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

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**Form 10-KSB**

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**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 000-51858

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**ATEL Capital Equipment Fund XI, LLC**

(Exact name of registrant as specified in its charter)

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**California**  
(State or other jurisdiction of  
incorporation or organization)

**20-1357935**  
(I. R. S. Employer  
Identification No.)

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

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

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**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**

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Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act of 1934.

Check whether the issuer (1) 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB.

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 issuer's revenues for the most recent fiscal year: \$7,043,372.

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.

The number of Limited Liability Company Units outstanding as of April 30, 2007 was 5,232,607.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

Transitional Small Business disclosure Format (check one): Yes  No

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## PART I

### Item 1. BUSINESS

#### General Development of Business

ATEL Capital Equipment Fund XI, LLC (the "Company") was formed under the laws of the State of California on June 25, 2004. The Company was formed for the purpose of 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 company. The Company may continue until December 31, 2025. Each Member's personal liability for obligations of the Company generally will be limited to the amount of their respective contributions and rights to undistributed profits and asset of the Company.

The Company conducted a public offering of 15,000,000 Limited Liability Company Units ("Units"), at a price of \$10 per Unit. On May 31, 2005, subscriptions for the minimum number of Units (120,000, representing \$1,200,000) had been received 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 July 13, 2005, the Company had received subscriptions for 958,274 Units (\$9,582,740), thus exceeding the \$7,500,000 minimum requirement for Pennsylvania, and AFS requested that the remaining funds in escrow (from Pennsylvania investors) be released to the Company. The Company's offering was terminated effective April 30, 2006.

As of December 31, 2006, 5,232,607 Units 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 (ending six calendar years after the completion of the Company's public offering of Units) 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, or AFS on behalf of the Company, has incurred costs in connection with the organization, registration and issuance of the Limited Liability Company Units (see Note 7 to the financial statements included in Item 7 of this report). 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.

The Company is in its acquisition phase and is making distributions on a monthly and quarterly basis. Distributions commenced in the third quarter of 2005.

#### Narrative Description of Business

The Company has acquired and intends to acquire various types of new and used equipment subject to leases and to make loans secured by equipment acquired by its borrowers. The Company's investment objective is to acquire investments primarily in low-technology, low-obsolescence equipment such as materials handling equipment, manufacturing equipment, mining equipment, and transportation equipment. A portion of the portfolio will include some more technology-dependent equipment such as certain types of communications equipment, medical equipment, manufacturing equipment and office equipment.

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

Through December 31, 2006, the Company had purchased equipment with a total acquisition price of \$42,086,103. The Company has also loaned \$10,746,130 for notes receivable secured by various assets.

The Company's objective is to lease a minimum of 75% of the equipment (by cost), as of the date of the final commitment of its proceeds from the sale of Units, to lessees that the Manager deems to be high quality corporate credits, of which at least half of the high quality corporate credits satisfying the 75% minimum requirement will have either an average credit rating by Moody's Investors Service, Inc. of "Baa" or better, or the credit equivalent as determined by the Manager, with the average rating weighted to account for the original equipment cost for each item leased; and the balance will be public and private corporations with substantial revenues and histories of profitable operations, as well as established hospitals with histories of profitability or municipalities. The remaining 25% of the initial equipment portfolio may include assets financed for companies which, although deemed creditworthy by the Manager, would not satisfy the specific credit criteria for the portfolio described above. Included in this 25% of the portfolio may be one or more growth capital financing investments. No more than 20% of the initial portfolio, by cost, will consist of these growth capital financing investments.

