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

Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the year ended December 31, 2006

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from _____ to _____

Commission File number 000-50687

ATEL Capital Equipment Fund X, LLC

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

68-0517690
(I. R. S. Employer
Identification No.)

600 California Street, 6th Floor, San Francisco, California 94108-2733
(Address of principal executive offices)

Registrant's telephone number, including area code: (415) 989-8800

Securities registered pursuant to section 12(b) of the Act: None

Securities registered pursuant to section 12(g) of the Act: Limited Liability Company Units

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act of 1934. Yes No

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition

of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

State the aggregate market value of voting stock held by non-affiliates of the registrant: Not applicable

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.) Not applicable

State the issuer’s revenues for the most recent fiscal year: \$16,483,623.

The number of Limited Liability Company Units outstanding as of April 30, 2007 was 13,987,486.

DOCUMENTS INCORPORATED BY REFERENCE

Prospectus dated March 12, 2003, filed pursuant to Rule 424(b) (Commission File No. 333-100452) is hereby incorporated by reference into Part IV hereof.

PART I

Item 1. BUSINESS

General Development of Business

ATEL Capital Equipment Fund X, LLC (the "Company") was formed under the laws of the State of California in August 2002. The Company was formed for the purpose of engaging in the sale of limited liability company investment units and acquiring equipment to engage in equipment leasing, lending and sales activities. The Managing Member of the Company is ATEL Financial Services, LLC ("AFS"), a California limited liability corporation. Prior to converting to a limited liability company structure, the Managing Member was formerly known as ATEL Financial Corporation. The company may continue until December 31, 2021.

The Company conducted a public offering of 15,000,000 Limited Liability Company Units ("Units"), at a price of \$10 per Unit. On April 9, 2003, subscriptions for the minimum number of Units (120,000, representing \$1,200,000) had been received (excluding subscriptions from Pennsylvania investors) and AFS requested that the subscriptions be released to the Company. On that date, the Company commenced operations in its primary business (leasing and lending activities). Total gross contributions in the amount of \$140,600,908 (14,059,136 Units) were received as of December 31, 2006, \$500 of which represented the Initial Member's capital investment and \$140,600,408 of which represented continuing interest of the Other Members. During the period from Inception through December 31, 2006, rescissions and repurchases totaled \$632,763 (71,650 Units). The offering was terminated on March 11, 2005.

As of December 31, 2006, 13,987,486 Units (\$139,874,860) were issued and outstanding.

The Company's principal objectives are to invest in a diversified portfolio of equipment that will (i) preserve, protect and return the Company's invested capital; (ii) generate regular distributions to the members of cash from operations and cash from sales or refinancing, with any balance remaining after certain minimum distributions to be used to purchase additional equipment during the reinvestment period ("Reinvestment Period"), ending six calendar years after the termination of the offering (which will be no later than March 11, 2011) and (iii) provide additional distributions following the Reinvestment Period and until all equipment has been sold. The Company is governed by its Limited Liability Company Operating Agreement ("Operating Agreement"), as amended.

The Company has incurred debt to finance the purchase of a portion of its equipment portfolio. The amount of borrowings in connection with any equipment acquisition transaction will be determined by, among other things, the credit of the lease, the terms of the lease, the nature of the equipment and the condition of the money market. There is no limit on the amount of debt that may be incurred in connection with any single acquisition of equipment. However the Company may not incur aggregate outstanding indebtedness in excess of 50% of the total cost of all equipment as of the date of the final commitment of the offering proceeds and, thereafter, as of the date of any subsequent indebtedness is incurred. The Company will continue to borrow amounts equal to such maximum debt level in order to fund a portion of its equipment acquisitions, although there can be no assurance that such financing will continue to be available to the Company in the future.

The Company may also incur long-term recourse debt in the form of asset securitization transactions in order to obtain lower interest rates or other more desirable terms than may be available for individual nonrecourse debt transactions. In an "asset securitization," the lender would receive a security interest in a specified pool of "securitized" Company assets or a general lien against all of the otherwise unencumbered assets of the Company. It is the intention of AFS to use asset securitization primarily to finance assets leased to those credits which, in the opinion of AFS, have a relatively lower potential risk of lease default than those lessees with equipment financed with nonrecourse debt. AFS expects that an asset securitization financing would involve borrowing at a variable interest rate based on an established reference rate. AFS would seek to limit the Company's exposure to increases in the interest rate by engaging in hedging transactions that would effectively fix the interest rate obligation. The Company had no securitized borrowings at December 31, 2006.

Narrative Description of Business

The Company has acquired and intends to acquire various types of equipment and to lease such equipment pursuant to "Operating" leases and "High Payout" leases, whereby "Operating" leases are defined as being leases in which the minimum lease payments during the initial lease term do not recover the full cost of the equipment and "High Payout" leases recover at least 90% of such cost. It is the intention of AFS that a majority of the aggregate purchase price of equipment will represent equipment leased under operating leases upon final investment of the net proceeds of the offering and that no more than 20% of the aggregate purchase price of equipment will be invested in equipment acquired from a single manufacturer.

The Company's intent is to only purchase equipment for which a lease exists or for which a lease will be entered into at the time of the purchase.

As of December 31, 2006, the Company had purchased equipment with a total acquisition price of \$113,619,060. The Company also had investments in notes receivable of which \$10,376,416 remained outstanding at December 31, 2006.

The Company's objective is to lease a minimum of 75% of the equipment acquired with the net proceeds of the offering to lessees that (i) have an aggregate credit rating by Moody's Investor service, Inc. of Baa or better, or the credit equivalent as determined by AFS, with the aggregate rating weighted to account for the original equipment cost for each item leased or (ii) are established hospitals with histories of profitability or municipalities. The balance of the original equipment portfolio may include equipment leased to lessees which, although deemed creditworthy by AFS, would not satisfy the general credit rating criteria for the portfolio. In excess of 75% of the equipment acquired with the net proceeds of the offering (based on original purchase cost) has been leased to lessees with an aggregate credit rating of Baa or better or to such hospitals or municipalities, as described in (ii) above.

During 2006, 2005 and 2004 certain lessees generated significant portions of the Company's total lease revenues as follows:

<u>Lessee</u>	<u>Type of Equipment</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Sabine Mining	Mining	14%	16%	*
International Paper Co.—Mac	Material Handling	11%	*	*
GE Aircraft Engines	Manufacturing	*	*	22%
Ball Corporation	Material Handling	*	*	19%
Colowyo Coal Company L.P.	Mining	*	*	11%

* Less than 10%

These percentages are not expected to be comparable in future periods.

The equipment leasing industry is highly competitive. Equipment manufacturers, corporations, partnerships and others offer users an alternative to the purchase of most types of equipment with payment terms that vary widely depending on the lease term and type of equipment. The ability of the Company to keep the equipment leased and/or operating and the terms of the acquisitions, leases and dispositions of equipment depends on various factors (many of which are not in the control of AFS or the Company), such as raw material costs to manufacture equipment as well as general economic conditions, including the effects of inflation or recession, and fluctuations in supply and demand for various types of equipment resulting from, among other things, technological and economic obsolescence.

AFS will seek to limit the amount invested in equipment to any single lessee to not more than 20% of the aggregate purchase price of equipment owned at any time during the Reinvestment Period.

The business of the Company is not seasonal.

The Company has no full time employees. AFS' employees provide the services the Company requires to effectively operate. The costs of these services are reimbursed by the Company to AFS per the Operating Agreement.

Equipment Leasing Activities The Company has acquired a diversified portfolio of equipment. The equipment has been leased to lessees in various industries. The following tables set forth the types of equipment acquired by the Company through December 31, 2006 and the industries to which the assets have been leased.

<u>Asset Types</u>	<u>Purchase Price Excluding Acquisition Fees</u>	<u>Percentage of Total Acquisitions</u>
Transportation	\$ 39,214,845	35%
Materials Handling	35,396,105	31%
Mining Equipment	26,416,007	23%
Manufacturing	10,327,641	9%
Office automation	2,264,462	2%
	<u>\$113,619,060</u>	<u>100%</u>

<u>Industry of Lessee</u>	<u>Purchase Price Excluding Acquisition Fees</u>	<u>Percentage of Total Acquisitions</u>
Manufacturing	\$ 40,783,620	35%
Transportation	32,702,374	29%
Mining	28,180,827	25%
Health Care	11,952,239	11%
	<u>\$113,619,060</u>	<u>100%</u>

From inception to December 31, 2006, the Company has disposed of certain leased assets as set forth below:

<u>Asset Types</u>	<u>Original Equipment Cost</u>	<u>Sale Price</u>	<u>Excess of Rents Over Expenses*</u>
Mining	\$2,000,000	\$1,421,252	\$ 1,316,425
Office Automation	1,425,038	411,730	1,528,368
Transportation	472,630	515,946	42,608
Other	87,430	—	157,374
	<u>\$3,985,098</u>	<u>\$2,348,928</u>	<u>\$ 3,044,775</u>

* Includes only those expenses directly related to the production of the related rents.

Proceeds from sales of lease assets are not expected to be consistent from one period to another. The Company is a finite life equipment leasing fund, which will acquire leasing transactions during the period ending six years after completion of its public offering. On the termination of leases, assets may be re-leased or sold. Sales of assets are not scheduled and are created by opportunities within the marketplace. The Company will seek to acquire and lease a wide variety of assets and to enter into leases on a variety of terms. Some assets will be expected to have little or no value for re-lease or sale upon termination of the initial leases, and the anticipated residual values are a key factor in pricing and terms structured for each lease. The Company's goal is to seek maximum return on its leased assets and will determine when and under what terms to dispose of such assets during the course of its term.

For further information regarding the Company's equipment lease portfolio as of December 31, 2006, see footnote 6 to the financial statements, Investments in equipment and leases, net, as set forth in Part II, Item 8, Financial Statements and Supplementary Data.

The Company reports segment information in accordance with SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes annual and interim standards for operating segments of a company. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenue, and its major customers. The Company operates in one reportable operating segment in the United States. For further information regarding the Company geographic revenues and assets, see footnote 2 to the financial statements, Summary of significant accounting policies, as set forth in Part II, Item 8, Financial Statements and Supplementary Data.

Item 1A. RISK FACTORS

The operations of the Company are subject to various risks.

The success of the Company will be subject to risks inherent in the equipment leasing business that may adversely affect the ability of the Company to acquire, lease and sell equipment, and to finance its portfolio, on terms which will permit it to generate profitable rates of return for investors. A number economic conditions and market factors could threaten the Company's ability to operate profitably. These include:

- changes in economic conditions, including fluctuations in demand for equipment, lease rates, interest rates and inflation rates,
- the timing of purchases and the ability to forecast technological advances for equipment,
- technological and economic obsolescence, and
- increases in Company expenses (including labor, energy, taxes and insurance expenses).

The Company may be harmed if a lessee or borrower defaults and the Company is unable to collect the revenue anticipated from the defaulted investment. If a lessee does not make lease payments or a borrower does not make loan payments to the Company when they are due or violates the terms of its contract in another important way, the Company may be forced to cancel the lease or loan and recover the equipment or seek disposition of the collateral. The Company may do this at a time when the Manager may be unable to arrange for a new lease or the sale of such equipment right away. The Company would then lose the expected revenues and might not be able to recover the entire amount of its original investment. If a lessee or borrower files for protection under the bankruptcy laws, the Company may experience difficulties and delays in recovering the equipment from the defaulting lessee or obtaining a judgment on the defaulted debt. The equipment may be returned in poor condition and the Company may be unable to enforce important lease or loan provisions against an insolvent lessee, including the contract provisions that require the lessee to return the equipment in good condition. In some cases, a lessee's or borrower's deteriorating financial condition may make trying to recover what the lessee or borrower owes the Company impractical. The costs of recovering equipment upon a default, enforcing the lessee's obligations under the lease or loan terms, and transporting, storing, repairing and finding a new lessee or purchaser for the equipment may be high and may affect the Company's profits.

The amount of the Company's profit will depend in part on the value of its equipment when the leases end. In general, leased equipment loses value over a lease term. In negotiating leases, the Manager will assume a value for the equipment at the end of the lease. The Manager will seek lease payments plus equipment value at the end of the lease which is enough to return the Company's investment in the equipment and provide a profit. The value of the equipment at the end of a lease will depend on a number of factors, including:

- the condition of the equipment;
- the cost of similar new equipment;
- the supply of and demand for similar equipment; and
- whether the equipment has become obsolete.

The Company cannot assure that its value assumptions will be accurate or that the equipment will not lose value more rapidly than anticipated.

The Company bears the risks of borrowing, including the potential loss of assets used as collateral for Company debt in the event the Company is unable to satisfy its debt obligations. The Company can expect to make a profit on investments purchased with debt only if the investments produce more than enough cash from lease and other payments and sales proceeds to pay the principal and interest on the debt, recover the purchase price and cover fees and other operating expenses.

When a borrower defaults on a secured loan, the lender usually has the right to immediate payment of the entire debt and to sell the collateral to pay the debt. In this way, the Company's borrowing may involve a greater risk of loss than if no debt were used, because the Company must meet its fixed payment obligations regardless of the amount of revenue it receives from its investments. At the same time, the use of debt increases the potential size of the Company's investment portfolio, the amount of lease and other revenues and potential sale proceeds. Greater amounts of debt would also increase the total fees payable to the Manager, because its asset management fees are determined as a percentage of the Company's total revenues.

There are significant limitations on the transferability of Units. The Manager will take steps to assure that no public trading market develops for the Units. If a public trading market were to develop, the Company could suffer a very unfavorable change in the way it is taxed under the federal tax laws. Investors will probably not be able to sell their Units for full value if they need to in an emergency. Units may also not be accepted as collateral for a loan. Consequently, investors should consider the purchase of Units only as a long-term investment.

Investors will have limited voting rights and must rely on management for the success of the Company. ATEL, as the Manager, will make all decisions in the management of the Company. The success of the Company will, to a large extent, depend on the quality of its management, particularly decisions on the purchase, leasing and sale of its investment portfolio. Investors are not permitted to take part in the management of the Company and have only limited voting rights. An affirmative vote by holders of a majority of the Units is required to remove the Manager. No person should purchase Units unless he is willing to entrust all aspects of management of the Company to the Manager and has evaluated the Manager's capabilities to perform such functions.

Equipment may be damaged or lost. Fire, weather, accident, theft or other events can cause the damage or loss of equipment. Not all potential casualties can be insured, and, if insured, the insurance proceeds may not be sufficient to cover a loss.

The Manager is subject to certain potential conflicts of interest that could result in the Manager acting in its interest rather than that of the Company. These include potential conflicts relating to the following matters:

- The Manager engages in other, potentially competing activities
- The Company may be in competition for investments with prior programs sponsored by the Manager
- The Company expects to borrow up to 50% of the aggregate cost of its investment portfolio, and this will result in higher Asset Management Fees than if less debt were incurred
- Agreements between the Company and the Manager and its Affiliates are not at arm's length
- The Company, the Manager and Unit holders are not represented by separate counsel and
- The Company may, under certain conditions and restrictions, enter into joint ventures with other programs affiliated with the Manager.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The Company does not own or lease any real property, plant or material physical properties other than the equipment held for lease as set forth in Item 1.

Item 3. LEGAL PROCEEDINGS

In the ordinary course of conducting business, there may be certain claims, suits, and complaints filed against the Company. In the opinion of management, the outcome of such matters, if any, will not have a material impact on the Company's consolidated financial position or results of operations. No material legal proceedings are currently pending against the Company or against any of its assets.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

Item 5. MARKET FOR REGISTRANT'S LIMITED LIABILITY COMPANY UNITS AND RELATED MATTERS

Market Information

There are certain material conditions and restrictions on the transfer of Units imposed by the terms of the Limited Liability Company Operating Agreement ("Operating Agreement"). Consequently, there is no public market for Units and it is not anticipated that a public market for Units will develop. In the absence of a public market for the Units, there is no currently ascertainable fair market value for the Units.

Holdings

As of December 31, 2006, a total of 3,229 investors were record holders of Units in the Company.

Distributions

The record holders of units are entitled to certain distributions as provided under the Operating Agreement.

