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

SECURITIES AND EXCHANGE COMMISSION	
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19 REGISTRATIONS BRANCH	

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17(b) of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 1/1/2012 AND ENDING 12/31/2012  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Xambala Capital, LLC

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

640 West California Ave, Suite 220

(No. and Street)

Sunnyvale

California

94086

(City)

(State)

(Zip Code)

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

Drew Waddell

(408) 990-1940

(Area Code -- Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Rothstein Kass

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

9171 Wilshire Boulevard, 5th Floor

Beverly Hills

California

90210

(Address)

(City)

(State)

(Zip Code)

**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).

SEC 1410 (06-02)

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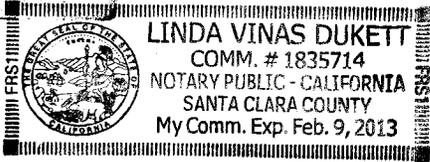
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OATH OR AFFIRMATION

I, Drew Waddell, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Xambala Capital, LLC, as of December 31, 2012, 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:

State of California County of Santa Clara
Subscribed and sworn to (or affirmed) before me on this 11th day of Feb., 2012, by Andrew Waddell
proved to me on the basis of satisfactory evidence to be the person(s) who appeared before me.
Signature [Signature]
(Seal)
Notary Public

[Signature]
Signature
CFO/FINANCIAL CONTROLLER
Title



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

- (a) Facing page.
(b) Statement of Financial Condition.
(c) Statement of Income (Loss).
(d) Statement of Changes in Financial Condition.
(e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
(f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
(g) Computation of Net Capital.
(h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
(i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
(j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
(l) An Oath or Affirmation.
(m) A copy of the SIPC Supplemental Report.
(n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
(o) Independent auditor's report on internal accounting control.
(p) Schedule of segregation requirements and funds in segregation--customers' regulated commodity futures account pursuant to Rule 171-5.

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

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**XAMBALA CAPITAL, LLC**

**STATEMENT OF FINANCIAL CONDITION  
AND  
INDEPENDENT AUDITORS' REPORT**

**DECEMBER 31, 2012**

# **XAMBALA CAPITAL, LLC**

## **CONTENTS**

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<b>Independent Auditors' Report</b>	<b>1-2</b>
<b>Financial Statement</b>	
Statement of Financial Condition	3
Notes to Financial Statement	4-7

Certified  
Public  
Accountants

Rothstein Kass  
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www.rkco.com

Beverly Hills  
Boston  
Dallas  
Denver  
Grand Cayman  
New York  
Roseland  
San Francisco  
Walnut Creek

# Rothstein Kass

## INDEPENDENT AUDITORS' REPORT

To Xambala Capital, LLC

We have audited the accompanying statement of financial condition of Xambala Capital, LLC (the "Company") as of December 31, 2012 that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the statement of financial condition.

### ***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of the statement of financial condition in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statement of financial condition that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the statement of financial condition 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 statement of financial condition is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of financial condition. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement of financial condition, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the statement of financial condition in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement of financial condition.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Xambala Capital, LLC as of December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of a Matter – Going Concern***

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plan in regard to this matter is also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Rothstein Kass".

Beverly Hills, California  
February 7, 2013

# XAMBALA CAPITAL, LLC

## STATEMENT OF FINANCIAL CONDITION

December 31, 2012

### ASSETS

Cash	\$	156,511
Due from clearing broker		2,045,532
Rebates receivables		1,573,274
Computer and equipment, net		4,818
Other assets		<u>12,382</u>
	\$	<u>3,792,517</u>

### LIABILITIES AND MEMBER'S EQUITY

#### Liabilities

Rebate advances from clearing broker dealer	\$	1,000,000
Accounts payable and accrued expenses		373,952
Floor brokerage, execution and clearing fees payable		<u>134,224</u>
Total liabilities		<u>1,508,176</u>
Member's equity		<u>2,284,341</u>
	\$	<u>3,792,517</u>

# XAMBALA CAPITAL, LLC

## NOTES TO FINANCIAL STATEMENT

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### 1. Nature of business and summary of significant accounting policies

#### *Nature of Business*

Xambala Capital, LLC (the "Company") is a limited liability corporation organized under the laws of the state of Delaware on October 23, 2008. The Company is owned by its sole member, Xambala, Inc. (the "Parent") and is under common control with other related entities. The Company is in the business of high-frequency proprietary trading that leverages high-throughput, low-latency, message stream processing subsystems, and trading algorithms for its use in the financial marketplace. The Company's headquarters and principal place of business is in Sunnyvale, California. The Company commenced its trading operations in January 2012.

The Company is a registered broker-dealer with the Securities and Exchange Commission ("SEC") and its designated examining authority is the Chicago Stock Exchange ("CHX").

#### *Basis of Presentation*

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

These financial statements were approved by management and available for issuance on February 7, 2013. Subsequent events have been evaluated through this date.

#### *Revenue Recognition*

The Company's sources of revenue consist of exchange rebates, plus/minus trading gains/losses. The Company recognizes the rebates and trading gains or losses on a trade date basis. The Company trades on a proprietary basis only. Due to its trading strategy, the Company earns de minimis amounts of dividends.

