

OK Rec'd 11/26/06

SECURIT



06050656

ON

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	January 31, 2007
Estimated average burden	hours per response..... 12.00

RECEIVED MAIL ROOM

ANNUAL AUDITED REPORT

FORM X-17A-5

PART III

SEC FILE NUMBER
8-50241

2006 FEB 28 P 2:41

U.S. SEC PACIFIC REGIONAL OFFICE

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 1/01/05 AND ENDING 12/31/05
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Salem Partners LLC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
11111 Santa Monica Boulevard, Suite 1070
(No. and Street)

Los Angeles California 90025
(City) (State) (Zip Code)

REC'D S.E.C.
 FEB 28 2006
 503

OFFICIAL USE ONLY
FIRM I.D. NO.

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*
GHP Horwath, P.C.
(Name - if individual, state last, first, middle name)

1670 Broadway, Suite 3000 Denver Colorado 80202
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

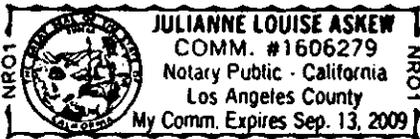
PROCESSED
 DEC 07 2006
 THOMSON FINANCIAL

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)

OATH OR AFFIRMATION

I, Stephen Prough, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Salem Partners, LLC, as of December 31, 20 05, 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:



[Handwritten Signature]
Signature
Managing Member
Title

[Handwritten Signature]
Notary Public

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

- [x] (a) Facing Page.
[x] (b) Statement of Financial Condition.
[x] (c) Statement of Income (Loss).
[x] (d) Statement of cash flows.
[x] (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
[] (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
[x] (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.
[x] (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).

- x (o) Independent auditors' report.
x (p) Independent auditors' report on internal control.



GHP Horwath, P.C.
1670 Broadway, Suite 3000
Denver, Colorado 80202
303.831.5000
303.831.5032 Fax
www.GHPHorwath.com

INDEPENDENT AUDITORS' REPORT

To the Members
Salem Partners, LLC

We have audited the accompanying statement of financial condition of Salem Partners, LLC as of December 31, 2005, and the related statements of income, changes in ownership equity, and cash flows for the year 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 the Company's management. Our responsibility is to express an opinion on these financial statements 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 Salem Partners, LLC at December 31, 2005, 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 of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information contained in the computations of net capital, net capital requirement and aggregate indebtedness, 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.

GHP Horwath, P.C.

February 10, 2006

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

OMB APPROVAL
OMB Number: 3235-0123
Expires: January 31, 2007
Estimated average burden
hours per response..... 12.00

Form X-17A-5

FOCUS REPORT

(Financial and Operational Combined Uniform Single Report)

PART IIA 12

(Please read instructions before preparing Form.)

This report is being filed pursuant to (Check Applicable Block(s)):

- | | | |
|------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| 1) Rule 17a-5(a) <input checked="" type="checkbox"/> 16 | 2) Rule 17a-5(b) <input type="checkbox"/> 17 | 3) Rule 17a-11 <input type="checkbox"/> 18 |
| 4) Special request by designated examining authority <input type="checkbox"/> 19 | 5) Other <input type="checkbox"/> 26 | |

NAME OF BROKER-DEALER

Salem Partners, LLC 13

ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do Not Use P.O. Box No.)

11111 Santa Monica Boulevard, Suite 1070 20

(No. and Street)

Los Angeles 21

(City)

California 22

(State)

90025 23

(Zip Code)

SEC FILE NO.

8-50241 14

FIRM I.D. NO.

043363 15

FOR PERIOD BEGINNING (MM/DD/YY)

01/01/05 24

AND ENDING (MM/DD/YY)

12/31/05 25

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

(Area Code) — Telephone No.

Stephen Prough 30

310-806-4200 31

NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT:

OFFICIAL USE

32

33

34

35

36

37

38

39

DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNTS? YES 40 NO 41

CHECK HERE IF RESPONDENT IS FILING AN AUDITED REPORT 42

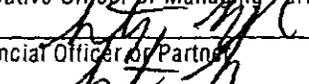
EXECUTION:

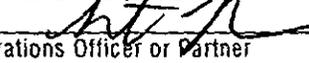
The registrant/broker or dealer submitting this Form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated the 27th day of February 2006

Manual signatures of:

1)  32
Principal Executive Officer or Managing Partner

2)  34
Principal Financial Officer or Partner

3)  36
Principal Operations Officer or Partner

ATTENTION — Intentional misstatements or omissions of facts constitute Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 78f(a))

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

TO BE COMPLETED WITH THE ANNUAL AUDIT REPORT ONLY:

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report

NAME (If individual, state last, first, middle name)

GHP Horwath, P.C.

