



SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
07004876

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: February 28, 2010  
Estimated average burden  
hours per response . . . 12.00

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

SEC FILE NUMBER  
8-51354

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 01-01-06 AND ENDING 12-31-06  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER:

THOMAS WEISEL PARTNERS LLC

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

One Montgomery Street, Suite 3700  
(No. and Street)

San Francisco CA  
(City) (State)

OFFICIAL USE ONLY  
FIRM ID. NO.

PROCESSED  
APR 09 2007  
94104  
(Zip Code)

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

Robert West, Chief Financial Officer (415) 364-7774  
(Area Code - Telephone No.)

THOMSON  
FINANCIAL

B. ACCOUNTANT IDENTIFICATION

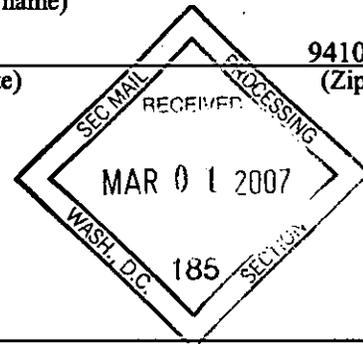
INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Deloitte & Touche LLP  
(Name - if individual, state last, first, middle name)

50 Fremont Street San Francisco CA 94105  
(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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\*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)

AP  
4/9

OATH OR AFFIRMATION

We, David Baylor and Robert West, affirm that, to the best of our knowledge and belief the accompanying consolidated financial statements and unconsolidated supplemental schedules pertaining to Thomas Weisel Partners LLC and subsidiaries (the "Company"), as of and for the year ended December 31, 2006, are true and correct, and such consolidated financial statements and unconsolidated supplemental schedules will be made available promptly to all members and allied members of the New York Stock Exchange, Inc. in our organization. We further affirm that neither the Company nor any officer or director has any proprietary interest in any account classified solely as that of a customer.

David Baylor  
Signature

2/27/07  
Date

Chief Administrative Officer  
Title

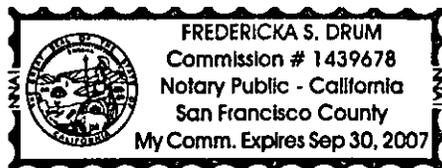
Robert West  
Signature

2/27/07  
Date

Chief Financial Officer  
Title

Fredericka S. Drum

Notary Public



**THOMAS WEISEL PARTNERS LLC  
AND SUBSIDIARIES**

**(SEC ID. NO. 8-51354)**

**Consolidated Statement of Financial Condition  
as of December 31, 2006 and Independent  
Auditors' Report and Supplemental Report  
on Internal Control**

**PUBLIC DOCUMENT**

Filed pursuant to Rule 17a-5(e)(3) under the Securities Exchange Act of 1934 and Regulation 1.10(g) under the Commodity Exchange Act as a **PUBLIC DOCUMENT**.



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## INDEPENDENT AUDITORS' REPORT

To the Member of Thomas Weisel Partners LLC:

We have audited the accompanying consolidated statement of financial condition of Thomas Weisel Partners LLC and subsidiaries (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 generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). 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 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, 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, such consolidated statement of financial condition presents fairly, in all material respects, the financial position of Thomas Weisel Partners LLC and subsidiaries at December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

February 28, 2007

# THOMAS WEISEL PARTNERS LLC AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2006 (in thousands)

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### ASSETS

Cash and cash equivalents	\$ 102,774
Securities owned—at market value	127,931
Corporate finance and syndicate receivables—net of allowance for doubtful accounts of \$7	20,076
Property and equipment—net	392
Receivable from affiliates	5,545
Deferred tax assets	78
Other assets	<u>6,971</u>
 TOTAL ASSETS	 <u>\$ 263,767</u>

### LIABILITIES AND MEMBER'S EQUITY

Securities sold, but not yet purchased—at market value	\$ 89,771
Accrued compensation	33,222
Accrued expenses and other liabilities	22,046
Payable to clearing brokers	6,159
Payable to Parent and affiliates	<u>4,056</u>
 Total liabilities	 155,254
 MEMBER'S EQUITY	 <u>108,513</u>
 TOTAL LIABILITIES AND MEMBER'S EQUITY	 <u>\$ 263,767</u>

See accompanying notes to the consolidated statement of financial condition.

# THOMAS WEISEL PARTNERS LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2006 (in thousands, unless noted otherwise)

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### 1. ORGANIZATION

Thomas Weisel Partners LLC, a limited liability company headquartered in San Francisco, California was formed on September 18, 1998 under the laws of the State of Delaware. Thomas Weisel Partners LLC is a wholly-owned subsidiary of Thomas Weisel Partners Group, Inc. (the "Parent" or "Firm") and was formed as the brokerage and investment banking operation for the Firm. On February 7, 2006, Thomas Weisel Partners Group, Inc. succeeded to the business of Thomas Weisel Partners Group LLC and completed an initial public offering pursuant to its final prospectus dated February 1, 2006.

