

08030482

FEB 29 2008 ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

DIVISION OF FINANCIAL REGULATION

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	February 28, 2010
Estimated average burden hours per response....	12.00

AS *
3/24

SEC FILE NUMBER
8- 51039

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, 2007 AND ENDING December 31, 2007
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Alaron Financial Services, Inc.

OFFICIAL USE ONLY

FIRM I.D. NO.

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

806 W. Washington Blvd., Suite 205
(No. and Street)
Chicago, Illinois 60607
(City) (State) (Zip Code)

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

David Bonifield (312) 563-8183
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

McGladrey & Pullen, LLP

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

One South Wacker Dr., Suite 800 Chicago IL 60606
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED
MAR 31 2008
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)

AT
3/27

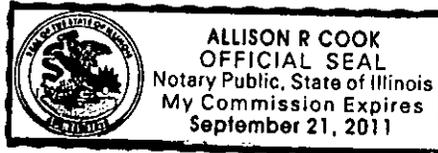
OATH OR AFFIRMATION

I, David Bonifield, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Alaron Financial Services, Inc., as of December 31, 2007, 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.

David Bonifield
Signature

President
Title

Allison R Cook
Notary Public



This report ** contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital
- (h) Computation 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.
- (o) Independent Auditor's Report on Internal Control

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

Contents

Independent Auditor's Report	1
<hr/>	
Financial Statement	
Statement of Financial Condition	2
Notes to Statement of Financial Condition	3 - 4
<hr/>	
Independent Auditor's Report on Internal Control	5 - 6

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Stockholder
Alaron Financial Services, Inc.
Chicago, Illinois

We have audited the accompanying statement of financial condition of Alaron Financial Services, Inc. (the Company) as of December 31, 2007, that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement 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 statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit of the statement of financial condition provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Alaron Financial Services, Inc. as of December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Chicago, Illinois
February 28, 2008

Alaron Financial Services, Inc.

**Statement of Financial Condition
December 31, 2007**

Assets

Cash	\$	89,430
Commissions receivable		118,951
Receivable from affiliate		7,468
Other assets		<u>24,183</u>
Total assets	\$	<u>240,032</u>

Liabilities and Stockholder's Equity

Commissions payable	\$	107,218
Accounts payable, accrued expenses and other liabilities		<u>5,639</u>
Total liabilities		<u>112,857</u>

Stockholder's Equity

Common stock, no par value; authorized 100,000 shares; issued and outstanding 1,000 shares		-
Additional paid-in capital		706,615
Accumulated deficit		<u>(579,440)</u>
Total stockholder's equity		<u>127,175</u>
Total liabilities and stockholder's equity	\$	<u>240,032</u>

The accompanying notes are an integral part of the statement of financial condition.

Alaron Financial Services, Inc.

Notes to Statement of Financial Condition

Note 1. Nature of Business and Significant Accounting Policies

Alaron Financial Services, Inc. (the Company) is a registered broker-dealer with the Securities and Exchange Commission (SEC) and a member of the Financial Industry Regulatory Authority (FINRA). The Company is licensed in Illinois. The Company is a wholly owned subsidiary of Alaron Holdings Corporation (Alaron or the Parent), which purchased all of the outstanding stock of the Company on May 11, 2002. The Company engages in investment banking and consulting services to small and medium-sized businesses.

The Company operates under the provisions of paragraph (k)(2)(ii) of rule 15c3-3 of the Securities Exchange Act of 1934 and, accordingly, is exempt from the remaining provisions of that rule. Essentially, the requirements of paragraph (k)(2)(ii) provide that the Company clear all transactions on behalf of customers on a fully disclosed basis with a clearing broker-dealer, and promptly transmit all customer funds and securities to the clearing broker-dealer. The clearing broker-dealer carries all of the accounts of the customers and maintains and preserves all related books and records as are customarily kept by a clearing broker-dealer.

Significant accounting policies are as follows.

Accounting estimates: 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.

