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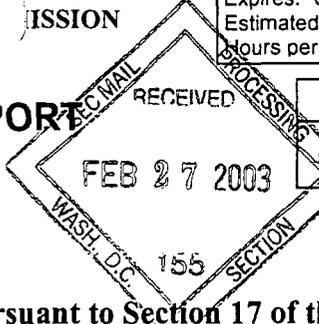
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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**



FACING PAGE

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

REPORT FOR THE PERIOD BEGINNING

01/01/02

AND ENDING

12/31/02

MM/DD/YY

MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

RELATIONAL ADVISORS LLC

OFFICIAL USE ONLY

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

FIRM I.D. NO.

11975 EL CAMINO REAL, SUITE 300

(No. and Street)

SAN DIEGO

(City)

CA

(State)

92130

(Zip Code)

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

KATHLEEN D. SCOTT

(858) 704-3300

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACOCUNTANT whose opinion is contained in the Report\*

ERNST & YOUNG LLP

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

725 SOUTH FIGUEROA STREET LOS ANGELES

(Address)

(City)

CA

(State)

90017-5418

(Zip Code)

CHECK ONE:

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

**PROCESSED**

**MAR 24 2003**

FOR OFFICIAL USE ONLY

**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)

MAR 21 2003

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## OATH OR AFFIRMATION

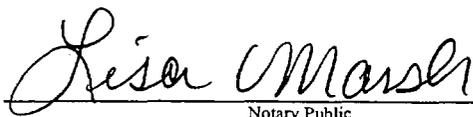
I, KATHLEEN D. SCOTT, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of RELATIONAL ADVISORS LLC, as of DECEMBER 31, 2002, are true and correct. I further swear (or affirm) that neither the company nor 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

Financial & Operational Principal

Title



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 Proprietor's 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).

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AUDITED CONSOLIDATED STATEMENT OF FINANCIAL CONDITION  
Relational Advisors LLC and Subsidiary  
*Year ended December 31, 2002*  
*with Report of Independent Auditors*

February 24, 2003

AFFIDAVIT

I, the undersigned, affirm that to the best of my knowledge and belief, the accompanying financial statements pertaining to the firm of Relational Advisors LLC as of December 31, 2002 and 2001 are true and correct.



David H. Batchelder  
Principal

Subscribed and sworn to before me the 24<sup>th</sup> day of February, 2003.

Lisa Marsh, Notary Public



Notary Seal:



Relational Advisors LLC  
and Subsidiary

Consolidated Statement of Financial Condition

Year ended December 31, 2002

**Contents**

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## Report of Independent Auditors

The Member  
Relational Advisors LLC

We have audited the accompanying consolidated statement of financial condition of Relational Advisors LLC and Subsidiary as of December 31, 2002. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on the statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is 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 consolidated statement of financial condition referred to above presents fairly, in all material respects, the consolidated financial position of Relational Advisors LLC and Subsidiary at December 31, 2002, in conformity with accounting principles generally accepted in the United States.

February 14, 2003



Relational Advisors LLC  
and Subsidiary

Consolidated Statement of Financial Condition

December 31, 2002

**Assets**

Cash and cash equivalents	\$ 949,109
Accounts receivable, net of allowance for doubtful accounts of \$7,257	633,535
Related party receivables	26,548
Prepaid expenses and other current assets	100,496
Property and equipment, net of accumulated depreciation of \$226,207	114,310
Investment in aircraft, net of accumulated depreciation of \$43,279	348,823
Other assets	98,391
Total assets	<u>\$ 2,271,212</u>

**Liabilities and members' equity**

Liabilities:

Accounts payable and accrued liabilities	\$ 80,314
Related party payables	149,043
Deferred revenue	32,778
Total liabilities	<u>262,135</u>

Commitments *(Note 6)*

Member's equity	<u>2,009,077</u>
Total liabilities and member's equity	<u>\$ 2,271,212</u>

*See accompanying notes.*

Relational Advisors LLC  
and Subsidiary

Notes to Consolidated Statement of Financial Condition

December 31, 2002

**1. The Company**

Relational Advisors LLC (the Company) is a registered broker dealer in securities under the Securities Exchange Act of 1934 (the Act). The Company's principal business consists of consultations with respect to merger and acquisition transactions, and business and financial analysis. The majority of the Company's revenues are derived from such consultation services.

