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Washington, D.C. 20549

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

SEC FILE NUMBER  
8-53716

## 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 01/01/07 AND ENDING 12/31/07  
MM/DD/YY MM/DD/YY

### A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: DeLafield Hambrecht, Inc.

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

701 Fifth Avenue, Suite 3800

(No. and Street)

Seattle

(City)

WA

(State)

98104

(Zip Code)

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

Andrew Lufkin

(206) 254-4116

(Area Code - Telephone Number)

### B. ACCOUNTANT IDENTIFICATION

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

Spicer Jeffries LLP

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

5251 S. Quebec Street, Suite 200

(Address)

Greenwood Village

(City)

CO

(State)

80111

(Zip Code)

**PROCESSED**

**MAR 07 2008**

**THOMSON  
FINANCIAL**

CHECK ONE:

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

**FOR OFFICIAL USE ONLY**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

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**DELAFIELD HAMBRECHT, INC.**  
**AND SUBSIDIARIES**

**REPORT PURSUANT TO RULE 17a-5(d)**

**YEAR ENDED DECEMBER 31, 2007**

**DELAFIELD HAMBRECHT, INC. AND SUBSIDIARIES**

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GREENWOOD VILLAGE, COLORADO 80111

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors of  
Delafield Hambrecht, Inc. and Subsidiaries

We have audited the accompanying consolidated statement of financial condition of Delafield Hambrecht, Inc. and Subsidiaries as of December 31, 2007, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delafield Hambrecht, Inc. and Subsidiaries as of December 31, 2007, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information contained in the supplemental schedule listed in the accompanying index is presented for purposes of additional analysis and is not required for a fair presentation of the financial statements, but is supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Greenwood Village, Colorado  
February 4, 2008



**DELAFIELD HAMBRECHT, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2007**

**ASSETS**

Cash and cash equivalents	\$	256,306
Due from broker		448,140
Securities owned:		
Marketable, at market value		244,560
Not readily marketable, at estimated fair value (Note 2)		126,818
Other receivables (Note 4)		146,442
Furniture, equipment, and leasehold improvements, at cost, less accumulated depreciation and amortization of \$1,211,763 (Note 3)		26,263
Investments in limited partnerships (Note 4)		2,425,153
Other assets		<u>177,943</u>
<b><i>Total assets</i></b>	<b>\$</b>	<b><u>3,851,625</u></b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

**LIABILITIES:**

Accounts payable	\$	12,757
Accrued liabilities		163,614
Obligation under capital lease (Note 6)		13,132
Other liabilities		<u>14,063</u>
<b><i>Total liabilities</i></b>		<u>203,566</u>

**COMMITMENTS AND CONTINGENCIES (Notes 6 and 11)**

**SHAREHOLDERS' EQUITY (Notes 5, 8 and 10):**

Preferred stock, \$0.001 par value; 6,000,000 shares authorized; 5,573,648 shares issued and outstanding (excluding 55,000 shares held in treasury)		5,574
Common stock, \$0.001 par value; 19,000,000 shares authorized:		
2,500,000 Series A shares issued and outstanding		2,500
4,179,535 Series B shares issued and outstanding		4,180
43,269 Series C shares issued and outstanding		43
Additional paid-in capital		6,633,152
Deficit		<u>(2,997,390)</u>
<b><i>Total shareholders' equity</i></b>		<u>3,648,059</u>
<b><i>Total liabilities and shareholders' equity</i></b>	<b>\$</b>	<b><u>3,851,625</u></b>

The accompanying notes are an integral part of this statement.

DELAFIELD HAMBRECHT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 2007

**REVENUE:**

Investment banking	\$	100,990
Investment advisory fees		526,255
Investments in limited partnerships		65,987
Trading profit, net		510,512
Interest and dividends		14,259
Other income		46,358
		<hr/>
<i>Total revenue</i>		1,264,361

**EXPENSES:**

Employee compensation and benefits		782,698
Occupancy		179,037
Dues and subscriptions		6,875
General and administrative		106,608
Communications and data processing		14,154
Professional fees		49,258
Regulatory costs		14,404
Depreciation and amortization		18,888
Travel and entertainment		31,684
Insurance		13,526
Stock option compensation		18,418
Taxes		28,200
		<hr/>
<i>Total expenses</i>		1,263,750

<b>NET INCOME BEFORE INCOME TAX PROVISION</b>		611
<b>INCOME TAX PROVISION</b> (Note 7)		-
		<hr/>
<b>NET INCOME</b>	<b>\$</b>	<b>611</b>

The accompanying notes are an integral part of this statement.

