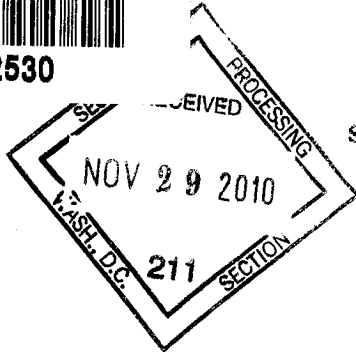




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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: April 30, 2013  
Estimated average burden  
hours per response..... 12.00

SEC FILE NUMBER  
8-38635

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 10/01/09 AND ENDING 09/30/10  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Calton + Associates, Inc.

OFFICIAL USE ONLY

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

FIRM I.D. NO.

14497 N. Dale Mabry Highway, Suite 215

(No. and Street)

Tampa, Florida 33618

(City)

(State)

(Zip Code)

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

David S. Cole

813-264-0440

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Raulerson & Company, P.A., CPA'S

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

600 W. Dr. Martin Luther King Jr. Blvd. Plant City, FL 33563

(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)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

PW

OATH OR AFFIRMATION

I, David S. Cole, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Calton & Associates, Inc., a Florida Corporation, as of September 30, 20 10, 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:

\_\_\_\_\_  
\_\_\_\_\_



GEORGE G. HARRINGTON, JR.  
MY COMMISSION # DD 614492  
EXPIRES: December 2, 2010  
Bonded Thru Budget Notary Services

David S. Cole

Signature

David S. Cole - Chief Financial Officer

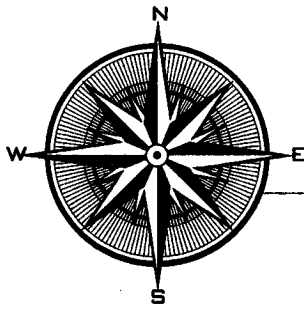
Title

George G. Harrington, Jr.  
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 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).



*Business Navigation*

# **Raulerson & Company, P.A.**

**Certified Public Accountants and Consultants**

600 West Dr. Martin Luther King Jr. Blvd., Plant City, FL 33563  
(813) 752-6604 • Fax (813) 752-8725 • [www.rccpas.biz](http://www.rccpas.biz)

## **INDEPENDENT AUDITORS' REPORT ON APPLYING AGREED-UPON PROCEDURES RELATED TO AN ENTITY'S SIPC ASSESSMENT RECONCILIATION**

To the Board of Directors of and Shareholders of  
Calton & Associates, Inc.

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments to the Securities Investor Protection Corporation (SIPC) for the Year Ended September 30, 2010, which were agreed to by Calton & Associates, Inc. and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and SIPC, solely to assist you and the other specified parties in evaluating Calton & Associates, Inc.'s compliance with the applicable instructions of the Transitional Assessment Reconciliation (Form SIPC-7). Calton & Associates Inc.'s management is responsible for the Calton & Associates Inc.'s compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries in the check register noting no differences;
2. Compared the amounts reported on the audited Form X-17A-5 for the year ended September 30, 2010, as applicable, with the amounts reported in Form SIPC-7 for the year ended September 30, 2010 noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers of Focus reports noting no differences; and
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers of Focus reports supporting the adjustments noting no differences.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

*Raulerson & Company, P.A.*

Raulerson & Company, P.A.  
Plant City, Florida  
November 23, 2010

Calton Associates, Inc.

Schedule of SIPC Assessment Payments made during the Fiscal Year ended 9/30/2010

Vendor	Address	Date	Payment Amount	Applies To Period Ended
SIPC	805 15th St. N.W. Suite 800, Washington D.C. 20005-2215	11/20/09	8,568.00	9/30/2009
SIPC	806 15th St. N.W. Suite 800, Washington D.C. 20005-2215	12/9/09	694.00	9/30/2009
SIPC	PO Box 92185, Washington DC, 20090-2185	4/26/10	11,215.00	9/30/2010
SIPC	PO Box 92185, Washington DC, 20090-2185	11/23/10	10,789.00	9/30/2010

**General Assessment Reconciliation**

For the fiscal year ended September 30, 2010  
(Read carefully the instructions in your Working Copy before completing this Form)

**TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS**

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

038635 FINRA SEP  
CALTON & ASSOCIATES INC  
14497 N DALE MABRY HWY STE 215  
TAMPA FL 33618-2047

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact respecting this form.

