

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



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October 31, 2004  
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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART-III**

SEC FILE NUMBER  
~~8-27994~~ 40487

**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 1/1/06 AND ENDING 12/31/06  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER DEALER:

Dahlman Rose & Company, LLC

OFFICIAL USE ONLY  
FIRM ID. NO.

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

142 West 57<sup>th</sup> Street, 18<sup>th</sup> Floor

(No. and Street)

New York

(City)

New York

(State)

10019

(Zip Code)

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

George Koo, CFO

(212) 920-2990

(Area Code — Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Eisner LLP

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

750 Third Avenue

(Address)

New York

(City)

New York

(State)

10017

(Zip Code)

CHECK ONE:

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

**PROCESSED**

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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, George Koo, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Dahlman Rose & Company, LLC, as of December 31, 2006, 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:

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

  
\_\_\_\_\_  
Signature

\_\_\_\_\_  
CFO  
\_\_\_\_\_  
Title

  
\_\_\_\_\_  
Notary Public

DIANE RUBIN  
Notary Public, State of New York  
No. 01RU4935889  
Qualified in Queens County  
Commission Expires August 1, 20 10

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Cash Flows.
- (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 Auditors' Report on internal accounting control required by SEC Rule 17a-5.

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

**DAHLMAN ROSE AND COMPANY, LLC**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2006**

**Eisner**

Eisner LLP  
Accountants and Advisors

750 Third Avenue  
New York, NY 10017-2703  
Tel 212.949.8700 Fax 212.891.4100  
www.eisnerllp.com

**INDEPENDENT AUDITORS' REPORT**

To the Members  
Dahlman Rose and Company, LLC

We have audited the accompanying statement of financial condition of Dahlman Rose and Company, LLC (the "Company") as of December 31, 2006 that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial 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 financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 statement referred to above presents fairly, in all material respects, the financial position of the Company as of December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

*Eisner LLP*

New York, New York  
February 23, 2007

**DAHLMAN ROSE AND COMPANY, LLC**

**STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2006**

**ASSETS**

Cash & cash equivalents	\$	199,426
Restricted cash		689,389
Due from clearing broker		1,745,231
Security deposit with clearing broker		250,000
Underwriting fees receivable		4,067,047
Securities owned:		
Marketable, at market value		8,225,061
Not readily marketable, at estimated fair value		1,200
Furniture and equipment and leasehold improvements (net of accumulated depreciation and amortization of \$221,449)		397,318
Prepaid expenses		212,578
Other assets		161,984
Goodwill		75,000
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>16,024,234</b>

**LIABILITIES AND MEMBERS' CAPITAL**

**LIABILITIES**

Accounts payable and accrued expenses	\$	2,156,467
Securities sold not yet purchased, at market value		2,997,987
Income taxes payable		82,880
Deferred rent		72,862

**TOTAL LIABILITIES** **5,310,196**

**MEMBERS' CAPITAL** **10,714,038**

**TOTAL LIABILITIES AND MEMBERS' CAPITAL** **\$ 16,024,234**

See notes to financial statements.

# DAHLMAN ROSE AND COMPANY, LLC

## NOTES TO STATEMENT OF FINANCIAL CONDITION

### 1. ORGANIZATION AND NATURE OF BUSINESS

Dahlman Rose & Company, LLC (the "Company") is a Delaware limited liability company owned by DR BD Holdings, LLC and REDS Management, LLC. The Company acts as an introducing broker for which it earns commissions and enters into proprietary security transactions for its own account. All transactions for customers and proprietary trading are cleared through and carried by a New York Stock Exchange and a National Association of Securities Dealers, Inc. ("NASD") member firm on a fully disclosed basis. The Company is also an investment banking firm and earns fees from underwriting and financial advisory services. The Company is registered as a broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the NASD. The Company headquarters are located in New York City, New York, with additional offices in Houston, Texas and San Francisco, California.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### *Use of Estimates*

The preparation of the statement of financial condition 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 statement. Actual results could differ from those estimates.