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

<u>Lessee</u>	<u>Type of Equipment</u>	<u>2006</u>	<u>2005</u>
Union Pacific	Transportation	18%	61%
International Paper Co. - Mac	Material Handling	15%	*
Whirlpool Corporation	Material Handling	13%	*

\* Less than 10%

The above 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 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 use its best efforts to diversify lessees by geography and industry and to maintain an appropriate balance and diversity in the types of equipment acquired and the types of leases entered into by the Company, and will apply the following policies: (i) AFS will seek to limit the amount invested in equipment leased to any single lessee to not more than 20% of the aggregate purchase price of equipment owned at any time during the reinvestment period following investment of the initial offering proceeds; (ii) in no event will the Company's equity investment in equipment leased to a single lessee exceed an amount equal to 20% of the maximum capital from the sale of Units (or \$30,000,000); (iii) when all the offering proceeds are committed to equipment and all permanent debt has been put in place, at least a majority of the equipment, based on the aggregate purchase price, will be subject to leases with scheduled lease payments returning at least 90% of the purchase price of the equipment; and (iv) AFS will seek to invest not more than 20% of the aggregate purchase price of equipment in equipment acquired from a single manufacturer. However, this last limitation is a general guideline only, and the Company may acquire equipment from a single manufacturer in excess of the stated percentage during the offering period and before the offering proceeds are fully invested, or if AFS deems such a course of action to be in the Company's best interest.

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 operating revenues for the year ended December 31, 2006 and 2005:

<u>Geographic area</u>	<u>2006</u>	<u>2005</u>
United States	88%	98%
Europe	12%	2%

The business of the Company is not seasonal.

The Company has no full time employees.

### **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	\$20,475,227	49%
Materials handling	14,748,610	35%
Construction	3,561,702	8%
Logging and Lumber	2,001,117	5%
Manufacturing	1,153,540	3%
Office furniture	145,907	0%
	<u>\$42,086,103</u>	<u>100%</u>

<u>Industry of Lessee</u>	<u>Purchase Price Excluding Acquisition Fees</u>	<u>Percentage of Total Acquisitions</u>
Manufacturing	\$19,054,711	45%
Rail	11,924,442	28%
Transportation Services	5,796,530	14%
Health Care	4,966,705	12%
Electrical	343,715	1%
	<u>\$42,086,103</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>
Transportation	\$173,000	\$221,343	\$ —
	<u>\$173,000</u>	<u>\$221,343</u>	<u>\$ —</u>

For further information regarding the Company's equipment lease portfolio as of December 31, 2006, see Note 6 to the financial statements, Investments in equipment and leases, net, as set forth in Part II, Item 7 of this report.

## **Notes Receivable Activities**

The Company finances a diversified portfolio of assets in diverse industries. The following tables set forth the types of assets acquired by the Company through December 31, 2006 and the industries to which the assets have been financed.

<b>Asset Types</b>	<b>Purchase Price Excluding Acquisition Fees</b>	<b>Percentage of Total Acquisitions</b>
Computer equipment	\$ 5,990,062	56%
Equipment and other assets	4,251,855	39%
Manufacturing	504,213	5%
	<u>\$ 10,746,130</u>	<u>100%</u>

  

<b>Industry of Lessee</b>	<b>Purchase Price Excluding Acquisition Fees</b>	<b>Percentage of Total Acquisitions</b>
Communications	\$ 2,610,972	24%
Manufacturing	2,503,105	23%
Health Services	2,125,000	20%
Business Services	1,491,692	14%
Technology	1,315,391	12%
Electronics	699,970	7%
	<u>\$ 10,746,130</u>	<u>100%</u>

For further information regarding the Company's note receivable portfolio as of December 31, 2006 see Note 4 to the financial statements, Notes receivable, as set forth in Part II, Item 7 of this report.

## **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 COMMON EQUITY AND RELATED SECURITY HOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

#### 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. 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 1,180 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 cause the Company to reinvest operating revenues in equipment, but will distribute available cash, subject to payment of any obligations of the Company, (i) in an amount sufficient to allow an investor in a 31% federal income tax bracket to meet the federal and state income taxes due on income from the operations of the Fund; (ii) through the first full fiscal quarter ending at least six months after termination of the offering of Units, an amount equal to the lesser of: (a) a rate of return on their original capital contribution equal to 2.5% over the average yield on five-year United States Treasury Bonds for the fiscal quarter immediately preceding the date of distribution, as published in a national financial newspaper from time to time (with a minimum of 8% per annum and a maximum of 10% per annum), or (b) 90% of the total amount of cash available for distributions; and (iii) for each quarter during the rest of the reinvestment period, an amount equal to 8% per annum on their original capital contribution.

