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

**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:

Imperial Capital, LLC

**OFFICIAL USE ONLY**

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FIRM ID. NO.

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

2000 Avenue of the Stars, 9<sup>th</sup> Floor South

(No. and Street)

Los Angeles

(City)

CA

(State)

90067

(Zip Code)

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

Dan Guay

(310) 246-3700

(Area Code — Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

BDO Seidman, LLP

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

1900 Avenue of the Stars, 11<sup>th</sup> Floor

(Address)

Los Angeles

(City)

California

(State)

90067

(Zip Code)

CHECK ONE:

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

**PROCESSED**

APR 03 2007

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**THOMSON  
FINANCIAL**

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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)

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OATH OR AFFIRMATION

I, Dan Guay, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Imperial Capital, 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:

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

*[Handwritten Signature]*

Signature

Controller

Title

*[Handwritten Signature: Heather W. Gift]*

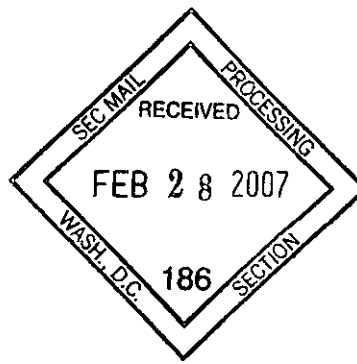
Notary Public



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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Operations.
- (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.

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



# Imperial Capital, LLC

**Statement of Financial Condition**  
December 31, 2006

**Public Document**

# Imperial Capital, LLC

## Index

<b>Facing page to Form X-17A-5</b>	2A
<b>Affirmation of Controller</b>	2B
<b>Independent Auditors' Report</b>	3
<b>Statement of Financial Condition</b>	4
<b>Notes to Statement of Financial Condition</b>	5-14



**BDO Seidman, LLP**  
Accountants and Consultants

1900 Avenue of the Stars, 11th Floor  
Los Angeles, California 90067  
Telephone: (310) 557-0300  
Fax: (310) 557-1777

## **Independent Auditors' Report**

To the Members of  
Imperial Capital, LLC  
Beverly Hills, CA

We have audited the accompanying statement of financial condition of Imperial Capital, 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 statement of financial condition presents fairly, in all material respects, the financial position of Imperial Capital, LLC at December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

*BDO Seidman, LLP*

February 21, 2007

# Imperial Capital, LLC

## Statement of Financial Condition

December 31,

2006

### Assets

Cash and cash equivalents (includes \$14,874,200 held at Clearing Broker)	\$	16,672,070
Deposit with Clearing Broker		244,966
Securities owned:		
Marketable, at market value		1,347,554
Not readily marketable, at estimated fair value		1,024,690
Prepaid expenses and other assets		4,622,452
Fixed assets, at cost, less accumulated depreciation of \$4,651,109		4,211,463
Goodwill		925,777

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Total assets	\$	29,048,972
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### Liabilities and Members' Equity

#### Liabilities

Commissions and fees payable	\$	3,152,413
Accounts payable and accrued liabilities		5,797,768

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Total liabilities		8,950,181
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#### Commitments and contingencies

Subordinated borrowings		2,250,000
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Members' equity		17,848,791
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Total liabilities, subordinated borrowings and members' equity	\$	29,048,972
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*See accompanying notes to statement of financial condition.*

# Imperial Capital, LLC

## Notes to Statement of Financial Condition

### 1. **General Information and Accounting Policies**

Imperial Capital, LLC, a Delaware Limited Liability Company, was organized on July 22, 1997. The Company is a registered broker and dealer of securities under the provisions of the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. (the "NASD"). The Company conducts business as an introducing broker and dealer in securities and provides brokerage and corporate finance services primarily to institutional clients from its California, New York and Montana offices.

The Company has an agreement (the "Agreement") with a clearing broker (the "Clearing Broker") to clear securities transactions, carry customers' accounts on a fully disclosed basis and perform certain record keeping functions. Thus, with regard to possession or control requirements under Securities and Exchange Commission ("SEC") Rule 15c3-3, the Company operates under the exemptive provisions of SEC Rule 15c3-3(k)(2)(i) and 15c3-3(k)(2)(ii).