Thomas Weisel Partners LLC is registered as a broker-dealer under the Securities Exchange Act of 1934 and is a member of the New York Stock Exchange, Inc. ("NYSE"), American Stock Exchange and the National Association of Securities Dealers, Inc. ("NASD"). Thomas Weisel Partners LLC is also a registered introducing broker under the Commodity Exchange Act and a member of the National Futures Association.

Thomas Weisel Partners LLC introduces on a fully disclosed basis its proprietary and customer securities transactions to other broker dealers (the "Clearing Brokers") for clearance and settlement.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** – The consolidated statement of financial condition includes the accounts of Thomas Weisel Partners LLC and its wholly owned subsidiaries, Thomas Weisel Partners (Mauritius) and Thomas Weisel International Private Limited ("TWIPL") (collectively, the "Company"). This financial statement is prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All material intercompany balances and transactions have been eliminated. As of December 31, 2006, these subsidiaries had total assets and liabilities of \$355 and \$452, respectively.

**Brokerage Revenue** – The majority of the Company's brokerage revenue is derived from commissions paid by customers from brokerage transactions in equity securities and spreads paid by customers on convertible debt securities. Commission revenues and related expenses resulting from securities transactions executed are recorded on a trade date basis. Brokerage revenue also includes net trading gains and losses as substantially all of the trading operations are conducted in facilitation of customer orders. In addition, brokerage revenue includes fees paid for investment advisory services provided through the Company's private client services group to both institutional and high-net-worth individual investors, based on the value of assets under management. These fees are recognized in income as earned.

**Investment Banking Revenue** – Investment banking revenues include underwriting and private placement agency fees earned through the Company's participation in public offerings and private placements of equity and convertible debt securities and fees earned as financial advisor in mergers and acquisitions and similar transactions. Underwriting revenues are earned in securities offerings in which the Company acts as an underwriter and include management fees, selling concessions and underwriting fees. Management fees are recorded on the offering date, selling concessions on the trade date, and underwriting fees at the time the underwriting is completed and the related income is reasonably

determinable. Syndicate expenses related to securities offerings in which the Company acts as an underwriter or agent are deferred until the related revenue is recognized. Merger and acquisition fees and other advisory service revenues are generally earned and recognized only upon successful completion of the engagement, except for fees earned upon the delivery of a fairness opinion and fees earned ratably over the term of a retainer.

**Other Revenue** – Other revenue includes fees earned for selling the Company's proprietary research. Such revenue is generally earned and recognized upon completion and delivery of the proprietary research performed. Additionally, the Company has entered into an arrangement with another broker-dealer whereby research services are provided annually for a fixed fee and such fees are recognized ratably over the annual service period.

**Use of Estimates** – The preparation of the Company's consolidated statement of financial condition in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated statement of financial condition. Such estimates may relate to the valuation of securities owned and securities sold, but not yet purchased, the allowance for doubtful accounts for receivables, and accruals for legal and other contingent liabilities. Actual amounts could differ from those estimates and such differences could be material to the consolidated statement of financial condition.

**Cash and Cash Equivalents** – The Company considers highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents include cash held by the Clearing Brokers of \$94.8 million as of December 31, 2006.

**Securities Owned and Securities Sold, but not yet Purchased** – Securities owned and securities sold, but not yet purchased, are recorded on a trade date basis and are carried at fair value. Equity securities are carried at market value which is determined using quoted market prices when available. Convertible debt securities and other fixed income securities are carried at market value determined using dealer quotes, recent transactions and comparable fixed income values.

**Property and Equipment** – Property and equipment, including office furniture and equipment, hardware and software and leasehold improvements, are stated at cost, net of accumulated depreciation and amortization. Depreciation of furniture, equipment and computer hardware and software is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. Leasehold improvements are amortized over the shorter of the term of the lease or the useful life of the asset, as appropriate. Equipment, office facilities, and property are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

**Payable to Clearing Brokers** – The Company clears customer transactions through other broker-dealers on a fully disclosed basis. The amount payable to the Clearing Brokers relates to such transactions. The Company has indemnified the Clearing Brokers for any losses as a result of customer nonperformance.

**Fair Value of Financial Instruments** – The financial assets and liabilities are recorded at their cost or contract amount (consisting primarily of corporate finance and syndicate receivables, payable to Clearing Brokers and certain other assets) which is considered by management to approximate their fair value as they are short-term in nature or are subject to frequent repricing.

**Corporate Finance and Syndicate Receivables** – Corporate finance and syndicate receivables include receivables relating to the Company's investment banking or advisory engagements. The Company records an allowance for doubtful accounts on these receivables on a specific identification basis.

**Income Taxes** – As a single member LLC, the Company is not directly liable for income taxes. All of the Company's income and losses are, however, reportable by the Parent. Accordingly, the U.S. federal and state income taxes payable by the Parent have not been reflected in the accompanying consolidated statement of financial condition. The Company does record income tax expense on the earnings of its foreign subsidiaries, but it does not provide any distribution taxes on the undistributed earnings of these subsidiaries as the Company intends to reinvest any earnings indefinitely. The Company is also liable for City of San Francisco business tax.

