

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



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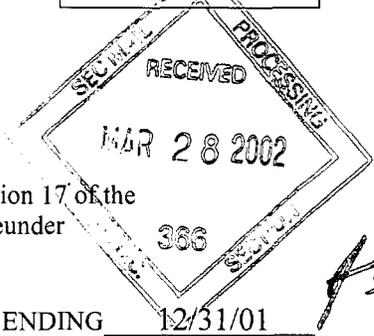
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SEC FILE NO.
8-52125

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

FACING PAGE

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



3/31/02

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:

PORTFOLIO ADVISORS ALLIANCE, INC.

OFFICIAL USE ONLY

FIRM ID. NO

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

440 NORTH FIRST STREET, SUITE 110

(No and Street)

SAN JOSE

CALIFORNIA

95112

(city)

(State)

(Zip Code)

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

MARCELLE A. LONG

(408) 292-8881

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose option is contained in this Report*

Ernst Wintter & Associates, Certified Public Accountants

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

675 Ygnacio Valley Road, Suite B-213,

Walnut Creek,

California

94596

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- (X) Certified Public Accountant
- () Public Accountant
- () Accountant nor resident in United State or any of its possession.

PROCESSED

APR 04 2002

THOMSON
FINANCIAL

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the option 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).

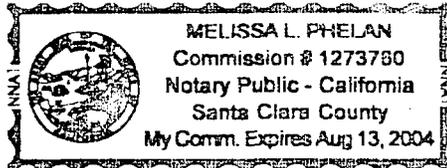
OATH OR AFFIRMATION

I, MARCELLE A. LONG, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of PORTFOLIO ADVISORS ALLIANCE, INC., 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:

NONE

Marcelle Long
Signature
President
Title

[Handwritten Signature]
Notary Public



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

- (X) (a) Facing page.
(X) (b) Statement of Financial Conditions.
(X) (c) Statement of Income (Loss).
(X) (d) Statement of Cash Flows.
(X) (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
() (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
(X) (g) Computation of Net Capital.
(X) (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
(X) (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
(X) (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirement 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.
(X) (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.
(X) (o) Independent Auditor's Report on Internal Accounting Control.

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

Portfolio Advisors Alliance, Inc.

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675 Ygnacio Valley Road, Suite B-213
Walnut Creek, California 94596

(925) 933-2626
Fax (925) 944-6333

Independent Auditor's Report

Board of Directors
Portfolio Advisors Alliance, Inc.
San Jose, California

We have audited the accompanying statement of financial condition of Portfolio Advisors Alliance, Inc. (the Company) as of December 31, 2001, and the related statements of loss, changes in stockholders' equity, and cash flows for the year 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 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 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 Portfolio Advisors Alliance, Inc. at December 31, 2001, and the results of their operations and their cash flows for the year 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 Schedules I & II 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 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 stated in all material respects in relation to the basic financial statements taken as a whole.

EA Witt + Associate

March 18, 2002

Portfolio Advisors Alliance, Inc.
Statement of Financial Condition
December 31, 2001

Assets

Cash and cash equivalents	\$ 6,522
Securities owned, at market value	1,567
Deposits at clearing organization	24,088
Commissions receivable	11,777
Prepaid expenses and other assets	8,068
Property and equipment, net of \$5,820 accumulated depreciation	2,679
Total assets	\$ 54,701

Liabilities and Stockholders' Equity

Accounts payable	\$ 74
State taxes payable	800
Total liabilities	\$ 874
Stockholders' equity	
Common stock (no par value; 500,000 authorized, 40,000 shares issued and outstanding)	\$ 4,000
Additional paid in capital	98,321
Retained earnings	(48,494)
Total stockholders' equity	53,827
Total liabilities and stockholders' equity	\$ 54,701

See independent auditor's report and accompanying notes.

Portfolio Advisors Alliance, Inc.
Statement of Income (Loss)
For the Year Ended December 31, 2001

Revenue:	
Commissions	\$ 144,101
Interest and other income	3,270
Total revenue	<u>147,371</u>
Expenses:	
Commissions	\$ 43,550
Professional fees	22,853
Communications	15,550
Rent	14,159
Clearing charges	8,812
Compensation	5,808
Marketing	3,311
Depreciation	2,300
Other operating expenses	35,361
Total expenses	<u>151,704</u>
Loss before income taxes	<u>\$ (4,333)</u>
Income tax provision	800
Net Loss	<u><u>\$ (5,133)</u></u>

See independent auditor's report and accompanying notes.