The Company also maintains a "Special Account for the Exclusive Benefit of Customers" in accordance with the provisions of SEC Rule 15c3-3(k)(2)(i). Accordingly, with regard to the Reserve Requirement under SEC Rule 15c3-3, the Company operates under the exemptive provisions of SEC Rule 15c3-3(k)(2)(i) and 15c3-3(k)(2)(ii).

#### **Cash and Cash Equivalents**

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

# Imperial Capital, LLC

## Notes to Statement of Financial Condition

**1. General  
Information  
and Accounting  
Policies  
(Continued)**

**Securities Owned and Securities Sold, But Not Yet Purchased**

Securities owned and securities sold, but not yet purchased are valued at market value. Securities not traded on an exchange or reported in the National Association of Securities Dealers Automated Quotation system are valued at estimated fair value as determined by the Company's management. The Company deals in high-yield and distressed debt securities. Determination of market value of high-yield and distressed debt securities and certain other securities may involve subjective judgment since the amount which may be realized in a sales transaction can only be determined by negotiation between parties to such a transaction. The amounts realized from future transactions may differ materially from the market values reflected in the statement of financial condition. Certain securities are obtained through providing corporate finance services, which include advisory and placement services and are generally restricted from resale.

**Warrants**

The Company may acquire warrants in the ordinary course of business for trading or investment purposes. Marketable warrants are valued at market value. Not readily marketable warrants are valued at estimated fair value.

**Fixed Assets**

Fixed assets are recorded at cost. Depreciation is provided using accelerated methods over the estimated useful lives of the related assets ranging from 3 to 7 years.

Leasehold improvements made by a lessee that are funded by landlord incentives or allowances are recorded as leasehold improvements. Leasehold improvements are amortized over the shorter of their estimated useful lives or the life of the lease. Lease incentives are recorded as deferred rent and amortized as reductions to lease expense over the lease term.



# Imperial Capital, LLC

## Notes to Statement of Financial Condition

**1. General  
Information  
and Accounting  
Policies  
(Continued)**

In the event that facts and circumstances indicate that the cost of an asset may be impaired, an evaluation of recoverability would be performed.

### **Goodwill**

The carrying value of goodwill is periodically reviewed for impairment. No impairment charges were recorded in 2006.

### **Securities Transactions**

Proprietary securities transactions in regular-way trades 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.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net on the statement of financial condition.

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

### **Use of Estimates**

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 year. Actual results could materially differ from those estimates.

# Imperial Capital, LLC

## Notes to Statement of Financial Condition

**1. General Information and Accounting Policies (Continued)**

**Recent Accounting Pronouncements**

In February, 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of this guidance to have a material impact on its results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to US GAAP requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of this guidance to have a material impact on its results of operations and financial position.

**2. Deposit with Clearing Broker**

The Company maintains a deposit with the Clearing Broker to satisfy the requirement under its clearing agreement. At December 31, 2006, the entire deposit was held in a cash account.

**3. Securities Owned and Securities Sold, But Not Yet Purchased**

Securities owned and securities sold, but not yet purchased at December 31, 2006, consist of trading and investment securities at quoted market prices and estimated fair values as follows:

<i>December 31,</i>	<i>Securities Owned at Market Value</i>	<i>Securities Owned at Fair Value</i>
Common stocks and warrants	\$ 581,381	\$ 874,512
Corporate bonds	85,323	146,503
Preferred stock	680,850	3,675
	<u>\$ 1,347,554</u>	<u>\$ 1,024,690</u>

# Imperial Capital, LLC

## Notes to Statement of Financial Condition

3. **Securities Owned and Securities Sold, But Not Yet Purchased (Continued)** Securities valued at estimated fair value include securities where there is no recognized established securities market in which there exists independent bona fide offers to buy and sell so that a price reasonably related to the last sales price or current bona fide competitive bid and offer quotations can be determined for a particular security almost instantaneously and where payment will be received in settlement of a sale at such price within a relatively short time conforming to trade custom.

