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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.



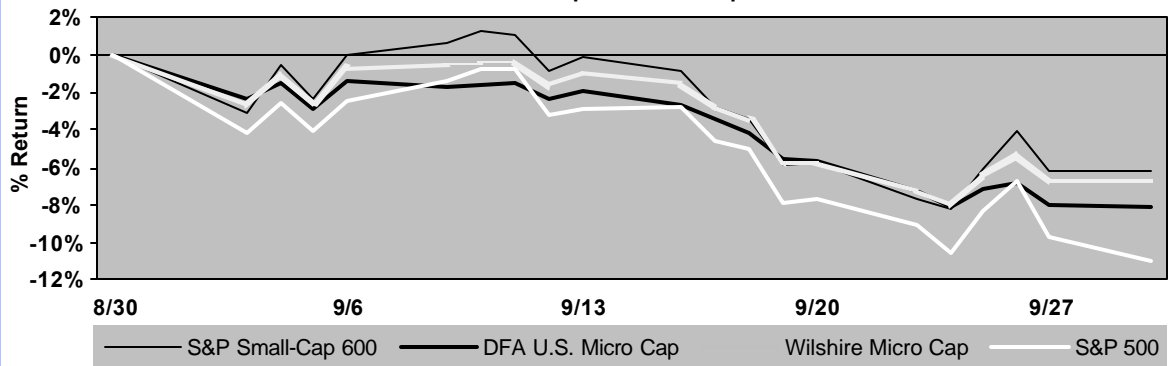
Premier Research on Micro Cap Companies

Small Cap Market Comments

If there is good news to report about this past September, it is that Small and Micro Cap equities continued to outperform Large Caps for the month. While the S&P 500 fell 11% during the month of September, the S&P 600, Wilshire Micro Cap Index and DFA U.S. Micro Cap Fund fell 6.2%, 6.7% and 8.1% respectively.

The headline grabbing revenue and earnings miss by EDS appeared to launch a sour second half of the month as yet another Large Cap stalwart buckled. EDS' use of complicated financial engineering demonstrates the lack of transparency in Large Cap financial statements. These types of financial structures appear less frequently in the Small and Micro cap equity market, and the relative financial transparency should be rewarded in valuation multiples for Small and Micro Cap equities, in our view. However, Large Cap executives and company boards are working hard to apply rigorous internal and external controls and reviews to the operational and financial management of their businesses. Unless Small Cap company executives implement the same level of controls; the relative advantage could be fleeting. In fact, a recent seminar held by a local law firm reviewing the impact of the newly enacted Sarbanes-Oxley Act underlined the importance of quality audit and control functions for public companies. Not only are executives tied closer to the financials through the certification process, but also the time allowed to compile and submit financials is decreasing over the next three years. We noted specifically that the scope of 8-K's increased while the time to file decreased to two business days.

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



Macroeconomic deterioration contributed to equity market depression as the Labor Department announced in the third week of the month that unemployment claims rose to 418,000, the highest in nearly four months. Also, The Institute of Supply Management recently indicated that their index of business activity fell to 49.5, versus expectations of 51, where readings below 50 indicate contraction amongst manufacturers.

On the consumer side of the equation, weak labor conditions continue to erode confidence. The Conference Board's Consumer Confidence Index declined for the fourth straight month in September to 93.3, down from 94.5 in August. This combined with declines in Same Store Sales expectations at major retailers (Wal-Mart) and a supplier of retail software (JDA Software) deflated the market's belief that consumers would help lift the economy out of recession.

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. Additional information and registration can be found at: <http://www.instreampartners.com/conference.html>.



Small and Micro Cap Stock Items of Interest

ABAXIS, Inc. (NASD: ABAX) – The company received Food and Drug Administration (FDA) clearance for its inorganic phosphorous (phosphate) assay. This allows the company to expand its Center for Medicare & Medicaid Services lab test panel offerings. The company continues to demonstrate incremental progress in its plan to address the human medical market. This announcement advances the company's efforts in providing lab testing solutions to medical service segments ranging from the military to community hospitals and urgent care centers.

Gymboree Corp. (NASD: GYMB) – The company amended its secured credit facility with Fleet Retail Finance Inc. on Sept. 4, lowering the overall credit line to \$60 million from \$85 million. The company indicated increased working capital availability compared to last year reduced its need for credit facilities.

Harvest Natural Resources, Inc. (NYSE: HNR) – The company a contract with PDVSA, Venezuela's State Oil Company, to sell natural gas commencing in the fourth quarter of 2003. According to the company, EBITDA in 2004 is expected to increase \$18 to \$24 million.

J. Jill Group, Inc. (NASD: JILL) – The company reiterated its earnings expectations of 17 cents to 18 cents a share on sales of \$76 million to \$79 million for its third quarter.

Raindance Communications, Inc. (NASD: RNDC) – The company, a provider of integrated web and phone conferencing services, reached its single-day high for billable service minutes on September 4, recording more than 2 million minutes in a 24-hour period.

Interland Inc. (NASD: INLD) – The company filed a registration statement late Tuesday to sell up to 9.7 million shares of common stock for Spire Capital Partners L.P., Spire Investments LLC and Waller-Sutton Media Partners L.P., in connection with the acquisition of Innerhost on Aug.

30. In the transaction, Interland issued 4.2 million shares of common stock to the shareholders, plus up to an additional 5.5 million shares that may be issued under certain circumstances.

Select Comfort Corporation (NASDAQ: SCSS) – The company announced that it expects to exceed the high end of its previously announced third quarter guidance of \$72 million to \$78 million in net sales. Bill McLaughlin, president and chief executive officer, indicated that the increased sales were a result of execution of the sales program as outlined in our initial profile of the company in the first volume of Microwaves. The company will report results for the third quarter on October 15, 2002. The company announced also announced that its board of directors has authorized a stock repurchase program of up to \$6 million. The program is effective immediately.

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 \$490 million; the median market capitalization was approximately \$395 million. The index had a total market capitalization range of approximately \$1.3 billion to \$128 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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