- 2. A. General Assessment (item 2e from page 2) \$ 22004
- B. Less payment made with SIPC-6 filed (exclude interest) ( 11215 )  
4/26/10  
Date Paid
- C. Less prior overpayment applied ( 0 )
- D. Assessment balance due or (overpayment) 10789
- E. Interest computed on late payment (see instruction E) for \_\_\_\_\_ days at 20% per annum 0
- F. Total assessment balance and interest due (or overpayment carried forward) \$ 10789
- G. PAID WITH THIS FORM:  
Check enclosed, payable to SIPC  
Total (must be same as F above) \$ 10789
- H. Overpayment carried forward \$( 0 )

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

Calton & Associates Inc

(Name of Corporation, Partnership or other organization)

Daniel Paul

(Authorized Signature)

Dated the 23 day of November, 2010.

Chief Financial Officer

(Title)

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

**SIPC REVIEWER**

Dates:                      Postmarked                      Received                      Reviewed                     

Calculations                      Documentation                      Forward Copy                     

Exceptions:                     

Disposition of exceptions:

**DETERMINATION OF "SIPC NET OPERATING REVENUES"  
AND GENERAL ASSESSMENT**

Amounts for the fiscal period  
beginning 10/1, 2009  
and ending 9/30, 2010  
Eliminate cents

**Item No.**

2a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)

\$ 12,573,981

**2b. Additions:**

- (1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above.
- (2) Net loss from principal transactions in securities in trading accounts.
- (3) Net loss from principal transactions in commodities in trading accounts.
- (4) Interest and dividend expense deducted in determining item 2a.
- (5) Net loss from management of or participation in the underwriting or distribution of securities.
- (6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities.
- (7) Net loss from securities in investment accounts.

0  
0  
0  
0  
0  
0  
0

Total additions

**2c. Deductions:**

- (1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products.
- (2) Revenues from commodity transactions.
- (3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions.
- (4) Reimbursements for postage in connection with proxy solicitation.
- (5) Net gain from securities in investment accounts.
- (6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date.
- (7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act).
- (8) Other revenue not related either directly or indirectly to the securities business. (See Instruction C):

3,357,555  
0  
339,948  
0  
86,186  
178,529  
0  
0

(9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income.

\$ 0

(ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960).

\$ 32012

Enter the greater of line (i) or (ii)

32012

Total deductions

3772,430

2d. SIPC Net Operating Revenues

\$ 8,801,551

2e. General Assessment @ .0025

\$ 22,004

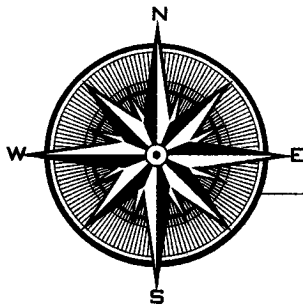
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**CALTON & ASSOCIATES, INC.  
AUDITED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010 AND 2009**

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*Business Navigation*

# **Raulerson & Company, P.A.**

**Certified Public Accountants and Consultants**

600 West Dr. Martin Luther King Jr. Blvd., Plant City, FL 33563  
(813) 752-6604 • Fax (813) 752-8725 • [www.rccpas.biz](http://www.rccpas.biz)

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Stockholders of  
Calton & Associates, Inc.

We have audited the accompanying statements of financial condition of Calton & Associates, Inc. (a Florida corporation) as of September 30, 2010 and 2009, and the related statements of operations, changes in shareholders' equity, and cash flows for the years 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 the 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 Calton & Associates, Inc. as of September 30, 2010 and 2009, and the results of its operations and its cash flows for the years 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 the supplementary schedules is presented for the purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under 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 presented in all material respects in relation to the basic financial statements taken as a whole.

