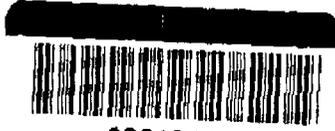


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APR 4/1/2003

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

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: October 31, 2004  
Estimated average burden  
hours per response.....12.00



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

SEC FILE NUMBER  
53126

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 1/1/02 AND ENDING 12/31/02  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Instream Partners, LLC

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

1 Maritime Plaza #1750  
(No. and Street)  
San Francisco CA 94111  
(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\*

Clare Chapman Storey & Bowen LLP  
(Name - if individual, state last, first, middle name)  
200 California St. #302 San Francisco CA 94111  
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

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PROCESSED SECTION

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APR 04 2003  
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)(2)

OATH OR AFFIRMATION

I, Jeanie Butler, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Instream Partners, as of March 29, 2003 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:

SUBSCRIBED AND SWORN TO BEFORE ME

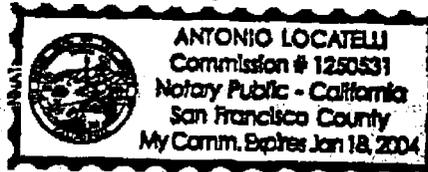
THIS 28<sup>th</sup> DAY OF MARCH, 2003

BY JEANIE M. BUTLER

Antonio Locatelli

NOTARY PUBLIC  
Notary Public

[Signature]  
Signature  
Director of Operations  
Title



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).

CCSIB

## Clare Chapman Storey & Bowen LLP

Certified Public Accountants

### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

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To the Members of  
Instream Partners, LLC

In planning and performing our audit of the financial statements and supplemental schedules of Instream Partners, LLC (Instream), for the year ended 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 consolidated 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 Instream 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 (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 Instream 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 Instream 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 Instream 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 Instream 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

Member Firm

**igaf**

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worldwide.

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 Instream'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 the members, management, the SEC, the National Association of Securities Dealers, and other regulatory agencies that 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.

*Clare, Chapman, Storey & Bowen, LLP*

San Francisco, California  
February 28, 2003

**INSTREAM PARTNERS, LLC**  
**(A CALIFORNIA LIMITED LIABILITY COMPANY)**

**FINANCIAL STATEMENTS**

**Years Ended December 31, 2002 and 2001**

# Clare Chapman Storey & Bowen LLP

Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

To the Members  
Instream Partners, LLC

We have audited the accompanying statement of financial condition of Instream Partners, LLC (Instream), a California limited liability company, as of December 31, 2002 and 2001, and the related statement of income, changes in members' equity, and cash flows for the years 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 Instream's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 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 Instream Partners, LLC as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

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, III, and IV 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 under 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.

*Clare Chapman Storey & Bowen, LLP*

San Francisco, California  
February 28, 2003

Member Firm  
**igaf**

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principal cities  
worldwide.

**INSTREAM PARTNERS, LLC**  
**STATEMENTS OF FINANCIAL CONDITION**  
December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 107,888	\$ 99,753
Receivables from customers	-	80,833
Other receivable	23,943	23,943
Other current assets	<u>6,543</u>	<u>800</u>
<b>TOTAL CURRENT ASSETS</b>	<b>138,374</b>	<b>205,329</b>
Property and equipment, net	11,057	17,567
Deposits	<u>12,594</u>	<u>-</u>
	<u>\$ 162,025</u>	<u>\$ 222,896</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	<u>\$ 4,436</u>	<u>\$ 3,775</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,436</b>	<b>3,775</b>
Members' equity	<u>157,589</u>	<u>219,121</u>
	<u>\$ 162,025</u>	<u>\$ 222,896</u>

The accompanying notes are an integral part of these financial statements.

**INSTREAM PARTNERS, LLC**  
**STATEMENTS OF INCOME**  
Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<b>INCOME</b>		
Consulting fees	\$ 478,475	\$ 465,467
Dividend income	17	3,562
Other income	<u>39,882</u>	<u>46,679</u>
	<u>518,374</u>	<u>515,708</u>
<b>EXPENSE</b>		
Salaries	362,913	347,962
Payroll taxes and related expense	31,108	29,608
Employee benefits	47,269	37,427
Rent	100,107	133,592
Consultants	34,564	40,344
Office expense	74,597	33,778
Travel	13,545	19,595
Professional fees	30,003	17,499
Automobile	5,195	8,995
Telephone	10,435	8,872
Depreciation	6,510	8,475
Meals and entertainment	13,902	6,292
Computer costs	5,407	4,673
Business and LLC taxes	3,495	3,122
Dues and subscriptions	7,697	1,145
Miscellaneous	<u>3,159</u>	<u>1,108</u>
	<u>749,906</u>	<u>702,487</u>
<b>NET LOSS</b>	<u>\$ (231,532)</u>	<u>\$ (186,779)</u>

The accompanying notes are an integral part of these financial statements.

**INSTREAM PARTNERS, LLC**  
**STATEMENTS OF CHANGES IN MEMBERS' EQUITY**  
**Years Ended December 31, 2002 and 2001**

	<u>Member A</u>	<u>Member B</u>	<u>Total</u>
Balance at January 1, 2001	\$ 160,374	\$ 80,187	\$ 240,561
Net loss	(141,253)	(45,526)	(186,779)
Contributions	200,000	-	200,000
Withdrawals	-	(34,661)	(34,661)
Balance at December 31, 2001	<u>219,121</u>	<u>-</u>	<u>219,121</u>
Net loss	(231,532)	-	(231,532)
Contributions	170,000	-	170,000
Withdrawals	-	-	-
Balance at December 31, 2002	<u>\$ 157,589</u>	<u>\$ -</u>	<u>\$ 157,589</u>

The accompanying notes are an integral part of these financial statements.

**INSTREAM PARTNERS, LLC**  
**STATEMENTS OF CASH FLOWS**  
Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (231,532)	\$ (186,779)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	6,510	8,475
(Increase) decrease in:		
Receivables	80,833	(89,076)
Other current assets	(5,743)	(800)
Deposits	(12,594)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	661	(1,026)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u>(161,865)</u>	<u>(269,206)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	-	(2,602)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>		<u>(2,602)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributed capital	170,000	200,000
Distributions	-	(34,661)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>170,000</u>	<u>165,339</u>
<b>NET DECREASE IN CASH</b>	8,135	(106,469)
<b>CASH AT BEGINNING OF YEAR</b>	<u>99,753</u>	<u>206,222</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 107,888</u>	<u>\$ 99,753</u>

The accompanying notes are an integral part of these financial statements.

**INSTREAM PARTNERS, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2002 and 2001

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations

Instream Partners, LLC (the Company) began operations in 2000 and is headquartered in San Francisco, California. The Company, which provides investment banking services, focuses on middle market growth companies, and is a member of the National Association of Securities Dealers (NASD).

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, the disclosure of contingent assets and liabilities, and the reported revenues and expenses in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are investments in interest-bearing instruments with original maturities of three months or less.

Depreciation

It is the Company policy to capitalize all expenditures for equipment and furniture in excess of \$100 and these fixed assets are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of 3 to 7 years.

Revenue Recognition

The Company earns fees from providing merger-and-acquisition and financial restructuring advisory services and recognizes the revenue from these services as earned on a pro rata basis over the term of the contract.

Income Taxes

The financial statements do not include a provision for income taxes because the limited liability company does not incur federal or state income taxes. Instead, its earnings and losses are included in the members' personal income tax returns and are taxed based on their personal tax strategies.

**INSTREAM PARTNERS, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2002 and 2001

Profit and Loss Allocation

Profits, generally, are allocated among Members in proportion to their respective percentage interest until the cumulative profits are equal to the cumulative losses allocated among Members for all prior periods and, thereafter, among the Members in proportion to their percentage interests. Losses are allocated amongst Members in proportion to their percentage interests, except that losses may not be allocated to a Member to the extent that such allocation would cause the Member to have an adjusted capital account deficit or would increase such person's adjusted capital account deficit. Losses that are not allocated to a Member because of this limitation must be allocated to the Members to whom this limitation does not apply in proportion to their percentage interests.

**NOTE B -- RECEIVABLES**

Receivables consists of amounts owed by customers. Management believes these are full collectible and, as a result, no allowance for doubtful accounts has been established.