The Company was formed on December 2, 2002, when Batchelder & Partners, Inc. (BPI) and the Company concurrently entered into a contribution agreement whereby BPI contributed to the Company (and the Company assumed) all assets, liabilities and business of BPI in exchange for 100% equity interest in the Company. BPI then contributed this 100% equity interest in the Company to a new holding company affiliate (Relational Holdings LLC), which in turn contributed 100% of the equity interest in the Company to a new intermediate holding company subsidiary (Relational Group LLC). The Company now conducts the entire business formerly conducted by BPI with no effective change in control. The reorganization has been treated as a continuation of the Company's operations in the accompanying consolidated financial statements.

**2. Summary of Significant Accounting Policies**

The significant accounting policies of the Company are as follows:

**Consolidation**

The consolidated statement of financial condition of the Company include the accounts of Relational Advisors LLC and its wholly owned subsidiary, BP Aviation, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with original maturities of less than 90 days as cash equivalents. Cash and cash equivalents include cash in readily available checking, money market and brokerage accounts.

The carrying amounts of cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued liabilities approximate fair value because of the short-term nature of those instruments.

Relational Advisors LLC  
and Subsidiary

Notes to Consolidated Statement of Financial Condition (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Property and Equipment**

Property and equipment consisted of the following at December 31, 2002:

Furniture and fixtures	\$ 145,921
Computer software	162,210
Leasehold improvements	<u>32,386</u>
Total	340,517
Accumulated depreciation and amortization	<u>(226,207)</u>
Property and equipment	<u>\$ 114,310</u>

Property and equipment are recorded at cost and depreciated over the estimated useful lives of the asset (five to seven years) using the straight-line method. Leasehold improvements are amortized over the shorter of the remaining lease term or useful life of the improvement.

**Investment in Aircraft**

On March 12, 2002, the Company, through its wholly owned subsidiary, BP Aviation, LLC, made an investment representing a 20% ownership interest in a private aircraft. RI Aviation, LLC (RIA), a related party, owns the remaining 80% interest. The aircraft was used by the Company and its affiliates in the ordinary course of operations of the respective businesses. RIA, which was formed in March 2002, manages the operations of the aircraft.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 consolidated financial statements. Actual results could differ from those estimates.

Relational Advisors LLC  
and Subsidiary

Notes to Consolidated Statement of Financial Condition (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Income Taxes**

Until the restructuring of the Company that occurred on December 2, 2002, the Company was an S corporation for federal and state income tax reporting purposes. Accordingly, all tax attributes (items of gain, loss, credits, etc.) are reported on the stockholders' individual tax returns. As an S corporation status taxpayer, the Company is subject to a 1.5% California state tax on taxable income.

Subsequent to the restructuring, the Company is now classified as a limited liability company for income tax purposes. Accordingly, all tax attributes (items of gain, loss, credits, etc.) are reported on the member's individual tax return. LLCs are subject to an annual minimum tax of \$800 as well as a fee which is based upon annual income.

**3. Significant Customers**

As of December 31, 2002, two customers represented 55% and 13% of total nonrelated party accounts receivable.

**4. Net Capital Requirement**

The Company, as a registered broker and dealer in securities, is subject to the uniform net capital rule of the Securities and Exchange Commission (the SEC) under Rule 15c3-1. The SEC requirements also provide that equity capital may not be withdrawn or distributions paid if certain minimum net capital requirements are not met. At December 31, 2002, the Company's net capital, as defined, was \$760,198 as compared to a minimum requirement of \$17,476.

**5. Related Party Transactions**

The Company shares space in its office facility with two entities whose major shareholders are the same as those of the Company. The Company paid and was reimbursed for the related parties' pro rata share of the rent.

As of December 31, 2002, the Company had related party receivables and payables of \$26,548 and \$149,044, respectively, with these entities. In addition, as of December 31, 2002, the Company had notes receivable from employees of \$60,000 which is included in accounts receivable.

Relational Advisors LLC  
and Subsidiary

Notes to Consolidated Statement of Financial Condition (continued)

**6. Commitments**

The Company is obligated for aggregate rentals under one operating lease for an office facility which expires in 2005. Under the terms of the office lease agreement, the Company is required to maintain a \$93,049 certificate of deposit as of December 31, 2002, which is included in other assets. The Company is obligated to make future minimum lease payments under this agreement as follows:

	<u>Gross</u>	<u>Sublease Income from Unrelated Party</u>	<u>Net</u>
2003	\$ 549,080	\$ (74,000)	\$ 475,080
2004	566,840	--	566,840
2005	336,700	-	336,700
	<u>\$ 1,452,620</u>	<u>\$ (74,000)</u>	<u>\$ 1,378,620</u>

The Company will continue to be reimbursed for the pro rata costs incurred by the related parties as described in Note 5.