#### *Cash*

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

#### *Securities Transactions*

Securities transactions are recorded on a trade date basis. Securities owned and securities sold, not yet purchased are valued at their quoted market prices.

Marketable securities are valued at market value and securities not readily marketable are valued at estimated fair value as determined by management. Because of the inherent uncertainty of valuation, the estimated values may differ significantly from the values that would have been used had a ready market for investments existed, and the differences could be material.

## DAHLMAN ROSE AND COMPANY, LLC

### NOTES TO STATEMENT OF FINANCIAL CONDITION

#### *Furniture and Equipment*

Furniture and equipment are stated at cost and are being depreciated on the straight-line method over the estimated useful lives of the assets of three to five years. Leasehold improvements are amortized over the estimated useful lives of the assets or the life of the lease, whichever is less.

#### *Goodwill*

Goodwill represents the excess of the cost of the business acquired over the fair market value of identifiable net assets at the date of acquisition. Goodwill is not amortized but is reviewed annually for impairment. If, based on these reviews, the related assets are found to be impaired, their carrying value will be adjusted through a charge to earnings.

#### *Rent*

In lieu of a rent security deposit on a new New York City sub-lease, the Company maintains an irrevocable standby letter of credit in favor of its sub-landlord in the amount of \$689,389 that is collateralized by a certificate of deposit in the same amount held at JP Morgan Chase Bank, N.A. Under the lease terms, effective December 1, 2006, the letter of credit must be maintained until the expiration of the sub-lease on July 30, 2012.

#### *Foreign Currency Translations*

Securities and cash denominated in foreign currencies are translated into U.S. dollars using the rates of exchange at the date of the statement of financial condition.

#### *New accounting pronouncement*

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157 ("SFAS 157"), "Fair Value Measurements". SFAS 157 defines fair value and establishes a framework for measuring fair value. It also expands the disclosures about the use of fair value to measure assets and liabilities. SFAS 157 is effective the first fiscal year that begins after November 15, 2007. Management is currently evaluating the impact, if any, of the adoption of SFAS 157 on the Company's statement of financial condition.

## DAHLMAN ROSE AND COMPANY, LLC

### NOTES TO STATEMENT OF FINANCIAL CONDITION

#### 3. CONCENTRATION OF CREDIT RISK

The Company maintains cash deposits in bank accounts and money market funds, which at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

#### 4. DUE FROM CLEARING BROKER

The clearing and depository operations for the Company's and its customers' securities transactions are provided by the clearing broker, Pershing LLC, pursuant to a fully disclosed clearance agreement.

At December 31, 2006, the due from clearing broker account reflected on the statement of financial condition is cash held by the clearing broker. At December 31, 2006, securities owned at market value, which consisted of common stocks, bonds and warrants, are held by the clearing broker.

The Company does not carry accounts for customers or perform custodial functions related to customers' securities. The Company introduces all of its customer transactions, which are not reflected in this financial statement, to its clearing broker, which maintains the customer accounts and clears such transactions.

For transactions in which the Company, through its clearing broker, extends credit to customers, the Company seeks to control the risks associated with these activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company and the clearing broker monitor required margin levels daily, and, pursuant to such guidelines, request customers to deposit additional collateral or reduce securities positions when necessary.

The Company has agreed to indemnify the clearing broker for losses that it may sustain from customer accounts introduced by the Company. The Company is required to maintain a security deposit of \$250,000 or such other amount that the clearing broker may require at a future date. At December 31, 2006, there were no amounts to be indemnified to the clearing broker for these transactions.