AFS has sole discretion in determining the amount of distributions; provided, however, that AFS will not reinvest in equipment, but will distribute, subject to payment of any obligations of the Company, such available cash from operations and cash from sales or refinancing as may be necessary to cause total distributions to the Members for each year during the Reinvestment Period to equal an amount of \$0.80 per Unit.

The rate for monthly distributions from 2006 operations was \$0.0667 per Unit for January through December 2006. During 2006, the Company made twelve distributions beginning in January and ending in December 2006 compared to thirteen distributions in 2005. The rate for quarterly distributions paid in April, July, October 2006 and January 2007 was \$0.20 per Unit. Distributions were from 2006 cash flows from operations.

The rate for monthly distributions from 2005 operations was \$0.0667 per Unit for January through December 2005. During 2005, the Company made thirteen distributions beginning in February and ending in December 2005 compared to twelve distributions in 2004. The rate for quarterly distributions paid in April, July, October 2005 and January 2006 was \$0.20 per Unit. Distributions were from 2005 cash flows from operations.

The rate for monthly distributions from 2004 operations was \$0.0667 per Unit for January through December 2004. The distributions were paid in February through December 2004 and in January 2005. The rate for quarterly distributions paid in April, July, October 2004 and January 2005 was \$0.20 per Unit. Distributions were from 2004 cash flows from operations.

The following table presents summarized information regarding distributions to members other than the Managing Member ("Other Members"):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Income (loss) per Unit, based on weighted average Units outstanding	<u>\$(0.16)</u>	<u>\$ 0.02</u>	<u>\$(0.11)</u>
Return of investment	<u>0.96</u>	<u>0.85</u>	<u>0.83</u>
Distributions declared per Unit, based on weighted average Other Member Units outstanding	<u>0.80</u>	<u>0.87</u>	<u>0.72</u>
Differences due to timing of distributions	<u>—</u>	<u>(0.09)</u>	<u>—</u>
Actual distributions paid per Unit	<u>\$ 0.80</u>	<u>\$ 0.78</u>	<u>\$ 0.72</u>

Item 6. SELECTED FINANCIAL DATA

The following table presents selected financial data of the Company at December 31, 2006, 2005, 2004, 2003 and 2002 for the years then ended. This financial data should be read in conjunction with the financial statements and related notes included under Part II Item 8.

	2006	2005	2004	2003	2002
Revenues	\$ 16,483,623	\$ 13,320,341	\$ 4,976,193	\$ 907,914	\$—
Net (loss) income	\$ (1,273,447)	\$ 1,305,867	\$ (390,539)	\$ (1,092,892)	\$—
Weighted average Other Member Units	14,002,309	13,702,379	7,919,866	2,219,738	10
Net (loss) income allocated to Other Members	\$ (2,182,685)	\$ 335,470	\$ (851,105)	\$ (1,168,805)	\$—
Net (loss) income per Unit, based on weighted average Units outstanding	\$ (0.16)	\$ 0.02	\$ (0.11)	\$ (0.53)	\$—
Distributions declared per Unit, based on weighted average Other Members' Units Outstanding	\$ 0.80	\$ 0.87	\$ 0.72	\$ 0.42	\$—
Total Assets	\$104,931,570	\$105,189,626	\$94,306,834	\$36,979,696	\$600
Total Members' Capital	\$ 88,458,131	\$102,022,364	\$93,503,507	\$35,997,572	\$600

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements contained in this Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") and elsewhere in this Form 10-K, which are not historical facts, may be forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. In particular, economic recession and changes in general economic conditions, including, fluctuations in demand for equipment, lease rates, and interest rates, may result in delays in investment and reinvestment, delays in leasing, re-leasing, and disposition of equipment, and reduced returns on invested capital. The Company's performance is subject to risks relating to lessee defaults and the creditworthiness of its lessees. The Fund's performance is also subject to risks relating to the value of its equipment at the end of its leases, which may be affected by the condition of the equipment, technological obsolescence and the markets for new and used equipment at the end of lease terms. Investors are cautioned not to attribute undue certainty to these forward-looking statements, which speak only as of the date of this Form 10-K. We undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Form 10-K or to reflect the occurrence of unanticipated events, other than as required by law.

Capital Resources and Liquidity

The Company's public offering provided for a total maximum capitalization of \$150,000,000. As of March 11, 2005, the offering was concluded. As of that date, subscriptions for 14,059,136 Units had been received, of which 71,650 Units were rescinded or repurchased by the Company through December 31, 2006. The liquidity of the Company will vary in the future, increasing to the extent cash flows from leases and proceeds of asset sales exceed expenses, and decreasing as lease assets are acquired, as distributions are made to the Members and to the extent expenses exceed cash flows from leases and proceeds from asset sales.

The Company participates with AFS and certain of its affiliates, as defined in the Operating Agreement, in a financing arrangement ((the "Master Terms Agreement") comprised of a working capital facility to AFS, an acquisition facility and a warehouse facility to AFS, the Company and affiliates, and a venture facility available to an affiliate) with a group of financial institutions that includes certain financial and non-financial covenants. The financing arrangement is \$75,000,000 and expires in June 2007. The availability of borrowings available to the Company under this financing arrangement is reduced by the amount outstanding on any of the above mentioned facilities.

Borrowings under the financing arrangement as of December 31, 2006 were as follows:

Total amount available under the financing arrangement	\$ 75,000,000
Amount borrowed by the Company under the acquisition facility	(10,000,000)
Amount borrowed by affiliated partnerships and limited liability companies under the acquisition and warehouse facilities	<u>(16,561,475)</u>
Total available under the above mentioned facilities	<u>\$ 48,438,525</u>

The Company is contingently liable for principal payments under the warehouse facility as borrowings are recourse jointly and severally to the extent of the pro-rata share of the Company's net worth as compared to the aggregate net worth of certain of the affiliated partnerships and limited liability companies of the Company and including AFS and ATEL Leasing Corporation ("ALC") (which latter two entities are 100% liable). As of December 31, 2006, borrowings of \$3,061,475 were outstanding under the warehouse facility. The Company's maximum obligation on the outstanding warehouse balance at December 31, 2006 was approximately \$1,174,373. The Company and its affiliates pay an annual commitment fee to have access to this line of credit.

The interest rate on the Master Terms Agreement is based on either the LIBOR/Eurocurrency rate of 1-, 2-, 3- or 6-month maturity plus a lender designated spread, or the bank's Prime rate, which re-prices daily. Principal amounts of loans made under the Master Terms Agreement that are prepaid may be re-borrowed on the terms and subject to the conditions set forth under the Master Terms Agreement. The effective interest rate on borrowings at December 31, 2006 ranged from 6.60% to 8.25%.

Draws on the acquisition facility by any affiliated partnership and/or limited liability company borrower are secured only by that borrower's assets, including but not limited to equipment and related leases.

To manage the warehousing facility for the holding of assets prior to allocation to specific investor programs, a Warehousing Trust Agreement has been entered into by the Company, AFS, ALC, and certain of the affiliated partnerships and limited liability companies. The warehousing facility is used to acquire and hold, on a short-term basis, certain lease transactions that meet the investment objectives of each of such entities. Each of the leasing programs sponsored by AFS and ALC currently in its acquisition stage is a pro rata participant in the Warehousing Trust Agreement, as described below. When a program no longer has a need for short term financing provided by the warehousing facility, it is removed from participation, and as new leasing

investment entities are formed by AFS and ALC and commence their acquisition stages, these new entities will be added. As of December 31, 2006, the investment program participants were ATEL Capital Equipment Fund VII, L.P., ATEL Capital Equipment Fund VIII, LLC, ATEL Capital Equipment Fund IX, LLC, the Company and ATEL Capital Equipment Fund XI, LLC. Pursuant to the Warehousing Trust Agreement, the benefit of the lease transaction assets, and the corresponding liabilities under the warehouse borrowing facility, inure to each of such entities based upon each entity's pro-rata share in the warehousing trust estate. The "pro-rata share" is calculated as a ratio of the net worth of each entity over the aggregate net worth of all entities benefiting from the warehouse trust estate, excepting that the trustees, AFS and ALC, are both liable for their pro-rata shares of the obligations based on their respective net worth, and jointly liable for the pro rata portion of the obligations of each of the affiliated partnerships and limited liability companies participating under the borrowing facility. Transactions are financed through this warehousing facility only until the transactions are allocated to a specific program for purchase or are otherwise disposed by AFS and ALC. When a determination is made to allocate the transaction to a specific program for purchase by the program, the purchaser repays the debt associated with the asset, either with cash or by means of the acquisition facility financing, the asset is removed from the warehouse facility collateral, and ownership of the asset and any debt obligation associated with the asset are assumed solely by the purchasing entity. As of January 31, 2007, ATEL Capital Equipment Fund VII, L.P. and ATEL Capital Equipment Fund VIII, LLC ceased to be participants in the Warehousing Trust Agreement as both funds went into normal liquidation phase and have no further need for short term financing provided by the warehousing facility.

The financing arrangement discussed above includes certain financial and non-financial covenants applicable to each borrower. The Company and affiliates were not in compliance with non-financial covenants as of December 31, 2006. The Managing Member, on behalf of all borrowers, requested and received a waiver of this covenant from the lenders until May 31, 2007.

In July 2006, the Company became a party to an existing \$60 million receivables funding program with a receivables financing company that issues commercial paper rated A1 from Standard and Poor's and P1 from Moody's Investor Services. In this receivables funding program, the lenders would receive liens against the Company's assets. The lender will be in a first position against certain specified assets and will be in either a subordinated or shared position against the remaining assets. The program provides for borrowing at a variable interest rate and requires AFS, on behalf of the Company, to enter into interest rate swap agreements with certain hedge counterparties (also rated A1/P1) to mitigate the interest rate risk associated with a variable interest rate note. AFS anticipates that this program will allow the Company to have a more cost effective means of obtaining debt financing than available for individual non-recourse debt transactions. The receivables funding program expires in August 2011. As of December 31, 2006, there were no outstanding borrowings under the receivables funding program.

In order to maintain the availability of the program, the Company is required to make payments of standby fees. These fees totaled \$130,900 in 2006 and are included in interest expense in the Company's statement of operations.

Throughout the reinvestment period, the Company anticipates reinvesting a portion of lease payments from assets owned in new leasing transactions. Such reinvestment will occur only after the payment of all current obligations including debt (both principal and interest), the payment of management and acquisition fees to AFS and providing for cash distributions to the members.

AFS or an affiliate may purchase equipment in its own name, the name of an affiliate or the name of a nominee, a trust or otherwise and hold title thereto on a temporary or interim basis for the purpose of facilitating the acquisition of such equipment or the completion of manufacture of the equipment or for any other purpose related to the business of the Company, provided, however that: (i) the transaction is in the best interest of the Company; (ii) such equipment is purchased by the Company for a purchase price no greater than the cost of such equipment to AFS or affiliate (including any out-of-pocket carrying costs), except for compensation permitted by the Operating Agreement; (iii) there is no difference in interest terms of the loans secured by the equipment at the time acquired by AFS or affiliate and the time acquired by the Company; (iv) there is no benefit arising out of such transaction to AFS or an affiliate apart from the compensation otherwise permitted by the Operating Agreement; and (v) all income generated by, and all expenses associated with, equipment so acquired will be treated as belonging to the Company.

The Company currently has available adequate reserves to meet its immediate cash requirements and those of the next twelve months, but in the event those reserves were found to be inadequate, the Company would likely be in a position to borrow against its current portfolio to meet such requirements. AFS envisions no such requirements for operating purposes.

If inflation in the general economy becomes significant, it may affect the Company in as much as the residual (resale) values and rates on re-leases of the Company's leased assets may increase as the costs of similar assets increase. However, the Company's revenues from existing leases would not increase as such rates are generally fixed for the terms of the leases without adjustment for inflation.

If interest rates increase significantly, the lease rates that the Company can obtain on future leases will be expected to increase as the cost of capital is a significant factor in the pricing of lease financing. Leases already in place, for the most part, would not be affected by changes in interest rates. For detailed information on the Company's debt obligations, see footnotes 8 through 10 in the notes to the financial statements in Item 8.

As another source of liquidity, the Company is expected to have contractual obligations with a diversified group of lessees for fixed lease terms at fixed rental amounts. As the initial lease terms expire, the Company will re-lease or sell the equipment. The future

liquidity beyond the contractual minimum rentals will depend on AFS's success in re-leasing or selling the equipment as it comes off lease.

AFS expects that aggregate borrowings in the future will be approximately 50% of aggregate equipment cost. In any event, the Operating Agreement limits such borrowings to 50% of the total cost of equipment, in aggregate.

As of December 31, 2006, cash balances consisted of working capital and amounts reserved for distributions to be paid in January 2007, generated from operations in 2006.

At December 31, 2006, there were commitments to purchase lease assets totaling approximately \$16,847,311. This amount represents contract awards which may be canceled by the prospective lessee or may not be accepted by the Company. Of the \$16,847,311 commitment at December 31, 2006, \$1,121,150 was canceled subsequent to year-end.

The Company commenced regular distributions, based on cash flows from operations, beginning with the month of April 2003. The first distribution payment was made in May 2003 and additional monthly and/or quarterly distributions have been consistently made through December 2006.

Debt Obligations

As of December 31, 2006, the Company's obligations and commitments to make future payments under contracts was solely comprised of the \$10,000,000 outstanding on the acquisition facility as shown below:

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Acquisition facility	<u>\$10,000,000</u>	<u>\$10,000,000</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>
	<u>\$10,000,000</u>	<u>\$10,000,000</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>

In addition, the Company is contingently liable for principal payments on the warehouse facility, as discussed above. As of December 31, 2006, borrowings of \$3,061,475 were outstanding under the warehouse facility. The Company's maximum obligation on the outstanding warehouse balance at December 31, 2006 was approximately \$1,174,373. For detailed information on the Company's debt obligations, see "Capital Resources and Liquidity" above, or see footnote 8 in the notes to the financial statements in Item 8.

Cash Flows

2006 vs. 2005

In both 2006 and 2005, the Company's primary source of cash from operations was rents from operating leases and interest on notes receivable. Cash flows from operations increased by \$3,235,933 from \$10,133,426 in 2005 to \$13,369,359 in 2006. The increase was primarily due to increases in revenues resulting from the Company's continued origination and funding of lease assets and investments in notes receivable during 2006. Operating lease revenue increased \$4,341,442 from \$10,169,784 in 2005 to \$14,511,226 in 2006. Similarly, interest income on the notes receivable increased \$415,596 from \$619,153 in 2005 to \$1,034,749 in 2006. In addition, cash flows from operations were impacted by changes in the Company's operating assets and liabilities. The increase in accounts payable and accrued liabilities favorably impacted cash flows by \$2,606,878 in 2006 compared to \$473,606 in 2005. However, the increase in payables and accrued liabilities was partially offset by an increase in accounts receivable. The increase in receivables negatively impacted cash flows by \$1,264,509 in 2006 compared to a favorable impact of \$212,481 in 2005.

In 2006 and 2005, the primary use of cash in investing activities was the purchase of equipment on operating leases. Cash used in investing activities increased by \$10,082,485 from \$32,308,946 in 2005 to \$42,391,431 in 2006. The increase in cash used in investing activities was primarily due to a decrease in proceeds from sales of lease assets combined with an increase in purchases of equipment on operating leases. Proceeds generated from sales of lease assets to third parties and affiliates declined by \$8,956,074 from \$9,220,257 in 2005 to \$264,183 in 2006. A majority of the sales proceeds in 2005 involved an asset and associated lease that was transferred to an affiliate of the Company for a total payment of \$7,383,056. Purchases of operating lease assets increased by \$3,066,140 from \$37,579,070 in 2005 to \$40,645,210 in 2006.

In 2006, the Company's primary source of cash from financing activities was borrowings under various debt agreements, net of repayments; while in 2005, the primary source of cash was the proceeds of its offering of Units. In both 2006 and 2005, the main usage of cash was payment of distributions to the Managing Member and Other Members. Cash used in financing activities was \$2,290,786 in 2006 while cash provided by financing activities totaled \$8,677,299. The decrease is primarily due to the conclusion of the sale of Units. Cash in 2005 included \$23,138,630 of proceeds from the sale of Units. During 2006, the Company utilized its credit facilities and borrowed \$13,500,000, of which \$3,500,000 was repaid before year end.