Portfolio Advisors Alliance, Inc.

Statement of Changes in Stockholders' Equity

For the Year Ended December 31, 2001

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholders Equity</u>
December 31, 2000	\$ 4,000	\$ 78,867	\$ (43,361)	\$ 39,506
Contributions	-	19,454	-	19,454
Net Income (Loss)			(5,133)	(5,133)
December 31, 2001	<u>\$ 4,000</u>	<u>\$ 98,321</u>	<u>\$ (48,494)</u>	<u>\$ 53,827</u>

See independent auditor's report and accompanying notes.

Portfolio Advisors Alliance, Inc.

Statement of Cash Flows

December 31, 2001

CASH FLOW FROM OPERATING ACTIVITIES

Net loss	\$ (5,133)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	2,300
Unrealized loss on securities owned	65
(Increase) decrease in:	
Deposits at clearing organization	(2,457)
Commissions receivable	(7,891)
Prepaid expenses and other assets	(4,408)
Increase (decrease) in:	
Accounts payable	(1,903)
Net cash provided (used) by operating activities	<u>\$ (19,427)</u>

CASH FLOW FROM FINANCING ACTIVITIES

Proceeds from capital contributions	19,454
Net increase (decrease) in cash and equivalents	<u>\$ 27</u>
Cash and cash equivalents, beginning of year	6,495
Cash and cash equivalents, end of year	<u><u>\$ 6,522</u></u>

SUPPLEMENTAL DISCLOSURES

Income taxes paid	<u>\$ 800</u>
Interest paid	<u><u>\$ 0</u></u>

See independent auditor's report and accompanying notes.

Portfolio Advisors Alliance, Inc.

Notes to the Financial Statements

December 31, 2001

(1) Organization

Portfolio Advisors Alliance, Inc. was incorporated in the State of California on March 10, 1999 and approved for NASD membership on April 24, 2000. The purpose of the Corporation is to act as a broker/dealer engaging in general securities activities primarily in Northern California. Securities transactions are cleared through Wedbush Morgan Securities, Inc. on a fully disclosed basis. Revenues are also generated through mutual fund transactions which are processed directly by the mutual funds.

(2) Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all demand deposits held in banks and certain highly liquid investments with maturities of 90 days or less, other than those held for sale in the ordinary course of business, to be cash equivalents.

Marketable Securities

Securities are valued at market value. The resulting difference between cost and market value is included in income.

Furniture and Equipment

Furniture and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from three to five years.

Commissions Receivable

Receivables are from its clearing broker, Wedbush Morgan Securities, Inc. and Lincoln Benefit Life. The Company considers commissions receivable to be fully collectible at December 31, 2001.

Portfolio Advisors Alliance, Inc.

Notes to the Financial Statements

December 31, 2001

(2) Summary of Significant Accounting Policies (continued)

(f) Income Taxes

The Company computes its income taxes under Statement of Financial Accounting Standard No. 109 "Accounting for Income Taxes ("SFAS No.109"). Under SFAS No. 109, the difference between the financial statement and tax basis of assets and liabilities is computed annually. Deferred income tax assets and liabilities are computed for those differences that have tax consequences using the currently enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income. Valuation allowances are established, if necessary, to reduce deferred tax asset accounts that will more likely than not be unrealized. Income tax expense is the current tax payable or refundable for the period, plus or minus the net change in the deferred tax asset and liability accounts.

(3) Income taxes

The net deferred tax assets consist of the following:

Deferred tax assets	\$ 6,825
Deferred tax liabilities	
Valuation allowance	<u>(6,825)</u>
	<u>\$ 0</u>

The most significant component of deferred tax assets is the result of net operating loss carryforwards. Since it is more likely than not that deferred tax assets will be unrealized, a valuation allowance of \$6,825 has been provided for. This is an \$105 decrease in the valuation allowance from December 31, 2000.

The components of the income tax provision (benefit) for income taxes for the year ended December 31, 2001 are as follows:

Current	
Federal	\$ 0
State	<u>800</u>
Income tax provision	<u>\$ 800</u>

As of December 31, 2001, the Company had federal and California net operating loss carryforwards that may be used to offset future taxable income of \$28,100 and \$26,500, respectively. The loss carryforwards are due to expire in the years ending 2019 through 2021 for federal and 2004 through 2011 for California.

Portfolio Advisors Alliance, Inc.

