	2,918
Net deferred taxes	(5,375)
(Increase) decrease in operating assets:	
Receivable from clearing broker	(19,463)
Receivable from Alton Capital Management, Inc.	(340)
Prepaid insurance	(1,102)
Prepaid income taxes	609
Deposits	2,225
Increase (decrease) in operating liabilities:	
Accounts payable	20,094
Accrued payroll	3,447
Accrued pension	4,873
Payroll taxes payable	195
Accrued real estate taxes	(9,100)
Income taxes payable	10
Accrued settlement	<u>(7,500)</u>
Net cash provided (used) by operating activities	<u>(33,288)</u>
Cash Flows from Financing Activities:	
Interest on note receivable from stockholder	<u>(353)</u>
Net increase in cash, cash equivalents, and deposits with clearing broker	(33,641)
Cash, cash equivalents, and deposits with clearing broker:	
Beginning of year	<u>99,477</u>
End of year	<u>\$ 65,836</u>
Supplemental disclosures:	
Interest paid	<u>\$ 1,788</u>

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

ALTON SECURITIES GROUP, INC.
Notes to Financial Statements
For the Year Ended September 30, 2006

1. Organization and Nature of Business

Alton Securities Group, Inc. (the Company) is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the National Association of Securities Dealers, Inc. (NASD). The Company is an Illinois corporation with headquarters in Alton, Illinois and operating throughout the United States. The broker-dealer's primary source of revenue is commissions from providing brokerage services to customers who are small businesses and individuals.

2. Significant Accounting Policies

Basis of Presentation

The Company is engaged in a single line of business as a securities broker-dealer.

Securities Transactions and Commissions

Customers' securities transactions are reported on a settlement date basis with related commission income and expenses reported on a trade date basis.

Income Taxes

The amount of current and deferred tax assets and payables or refundable taxes is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in deferred tax assets or liabilities between years.

Depreciation

Depreciation is provided on a straight-line basis using estimated useful lives of three to ten years for equipment.

	<u>Years</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Furniture and equipment	3-10	\$ 32,571	\$32,176
Signage	5	<u>4,516</u>	<u>4,516</u>
		37,187	<u>\$36,692</u>
Less: accumulated depreciation		<u>(36,692)</u>	
Net property and equipment		<u>\$ 495</u>	

Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days, that are not held for sale in the ordinary course of business.

Concentrations of Cash

The Company at times during the year had cash deposits which exceeded \$100,000 in multiple accounts in two banks. The Federal Deposit Insurance Corporation (FDIC) insures only the first \$100,000 of funds at member banks.

3. Cash and Securities Segregated Under Federal and Other Regulations

No cash has been segregated in a special reserve bank account for the benefit of customers under rule 15c3-3 of the Securities and Exchange Commission. The Company does not hold any customer funds, accordingly, no reserve account is required.

4. Payable to Clearing Broker

No amounts are due to the clearing broker.

5. Subordinated Borrowings

The borrowings under subordination agreements originally dated September 30, 1996, and extended on July 8, 2004, are listed below.

Subordinated notes, 6 percent, due July 15, 2011	<u>\$29,800</u>
--	-----------------

The subordinated borrowings are covered by agreements approved by the National Association of Securities Dealers, Inc. and are thus available in computing net capital under the Securities and Exchange Commission's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

6. Note Receivable

The company has a demand note receivable from a stockholder in the amount of \$6,441. Interest on the note is at six (6) percent.

7. 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 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At September 30, 2006, the Company had net capital of \$57,543, which was \$7,543 in excess of its required net capital of \$50,000. The Company's net capital ratio was 1.62 to 1.

8. Income Taxes

The income tax provision consists of the following:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Federal		\$(3,817)	\$(3,817)
State	\$55	<u>(1,558)</u>	<u>(1,503)</u>
	<u>\$55</u>	<u>\$(5,375)</u>	<u>\$(5,320)</u>

Deferred income tax assets and liabilities are principally applicable to differences in tax and book depreciation and net operating loss carry forwards. Net deferred income tax asset is \$(7,475) as of September 30, 2006.