The rate for monthly distributions from 2006 operations was \$0.07 per Unit for the period from January through March 2006 and \$0.08 per Unit for the period April through December 2006. The distributions were paid in April 2006 through January 2007. The rate for quarterly distributions paid in April 2006 was \$0.20 per Unit, while the rate for each of the quarterly distributions paid in July and October 2006, and January 2007 was \$0.23 per Unit.

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

	<u>2006</u>	<u>2005</u>
Net loss per Other Member Limited Liability Unit, based on weighted average Units outstanding	\$(0.19)	\$(0.27)
Return of investment	1.09	1.07
Distributions declared per Other Members Limited Liability Unit, based on weighted average Units outstanding	0.90	0.80
Differences due to timing of distributions	(0.01)	(0.25)
Actual distribution rates per Unit	<u>\$ 0.89</u>	<u>\$ 0.55</u>

## Use of Proceeds from Registered Securities

Information provided pursuant to § 228.701 (Item 701(f)) (formerly included in Form SR):

- (1) Effective date of the offering: April 11, 2005; File Number: 333-120276.
- (2) Offering commenced: April 11, 2005.
- (3) The offering did not terminate before any securities were sold.
- (4) The offering was terminated on April 30, 2006.
- (5) The managing underwriter is ATEL Securities Corporation.
- (6) The title of the registered class of securities is "Units of Limited Liability Company Interest."
- (7) Aggregate amount and offering price of securities registered and sold as of December 31, 2006:

Title of Security	Amount Registered	Aggregate price of offering amount registered	Units sold	Aggregate price of offering amount sold
Units of Limited Company Interest	15,000,000	\$ 150,000,000	5,232,607	\$52,326,070

- (8) Costs incurred for the issuers account in connection with the issuance and distribution of the securities registered for each category listed below:

	Direct or indirect payments to directors, officers, Managing Members of the issuer or their associates, to persons owning ten percent or more of any class of equity securities of the issuer; and to affiliates of the issuer	Direct or indirect payments to others	Total
Underwriting discounts and commissions	\$ 789,774	\$ 3,948,867	\$ 4,738,641
Other expenses	1,405,181	1,266,958	2,672,139
Total expenses	\$ 2,194,955	\$ 5,215,825	\$ 7,410,780

- (9) The amount of net offering proceeds to the issuer used for each of the purposes listed below:

	Direct or indirect payments to directors, officers, Managing Members of the issuer or their associates, to persons owning ten percent or more of any class of equity securities of the issuer; and to affiliates of the issuer	Direct or indirect payments to others	Total
Purchase and installation of machinery and equipment	\$ 624,557	\$33,476,104	\$34,100,661
Investments in notes receivable	68,499	10,746,130	10,814,629
	\$ 693,056	\$44,222,234	\$44,915,290

- (10) The use of the proceeds in Item 10 does not represent a material change in the uses of proceeds described in the prospectus.

## Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements contained in this Item 6, "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") and elsewhere in this Form 10-KSB, 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 Company'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-KSB. 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-KSB or to reflect the occurrence of unanticipated events, other than as required by law.

### Capital Resources and Liquidity

The Company commenced its offering of Units on April 11, 2005. On May 31, 2005, the Company commenced operations in its primary business (leasing and lending activities). Until the Company's initial portfolio of equipment has been purchased, funds that have been received, but that have not yet been invested in leased equipment, are invested in interest-bearing accounts or high-quality/short-term commercial paper. The Company's public offering provided for a total maximum capitalization of \$150,000,000. The Company terminated sales of Units effective April 30, 2006.

During the funding period, the Company's primary source of liquidity was subscription proceeds from the public offering of Units. As of December 31, 2006, \$52,339,682 had been contributed of which \$500 was contributed by the Initial Other Member and \$52,851,572, less rescissions of \$512,390, by Other Members purchasing Units under the public offering for net contributions from Other Members of \$52,339,182. The liquidity of the Company will vary in the future, increasing to the extent proceeds from cash flows from leases and proceeds of asset sales exceed expenses, and decreasing as lease assets are acquired, as distributions are made to the Other Members and to the extent expenses exceed cash flows from leases and proceeds from asset sales.

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.