4. **Quantitative Disclosures for Derivative Financial Instruments Used for Trading Purposes** The Company may obtain warrants in the ordinary course of its business. The Company does not apply hedge accounting as defined in SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as all financial instruments are marked to market with changes in fair values reflected in earnings. Therefore, the disclosures required in this Statement are generally not applicable with respect to these financial instruments.

5. **Fixed Assets** Fixed assets are composed of the following at December 31, 2006:

<i>December 31,</i>	<i>2006</i>
Computer hardware and software	\$ 3,502,345
Leasehold improvements	3,611,246
Office equipment	1,062,039
Furniture and fixtures	686,942
Total	8,862,572
Less accumulated depreciation and amortization	4,651,109
	<u>\$ 4,211,463</u>

# Imperial Capital, LLC

## Notes to Statement of Financial Condition

### 6. Commitments and Contingencies

#### Leases

The Company leases office space and office equipment under noncancelable operating leases, which expire through March 2017. The future minimum rental payments under these agreements at December 31, 2006, are as follows:

<i>Years ending December 31,</i>	<i>Amount</i>
2007	\$ 2,923,354
2008	2,527,762
2009	2,338,728
2010	2,353,126
2011	2,395,691
Thereafter	13,403,044
<b>Total</b>	<b>\$ 25,941,705</b>

Additionally, in connection with the four operating office leases, the Company is required under the terms of the leases to maintain letters of credit with a bank acceptable to the landlords totaling \$2.1 million. As of December 31, 2006, there have been no amounts drawn under the letters of credit.

On October 16, 2006, the Company entered into a Construction Agreement related to one of its leased facilities. The Construction Agreement calls for the Company to pay approximately \$3.7 million, subject to adjustments as provided in the Construction Agreement. As of December 31, 2006, the Company has a remaining commitment under the Construction Agreement of approximately \$2.3 million, which will be reduced by landlord reimbursements of \$0.8 million as specified in the Company's lease agreement.

# Imperial Capital, LLC

## Notes to Statement of Financial Condition

### 6. Commitments and Contingencies (Continued)

#### Legal Matters

The Company may, from time to time, be involved in legal proceedings, regulatory actions, claims and litigation arising in the ordinary course of business. These matters are not expected to have a material adverse effect upon the Company's financial statements.

#### Indemnification Agreements

Under its bylaws and indemnification agreements, the Company has agreed to indemnify its officers and directors for certain events or occurrences arising as a result of the officer or director's serving in such capacity, that require it, subject to certain exceptions, to indemnify the officers and directors to the fullest extent authorized or permitted by its bylaws and California Law. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company believes the estimated fair value of these indemnification agreements is minimal and has no liabilities recorded for these agreements as of December 31, 2006.

The Company has agreed to indemnify its Clearing Broker for losses that it may sustain from the customer accounts introduced by the Company. As of December 31, 2006, there were no amounts to be indemnified to the Clearing Broker for these accounts.

### 7. Subordinated Borrowing

The subordinated borrowing represents a note in the amount of \$3,000,000 bearing interest at the prime rate (8.25% at December 31, 2006) plus 1%. At December 31, 2006, the principal outstanding on the note was \$2,250,000. Interest is payable monthly and principal is payable in quarterly installments of \$375,000 from August 2006 through May 2008. At December 31, 2006, the fair value approximates the reported carrying amount.

# Imperial Capital, LLC

## Notes to Statement of Financial Condition

**7. Subordinated  
Borrowing  
(Continued)**

Future maturities of the subordinated borrowing are as follows:

<i>Years ending December 31,</i>	<i>Amount</i>
2007	\$ 1,500,000
2008	750,000
	<u>\$ 2,250,000</u>

The subordinated borrowings are available in computing net capital under the SEC's uniform net capital rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid. The subordinated borrowing agreement contains various covenants including net capital and tangible net worth requirements. The Company was in compliance with all covenants as of December 31, 2006.

**8. Line of Credit**

On August 7, 2006, the Company executed a loan agreement with a bank for a revolving credit facility that provides for borrowings under a line of credit of up to \$2.0 million through August 1, 2011. The borrowing under this agreement bears interest at prime rate (8.25% at December 31, 2006) plus 1%. At December 31, 2006, there were no borrowings outstanding under the revolving credit facility, and the Company had \$2.0 million of unused line of credit.