**DELAFIELD HAMBRECHT, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
YEAR ENDED DECEMBER 31, 2007**

	Preferred Stock Shares	Preferred Stock Amount	Common Stock A Shares	Common Stock A Amount	Common Stock B Shares	Common Stock B Amount	Common Stock C Shares	Common Stock C Amount	Additional Paid-In Capital	(Deficit)
<b>BALANCES, January 1, 2007</b>	5,603,648	\$ 5,604	2,500,000	\$ 2,500	4,179,535	\$ 4,180	43,269	\$ 43	\$ 6,645,471	\$ (2,998,001)
Stock option compensation	-	-	-	-	-	-	-	-	18,418	-
Shares issued, net of offering costs	25,000	25	-	-	-	-	-	-	24,208	-
Shares purchased into treasury	(55,000)	(55)	-	-	-	-	-	-	(54,945)	-
Net income	-	-	-	-	-	-	-	-	-	611
<b>BALANCES, December 31, 2007</b>	<u>5,573,648</u>	<u>\$ 5,574</u>	<u>2,500,000</u>	<u>\$ 2,500</u>	<u>4,179,535</u>	<u>\$ 4,180</u>	<u>43,269</u>	<u>\$ 43</u>	<u>\$ 6,633,152</u>	<u>\$ (2,997,390)</u>

The accompanying notes are an integral part of this statement.

DELAFIELD HAMBRECHT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2007

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income	\$	611
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization		18,888
Stock option compensation		18,418
Investments in limited partnerships		(65,987)
Increase in securities owned		(457,632)
Increase in other receivables		(47,742)
Decrease in other assets		21,927
Decrease in accounts payable		(30,999)
Decrease in accrued liabilities		(242,744)
Decrease in other liabilities		(1,310)
<i>Net cash used in operating activities</i>		<u>(786,570)</u>

**CASH FLOWS USED IN INVESTING ACTIVITIES:**

Purchases of investments in limited partnerships		(186,606)
Decrease in due to investors		(116,000)
Purchase of fixed assets		(15,725)
<i>Net cash used in investing activities</i>		<u>(318,331)</u>

**CASH FLOWS USED IN FINANCING ACTIVITIES:**

Sale of series A preferred stock, net of selling costs		24,233
Purchase of company series A preferred stock		(55,000)
Principal payments on capital lease		(13,143)
<i>Net cash used in financing activities</i>		<u>(43,910)</u>

**NET DECREASE IN CASH AND CASH EQUIVALENTS** (1,148,811)

**CASH AND CASH EQUIVALENTS, at beginning of year** 1,405,117

**CASH AND CASH EQUIVALENTS, at end of year** \$ 256,306

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Cash paid during the year for interest \$ 2,675

**DELAFIELD HAMBRECHT, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Business**

Delafield Hambrecht, Inc. (the "Company") is a Delaware Corporation formed on December 20, 2001, doing business in Washington as a registered broker-dealer in securities pursuant to the Securities Exchange Act of 1934, as amended, and is a member of the Financial Industry Regulatory Authority, Inc. In 2003, the Company formed DH Partners, LLC ("DHP") as its wholly owned subsidiary. The only duties and obligations of DHP are to manage the affairs of its investment partnerships, Delafield Hambrecht Partners Fund L.P., Delafield Hambrecht Micro-Cap Value Fund, LP, Delafield Hambrecht Biotechnology Fund, LP and Delafield Hambrecht Micro-Cap Quant Fund, LP (collectively the "Partnerships"). In addition, the Company also has other investments in varying non-controlled limited partnerships.

**Basis of Accounting**

The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All intercompany amounts and transactions have been eliminated in the accompanying financial statements.