Revenue recognition: Investment banking revenues include both success fees earned and hourly work performed providing merger and acquisition and financial restructuring advisory services. Success fee revenue is recognized as services are provided to customers, with the majority of recognition occurring when sales are successfully consummated, as defined in each engagement. Hourly revenue is recognized as incurred. Consulting revenue is recognized as services are provided and billed to customers.

Fair value of financial instruments: All financial instruments are carried at amounts that approximate estimated fair value.

Income taxes: The Company is a member of a group that files a consolidated federal tax return. Accordingly, federal income taxes payable to (refundable from) the tax authority are recognized on the financial statements of the parent company who is the taxpayer for federal income taxes purposes. The members of the consolidated group allocate payments to any member of the group for the federal income tax reductions resulting from the member's inclusion in the consolidated return, or the member makes payments to the parent company for its allocated share of the consolidated federal income tax liability. The Company separately files its state income tax return.

Note 2. Related Parties

The Parent provides the Company with office space, access to use of its business machines, use of telephone and facsimile lines and hardware and allocates such costs to the Company. The Company can also utilize the clerical employees provided that the business demands of the Company do not interfere with the obligations of such employees to the Parent.

The Company periodically performs consulting services for the Parent and other affiliates related through indirect common ownership.

Alaron Financial Services, Inc.

Notes to Statement of Financial Condition

Note 3. Concentration of Credit Risk

The Company is exposed to concentrations of credit risk. The Company maintains cash at a financial institution where the total cash balance is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000 per depositor, per bank. At any given time, the Company's cash balance may exceed the balance insured by the FDIC. The Company monitors such credit risk at the financial institution and has not experienced any losses related to such risks to date.

Note 4. Investment in Limited Liability Company

The Company has served as the placement agent for the capital raise of a limited liability company for which they are to receive two percent of the total capital raised upon the final close of the offering as an equity investment in the limited liability company. Eighty percent of the total amount received is to be paid to registered representatives upon receipt of the interest. As of December 31, 2007, the final close had not taken place. At the time of the final closing, the Company will record the investment and related commission payable.

Note 5. Subsequent Event

The Company intends to file a Form BD-W in February 2008, which is a uniform request for withdrawal from broker-dealer registration. The Company no longer plans to remain operational as a broker-dealer.

Note 6. Net Capital Requirements

The Company is a broker-dealer subject to the SEC 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. 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. At December 31, 2007, the Company had net capital of \$83,791, which was \$76,267 in excess of its required net capital of \$7,524. At December 31, 2007, the Company's ratio of aggregate indebtedness to net capital was 1.35 to 1.

Note 7. Income Taxes

The Company has income tax assets of \$230,289 as of December 31, 2007 that are fully offset with valuation allowances. The tax assets are the tax effect of the temporary differences resulting from net operating loss carry-forwards, whose ultimate realization is dependent upon the generation of future taxable income. Management believes it is unlikely the Company will realize the benefits of these future tax deductions.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Internal Control

To the Stockholder
Alaron Financial Services, Inc.
Chicago, Illinois

In planning and performing our audit of the financial statements of Alaron Financial Services, Inc. (the Company) as of and for the year ended December 31, 2007, 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 compliance with 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 quarterly securities examinations, counts, verifications, and 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.

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.

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 a 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. However, we identified the following deficiency in internal control that we consider to be a material weakness, as defined above.

During the year ended December 31, 2007, the Company had not recorded commissions receivable and commissions payable related to an investment banking deal for which they have been the placement agent. This resulted in a material misstatement in the financial statements, which was not identified by the Company's internal control prior to the preparation and filing of the Company's FOCUS report. The Company was not undercapitalized during the year ended December 31, 2007 as a result of this material misstatement. As the Company has filed a Form BD-W, no corrective actions are to be taken on the part of management to remedy the control issues. The Company intends to cease operations as a broker-dealer.

This condition was considered in determining the nature, timing, and extent of the procedures performed in our audit of the financial statements of the Company as of and for the year ended December 31, 2007, and this report does not affect our report thereon dated February 28, 2008.

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, except for the deficiency described above, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2007, to meet the SEC's objectives.

This report is intended solely for the information and use of management, the SEC, the 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 broker-dealers, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Chicago, Illinois
February 28, 2008