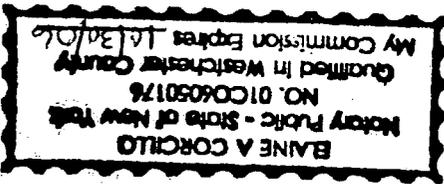




## OATH OR AFFIRMATION

I, Richard Zack swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of K & Z Partners, LLC, as of December 31, 20 02 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:



*Richard Zack*  
Signature  
Managing Member  
Tab

Notary Public

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

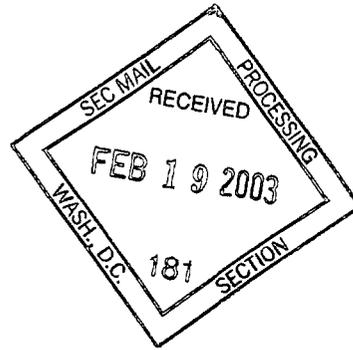
- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of ~~Changes in Financial Condition~~ Cash Flows
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated 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 240.17e-3(e)(3).

STATEMENT OF FINANCIAL CONDITION  
AND REPORT OF INDEPENDENT CERTIFIED  
PUBLIC ACCOUNTANTS

**K & Z PARTNERS, LLC**

December 31, 2002



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Members of  
**K & Z Partners, LLC**

We have audited the accompanying statement of financial condition of K & Z Partners, LLC (the "Company") as of December 31, 2002. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement 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 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 statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of K & Z Partners, LLC as of December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

New York, New York  
January 12, 2003

K & Z Partners, LLC

STATEMENT OF FINANCIAL CONDITION

December 31, 2002  
(expressed in United States dollars)

ASSETS

Cash	\$652,738
Accounts receivable	6,679
Other assets	<u>29,005</u>
Total assets	<u>\$688,422</u>

LIABILITIES AND MEMBERS' CAPITAL

Liabilities	
Accounts payable and accrued expenses	\$ 33,811
Members' withdrawals payable	<u>7,488</u>
Total liabilities	41,299
Commitments and contingencies	
Members' capital	<u>647,123</u>
Total liabilities and members' capital	<u>\$688,422</u>

*The accompanying notes are an integral part of this statement.*

K & Z Partners, LLC

**NOTES TO STATEMENT OF FINANCIAL CONDITION**

December 31, 2002  
(expressed in United States dollars)

**NOTE A - ORGANIZATION AND NATURE OF BUSINESS**

K & Z Partners, LLC (the "Company") is a registered broker-dealer with the Securities and Exchange Commission ("SEC") and a member of the National Association of Securities Dealers, Inc. ("NASD"). The Company is a Delaware limited liability company and was formed to provide asset and risk management consulting advice to high-net-worth individuals and institutions. The Company commenced operation as a registered broker-dealer on October 12, 2001 and received approval that they did not have to file the audited financial statements as of December 31, 2001 provided that the annual report for the year ended December 31, 2002 covers the entire period from October 12, 2001. The Company does not carry customer accounts; as such, it is exempt from SEC Rule 15c3-3 pursuant to Section k(2)(ii) of that rule.

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company recognizes and records advisory and consulting fees when performance is substantially completed.

**NOTE C - INCOME TAXES**

The Company is a limited liability company where the members are individually responsible for income taxes that result from the Company's operations. A provision for income taxes representing an accrual for New York City Unincorporated Income Tax is included in the accompanying statement of financial condition.

**NOTE D - RELATED PARTY TRANSACTIONS**

Revenues earned from advisory fees with related parties amounted to \$143,044 for the period from October 12, 2001 to December 31, 2002. As of December 31, 2002, there are no outstanding receivables from transactions with related parties.

K & Z Partners, LLC

**NOTES TO STATEMENT OF FINANCIAL CONDITION (continued)**

December 31, 2002  
(expressed in United States dollars)

**NOTE E - MEMBERS' CAPITAL**

The Company's limited liability agreement calls for the Company's net profits and net losses to be allocated to the Members pro rata in accordance with their percentage interests.

**NOTE F - COMMITMENTS AND CONTINGENCIES**

The Company occupies offices under a facilities license and office service agreement expiring on March 31, 2003. Future minimal rental payments required under leases for the premises are \$4,000 per month, amounting to \$12,000 for the period ending March 31, 2003. In addition to the facilities fee, the Company agrees to direct to the licensor a minimum of \$75,000 in securities transaction commissions each calendar quarter, as defined by the agreement. In the event that the Company directs commissions to the Licensor that, for either calendar quarter, are less than a total of \$75,000, then the Company shall pay to the Licensor an additional fee which shall be the lesser of (a) \$25,000 or (b) \$25,500 less a credit of thirty-four percent (34%) of the gross commissions generated for any calendar quarter.

**NOTE G - NET CAPITAL REQUIREMENTS**

As a registered broker-dealer under the Securities Exchange Act of 1934 (the "Act") and member of the NASD, the Company is subject to the SEC's Uniform Net Capital rule 15c3-1 of the Act. The Company is required to maintain minimum net capital, as defined, of 6-2/3% of aggregate indebtedness or \$5,000, whichever is greater. Net capital and aggregate indebtedness change from day to day, but as of December 31, 2002, the Company had net capital of \$611,439, which exceeded minimum net capital requirements by \$606,439.

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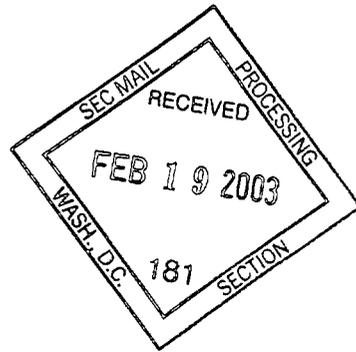
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INDEPENDENT AUDITORS' REPORT  
ON INTERNAL CONTROL REQUIRED BY  
SEC RULE 17a-5

**K & Z PARTNERS, LLC**

December 31, 2002



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

To the Members of  
**K & Z Partners, LLC**

In planning and performing our audit of the financial statements and supplemental schedules of K & Z Partners, LLC (the "Company") for the period from October 12, 2001 to December 31, 2002, 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 (the "SEC"), we have made a study of the practices and procedures followed by the Company, including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

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

The management of the Company is responsible for establishing and maintaining 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 accordance with accounting principles generally accepted in the United States of America. 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, 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 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 no matters involving internal control, including control activities 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 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, 2002 to meet the SEC's objectives.

This report is intended solely for the information and use of management, the SEC, and 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, 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.

*Grant Thornton LLP*

New York, New York  
January 12, 2003

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