70

ADDRESS

1670 Broadway, Suite 3000
Number and Street

71

Denver
City

72

Colorado
State

73

80202
Zip Code

74

CHECK ONE

Certified Public Accountant

75

FOR SEC USE

Public Accountant

76

--	--

Accountant not resident in United States
or any of its possessions

77

DO NOT WRITE UNDER THIS LINE . . . FOR SEC USE ONLY

WORK LOCATION	REPORT DATE MM/DD/YY	DOC. SEQ. NO.	CARD				
50	51	52	53				

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

PART IIA

BROKER OR DEALER Salem Partners, LLC

N 3

100

STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING AND CERTAIN OTHER BROKERS OR DEALERS

as of (MM/DD/YY) 12/31/05

SEC FILE NO. 8-50241

	99
	98
Consolidated	198
Unconsolidated	199
	x

	Allowable		Non-Allowable		Total
1. Cash	\$ 331,234	200			\$ 331,234 750
2. Receivables from brokers or dealers:					
A. Clearance account		295			
B. Other		300			
3. Receivable from non-customers		355	827,998	600	827,998 830
4. Securities and spot commodities owned at market value:					
A. Exempted securities		418			
B. Debt securities		419			
C. Options		420			
D. Other securities	60,816	424			
E. Spot commodities		430			60,816 850
5. Securities and/or other investments not readily marketable:					
A. At cost, \$ 28,905		130			
B. At estimated fair value		440	28,905	610	28,905 860
6. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:					
A. Exempted securities \$		150			
B. Other securities \$		160			
7. Secured demand notes: Market value of collateral:					
A. Exempted securities \$		170			
B. Other securities \$		180			
8. Memberships in exchanges:					
A. Owned, at market \$		190			
B. Owned, at cost				650	
C. Contributed for use of the company, at market value				660	900
9. Investment in and receivables from affiliates, subsidiaries and associated partnerships		480	12,659	670	12,659 910
10. Property, furniture, equipment, leasehold improvements and rights under lease agreements, at cost-net of accumulated depreciation and amortization		490	103,529	680	103,529 920
11. Other assets		535	227,894	735	227,894 930
12. TOTAL ASSETS	\$ 392,050	540	\$ 1,200,985	740	\$ 1,593,035 940

OMIT PENNIES

(continued)

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

PART IIA

BROKER OR DEALER Salem Partners, LLC

as of 12/31/05

STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING AND CERTAIN OTHER BROKERS OR DEALERS

LIABILITIES AND OWNERSHIP EQUITY

Liabilities	A.I. Liabilities	Non-A.I. Liabilities	Total
13. Bank loans payable	\$ 1045	\$ 1255	\$ 1470
14. Payable to brokers or dealers:			
A. Clearance account	1114	1315	1560
B. Other	1115	1305	1540
15. Payable to non-customers	1155	1355	1610
16. Securities sold not yet purchased, at market value		1360	1620
17. Accounts payable, accrued liabilities, expenses and other	46,169 1205	1385	46,169 1685
18. Notes and mortgages payable:			
A. Unsecured	1210		1690
B. Secured	1211	1390	1700
19. E. Liabilities subordinated to claims of general creditors:			
A. Cash borrowings:			
1. from outsiders, \$	970		1710
2. includes equity subordination (15c3-1(d)) of ... \$	980		
B. Securities borrowings, at market value from outsiders \$		1410	1720
C. Pursuant to secured demand note collateral agreements		1420	1730
1. from outsiders \$	1000		
2. includes equity subordination (15c3-1(d)) of ... \$	1010		
D. Exchange memberships contributed for use of company, at market value		1430	1740
E. Accounts and other borrowings not qualified for net capital purposes	1220	14,223 1440	14,223 1750
20. TOTAL LIABILITIES	\$ 46,169 1230	\$ 14,223 1450	\$ 60,392 1760
Ownership Equity			
21. Sole Proprietorship			1770
22. Partnership (limited partners) LLC	1,532,643 1020		1,532,643 1780
23. Corporation:			
A. Preferred stock			1791
B. Common stock			1792
C. Additional paid-in capital			1793
D. Retained earnings			1794
E. Total			1795
F. Less capital stock in treasury			1796
24. TOTAL OWNERSHIP EQUITY			\$ 1,532,643 1800
25. TOTAL LIABILITIES AND OWNERSHIP EQUITY			\$ 1,593,035 1810