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 financial 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, the Company had outstanding borrowings of \$9,500,000 under the facility.

Borrowings under the facility 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	(9,500,000)
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition facility	(17,061,475)
Total remaining available under the acquisition and warehouse 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 (16.8% at December 31, 2006) 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). 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 \$514,428.

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 individual 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, ATEL Capital Equipment Fund X, LLC 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.

The credit agreement includes certain financial and non-financial covenants applicable to each borrower. The Company and affiliates were not in compliance with a non-financial covenant 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.

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 its 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.

The Company commenced regular distributions, based on cash flows from operations, beginning with the month of June 2005. The distribution was made in July 2005 and additional distributions have been consistently made through December 2006.

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.

The Company has \$8,893,142 in commitments to purchase lease assets or fund notes receivable as of December 31, 2006. This amount represents contract awards which may be cancelled by the prospective lessee or may not be accepted by the Company. Of the \$8,893,142, \$339,440 was cancelled subsequent to year end.

## **Cash Flows**

*2006 vs. 2005*

The Company's primary sources of cash from operations for the years ended December 31, 2006 and 2005 were rents from operating leases and interest on the notes receivable. The cash flows from operations for the years ended December 31, 2006 and 2005 were \$6,027,132 and \$1,523,982, respectively. The increase in cash flows were primarily the result of increases in earning assets acquired by the Company as it expanded its leasing and lending activities.

During the years ended December 31, 2006 and 2005, the primary uses of cash in investing activities were the purchase of equipment on operating leases and investments in notes receivable. Cash used to acquire operating lease assets totaled \$27,060,018 for 2006 and \$14,970,671 for 2005. Cash used to invest in notes receivable totaled \$4,020,608 and \$6,725,522 for 2006 and 2005, respectively.

During 2006 and 2005, the Company's main source of cash from financing activities was the proceeds of its offering of Units. Capital contributions received totaled \$13,148,592 in 2006 and \$39,702,980 in 2005. The Company also borrowed approximately \$12,500,000 from its acquisition facility during 2006. The primary use of cash from financing activities during the same periods consisted of payments of syndication costs related to the offering, distributions to Other Members and repayment of debt. Syndication costs paid were \$1,996,285 and \$5,414,495 for 2006 and 2005, respectively, while distributions paid to Other Members totaled \$4,482,452 in 2006 and \$701,370 in 2005. The Company also used \$3,000,000 to repay a portion of its borrowings during the second half of 2006.

## **Results of Operations**

The Company commenced operations in 2005.

As of May 31, 2005, the Company had received, and accepted, subscriptions for the minimum amount of the offering (\$1,200,000). 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.

Operations resulted in net losses of \$620,592 and \$263,255 for the years ended December 31, 2006 and 2005, respectively. The increase in loss incurred was primarily due to expenses increasing at a faster pace than revenues. Total revenues for 2006 were \$7,043,372 compared to \$604,565 for 2005. Total expenses for 2006 were \$7,737,675 compared to \$867,820 for 2005.

During 2006 and 2005, the Company's revenues were primarily derived from income on its operating lease portfolio and interest on the notes receivable and cash held. Operating lease revenue totaled \$5,992,527 and \$276,461 for the years ended December 31, 2006 and 2005, respectively; while interest income on the notes receivable and cash held totaled \$956,088 and \$328,104 for the years then ended.

The Company's largest expense during 2006 was depreciation, which is directly related to its acquisition of operating lease assets during its initial acquisition phase. Depreciation expense totaled \$5,020,736 for 2006 and \$211,977 for 2005.

Under the terms of the Company's Operating Agreement, AFS is entitled certain fees and reimbursements of costs. Management fees totaled \$367,978 in 2006 and \$19,895 in 2005. Cost reimbursements for the same periods consisted of acquisition expenses and initial direct costs ("IDC") associated with the initiation of leases and notes receivable and Company administration fees. Acquisition and IDC costs totaled \$986,621 in 2006 and \$359,651 for 2005. Administrative costs reimbursed to AFS totaled \$448,508 and \$74,733 for 2006 and 2005, respectively.

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.

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.