#### *Computer and Equipment*

Computer and equipment is stated at cost less accumulated depreciation. The Company provides for depreciation for computer and equipment using the straight line method over the useful life of 2-3 years.

#### *Income Taxes*

The Company is a limited liability company, and treated as a partnership for income tax reporting purposes. The Internal Revenue Code ("IRC") provides that any income or loss is passed through to the members for federal and state income tax purposes. Accordingly, the Company has not provided for federal and state income taxes.

At December 31, 2012, management has determined that the Company had no uncertain tax positions that would require financial statement recognition. This determination will always be subject to ongoing reevaluation as facts and circumstances may require. The Company remains subject to U.S. federal and state income tax audits for all periods subsequent to 2009. For the year ended December 31, 2012, the Company incurred approximately \$11,000 in State of California Franchise fees.

# XAMBALA CAPITAL, LLC

## NOTES TO FINANCIAL STATEMENT

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### 1. Nature of business and summary of significant accounting policies (continued)

#### *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the amounts disclosed in the financial statements. Actual results could differ from those estimates.

### 2. Going concern

These accompanying financial statements have been prepared assuming that the Company will continue as a going concern which contemplates the realizations of assets and satisfaction of liabilities in the normal course of business.

The Company has suffered losses from operations in its first operation year and its ability to continue as a going concern and meet its obligations as they come due is dependent on the Company's ability to obtain additional capital or through effective proprietary trading of its own assets. Management believes that the Company is well capitalized to cover the operating and other costs to develop and refine a viable trading product and has the ability, when necessary, to obtain more financing from its current Member, Xambala, Inc. There is a likelihood that the Company may not be able to raise funds in a timely manner to support the operations in the future. While management believes that the actions taken or planned, will mitigate the adverse conditions and events which raise doubt about the validity of the going concern assumption used in preparing these financial statements, there can be no assurance that these actions will be successful. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

### 3. Rebates receivables

The Company clears all of its proprietary transactions through Wedbush Securities LLC (the "Clearing Broker") on a fully disclosed basis.

Rebates receivable amounts are due from exchanges and the Clearing Broker with which the Company transacts for its proprietary securities trading. Such receivables are deemed to be fully collectible. Floor brokerage, exchange and clearing fees represents fees incurred in relation to the Company's proprietary securities trading.

The amounts receivable from the clearing broker relate to the aforementioned transactions. The Company has a policy of reviewing, as considered necessary, the credit standing of each broker with which it conducts business.

# XAMBALA CAPITAL, LLC

## NOTES TO FINANCIAL STATEMENT

### 4. Computer and equipment

Details of computer and equipment at December 31, 2012 are as follows:

Computer and equipment	\$	5,848
Less accumulated depreciation		<u>1,030</u>
	\$	<u>4,818</u>

### 5. Rebate advances from Clearing Broker Dealer

During the year ended December 31, 2012, the Company received advance cash from its clearing and sponsoring broker-dealer. At December 31, 2012 the Company had an outstanding balance of \$1,000,000, under this advance. The Company is required to pay interest on amounts outstanding at the prime rate of 3.25% plus 2%. Interest expense for the year ended December 31, 2012 was \$50,582 and is included with interest and dividends expense in the accompanying statement of operations.

### 6. Net capital requirement

The Company is subject to the SEC Uniform Net Capital Rule 15c3-1. This Rule requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 8 to 1 and that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1 in its first year of operations. At December 31, 2012, the Company's net capital was \$1,782,992, which was \$1,594,470 in excess of its minimum requirement of \$188,522.

### 7. Joint back office arrangement

The Company has a joint back office ("JBO") arrangement with its Clearing Broker. The Company notified CHX of the JBO arrangement and the Company maintains an ownership interest in the clearing broker pursuant to Regulation T of the Federal Reserve Board, Section 220.7. The Company maintains a minimum liquidating equity of \$1,000,000 in the JBO arrangement.

### 8. Concentrations of credit risk

In the normal course of business, the Company's activities involve the execution, settlement, and financing of various transactions. These activities may expose the Company to off-balance-sheet risk in the event the other party is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss. The Clearing Broker also provides the Company with portfolio financing. Such financing is essential for the Company to meet its proprietary trading objective.

The Company maintains some of its cash balances in various financial institutions. Some of these balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution.

# **XAMBALA CAPITAL, LLC**

## **NOTES TO FINANCIAL STATEMENT**

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### **9. Securities Exchange Commission Rule 15c3-3**

The Company is not exempt from Securities Exchange Commission Rule 15c3-3. However, the Company has no clients, nor client accounts, since the Company is a proprietary trading firm only. Therefore, the firm does not maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers."

### **10. Related party transactions**

Pursuant to lease agreements, the Company pays rent for office space and equipment to the Parent. Rent expense under these agreements for the year ended December 31, 2012 was \$171,300. Pursuant to cost sharing agreements the Company reimburses salary and technology expenses to the Parent. Salary and technology expenses related to the cost sharing arrangements are approximately \$403,000 and \$1,900,000, respectively for the year ended December 31, 2012.

### **11. Member's equity and common control**

The existence of common control could result in operating results or financial position of the Company to be significantly different from those that would have been obtained if the entities were autonomous. The sole member has agreed to provide capital contributions to the Company as necessary for it to continue as a going concern and to maintain compliance with minimum net capital requirements.