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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  
8-17078

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 April 1, 2007 AND ENDING March 31, 2008  
MM/DD/YY 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, Crenshaw & Associates, P.C.

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

2100 Southbridge Parkway, Suite 480, Birmingham

AL

SEC  
Mail Processing  
Section 35209  
MAY 28 2008  
Washington, DC  
101

(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)

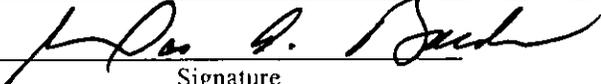
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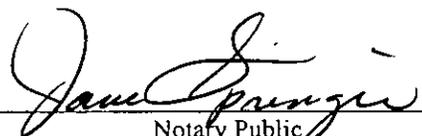
5/29

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 Investment & Securities Group, Inc., as of March 31, 2008, 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  
My Commission Expires 9/5/09

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).

**AVALON INVESTMENT & SECURITIES GROUP, INC.**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**March 31, 2008**

**AVALON INVESTMENT & SECURITIES GROUP, INC.**

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**CADE, CRENSHAW & ASSOCIATES, P.C.**

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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, 2008 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, 2008, 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, Crenshaw & Associates, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS  
Birmingham, Alabama  
May 21, 2008

**AVALON INVESTMENT & SECURITIES GROUP, INC.**  
**Statement of Financial Condition**  
**March 31, 2008**

<b>ASSETS:</b>	
Cash	\$ 30,066
Commission Receivable	70,373
Note Receivable - Shareholder	24,921
Investments	11,598
Prepaid Expenses	<u>1,950</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 138,908</u></u></b>
<b>LIABILITIES:</b>	
Accounts Payable	\$ 6,389
Assessment Fees Payable	4,000
Commission Payable	<u>59,817</u>
<b>TOTAL LIABILITIES</b>	<b><u>70,206</u></b>
<b>STOCKHOLDER'S EQUITY:</b>	
Common Stock, Par Value \$ 10 per Share, Authorized 400 Shares, Issued and Outstanding 100 Shares	1,000
Additional Paid-In Capital	66,579
Retained Earnings	<u>1,123</u>
<b>TOTAL STOCKHOLDER'S EQUITY</b>	<b><u>68,702</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b><u><u>\$ 138,908</u></u></b>

See accompanying notes.

**AVALON INVESTMENT & SECURITIES GROUP, INC.**  
**Statement of Income and Retained Earnings**  
**Year Ended March 31, 2008**

<b>REVENUE:</b>	
Commissions	\$ 825,692
	<u>825,692</u>
Total Revenue	<u>825,692</u>
 <b>OPERATING EXPENSES:</b>	
Administration Expenses	27,250
Audit and Tax Preparation	3,610
Bank Charges	30
Commissions	742,996
Consulting	50,989
Contract Labor	975
Dues and Assessments	417
Internet	1,838
Licenses and Permits	881
Meals & Entertainment	283
Miscellaneous Expense	3,229
Other Taxes	50
Postage, Printing, Delivery and Reproduction	4,346
Professional Fees	3,975
Rent	21,720
Repairs	90
Supplies	1,473
Telephone	7,069
Travel	60
	<u>871,281</u>
Total Operating Expenses	<u>871,281</u>
 <b>OTHER INCOME (EXPENSES)</b>	
NASD - Special Member Payment	35,000
Administrative Processing Fees	13,332
Unrealized Gain on Securities	2,775
	<u>51,107</u>
Total Other Income (Expenses)	<u>51,107</u>
 <b>NET INCOME</b>	 5,518
 <b>ACCUMULATED DEFICIT - APRIL 1, 2007</b>	 <u>(4,395)</u>
 <b>RETAINED EARNINGS - MARCH 31, 2008</b>	 <u>\$ 1,123</u>

See accompanying notes.

**AVALON INVESTMENT & SECURITIES GROUP, INC.**  
**Statement of Changes in Stockholder's Equity**  
**Year Ended March 31, 2008**

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)
	Shares	Amount		
<b>BALANCE - April 1, 2007</b>	100	\$ 1,000	\$ 66,579	\$ (4,395)
<b>NET INCOME</b>	-	-	-	5,518
<b>BALANCE - March 31, 2008</b>	100	\$ 1,000	\$ 66,579	\$ 1,123

See accompanying notes.