OMIT PENNIES

See notes to financial statements.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART IIA

BROKER OR DEALER Salem Partners, LLC

as of 12/31/05

COMPUTATION OF NET CAPITAL

1. Total ownership equity from Statement of Financial Condition	\$	1,532,643	3480
2. Deduct ownership equity not allowable for Net Capital	19	()	3490
3. Total ownership equity qualified for Net Capital		1,532,643	3500
4. Add:			
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital			3520
B. Other (deductions) or allowable credits (List)			3525
5. Total capital and allowable subordinated liabilities	\$	1,532,643	3530
6. Deductions and/or charges:			
A. Total non-allowable assets from			
Statement of Financial Condition (Notes B and C)	17	\$ 1,200,985	3540
B. Secured demand note delinquency			3590
C. Commodity futures contracts and spot commodities – proprietary capital charges			3600
D. Other deductions and/or charges			3610
7. Other additions and/or allowable credits (List)		(1,200,985)	3620
8. Net capital before haircuts on securities positions			3630
9. Haircuts on securities (computed, where applicable, pursuant to 15c3-1(f)):	20	\$	331,658 3640
A. Contractual securities commitments		\$	3660
B. Subordinated securities borrowings			3670
C. Trading and investment securities:			
1. Exempted securities	18		3735
2. Debt securities			3733
3. Options			3730
4. Other securities		2,510	3734
D. Undue Concentration			3650
E. Other (List)			3736
			(2,510) 3740
10. Net Capital	\$	329,148	3750

OMIT PENNIES

See notes to financial statements.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

PART IIA

BROKER OR DEALER Salem Partners, LLC

as of 12/31/05

COMPUTATION OF NET CAPITAL REQUIREMENT

Part A

11. Minimum net capital required (6 2/3% of line 19)	\$	3,078	3756
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	5,000	3758
13. Net capital requirement (greater of line 11 or 12)	\$	5,000	3760
14. Excess net capital (line 10 less 13)	\$	324,148	3770
15. Excess net capital at 1000% (line 10 less 10% of line 19)	\$	324,531	3780

COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.I. liabilities from Statement of Financial Condition	\$	46,169	3790
17. Add:			
A. Drafts for immediate credit	\$	3800	
B. Market value of securities borrowed for which no equivalent value is paid or credited	\$	3810	
C. Other unrecorded amounts (List)	\$	3820	
18. Total aggregate indebtedness	\$	46,169	3840
19. Percentage of aggregate indebtedness to net capital (line 18 ÷ by line 10)	%	14%	3850
20. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)	%	0	3860

COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT

Part B

21. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits	\$		3970
22. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$		3880
23. Net capital requirement (greater of line 21 or 22)	\$		3760
24. Excess capital (line 10 less 23)	\$		3910
25. Net capital in excess of the greater of:			
A. 5% of combined aggregate debit items or \$120,000	\$		3920

NOTES:

- (A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
 1. Minimum dollar net capital requirement, or
 2. 6 2/3% of aggregate indebtedness or 4% of aggregate debits if alternative method is used.
- (B) Do not deduct the value of securities borrowed under subordination agreements or secured demand note covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.
- (C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

See notes to financial statements.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

PART IIA

BROKER OR DEALER Salem Partners, LLC

For the period (MMDDYY) from 01/01/05 to 12/31/05

STATEMENT OF CHANGES IN OWNERSHIP EQUITY (SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)

1. Balance, beginning of period	\$	836,814	4240
A. Net income (loss)		1,219,995	4250
B. Additions (Includes non-conforming capital of	\$	4262)	4260
C. Deductions (Includes non-conforming capital of	\$	4272)	(524,166) 4270
2. Balance, end of period (From item 1800)		\$	1,532,643 4290

STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

3. Balance, beginning of period	\$	4300	4300
A. Increases		4310	4310
B. Decreases		4320	4320
4. Balance, end of period (From item 3520)		\$	4330

OMIT PENNIES

See notes to financial statements.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART IIA

BROKER OR DEALER Salem Partners, LLC

as of 12/31/05

EXEMPTIVE PROVISION UNDER RULE 15c3-3

24. If an exemption from Rule 15c3-1 is claimed, identify below the section upon which such exemption is based (check one only)

A. (k)(1) — \$2,500 capital category as per Rule 15c3-1	X	4550
B. (k)(2)(A) — "Special Account for the Exclusive Benefit of customers" maintained	X	4560
C. (k)(2)(B) — All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm ³⁰		4570
D. (k)(3) — Exempted by order of the Commission (include copy of letter)		4580

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.