**Regulatory Requirement**

The Company, under Rule 15c3-3(k)(2)(ii), is exempt from the reserve and possession or control requirements of Rule 15c3-3 of the Securities and Exchange Commission. The Company does not carry or clear customer accounts.

**Revenue Recognition and Securities Transactions**

Securities transactions and commission revenue and expense are recorded on a trade date basis. Interest and dividend income are recognized in the period earned.

Investment banking revenues include fees arising from securities offerings in which the Company acts as an agent. Investment banking management fees are recorded upon completion of private placements.

Investment advisory fees are received monthly in arrears and are recognized as earned.

**Depreciation**

Depreciation is provided on a straight-line basis using estimated useful lives of three to seven years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

**DELAFIELD HAMBRECHT, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (continued)**

**Income Taxes**

The Company accounts for income taxes under the liability method. Under the liability method, deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to be reversed. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized.

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes", which establishes that a tax position taken or expected to be taken in a tax return is to be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. FIN 48 is effective for privately owned companies for fiscal years beginning after December 15, 2007. The adoption of FIN 48 is not expected to have a material impact on the Company's results of operations or its financial position.

**Fair Value of Financial Instruments**

The carrying amounts reflected in the financial statements for cash and cash equivalents, receivables, other assets and liabilities approximate their respective fair values due to the short maturities of these instruments. The fair values of securities owned are recorded primarily on quoted prices for the same or similar instruments. Securities not readily marketable are valued at fair value as determined by management. Investments in limited partnerships are valued at the underlying net asset value as reported by the underlying partnerships. Changes in the market value of these investments are reflected currently in the results of operations for the year.

**Cash Equivalents**

For purposes of the statement of cash flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days that are not held for sale in the ordinary course of business.

**Use of Estimates**

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**DELAFIELD HAMBRECHT, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Stock-Based Compensation**

The Company has a stock-based employee compensation plan, which is described more fully in Note 8. The Company has elected to follow FASB Statement No. 123R, *Accounting for Stock-Based Compensation*, and related interpretations in accounting for its employee stock options.

**NOTE 2 - SECURITIES OWNED**

Included in investments are certain securities that are not readily marketable. Securities not readily marketable include investment securities (a) for which there is no market on a securities exchange or no independent publicly quoted market, (b) that cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1933, or (c) that cannot be offered or sold because of other arrangements, restrictions, or conditions applicable to the securities or to the Company. At December 31, 2007, these securities consisted of corporate preferred stock at an estimated fair value of approximately \$126,818.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements". This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. As of December 31, 2006, the Company does not believe the adoption of SFAS No. 157 will impact the amounts reported in the financial statements. However, additional disclosures will be required about the inputs used to develop the measurements of fair value and the effect of certain of the measurements reported in the statement of operations for a fiscal period.

**NOTE 3 - FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS**

Furniture, equipment, and leasehold improvements consist of the following as of December 31, 2007:

Software and equipment	\$ 391,642
Furniture and fixtures	130,047
Leasehold improvements	<u>716,337</u>
	1,238,026
Less: accumulated depreciation and amortization	<u>(1,211,763)</u>
	<u>\$ 26,263</u>

**DELAFIELD HAMBRECHT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Continued)**

**NOTE 4 - RELATED PARTIES**

DHP, as general partner of the Partnerships, is specifically allocated 20% of the net profits of the Partnerships. For managing the Partnerships, the Company receives a management fee, calculated and payable monthly in arrears based on net assets on the last day of the month at the rate of one-twelfth of one percent (one percent per annum).

At December 31, 2007, the fair value of the Company's investments are \$861,009, \$1,050,961, \$147,315 and \$181,374 in Delafield Hambrecht Partners Fund L.P., Delafield Hambrecht Micro-Cap Value Fund, LP, Delafield Hambrecht Micro-Cap Quant Fund, LP, and Delafield Hambrecht Biotechnology Fund, LP, respectively. In addition, a total of \$526,255 of revenues was earned for management and performance fees of the Partnerships.