*Raulerson & Company, P.A.*

Raulerson & Company, P.A.  
Plant City, Florida  
November 23, 2010

## FINANCIAL STATEMENTS

**CALTON & ASSOCIATES, INC.**  
**STATEMENTS OF FINANCIAL CONDITION**  
**AS OF SEPTEMBER 30, 2010 AND 2009**

**ASSETS**

<b>ASSETS</b>	<b>2010</b>	<b>2009</b>
Cash	\$ 2,571,353	\$ 3,891,658
Investments	255,036	1,118,982
Receivables:		
Clearing agent	107,510	72,505
Commissions	152,679	188,583
Notes & other	85,445	-
Inventory	-	3,867
Property & equipment, net of accumulated depreciation	57,854	51,228
Income tax receivable	150,093	-
Deferred tax asset	44,293	94,009
Prepaid expenses	3,897	21,970
Deposits	211,310	208,738
<b>Total Assets</b>	<b>\$ 3,639,470</b>	<b>\$ 5,651,540</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>LIABILITIES</b>	<b>2010</b>	<b>2009</b>
Accounts payable	\$ 14,093	\$ 27,310
Accrued expenses:		
Clearing agent	-	4,587
Commissions & wages	840,709	654,981
Profit sharing	-	130,134
Income taxes	-	9,017
Other accrued expenses	255,356	270,051
<b>Total Liabilities</b>	<b>1,110,158</b>	<b>1,096,080</b>

**SHAREHOLDERS' EQUITY**

Common stock:		
Class A: Voting and participating stock, \$1 par; authorized 3,750 shares, issued 1,250 shares, 522 shares outstanding.	1,250	1,250
Class B: Non-voting and participating stock, \$1 par; authorized 3,750 shares, issued 1,250 shares, 14 shares outstanding.	1,250	1,250
Additional paid in capital	252,460	252,460
Treasury stock	(4,359,155)	(2,296,127)
Retained earnings	6,633,507	6,596,627
<b>Total Shareholders' Equity</b>	<b>2,529,312</b>	<b>4,555,460</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 3,639,470</b>	<b>\$ 5,651,540</b>

See accompanying auditors' report and notes to the financial statements.

**CALTON & ASSOCIATES, INC.**  
**STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	2010	2009
<b>INCOME:</b>		
Commissions on customer trading in:		
Direct participation	\$ 2,038,783	\$ 1,696,586
Investment company shares	1,425,530	1,230,853
Insurance products	1,713,560	1,726,789
Municipal bonds	1,640,270	1,203,080
Other commissions	3,980,696	3,346,011
Investment advisory fees	688,454	532,830
Firm trading and investment gains	142,228	275,257
Dividend and interest income	419,777	376,081
Due diligence & other income	524,682	575,258
	12,573,980	10,962,745
<b>EXPENSES:</b>		
Representatives' commissions and overrides	9,940,533	8,388,529
Clearing charges	367,792	382,237
Salaries and employee benefits	649,001	757,498
Communications expense	67,510	65,755
Occupancy and equipment costs	175,070	161,403
Other operating expenses	1,229,705	612,543
Depreciation and amortization	12,310	15,000
Taxes other than income	87,691	84,173
	12,529,612	10,467,138
Income before provision for income taxes	44,368	495,606
Income tax expense	7,488	167,204
Net Income	\$ 36,880	\$ 328,402

See accompanying auditors' report and notes to financial statements.

**CALTON & ASSOCIATES, INC.**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	<b>CAPITAL STOCK</b>	<b>ADDITIONAL PAID-IN CAPITAL</b>	<b>TREASURY STOCK</b>	<b>RETAINED EARNINGS</b>
<b>Balance at September 30, 2008</b>	\$ 2,500	\$ 252,460	\$ (2,160,900)	\$ 6,268,224
Purchase of treasury stock	-	-	(135,227)	-
Net income for the year ended September 30, 2009	-	-	-	328,403
<b>Balance at September 30, 2009</b>	\$ 2,500	\$ 252,460	\$ (2,296,127)	\$ 6,596,627
Purchase of treasury stock	-	-	(2,063,028)	-
Net income for the year ended September 30, 2010	-	-	-	36,880
<b>Balance at September 30, 2010</b>	<u>\$ 2,500</u>	<u>\$ 252,460</u>	<u>\$ (4,359,155)</u>	<u>\$ 6,633,507</u>

See accompanying auditors' report and notes to financial statements.