Type of Proposed Withdrawal or Accrual (See below for code)	Name of Lender or Contributor	Insider or Outsider? (In or Out)	Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities)	(MMDDYY) Withdrawal or Maturity Date	Expect to Renew (Yes or No)
31 4600	4601	4602	4603	4604	4605
32 4610	4611	4612	4613	4614	4615
33 4620	4621	4622	4623	4624	4625
34 4630	4631	4632	4633	4634	4635
35 4640	4641	4642	4643	4644	4645
			Total \$ ³⁶	4699	

OMIT PENNIES

Instructions: Detail Listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and anticipated accruals which would cause a reduction of Net Capital. These anticipated accruals would include amounts of bonuses, partners' drawing accounts, taxes, and interest on capital, voluntary contributions to pension or profit sharing plans, etc., which have not been deducted in the computation of Net Capital, but which you anticipate will be paid within the next six months.

WITHDRAWAL CODE:	DESCRIPTIONS
1.	Equity Capital
2.	Subordinated Liabilities
3.	Accruals

See notes to financial statements.

SALEM PARTNERS, LLC
(A Colorado Limited Liability Company)

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2005

Cash flows from operating activities:	
Net income	\$ 1,219,995
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	26,833
Accretion of interest on investments	(22,700)
(Increase) decrease in assets:	
Accounts receivable	(565,388)
Amounts due from affiliates	8,582
Prepaid expenses and other assets	(198,703)
Securities owned	522,728
Decrease in liabilities:	
Accounts payable and other	(143,035)
Total adjustments	<u>(371,683)</u>
Net cash provided by operating activities	<u>848,312</u>
Cash flows from investing activities:	
Purchases of fixed assets	<u>(31,764)</u>
Net cash used in investing activities	<u>(31,764)</u>
Cash flows from financing activities:	
Distributions to members	<u>(524,166)</u>
Net cash used in financing activities	<u>(524,166)</u>
Net increase in cash	292,382
Cash, beginning	<u>38,852</u>
Cash, ending	<u>\$ 331,234</u>

See notes to financial statements.

SALEM PARTNERS, LLC
(A Colorado Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

1. Summary of significant accounting policies and business of the Company:

Formation of the Company:

Salem Partners, LLC (the Company), a Colorado limited liability company, was formed in January 1997. Each member's liability is limited to its respective capital contributions, except as otherwise required by law.

The members' interests in the Company are represented by membership units. There are two classes of membership units: Class A and Class B. Only holders of Class A membership units participate in the management and operation of the Company's business.

At December 31, 2005, two individuals own 190 total Class A units and 410 Class B units, and one individual owns 10 Class B units. There were no changes in members' interests in the Company during the year.

Each member maintains a capital account that is increased or decreased by the amount of profit or loss allocable to the respective member. Losses for any period are allocated among those members having a positive balance in their capital accounts in proportion to and to the extent of such positive capital balances, any remaining losses are allocated among the members in accordance with their membership units. If all members maintain positive capital balances, profit or loss is allocated to members in accordance with their respective membership units.

In certain circumstances, the Company has the option to purchase a member's interest.

Business of the Company:

The Company is a registered broker-dealer subject to the rules and regulations of the Securities and Exchange Commission and the National Association of Securities Dealers. The Company provides investment banking and advisory services to clients primarily in the media and entertainment, technology and life sciences industries. The Company does not hold customer funds or securities.

Furniture, fixtures and equipment:

Furniture, fixtures and equipment are stated at cost and are being depreciated using the straight-line method over the estimated useful lives of the assets ranging from 5 to 7 years.

Cash and cash equivalents:

The Company considers all highly liquid short-term investments purchased with an original maturity of three months or less to be cash equivalents.

The Company maintains its cash and cash equivalents in accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

SALEM PARTNERS, LLC
(A Colorado Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2005

1. Summary of significant accounting policies and business of the Company (continued):

Allowance for doubtful accounts:

Accounts receivable consist of amounts due from clients for investment banking services. The Company's management periodically assesses its accounts receivable for collectibility and establishes an allowance for doubtful accounts and records bad debt when deemed necessary. At December 31, 2005, management determined that an allowance for doubtful accounts was not necessary.

Securities owned:

Proprietary securities transactions are recorded on the trade date as if they had settled. Profit and loss arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade date basis.