**Accrued Compensation** – Accrued compensation includes salary, bonus (both discretionary awards and guaranteed amounts), share-based compensation, severance, as well as all employee benefits. Share-based compensation is accrued over the vesting period of the related restricted stock units. Bonuses are accrued over the service period to which they relate. In the case of the guaranteed amounts, the service period is defined by the contract, whereas the service period for the discretionary awards is defined by the payment dates and the conditions, if any, that must be fulfilled in order to receive the awards. The Company records compensation expense associated with senior professionals of the Parent if those senior professionals provide services to the Company.

**Foreign Currency Translation** – Assets and liabilities denominated in non-U.S. currencies are translated at the rate of exchange prevailing on the date of the consolidated statement of financial condition.

#### ***New Accounting Pronouncements***

**Statement of Financial Accounting Standards No. 123(R) – Share-Based Payment** (SFAS No. 123(R)). In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (Revised 2004), *Share-Based Payment*. This statement replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. The statement establishes accounting standards for transactions in which an entity exchanges its equity instruments for goods and services. The primary focus of this statement is accounting for transactions in which an entity obtains employee services in share-based payment transactions; requiring companies to expense employee share-based payments at their fair value through earnings as such awards vest. In April 2005, the Securities and Exchange Commission ("SEC") announced that the revised effective date was delayed to no later than fiscal years beginning after June 15, 2005. The Parent has adopted, beginning January 1, 2006, and reports share-based compensation in accordance with the provisions of SFAS No. 123(R). As part of this adoption, the Company has recorded its share of compensation expense in accordance with the requirements of this statement. Prior to February 7, 2006, the Parent operated as a limited liability company and had not historically issued share-based compensation awards. Accordingly, the impact of adopting SFAS No. 123(R) was not material. Because the Parent did not have share-based payment awards outstanding prior to the adoption of SFAS No. 123(R), the Parent was not required to apply any of the transition requirements of this standard. The implementation of this standard is discussed in Note 5 – Share-Based Compensation.

**Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109"** (FIN No. 48). In June 2006, the FASB issued Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*. FIN No. 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken, or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company has completed its initial evaluation of the impact of the adoption of FIN No. 48 and has determined that such

adoption is not expected to have a material effect on the Company's consolidated statement of financial condition.

*Statement of Financial Accounting Standards No. 157 – "Fair Value Measurements" (SFAS No. 157).* In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The primary focus of this statement is to increase consistency and comparability in fair value measurements, as well as provide better information about the extent to which fair value is used to measure recognized assets and liabilities, the inputs used to develop the measurements, and the effect fair value measurements have on earnings for the period, if any. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, that the adoption of SFAS No. 157 will have on the Company's consolidated statement of financial condition.

*Statement of Financial Accounting Standards No. 159 – "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159).* In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, that the adoption of SFAS No. 159 will have on the Company's consolidated statement of financial condition.

### 3. SECURITIES OWNED AND SECURITIES SOLD, BUT NOT YET PURCHASED

At December 31, 2006, securities owned and securities sold, but not yet purchased were as follows:

	<u>December 31, 2006</u>	
	<u>Owned</u>	<u>Sold, But Not Yet Purchased</u>
Equity securities	\$ 16,158	\$ 62,159
Convertible bonds	111,773	22,610
U.S. Treasury Securities	-	5,002
Total	<u>\$ 127,931</u>	<u>\$ 89,771</u>

At December 31, 2006, securities sold, but not yet purchased are collateralized by securities owned that are held at the Clearing Brokers.

Convertible bonds include certain securities that are not readily marketable. These are investment securities that cannot be publicly offered or sold unless registration has been affected under the Securities Act of 1933. The estimated fair value of the securities not readily marketable included in the convertible bonds sold, but not yet purchased is approximately \$8.6 million at December 31, 2006.

#### 4. PROPERTY AND EQUIPMENT

At December 31, 2006, property and equipment consisted of the following:

Leasehold improvements	\$	152
Equipment, computer hardware and software		344
Furniture and artwork		9
Total property and equipment		505
Less accumulated depreciation and amortization		(113)
Total net property and equipment	\$	392

#### 5. SHARE-BASED COMPENSATION

On January 27, 2006 the Parent's Board approved and the Parent adopted the Thomas Weisel Partners Group, Inc. Equity Incentive Plan (the "Equity Incentive Plan") which provides for the awards of non-qualified and incentive stock options, restricted stock and restricted stock units and other share-based awards to officers, directors, employees, consultants and advisors of the Parent. The Equity Incentive Plan provides for shares to be issued up to a maximum of 5,000,000 shares, with certain restrictions regarding the amount of awards granted in any calendar year.