**CALTON & ASSOCIATES, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 36,880	\$ 328,403
Adjustments to reconcile net income:		
Depreciation and amortization	12,310	15,000
(Increase) decrease in:		
Investments	863,946	284,677
Clearing agent receivable	(35,005)	19,479
Commissions receivable	35,904	83,930
Other receivables	(85,445)	-
Securities for sale	3,867	80,632
Income tax receivable	(150,093)	-
Deferred tax asset	49,716	(94,009)
Prepaid expenses	18,073	(8,787)
Deposits	(2,572)	1,746
Increase (decrease) in:		
Accounts payable	(17,804)	(334,574)
Income tax payable	(9,017)	(12,833)
Other accrued expenses	40,899	107,902
	<b>761,659</b>	<b>471,566</b>
<b>Net cash (used for) provided by operating activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment	(18,936)	(1,125)
<b>Net cash provided (used) by investing activities</b>	<b>(18,936)</b>	<b>(1,125)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Purchase of treasury stock	(2,063,028)	(135,227)
<b>Net cash provided by (used in) financing activities</b>	<b>(2,063,028)</b>	<b>(135,227)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(1,320,305)</b>	<b>335,214</b>
<b>Cash and cash equivalents - beginning of the year</b>	<b>3,891,658</b>	<b>3,556,444</b>
<b>Cash and cash equivalents - end of the year</b>	<b>\$ 2,571,353</b>	<b>\$ 3,891,658</b>

See accompanying auditors' report and notes to financial statements.

**CALTON & ASSOCIATES, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

**SUPPLEMENTAL CASH FLOW DISCLOSURES:**

	<u>2010</u>	<u>2009</u>
Cash paid during the year for:		
Income taxes	<u>\$ 116,882</u>	<u>\$ 274,046</u>
Interest	<u>\$ 0</u>	<u>\$ 2,917</u>

See accompanying auditors' report and notes to financial statements

**CALTON & ASSOCIATES, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010 AND 2009**

**NOTE 1: ORGANIZATION AND NATURE OF BUSINESS**

Headquartered in Tampa, Florida, Calton & Associates, Inc. is a registered securities broker-dealer, a member of the Financial Industry Regulatory Authority (FINRA) and a Registered Investment Advisory firm with the Securities and Exchange Commission. The company is incorporated in the State of Florida as a "C" Corporation and is primarily engaged in the marketing of general securities and insurance products through a network of independent branches in various states.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

In accordance with generally accepted accounting principles, Calton & Associates, Inc. maintains its books on the accrual basis of accounting.

**Cash and Cash Equivalents**

The Company defines cash and cash equivalents as highly liquid investments, including checking and money market accounts, with original maturities of less than ninety days. This definition does not include investments held for sale in the ordinary course of business.

**Securities Transactions and Commissions**

Securities transactions and the related revenue and expenses are recorded on a trade-date basis. The resulting commissions and clearing agent receivables are deemed to be fully collectible.

**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 amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

**Income Taxes**

The amount of current and deferred taxes payable or refundable 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 liabilities or assets between years.

The Company is not eligible to defer the implementation of FIN 48. Therefore, it recognizes and measures its unrecognized tax benefits in accordance with FIN 48. Under that guidance the Company assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change.

**Compensated Absences**

Compensated absences are provided to non-commissioned employees only. Due to their immaterial nature they are expensed when paid.

See accompanying auditors' report.



**CALTON & ASSOCIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010 AND 2009**

**NOTE 3: RESTRICTED CASH AND INVESTMENTS**

At September 30, 2010, there was restricted cash of \$962,329 and restricted investments of \$255,036 held in an account at Southwest Securities. The account collateralizes securities trading and inventory accounts.

**NOTE 4: INVESTMENTS**

Investments are comprised of securities held-to-maturity and trading securities.

**Securities Held-to-Maturity**

Debt securities held-to-maturity are carried at the lower of cost or market. At September 30, 2010 there are no securities held-to-maturity.