Proceeds from sales of lease assets are not expected to be consistent from one period to another. The Company is a finite life equipment leasing fund, which will acquire leasing transactions during the period ending six years after completion of its public offering. On the termination of leases, assets may be re-leased or sold. Sales of assets are not scheduled and are created by opportunities within the marketplace. The Company will seek to acquire and lease a wide variety of assets and to enter into leases on a variety of terms. Some assets will be expected to have little or no value upon termination of the related leases, while others will be expected to have substantial value for re-lease or sale upon termination of the initial leases, and the anticipated residual values are a key factor in pricing and terms structured for each lease. The Company's goal is to seek maximum return on its leased assets and will determine when and under what terms to dispose such assets during the course of its term.

2005 vs. 2004

In both 2005 and 2004, the Company's primary source of cash from operations was rents from operating leases. Cash flows from operations increased by \$7,787,587 from \$2,345,839 in 2004 to \$10,133,426 in 2005. The increase is largely the result of increases in revenues. Operating lease revenue increased \$6,117,647 from \$4,052,137 in 2004 to \$10,169,784 in 2005. Augmenting this increase in revenues were favorable changes in the Company's operating assets and liabilities. Specifically, accounts receivable, due from managing member and other assets provided cash of \$465,545 in 2005 compared to using cash of \$874,855 in 2004, an increase of \$1,340,400 in cash provided by operating activities. These assets provided cash either from larger cash collections or reduced spending. Additionally, certain liabilities including accounts payable, managing members, accounts payable, other and unearned operating lease income provided cash of \$919,666 in 2005 compared to using cash of \$309,814 in 2004, an increase of \$1,229,480 in cash provided by operating activities. These liabilities provided cash from either a slowing of payments to vendors and the Managing Member or collecting advance payments from lessees.

In both 2004 and 2005, the Company used essentially the same amount of cash in investing activities. Cash used in investing activities increased by \$153,840 from \$32,155,106 to \$32,308,946. During 2005, cash was used in investing activities to: (1) purchase operating lease assets of \$37,579,070 compared to \$26,125,770 in 2004 and (2) advance amounts to customers secured by notes receivable of \$5,672,921 compared to \$5,035,320 in 2004. Additionally, in 2004, the Company purchased equipment on direct financing leases of \$1,882,879 compared to zero in 2005. During 2005, investing activities provided cash by: (1) selling lease assets to third parties that generated proceeds of \$2,051,588 and selling lease assets to an affiliate that generated proceeds of \$7,383,056 compared to zero in 2004, and (2) payments received on notes receivable and direct financing leases of \$2,028,792 compared to \$939,305 in 2004.

In both 2005 and 2004, the Company's primary source of cash flows was from its public offering. However, cash flows from financing activities decreased by \$49,219,175 from \$57,896,474 in 2004 to \$8,677,299 in 2005. The decrease was primarily the result of raising less capital as the company's public offering was terminated on March 11, 2005 coupled with an increase in distributions to Other Members. Capital contributions decreased by \$49,689,828 from \$72,828,458 in 2004 to \$23,138,630 in 2005. As expected, syndication costs paid to Managing Member decreased by \$5,843,734 from \$8,555,397 in 2004 to \$2,711,663 in 2005 as a result of raising less capital. Distributions to Other Members and Managing Member increased \$5,324,474 from \$6,154,910 in 2004 to \$11,479,384 in 2005.

Results of Operations

As of April 9, 2003, subscriptions for the minimum amount of the offering (\$1,200,000) had been received and accepted by the Company. As of that date, the Company commenced operations in its primary business ("leasing and lending activities"). After the Company's public offering and its initial asset acquisition stage terminate, the results of operations are expected to change significantly.

Cost reimbursements to Managing Member are based on costs incurred by AFS in performing administrative services for the Company that are allocated to each Company that AFS manages based on certain criteria such as existing or new leases, number of investors or equity depending on the type of cost incurred. AFS believes that the costs reimbursed are the lower of (i) actual costs incurred on behalf of the Company or (ii) the amount the Company would be required to pay independent parties for comparable administrative services in the same geographic location.

As of December 31, 2006, 2005 and 2004, there were concentrations (greater than 10%) of equipment leased to lessees and/or financial borrowers in certain industries (as a percentage of total equipment cost) as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Manufacturing	31%	36%	31%
Transportation	31%	23%	20%
Mining	19%	31%	42%
Health Care	11%	*	*

* Less than 10%

The Company acquired \$40,645,210 of equipment on operating leases during 2006. There were no purchases of equipment on direct finance leases during the year. Below is a table that summarizes utilization percentages for assets acquired during the years ended December 31, 2006, 2005, 2004 and 2003:

Utilization of equipment purchased by year	2006	2005	2004	2003
2006	100%	—	—	—
2005	100%	100%	—	—
2004	100%	100%	100%	—
2003	100%	100%	100%	100%

It is the Company's objective to maintain a 100% utilization rate for all equipment purchased in that year. As discussed above, the Company remains in its acquisition stage and is continuing to acquire equipment. All equipment transactions are acquired subject to binding lease commitments, so equipment utilization is expected to remain high throughout this acquisition and reinvestment stage, which ends six years after the end of the Company's public offering of Units. Initial lease terms will generally be from 24 to 96 months, and as these initial leases terminate, the Company will attempt to re-lease or sell the equipment. Utilization rates may therefore decrease during the liquidation stage of the Company, which will follow its acquisition and reinvestment stages.

2006 vs. 2005

The Company incurred a net loss of \$1,273,447 in 2006, compared to net income of \$1,305,867 in 2005, as the year-over-year growth in revenues was outpaced by the increase in expenses. Total revenues increased by \$3,163,282, or 24%, from \$13,320,341 in 2005 to \$16,483,623 in 2006 while expenses increased by \$5,747,094, or 48%, from \$11,920,196 in 2005 to \$17,764,658 in 2006.

The year-over-year increase in revenues was driven primarily by an increase in operating leases revenues offset, in part, by a decrease in gains generated from the sales of assets. Revenues from operating leases increased by \$4,341,442 from \$10,169,784 in 2005 to \$14,511,226 in 2006, primarily due to the acquisition of lease assets during 2005 and 2006. Gains on sales of assets and early termination of note receivable decreased by \$1,073,332 from a gain of \$1,071,790 in 2005 to a loss \$1,542 in 2006. A majority of the gain on sales of assets in 2005 involved a sale of equipment under an operating lease that was terminated in December 2005.

The Company's largest expense is depreciation on owned assets which is directly related to its acquisition of operating lease assets during its initial acquisition phase. Depreciation expense totaled \$11,967,349 in 2006 compared to \$8,339,612 in 2005, an increase of \$3,627,737. The increase in depreciation was a result of the increase in depreciable lease assets acquired in 2005 and 2006.

The Company's second largest expense in 2006 was acquisition expense, which increased by \$107,533 from \$969,461 in 2005 to \$1,076,994 in 2006, as the Company purchased more equipment on leases. As defined by the Company's Operating Agreement, acquisition expense shall mean expenses including, but not limited to, legal fees and expenses, travel and communication expenses, costs of appraisals, accounting fees and expenses, and miscellaneous expenses relating to selection and acquisition of equipment, whether or not acquired.

During 2006, professional fees and outside services expense increased by \$1,361,589 as the Company contracted outside professionals to assist in managing the process of restating and filing previously filed financial statements. Also during 2006, certain other operating expenses increased as revenues increased. The Company had increases totaling \$319,377 in asset management fees paid to the Managing Member, cost reimbursements to Managing Member for administrative services and amortization of initial direct costs. The increase in such expenses was primarily related to the increase in the Company's earning assets.

The Company incurred \$237,806 of interest expense in 2006 as it utilized its credit facility during 2006. Interest expense is directly related to the increase in purchases of equipment on operating leases, direct financing leases and notes receivable funding because the Company typically borrows on a portion of the cost of the purchased assets. In addition, the Company recorded a provision for losses and doubtful accounts totaling \$194,442 in 2006. There were no such expenses in 2005.

During 2006, the Company had other income, representing net foreign currency gains during the year, of \$7,588. During 2005, the Company had other expense, representing net foreign currency losses during 2005, of \$94,278.

As detailed in footnote 14, Unaudited Selected Quarterly Data, the Company had a net loss of \$614,208 for the three months ended December 31, 2006 compared to net income of \$788,195 for the three months ended December 31, 2005. The decline in income was a result of the growth in operating expenses primarily related to the growth in the Company's earning assets partially offset by the growth in revenues. Total operating expenses increased by \$1,639,529, or 41%, from \$3,789,607 for the three months ended December 31, 2005 to \$5,429,136 for the three months ended December 31, 2006 while total revenues increased by \$177,035, or 4%, from \$4,634,345 for the three months ended December 31, 2005 to \$4,811,380 for the three months ended December 31, 2006.

The increase in revenues was primarily a result of increased operating lease revenue partially offset by declines in gains on sales of assets and interest income associated with the lower cash balance held by the Company during 2006 compared to 2005.

Operating lease revenue increased by \$1,425,741 from \$3,032,140 in the three months ended December 31, 2005 to \$4,457,881 for the three months ended December 31, 2006. Operating lease revenue increased primarily as a result of the acquisition activity during 2006. Gain on sales of assets and early termination of note receivable declined by \$1,038,306 from a gain of \$1,029,629 for the three months ended December 31, 2005 to a loss of \$8,677 for the three months ended December 31, 2006. A majority of the gain on sales of assets in 2005 involved a sale of equipment under an operating lease that was terminated in December 2005.

Operating expenses increased primarily due to increases in depreciation and acquisition expense as well as outside services expense. Depreciation expense increased by \$1,044,104 from \$2,569,291 for the three months ended December 31, 2005 to \$3,613,395 for the three months ended December 31, 2006. Similarly, acquisition expense increased by \$204,517 from \$20,943 for the three months ended December 31, 2005 to \$225,460 for the three months ended December 31, 2006. The increase in depreciation and acquisition expense was primarily due to the continued growth of the Company's earning assets. During the same period, outside services expense increased by \$205,956 resulting from the hiring of outside professionals to facilitate restating and filing of financial statements as discussed above.

The Company also booked a provision for losses and doubtful accounts of \$190,512 and incurred interest expense of \$146,537 during the three months ended December 31, 2006. There were no such expenses for the three months ended December 31, 2005.

2005 vs. 2004

In 2005 and 2004, the primary source of revenues was operating leases. Operating lease revenues increased by \$6,117,647 from \$4,052,137 in 2004 to \$10,169,784 in 2005. During this period, the Company generated net income of \$1,305,867 in 2005 compared to a net loss of \$390,539 in 2004. Depreciation expense is directly related to the Company's assets on operating leases. As expected, depreciation on operating lease assets increased by \$4,738,416 from \$3,601,196 in 2004 to \$8,339,612 in 2005. As a percent of revenue, depreciation decreased from 72% of total revenue in 2004 to 63% of total revenue in 2005, which improved operating results by 9%. Depreciation expense decreased as a percent of total revenue, in part, as a result of a shift in revenue mix towards interest and gain on sale of assets. Interest and gain on sale of assets increased from 14% of total revenue in 2004 to 22% of total revenue in 2005.

Acquisition expenses remained relatively constant from 2004 to 2005 increasing by \$209,552 from \$759,909 in 2004 to \$969,461. As a percent of revenue, acquisition expenses decreased from 15% of total revenue in 2004 to 7% of total revenue in 2005, which improved operating results by 8%. Acquisition expenses remained relatively constant as revenue increased primarily because the Company has been in the acquisition phase and the consistency of the expense year over year is reflective of the constant acquisition activities which are required in order for the Company to ultimately initiate leases. As defined by the Company's operating agreement, acquisition expense shall mean expenses including, but not limited to, legal fees and expenses, travel and communication expenses, costs of appraisals, accounting fees and expenses, and miscellaneous expenses relating to selection and acquisition of equipment, whether or not acquired.

Under the terms of the Limited Liability Company Operating Agreement, AFS is entitled certain management fees and cost reimbursements. Although asset management fees to Managing Member and cost reimbursements to Managing Member increased by \$813,694 from \$564,298 in 2004 to \$1,377,992 in 2005, these expenses remained constant at 11% of total revenues.

Professional fees increased by \$506,928 from \$91,488 in 2004 to \$598,416 in 2005. As a percent of revenue, professional fees increased as a percent of revenue from 2% in 2004 to 5% in 2005, which slightly offset some of the improvements in operating results discussed above.

Net income increased by \$885,515 from a net loss of \$97,320 in the three months ended December 31, 2004 to net income of \$788,195 in the three months ended December 31, 2005. The increase in net income was primarily attributable to gain on sales of assets. During the three months ended December 31, 2005, gain on sales of assets increased by \$1,029,628 from zero in 2004 to \$1,029,628 in 2005 or 22% of total revenue.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115". This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, with early adoption permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, Fair Value Measurements. The Company does not presently anticipate any significant impact on its consolidated financial position, results of operations or cash flows.

During September 2006, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin (“SAB”) No. 108. This Bulletin provides the Staff’s views on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The guidance in SAB No. 108 is effective for financial statements of fiscal years ending after November 15, 2006. Adoption of this guidance did not materially impact the Company’s financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standards No. 157, “Fair Value Measurements” (FAS 157). 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. FAS 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 Fund does not believe the adoption of FAS 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.

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FAS 109, Accounting for Income Taxes” (“FIN 48”), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on deregulation, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of January 1, 2007, as required. The cumulative effect of adopting FIN 48 will be recorded in retained earnings and other accounts as applicable. The Company has not determined the effect, if any, the adoption of FIN 48 will have on the Company’s financial position and results of operations.

Critical Accounting Policies

The policies discussed below are considered by management of the Company to be critical to an understanding of the Company’s financial statements because their application requires significant complex or subjective judgments, decisions, or assessments, with financial reporting results relying on estimation about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. The Company also states these accounting policies in the notes to the financial statements and in relevant sections in this discussion and analysis. For all of these policies, management cautions that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 reporting period. Actual results could differ from those estimates. Such estimates primarily relate to the determination of residual values at the end of the lease term and expected future cash flows used for impairment analysis purposes and determination of the allowance for doubtful accounts and notes receivable.

Direct financing leases and related revenue recognition:

Income from direct financing lease transactions is reported using the financing method of accounting, in which the Company’s investment in the leased property is reported as a receivable from the lessee to be recovered through future rentals. The interest income portion of each rental payment is calculated so as to generate a constant rate of return on the net receivable outstanding.

Allowances for losses on direct financing leases are typically established based on historical charge offs and collections experience and are usually determined by specifically identified lessees and billed and unbilled receivables. Direct financing lease are written-off to the allowance as they are deemed uncollectible.

Direct financing leases are generally placed in a non-accrual status (i.e., no revenue is recognized) when payments are more than 90 days past due. Additionally, management periodically reviews the credit worthiness of all direct finance lessees with payments outstanding less than 90 days. Based upon management’s judgment, direct finance lessees may be placed in a non-accrual status. Leases placed on non-accrual status are only returned to an accrual status when the account has been brought current and management believes recovery of the remaining unpaid lease payments is probable.

Equipment on operating leases and related revenue recognition:

Equipment subject to operating leases is stated at cost. Depreciation is being recognized on a straight-line method over the terms of the related leases to the equipment's estimated residual values at the end of the leases.

Operating lease revenue is recognized on a straight-line basis over the term of the underlying leases. The initial lease terms will vary as to the type of equipment subject to the leases, the needs of the lessees and the terms to be negotiated, but initial leases are generally from 24 to 96 months. The difference between rent received and rental revenue recognized is recorded as unearned operating lease income on the balance sheet.

Notes receivable, unearned interest income and related revenue recognition:

The Company records all future payments of principal and interest on notes as notes receivable and then offsets the related unearned interest income. For financial statement purposes, the Company reports only the principal due on the balance sheet. The unearned interest is recognized over the term of the note and the income portion of each note payment is calculated so as to generate a constant rate of return on the net balance outstanding. Any fees or costs related to notes receivable are recorded as part of the net investment in notes receivable and amortized over the term of the loan.