Included in other receivables is a note receivable from a shareholder and officer of the Company in the amount of \$77,990 plus accrued interest of \$3,899. The note bears interest at 5% per annum and requires annual interest payments with principle due at maturity, on December 30, 2011. Also included in other receivables is a note due from an affiliate in the amount of \$50,000. The note bears interest at 5% per annum and requires annual interest payments with principle due at maturity, on December 31, 2012.

**NOTE 5 - SHAREHOLDERS' EQUITY**

The Company is authorized to issue two classes of stock to be designated as common stock and preferred stock. The total number of shares that the Company is authorized to issue is 25,000,000 shares, each with \$0.001 par value, of which 19,000,000 shares shall be common stock and 6,000,000 shares shall be preferred stock.

**Convertible Preferred Stock**

The series of preferred stock has been designated Series A Convertible Preferred Stock (Series A shares) and consists of 6,000,000 shares. At December 31, 2007, 5,573,648 Series A shares are issued and outstanding.

Series A shares can be converted, at the option of the holder, into such number of fully paid and nonassessable shares of Series B Common as is determined by dividing \$1.00 by the then effective conversion price. The initial conversion price is \$1.00. In addition, holders of Series A shares are entitled to receive non-cumulative dividends, out of any assets legally available, at the annual rate of \$0.08 per share when, as and if declared by the Board of Directors. Holders of the Series A shares have preference on dividends relative to holders of common stock. The holders of Series A shares have the right to one vote per share. Series A shares are not redeemable.

**DELAFIELD HAMBRECHT, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**NOTE 5 - *SHAREHOLDERS' EQUITY*** (continued)

Convertible Preferred Stock (continued)

Series A shares have preferential liquidation rights over the common stock. In the event of liquidation, Series A shareholders shall be entitled to be paid out of the assets of the Company an amount equal to the sum of \$1.00 per share and all declared and unpaid dividends on such shares, if any (Series A Preferential Amount). If the assets and funds distributed among the holders of the Series A shares are insufficient to permit the payment of the Series A Preferential Amount, then the remaining assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series A shares in proportion to the preferential amount each such holder is otherwise entitled to receive.

On August 28, 2007, the Company repurchased 55,000 of its Series A shares for \$55,000. These shares are held in treasury and are shown at cost. The cost of the treasury stock is netted against the par value of the Series A shares and additional paid-in capital.

Common Stock

The Company has three series of common stock designated as Series A, Series B, and Series C, consisting of 2,500,000, 4,179,535, and 43,269 shares issued and outstanding as of December 31, 2007, respectively.

Subject to prior rights of preferred stock shareholders, holders of Series A Common shares are entitled to receive dividends, on a pro rata basis when, as and if declared by the Board of Directors. In the event of liquidation, after payment of preferential amounts, all remaining assets will be distributed ratably among holders of Series A, B, and C Common shares. Holders of each share of Series A Common shall have the right to two votes per share, and the holders of each share of Series B Common will have the right to one vote per share. Except as otherwise provided by law, the Company's consent shall not be required for taking any corporate action.

Salary Deferral Program

For the period of May 2003 through December 2003, the Company offered a salary deferral program to its employees whereby each employee could elect to forfeit or defer a portion of their salary in exchange for common stock. For each dollar deferred, the Company granted two shares of Series B or C Common Stock. For each dollar forfeited, the Company granted four shares of Series B or C Common Stock. In 2003, the Company issued 71,000 and 176,000 shares of Series B Common Stock for deferred and forfeited salary, respectively. As of December 31, 2007, the Company had a deferred salary obligation of \$11,500.

**DELAFIELD HAMBRECHT, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Continued)**

**NOTE 6 - LEASE COMMITMENTS**

Capital Lease

The Company has a capital lease covering two copiers for five years expiring December 2008. Aggregate annual payments on capital lease obligations as of December 31, 2007, are as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 15,818
Less: amount representing interest	<u>(2,686)</u>
Present value of the minimum lease payments	<b><u>\$ 13,132</u></b>

The amount of equipment under capital leases at December 31, 2007, was \$65,715. This equipment had related accumulated depreciation of \$52,583 for a net book value of \$13,132 at December 31, 2007.

