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Washington, D.C. 20549

OMB APPROVAL
OMB Number: 3235-0123
Expires: October 31, 2004
Estimated average burden
hours per response..... 12.00

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

MAIL DELIVERED
MAY 28 2003
WASHINGTON, D.C. 20549
SECTION 188

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 4/1/02 AND ENDING 3/31/03
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
Avalon Investment & Securities Group, Inc.
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
404 Avalon Avenue, Suite 200

OFFICIAL USE ONLY
FIRM I.D. NO.

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.

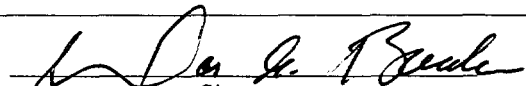
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FOR OFFICIAL USE ONLY JUN 06 2003
THOMSON FINANCIAL

*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)

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, 2003, 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 9/5/05

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).

AVALON INVESTMENT & SECURITIES GROUP, INC.
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
March 31, 2003

AVALON INVESTMENT & SECURITIES GROUP, INC.

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CADE & 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, 2003 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, 2003, 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 21, 2003

AVALON INVESTMENT & SECURITIES GROUP, INC.
Statement of Financial Condition
March 31, 2003

ASSETS:	
Cash	\$ 24,049
Advances on Commission	26,000
Investments	3,300
Prepaid Expenses	<u>1,669</u>
TOTAL ASSETS	<u><u>\$ 55,018</u></u>
 LIABILITIES:	
Accounts Payable	<u>\$ 2,400</u>
 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	<u>(14,961)</u>
TOTAL STOCKHOLDER'S EQUITY	<u>52,618</u>
 TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	 <u><u>\$ 55,018</u></u>

See accompanying notes.

AVALON INVESTMENT & SECURITIES GROUP, INC.
Statement of Operations and Accumulated Deficit
Year Ended March 31, 2003

REVENUE:

Commissions	\$ 326,389
Miscellaneous Income	<u>3,462</u>
 Total Revenue	 <u>329,851</u>

EXPENSES:

Commissions	274,449
Rent	11,040
Telephone	8,635
Administration Expenses	8,500
Insurance	6,087
Audit and Tax Preparation	3,613
Postage, Printing, Delivery and Reproduction	2,958
Miscellaneous Expense	2,483
Dues and Assessments	1,113
Supplies	908
Contributions	633
Other Taxes	460
Equipment Rental	396
Repairs	241
Contract Labor	200
Travel	100
Licenses and Permits	<u>70</u>
 Total Expenses	 <u>321,886</u>

NET INCOME	7,965
 ACCUMULATED DEFICIT - APRIL 1, 2002	 <u>(22,926)</u>
 ACCUMULATED DEFICIT - MARCH 31, 2003	 <u><u>\$ (14,961)</u></u>

AVALON INVESTMENT & SECURITIES GROUP, INC.
Statement of Changes in Stockholder's Equity
Year Ended March 31, 2003

	Common Stock		Additional Paid-In Capital	Accumulated Deficit
	Shares	Amount		
BALANCE - April 1, 2002	100	\$ 1,000	\$ 66,579	\$ (22,926)
NET INCOME	-	-	-	7,965
BALANCE - March 31, 2003	100	\$ 1,000	\$ 66,579	\$ (14,961)

AVALON INVESTMENT & SECURITIES GROUP, INC.

**Statement of Cash Flows
Year Ended March 31, 2003**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from Clients	\$ 329,851
Cash Paid to Suppliers	<u>(319,964)</u>

Cash Flow from Operating Activities, Net	9,887
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CASH - APRIL 1, 2002	<u>14,162</u>
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CASH - MARCH 31, 2003	<u><u>\$ 24,049</u></u>
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**RECONCILIATION OF NET INCOME TO NET CASH
USED BY OPERATING ACTIVITIES:**

Net Income	\$ 7,965
Adjustments:	
Increase in Accounts Payable	2,400
Decrease in Prepaid Expenses	<u>(478)</u>

CASH FLOW FROM OPERATING ACTIVITIES, NET	<u><u>\$ 9,887</u></u>
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AVALON INVESTMENT & SECURITIES GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2003

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, 2003

- 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, 2003, the company had net capital of \$ 21,649, which was \$ 16,649 in excess of its required net capital of \$5,000. The company's percentage of aggregate indebtedness to net capital was 11%.
- Note 3 - LIABILITIES SUBORDINATED TO CLAIMS OF CREDITORS** - There were no liabilities subordinated to claims of creditors as of March 31, 2003 or during the year then ended.
- Note 4 - INCOME TAXES** - The Company has available at March 31, 2003, \$10,039 of unused operating loss carryforwards that may be applied against future taxable income and that expire in various years from 2003 to 2022.
- 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.

AVALON INVESTMENT & SECURITIES GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2003

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, 2003

NET CAPITAL:

Total Stockholder's Equity	\$	52,618
Deduct Stockholder's Equity Not Allowable for Net Capital		-

Total Stockholder's Equity Qualified for Net Capital		52,618
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Add:

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

Total Capital and Allowable Subordinated Liabilities		52,618
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Deductions and/or Charges:

A. Non-Allowable Assets		
Advances on Commissions	\$ 26,000	
Investments	3,300	
Prepaid Expenses	1,669	(30,969)
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		21,649
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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	-	-
D. Undue Concentration		-
E. Other		-

NET CAPITAL	\$	21,649
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AVALON INVESTMENT & SECURITIES GROUP, INC.
Computation of Net Capital Under Rule 15c3-1 of the
Securities and Exchange Commission
As of March 31, 2003

AGGREGATE INDEBTEDNESS	<u><u>\$ 2,400</u></u>
 COMPUTATION OF BASIC NET CAPITAL REQUIREMENT:	
Minimum Net Capital Required	<u><u>\$ 5,000</u></u>
 EXCESS NET CAPITAL	 <u><u>\$ 16,649</u></u>
 EXCESS NET CAPITAL AT 1000%	 <u><u>\$ 21,409</u></u>
 PERCENT OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	 <u><u>11%</u></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, 2003) is not included because there were no material differences.

AVALON INVESTMENT & SECURITIES GROUP, INC.
EXEMPTIVE PROVISION UNDER RULE 15c3-3
As of March 31, 2003

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, 2003. 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, 2003.

CADE & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
2100 SOUTHBRIDGE PARKWAY - SUITE 460
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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, 2003, 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, 2003 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 21, 2003