Allowances for losses on notes receivable are typically established based on historical charge offs and collections experience and are usually determined by specifically identified borrowers and billed and unbilled receivables. Notes are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the note agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Notes are written off to the allowance as they are deemed uncollectible.

Notes receivable are generally placed in a non-accrual status (i.e., no revenue is recognized) when payments are more than 90 days past due. Additionally, management periodically reviews the credit worthiness of companies with note payments outstanding less than 90 days. Based upon management's judgment, notes may be placed in a non-accrual status. Notes placed on non-accrual status are only returned to an accrual status when the account has been brought current and management believes recovery of the remaining unpaid receivable is probable.

Initial direct costs:

The Company capitalizes initial direct costs ("IDC") associated with the origination and funding of lease assets and investments in notes receivable (as defined in Statement of Financial Accounting Standards No. 91 ("SFAS No. 91") "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases"). IDC includes both internal costs (e.g., labor and overhead) and external broker fees incurred with the origination. The costs are amortized on a lease by lease basis based on actual lease term using a straight-line method for operating leases and the effective interest rate method for direct finance leases and notes receivable. Upon disposal of the underlying lease assets and notes receivable, both the initial direct costs and the associated accumulated amortization are relieved. Costs related to leases or notes receivable that are not consummated are not eligible for capitalization as initial direct costs, such amounts are expensed as acquisition expense.

Acquisition Expense:

Acquisition expense represents costs which include, but are not limited to, legal fees and expenses, travel and communication expenses, cost of appraisals, accounting fees and expenses and miscellaneous expenses related to the selection and acquisition of equipment which are reimbursable to the Managing Member under the terms of the Operating Agreement. As the costs are not eligible for capitalization as initial direct costs, such amounts are expensed as incurred.

Asset valuation:

Recorded values of the Company's asset portfolio are periodically reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." An impairment loss is measured and recognized only if the estimated undiscounted future cash flows of the asset are less than their net book value. The estimated undiscounted future cash flows are the sum of the estimated residual value of the asset at the end of the asset's expected holding period and estimates of undiscounted future rents. The residual value assumes, among other things, that the asset is utilized normally in an open, unrestricted and stable market. Short-term fluctuations in the market place are disregarded and it is assumed that there is no necessity either to dispose of a significant number of the assets, if held in quantity, simultaneously or to dispose of the asset quickly. Impairment is measured as the difference between the fair value (as determined by the discounted estimated future cash flows) of the assets and its carrying value on the measurement date.

Item 7a. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The Company, like most other companies, is exposed to certain market risks, including primarily changes in interest rates. The Company believes its exposure to other market risks, including foreign currency exchange rate risk, commodity risk and equity price risk, are insignificant to both its financial position and results of operations.

In general, the Company expects to manage its exposure to interest rate risk by obtaining fixed rate debt. The fixed rate debt is to be structured so as to match the cash flows required to service the debt to the payment streams under fixed rate lease receivables. The payments under the leases are assigned to the lenders in satisfaction of the debt. Furthermore, AFS has historically been able to maintain a stable spread between its cost of funds and lease yields in both periods of rising and falling interest rates. Nevertheless, the Company expects to frequently fund leases with its floating interest rate line of credit and will, therefore, be exposed to interest rate risk until fixed rate financing is arranged, or the floating interest rate line of credit is repaid. As of December 31, 2006, there was an outstanding balance of \$10,000,000 on the floating rate line of credit and the effective interest rate of the borrowings ranged from 6.60% to 8.25%.

Also, as described in the caption "Capital Resources and Liquidity," the Company entered into a receivables funding facility in July 2006. Since interest on the outstanding balances under the facility will vary, the Company will be exposed to market risks associated with changing interest rates. To reduce its interest rate risk, the Company expects to enter into interest rate swaps, which will effectively convert the underlying interest characteristic on the facility from floating to fixed. Under the swap agreements, the Company expects to make or receive variable interest payments to or from the counterparty based on a notional principal amount. The net differential paid or received by the Company is recognized as an adjustment to other income related to the facility balances. The amount paid or received will represent the difference between the payments required under the variable interest rate facility and the amounts due under the facility at the fixed interest rate. There was no outstanding borrowings under this facility at December 31, 2006 and 2005, respectively.

In general, it is anticipated that these swap agreements will eliminate the Company's interest rate risk associated with variable rate borrowings. However, the Company would be exposed to and would manage credit risk associated with the counterparty by dealing only with institutions it considers financially sound.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Report of Independent Registered Public Accounting Firm, Financial Statements and Notes to Financial Statements attached hereto at pages 18 through 39.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Members

ATEL Capital Equipment Fund X, LLC

We have audited the accompanying balance sheet of ATEL Capital Equipment Fund X, LLC (the “Company”) as of December 31, 2006, and the related statements of operations, changes in members’ capital, and cash flows for the year then ended. These financial statements are the responsibility of the Company’s Managing Member. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the 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 statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audit included 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 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 ATEL Capital Equipment Fund X, LLC as of December 31, 2006, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Moss Adams LLP

San Francisco, California
May 31, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Members

ATEL Capital Equipment Fund X, LLC

We have audited the accompanying balance sheet of ATEL Capital Equipment Fund X, LLC (the "Company") as of December 31, 2005, and the related statements of operations, changes in members' capital, and cash flows for each of the two years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's Managing Member. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the 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 statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included 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 statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide 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 ATEL Capital Equipment Fund X, LLC at December 31, 2005, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

San Francisco, California
January 5, 2007

ATEL CAPITAL EQUIPMENT FUND X, LLC

BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents	\$ 5,956,780	\$ 37,269,638
Accounts receivable, net of allowance for doubtful accounts of \$50,871 in 2006 and \$0 in 2005	1,472,104	446,770
Notes receivable, net of unearned interest income of \$2,228,362 in 2006 and \$2,438,109 in 2005	10,376,416	8,699,947
Prepays and other assets	77,276	56,379
Investment in securities	216,245	74,999
Investments in equipment and leases, net of accumulated depreciation of \$22,679,043 in 2006 and \$11,076,538 in 2005	86,832,749	58,641,893
Total assets	<u>\$104,931,570</u>	<u>\$105,189,626</u>
LIABILITIES AND MEMBERS' CAPITAL		
Accounts payable and accrued liabilities:		
Managing Member	\$ 417,781	\$ 429,080
Accrued distributions to Other Members	1,314,242	1,357,329
Other	3,014,583	353,319
Accrued interest payable	11,265	—
Deposits due lessees	118,744	110,977
Acquisition facility obligation	10,000,000	—
Unearned operating lease income	1,596,824	916,557
Total liabilities	16,473,439	3,167,262
Commitments and contingencies		
Total Members' capital	88,458,131	102,022,364
Total liabilities and Members' capital	<u>\$104,931,570</u>	<u>\$105,189,626</u>

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND X, LLC

STATEMENTS OF OPERATIONS

**FOR THE YEARS ENDED
DECEMBER 31, 2006, 2005 AND 2004**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues:			
Leasing activities:			
Operating leases	\$14,511,226	\$10,169,784	\$4,052,137
Direct financing leases	123,254	196,166	153,357
(Loss) gain on sales of lease assets and early termination of note receivable	(1,542)	1,071,790	—
Interest on notes receivable	1,034,749	619,153	316,451
Other interest	743,944	1,230,350	369,854
Gain on sales of securities	7,598	7,940	71,166
Other	64,394	25,158	13,228
Total revenues	<u>16,483,623</u>	<u>13,320,341</u>	<u>4,976,193</u>
Expenses:			
Depreciation of operating lease assets	11,967,349	8,339,612	3,601,196
Asset management fees to Managing Member	775,640	620,277	211,761
Acquisition expense	1,076,994	969,461	759,909
Cost reimbursements to Managing Member	846,239	757,715	352,537
Amortization of initial direct costs	277,996	202,506	103,376
Interest expense	237,806	—	615
Provision for loss and doubtful accounts	194,442	—	—
Professional fees	1,124,207	598,416	91,488
Franchise fees and taxes	182,779	161,000	73,439
Outside services	935,916	100,118	55,421
Other	145,290	171,091	110,451
Total operating expenses	<u>17,764,658</u>	<u>11,920,196</u>	<u>5,360,193</u>
Other income (expense), net	7,588	(94,278)	(6,539)
Net (loss) income	<u>\$ (1,273,447)</u>	<u>\$ 1,305,867</u>	<u>\$ (390,539)</u>
Net (loss) income:			
Managing Member	\$ 909,238	\$ 970,397	\$ 460,566
Other Members	(2,182,685)	335,470	(851,105)
	<u>\$ (1,273,447)</u>	<u>\$ 1,305,867</u>	<u>\$ (390,539)</u>
Net loss per Limited Liability Company Unit (Other Members)	\$ (0.16)	\$ 0.02	\$ (0.11)
Weighted average number of Units outstanding	14,002,309	13,702,379	7,919,866

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND X, LLC
STATEMENT OF CHANGES IN MEMBERS' CAPITAL
FOR THE YEARS ENDED
DECEMBER 31, 2006, 2005 AND 2004

	<u>Other Members</u>		<u>Managing Member</u>	<u>Total</u>
	<u>Units</u>	<u>Amount</u>		
Balance December 31, 2003	4,463,382	\$ 35,997,572	\$ —	\$ 35,997,572
Capital Contributions	7,281,891	72,828,458	—	72,828,458
Less selling commissions to affiliates	—	(6,553,702)	—	(6,553,702)
Other syndication costs to affiliates	—	(2,001,695)	—	(2,001,695)
Rescissions of capital contributions	(19,200)	(192,000)	—	(192,000)
Repurchase of units	(3,250)	(29,677)	—	(29,677)
Distributions to Other Members (\$0.72 per Unit)	—	(5,694,344)	—	(5,694,344)
Distributions to Managing Member	—	—	(460,566)	(460,566)
Net income (loss)	—	(851,105)	460,566	(390,539)
Balance December 31, 2004	11,722,823	93,503,507	—	93,503,507
Capital Contributions	2,313,863	23,138,630	—	23,138,630
Less selling commissions to affiliates	—	(2,082,477)	—	(2,082,477)
Other syndication costs to affiliates	—	(629,186)	—	(629,186)
Rescissions of capital contributions	(10,000)	(96,333)	—	(96,333)
Repurchase of units	(20,700)	(173,951)	—	(173,951)
Distributions to Other Members (\$0.87 per Unit)	—	(11,973,296)	—	(11,973,296)
Distributions to Managing Member	—	—	(970,397)	(970,397)
Net income (loss)	—	335,470	970,397	1,305,867
Balance December 31, 2005	14,005,986	102,022,364	—	102,022,364
Syndication costs allocation adjustment	—	(37,500)	—	(37,500)
Repurchase of units	(18,500)	(140,802)	—	(140,802)
Distributions to Other Members (\$0.80 per Unit)	—	(11,203,246)	—	(11,203,246)
Distributions to Managing Member	—	—	(909,238)	(909,238)
Net income (loss)	—	(2,182,685)	909,238	(1,273,447)
Balance December 31, 2006	<u>13,987,486</u>	<u>\$ 88,458,131</u>	<u>\$ —</u>	<u>\$ 88,458,131</u>

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND X, LLC

STATEMENTS OF CASH FLOWS

**FOR THE YEARS ENDED
DECEMBER 31, 2006, 2005 AND 2004**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating activities:			
Net (loss) income	\$ (1,273,447)	\$ 1,305,867	\$ (390,539)
Adjustment to reconcile net (loss) income to cash provided by operating activities:			
Loss (gain) on sales of lease assets and early termination of note receivable	1,542	(1,071,790)	—
Depreciation of operating lease assets	11,967,349	8,339,612	3,601,196
Amortization of initial direct costs	277,996	202,506	103,376
Provision for losses and doubtful accounts	194,442	—	—
Gain on sale of investment securities	(7,598)	(7,940)	(71,166)
Changes in operating assets and liabilities:			
Accounts receivable	(1,076,205)	212,481	(572,186)
Due from Managing Member	—	59,482	(59,482)
Prepays and other assets	(20,897)	193,582	(243,187)
Prepaid syndication costs	—	—	156,624
Accounts payable, Managing Member	(11,299)	322,100	(505,864)
Accounts payable, other	2,618,177	151,506	(168,719)
Accrued interest payable	11,265	—	—
Deposits due to lessees	7,767	(20,040)	131,017
Unearned operating lease income	680,267	446,060	364,769
Net cash provided by operating activities	<u>13,369,359</u>	<u>10,133,426</u>	<u>2,345,839</u>
Investing activities:			
Purchases of equipment on operating leases	(40,645,210)	(37,579,070)	(26,125,770)
Proceeds from sales of lease assets	264,183	1,837,201	—
Purchases of equipment on direct financing leases	(10,639)	—	(1,882,879)
Reduction of net investment in direct financing leases	549,437	647,696	453,374
Note receivable advances	(4,380,893)	(5,672,921)	(5,035,320)
Payments received on notes receivable	2,533,771	1,381,096	485,931
Proceeds from early termination of note receivable	—	214,387	—
Proceeds from sale of lease assets to an affiliate	—	7,383,056	—
Due from affiliate	—	—	248,428
Payments of initial direct costs	(568,432)	(515,831)	(307,537)
Purchase of investment securities	(141,246)	(12,500)	(62,499)
Proceeds from sale of investment securities	7,598	7,940	71,166
Net cash used in investing activities	<u>(42,391,431)</u>	<u>(32,308,946)</u>	<u>(32,155,106)</u>
Financing activities:			
Borrowings under acquisition facility	13,500,000	—	—
Repayments of acquisition facility	(3,500,000)	—	—
Capital contributions received	—	23,138,630	72,828,458
Payment of syndication costs to Managing Member	(37,500)	(2,711,663)	(8,555,397)
Repurchase of limited liability company units	(140,802)	(173,951)	(29,677)
Rescissions of capital contributions	—	(96,333)	(192,000)
Distributions to Other Members	(11,203,246)	(10,615,967)	(5,694,344)
Distributions to Managing Member	(909,238)	(863,417)	(460,566)
Net cash (used in) provided by financing activities	<u>(2,290,786)</u>	<u>8,677,299</u>	<u>57,896,474</u>
Net (decrease) increase in cash and cash equivalents	<u>(31,312,858)</u>	<u>(13,498,221)</u>	<u>28,087,207</u>
Cash and cash equivalents at beginning of year	<u>37,269,638</u>	<u>50,767,859</u>	<u>22,680,652</u>
Cash and cash equivalents at end of year	<u>\$ 5,956,780</u>	<u>\$ 37,269,638</u>	<u>\$ 50,767,859</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	<u>\$ 260,666</u>	<u>\$ —</u>	<u>\$ 615</u>

Cash paid during the period for taxes	<u>\$ 120,779</u>	<u>\$ 74,161</u>	<u>\$ 32,608</u>
Schedule of non-cash transactions:			
Distributions payable to Managing Members at year end	<u>\$ 106,606</u>	<u>\$ 106,980</u>	<u>\$ —</u>
Distributions payable to Other Members at year end	<u>\$ 1,314,242</u>	<u>\$ 1,357,329</u>	<u>\$ —</u>

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND X, LLC

NOTES TO FINANCIAL STATEMENTS

1. Organization and Limited Liability Company matters:

ATEL Capital Equipment Fund X, LLC (the "Company") was formed under the laws of the State of California on August 12, 2002 for the purpose of engaging in the sale of limited liability company investment units and acquiring equipment to engage in equipment leasing, lending and sales activities, primarily in the United States. The Managing Member of the Company is ATEL Financial Services, LLC ("AFS"), a California limited liability corporation. The Company may continue until December 31, 2021.

The Company conducted a public offering of 15,000,000 Limited Liability Company Units ("Units"), at a price of \$10 per Unit. On April 9, 2003, subscriptions for the minimum number of Units (120,000, representing \$1,200,000) had been received (excluding subscriptions from Pennsylvania investors) and AFS requested that the subscriptions be released to the Company. On that date, the Company commenced operations in its primary business (leasing and lending activities).