**Trading Securities**

Trading securities are comprised of equity securities carried at their fair value. Unrealized gains and losses are included in earnings in the period they arise. Details of trading securities are as follows:

	<u>Costs</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
2010	\$ 246,640	\$ 255,036	\$ 8,396
2009	\$ 968,929	\$ 1,118,982	\$ 150,053

**NOTE 5: INVENTORY**

Inventory represents debt securities available for sale to customers with maturity dates ranging from zero to over twenty years and are carried at fair value. At September 30, 2009 there were no material differences between cost and fair value, in 2010 no inventory was held.

**NOTE 6: FURNITURE, EQUIPMENT, AND IMPROVEMENTS**

Furniture, equipment, and leasehold improvements are carried at cost. Depreciation for financial reporting purposes is computed on the straight-line basis using the estimated life of the asset, generally five to seven years. The modified accelerated costs recovery system (MACRS) and asset-expensing provisions of code section 179 are utilized for income tax reporting purposes.

Major categories by costs are as follows:

	<u>2010</u>	<u>2009</u>
Equipment	\$ 242,334	\$ 223,398
Furniture	54,177	54,177
Improvements	8,293	8,293
Accumulated depreciation	(246,950)	(234,640)
	<u>\$ 57,854</u>	<u>\$ 51,228</u>

See accompanying auditors' report.

**CALTON & ASSOCIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010 AND 2009**

**NOTE 7: RELATED PARTY TRANSACTIONS**

The company has a policy of charging back to the branches a portion of incurred legal and settlement costs attributable to the branch. The agreements between the branches and the Company provides for monthly deductions from commission payments. The agreement does not provide for interest on the outstanding balance. At September 30, 2010 and 2009, amounts due the company under the agreements were \$55,100 and \$0.00, respectively.

**NOTE 8: DEPOSITS**

At September 30, deposits consist of the following:

	<u>2010</u>	<u>2009</u>
Clearing agent deposit	\$ 200,008	\$ 200,020
Regulatory deposit	2,802	1,218
Rent	7,500	7,500
Other	<u>1,000</u>	<u>-</u>
Total	<u>\$ 211,310</u>	<u>\$ 208,738</u>

**NOTE 9: PROFIT SHARING**

The Company has established a qualified profit-sharing retirement plan that covers substantially all full time employees. Contributions totaling \$130,134 for 2009 represents the lesser of the maximum contribution allowed or 11% of participant compensation. No contributions were made for 2010.

**NOTE 10: INCOME TAXES**

We recognized losses for tax reporting purposes during the year ended September 30, 2010. As allowed by the Internal Revenue Service rules and regulations, the September 30, 2010 loss will be carried back to reduce federal taxable income recognized during the year ended September 30, 2006. As a result of this matter, we will receive a refund of previously paid federal taxes and, accordingly, have recorded an income tax receivable of approximately \$18,051 as of September 30, 2010.

At September 30, 2010 and 2009, the financial statements reflected income taxes currently receivable (payable) in the amount of \$150,093 and \$(9,017), respectively, and a deferred tax asset (liability) in the amount of \$44,293 and \$94,009, respectively. The deferred tax asset (liability) represents the estimated future tax consequences resulting from differences in book and tax depreciation methods, and limitations on the deductibility of estimated legal & settlement costs accrued for financial reporting purposes. See Note 11 regarding accrued legal and settlement costs.

The components of income tax expense are as follows:

	<u>Federal</u>	<u>2010 State</u>	<u>Total</u>
Current expense (benefit)	\$ (18,051)	\$ 2,500	\$ (15,551)
Deferred expense (benefit)	23,039	-	23,039
Income tax expense (benefit)	<u>\$ 4,988</u>	<u>\$ 2,500</u>	<u>\$ 7,488</u>

See accompanying auditors' report.

