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SECID 02018446 COMMISSION
Washington, D.C. 20549

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	October 31, 2001
Estimated average burden hours per response.....	12.00

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

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FACING PAGE
Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/01 AND ENDING 12/31/01
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Absolute Return Advisors, Ltd

OFFICIAL USE ONLY
FIRM I.D. NO.

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

1852 Colvin Hill Road

(No. and Street)

Danby

Vermont

05739

(City)

(State)

(Zip Code)

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

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Siliski & Buzzell, P.C.

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

PO Box 802

Rutland

VT

05702-0802

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

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THOMSON
FINANCIAL

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*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 (05-01)

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OATH OR AFFIRMATION

I, Nicholas Ihasz, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Absolute Return Advisors, Ltd., as of December 31, 2001, 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]
Signature
President
Title

Dolores E. Bonelli
Notary Public Comm. Exp. 2/10/03

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).

ABSOLUTE RETURN ADVISORS, LTD.

FINANCIAL STATEMENTS

DECEMBER 31, 2001

ABSOLUTE RETURN ADVISORS, LTD.

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INDEPENDENT AUDITOR'S REPORT

To The Stockholder and
Board of Directors
Absolute Return Advisors, Ltd.
Manchester Vermont

We have audited the accompanying statements of financial condition of Absolute Return Advisors, Ltd. as of December 31, 2001, and the related statements of income, retained earnings, 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 audits.

We conducted our audit in accordance with generally accepted auditing standards. 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 audits provide 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 Absolute Return Advisors, Ltd. as of December 31, 2001, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on pages 12 and 13 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 our 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 and in conformity with the rules of the Securities and Exchange Commission.

Siliski & Buzzell, P.C.

February 26, 2002
Rutland, Vermont
Reg. No. 119

EXHIBIT A

LIABILITIES AND STOCKHOLDERS' EQUITY

12/31/01

CURRENT LIABILITIES

Current Maturities of Long-Term Debt	\$ 8,443
Credit Cards Payable	5,830
Accounts Payable	112,659
Accounts Held Under Soft Dollar Agreements	177,710
Accrued Payroll	<u>22,415</u>
Total Current Liabilities	<u>327,057</u>

LONG-TERM DEBT

Notes Payable	8,443
Less: Current Maturities	<u>8,443</u>
Total Long-Term Debt	<u>-</u>

TOTAL LIABILITIES 327,057

STOCKHOLDERS' EQUITY

Common Stock	
200 Shares Authorized, Issued and Outstanding	71,380
Retained Earnings	<u>777,912</u>
Total Stockholder's Equity	<u>849,292</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$1,176,349</u>

See notes to financial statements.

ABSOLUTE RETURN ADVISORS, LTD.

EXHIBIT B

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2001

12/31/01

REVENUES

Commissions / Fees	\$2,822,268
Interest and Dividends	6,266
Realized and Unrealized Gains (Loss) on Securities, Net	<u>(179,331)</u>
TOTAL REVENUES	<u>2,649,203</u>

EXPENSES

Advertising	7,079
Brokerage	367,987
Consulting Services	72,801
Data Services	93,014
Dues, Fees, and Subscriptions	27,230
Equipment Leases	7,876
Insurance	55,393
Repairs and Maintenance	15,771
Interest	2,045
Meals, Entertainment, and Travel	132,049
Miscellaneous	4,517
Outside Services	34,787
Office Expenses	35,961
Payroll and Payroll Taxes	602,295
Professional Fees	77,104
Rent	117,910
Telephone	27,613
Vehicle	46,914
Loss on Fixed asset Disposition	1,760
Contributions and Gifts	8,015
Professional Development	4,711
Utilities	9,520
Depreciation	47,516
Moving Expenses	<u>1,970</u>
TOTAL EXPENSES	<u>1,801,838</u>
OPERATING INCOME	847,365

OTHER INCOME

Insurance Proceeds	<u>96,983</u>
NET INCOME	<u>\$ 944,348</u>

See notes to financial statements.

ABSOLUTE RETURN ADVISORS, LTD.
STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2001

EXHIBIT C

	<u>12/31/01</u>
Beginning Balance, January 1	\$698,407
Net Income	944,348
Distributions to Stockholders	<u>(864,843)</u>
Ending Balance, December 31	<u>\$777,912</u>

See notes to financial statements.

ABSOLUTE RETURN ADVISORS, LTD.