As of March 11, 2005, the offering was terminated. As of that date, subscriptions for 14,059,136 Units (\$140,600,908) had been received, of which 71,650 Units (\$632,763) were rescinded or repurchased by the Company through December 31, 2006.

As of December 31, 2006, 13,987,486 Units (\$139,874,860) were issued and outstanding.

Pursuant to the terms of the Limited Liability Company Operating Agreement ("Operating Agreement"), AFS receives compensation and reimbursements for services rendered on behalf of the Company (Note 7). AFS is required to maintain in the Company reasonable cash reserves for working capital, the repurchase of Units and contingencies. The repurchase of Units is solely at the discretion of the Managing Member.

The Company, or AFS on behalf of the Company, has incurred costs in connection with the organization, registration and issuance of the Limited Liability Company Units (Note 7). The amount of such costs to be borne by the Company is limited by certain provisions of the Company's Operating Agreement. The Company will pay AFS and affiliates of AFS substantial fees which may result in a conflict of interest. The Company will pay substantial fees to AFS and its affiliates before distributions are paid to investors even if the Company does not produce profits. Therefore, the financial position of the Company could change significantly.

The Company's principal objectives are to invest in a diversified portfolio of equipment that will (i) preserve, protect and return the Company's invested capital; (ii) generate regular distributions to the members of cash from operations and cash from sales or refinancing, with any balance remaining after certain minimum distributions to be used to purchase additional equipment during the Reinvestment Period, which ends on December 31, 2009 and (iii) provide additional distributions following the Reinvestment Period and until all equipment has been sold. The Company is governed by the Operating Agreement, as amended.

2. Summary of significant accounting policies:

Basis of presentation:

The accompanying balance sheets as of December 31, 2006 and 2005 and the related statements of operations and changes in members' capital and cash flows for each of the three years in the period ended December 31, 2006 have been prepared in accordance with accounting principles generally accepted in the United States, ("GAAP"). Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 reporting period. Actual results could differ from those estimates. Such estimates primarily relate to the determination of residual values at the end of the lease term and expected future cash flows used for impairment analysis purposes and determination of the allowance for doubtful accounts and notes receivable.

Cash and cash equivalents:

Cash and cash equivalents include cash in banks and cash equivalent investments with original maturities of ninety days or less.

ATEL CAPITAL EQUIPMENT FUND X, LLC

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

Credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk include cash and cash equivalents, direct finance lease receivables, notes receivable and accounts receivable. The Company places its cash deposits and temporary cash investments with creditworthy, high quality financial institutions. The Company believes that the concentration of such deposits and temporary cash investments is not deemed to create a significant risk. Accounts and notes receivable represent amounts due from lessees or borrowers in various industries, related to equipment on operating and direct financing leases or notes receivable. See footnote 3 for a description of lessees and financial borrowers by industry as of December 31, 2006 and 2005.

Accounts receivable:

Accounts receivable represent the amounts billed under operating and direct financing lease and notes receivable contracts and currently due to the Company. Allowances for doubtful accounts are typically established based on historical charge offs and collection experience and are usually determined by specifically identified lessees and invoiced amounts. Accounts receivable deemed uncollectible are charged off to the allowance on specific identification basis. Amounts recovered that were previously written-off are recorded as other income in the period received.

Direct financing leases and related revenue recognition:

Income from direct financing lease transactions is reported using the financing method of accounting, in which the Company's investment in the leased property is reported as a receivable from the lessee to be recovered through future rentals. The interest income portion of each rental payment is calculated so as to generate a constant rate of return on the net receivable outstanding.

Allowances for losses on direct financing leases are typically established based on historical charge offs and collections experience and are usually determined by specifically identified lessees and billed and unbilled receivables. Direct financing leases are charged-off to the allowance as they are deemed uncollectible.

Direct financing leases are generally placed in a non-accrual status (i.e., no revenue is recognized) when payments are more than 90 days past due. Additionally, management periodically reviews the credit worthiness of all direct finance lessees with payments outstanding less than 90 days. Based upon management's judgment, direct finance lessees may be placed in a non-accrual status. Leases placed on non-accrual status are only returned to an accrual status when the account has been brought current and management believes recovery of the remaining unpaid lease payments is probable.

Equipment on operating leases and related revenue recognition:

Equipment subject to operating leases is stated at cost. Depreciation is being recognized on a straight-line method over the terms of the related leases to the equipment's estimated residual values at the end of the leases.

Operating lease revenue is recognized on a straight-line basis over the term of the underlying leases. The initial lease terms will vary as to the type of equipment subject to the leases, the needs of the lessees and the terms to be negotiated, but initial leases are generally on terms from 24 to 96 months. The difference between rent received and rental revenue recognized is recorded as unearned operating lease income on the balance sheet.

Notes receivable, unearned interest income and related revenue recognition:

The Company records all future payments of principal and interest on notes as notes receivable, which is then offset by the amount of any related unearned interest income. For financial statement purposes, the Company reports only the net amount of principal due on the balance sheet. The unearned interest is recognized over the term of the note and the income portion of each note payment is calculated so as to generate a constant rate of return on the net balance outstanding. Any fees or costs related to notes receivable are recorded as part of the net investment in notes receivable and amortized over the term of the loan.

ATEL CAPITAL EQUIPMENT FUND X, LLC

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

Allowances for losses on notes receivable are typically established based on historical charge offs and collections experience and are usually determined by specifically identified borrowers and billed and unbilled receivables. Notes are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the note agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Notes are charged off to the allowance as they are deemed uncollectible.

Notes receivable are generally placed in a non-accrual status (i.e., no revenue is recognized) when payments are more than 90 days past due. Additionally, management periodically reviews the credit worthiness of companies with note payments outstanding less than 90 days. Based upon management's judgment, notes may be placed in a non-accrual status. Notes placed on non-accrual status are only returned to an accrual status when the account has been brought current and management believes recovery of the remaining unpaid receivable is probable.

The fair value of the Company's notes receivable is commensurate with the amount at which the asset could be collected in a current transaction, exclusive of transaction costs such as prepayment penalties. The estimated fair value of the Company's notes receivable were \$10,376,416 and \$8,699,947 at December 31, 2006 and 2005, respectively.

Initial direct costs:

The Company capitalizes initial direct costs ("IDC") associated with the origination and funding of lease assets and investments in notes receivable (as defined in Statement of Financial Accounting Standards ("SFAS") No. 91 ("SFAS No. 91") "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases". IDC includes both internal costs (e.g., labor and overhead) and external broker fees incurred with the origination. The costs are amortized on a lease by lease basis based on actual lease term using a straight-line method for operating leases and the effective interest rate method for direct finance leases and notes receivable. Upon disposal of the underlying lease assets and notes receivable, both the initial direct costs and the associated accumulated amortization are relieved. Costs related to leases or notes receivable that are not consummated are not eligible for capitalization as initial direct costs and are expensed as acquisition expense.

Acquisition expense:

Acquisition expense represents costs which include, but are not limited to, legal fees and expenses, travel and communication expenses, cost of appraisals, accounting fees and expenses and miscellaneous expenses related to the selection and acquisition of equipment which are reimbursable to the Managing Member under the terms of the Operating Agreement. As the costs are not eligible for capitalization as initial direct costs, such amounts are expensed as incurred.

Asset valuation:

Recorded values of the Company's asset portfolio are periodically reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." An impairment loss is measured and recognized only if the estimated undiscounted future cash flows of the asset are less than their net book value. The estimated undiscounted future cash flows are the sum of the estimated residual value of the asset at the end of the asset's expected holding period and estimates of undiscounted future rents. The residual value assumes, among other things, that the asset is utilized normally in an open, unrestricted and stable market. Short-term fluctuations in the market place are disregarded and it is assumed that there is no necessity either to dispose of a significant number of the assets, if held in quantity, simultaneously or to dispose of the asset quickly. Impairment is measured as the difference between the fair value (as determined by the discounted estimated future cash flows) of the asset and its carrying value on the measurement date.

Segment reporting:

The Company reports segment information in accordance with SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes annual and interim standards for operating segments of a company. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenue, and its major customers. The Company is not organized by multiple operating segments for the purpose of making operating decisions or assessing performance. Accordingly the Company operates in one reportable operating segment in the United States.

ATEL CAPITAL EQUIPMENT FUND X, LLC

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

The Company's chief operating decision makers are the Managing Member's Chief Operating Officer and its Chief Executive Officer. The Company believes that its equipment leasing business operates as one reportable segment because: a) the Company measures profit and loss at the equipment portfolio level as a whole; b) the chief operating decision makers do not review information based on any operating segment other than the equipment leasing transaction portfolio; c) the Company does not maintain discrete financial information on any specific segment other than its equipment financing operations; d) the Company has not chosen to organize its business around different products and services other than equipment lease financing; and e) the Company has not chosen to organize its business around geographic areas.

The primary geographic regions in which the Company seeks leasing opportunities are North America and Europe. The table below summarizes geographic information relating to the sources, by nation, of the Company's total revenues for the years ended December 31, 2006, 2005 and 2004, and long-lived tangible assets as of December 31, 2006 and 2005:

	For the year ended December 31,					
	2006	% of Total	2005	% of Total	2004	% of Total
Revenue						
United States	\$14,984,160	91%	\$12,243,496	92%	\$4,754,528	96%
United Kingdom	1,239,816	8%	797,121	6%	—	0%
Canada	259,647	1%	279,724	2%	221,665	4%
Total International	1,499,463	9%	1,076,845	8%	221,665	4%
Total	\$16,483,623	100%	\$13,320,341	100%	\$4,976,193	100%

	As of December 31,			
	2006	% of Total	2005	% of Total
Long-lived tangible assets				
United States	\$76,324,584	88%	\$51,234,368	87%
United Kingdom	8,293,962	9%	5,005,945	9%
Canada	2,214,203	3%	2,401,580	4%
Total International	10,508,165	12%	7,407,525	13%
Total	\$86,832,749	100%	\$58,641,893	100%

Derivative financial instruments:

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which established new accounting and reporting standards for derivative instruments. SFAS No. 133 has been amended by SFAS No. 137, issued in June 1999, by SFAS No. 138, issued in June 2000 and by SFAS No. 149, issued in June 2003.

SFAS No. 133, as amended, requires the Company to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. It further provides criteria as to when derivative instruments can be designated as fair value, cash flow, or foreign currency hedges, and establishes accounting standards for reporting changes in the fair value of the derivative instruments. The Company records derivative instruments at fair value in the balance sheet and recognize the offsetting gains or losses as adjustments to net income.

ATEL CAPITAL EQUIPMENT FUND X, LLC

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

Credit exposure from derivative financial instruments, which are assets, arises from the risk of a counterparty default on the derivative contract. The amount of the loss created by the default is the replacement cost or current positive fair value of the defaulted contract.

SFAS No. 133, as amended, had no impact on the Company's financial statements in 2006, 2005 and 2004 as the Company did not utilize derivatives in those years.

Foreign currency transactions:

Foreign currency transaction gains and losses are reported in the results of operations as other income in the period in which they occur. Currently, the Company does not use derivative instruments to hedge its economic exposure with respect to assets, liabilities and firm commitments as the foreign currency transactions and risks to date have not been significant. The Company recognized a foreign currency gain of \$7,588 for the year ended December 31, 2006 and foreign currency losses of \$94,278 and \$6,539 for the years ended December 31, 2005 and 2004, respectively, which are included as other income (expense), net in each of the reporting years.

Investment in securities:

Purchased securities

Purchased securities are not registered for public sale and are carried at lower of cost or market at the end of the period as determined by the Managing Member. Factors considered by the Managing Member in determining fair value include cost, the type of investment, subsequent purchases of the same or similar investments by the Company or other investors, the current financial position and operating results of the company issuing the securities and such other factors as may be deemed relevant. The Managing Member's estimate and assumption of fair value of the private securities may differ significantly from the values that would have been used had a ready market existed, and the differences could be material.

Warrants

Warrants owned by the Company are not registered for public sale and are carried at an estimated fair value on the balance sheet at the end of the period, as determined by the Managing Member. Factors considered by the Managing Member in determining fair value include cost, the type of investment, subsequent purchases of the same or similar investments by the Company or other investors, the current financial position and operating results of the company issuing the securities and such other factors as may be deemed relevant. The Managing Member's estimate and assumption of fair value of the private securities may differ significantly from the values that would have been used had a ready market existed, and the differences could be material. At December 31, 2006 and 2005, the Managing Member estimated the fair value of the warrants to be nominal in amount.

Unearned operating lease income:

The Company records prepayments on operating leases as a liability, unearned operating lease income. The liability is recorded when the prepayments are received and recognized as operating lease revenue ratably over the period to which the prepayments relate.

Income taxes:

The Company is treated as a partnership for federal income tax purposes. Pursuant to the provisions of Section 701 of the Internal Revenue Code, a partnership is not subject to federal income taxes. Accordingly, the Company has provided current franchise income taxes for only those states which levy income taxes on partnerships. For the years ended December 31, 2006, 2005 and 2004, the current provision for state income taxes was approximately \$182,779 and \$161,000 and \$73,439, respectively.

ATEL CAPITAL EQUIPMENT FUND X, LLC

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

The tax basis of the Company's net assets and liabilities varies from the amounts presented in these financial statements at December 31:

	<u>2006</u>	<u>2005</u>
Financial statement basis of net assets	\$88,458,131	\$102,022,364
Tax basis of net assets (unaudited)	<u>91,165,188</u>	<u>111,445,558</u>
Difference	<u>\$ 2,707,057</u>	<u>\$ 9,423,194</u>

The following reconciles the net income (loss) reported in these financial statements to the loss reported on the Company's federal tax return (unaudited) for each of the years ended December 31:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net (loss) income per financial statements	\$(1,273,447)	\$ 1,305,867	\$ (390,539)
Reconciling item—impact due to prior year restatement	—	—	560,291
Tax adjustments (unaudited):			
Adjustment to depreciation expense	(6,589,585)	(6,476,757)	(6,013,054)
Provision for losses and doubtful accounts	194,442	—	—
Adjustments to revenues	(494,855)	969,574	818,145
Net (loss) income per federal tax return (unaudited)	<u>\$(8,163,445)</u>	<u>\$(4,201,316)</u>	<u>\$(5,025,157)</u>

Other income (expense), net:

Other income (expense), net consists of gains and losses on foreign exchange transactions.

Other income for the year ended December 31, 2006 was solely comprised of a foreign currency gain of \$7,588, while other expense for the years ended December 31, 2005 and 2004 were solely comprised of foreign currency losses of \$94,278 and \$6,539, respectively.

Per unit data:

Net income and loss and distributions per unit are based upon the weighted average number of Other Members' units outstanding during the period.

ATEL CAPITAL EQUIPMENT FUND X, LLC

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

Recent accounting pronouncements:

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement No.159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115”. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board’s long-term measurement objectives for accounting for financial instruments. SFAS 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007, with early adoption permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, Fair Value Measurements. The Company does not presently anticipate any significant impact on its consolidated financial position, results of operations or cash flows.

During September 2006, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin (“SAB”) No. 108. This Bulletin provides the Staff’s views on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The guidance in SAB No. 108 is effective for financial statements of fiscal years ending after November 15, 2006. Adoption of this guidance did not materially impact the Company’s financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standards No. 157, “Fair Value Measurements” (FAS 157). 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. FAS 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 Fund does not believe the adoption of FAS 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.

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FAS 109, Accounting for Income Taxes” (“FIN 48”), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on deregulation, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of January 1, 2007, as required. The cumulative effect of adopting FIN 48 will be recorded in retained earnings and other accounts as applicable. The Company has not determined the effect, if any, the adoption of FIN 48 will have on the Company’s financial position and results of operations.

3. Concentration of credit risk and major customers:

The Company leases equipment to lessees and provides debt financing to borrowers in diversified industries. Leases and notes receivable are subject to AFS’s credit committee review. The leases and notes receivable provide for the return of the equipment to the Company upon default.