**CALTON & ASSOCIATES, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010 AND 2009**

**NOTE 10: INCOME TAXES CONTINUED**

	Federal	2009 State	Total
Current expense (benefit)	\$ 199,025	\$ 43,800	\$ 242,825
Deferred expense (benefit)	(75,621)	-	(75,621)
Income tax expense (benefit)	<u>\$ 123,404</u>	<u>\$ 43,800</u>	<u>\$ 167,204</u>

**NOTE 11: COMMITMENTS AND CONTINGENT LIABILITIES**

The Company is obligated under a non-cancelable operating lease for the rental of office space. Lease expires in April 2012. Rent expense under the lease totaled \$169,512 and \$156,744 for 2010 and 2009, respectively. At September 30, 2010 the aggregate liability under the lease is as follows:

2011	\$ 142,949
2012	84,694
	<u>\$ 227,643</u>

At September 30, 2010, management estimated that future costs and possible legal settlements associated with new and continuing matters to be \$151,479. Accordingly, the accompanying statement of financial condition reflects accrued legal and settlement costs in the amount of \$151,479 under the caption "other accrued expenses".

At September 30, 2010, customer margin balances totaled \$5,159,067. As of October 31, 2010, customer margin balances totaled \$5,129,189.

**NOTE 12: TREASURY STOCK**

At September 30, 2010 treasury stock consisted of 728 shares of class A and 1,236 shares of class B redeemed by the Company at a total cost of \$4,359,155. At September 30, 2009, treasury stock consisted of 458 shares of class A and 955 shares of class B redeemed by the Company at a total cost of \$2,296,127.

**NOTE 13: CONCENTRATION OF CREDIT RISK**

The Company maintains substantial cash balances with the clearing agent and at one financial institution. Cash balances at the financial institution are insured by The Federal Deposit Insurance Corporation up to a maximum of \$250,000. Management believes that the risk of loss associated with the uninsured portion of funds on deposit is remote.

**NOTE 14: CLEARING AGENT**

The Company utilizes the services of Southwest Securities, Inc., a wholly owned subsidiary of Southwest Securities Group, Inc. for all transactions requiring the use of a clearing agent. Southwest Securities Group, Inc. is a publicly held company located in Texas.

See accompanying auditors' report.

**CALTON & ASSOCIATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010 AND 2009**

**NOTE 15: NET CAPITAL REQUIREMENTS**

The Company is subject to the uniform net capital rule (rule 15c3-1) under the Securities and Exchange Act of 1934, which requires that the ratio of aggregate indebtedness to net capital, as defined, shall not exceed 15 to 1. At September 30, 2010, the Company had net capital of \$2,113,495, representing an excess over required net capital of \$1,863,495. The ratio of aggregate indebtedness to net capital was 53% and 26% at September 30, 2010 and 2009, respectively.

**NOTE 16: SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through the date of filing.

See accompanying auditors' report.

**SUPPLEMENTARY SCHEDULES**

**CALTON & ASSOCIATES, INC.**  
**SCHEDULES OF COMPUTATION OF NET CAPITAL**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Ownership equity	\$ 2,492,432	\$ 4,227,057
Net income (loss)	36,880	328,403
Dividends	<u>-</u>	<u>-</u>
Adjusted net worth	2,529,312	4,555,460
Subordinated loans	<u>-</u>	<u>-</u>
Total available capital	2,529,312	4,555,460
Non-allowable assets	<u>(400,462)</u>	<u>(197,038)</u>
Tentative net capital	<u>2,128,850</u>	<u>4,358,422</u>
Less haircuts:		
Stock/warrants	5	6
Federal, State, and Municipal securities	15,350	68,224
Other securities	<u>-</u>	<u>17,871</u>
Total haircuts	<u>15,355</u>	<u>86,101</u>
Net capital	2,113,495	4,272,321
Minimum net capital	<u>(250,000)</u>	<u>(250,000)</u>
Excess net capital	<u>\$ 1,863,495</u>	<u>\$ 4,022,321</u>
Aggregate indebtedness	<u>\$ 1,110,158</u>	<u>\$ 1,091,493</u>
Ratio of aggregate indebtedness to net capital	<u>53%</u>	<u>26%</u>

See independent auditors' report.

**CALTON & ASSOCIATES, INC.**  
**SCHEDULE OF COMPUTATION OF RESERVE REQUIREMENTS**  
**FOR BROKER-DEALERS UNDER RULE 15C3-3**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Amount held on deposit in "reserve bank account",  
including value of qualified securities at end of reporting  
period.