##### Restricted Stock Units

Upon completion of its initial public offering in February 2006, the Parent granted to a broad group of its employees and advisors and each of its independent directors' restricted stock units with respect to which shares of the Parent's common stock are deliverable. The allocation of these restricted stock units to the employees was determined on a discretionary basis and the grants to the independent directors were determined in accordance with the director compensation policy. The value of these restricted stock units is based on the market price on the date of grant. These restricted stock units vest in three equal installments, a portion of which vested on February 7, 2007, and the remaining unvested portion will vest equally on February 7, 2008 and 2009, subject to the employee's continued employment with the Parent, but will vest earlier in the event of a change of control. After vesting, the shares of common stock underlying most of these restricted stock units will be deliverable in three equal installments on or about February 7, 2009, 2010 and 2011, respectively, but may be deliverable earlier in the event of a change in control.

In addition to the grant of restricted stock units made in connection with the completion of the Parent's initial public offering, the Parent makes grants of restricted stock units from time to time in connection with its regular compensation and hiring process. Although the terms of individual grants vary, as a general matter, grants of restricted stock units made in connection with the Parent's regular compensation and hiring process will vest over a four-year service period, subject to the employee's continued employment with the Parent, but may vest earlier in the event of a change of control. The shares of common stock underlying these restricted stock units will be deliverable on or about the related vesting date.

Substantially all of the restricted stock units granted by the Parent during the year ended December 31, 2006 were made to employees of the Company. A summary of non-vested restricted stock unit activity for the Parent for the year ended December 31, 2006 is presented below:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested, December 31, 2005	—	\$ —
Issued	2,119,860	15.12
Vested	(20,457)	15.00
Cancelled	(197,672)	15.05
Non-vested, December 31, 2006	<u>1,901,731</u>	\$ 15.13

As of December 31, 2006 there was \$18.5 million of total unrecognized compensation expense related to non-vested restricted stock unit awards. This cost is expected to be recognized over a weighted-average period of 2.2 years.

On February 9, 2007, the Parent made an additional grant of 1,234,491 restricted stock units in connection with its regular compensation process. The restricted stock units granted will vest over a four-year service period, subject to the employee's continued employment with the Parent, and the shares of common stock underlying these restricted stock units will be deliverable on or about the related vesting date.

## 6. DEFERRED TAX ASSETS

Deferred income taxes are recorded when revenues and expenses are recognized in different periods for financial statement and tax return purposes. As of December 31, 2006, the components of deferred tax assets are as follows:

Deferred tax assets	
Accrued compensation and related expenses	\$ 61
Depreciation and amortization	1
Reserves and allowances	<u>16</u>
Total deferred tax assets	<u>\$ 78</u>

At December 31, 2006, a valuation allowance against deferred tax assets is not considered necessary because it is more likely than not the deferred tax asset will be fully realized. The Company does not provide any distribution taxes on the undistributed earnings of its foreign subsidiaries as the Company intends to reinvest any earnings indefinitely.

## 7. BENEFIT PLAN

The Company has a defined contribution 401(k) retirement plan (the "Plan") which allows eligible employees to invest a percentage of their pretax compensation, limited to the maximum allowed by Internal Revenue Services (IRS) regulations. The Company, at its discretion, may contribute funds to the Plan.

## 8. TRANSACTIONS WITH PARENT AND AFFILIATES

The Parent has debt covenant agreements which require Thomas Weisel Partners LLC's net capital before haircuts on securities positions ("Tentative Net Capital") to be at least \$20 million. As disclosed in Note 11 – Net Capital Requirements, Thomas Weisel Partners LLC's Tentative Net Capital was \$74.0 million as of December 31, 2006. Management believes that Thomas Weisel Partners LLC will remain in compliance with this debt covenant during 2007.

In accordance with applicable SEC and NYSE Regulations, the Parent is not permitted to withdraw capital from the Company if Thomas Weisel Partners LLC's net capital would fall below minimum required levels.

The payable to the Parent is shown net of the receivable from the Parent. The Company reimburses the Parent for certain operating expenses paid by the Parent on behalf of the Company in accordance with a management fee service agreement. These operating expenses include facilities and occupancy costs, information technology and communications, and other administrative costs.

The Company makes payments for operating expense on behalf of its affiliates. These amounts are included in receivables from affiliates and are subsequently reimbursed to the Company.

During the year ended December 31, 2006, the Parent made a capital contribution to the Company in the amount of \$7.2 million in the form of share-based payments to employees of the Company.

The Company pays international referral fees to Thomas Weisel Partners International Limited ("TWPI"), a subsidiary of the Parent, for referring institutional brokerage transactions to the Company.

## 9. COMMITMENTS AND CONTINGENCIES

*Guarantees* – The Company's customers' transactions are introduced to the Clearing Brokers for execution, clearance and settlement. Customers are required to complete their transactions on settlement date, generally three business days after trade date. If customers do not fulfill their contractual obligations to the Clearing Brokers, the Company may be required to reimburse the Clearing Brokers for losses on these obligations. The Company has established procedures to reduce this risk by monitoring trading within accounts and requiring deposits in excess of regulatory requirements.