As of December 31, 2006, 2005 and 2004, there were concentrations (greater than 10% as a percentage of total equipment cost) of equipment leased to lessees and/or financial borrowers in certain industries as follows:

<u>Lessee</u>	<u>Type of Equipment</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Sabine Mining	Mining	14%	16%	*
International Paper Co. - Mac	Material Handling	11%	*	*
GE Aircraft Engines	Manufacturing	*	*	22%
Ball Corporation	Material Handling	*	*	19%
Colowyo Coal Company L.P.	Mining	*	*	11%

* Less than 10%

ATEL CAPITAL EQUIPMENT FUND X, LLC

NOTES TO FINANCIAL STATEMENTS

4. Notes receivable net:

The Company has various notes receivable from parties who have financed their purchase of equipment through the Company. The terms of the notes receivable are 13 to 120 months and bear interest at rates ranging from 9% to 23%. The notes are secured by the equipment financed. There was one impaired note at December 31, 2006. There were no impaired notes as of December 31, 2005. As of December 31, 2006, the minimum future payments receivable are as follows:

Year ending December 31, 2007	\$ 4,122,849
2008	3,398,482
2009	3,134,511
2010	393,128
2011	393,128
Thereafter	<u>1,262,647</u>
	12,704,745
Less: portion representing unearned interest income	<u>(2,228,362)</u>
	10,476,383
Unamortized initial direct costs	43,604
Less: reserve for impairment	<u>(143,571)</u>
Notes receivable, net	<u>\$10,376,416</u>

For the year 2006, IDC amortization expense related to notes receivable was \$50,153. Together with IDC amortization expense related to operating leases and direct finance leases (discussed in footnote 6) of \$227,843, total IDC amortization expense was \$277,996 for 2006.

For the year 2005, IDC amortization expense related to notes receivable was \$50,560. Together with IDC amortization expense related to operating leases and direct finance leases (discussed in footnote 6) of \$151,946, total IDC amortization expense was \$202,506 for 2005.

5. Reserves, impairment losses and provisions for doubtful accounts:

The Company's allowance for doubtful accounts and losses are as follows:

	Reserve for losses on assets held for sale or lease	Realized losses on marketable securities	Notes Receivable allowance for doubtful accounts	Accounts receivable for allowance for doubtful accounts	Total
Balance December 31, 2005	—	—	—	—	—
Provision for losses and doubtful accounts (Write-offs) Recoveries	—	—	143,571	50,871	194,442
Balance December 31, 2006	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 143,571</u>	<u>\$ 50,871</u>	<u>\$194,442</u>

The Managing Member has determined that no reserves for lease impairments, allowances for doubtful accounts or allowances for notes receivable were required for fiscal years ended prior to December 31, 2006.

ATEL CAPITAL EQUIPMENT FUND X, LLC

NOTES TO FINANCIAL STATEMENTS

6. Investment in equipment and leases, net:

The Company's investment in leases consists of the following:

	<u>Balance December 31, 2005</u>	<u>Reclassifications & Additions / Dispositions</u>	<u>Depreciation / Amortization Expense or Amortization of Leases</u>	<u>Balance December 31, 2006</u>
Net investment in operating leases	\$55,841,987	\$ 40,395,024	\$(11,967,349)	\$84,269,662
Net investment in direct financing leases	2,171,111	(4,231)	(549,437)	1,617,443
Initial direct costs, net of accumulated amortization of \$397,174 in 2006 and \$287,147 in 2005	628,795	544,692	(227,843)	945,644
Total	<u>\$58,641,893</u>	<u>\$ 40,935,485</u>	<u>\$(12,744,629)</u>	<u>\$86,832,749</u>

Additions to net investment in operating leases are stated at cost and include amounts accrued at December 31, 2005 related to asset purchase obligations. There were no such amounts accrued at December 31, 2006.

For the year 2006, IDC amortization expense related to operating and direct finance leases was \$227,843. Together with IDC amortization expense related to notes receivable (as discussed in note 4) of \$50,153 total IDC amortization expense was \$277,996 for 2006.

For the year 2005, IDC amortization expense related to operating and direct finance leases was \$151,946. Together with IDC amortization expense related to notes receivable (as discussed in note 4) of \$50,560, total IDC amortization expense was \$202,506 for 2005.

Impairment of investments in leases and assets held for sale or lease:

Management periodically reviews the carrying values of its assets on leases and assets held for lease or sale. No impairment losses were recorded in 2006, 2005 or 2004.

Impairment losses are recorded as an addition to accumulated depreciation of the impaired assets. Depreciation expense on property subject to operating leases and property held for lease or sale was \$11,967,349, \$8,339,612 and \$3,601,196 for the years ended December 31, 2006, 2005 and 2004, respectively.

All of the leased property was acquired in 2006, 2005, 2004 and 2003.

ATEL CAPITAL EQUIPMENT FUND X, LLC

NOTES TO FINANCIAL STATEMENTS

6. Investment in equipment and leases, net (continued):

Operating leases:

Property on operating leases consists of the following:

	Balance December 31, 2005	Additions	Reclassifications or Dispositions	Balance December 31, 2006
Mining	\$ 19,360,007	\$ 5,056,000	\$ (5,947,682)	\$ 18,468,325
Transportation	12,148,615	5,899,027	—	18,047,642
Materials handling	22,537,634	11,147,131	(12,685,826)	20,998,939
Manufacturing	5,848,508	3,210,159	4,467,654	13,526,321
Data processing	1,079,722	—	(430,166)	649,556
Transportation, rail	5,944,039	12,150,044	(184,864)	17,909,219
Construction	—	157,188	9,366,482	9,523,670
Logging & Lumber	—	—	4,479,872	4,479,872
Furniture & Fixtures	—	—	319,500	319,500
Aircraft	—	3,025,661	—	3,025,661
	<u>66,918,525</u>	<u>40,645,210</u>	<u>(615,030)</u>	<u>106,948,705</u>
Less accumulated depreciation	<u>(11,076,538)</u>	<u>(11,967,349)</u>	<u>364,844</u>	<u>(22,679,043)</u>
Total	<u>\$ 55,841,987</u>	<u>\$ 28,677,861</u>	<u>\$ (250,186)</u>	<u>\$ 84,269,662</u>

The average estimated residual value for assets on operating leases for December 31, 2006 and 2005 was 22% and 26% of the assets' original cost, respectively.

Direct financing leases:

As of December 31, 2006, investment in direct financing leases consists of materials handling equipment and office furniture. The following lists the components of the Company's investment in direct financing leases as of December 31, 2006 and 2005:

	2006	2005
Total minimum lease payments receivable	\$1,441,157	\$2,102,894
Estimated residual values of leased equipment (unguaranteed)	324,947	338,680
Investment in direct financing leases	1,766,104	2,441,574
Less unearned income	<u>(148,661)</u>	<u>(270,463)</u>
Net investment in direct financing leases	<u>\$1,617,443</u>	<u>\$2,171,111</u>

ATEL CAPITAL EQUIPMENT FUND X, LLC

NOTES TO FINANCIAL STATEMENTS

6. Investment in equipment and leases, net (continued):

At December 31, 2006, the aggregate amounts of future minimum lease payments receivable are as follows:

	Operating Leases	Direct Financing Leases	Total
Year ending December 31, 2007	\$17,954,449	\$ 551,034	\$18,505,483
2008	17,096,787	485,632	17,582,419
2009	14,554,384	400,666	14,955,050
2010	9,050,992	2,186	9,053,178
2011	4,702,593	1,639	4,704,232
Thereafter	6,638,843	—	6,638,843
	<u>\$69,998,048</u>	<u>\$1,441,157</u>	<u>\$71,439,205</u>

The Company utilizes a straight line depreciation method for equipment in all of the categories currently in its portfolio of operating lease transactions. The useful lives for investment in leases by category are as follows:

<u>Equipment category</u>	<u>Useful Life (yrs)</u>
Mining	30 - 40
Transportation, rail	30 - 35
Aircraft	20 - 30
Manufacturing	10 - 20
Materials handling	7 - 10
Transportation	7 - 10
Logging & Lumber	7 - 10
Construction	7 - 10
Data processing	3 - 5
Furniture & Fixtures	3 - 5

ATEL CAPITAL EQUIPMENT FUND X, LLC

NOTES TO FINANCIAL STATEMENTS

7. Related party transactions:

The terms of the Operating Agreement provide that AFS and/or affiliates are entitled to receive certain fees for equipment management and resale and for management of the Company.

The Operating Agreement allows for the reimbursement of costs incurred by AFS in providing administrative services to the Company. Administrative services provided include Company accounting, finance/treasury, investor relations, legal counsel and lease and equipment documentation. AFS is not reimbursed for services whereby it is entitled to receive a separate fee as compensation for such services, such as management of equipment. Reimbursable costs incurred by AFS are allocated to the Company based upon estimated time incurred by employees working on Company business and an allocation of rent and other costs based on utilization studies. The Company would be liable for certain future costs to be incurred by AFS to manage the administrative services provided to the Company.

Each of ATEL Leasing Corporation (“ALC”); ATEL Equipment Corporation (“AEC”); ATEL Investor Services (“AIS”); and AFS is a wholly-owned subsidiary of ATEL Capital Group and performs services for the Company. Acquisition services are performed for the Company by ALC; equipment management, lease administration and asset disposition services are performed by AEC; investor relations and communications services are performed by AIS; and general administrative services for the Company are performed by AFS.

Cost reimbursements to Managing Member are based on costs incurred by AFS in performing administrative services for the Company that are allocated to each fund that AFS manages based on certain criteria such as existing or new leases, number of investors or equity depending on the type of cost incurred.

AFS and/or affiliates earned fees, commissions and reimbursements, pursuant to the Operating Agreement as follows during each of the years ended December 31:

	2006	2005	2004
Costs reimbursed to Managing Member	\$ 846,239	\$ 757,715	\$ 352,537
Asset management fees to Managing Member	775,640	620,277	211,761
Selling commissions (equal to 9% of the selling price of the Limited Liability Company Units, deducted from Other Members’ capital)	—	2,082,477	6,553,702
Reimbursement of other syndication costs to Managing Member, deducted from Other Members’ capital	37,500	629,186	2,001,695
Acquisition and initial direct costs paid to Managing Member	1,412,735	1,305,426	1,007,068
	<u>\$3,072,114</u>	<u>\$5,395,081</u>	<u>\$10,126,763</u>

The Managing Member makes certain payments to third parties on behalf of the Company for convenience purposes. During the years ended December 31, 2006, 2005, and 2004, the Managing Member made such payments of \$3,267,389, \$367,318 and \$234,835, respectively.

During November 2005, an operating lease asset was purchased and a lease entered into by an affiliate of the Company with an original cost of \$7,466,942. In December 2005, the asset and associated lease were transferred to an affiliate of the Company for a total payment of \$7,383,056.

ATEL CAPITAL EQUIPMENT FUND X, LLC

NOTES TO FINANCIAL STATEMENTS

8. Borrowing facilities:

The Company participates with AFS and certain of its affiliates in a financing arrangement ((the “Master Terms Agreement”) comprised of a working capital facility to AFS, an acquisition facility and a warehouse facility to AFS, the Company and affiliates and a venture facility available to an affiliate) with a group of financial institutions that includes certain financial and non-financial covenants. The financing arrangement is \$75,000,000 and expires in June 2007. The availability of borrowings available to the Company under this financing arrangement is reduced by the amount outstanding on any of the above mentioned facilities.

As of December 31, 2006, borrowings under the facility were as follows:

Total amount available under the financing arrangement	\$ 75,000,000
Amount borrowed by the Company under the acquisition facility	(10,000,000)
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition and warehouse facilities	<u>(16,561,475)</u>
Total remaining available under the above mentioned facilities	<u>\$ 48,438,525</u>

The Company is contingently liable for principal payments under the warehouse facility as borrowings are recourse jointly and severally to the extent of the pro-rata share of the Company’s net worth as compared to the aggregate net worth of certain of the affiliated partnerships and limited liability companies of the Company and including AFS and ALC (which latter two entities are 100% liable). The Company and its affiliates pay an annual commitment fee to have access to this line of credit. As of December 31, 2006, borrowings of \$3,061,475 were outstanding under the warehouse facility. The Company’s maximum obligation on the outstanding warehouse balance at December 31, 2006 was approximately \$1,174,373.

The interest rate on the Master Terms Agreement is based on either the LIBOR/Eurocurrency rate of 1-, 2-, 3- or 6-month maturity plus a lender designated spread, or the bank’s Prime rate, which re-prices daily. Principal amounts of loans made under the Master Terms Agreement that are prepaid may be re-borrowed on the terms and subject to the conditions set forth under the Master Terms Agreement.

Draws on the acquisition facility by any affiliated partnership and/or limited liability company borrower are secured only by that borrower’s assets, including but not limited to equipment and related leases.

To manage the warehousing facility for the holding of assets prior to allocation to specific investor programs, a Warehousing Trust Agreement has been entered into by the Company, AFS and ALC, and certain of the affiliated partnerships and limited liability companies. The warehousing facility is used to acquire and hold, on a short-term basis, certain lease transactions that meet the investment objectives of each of such entities. Each of the leasing programs sponsored by AFS and ALC currently in its acquisition stage is a pro rata participant in the Warehousing Trust Agreement, as described below. When a program no longer has a need for short term financing provided by the warehousing facility, it is removed from participation, and as new leasing investment entities are formed by AFS and ALC and commence their acquisition stages, these new entities will be added. As of December 31, 2006, the investment program participants were ATEL Capital Equipment Fund VII, L.P., ATEL Capital Equipment Fund VIII, LLC, ATEL Capital Equipment Fund IX, LLC, the Company and ATEL Capital Equipment Fund XI, LLC. Pursuant to the Warehousing Trust Agreement, the benefit of the lease transaction assets, and the corresponding liabilities under the warehouse borrowing facility, inure to each of such entities based upon each entity’s pro-rata share in the warehousing trust estate. The “pro-rata share” is calculated as a ratio of the net worth of each entity over the aggregate net worth of all entities benefiting from the warehouse trust estate, excepting that the trustees, AFS and ALC, are both liable for their pro-rata shares of the obligations based on their respective net worth, and jointly liable for the pro rata portion of the obligations of each of the affiliated partnerships and limited liability companies participating under the borrowing facility. Transactions are financed through this warehousing facility only until the transactions are allocated to a specific program for purchase or are otherwise disposed by AFS and ALC. When a determination is made to allocate the transaction to a specific program for purchase by the program, the purchaser repays the debt associated with the asset, either with cash or by means of the acquisition facility financing, the asset is removed from the warehouse facility collateral, and ownership of the asset and any debt obligation associated with the asset are assumed solely by the purchasing entity. As of January 31, 2007, ATEL Capital Equipment Fund VII, L.P. and ATEL Capital Equipment Fund VIII, LLC ceased to be participants in the Warehousing Trust Agreement as both funds went into liquidation and have no further need for short term financing provided by the warehousing facility.

The financing arrangement discussed above includes certain financial and non-financial covenants applicable to each borrower. The Company and affiliates were not in compliance with non-financial covenants as of December 31, 2006. The Managing Member, on behalf of all borrowers, requested and received a waiver of this covenant from the lenders until May 31, 2007.

ATEL CAPITAL EQUIPMENT FUND X, LLC

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2006, the Company had \$10,000,000 outstanding under the acquisition facility. There were no outstanding borrowings under the facility during 2005. Interest on the line of credit is based on either the thirty day LIBOR rate or the bank's prime rate. The effective interest rate on borrowings ranged from 6.60% to 8.25% at December 31, 2006. During the fiscal year ended December 31, 2006, the weighted average interest rate on borrowings was 7.74%. The carrying amount of the Company's acquisition facility obligation approximates fair value.

The financial institutions providing the above discussed financing arrangement have a blanket lien on the Company's assets as collateral on any and all borrowings.

9. Receivables funding program:

As of December 31, 2006, the Company had a \$60 million receivables funding program with a receivables financing company that issues commercial paper rated A1 from Standard and Poor's and P1 from Moody's Investor Services. In this receivables funding program, the lenders would receive liens against the Company's assets. The lender will be in a first position against certain specified assets and will be in either a subordinated or shared position against the remaining assets. The receivables funding program expires August 2011.