	Deferred Tax <u>Asset</u>	Deferred Tax <u>Liability</u>	Net Deferred <u>Tax Liability (Assets)</u>
Federal	\$4,780	\$38	\$(4,742)
States	<u>2,745</u>	<u>12</u>	<u>(2,733)</u>
	<u>\$7,525</u>	<u>\$50</u>	<u>\$(7,475)</u>

9. Earnings Per Share

Earnings per share of common stock was computed by dividing net income by the weighted average number of common shares outstanding for the year (1,052 shares).

10. SIPC Annual Assessment

Regional Operations Group, Inc., the clearing broker for Alton Securities Group, Inc., assesses and remits to the Securities and Investor Protection Corporation all required assessments.

11. Pension Plan

The company adopted a SIMPLE - IRA plan effective September 1, 1997. The plan calls for the company to make matching contributions towards employee contributions. The contribution matches dollar for dollar up to three (3) percent of compensation. The company has no future liability beyond the match. Pension expense for the year amounted to \$6,301.

12. Use of estimates in the preparation of financial statements

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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

13. Lease Commitments

The company leases office space under a month to month lease agreement. The lease agreement calls for lease payments of \$3,500 per month and the associated cost of real estate taxes and insurance. Lease payments totaled \$42,000 for the year. The office space is leased from a related company which is owned by the same stockholders as Alton Securities Group, Inc.

The company leases postage equipment under a 57 month agreement expiring November, 2008. The company pays quarterly rental payments of \$393. Payments under this lease totaled \$1,239 for the year.

The Company leases copier equipment under a 60 month agreement expiring June, 2009. The company pays monthly rental payments of \$168. Payments under this lease totaled \$2,035 for the year.

At year end, the future minimum lease payments under the terms of the various leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2007	\$ 6,732
2008	6,732
2009	<u>2,298</u>
	<u>\$15,762</u>

14. Related Party Transactions

The Company has a related company (Alton Capital Management, Inc.) which is owned by the same owners as the Company. Alton Capital Management, Inc. derives its revenues from investment advisory services. The Company receives administration fees from Alton Capital Management, Inc. During the year, the Company received \$46,337 in administration fees.

15. Contingent Liabilities Litigation/Arbitration

The Company is a party to various litigation. Management's intent in consideration of legal advice is to vigorously defend the Company. No provision has been made related to litigation as it is management's belief that no liability exists.

Schedule I
ALTON SECURITIES GROUP, INC.
 Computation of Net Capital Under Rule 15c3-1 of the
 Securities and Exchange Commission
 As of September 30, 2006

NET CAPITAL

Total stockholders' equity	\$ 49,449
Total stockholders' equity qualified for net capital	
Add:	
Subordinated borrowings allowable in computation of net capital	<u>29,800</u>
Total capital and allowable subordinated borrowings	79,249
Deductions and/or charges:	
Non-allowable assets:	
Accounts receivable from non-customers	6,895
Furniture and equipment (net)	495
Other assets	<u>14,316</u>
Total	<u>21,706</u>
Total net capital	<u>\$ 57,543</u>

AGGREGATE INDEBTEDNESS

Items included in statement of financial condition	
Accrued payroll	\$ 26,314
Accounts payable	60,733
Other accrued expenses	<u>6,200</u>
Total aggregate indebtedness	<u>\$ 93,247</u>

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Minimum net capital required	<u>\$ 50,000</u>
Excess net capital at 1500%	<u>\$ 52,881</u>
Excess net capital at 1000%	<u>\$ 48,218</u>
Ratio: Aggregate indebtedness to net capital	<u>1.62 to 1</u>

There is no material difference from the company's computation and Part II of Form X-17A-5(a) on September 30, 2006.