



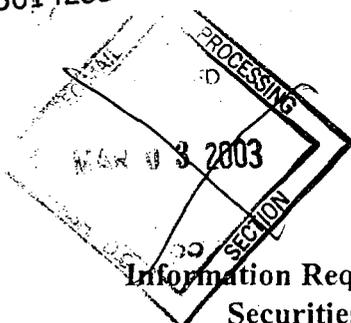
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

AB 3/6/03

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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:

Sapphire Partners, LLC

OFFICIAL USE ONLY  
FIRM ID. NO.

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

900 Third Avenue, 11th Floor

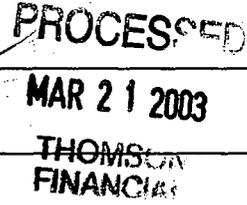
(No. and Street)

New York

New York

(City)

(State)



10022

(Zip Code)

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

Bruce Glaser

(212) 821-8700

(Area Code -- Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

Rothstein, Kass & Company, P.C.

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

3 Becker Farm Road

Roseland

(Address)

(City)

New Jersey

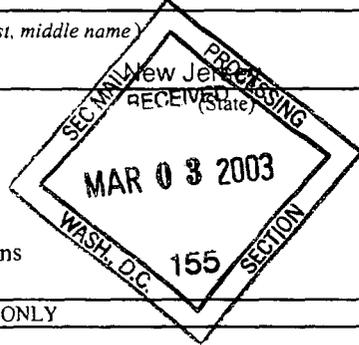
(State)

07068

(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)

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3/17/03

OATH OR AFFIRMATION

I, Bruce Glaser, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Sapphire Partners, 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:

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

Bruce Glaser  
Signature

CFO  
Title

Carol A. Scali  
Notary Public

CAROL A. SCALI  
Notary Public State of New York  
No. 01SC5067921  
Qualified in Kings County  
Commission Expires October 28, 2006

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.
- (o) Independent auditor's report on internal accounting control.
- (p) Schedule of segregation requirements and funds in segregation--customers' regulated commodity futures account pursuant to Rule 171-5.

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

**SAPPHIRE PARTNERS, LLC**  
STATEMENT OF FINANCIAL CONDITION  
AND  
INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2002

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# SAPPHIRE PARTNERS, LLC

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## INDEPENDENT AUDITORS' REPORT

To the Members of Sapphire Partners, LLC:

We have audited the accompanying statement of financial condition of Sapphire Partners, LLC 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 this 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 present fairly, in all material respects, the financial position of Sapphire Partners, LLC as of December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

*Rothstein, Kass & Company, P.C.*

Roseland, New Jersey  
February 10, 2002

# SAPPHIRE PARTNERS, LLC

## STATEMENT OF FINANCIAL CONDITION

December 31, 2002

### ASSETS

Investments in securities, at market (cost \$589,753,607)	\$ 578,631,210
Due from brokers	346,750,130
Net equity in swap contracts	1,112,290
Dividends and interest receivable	1,090,402
Cash and cash equivalents	669,647
Other assets	<u>15,241</u>
	<u>\$ 928,268,920</u>

### LIABILITIES AND MEMBERS' CAPITAL

#### Liabilities

Securities sold short, at market (proceeds \$567,415,657)	\$ 559,829,913
Accrued expenses	433,543
Interest and dividends payable	<u>1,298,561</u>
Total liabilities	561,562,017
Members' capital	<u>366,706,903</u>
	<u>\$ 928,268,920</u>

# SAPPHIRE PARTNERS, LLC

## NOTES TO FINANCIAL STATEMENTS

### 1. Nature of operations and summary of significant accounting policies

#### *Nature of Operations*

Sapphire Partners, LLC (the "Company") is a broker-dealer registered with the Securities and Exchange Commission (the "SEC") and is an associate member of the American Stock Exchange, Inc. The Company is primarily engaged in the proprietary trading of equity securities. The Company is organized as a master fund having various feeders.

#### *Valuation of Investments in Securities and Securities Sold Short*

The Company values investments in securities and securities sold short that are listed on a national securities exchange or reported on the NASDAQ national market at their last sales price as of the last business day of the year. Other securities traded in the over the counter markets and listed securities for which no sale was reported on that date are valued at the mean of the last reported "bid" and "ask" prices.

#### *Valuation of Swap Contracts*

The Company values its swap contracts at the net equity value, which approximates fair value. Management calculates net equity by marking to market the assets and liabilities underlying the swap contracts.

#### *Investment Transactions and Related Investment Income*

Investment transactions are accounted for on a trade-date basis. Dividend income and dividends paid on short sales are recorded on the ex-dividend date and interest is recorded on the accrual basis.

#### *Income Taxes*

The Company does not record a provision for income taxes because the individual members report their share of the Company's income or loss on their respective income tax returns. The financial statements reflect the Company's transactions without adjustment, if any, required for income tax purposes.

#### *Use of Estimates*

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 that affect the amounts disclosed in the financial statements. Actual results could differ from those estimates.

#### *Cash and Cash Equivalents*

The Company considers its investment in short-term money market funds to be a cash equivalent. As of December 31, 2002, the balance in the short-term money market funds was uninsured. The Company has not experienced any losses in such account and believes it is not exposed to any significant credit risk on cash and cash equivalents.

### 2. Due from brokers

Amounts due from brokers may be restricted to the extent that they serve as deposits for securities sold short.

# SAPPHIRE PARTNERS, LLC

## NOTES TO FINANCIAL STATEMENTS

### **2. Due from brokers (continued)**

In the normal course of business, all of the Company's securities transactions, money balances and security positions are transacted with a broker. The Company is subject to credit risk to the extent any broker with which it conducts business is unable to fulfill contractual obligations on its behalf. The Investment Advisor monitors the financial condition of such brokers and does not anticipate any losses from these counterparties.

The Company maintains its cash balances in various financial institutions. These balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 per institution.

### **3. Off balance sheet risk**

The Company is subject to certain inherent risks arising from its investing activities of selling securities short. The ultimate cost to the Company to acquire these securities may exceed the liability reflected in these financial statements. The Company is not exposed to this risk to the extent it holds offsetting long positions.

### **4. Net capital requirement**

The Company is subject to the SEC Uniform Net Capital Rule 15c3-1. This Rule requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 and that equity capital may not be withdrawn if the resulting net capital ratio would exceed 10 to 1. At December 31, 2002, the Company's net capital was \$211,962,420, which was \$211,846,947 in excess of its minimum requirement of \$115,473.

### **5. Exemption from Rule 15c3-3**

The Company is exempt from the SEC Rule 15c3-3 and, therefore, is not required to maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers."