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Instream Partners LLC is a boutique investment bank committed to providing the highest quality banking services to Small and Micro Cap public and emerging private companies.



Premier Research on Micro Cap Companies

Small Cap Market Comments

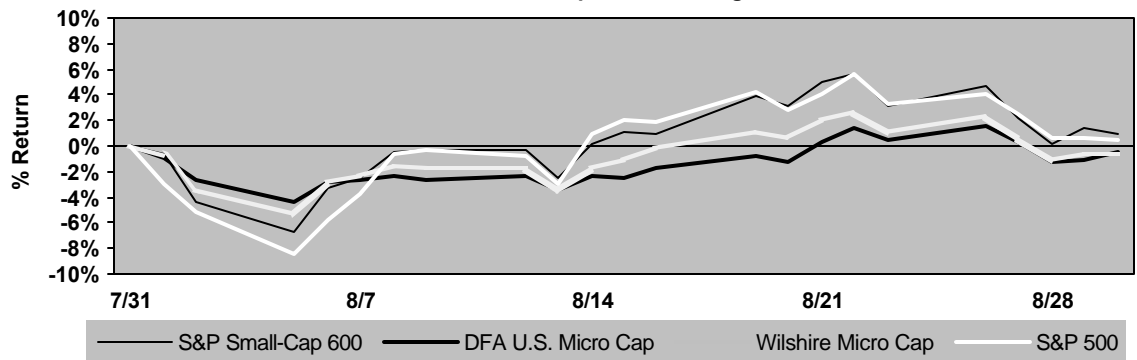
August provided additional evidence that Small and Micro Cap investing currently experiences less volatility than investing in the Large Cap equities. The month began poorly for all equity sectors with the S&P 500 down 8.4% by the first Monday. At this point, the Wilshire Micro, DFA U.S. Micro Cap Fund and the S&P Small Cap were also down 5.3%, 4.3% and 6.8%, respectively. However, Large Caps rallied strongly in the middle of the month, gaining approximately 12% by August 21st. Equities in the S&P Small Cap 600 participated fully in this rally, while the Wilshire Micro and DFA U.S. Micro Cap Fund struggled to break even by the end of the month; both losing approximately half of a percent for the month.

It appears that analyst enthusiasm regarding stability in the semiconductor sector combined with a reduction of corporate scandal news early in the month assisted the market's rise for the first half of August. Intel, Cisco and other large technology companies revised guidance downward for the remainder of 2002 and indicated that forward visibility remains elusive. Severe legal solutions for corporate wrongdoing began to coalesce late in August and continue to worry the executives and boards of directors of public companies. Lastly, the public's realization that the prospect of war with Iraq is imminent continues to depress the market, erasing the gains from earlier in the month.

As a review of the graph below indicates, Large Cap stocks continue to experience higher volatility as greater amounts of investment capital continues to search for a secure home.

Index Review

Simple Returns for the S&P 500, S&P Small Cap 600, DFA U.S. Micro Cap Fund and Wilshire Micro Cap Index for August 2002



Save the Date

Instream Partners will be holding a *Value Below the Radar* conference on November 20, 2002 at the Four Seasons Resort Aviara in Carlsbad, California. The conference will focus on identifying quality Small and Micro Cap companies for the benefit of institutional investors. Please call Andrea Gregori at 415.217.6400 x208 to inquire about registration.

Small and Micro Cap Stock Items of Interest

Abaxis (NASD: ABAX) - On September 3, 2002, the United States District Court of Maine issued a preliminary injunction in favor of IDEXX Laboratories, Inc. under which Abaxis cannot, pending the resolution of patent litigation by IDEXX against Abaxis, make, use, sell, offer to sell or import the VetScan Canine Heartworm Antigen Test manufactured by S.A. Scientific, Inc. The company disagrees with the Court's opinion and is evaluating its legal options, including an appeal of the order to the Federal Circuit Court of Appeals. The VetScan canine heartworm test was introduced in December 2001 and constitutes approximately 3% of total Abaxis sales since that date. The granting of the preliminary injunction does not affect the sale and support of Abaxis' in-clinic veterinary chemistry and hematology analysis products, which form the core of Abaxis' VetScan line. While disappointing, this news does not impact Abaxis' continuing momentum into the human medical testing market – the anticipated source of the majority of growth.

Interland, Inc. (NASD: INLD) - Interland, Inc. announced on September 4, 2002, that it has acquired Miami, Florida-based Web hosting company iINNERHOST. Terms of the transaction were not disclosed. In the last nine months, Interland's acquisitions have included the small business Web hosting accounts of Interliant and AT&T, and the corporate acquisitions of CommuniTech.Net and Dialtone Internet. We feel that Interland has a well-defined acquisition strategy, and if executed properly, Interland can extend its dominance in the Small to Medium Business Web Hosting category.

SCM Micro (NASD: SCMM; Neuer Markt: SMY) – SCM's Dazzle division released the Digital Video Creator 100, an all-around solution for consumer video editing. This product allows consumers to capture video from digital or analog sources, edit their video on a PC and distribute the video by burning to DVD or CD or broadcasting over the web. This product has the potential to be a blockbuster during the upcoming holiday season as the company continues to capitalize on the DVD / Home multimedia production trend.

ValueClick (NASD: VCLK) – ValueClick announced on August 6, 2002, that its Board of Directors has authorized a \$20 million increase to its stock repurchase program, bringing the total amount allocated under the stock repurchase program to \$50 million. As of June 30, 2002, ValueClick has repurchased approximately 6.3 million shares of common stock for approximately \$17.3 million, \$14.0 million of which was purchased pursuant to the Company's stock repurchase program. As a result of this increase, up to \$36 million of ValueClick's capital may be used to purchase shares of its outstanding common stock in the open market at the discretion of management.

Upcoming *Microwaves* Report

In the next edition of *Microwaves*, we are going to examine the issue of companies that trade below cash value. Companies that have a negative enterprise value yet have significant cash reserves to operate the business appear to be occupying more investors' minds. The rise of "activist" funds and investors indicates that there will be continued interest in equities that continue to suffer this condition. Our extensive research indicates that the stories are not as clear-cut as they appear upon a cursory review. However, there are companies that appear to have viable businesses that will produce positive financial returns in the future but are selling at a discount to their net cash value. The next issue of *Microwaves* will analyze and clarify these issues.

In conjunction, Instream Partners will be holding a CEO luncheon to provide a forum for CEO's to discuss the strategies that they are utilizing to demonstrate the potential value of their company to investors.

Small Cap Index Descriptions

Wilshire Micro Cap - This cap-weighted index is comprised of all stocks in the Wilshire 5000 Index below the 2,501st rank at June 30 of each year. Bulletin board issues are excluded from the monthly addition process by the assumption that they do not have consistently "readily" available prices. Non-domiciled U.S. stocks, foreign issues, and ADRs are excluded. This index represents Micro Cap stocks with 3,144 companies with mean and median market capitalizations of \$46 and \$28.3 million respectively.

Russell 2000 - Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. As of the latest reconstitution, the average market capitalization was approximately \$530 million; the median market capitalization was approximately \$410 million.

S&P Small Cap 600 - The S&P SmallCap 600 Index consists of 600 domestic stocks chosen for market size, liquidity, (bid-asked spread, ownership, share turnover and number of no trade days) and industry group representation. It is a market-value weighted index. This index represents Small to Mid Cap stocks with 600 companies with mean and median market capitalizations of \$625 and \$549 million respectively.

DFA U.S. Micro Cap – Dimensional Fund Advisors Micro Portfolio is a no-load mutual fund designed to capture the returns of a broad cross-section of U.S. small companies, on a market-cap weighted basis. The portfolio invests in securities of U.S. companies whose market capitalization falls within the smallest 4% of the market universe. The universe is comprised of companies listed on the NYSE, Amex and Nasdaq National Market System.

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Instream Partners LLC does not currently make a market in any of the securities mentioned in this report.

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