**NOTE C -- PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2001 consists of the following:

Furniture and fixtures	\$ 14,942
Computer and equipment	<u>19,020</u>
Total property and equipment	33,962
Less accumulated depreciation and amortization	<u>(22,905)</u>
Property and equipment, net	<u>\$ 11,057</u>

**NOTE D -- COMMITMENTS AND CONTINGENCIES**

The Company leases office space under a noncancelable sublease through November 2003. The following is a schedule by year of future minimum payments required under this lease as of December 31, 2002:

Year Ending December 31:	
2003	<u>\$ 55,146</u>
	<u>\$ 55,146</u>

Rent expense for the years ended December 31, 2002 and 2001 were \$100,107 and \$133,592, respectively.

**INSTREAM PARTNERS, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2002 and 2001

**NOTE E - CONCENTRATIONS OF CREDIT RISK**

The Company maintains its cash balances in one financial institution located in Northern California. Certain accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2002 and 2001, the Company's uninsured cash balances totaled \$7,784 and \$2,010, respectively.

**NOTE F - PENSION PLAN**

The Company sponsors a cash balance 401(k) plan. Employees may elect to contribute to this plan, up to 25% of their compensation, limited to the maximum amount allowed by law. The Company may, but is not required to, make a matching contribution to the plan on behalf of the employees. No matching contributions were made in 2002 or 2001.

**NOTE G - NET CAPITAL REQUIREMENT**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1(a)(2)(vi)), which requires the maintenance of minimum net capital and requires the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2002, the Company had net capital of \$103,450, which was \$98,450 in excess of its required net capital of \$5,000. The Company's net capital ratio was 0.04 to 1.

**NOTE H - MEMBERS' EQUITY**

As of December 31, 2002, the Company consists of one member. During 2002, Samantha Lincoln withdrew from the LLC. At the time of Samantha Lincoln's withdrawal, her capital account was at zero. At inception, Christopher Allick (Member A) purchased 200 units and Samantha Lincoln (Member B) purchased 100 units valued at \$800 each. During the year ended December 31, 2002, the Company authorized and issued 25 preferred units valued at \$10,000 each that were purchased by Christopher Allick. These units are available for repurchase by the Company at the original value within a one year period beginning August 2003 (10 units) and December 2003 (10 units).

**SUPPLEMENTARY INFORMATION**

**INSTREAM PARTNERS, LLC****SCHEDULE I**

December 31, 2002 and 2001

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

	<u>2002</u>	<u>2001</u>
Net capital		
Total members' equity	\$ 157,589	\$ 219,121
Deductions:		
Nonallowable assets:		
Receivables	23,943	104,776
Furniture and equipment	11,057	17,567
Other assets	<u>19,137</u>	<u>800</u>
Capital before haircuts	103,452	95,978
Haircuts	<u>2</u>	<u>40</u>
Net capital	103,450	95,938
Required net capital under Rule 15c3-1 subpara (a)(2)(vi)	<u>5,000</u>	<u>5,000</u>
Excess net capital	<u>\$ 98,450</u>	<u>\$ 90,938</u>
Reconciliation with company's computation:		
Net capital, as reported by Company	\$ 105,924	\$ 93,399
Audit adjustment to record prepaid assets	6,514	-
Audit adjustment to reclassify expense	(9,552)	-
Audit adjustment to record accrued liabilities	<u>(4,436)</u>	<u>(2,461)</u>
Excess net capital	<u>\$ 98,450</u>	<u>\$ 90,938</u>

**INSTREAM PARTNERS, LLC**  
**SCHEDULES II through IV**  
December 31, 2002 and 2001

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

Instream Partners, LLC is exempt from this requirement as they do not carry securities accounts for customers or perform custodial functions relating to customer securities.

**Schedule III**  
**Information Relating to Possession or Control Requirements Under**  
**Rule 15c3-3 of the Securities and Exchange Commission**

Instream Partners, LLC is exempt from this requirement as they do not carry securities accounts for customers or perform custodial functions relating to customer securities.

**Schedule IV**  
**Schedule of Segregation Requirements and Funds in Segregation for**  
**Customers' Regulated Commodity Futures and Options Accounts**

Instream Partners, LLC is exempt from this requirement as they do not carry securities accounts for customers or perform custodial functions relating to customer securities.