The Company is a member of various securities exchanges. Under the standard membership agreement, members are required to guarantee the performance of other members and, accordingly, if another member becomes unable to satisfy its obligations to the exchange, all other members would be required to meet the shortfall. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, management believes that the potential for the Company to be required to make payments under these arrangements is considered remote. Accordingly, no contingent liability is carried in the accompanying consolidated statement of financial condition for these arrangements.

*Guaranteed Compensation* – The Company has entered into guaranteed compensation agreements prior to December 31, 2006 for services to be provided before and after December 31, 2006. These obligations are being accrued ratably over the service period of the contracts. Total unaccrued obligations at December 31, 2006 for services to be provided subsequent to December 31, 2006 were \$6.4 million.

*Lease Obligations* – In December 2005 the Company, through its wholly owned subsidiary TWIPL, entered into operating leases for facilities in India through 2008. Future minimum rental commitments under these leases are as follows for the years ending December 31:

2007	\$ 230
2008	<u>211</u>
Future minimum lease payments	<u>\$ 441</u>

The leases contain renewal option provisions at the expiration of the thirty-six month terms.

*Loss Contingencies* – The Company is involved in a number of judicial, regulatory and arbitration matters arising in connection with its business, including those listed below. The outcome of matters the Company is involved in cannot be determined at this time, and the results cannot be predicted with certainty. There can be no assurance that these matters will not have a material adverse effect on the Company's results of operations in any future period and a significant judgment could have a material adverse impact on the Company's financial condition, results of operations and cash flows. The Company may in the future become involved in additional litigation in the ordinary course of its business, including litigation that could be material to the Company's business.

In accordance with SFAS No. 5, *Accounting for Contingencies*, the Company reviews the need for any loss contingency reserves and establishes reserves when, in the opinion of management, it is probable that a matter would result in liability, and the amount of loss, if any, can be reasonably estimated. Generally, with respect to matters the Company is involved in, in view of the inherent difficulty of predicting the outcome of these matters, particularly in cases in which claimants seek substantial or indeterminate damages, it is not possible to determine whether a liability has been incurred or to reasonably estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no reserve is established until that time.

#### **Investment Banking Matters**

*In re Initial Public Offering Securities Litigation* – The Company is a defendant in several purported class actions brought against numerous underwriters in connection with certain initial public offerings in 1999 and 2000. These cases have been consolidated in the United States District Court for the Southern District of New York and generally allege that underwriters accepted undisclosed compensation in connection with the offerings, entered into arrangements designed to influence the price at which the shares traded in the aftermarket and improperly allocated shares in these offerings. The actions allege violations of federal securities laws and seek unspecified damages. Of the 310 issuers named in these cases, the Company acted as a co-lead manager in one offering, a co-manager in 32 offerings, and as a syndicate member in 10 offerings. The Company has denied liability in connection with these matters. On June 10, 2004, plaintiffs entered into a definitive settlement agreement with respect to their claims against the issuer defendants and the issuers' present or former officers and directors named in the lawsuits, however, approval of the proposed settlement remains on hold pending the resolution of the class certification issue described below. By a decision dated October 13, 2004, the federal district court granted plaintiffs' motion for class certification, however, the underwriter defendants petitioned the U.S. Court of Appeals for the Second Circuit to review that certification decision. On November 5, 2006 the Second Circuit vacated the district court's class certification decision and the plaintiffs have subsequently appealed the Second Circuit's decision. The Company believes it has meritorious defenses to these actions and intends to vigorously defend such actions as they apply to the Company.

*In re Friedman's Inc. Securities Litigation* – In September 2003, the Company acted as lead manager on a follow-on offering of common stock of Friedman's Inc. Plaintiffs have filed a purported class action suit against Friedman's and its directors, senior officers and outside accountant as well as Friedman's underwriters, including the Company, in the United States District Court for the Northern District of Georgia, alleging that the registration statement for the offering and a previous registration statement dated February 2, 2002 were fraudulent and materially misleading because they overstated revenue and inventory, understated allowances for uncollectible accounts, and failed to properly account for impairment of a particular investment. Friedman's is currently operating its business in bankruptcy. The Company has denied liability in connection with this matter. A consolidated amended complaint has been filed in this matter. On September 7, 2005, the court denied the underwriters' motion to dismiss. The Company believes it has meritorious defenses to these actions and intends to vigorously defend such actions as they apply to the Company.

*In re AirGate PCS, Inc. Securities Litigation* – The Company is a defendant in a purported class action litigation brought in connection with a secondary offering of AirGate PCS, Inc. in December 2001 where the Company acted as a co-manager. The complaint, filed in the United States District Court for the Northern District of Georgia on May 17, 2002, alleges violations of federal securities laws against AirGate and certain of its directors and officers as well as AirGate's underwriters, including the Company, based on alleged misstatements and omissions in the registration statement. The underwriters' original motion to dismiss was granted, but the Court permitted plaintiffs to amend their complaint. Subsequently, the plaintiffs filed an amended complaint and the underwriters again moved to dismiss. The Court granted in part and denied in part the second motion to dismiss, dismissing all claims and allegations against the Company except a single claim under Section 11 of the Securities Act of 1933. The Company has answered the one surviving claim, and the case has proceeded to the discovery phase. The Company believes it has meritorious defenses to the action and intends to vigorously defend such action as it applies to the Company.