\$ 341

There is no material difference between the computation  
for determination of reserve requirements under rule  
15c3-3 included with the financial statements reported on  
by the independent auditor and the computation  
previously filed by the broker or dealer in the unaudited  
FOCUS report.

See independent auditors' report.

**CALTON & ASSOCIATES, INC.**  
**INFORMATION RELATING TO POSSESSION OR CONTROL**  
**REQUIREMENTS UNDER RULE 15C3-3 OF THE**  
**SECURITIES EXCHANGE COMMISSION**  
**SEPTEMBER 30, 2010**

1) Customers' fully paid securities and excess margin securities not in the respondent's possession or control as of the report date (for which instructions to reduce to possession or control had been issued as of the report date) but for which the required action was not taken by respondent within the time frames specified under Rule 15c3-3. Notes A and B. \$ 0

A) Number of items 0

2) Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control has not been issued as of the report date, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3. Notes B, C, and D. \$ 0

A) Number of items 0

See independent auditors' report.

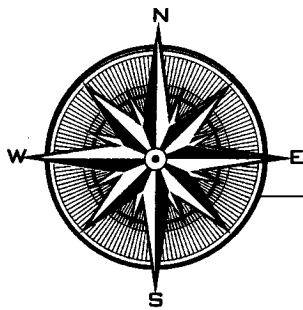


**CALTON & ASSOCIATES, INC.**  
**SCHEDULE OF RECONCILIATION PURSUANT TO RULE 17a-5(d)(4)**  
**SEPTEMBER 30, 2010**

Net capital per FOCUS report	\$ 2,210,360
Net statement of financial condition impact of audit adjustments	(108,647)
Net statement of operations impact of audit adjustments	<u>11,782</u>
Net capital per supplementary schedule	<u>\$ 2,113,495</u>

See independent auditors' report.

## REQUIRED REPORTS



# Raulerson & Company, P.A.

Certified Public Accountants and Consultants

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*Business Navigation*

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5

To the Board of Directors of and Shareholders  
Calton & Associates, Inc.

In planning and performing our audit of the financial statements of Calton & Associates, Inc. (a Florida Corporation), for the year ended September 30, 2010 in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting 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 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 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 an 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, projections 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 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.

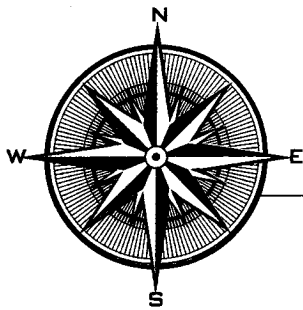
Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that the 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, as described in the second paragraph of this report, were adequate at September 30, 2010, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on rule 17a-5(g) under the Securities and 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 these specified parties.

*Raulerson & Company, P.A.*

Raulerson & Company, P.A.  
Plant City, Florida  
November 23, 2010



# Raulerson & Company, P.A.

Certified Public Accountants and Consultants

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*Business Navigation*

## **INDEPENDENT AUDITORS' REPORT ON APPLYING AGREED-UPON PROCEDURES RELATED TO AN ENTITY'S SIPC ASSESSMENT RECONCILIATION**

To the Board of Directors of and Shareholders of  
Calton & Associates, Inc.

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments to the Securities Investor Protection Corporation (SIPC) for the Year Ended September 30, 2010, which were agreed to by Calton & Associates, Inc. and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and SIPC, solely to assist you and the other specified parties in evaluating Calton & Associates, Inc.'s compliance with the applicable instructions of the Transitional Assessment Reconciliation (Form SIPC-7). Calton & Associates Inc.'s management is responsible for the Calton & Associates Inc.'s compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries in the check register noting no differences;
2. Compared the amounts reported on the audited Form X-17A-5 for the year ended September 30, 2010, as applicable, with the amounts reported in Form SIPC-7 for the year ended September 30, 2010 noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers of Focus reports noting no differences; and
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers of Focus reports supporting the adjustments noting no differences.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

*Raulerson & Company, P.A.*

Raulerson & Company, P.A.  
Plant City, Florida  
November 23, 2010

**CALTON & ASSOCIATES, INC.  
TAMPA, FL  
AUDITED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010 AND 2009**