Marketable securities are valued at market value, and securities not readily marketable are valued at fair value, as determined by management.

Other securities:

Other securities consist of two certificates of deposit. The certificates of deposit mature on January 30, 2006 and October 2, 2006, respectively, and bear interest at 1.19% and 2.96%, respectively, at December 31, 2005.

Investment banking and advisory services:

The Company earned substantially all of its revenue from investment banking and advisory services which included private placement, merger-and-acquisition, and valuation assistance provided under contractual arrangements that generally require clients to pay a non-refundable deposit, service fees or an agreed-upon fee upon the closing of a transaction. The Company recognizes non-refundable deposits as revenue when services are delivered or performed over the term of the arrangement, recognizes service fees as revenue when the related services are provided, and recognizes transaction fees as revenue when the underlying transaction is completed.

Deferred revenue:

Deferred revenue represents amounts billed or collected but not yet earned under existing agreements and is classified as "accounts and other borrowings not qualified for net capital purposes" on the Statement of Financial Condition.

Advertising:

The Company expenses advertising costs as incurred. During the year ended December 31, 2005, the Company incurred approximately \$13,400 in advertising expense.

Concentrations:

During the year ended December 31, 2005, three clients accounted for approximately 11%, 15% and 20%, respectively, of the Company's total investment banking and advisory service revenue.

SALEM PARTNERS, LLC
(A Colorado Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2005

1. Summary of significant accounting policies and business of the Company (continued):

Use of accounting estimates in the preparation of financial statements:

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes:

Because the Company is a limited liability company, it is not subject to income taxes. Instead, each member is taxed on its proportionate share of the Company's taxable income, whether or not distributed. Therefore, these financial statements do not reflect a provision for income taxes.

Comprehensive income:

Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income", requires disclosure of comprehensive income which includes certain items previously not reported in the statement of income. During the year ended December 31, 2005, the Company did not have any components of comprehensive income to report.

Recently issued and enacted accounting pronouncement:

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, "Share-Based Payment", which addresses the accounting for share-based payment transactions. SFAS No. 123R eliminates the ability to account for share-based compensation transactions prescribed in Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees", and generally requires instead that such transactions be accounted for and recognized in the statement of operations based on their fair value. SFAS No. 123R will be effective as of the first annual reporting period that begins after December 15, 2005. SFAS No. 123R offers the Company alternative methods of adopting this standard. The Company is currently assessing the impact that the adoption of SFAS No. 123R may have on its financial statements.

2. Securities owned:

Securities not readily marketable include investment securities (a) for which there is no market on a securities exchange or no independent publicly quoted market, (b) that cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1933, or (c) that cannot be offered or sold because of other arrangements, restrictions, or conditions applicable to the securities or to the Company. For the year ended December 31, 2005, these securities, at estimated fair values, consist of the following:

Warrants	\$ 3,905
Common stock	<u>25,000</u>
	<u>\$ 28,905</u>

SALEM PARTNERS, LLC
(A Colorado Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2005

3. Furniture, fixtures and equipment:

As of December 31, 2005, fixed assets consisted of the following:

Leasehold Improvements	\$ 17,714
Equipment	137,492
Furniture and fixtures	<u>59,806</u>
	215,012
Less accumulated depreciation and amortization	<u>111,483</u>
	<u>\$ 103,529</u>

4. Operating leases:

The Company leases office space under a five year operating lease expiring in 2008. Subject to certain conditions, as described in the lease agreement, the Company has the option to renew the lease for an additional five year term. The Company is responsible for its proportionate share of any increase, beginning in 2004, in operating expenses of the building and taxes of the lessor.

In addition, the Company leases certain vehicles and equipment under operating leases that expire through March 2009. Total rent expense for the year ended December 31, 2005 was approximately \$147,000. Future minimum lease payments at December 31, 2005, under all operating leases are approximately as follows:

<u>Years ending December 31,</u>	
2006	\$ 184,500
2007	188,100
2008	134,000
2009	<u>4,200</u>
	<u>\$ 510,800</u>

5. Retirement plan:

The Company has established the Salem Partners, LLC 401(k) Profit Sharing Plan (the Plan) for the benefit of its eligible employees. The Plan is a defined contribution plan. Participants may contribute from 1% to 75% of their eligible compensation, as defined in the Plan. The Company may make matching and/or additional contributions to the Plan for the benefit of participants at its discretion. During the year ended December 31, 2005, the Company contributed \$96,821 to the Plan.