*In re First Horizon Pharmaceutical Corporation Securities Litigation* – The Company is a defendant in a purported class action litigation brought in connection with a secondary offering of First Horizon Pharmaceutical Corporation in April 2002 where the Company acted as a co-manager. The consolidated amended complaint, filed in the United States District Court for the Northern District of Georgia on September 2, 2003, alleges violations of federal securities laws against First Horizon and certain of its directors and officers as well as First Horizon's underwriters, including the Company, based on alleged false and misleading statements in the registration statement and other documents. The underwriters' motion to dismiss was granted by the court in September 2004. The plaintiffs appealed the dismissal to the United States Court of Appeals for the 11th Circuit and, on September 26, 2006, the Circuit Court vacated the dismissal and remanded the case to the District Court and instructed the District Court to permit the plaintiffs to replead their claim. The Company believes it has meritorious defenses to these actions and intends to vigorously defend such actions as they apply to the Company.

*In re Merix Securities Litigation* – The Company has been a defendant in a purported class action suit brought in connection with an offering involving Merix Corporation in which it served as co-lead manager for Merix. On September 15, 2005, the United States District Court for the District of Oregon entered an order dismissing all claims against the underwriter defendants, including the Company, and the Merix defendants. A portion of the claim under Section 12(a)(2) of the Securities Exchange Act of 1934 was dismissed with prejudice, and the remainder of that claim and the Section 11 claim were dismissed with leave to re-file. Plaintiffs subsequently filed an amended complaint and on September 28, 2006 the Court dismissed the remaining claims with prejudice. Following the September 28<sup>th</sup> dismissal, plaintiffs have filed a notice of appeal to the United States Court of Appeals for the 9<sup>th</sup> Circuit. The Company has denied liability in connection with this matter. The Company believes it has meritorious defenses to these actions and intends to vigorously defend such actions as they apply to the Company.

*Borghetti v. Campus Pipeline* – A putative shareholder derivative action was brought in the Third Judicial District Court in Salt Lake County, Utah on October 5, 2004 against Campus Pipeline in connection with a sell-side mergers and acquisitions engagement in which the Company acted as a financial advisor to Campus Pipeline. Plaintiffs alleged breach of fiduciary duty, fraud and similar related claims against Campus Pipeline’s directors, officers, attorneys and the Company. On May 3, 2005, the court granted in part and denied in part the Company’s motion to dismiss, dismissing all claims against the Company except the breach of fiduciary duty claim. The Company has denied liability in connection with this matter. The Company believes it has meritorious defenses to these actions and intends to vigorously defend such actions as they apply to the Company.

*In re Leadis Technology, Inc. Securities Litigation* – The Company has been a defendant in a purported class action litigation brought in connection with Leadis Technology, Inc.’s initial public offering in June 2004. The consolidated complaint, filed in the United States District Court for the Northern District of California on August 8, 2005, alleged violations of federal securities laws against Leadis and certain of its directors and officers as well as the company’s underwriters, including the Company, based on alleged misstatements and omissions in the registration statement. On March 1, 2006 the complaint against the Company in this matter was dismissed by the court with prejudice. Subsequently, on March 28, 2006, the plaintiffs in this matter appealed the dismissal. The Company believes it has meritorious defenses to these actions and intends to vigorously defend such actions as they apply to the Company.

*In re Vonage Holdings Corp. Securities Litigation* – The Company is a defendant named in purported class action lawsuits filed in June 2006 arising out of the May 2006 initial public offering of Vonage Holdings Corp where the Company acted as a co-manager. The complaints, filed in the United States District Court for the District of New Jersey and in the Supreme Court of the State of New York, County of Kings, allege misuse of Vonage’s directed share program and violations of federal securities laws against Vonage and certain of its directors and senior officers as well as Vonage’s underwriters, including the Company, based on alleged false and misleading statements in the registration statement and prospectus. In January 2007 the plaintiffs’ complaints were transferred to the U.S. District Court for the District of New Jersey. The Company believes it has meritorious defenses to these actions and intends to vigorously defend such actions as they apply to the Company.

*In Re SeraCare Life Sciences, Inc. Securities Litigation* – The Company has been named a defendant in a purported class action lawsuit filed in July 2006 arising out of alleged false and misleading financial statements issued between 2003 and 2006 by SeraCare Life Sciences, Inc. The complaint was filed in the United States District Court for the Southern District of California, and alleges violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 against certain of SeraCare’s current and former officers and directors, its former auditor, and its controlling shareholders and investment bankers, including the Company, due to the Company having been a co-manager of SeraCare’s 2005 secondary offering of common stock. SeraCare has disclosed that it filed for bankruptcy in March 2006. The Company believes it has meritorious defenses to these actions and intends to vigorously defend such actions as they apply to the Company.