Operating Lease

The Company leases office space under the terms of a non-cancelable operating lease. The future minimum payments, by year and in aggregate, required for this lease with initial or remaining terms of one year or more consist of the following:

<u>Year</u>	<u>Amount</u>
2008	214,577
2009	220,223
2010	<u>225,870</u>
	<b><u>\$ 660,670</u></b>

Rent expense for the year ended December 31, 2007 amounted to \$179,037. The above operating lease commitment does not reflect sublease payments of \$2,750 per month that the Company receives for a portion of the office space it subleases to an affiliated entity.

**NOTE 7 - INCOME TAXES**

During the year ending December 31, 2007, the Company utilized approximately \$417,000 of its net operating loss carryforward to offset current year taxable income. The Company has approximately \$1,962,000 of net operating losses expiring at various dates through 2025, which may be used to offset future taxable income. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

DELAFIELD HAMBRECHT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

**NOTE 7 - INCOME TAXES** (continued)

Significant components of the Company's deferred tax liabilities and assets as of December 31, 2007 are as follows:

Deferred tax liabilities	<u>\$ -</u>
Deferred tax assets:	
Net operating loss carry forward	\$ 667,000
Temporary differences in assets and liabilities	232,000
Valuation allowance for deferred tax assets	<u>(899,000)</u>
	<u>\$ -</u>

The valuation allowance decreased \$107,000 for the year ending December 31, 2007.

**NOTE 8 - STOCK OPTION PLAN**

The Company's 2002 California Stock Incentive Plan, amended in 2003, authorized the grant of options to employees and consultants for up to 750,000 shares of the Company's Series C common stock. All options granted have ten-year terms and generally vest and become exercisable ratably over four years of continued employment or service as defined in each option agreement. Options granted under this plan may be designated as qualified or nonqualified at the discretion of the Plan Administrator. Qualified stock options are exercisable at not less than the fair market value of the stock at the date of grant, and nonqualified stock options are exercisable at prices determined at the discretion of the Plan Administrator. As of December 31, 2007, no options had been granted under the 2002 California Stock Incentive Plan.

The Company's 2002 Stock Incentive Plan, amended in 2003, authorized the grant of options to employees and consultants for up to 3,750,000 shares of the Company's Series C common stock. All options granted have ten-year terms and generally vest and become exercisable ratably over four years of continued employment or service as defined in each option agreement. Options granted under this plan may be designated as qualified or nonqualified at the discretion of the Plan Administrator. Qualified stock options are exercisable at not less than the fair market value of the stock at the date of grant, and nonqualified stock options are exercisable at prices determined at the discretion of the Plan Administrator.

The Company has elected to follow FASB Statement No. 123R, *Accounting for Stock-Based Compensation* ("SFAS 123R"), and related interpretations in accounting for its employee stock options. Under SFAS 123R, compensation expense for the fair value of options granted to employees is being recognized over the vesting period of the options. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.30% - 4.92%; no dividend yield; volatility of 1.27%; weighted-average fair value of options of \$0.25; and an expected life of the option of ten years.

**DELAFIELD HAMBRECHT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Continued)

**NOTE 8 - STOCK OPTION PLAN** (continued)

The Company recorded stock option compensation for the vested options of \$18,418 for the year ended December 31, 2007. The Company granted 261,500 options to employees in 2007. Terminated employees forfeited 15,000 options in 2007.

A summary of the Company's employee stock option activity and related information is as follows for the year ended December 31, 2007:

	Options	Weighted-average exercise price
Outstanding, January 1, 2007	1,645,000	\$ 0.25
Granted	261,500	0.25
Exercised	-	-
Forfeited	(15,000)	0.25
Outstanding, December 31, 2007	1,891,500	\$ 0.25

The following table summarizes information about options outstanding at December 31, 2007:

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable	Weighted Average Exercise Price
\$ 0.25	1,891,500	7.22	870,625	\$ 0.25

**NOTE 9 - EMPLOYEE BENEFIT PLANS**

The Company has a 401(k) Profit Sharing Plan. Under the plan, employees may elect to defer up to 25% of their salary, subject to limitations under the Internal Revenue Code. The Company does not make matching contributions.