**AVALON INVESTMENT & SECURITIES GROUP, INC.**  
**Statement of Cash Flows**  
**Year Ended March 31, 2008**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash Received from Clients	\$ 825,692
Cash Paid to Suppliers	<u>(830,291)</u>

Cash Flow from Operating Activities, Net	(4,599)
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CASH - APRIL 1, 2007	<u>34,665</u>
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CASH - MARCH 31, 2008	<u><u>\$ 30,066</u></u>
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**RECONCILIATION OF NET INCOME TO NET CASH  
USED BY OPERATING ACTIVITIES:**

Net Income	\$ 5,518
Unrealized Gain on Securities	(2,775)

Adjustments:

Increase in Accounts Payable	1,389
Decrease in Commission Payable	(9,984)
Increase in Commission Receivable	11,745
Increase in Note Receivable - Shareholder	(10,671)
Decrease in Prepaid Expenses	<u>179</u>

CASH FLOW FROM OPERATING ACTIVITIES, NET	<u><u>\$ (4,599)</u></u>
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See accompanying notes.

**AVALON INVESTMENT & SECURITIES GROUP, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**March 31, 2008**

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**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, 2008**

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**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, 2008, the company had net capital of \$ 32,419, which was \$ 27,419 in excess of its required net capital of \$5,000. The company's percentage of aggregate indebtedness to net capital was 217%.

**Note 3 - LIABILITIES SUBORDINATED TO CLAIMS OF CREDITORS** - There were no liabilities subordinated to claims of creditors as of March 31, 2008 or during the year then ended.

**Note 4 - INCOME TAXES** - The Company had available at March 31, 2008, \$1,059 of unused operating loss carryforwards that will be applied against current taxable income. The remaining taxable income generates current deferred taxes and income tax expenses that are immaterial to these financial statements. Thus, no provision for taxes has been included.

**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 Company has a Note Receivable from its shareholder at March 31, 2008 of \$24,921. This note is non interest bearing and due on demand.

**AVALON INVESTMENT & SECURITIES GROUP, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**March 31, 2008**

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- Note 6 - INVESTMENTS** – The Company’s securities investments are bought and held principally for the purpose of selling them in the near term. They are classified as trading securities and are recorded at fair value on the balance sheet. The change in fair value during the period is included in earnings as Other Income or Loss.
- Note 7 - LIABILITY INSURANCE** – The Company remains self-insured. As a result, any judgment against the Company from litigation arising subsequent to date of insurance could adversely affect the Company’s results of operations.

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, 2008**

**NET CAPITAL:**

Total Stockholder's Equity	\$	68,702
Deduct Stockholder's Equity Not Allowable for Net Capital		-

Total Stockholder's Equity Qualified for Net Capital		68,702
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Add:

A. Allowable Subordinated Liabilities		-
B. Other Deductions or Credits		-

Total Capital and Allowable Subordinated Liabilities		68,702
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Deductions and/or Charges:

A. Non-Allowable Assets		
Commission Receivable	\$ 7,672	
Advances on Commissions	24,921	
Investments	-	
Prepaid Expenses	1,950	(34,543)
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		34,159
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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	(1,740)	(1,740)
D. Undue Concentration		-
E. Other		-

<b>NET CAPITAL</b>	<b>\$</b>	<b>32,419</b>
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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, 2008**

<b>AGGREGATE INDEBTEDNESS</b>	<u>\$ 70,206</u>
<b>COMPUTATION OF BASIC NET CAPITAL REQUIREMENT:</b>	
Minimum Net Capital Required	<u>\$ 5,000</u>
<b>EXCESS NET CAPITAL</b>	<u>\$ 27,419</u>
<b>EXCESS NET CAPITAL AT 1000%</b>	<u>\$ 25,398</u>
<b>PERCENT OF AGGREGATE INDEBTEDNESS TO NET CAPITAL</b>	<u>217%</u>

**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, 2008) 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, 2008**

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, 2008. 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, 2008.

See accompanying notes.

**CADE, CRENSHAW & 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, 2008, 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, 2008 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, Crenshaw & Associates, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS  
Birmingham, Alabama  
May 21, 2008