*In re Intermix Media, Inc.* – The Company has been named a defendant in a purported class action lawsuit filed in August 2006 arising out of the sale of Intermix to News Corporation in September 2005. The complaint was filed in the United States District Court for the Central District of California and alleges various misrepresentations and/or omissions of material information that would have demonstrated that the sale was not fair from a financial point of view to the shareholders of Intermix. The Company acted as a financial advisor to Intermix in connection with the sale and rendered a fairness opinion with respect to the sale. The Company believes it has meritorious defenses to these actions and intends to vigorously defend such actions as they apply to the Company.

*In re Tellium, Inc. Securities Litigation* – The Company is a defendant in a purported class action litigation brought in connection with Tellium, Inc.'s initial public offering in May 2001. The most recent amended complaint, filed in the United States District Court for the District of New Jersey, alleges claims for securities fraud against Tellium and certain of its directors and senior officers as well as Tellium's underwriters, including the Company and one of the Company's former employees. The Company has denied liability in connection with this matter. On June 30, 2005, the court entered an order that dismissed all of the claims against the Company and the former employee of the Company, except for a claim limited to an alleged misstatement in the registration statement relating to the relationship between Tellium and one of its customers. With respect to the remaining claim, on September 7, 2006 the parties, including the Company, entered into a settlement to resolve the claim, which settlement did not require the Company to make any settlement payment.

#### **Other Matters**

*IRS Information Requests Relating to Tax Products* – The Company has received requests for information from the Internal Revenue Service, or IRS, regarding its referrals of clients to a third-party provider of tax products in 1999, 2000 and 2001. The Company has cooperated with these requests and believes to have complied with all material regulatory requirements as a referring party. The IRS has extended offers of settlement to promoters and organizers of similar tax planning products. The Company has also received one of these offers of settlement, and has engaged in discussions with the IRS regarding this offer, but the Company continues to believe that it was a referring party and not a promoter or organizer of these tax products. The Company believes it has substantial support for its position and intends to vigorously defend against any alleged penalties should they be assessed.

*NASD Review of Autex Blockdata Reporting* – On August 8, 2006 the Company received an inquiry letter from the NASD indicating that it was reviewing the Company's reporting of advertised trading volume through the Autex Blockdata system with respect to a particular transaction on a specified trading day in the third quarter of 2005 and requesting information and documentation relating to that transaction and the Company's policies and procedures with respect to reporting advertised volume through the Autex Blockdata system. Subsequently, in September 2006, the NASD published a Notice to Members regarding the communication of accurate information to services that communicate trading data to the marketplace. On November 27, 2006, the NASD advised the Company by letter that the NASD had made a preliminary determination to recommend disciplinary action based upon a violation of the NASD's rules. Since that time, the Company, together with other industry participants, has engaged in discussions with the NASD staff regarding Autex Blockdata reporting activity. These discussions may result in a framework for resolving the matter without formal enforcement action, however, if the NASD were to pursue an enforcement action against the Company, the Company could be liable for monetary penalties or other enforcement remedies.

*Research Matters* – During 2004, the Company entered into a settlement with the SEC, NYSE, NASD and various state securities regulators to resolve charges that a portion of the Company's research was improperly influenced in order to obtain investment banking business in violation of federal or state securities law. During the year ended December 31, 2004, the Company settled the matter with the various regulators for a total of \$10 million in fines and disgorgement and \$2.5 million for the provision of independent research over a five-year period. These settlement amounts had been previously accrued during the year ended December 31, 2002. Additionally, in 2004, the Company escrowed \$1.25 million to pay costs associated with an independent consultant to procure the independent research noted above. Such costs will be expensed as they are incurred. On February 14, 2006, Newline Corporate Name Ltd. (UK), a member of the syndicate that underwrote the Company's investment banking errors and omissions insurance policy, filed a complaint seeking declaratory relief regarding insurance obligations in connection with this settlement and seeking repayment of amounts previously disbursed to the

Company in connection with this matter and seeking repayment of approximately \$3.8 million of amounts previously disbursed to the Company in connection with this settlement. Following the filing of Newline's complaint, the Company and Newline settled the complaint.

**10. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK, CREDIT RISK, OR MARKET RISK**

*Concentration of Credit Risk and Market Risk* – The majority of the Company's transactions, and consequently the concentration of its credit exposure, is with its Clearing Brokers. The Clearing Brokers are also the primary source of short-term financing (payable to the Clearing Brokers and securities sold, not yet purchased) for the Company, which is collateralized by cash and securities owned by the Company and held by the Clearing Brokers. The Company's securities owned may be pledged by the Clearing Brokers. The amount receivable from the Clearing Brokers includes amounts receivable in connection with the trading of proprietary positions and the clearance of customer securities transactions. As of December 31, 2006, the Company's cash on deposit with the Clearing Brokers was not collateralizing any liabilities to the Clearing Brokers.