## **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 significantly 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 provisions 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 leases 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 36 to 120 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 7. FINANCIAL STATEMENTS**

See the Report of Independent Registered Public Accounting Firm, Financial Statements and Notes to Financial Statements attached hereto at pages 13 through 27.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Members  
ATEL Capital Equipment Fund XI, LLC

We have audited the accompanying balance sheet of ATEL Capital Equipment Fund XI, 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 XI, 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 17, 2007

Report of Independent Registered Public Accounting Firm

The Members

ATEL Capital Equipment Fund XI, LLC

We have audited the accompanying statements of operations, changes in members' capital, and cash flows of ATEL Capital Equipment Fund XI, LLC (the Company) for the year ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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, assessing the accounting principles used and significant estimates made by management, and 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 results of operations and the cash flows of ATEL Capital Equipment Fund XI, LLC for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

San Francisco, California

May 31, 2006

**ATEL CAPITAL EQUIPMENT FUND XI, LLC**  
**BALANCE SHEET**  
**DECEMBER 31, 2006**

**ASSETS**

Cash and cash equivalents	\$ 4,902,086
Accounts receivable, net	543,535
Notes receivable, net	8,407,929
Investments in securities	155,500
Investments in equipment and leases, net	37,190,929
Other assets	<u>1,121</u>
<b>Total assets</b>	<b><u>\$51,201,100</u></b>

**LIABILITIES AND MEMBERS' CAPITAL**

Accounts payable and accrued liabilities:	
Managing Member	\$ 188,119
Accrued distributions to Other Members	553,722
Other	1,711,258
Acquisition facility obligation	9,500,000
Unearned operating lease income	<u>1,113,300</u>
<b>Total liabilities</b>	<b>13,066,399</b>
Commitments and contingencies	
Members' capital:	
Managing Member	—
Other Members	<u>38,134,701</u>
<b>Total Members' capital</b>	<b><u>38,134,701</u></b>
<b>Total liabilities and Members' capital</b>	<b><u>\$51,201,100</u></b>

See accompanying notes.

**ATEL CAPITAL EQUIPMENT FUND XI, LLC**  
**STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	Year ended December 31,	
	2006	2005
<b>Revenues:</b>		
Operating lease income	\$5,992,527	\$ 276,461
Direct financing leases	263	—
Gain on sales of assets	48,343	—
Interest income	159,206	260,057
Gain on sale of securities	7,598	—
Notes receivable interest income	796,882	68,047
Other	38,553	—
<b>Total revenues</b>	<b>7,043,372</b>	<b>604,565</b>
<b>Expenses:</b>		
Depreciation of operating lease assets	5,020,736	211,977
Asset management fees to Managing Member	367,978	19,895
Acquisition expense	986,621	359,651
Cost reimbursements to Managing Member	448,508	74,733
Provision for losses and doubtful accounts	174,402	—
Amortization of initial direct costs	139,923	7,777
Interest expense	127,188	3,667
Professional fees	213,137	112,150
Outside services	97,262	10,199
Other	161,920	67,771
<b>Total operating expenses</b>	<b>7,737,675</b>	<b>867,820</b>
Other income, net	73,711	—
<b>Net income (loss)</b>	<b>\$ (620,592)</b>	<b>\$ (263,255)</b>
<b>Net income (loss):</b>		
Managing Member	\$ 329,954	\$ 82,234
Other Members	(950,546)	(345,489)
	<u>\$ (620,592)</u>	<u>\$ (263,255)</u>
Net loss per Limited Liability Company Unit (Other Members)	\$ (0.19)	\$ (0.27)
Weighted average number of Units outstanding	5,002,130	1,268,991

See accompanying notes.