## DAHLMAN ROSE AND COMPANY, LLC

### NOTES TO STATEMENT OF FINANCIAL CONDITION

#### 5. SECURITIES OWNED AND SOLD, NOT YET PURCHASED

Marketable securities owned and sold, not yet purchased, consist of trading and investment securities at market values, as follows:

	<u>Owned</u>	<u>Sold Not Yet Purchased</u>
Equity Securities (Stocks, Warrants & Units)	\$7,746,311	\$2,997,987
Debt Securities	<u>478,750</u>	<u>-0-</u>
Total	<u>\$8,225,061</u>	<u>\$2,997,987</u>

Securities not readily marketable include investment securities (a) for which there is no market on a securities exchange or no independent publicly quoted market price, (b) that cannot be publicly offered or sold unless registration has been affected 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. At December 31, 2006, there were restricted warrants carried at an estimated fair value of \$1,200.

#### 6. UNDERWRITING FEES RECEIVABLE

Underwriting fees receivable consist primarily of \$3,751,322 of fees & reimbursements from four transactions that occurred during the fourth quarter of 2006.

#### 7. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standard No. 107, "Disclosure About Fair Value of Financial Instruments," requires the disclosure of the fair value of financial instruments, including assets and liabilities recognized in the statement of financial condition. Management estimates that the financial instruments recognized in the statement of financial condition (including receivables and payables) approximate their carrying value, as such financial instruments are short-term in nature.

#### 8. INCOME TAXES

The Company, as a limited liability company, has elected to be taxed as a partnership and therefore is not subject to Federal and state income taxes. The members of the Company report their share of the Company's taxable income or loss on the members' income tax returns. The Company is required to pay New York City unincorporated business tax.

## DAHLMAN ROSE AND COMPANY, LLC

### NOTES TO STATEMENT OF FINANCIAL CONDITION

#### 9. COMMITMENTS

##### *Leases*

The Company leases office space under operating leases for varying periods through July 2012. The leases contain provisions for minimum rent plus escalation expenses.

Future minimum lease payments for all noncancellable leases with initial terms of one year or more as of December 31, 2006 are as follows:

<u>Years Ending</u> <u>December 31,</u>	
2007	\$ 573,453
2008	1,002,256
2009	975,550
2010	975,550
2011	975,550
Thereafter	<u>569,071</u>
Total	<u>\$ 5,071,430</u>

#### 10. NET CAPITAL REQUIREMENT

As a broker/dealer registered with the SEC and a member of the National Association of Securities Dealers, Inc. (the "NASD"), the Company is subject to the SEC Uniform Net Capital Rule 15c3-1 (the "Rule") and computes its net capital based using the aggregate indebtedness method. As a broker/dealer engaged in market making activities, the Rule requires the Company to maintain minimum net capital equal to the greater of \$135,500 or 6 2/3% of aggregate indebtedness, both as defined by the Rule. At December 31, 2006, the Company had net qualifying capital of approximately \$4,575,286 which was approximately \$4,421,139 in excess of its required net capital of approximately \$154,147. The Company's ratio of aggregate indebtedness to net capital was .51 to 1.

Advances, dividend payments, and other equity withdrawals by the Company are subject to certain notification and other provisions of the Uniform Net Capital Rule 15c3-1 of the SEC and other regulatory bodies.

The Company claims exemption from Rule 15c3-3 of the Securities Exchange Commission under subparagraph k(2)(ii) because it does not carry securities accounts for customers or perform custodial functions relating to customer securities.

**DAHLMAN ROSE AND COMPANY, LLC**

**NOTES TO STATEMENT OF FINANCIAL CONDITION**

**11. SUBORDINATED BORROWINGS**

On October 5, 2006, the Company entered into a temporary subordinated loan agreement with a bank (the "Agreement") that expired on October 12, 2006. Under the Agreement, the Company was entitled to borrow up to \$8,000,000 at an interest rate of 10.5% for the sole purpose of funding two underwriting deals. The loan was drawn against on October 6, 2006 and repaid by the Company on October 12, 2006. At December 31, 2006, there is no loan outstanding.

**12. SUBSEQUENT EVENT**

Subsequent to December 31, 2006, the members withdrew approximately \$200,000 in capital.