In addition to the Clearing Brokers, the Company is exposed to credit risk from other brokers, dealers and other financial institutions with which it transacts business. In the event counterparties do not fulfill their obligations, the Company may be exposed to credit risk. The Company seeks to control credit risk by following an established credit approval process and monitoring credit limits with counterparties.

The Company's trading activities include providing securities brokerage services to institutional and retail clients. To facilitate these customer transactions, the Company purchases proprietary securities positions ("long positions") in equity securities, convertible and other fixed income securities. The Company also enters into transactions to sell securities not yet purchased ("short positions"), which are recorded as liabilities on the consolidated statement of financial condition. The Company is exposed to market risk on these long and short securities positions as a result of decreases in market value of long positions and increases in market value of short positions. Short positions create a liability to purchase the security in the market at prevailing prices. Such transactions result in off-balance sheet market risk as the Company's ultimate obligation to satisfy the sale of securities sold, not yet purchased may exceed the amount recorded in the consolidated statement of financial condition. To mitigate the risk of losses, these securities positions are marked to market daily and are monitored by management to assure compliance with limits established by the Company. The associated interest rate risk of these securities is not deemed material to the Company. For the year ended December 31, 2006, brokerage revenue was primarily attributable to commissions paid by customers from brokerage transactions in equity securities, spreads paid by customers on convertible debt securities, net trading gains and losses, and advisory fees earned by the Company's private client services group.

The Company may also enter into large transactions in which it commits its own capital as part of its trading business. The number and size of these large transactions may materially affect the Company's results of operations. Similar to the trading activities discussed above, in order to mitigate the risk of losses, these securities positions are marked to market daily and are monitored by management to assure compliance with limits established by the Company.

*Estimated Fair Value of Financial Instruments* – Substantially all of the Company's financial instruments are recorded at their cost or contract amount which approximates their fair value on the Company's consolidated statement of financial condition. In addition to securities owned and securities sold, not yet purchased, the Company's other financial instruments include cash and cash equivalents, corporate finance and syndicate receivables, and payable the Clearing Brokers. These other financial instruments are short term in nature and are expected to be realized at their carrying value.

## 11. NET CAPITAL REQUIREMENTS

Thomas Weisel Partners LLC is a registered U.S. broker-dealer that is subject to the Uniform Net Capital Rule ("SEC Rule 15c3-1" or the "Net Capital Rule") administered by the SEC and NYSE, which requires the maintenance of minimum net capital. The net capital calculation is computed using an unconsolidated approach and is based solely on the unconsolidated financial results of Thomas Weisel Partners LLC due to the fact that the subsidiaries of Thomas Weisel Partners LLC are not subject to the Net Capital Rule.

Thomas Weisel Partners LLC has elected to use the alternative method to compute net capital as permitted by the Net Capital Rule, which requires that Thomas Weisel Partners LLC maintain minimum net capital, as defined, of \$1.0 million. These rules also require Thomas Weisel Partners LLC to notify and sometimes obtain approval from the SEC and NYSE for significant withdrawals of capital or loans to affiliates. As of December 31, 2006, Thomas Weisel Partners LLC's net capital was \$52.9 million, which was \$51.9 million in excess of its required minimum. In addition, the Tentative Net Capital, as defined, was \$74.0 million at December 31, 2006 (see Note 8 – Transactions with Parent and Affiliates).

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Thomas Weisel Partners LLC  
San Francisco, California

In planning and performing our audit of the consolidated financial statements of Thomas Weisel Partners LLC and subsidiaries (the "Company") as of and for the year ended December 31, 2006 (on which we issued our report dated February 28, 2007), in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), we considered the Company's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate debits and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13 or in 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, because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities.

In addition, as required by Regulation 1.16 of the Commodity Futures Trading Commission (the "CFTC"), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding customer and firm assets. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Regulation 1.16. We did not review the practices and procedures followed by the Company in making daily computations of the segregation requirements of Section 4d(a)(2) of the Commodity Exchange Act and the regulations thereunder, and Regulation 30.7 of the CFTC as the Company does not carry customers' regulated commodity futures, foreign futures or foreign options accounts.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraphs. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal controls and of the practices and procedures referred to in the preceding paragraphs and to assess whether those practices and procedures can be expected to achieve the SEC's and the CFTC'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 conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) and Regulation 1.16(d)(2) list additional objectives of the practices and procedures listed in the preceding paragraphs.

Because of inherent limitations in internal control and 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first, second, and third paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and 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 and third paragraphs of this report are considered by the SEC and CFTC to be adequate for their purposes in accordance with the Securities Exchange Act of 1934, the Commodity Exchange Act, 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, as described in the second and third paragraphs of this report, were adequate at December 31, 2006, to meet the SEC's and CFTC's objectives.

This report is intended solely for the information and use of the Member of the Company, management, the SEC, the CFTC, the New York Stock Exchange, Inc., NASD, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 or Regulation 1.16 of the CFTC in their regulation of registered broker-dealers and futures commission merchants, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

*Deloitte Touche LLP*