Notes to the Financial Statements

December 31, 2001

(4) Net Capital Requirements

The Company is subject to the Securities and Exchange Commission's uniform net capital rule (Rule 15c3-1) which requires the Company to maintain a minimum net capital equal to or greater than \$5,000 and a ratio of aggregate indebtedness to net capital not exceeding 8 to 1, both as defined. At December 31, 2001, the Company's net capital was \$35,553 which exceeded the requirement by \$30,553.

(5) Related Party Transactions

The Company leases office space from Alliance Royale Advisors, Inc., a company under common control. Under the terms of the lease, \$3,753 rent per month began on August 7, 2001 and ends July 31, 2003. The future minimum lease payments are as follows:

<u>Year ended</u>	<u>Amount</u>
2002	\$ 45,036
2003	26,271

The Company also pays Alliance Royale Advisors, Inc. for various administrative services and costs. During the year ended December 31, 2001 the company paid \$22,500 for services and costs.

SUPPLEMENTAL INFORMATION

Portfolio Advisors Alliance, Inc.

**Schedule I
Computation of Net Capital Under Rule 15c3-1 of
the Securities and Exchange Commission**

As of December 31, 2001

Net Capital:		
Total stockholders' equity qualified for net capital		\$ 53,827
Less: Non-allowable assets		
Commissions receivable	\$ 7,292	
Prepaid expenses and other assets	8,068	
Property and equipment, at cost (net of accumulated depreciation)	<u>2,679</u>	
Total non-allowable assets		<u>18,039</u>
Net capital before haircuts on securities		\$ <u>35,788</u>
Less: Haircuts		235
Net capital		<u>\$ 35,553</u>
Net minimum capital requirement of 6.67% of aggregate indebtedness of \$874 or \$5,000, whichever is greater		<u>5,000</u>
Excess of capital		<u><u>\$ 30,553</u></u>
Reconciliation with Company's computation (included in Part II of Form X-17A-5 as of December 31, 2001).		
Net capital, as reported in Company's Part II (unaudited) FOCUS report		\$ 32,672
Increase in stockholders' equity		12,542
Increase in non-allowable assets		(9,668)
Decrease in haircut on securities		<u>7</u>
Net capital per above computation		<u><u>\$ 35,553</u></u>

Portfolio Advisors Alliance, Inc.

**Schedule II
Computation for Determination of Reserve Requirements
Pursuant to Rule 15c3-3 of the
Securities and Exchange Commission**

December 31, 2001

An exception from Rule 15c3-3 is claimed, based upon section (k)(2)(ii). All customer transactions are cleared through Wedbush Morgan Securities, Inc. or otherwise possessed in accordance with Rule 15c3-1(a)(2).

675 Ygnacio Valley Road, Suite B-213
Walnut Creek, California 94596

(925) 933-2626
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Independent Auditor's Report on Internal
Accounting Control Required by SEC Rule 17a-5

Board of Directors
Portfolio Advisors Alliance, Inc.
San Jose, California

In planning and performing our audit of the financial statements and supplemental schedules of Portfolio Advisors Alliance, Inc. (the Company) for the period ended December 31, 2001, we considered its internal control including control activities 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 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 tests of such practices and procedures that we considered relevant to the objective stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payments for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements 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 accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

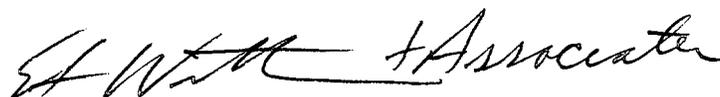
Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in the internal control 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 components does not reduce to a relatively low level the risk that error or fraud 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 the following matter involving the Company's internal control and its operation that we consider to be a material weakness as defined above. This condition was considered in determining the nature, timing, and extent of procedures to be performed in our audit of the financial statements of the Company for the year ended December 31, 2001, and this report does not affect our report thereon dated March 18, 2002.

The size of the business and the resultant limited number of employees imposes practical limitations on the effectiveness of those internal control policies and procedures that depend on the segregation of duties. Because this condition is inherent in the size of the Company, the specific weaknesses are not described herein and no corrective action has been taken or proposed by the Company.

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 December 31, 2001, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission, the National Association of Securities Dealers and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulations of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "E. W. M. + Associates". The signature is written in black ink and is positioned above the date.

March 18, 2002

PORTFOLIO ADVISORS ALLIANCE, INC.

Annual Audit Report

December 31, 2001

ERNST WINTTER & ASSOCIATES
Certified Public Accountants