**ATEL CAPITAL EQUIPMENT FUND XI, LLC**  
**STATEMENTS OF CHANGES IN MEMBERS' CAPITAL**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2006 AND 2005**

	<u>Other Members</u>		<u>Managing Member</u>	<u>Total</u>
	<u>Units</u>	<u>Amount</u>		
Balance December 31, 2004	50	\$ 500	\$ 100	\$ 600
Capital contributions	3,970,298	39,702,980	—	39,702,980
Less selling commissions to affiliates	—	(3,555,268)	—	(3,555,268)
Other syndication costs to Managing Member and affiliates	—	(1,859,227)	—	(1,859,227)
Recissions of capital contributions	(20,000)	(200,000)	—	(200,000)
Distributions to Other Members (\$.80 per unit)	—	(1,015,714)	—	(1,015,714)
Distributions to Managing Member	—	—	(82,334)	(82,334)
Net income (loss)	—	(345,489)	82,234	(263,255)
Balance December 31, 2005	<u>3,950,348</u>	<u>32,727,782</u>	<u>—</u>	<u>32,727,782</u>
Capital contributions	1,314,859	13,148,592	—	13,148,592
Less selling commissions to affiliates	—	(1,183,373)	—	(1,183,373)
Other syndication costs to Managing Member and affiliates	—	(812,912)	—	(812,912)
Recissions and repurchases of capital contributions	(32,600)	(312,390)	—	(312,390)
Distributions to Other Members (\$.90 per unit)	—	(4,482,452)	—	(4,482,452)
Distributions to Managing Member	—	—	(329,954)	(329,954)
Net income (loss)	—	(950,546)	329,954	(620,592)
Balance December 31, 2006	<u>5,232,607</u>	<u>\$38,134,701</u>	<u>\$ —</u>	<u>\$38,134,701</u>

See accompanying notes.

**ATEL CAPITAL EQUIPMENT FUND XI, LLC**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	Year Ended December 31,	
	2006	2005
<b>Operating activities:</b>		
Net loss	\$ (620,592)	\$ (263,255)
Adjustment to reconcile net loss to cash provided by operating activities:		
Depreciation of operating lease assets	5,020,736	211,977
Amortization of initial direct costs	139,923	7,777
Provision for doubtful accounts	30,830	—
Provision for losses on notes receivable	143,572	—
Recognition of unearned interest income	—	(68,047)
(Gain) loss on sale of assets	(48,343)	—
(Gain) loss on sale of securities	(7,598)	—
Changes in operating assets and liabilities:		
Accounts receivable	(469,535)	(104,829)
Prepays and other assets	446,493	(447,614)
Accounts payable, Managing Member	—	11,814
Accounts payable, other	—	779
Accrued liabilities, Managing Member	(261,726)	438,031
Accrued liabilities, affiliates	(141,753)	141,753
Accrued liabilities, other	1,609,393	654,808
Advances from Managing Member	(300,000)	300,000
Unearned fee income related to note receivable	—	13,220
Unearned operating lease income	485,732	627,568
<b>Net cash provided by operating activities</b>	<b>6,027,132</b>	<b>1,523,982</b>
<b>Investing activities:</b>		
Purchases of equipment on operating leases	(27,060,018)	(14,970,671)
Purchases of equipment on direct financing leases	(55,414)	—
Purchases of securities	(155,500)	—
Proceeds from sales of lease assets	221,343	—
Payments of initial direct costs	(477,505)	(215,551)
Reduction of net investment in direct financing leases	524	—
Note receivable advances	(4,020,608)	(6,725,522)
Proceeds from sale of securities	7,598	—
Payments and amortization on notes receivable	2,021,348	262,401
<b>Net cash used in investing activities</b>	<b>(29,518,232)</b>	<b>(21,649,343)</b>
<b>Financing activities:</b>		
Borrowings under acquisition facility	12,500,000	—
Repayments under acquisition facility	(3,000,000)	—
Payment of syndication costs to Managing Member and affiliates	(1,996,285)	(5,414,495)
Distributions to Other Members	(4,482,452)	(701,370)
Distributions to Managing Member	(329,954)	(56,846)
Capital Contributions	13,148,592	39,702,980
Rescissions of capital contributions	(312,390)	(200,000)
Distributions declared and payable	—	(339,833)
<b>Net cash provided by financing activities</b>	<b>15,527,511</b>	<b>32,990,436</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(7,963,589)</b>	<b>12,865,075</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>12,865,675</b>	<b>600</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 4,902,086</b>	<b>\$ 12,865,675</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for interest	\$ 108,671	\$ —
Cash paid during the period for taxes	\$ 42,156	\$ —
<b>Schedule of non-cash transactions:</b>		
Distributions payable to Other Members at period-end	\$ 553,722	\$ 314,344

See accompanying notes.