SALEM PARTNERS, LLC
(A Colorado Limited Liability Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2005

6. Fair value of financial instruments:

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments", requires the Company to disclose estimated fair values for its financial instruments, for which it is practicable to estimate fair value. For derivative instruments held for trading purposes, which include warrants that are not readily marketable, fair values are estimated by management based on current market conditions and quoted market prices for similar instruments. For non-marketable equity securities, fair values are estimated by management based on certain factors including, but not limited to, the size of the position held, the financial standing of the issuer and, changes in economic conditions affecting the issuer. Management believes that it is not practicable to estimate the fair value of the Company's receivables from affiliates due to the related party nature of the underlying transactions. Management believes that the carrying amounts of the Company's other financial instruments approximate their fair values because of the short-term maturities of these instruments.

7. Net capital requirement:

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. For the year ended December 31, 2005, the Company had net capital of \$329,148, which was \$324,148 in excess of its required net capital of \$5,000 and the Company's net capital ratio was .14 to 1.

The following is a reconciliation between the Company's computation (included in Part IIA of Form X-17A-5 as of December 31, 2005) of net capital and the computation based on the audited financial statements:

Net capital, as reported in the Company's Part II (unaudited FOCUS report)	\$ 305,110
Audit adjustments to increase accounts receivable and revenue related to services that were completed prior to December 31, 2005	750,169
Portion of the above audit adjustments that represents an increase in non-allowable assets	<u>(726,131)</u>
Net capital	<u>\$ 329,148</u>

8. Receivables from affiliates:

At January 1, 2005, advances to affiliates controlled by Class A unit holders of the Company totaled \$21,241. During the year ended December 31, 2005, \$3,918 of additional advances were made to affiliates by the Company and \$12,500 were repaid. At December 31, 2005, the Company has advanced a total of \$12,659 to affiliates. The advances are non-interest bearing, unsecured, due on demand and are included in "Line 9" on the Statement of Financial Condition.



GHP Horwath, P.C.
1670 Broadway, Suite 3000
Denver, Colorado 80202
303.831.5000
303.831.5032 Fax
www.GHPHorwath.com

To the Board of Directors of
Salem Partners, LLC

In planning and performing our audit of the financial statements and supplemental schedules of Salem Partners, LLC, for the year ended December 31, 2005, 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 Exchange Commission (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 (or aggregate debits) and net capital under rule 17a-3(a)(1) 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 and recordation of differences required by rule 17a-13
2. 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
3. Obtaining and maintaining physical possession or control of a fully paid and excess margin securities of customers as required by rule 15c3-3

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 generally accepted accounting principles. 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 the following matter involving the accounting system and certain control activities related to revenue recognition that we consider to be a material weakness, as defined above. This condition was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of Salem Partners, LLC for the year ended December 31, 2005, and this report does not effect our report thereon dated February 10, 2006.

Accounting Procedures and Control Activities Related to Revenue Recognition

The Company enters into a variety of contractual arrangements to provide consulting, broker and other services to its clients. Some of these contractual arrangements are complex and contain specific fee payment schedules, which require careful consideration in order to apply the Company's revenue recognition policies and procedures. We noted several instances throughout the year whereby the Company did not properly record revenue in accordance with its revenue recognition policies. The improper recognition of revenue related to these transactions results in errors in the Company's periodic computations of aggregate indebtedness under rule 17a-5(g) and net capital under rule 17a-3(a)(11). Adjustments were required at year end to correct certain account balances for activity that occurred in December 2005, including recognizing as revenue, approximately \$24,000 of non-refundable fees previously deferred and recognizing approximately \$726,100 for transactions meeting the criteria for revenue recognition that had not been previously recorded by the Company. These adjustments did not result in an incident of non-compliance with SEC Rule 15c-3-1 at December 31, 2005.

We discussed this matter with the managing members of the Company and they informed us that they will perform a review of their control activities related to revenue recognition and make necessary changes to ensure compliance with the Company's revenue recognition policies and procedures. This will involve a managing member of the Company performing an analysis of the status of contracts in effect and reviewing transactions to ensure that revenue is being recognized and recorded in accordance with the Company's stated policies.

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, except as noted in the previous paragraph, were adequate at December 31, 2005, to meet the SEC's objectives.

This report is intended solely for the information and use of the Company's members, Board of Directors, management, the SEC, 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.

AHP Horwath, P.C.

February 10, 2006



GHP Horwath, P.C.
1670 Broadway, Suite 3000
Denver, Colorado 80202
303.831.5000
303.831.5032 Fax
www.GPHorwath.com