**NOTE 10 - NET CAPITAL REQUIREMENTS**

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. At December 31, 2007, the Company had net capital and net capital requirements of \$682,718 and \$13,571 respectively. The Company's net capital ratio (aggregate indebtedness to net capital) was 0.30 to 1. According to Rule 15c3-1, the Company's net capital ratio shall not exceed 15 to 1.

**DELAFIELD HAMBRECHT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Continued)**

***NOTE 11 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK,  
CONTINGENCIES AND UNCERTAINTIES***

In the Company's trading activities, the Company has purchased securities for its own account and may incur losses if the market value of these securities decline subsequent to December 31, 2007.

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

The Company's financial instruments, including cash, receivables, payables and other liabilities are carried at amounts that approximate fair value due to the short-term nature of those instruments. Investments are valued as described in Note 1.

The Company bears the risk of financial failure by its clearing broker. If the clearing broker should cease doing business, the amounts due from this clearing broker could be subject to forfeiture. In addition, the Company has deposits in banks in excess of the federally insured limit. These amounts could be subject to loss should the bank cease business.

The Company maintains cash and cash equivalents with a financial institution in excess of the federally insured amount of \$100,000. As of December 31, 2007, the Company had \$129,501 in excess of the federally insured amount. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**SUPPLEMENTARY INFORMATION**

**DELAFIELD HAMBRECHT, INC. AND SUBSIDIARIES**

**COMPUTATION OF NET CAPITAL  
PURSUANT TO NET CAPITAL RULE 15c3-1  
DECEMBER 31, 2007**

**CREDIT:**

Shareholders' equity \$ 3,648,059

**DEBITS:**

Nonallowable assets:

Securities owned	126,818
Other receivables	146,442
Furniture, equipment, and leasehold improvements	26,263
Investments in limited partnerships	2,425,153
Other assets	<u>177,943</u>

***Total debits*** 2,902,619

***Net capital before haircuts on securities positions*** 745,440

Haircuts on securities positions, including undue concentration of \$25,502 62,722

**NET CAPITAL** 682,718

Minimum requirements of 6-2/3% of aggregate indebtedness of \$203,566 or \$5,000, whichever is greater 13,571

***Excess net capital*** **\$ 669,147**

**AGGREGATE INDEBTEDNESS:**

Accounts payable	\$ 12,757
Accrued liabilities	163,614
Obligation under capital lease	13,132
Other liabilities	<u>14,063</u>

**TOTAL AGGREGATE INDEBTEDNESS** **\$ 203,566**

**RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL** **0.30 to 1**

NOTE: There are no material differences between the above computation of net capital and the corresponding computation as submitted by the Company with the unaudited Form X-17A-5 as of December 31, 2007.



**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL ACCOUNTING CONTROL REQUIRED BY SEC RULE 17a-5**

The Board of Directors of  
Delafield Hambrecht, Inc. and Subsidiaries

In planning and performing our audit of the financial statements and supplementary information of Delafield Hambrecht, Inc. and Subsidiaries for the year ended December 31, 2007, we considered its internal control structure, including procedures 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 the internal control structure.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by Delafield Hambrecht, Inc. that we considered relevant to the objectives stated in Rule 17a-5(g), (i) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3; and (ii) for safeguarding the occasional receipt of securities and cash until promptly transmitted to the Company's clearing brokers. 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 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 security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining an internal control structure 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 internal control structure policies and procedures 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 Commission's above-mentioned objectives. Two of the objectives of an internal control structure 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) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors 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. This report recognizes that it is not practicable in an organization the size of Delafield Hambrecht, Inc. and Subsidiaries to achieve all the divisions of duties and cross-checks generally included in a system of internal accounting control and that alternatively greater reliance must be placed on surveillance by management.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including procedures 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 paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2007, to meet the Commission's objectives.

In addition, our review indicated that Delafield Hambrecht, Inc. and Subsidiaries was in compliance with the conditions of exemption from Rule 15c3-3 pursuant to paragraph k(2)(ii) as of December 31, 2007, and no facts came to our attention to indicate that such conditions had not been complied with during the year.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the Financial Industry Regulatory Authority, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.



Greenwood Village, Colorado  
February 4, 2008

**END**