**9. Defined  
Contribution  
Plan**

The Company maintains a 401(k) plan. Participation in this plan is available to all full-time employees employed by the Company for six months or longer. Employees may contribute up to a maximum employee contribution of \$15,000. The Company generally matches 2% of the employee's compensation (up to the federal compensation limit). The Company may increase this match at its discretion. The Company match is 100% vested upon contribution by the Company.

# Imperial Capital, LLC

## Notes to Statement of Financial Condition

### 10. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2006, the Company had net capital of \$11,054,082, which was \$10,587,020 in excess of the required net capital. The Company's aggregate indebtedness to net capital ratio was 0.63 to 1 at December 31, 2006.

### 11. Off Balance Sheet Risk

In the normal course of business, the Company executes, as agent or principal, transactions on behalf of customers. If the transactions do not settle because of failure to perform by either the customer or the counterparty, the Company may be obligated to discharge the obligation of the nonperforming party and, as a result, may incur a loss if the market value of the securities is different from the contract amount of the transaction.

The Company does not anticipate nonperformance by customers or counterparties in the above situation. The Company's policy is to monitor its market exposure and counterparty risk. In addition, the Company has a policy of reviewing, as considered necessary, the credit standing of each customer with which it conducts business.

Additionally, the Company is subject to credit risk if the Clearing Broker is unable to repay the balance in the Company's accounts.

The Company is a market maker for public corporations representing a wide variety of industries. The Company selects companies in which it makes a market based on a review of the current market activity and also to facilitate trading activity of its own clients. Market making activities may result in concentrations of securities, which may expose the Company to additional off-balance sheet risk.

# Imperial Capital, LLC

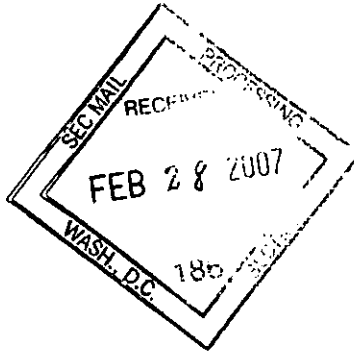
## Notes to Statement of Financial Condition

**11. Off Balance  
Sheet Risk  
(Continued)**

The Company maintains its cash accounts primarily with banks located in California. The total cash balances are insured by the F.D.I.C. up to \$100,000 per bank. The Company had cash balances on deposit with one California bank at December 31, 2006, which exceeded the balance insured by the F.D.I.C. in the amount of \$3,371,494.

The Company enters into various transactions involving derivative financial instruments. These financial instruments include primarily options and warrants. Options are purchased and sold as a hedge against risk on existing securities or for speculative purposes. Stock purchase warrants are often received from corporate finance clients as part of the overall structured fee for services performed and are therefore, subject to varying degrees of market risk. Market risk is substantially dependent upon the value of the underlying financial instrument and is affected by market forces such as volatility and changes in interest rates.





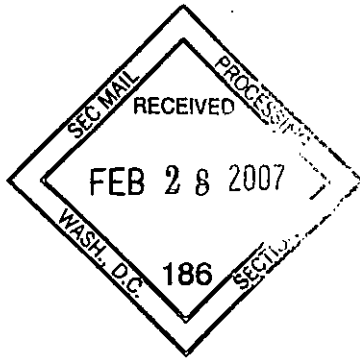
# Imperial Capital, LLC

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**Report on Internal Control  
Required by Securities and Exchange  
Commission Rule 17a-5  
Year Ended December 31, 2006**



BDO Seidman, LLP  
Accountants and Consultants



# Imperial Capital, LLC

**Report on Internal Control  
Required by Securities and Exchange  
Commission Rule 17a-5  
Year Ended December 31, 2006**

## Independent Auditors' Report on Internal Control Required by Securities and Exchange Commission Rule 17a-5

To the Members of  
Imperial Capital, LLC  
Beverly Hills, California

In planning and performing our audit of the financial statements and supplemental schedules of Imperial Capital, LLC (the "Company") for the year ended December 31, 2006, 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 and net capital under rule 17a-3(a)(11) 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
2. Recordation of differences required by rule 17a-13
3. 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

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 transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

*END*