EXHIBIT D

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>12/31/01</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Net Income	<u>\$ 944,348</u>
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Loss on Sale of Fixed Assets	1,760
Depreciation and Amortization	52,617
Realized and Unrealized (Gains) Loss on Securities	179,331
(Increase) Decrease in Operating Assets:	
Fees and Commissions Receivable	(54,596)
Cash Held for Exclusive Benefit of Customers Receivable from Clearing Broker, Net	(118,232)
	34,658
Increase (Decrease) in Operating Liabilities:	
Credit Cards Payable	5,830
Accounts Payable	100,716
Accrued Pension Contribution	(71,031)
Amounts Held Under Soft Dollar Agreements	114,941
Accrued Payroll	<u>(456)</u>
Total Adjustments	<u>245,538</u>
Net Cash Provided by Operating Activities	<u>1,189,886</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Proceeds from Sale of Investments	3,476,743
Purchase of Investments	(3,417,230)
Purchase of Property and Equipment	(101,339)
Proceeds From Sale of Equipment	<u>6,000</u>
Net Cash Used In Investing Activities	<u>(35,826)</u>

See notes to financial statements.

ABSOLUTE RETURN ADVISORS, LTD.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001

EXHIBIT D
(Continued)

	<u>12/31/01</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>	
Payments on Long-Term Debt	(15,850)
Distributions to Stockholders	(864,843)
Payments on Loan to Stockholder	<u>4,778</u>
Net Cash Used In Financing Activities	<u>(875,915)</u>
Net Increase in Cash	278,145
Cash at Beginning of Year	<u>168,075</u>
Cash at End of Year	<u>\$ 446,220</u>
Supplementary Disclosure of Cash Flow Information:	
Cash Paid During the Year for Interest Expense	<u>\$ 2,045</u>

See notes to financial statements.

ABSOLUTE RETURN ADVISORS, LTD.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Absolute Return Advisors, Ltd. (the Company) is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Operations

Absolute Return Advisors, Ltd. (the Company) is a broker-dealer in securities and a member of the National Association of Securities Dealers, Inc.

Property, Equipment, and Depreciation

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewal and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income (the results of operations).

Commissions

Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

Investment Advisory Income

Investment advisory fees are received quarterly but are recognized as they are earned.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities Transactions

Proprietary securities transactions in regular-way trades are recorded on the trade date, as if they had been settled. Profit and loss arising from all securities entered into for the account and risk of the Company are recorded on a trade date basis.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition.

Marketable securities are valued at market value, and securities not readily marketable are valued at fair value as determined by management.

Income Taxes

The Company, with the consent of its stockholders, has elected, under the Internal Revenue Code, to be treated as an S Corporation. In lieu of corporate income taxes, the stockholders of an S Corporation are taxed on the income of the company. Therefore, no provision or liability for federal income taxes is included in these financial statements.

Cash and Cash Equivalents

For purposes of cash flow presentation, the Company considers currency, cash on hand, and demand deposits with financial institutions to be cash equivalents. Cash held for the exclusive benefit of others is not included in the definition of cash for the purposes of the cash flow statement.

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 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - CASH HELD FOR THE EXCLUSIVE BENEFIT OF CUSTOMERS

This is money held for the benefit of customers and is used to make payments on behalf of customers under soft dollar agreements.

NOTE 3 - NET CAPITAL REQUIREMENT

As registered broker-dealer and member of the National Association of Securities Dealers, Inc., the Company is subject to the Uniform Net Capital Rule 15c3-1 of the Securities and Exchange Commission, which requires the maintenance of a minimum net capital amount as determined by law. As applied to the Company, the Rule requires minimum net capital of \$100,000. At December 31, 2001, the Company had net capital of \$527,538 which was \$427,538 in excess of the minimum requirement.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment for consisted of the following:

		2001	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Leasehold Improvements	\$ 65,569	\$ 1,160	\$ 64,409
Furniture and Fixtures	215,166	97,257	117,909
Computer Equipment	29,152	15,292	13,860
Office Equipment	52,742	16,371	36,371
Vehicles	<u>31,729</u>	<u>9,518</u>	<u>22,211</u>
Total	<u>\$394,358</u>	<u>\$139,598</u>	<u>\$254,760</u>

NOTE 5 - NOTES PAYABLE

Notes payables consisted of the following:

	<u>12/31/01</u>
BMW Financial Services, 8.5%, Due 6/20/02	<u>\$8,443</u>

Future maturity and principal reduction on notes payable are as follows:

2002	<u>\$8,443</u>
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NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - OPERATING LEASES

The Company leases three vehicles and one piece of office equipment. Future minimum rentals are as follows:

2002	\$19,132
2003	18,058
2004	10,320
2005	<u>1,748</u>
Total	<u>\$49,258</u>

During 2001, the Company terminated two of its vehicle operating leases.

NOTE 7 - RELATED PARTY TRANSACTIONS

The Company provides investment and management services to a partnership and receives a management fee. The Company received fees of \$131,520 from the partnership during 2001.