The receivable funding program provides for borrowing at a variable interest rate and requires AFS, on behalf of the Company, to enter into interest rate swap agreements with certain hedge counterparties (also rated A1/P1) to mitigate the interest rate risk associated with a variable interest rate note. AFS anticipates that this program will allow the Company to have a more cost effective means of obtaining debt financing than available for individual non-recourse debt transactions.

As of December 31, 2006, there was no outstanding borrowings under the receivables funding program. In order to maintain the availability of the program, the Company is required to make payments of standby fees. These fees totaled \$130,900 in 2006 and are included in interest expense in the Company's statement of operations. There were no such fees paid prior to 2006.

10. Commitments:

At December 31, 2006, there were commitments to purchase lease asset totaling approximately \$16,847,311. This amount represents contract awards which may be canceled by the prospective lessee or may not be accepted by the Company. Of the \$16,847,311 commitment at December 31, 2006, \$1,121,250 was canceled subsequent to year-end.

11. Guarantees:

The Company enters into contracts that contain a variety of indemnifications. The Company's maximum exposure under these arrangements is unknown. However, the Company has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

In the normal course of business, the Company enters into contracts of various types, including lease contracts, contracts for the sale or purchase of lease assets, management contracts, loan agreements, credit lines and other debt facilities. It is prevalent industry practice for most contracts of any significant value to include provisions that each of the contracting parties—in addition to assuming liability for breaches of the representations, warranties, and covenants that are part of the underlying contractual obligations—also assume an obligation to indemnify and hold the other contracting party harmless for such breaches, for harm caused by such party's gross negligence and willful misconduct, including, in certain instances, certain costs and expenses arising from the contract. The Managing Member has substantial experience in managing similar leasing programs subject to similar contractual commitments in similar transactions, and the losses and claims arising from these commitments have been insignificant, if any. Generally, to the extent these contracts are performed in the ordinary course of business under the reasonable business judgment of the Managing Member, no liability will arise as a result of these provisions. The Managing Member has no reason to believe that the facts and circumstances relating to the Company's contractual commitments differ from those it has entered into on behalf of the prior programs it has managed. The Managing Member knows of no facts or circumstances that would make the Company's contractual commitments outside standard mutual covenants applicable to commercial transactions between businesses. Accordingly, the Company believes that these indemnification obligations are made in the ordinary course of business as part of standard commercial and industry practice, and that any potential liability under the Company's similar commitments is remote. Should any such indemnification obligation become payable, the Company would separately record and/or disclose such liability in accordance with GAAP.

ATEL CAPITAL EQUIPMENT FUND X, LLC

NOTES TO FINANCIAL STATEMENTS

12. Members' capital:

Units issued and outstanding were 13,987,486 and 14,005,986 at December 31, 2006 and 2005, respectively. The Company is authorized to issue up to 15,000,000 Units in addition to the Units issued to the initial members (50 Units).

As defined in the Operating Agreement, the Company's Net Income, Net Losses, and Distributions are to be allocated 92.5% to the Members and 7.5% to AFS. In accordance with the terms of the Operating Agreement, additional allocations of income were made to AFS in 2006, 2005 and 2004. The amounts allocated were determined to bring AFS's ending capital account balance to zero at the end of each year.

13. Fair value of financial instruments:

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments." Fair value estimates, methods and assumptions, set forth below for the Company's financial instruments, are made solely to comply with the requirements of Statement No. 107 and should be read in conjunction with the Company's consolidated financial statements and related notes.

The Company has determined the estimated fair value amounts by using market information and valuation methodologies that it considers appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize or has realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. For all of these reasons, the aggregation of the fair values presented herein does not represent, and should not be construed to represent, their underlying value.

Cash and cash equivalents:

The recorded amounts of the Company's cash and cash equivalents, accounts receivable, accounts payable and accruals at December 31, 2006 and 2005 approximate fair value because of the liquidity and short-term maturity of these instruments.

Notes receivable:

The Company's notes receivable are stated at the amount at which the asset could be collected in a current transaction, exclusive of transaction costs such as prepayment penalties.

Borrowings:

Borrowings include the outstanding amounts on the Company's acquisition facility, receivables funding program and non-recourse debt. The carrying amount of these variable rate obligations approximate fair value based on current borrowing rates for similar types of borrowings.

ATEL CAPITAL EQUIPMENT FUND X, LLC

NOTES TO FINANCIAL STATEMENTS

Limitations

The fair value estimates presented herein were based on pertinent information available to the Company as of December 31, 2006 and 2005. Although the Company is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The following table sets forth the estimated fair values of the Company's financial instruments as of the dates indicated:

	At December 31,			
	2006		2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	\$ 5,956,780	\$ 5,956,780	\$ 37,269,638	\$ 37,269,638
Notes receivable	10,376,416	10,376,416	8,699,947	8,699,947
Financial liabilities:				
Borrowings	10,000,000	10,000,000	—	—

14. Selected quarterly data (unaudited):

The Company's 2005 and 2006 unaudited selected quarterly financial information is as follows:

Quarter ended	March 31,	June 30,	September 30,	December 31,
	2005	2005	2005	2005
Total revenues	\$ 2,389,686	\$ 3,045,364	\$ 3,250,946	\$ 4,634,345
Net income	\$ 116,013	\$ 171,888	\$ 229,771	\$ 788,195
Net (loss) income per Other Members' Limited Liability Company Unit	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ 0.04

Quarter ended	March 31,	June 30,	September 30,	December 31,
	2006	2006	2006	2006
Total revenues	\$ 3,543,028	\$ 3,930,386	\$ 4,198,829	\$ 4,811,380
Net income (loss)	\$ 25,944	\$ 43,536	\$ (728,719)	\$ (614,208)
Net (loss) income per Other Members' Limited Liability Company Unit	\$ (0.01)	\$ (0.01)	\$ (0.07)	\$ (0.07)

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS' ACCOUNTING AND FINANCIAL DISCLOSURES

As reported on Form 8-K dated February 9, 2007, the Company dismissed Ernst & Young LLP ("E&Y") as its independent registered public accounting firm effective February 5, 2007. E&Y continues to be engaged by the Company to perform tax services.

E&Y's report on the Company's financial statements for the year ended December 31, 2005, the Company's most recent fiscal year for which an independent accountant's report has been issued on its financial statements, did not contain an adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles. During the Company's fiscal years ended December 31, 2005 and 2006, and the subsequent interim period through February 5, 2007, the date of E&Y's dismissal, there were no disagreements with E&Y on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

Also effective as of February 5, 2007, the Board approved the engagement of, and appointed, the firm of Moss Adams LLP as independent registered public accounting firm for its fiscal year ended December 31, 2006.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

The Company's Managing Member's Chief Executive Officer, and Executive Vice President and Chief Financial and Operating Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15 (e)) during and as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Executive Vice President and Chief Financial and Operating Officer concluded that for the years ended December 31, 2006, 2005 and 2004, certain material weaknesses existed in the Company's internal control over financial reporting.

The Company does not control the financial reporting process, and is dependent on the Managing Member, who is responsible for providing the Company with financial statements in accordance with generally accepted accounting principles. The Managing Member's disclosure controls and procedures over the: a) application of generally accepted accounting principles for leasing transactions (specifically, timely identification and recording of impairment in leased assets, accumulating and capitalizing costs for initiating leases ("IDC"), and properly amortizing costs associated with the initiation of a lease); b) allocation of costs incurred by the Managing Member on behalf of the Company; c) process of identifying and estimating liabilities in the correct period; d) proper accounting for investments in warrants (specifically, determining the appropriate carrying amount and proper disclosures for warrants, including classification of these investments as derivatives and the related accounting in accordance with SFAS No. 133, amended by SFAS Nos. 137, 138 and 149); and e) financial statement close process, including evaluating the relative significance of misstatements, were determined to be ineffective and constitute material weaknesses in internal control over financial reporting.

Changes in internal control

The Managing Member has reviewed the material weaknesses and believes that the following corrective actions taken as a whole will address the material weaknesses in its disclosure controls and procedures described above. These corrective actions are as follows:

With regard to the timely identification and recording of impairment of leased assets, the Managing Member has strengthened its quarterly impairment analysis through additional management review of the analysis.

With regard to IDC, the accounting guidance has been reviewed, and a standard cost model (the "Model") has been developed that includes quarterly reviews from management. Information from the model drives the rates to be capitalized on a lease by lease basis. IDC is amortized over the term of the lease based on a straight-line basis for operating leases and on the effective interest method for direct finance leases and notes receivable.

With regard to the allocations of costs and expenses incurred by the Managing Member, the allocation process has been reviewed and the costs and expenses have been properly allocated in accordance with the Limited Liability Company Operating Agreement.

With regard to identifying and estimating liabilities in the correct periods, the Managing Member has performed a detailed review to identify and record the liabilities, in the correct period. A standardized quarterly review process has been implemented to ensure the identification and estimation of the liabilities.

With regard to the proper accounting and related disclosures of the Company's investment in warrants, the Managing Member has reviewed the accounting guidance, and a policy has been developed. This policy includes: (1) obtaining, when possible, directly from portfolio companies data on the per share value of their latest round of funding, (2) searching publicly available databases to determine status of initial public offerings by the portfolio companies, and (3) when required per policy, running the Black-Scholes option pricing model to determine carrying values on certain warrants where values are not determined based upon a contract between both parties.

The Managing Member has taken the following steps to mitigate the weakness regarding its financial statement close process: a Chief Accounting Officer and an SEC reporting manager have been hired, and the controller position has been split into two separate roles to ensure proper management of the Managing Member and the managed Funds' accounting operations. Controls and job functions are being redesigned to increase the documentation of processes and transparency of procedures going forward.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS

The registrant is a Limited Liability Company and, therefore, has no officers or directors.

ATEL Financial Services, LLC (“AFS”) is the Company’s Managing Member or Manager. AFS is controlled by ATEL Capital Group (“ACG” or “ATEL”), a holding company formed to control ATEL and affiliated companies, through its subsidiaries, ATEL Leasing Corporation (“ALC”), AFS’s managing member, and ATEL Business Credit, Inc. (“ABC”), the other member of AFS. ALC and ABC are AFS’s only members. The outstanding voting capital stock of ATEL Capital Group is owned 100% by Dean Cash.

Each of ALC, ATEL Equipment Corporation (“AEC”), ATEL Investor Services (“AIS”) and AFS is a subsidiary under the control of ATEL Capital Group and performs services for the Company. Acquisition services are performed for the Company by ALC, equipment management, lease administration and asset disposition services are performed by AEC, investor relations and communications services are performed by AIS and general administrative services for the Company are performed by AFS. ATEL Securities Corporation (“ASC”) is a wholly-owned subsidiary of AFS which performed distribution services in connection with the Company’s public offering of its Units.

The officers and directors of ATEL Capital Group and its affiliates are as follows:

Dean L. Cash	President and Chief Executive Officer of ATEL Financial Services, LLC (Managing Member)
Paritosh K. Choksi	Executive Vice President and Chief Financial and Operating Officer of ATEL Financial Services, LLC (Managing Member)
Vasco H. Morais	Senior Vice President, Secretary and General Counsel of ATEL Financial Services, LLC (Managing Member)

Dean L. Cash, age 56, joined ATEL as director of marketing in 1980 and has been a vice president since 1981, executive vice president since 1983 and a director since 1984. He has been President and CEO since April 2001. Prior to joining ATEL, Mr. Cash was a senior marketing representative for Martin Marietta Corporation, data systems division, from 1979 to 1980. From 1977 to 1979, he was employed by General Electric Corporation, where he was an applications specialist in the medical systems division and a marketing representative in the information services division. Mr. Cash was a systems engineer with Electronic Data Systems from 1975 to 1977, and was involved in maintaining and developing software for commercial applications. Mr. Cash received a B.S. degree in psychology and mathematics in 1972 and an M.B.A. degree with a concentration in finance in 1975 from Florida State University. Mr. Cash is an arbitrator with the American Arbitration Association.

Paritosh K. Choksi, age 54, joined ATEL in 1999 as a director, senior vice president and its chief financial officer. He became its executive vice president and CFO/COO in April 2001. Prior to joining ATEL, Mr. Choksi was chief financial officer at Wink Communications, Inc. from 1997 to 1999. From 1977 to 1997, Mr. Choksi was with Phoenix American Incorporated, a financial services and management company, where he held various positions during his tenure, and was senior vice president, chief financial officer and director when he left the company. Mr. Choksi was involved in all corporate matters at Phoenix and was responsible for Phoenix’s capital market needs. He also served on the credit committee overseeing all corporate investments, including its venture lease portfolio. Mr. Choksi was a part of the executive management team which caused Phoenix’s portfolio to increase from \$50 million in assets to over \$2 billion. Mr. Choksi is a member of the board of directors of Syntel, Inc. Mr. Choksi received a bachelor of technology degree in mechanical engineering from the Indian Institute of Technology, Bombay; and an M.B.A. degree from the University of California, Berkeley.

Vasco H. Morais, age 48, joined ATEL in 1989 as general counsel to provide legal support in the drafting and reviewing of lease documentation, advising on general corporate law matters, and assisting on securities law issues. From 1986 to 1989, Mr. Morais was employed by the BankAmeriLease Companies, Bank of America’s equipment leasing subsidiaries, providing in-house legal support on the documentation of tax-oriented and non-tax oriented direct and leveraged lease transactions, vendor leasing programs and general corporate matters. Prior to the BankAmeriLease Companies, Mr. Morais was with the Consolidated Capital Companies in the corporate and securities legal department involved in drafting and reviewing contracts, advising on corporate law matters and securities law issues. Mr. Morais received a B.A. degree in 1982 from the University of California in Berkeley, a J.D. degree in 1986 from Golden Gate University Law School and an M.B.A. (Finance) in 1997 from Golden Gate University. Mr. Morais has been an active member of the State Bar of California since 1986.

Audit Committee

ATEL Leasing Corporation is the managing member of ATEL Financial Services, LLC. ATEL Financial Services, LLC is the Managing Member of the registrant. The board of directors of ATEL Leasing Corporation acts as the audit committee of the registrant. Dean L. Cash and Paritosh K. Choksi are members of the board of directors of ALC and are deemed to be financial experts. They are not independent of the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

During March 2006, each of the executive officers and directors of the registrant's Managing Member, Dean Cash, Paritosh Choksi and Vasco Morais, filed a statement of beneficial ownership of Units on Form 3 under Section 16. These statements were due at the time the registrant filed its Form 8A registration statement under the Securities Exchange Act of 1934. Based solely on a review of Forms 3, 4 and 5, the Company is not otherwise aware of any failures to file reports of beneficial ownership required to be filed during or for the year ended December 31, 2006.

Code of Ethics

ACG on behalf of AFS and ALC has adopted a code of ethics for its Chief Executive Officer, Chief Financial and Operating Officer and Senior Vice President and General Counsel. The Code of Ethics is included as Exhibit 14.1 to this report.

Item 11. EXECUTIVE COMPENSATION

The registrant is a Limited Liability Company and, therefore, has no officers or directors.

Set forth hereinafter is a description of the nature of remuneration paid and to be paid to AFS and its Affiliates. The amount of such remuneration paid in 2006, 2005 and 2004 is set forth in Item 8 of this report under the caption "Financial Statements and Supplementary Data—Notes to the Financial Statements—Related party transactions," at Note 7 thereof, which information is hereby incorporated by reference.

Asset Management Fee

The Company pays AFS an Asset Management Fee in an amount equal to 4% of Operating Revenues, which includes Gross Lease Revenues and Cash from Sales or Refinancing. The Asset Management Fee is paid on a monthly basis. The amount of the Asset Management Fee payable in any year is reduced for that year to the extent it would otherwise exceed the Asset Management Fee Limit, as described below. The Asset Management Fee is paid for services rendered by AFS and its affiliates in determining portfolio and investment strategies (i.e., establishing and maintaining the composition of the Equipment portfolio as a whole and the Company's overall debt structure) and generally managing or supervising the management of the Equipment.

AFS supervises performance of among others activities, collection of lease revenues, monitoring compliance by lessees with the lease terms, assuring that Equipment is being used in accordance with all operative contractual arrangements, paying operating expenses and arranging for necessary maintenance and repair of Equipment in the event a lessee fails to do so, monitoring property, sales and use tax compliance and preparation of operating financial data. AFS intends to delegate all or a portion of its duties and the Asset Management Fee to one or more of its affiliates who are in the business of providing such services.