The Company is renting its office space from one of its shareholders at a monthly rental of \$5,700. Rents paid to the shareholder totaled \$62,700 for the year ended December, 2001.

NOTE 8 - PROFIT SHARING PLAN

In 1999, the Company adopted a profit sharing plan. This plan allows the Company to make discretionary contributions of up to 15% of eligible employees compensation into the plan each year. No plan contribution was authorized for the 2001 tax year.

NOTE 9 - ACCOUNTING CHANGE

During the year, the Company changed the way it was accounting for monies held for the benefit of customers under soft dollar agreements, to reflect the full amount held on behalf of customers. As a result of this change, assets and liabilities at December 31, 2001 are \$117,116 higher than they would have been under the previous method of reporting these transactions.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - CONTINGENCIES

During the year, the Company maintained cash balances at financial institutions in excess of federally insured limits. At December 31, 2001, the cash in excess of insured limits was \$175,818.

The Company is aware of a NASD and a State inquiry. The firm is cooperating with these inquiries and at this time it is not possible to determine what the result of these inquiries will be and if there will be any financial or operating impact to the firm.

During the year, it was discovered that a former employee misappropriated a substantial amount of company funds. This misappropriation had no impact on the firm's operations. Insurance proceeds of \$96,983 were received as a reimbursement against the loss.

After December 31, 2001, the Company established a special account with its bank to be used to cover losses which may be reported to the firm, as a result of the former employee's actions, by non-client, third parties. In January 2002, \$133,005 was deposited into this account.

As of the date of these financial statements, no losses have been reported to the firm for reimbursement.

ABSOLUTE RETURN ADVISORS, INC.
COMPUTATION OF NET CAPITAL
PURSUANT TO UNIFORM NET CAPITAL RULE 15c3-1
AS OF DECEMBER 31, 2001

	<u>12/31/01</u>
<u>CREDITS</u>	
Common Stock	\$ 71,380
Retained Earnings	777,912
<u>DEBITS</u>	
Non-Allowable Assets	<u>(321,754)</u>
Net Capital	527,538
Minimum Net Capital Requirement	<u>100,000</u>
Excess Net Capital	<u>\$427,538</u>
Reconciliation with Company's Computation (Included in Form X-17A-5 for the Year Ended December 31, 2001):	
Net Capital as Reported in Company's Unaudited Focus Report	421,719
Increase in Property and Equipment (Nonallowable Asset)	(15,690)
Audit Adjustments to Stockholder Distributions	37,000
Audit Adjustments to Net Fee Income	96,983
Audit Adjustments to Adjust Year-End Payables	532
Audit Adjustment to Notes Payable	7,197
Audit Adjustments for Accrued Payroll	(22,415)
Other Audit Adjustments, Net	<u>2,212</u>
Net Capital at December 31, 2001 Audited	<u>\$527,538</u>

See the accompanying Independent Auditor's Report.

ABSOLUTE RETURN ADVISORS, LTD.
COMPUTATION FOR DETERMINATION OF THE RESERVE REQUIREMENTS
AND INFORMATION RELATING TO POSSESSION OR CONTROL
REQUIREMENTS FOR BROKERS AND DEALERS PURSUANT TO
RULE 15c3-3 FOR THE YEAR ENDED DECEMBER 31, 2001

The Company does not effect transactions for anyone defined as a customer under Rule 15c3-3. Accordingly, there are no items to report under the requirements of this Rule.

See the accompanying Independent Auditor's Report.

INDEPENDENT AUDITOR'S SUPPLEMENTARY REPORT
ON INTERNAL AUDITING CONTROL

To the Shareholders and
Board of Directors
Absolute Return Advisors, Ltd.
Manchester, Vermont

In planning and performing our audit of the financial statements of Absolute Return Advisors, Ltd. (the Company) for the year ended December 31, 2001, 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 and Exchange Commission, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by Absolute Return Advisors, Ltd. that we considered relevant to the objectives stated in Rule 17a-5(g), in making the periodic computations of net capital under Rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3; and (ii) in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13. We did not review the practices and procedures followed by the Company in complying with the requirements for prompt payment for securities under section 8(b) of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

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 Commission'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 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 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 condition 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 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, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission 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 December 31, 2001, to meet the Commission's objectives.

In addition, our review indicated that Absolute Return Advisors, Ltd. was in compliance with the conditions of exemption from Rule 15c3-3 pursuant to Paragraph k(2)(ii) as of December 31, 2001, and no facts came to our attention to indicate that such conditions had not been complied with during the period.

This report is intended solely for the use of management, the Securities and Exchange Commission, the National Association of Securities Dealers, Inc., and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934, and should not be used for any other purpose.

February 26, 2002
Rutland, Vermont
Reg. No. 119

Silvia A. Byzell, P.C.