Asset Management Fee Limit:

The Asset Management Fee is subject to the Asset Management Fee Limit. The Asset Management Fee Limit is calculated each year during the Company's term by calculating the total fees that would be paid to AFS if AFS were to be compensated on the basis of an alternative fee schedule, to include an Equipment Management Fee, Incentive Management Fee, and Equipment Resale/Re-Leasing Fee, plus AFS's Carried Interest, as described below. To the extent that the amount paid to AFS as the Asset Management Fee plus its Carried Interest for any year would exceed the aggregate amount of fees calculated under this alternative fee schedule for the year, the Asset Management Fee and/or Carried Interest for that year is reduced to equal the maximum aggregate fees under the alternative fee schedule.

To the extent any such fees are reduced, the amount of such reduction will be accrued and deferred, and such accrued and deferred compensation would be paid to AFS in a subsequent period, but only if and to the extent that such deferred compensation would be payable within the Asset Management Fee Limit for the subsequent period. Any deferred fees which cannot be paid under the applicable limitations in any subsequent period through the date of liquidation would be forfeited by AFS upon liquidation.

Alternative Fee Schedule:

For purposes of the Asset Management Fee Limit, the Company will calculate an alternative schedule of fees, including a hypothetical Equipment Management Fee, Incentive Management Fee, Equipment Resale/Re-Leasing Fee, and Carried Interest as follows:

An Equipment Management Fee will be calculated to equal the lesser of (i) 3.5% of annual Gross Revenues from Operating Leases and 2% of annual Gross Revenues from Full Payout Leases which contain Net Lease Provisions), or (ii) the fees customarily charged by others rendering similar services as an ongoing public activity in the same geographic location and for similar types of equipment. If services with respect to certain Operating Leases are performed by nonaffiliated persons under the active supervision of AFS or its Affiliate, then the amount so calculated shall be 1% of Gross Revenues from such Operating Leases.

An Incentive Management Fee will be calculated to equal 4% of Distributions of Cash from Operations until Holders have received a return of their Original Invested Capital plus a Priority Distribution, and, thereafter, to equal a total of 7.5% of Distributions from all sources, including Sale or Refinancing Proceeds. In subordinating the increase in the Incentive Management Fee to a cumulative return of a Holder's Original Invested Capital plus a Priority Distribution, a Holder would be deemed to have received Distributions of Original Invested Capital only to the extent that Distributions to the Holder exceed the amount of the Priority Distribution.

An Equipment Resale/Re-Leasing Fee will be calculated in an amount equal to the lesser of (i) 3% of the sale price of the Equipment, or (ii) one-half the normal competitive equipment sale commission charged by unaffiliated parties for resale services. Such fee would apply only after the Holders have received a return of their Original Invested Capital plus a Priority Distribution.

In connection with the releasing of Equipment to lessees other than previous lessees or their Affiliates, the fee would be in an amount equal to the lesser of (i) the competitive rate for comparable services for similar equipment, or (ii) 2% of the gross rental payments derived from the re-lease of such Equipment, payable out of each rental payment received by the Company from such re-lease.

See Note 7 to the financial statements included in Item 8 for amounts paid.

Managing Member's Interest in Operating Proceeds

As defined in the Limited Liability Company Operating Agreement, the Company's Net Income, Net Losses, and Distributions are to be allocated 92.5% to the Members and 7.5% to AFS. In accordance with the terms of the Operating Agreement, as amended, additional allocations of income were made to AFS in 2006, 2005 and 2004. The amounts allocated were determined to bring AFS's ending capital account balance to zero at the end of each year. See financial statements included in Item 8, Part I of this report for amounts allocated to AFS in 2006, 2005 and 2004.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**Security Ownership of Certain Beneficial Owners**

At December 31, 2006, no investor is known to hold beneficially more than 5% of the issued and outstanding Units.

Security Ownership of Management

The parent of AFS is the beneficial owner of Limited Liability Company Units as follows:

(1) Title of Class	(2) Name and Address of Beneficial Owner	(3) Amount and Nature of Beneficial Ownership	(4) Percent of Class
Limited Liability Company Units	ATEL Capital Group 600 California Street, 6th Floor San Francisco, CA 94108	Initial Limited Liability Company Units 50 Units (\$500)	0.0004%

Changes in Control

The Members have the right, by vote of the Members owning more than 50% of the outstanding Limited Liability Company Units, to remove a Managing Member.

AFS may at any time call a meeting of the Members or a vote of the Members without a meeting, on matters on which they are entitled to vote, and shall call such meeting or for vote without a meeting following receipt of a written request therefore of members holding 10% or more of the total outstanding Limited Liability Company Units.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The responses to Item 1 of this report under the caption “Equipment Leasing Activities,” Item 8 of this report under the caption “Financial Statements and Supplemental Data—Notes to the Financial Statements—Related party transactions” at footnote 7 thereof, and Item 11 of this report under the caption “Executive Compensation,” are hereby incorporated by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

During the most recent two years, the Company incurred audit, audit related, tax and other fees with its principal auditors as follows:

	2006	2005
Audit fees	\$555,899	\$509,773
Audit related fees	436,200	—
Tax fees	—	71,358
Other	782	—
	<u>\$992,881</u>	<u>\$581,131</u>

ATEL Leasing Corporation is the managing member of ATEL Financial Services, LLC. ATEL Financial Services, LLC is the Managing Member of the registrant. The board of directors of ATEL Leasing Corporation acts as the audit committee of the registrant. Engagements for audit services, audit related services and tax services are approved in advance by the Chief Financial Officer of ATEL Leasing Corporation acting on behalf the board of directors of ATEL Leasing Corporation in its role as the audit committee of the Company.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial Statements and Schedules

1. Financial Statements

Included in Part II of this report:

Report of Independent Registered Public Accounting Firm

Balance Sheets at December 31, 2006 and 2005

Statements of operations for the years ended December 31, 2006, 2005 and 2004

Statement of Changes in Members' Capital for the years ended December 31, 2006, 2005 and 2004

Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004

Notes to Financial Statements

2. Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(b) Exhibits

(3) and (4) Amended and Restated Limited Liability Company Agreement, included as Exhibit B to the Prospectus included in the registrant's registration statement on form S-1 effective March 12, 2003, (File Number 333-100452) is hereby incorporated herein by reference.

(14.1) Code of Ethics

(31.1) Rule 13a-14(a)/ 15d-14(a) Certification of Paritosh K. Choksi

(31.2) Rule 13a-14(a)/ 15d-14(a) Certification of Dean L. Cash

(32.1) Certification Pursuant to 18 U.S.C. section 1350 of Dean L. Cash

(32.2) Certification Pursuant to 18 U.S.C. section 1350 of Paritosh K. Choksi

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 31, 2007

ATEL Capital Equipment Fund X, LLC
(Registrant)

By: ATEL Financial Services, LLC,
Managing Member of Registrant

By: /s/ Dean L. Cash
Dean Cash
President and Chief Executive Officer of
ATEL Financial Services, LLC (Managing
Member)

By: /s/ Paritosh K. Choksi
Paritosh K. Choksi
Executive Vice President and Chief
Financial and Operating Officer of ATEL
Financial Services, LLC (Managing
Member)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the persons in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>CAPACITIES</u>	<u>DATE</u>
<u>/s/ Dean L. Cash</u> Dean Cash	President and Chief Executive Officer of ATEL Financial Services, LLC (Managing Member)	May 31, 2007
<u>/s/ Paritosh K. Choksi</u> Paritosh K. Choksi	Executive Vice President and Chief Financial and Operating Officer of ATEL Financial Services, LLC (Managing Member)	May 31, 2007

No proxy materials have been or will be sent to security holders. An annual report will be furnished to security holders subsequent to the filing of this report on Form 10-K, and copies thereof will be furnished supplementally to the Commission when forwarded to the security holders.

ATEL CAPITAL GROUP**CODE OF ETHICS FOR CHIEF EXECUTIVE OFFICER AND CHIEF
FINANCIAL AND OPERATING OFFICER****A. SCOPE**

This ATEL Capital Group Code of Ethics is applicable to the ATEL Capital Group's Chief Executive Officer and Chief Financial and Operating Officer, or persons acting in such capacity (collectively the "Covered Officers"), each of whom acts in such capacity on behalf of its affiliate, ATEL Financial Services, LLC, which is the general partner or manager, as the case may be, of each of the public limited partnerships and limited liability companies sponsored by the Company. ATEL Capital Group is referred to herein as the "Company," ATEL Financial Services, LLC is referred to as "AFS" and the sponsored limited partnerships and limited liability companies are referred to herein as the "Funds" and each of them as a "Fund." The board of directors of ATEL Leasing Corporation ("ALC"), an affiliate of the Company that serves as the managing member of ATEL Financial Services, LLC, ("AFS") the manager or general partner of each of the Funds, is the first board of directors in management succession for each Fund.

Accordingly, under the Securities and Exchange Commission's interpretation of its disclosure rules, the ATEL Leasing Corporation board of directors functions as the de facto audit committee for each Fund with respect to all procedural and disclosure requirements applicable to audit committees under Securities and Exchange Commission rules. The Company's Board of Directors shall have oversight responsibility over the activities of ALC's Board of Directors for purposes of this Code of Ethics.

B. PURPOSE

The Company is proud of the values with which it and its subsidiaries and affiliates conduct business. It has and will continue to uphold the highest levels of business ethics and personal integrity in all types of transactions and interactions. To this end, this Code of Ethics serves to (1) emphasize the Company's commitment to ethics and compliance with the law; (2) set forth basic standards of ethical and legal behavior; (3) provide reporting mechanisms for known or suspected ethical or legal violations; and (4) help prevent and detect wrongdoing. This Code of Ethics is intended to augment and supplement the standard of ethics and business conduct expected of all Company employees, and its limitation to Covered Officers is not intended to limit the obligation of all Company employees to adhere to the highest standards of business ethics and integrity in all transactions and interactions conducted while in the Company's employ.

Given the variety and complexity of ethical questions that may arise in the course of business of the Company and its subsidiaries, this Code of Ethics serves only as a rough guide. Confronted with ethically ambiguous situations, the Covered Officers should remember the Company's commitment to the highest ethical standards and seek independent advice, where necessary, to ensure that all actions they take on behalf of the Company and its subsidiaries honor this commitment.

C. ETHICS STANDARDS**1. Honest and Ethical Conduct**

The Covered Officers shall behave honestly and ethically at all times and with all people. They shall act in good faith, with due care, and shall engage only in fair and open competition, by treating ethically competitors, suppliers, customers, and colleagues. They shall not misrepresent facts or engage in illegal, unethical, or anti-competitive practices for personal or professional gain.

2. Conflicts of Interest

This fundamental standard of honest and ethical conduct extends to the handling of conflicts of interest. The Covered Officers shall avoid any actual, potential, or apparent conflicts of interest with the Company and its subsidiaries and affiliates, including the Funds, and any personal activities, investments, or associations that might give rise to such conflicts. They shall not compete with or use the Company, any of its subsidiaries or a Fund for personal gain, self-deal, or take advantage of corporate or Fund opportunities. They shall act on behalf of the Company, its subsidiaries and the Funds free from improper influence or the appearance of improper influence on their judgment or performance of duties. A Covered Officer shall disclose any material transaction or relationship that reasonably could be expected to give rise to such a conflict to the Company's General Counsel or a member of the Company's Board of Directors. No action may be taken with respect to such transaction or party unless and until the Company's Board of Directors has approved such action.

Notwithstanding the foregoing, it is understood, as fully disclosed in the offering documents for each Fund, that AFS as manager or general partner of the Fund has certain inherent conflicts of interest. The provisions of each Fund's Operating Agreement or Limited Partnership Agreement have been drafted to address the obligations, restrictions and limitations on the power and authority of AFS to manage each Fund's affairs, including restrictions prohibiting or limiting the terms of any transactions in which conflicts of interest may arise. Furthermore, AFS has a fiduciary duty to each Fund as its manager or general partner. It is therefore expressly understood by the Company and the Covered Officers that any and all actions by AFS and its personnel that comply with the provisions of a Fund's Operating Agreement or Limited Partnership Agreement, as the case may be, and are consistent with AFS's fiduciary duty to the Fund, will not be considered material transactions or relationships which require disclosure or reporting under this Code of Ethics.

3. Timely and Truthful Disclosure

In reports and documents filed with or submitted to the Securities and Exchange Commission and other regulators by the Company, its subsidiaries or affiliates or a Fund, and in other public communications made by the Company, its subsidiaries or affiliates or a Fund, the Covered Officers shall make disclosures that are full, fair, accurate, timely, and understandable. The Covered Officers shall provide thorough and accurate financial and accounting data for inclusion in such disclosures. The Covered Officers shall not knowingly conceal or falsify information, misrepresent material facts, or omit material facts necessary to avoid misleading the Company's, any of its subsidiaries' or affiliates' or a Fund's independent public auditors or investors.

4. Legal Compliance

In conducting the business of the Company, its subsidiaries and affiliates and the Funds, the Covered Officers shall comply with applicable governmental laws, rules, and regulations at all levels of government in the United States and in any non-U.S. jurisdiction in which the Company, any of its affiliates or subsidiaries or a Fund does business, as well as applicable rules and regulations of self-regulatory organizations of which the Company, any of its affiliates or subsidiaries or a Fund is a member. If the Covered Officer is unsure whether a particular action would violate an applicable law, rule, or regulation, he or she should seek the advice of inside counsel (if available), and, where necessary, outside counsel before undertaking it.

D. VIOLATIONS OF ETHICAL STANDARDS

1. Reporting Known or Suspected Violations

The Covered Officers will promptly bring to the attention of the Company's General Counsel or the Board of Directors any information concerning a material violation of any of the laws, rules or regulations applicable to the Company and the operation of its businesses, by the Company or any agent thereof, or of violation of this Code of Ethics. The Company's General Counsel will investigate reports of violations and the findings communicated to the Company's Board of Directors.

2. Accountability for Violations

If the Company's Board of Directors determines that this Code of Ethics has been violated, either directly, by failure to report a violation, or by withholding information related to a violation, it may discipline the offending Covered Officer for non-compliance with penalties up to and including termination of employment. Violations of this Code of Ethics may also constitute violations of law and may result in criminal penalties and civil liabilities for the offending Covered Officer and the Company, its subsidiaries, affiliates or a Fund.

RULE 13a-14(a) / 15D-14(A)
CERTIFICATION

I, Paritosh K. Choksi, certify that:

1. I have reviewed this annual report on Form 10-K of ATEL Capital Equipment Fund X, LLC;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 31, 2007

/s/ Paritosh K. Choksi

Paritosh K. Choksi
Executive Vice President and Chief Financial and
Operating Officer of ATEL Financial Services, LLC
(Managing Member)

RULE 13a-14(a) / 15D-14(A)
CERTIFICATIONS

I, Dean L. Cash, certify that:

1. I have reviewed this annual report on Form 10-K of ATEL Capital Equipment Fund X, LLC;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 31, 2007

/s/ Dean L. Cash

Dean L. Cash
President and Chief Executive Officer of ATEL
Financial Services, LLC (Managing Member)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

In connection with the Annual report on Form 10-K of ATEL Capital Equipment Fund X, LLC, (the "Company") for the period ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, I, Dean L. Cash, President and Chief Executive Officer of ATEL Financial Services, LLC, Managing Member of the Company, hereby certify that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 31, 2007

/s/ Dean L. Cash

Dean L. Cash

President and Chief Executive Officer of

ATEL Financial Services, LLC (Managing Member)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

In connection with the Annual report on Form 10-K of ATEL Capital Equipment Fund X, LP, (the "Company") for the period ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, I, Paritosh K. Choksi, Executive Vice President and Chief Financial and Operating Officer of ATEL Financial Services, LLC, Managing Member of the Company, hereby certify that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 31, 2007

/s/ Paritosh K. Choksi

Paritosh K. Choksi

Executive Vice President and Chief Financial and
Operating Officer of ATEL Financial Services, LLC
(Managing Member)