**ATEL CAPITAL EQUIPMENT FUND XI, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Organization and Limited Liability Company matters:**

ATEL Capital Equipment Fund XI, LLC (the “Company”) was formed under the laws of the State of California on June 25, 2004. The Company was formed for the purpose of 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 company. The Company may continue until December 31, 2025. Each Member’s personal liability for obligations of the Company generally will be limited to the amount of their respective contributions and rights to undistributed profits and asset of the Company.

The Company conducted a public offering of 15,000,000 Limited Liability Company Units (“Units”), at a price of \$10 per Unit. On May 31, 2005, subscriptions for the minimum number of Units (120,000, representing \$1,200,000) had been received 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 July 13, 2005, the Company had received subscriptions for 958,274 Units (\$9,582,740), thus exceeding the \$7,500,000 minimum requirement for Pennsylvania, and AFS requested that the remaining funds in escrow (from Pennsylvania investors) be released to the Company. The Company terminated sales of Units effective April 30, 2006.

As of December 31, 2006, 5,232,607 Units 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 (ending six calendar years after the completion of the Company’s public offering of Units) 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, 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.

**2. Summary of significant accounting policies:**

*Basis of presentation:*

The accompanying financial statements as of December 31, 2006, and for the years ended December 31, 2006 and 2005 have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”).

*Use of estimates:*

The preparation of financial statements in conformity with accounting GAAP 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.

*Cash and cash equivalents:*

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

*Accounts receivable:*

Accounts receivable represent the amounts billed under lease 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 on specific identification by AFS.

**ATEL CAPITAL EQUIPMENT FUND XI, 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.

*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 36 to 120 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.

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 was \$8,407,929 at December 31, 2006.



**ATEL CAPITAL EQUIPMENT FUND XI, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

**2. Summary of significant accounting policies (continued):**

*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.

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.

**ATEL CAPITAL EQUIPMENT FUND XI, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

**2. Summary of significant accounting policies (continued):**

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 and 2005 and long-lived tangible assets as of December 31, 2006:

	For the years ended December 31,			
	2006	% of Total	2005	% of Total
<b>Revenue</b>				
United States	\$6,196,435	88%	\$598,752	99%
United Kingdom	846,937	12%	5,813	1%
Total International	846,937	12%	5,813	1%
<b>Total</b>	<u>\$7,043,372</u>	100%	<u>\$604,565</u>	100%
			As of December 31,	
			2006	% of Total
<b>Long-lived tangible assets</b>				
United States			\$32,965,665	89%
United Kingdom			4,225,264	11%
Total International			4,225,264	11%
<b>Total</b>			<u>\$37,190,929</u>	100%

*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. During the year ended December 31, 2006, the Company recognized a foreign currency gain of \$73,711, which is included in other income, net. There was no foreign currency gain or loss recognized during 2005.

*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 income taxes for only those states, which levy income taxes on partnerships. For the years ended December 31, 2006 and 2005, the current provision for state income taxes was approximately \$40,000 and \$43,000, respectively.

**ATEL CAPITAL EQUIPMENT FUND XI, 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:

	2006	2005
Financial statement basis of net assets	\$38,134,701	\$32,727,782
Tax basis of net assets (unaudited)	29,395,687	38,797,729
Difference	<u>\$ (8,739,014)</u>	<u>\$ 6,069,947</u>

The primary differences between the tax basis of net assets and the amounts recorded in the financial statements are the result of differences in accounting for syndication costs and differences between the depreciation methods used in the financial statements and the Company's tax returns.

The following reconciles the net losses reported in these financial statements to the net losses reported on the Company's federal tax returns (unaudited) for the years ended December 31, 2006 and 2005, respectively:

	2006	2005
Net (loss) per financial statements	\$ (620,592)	\$(263,255)
Tax adjustments (unaudited):		
Adjustment to depreciation expense	(5,208,064)	(452,478)
Provision for losses and doubtful accounts	174,402	—
Adjustments to revenues	804,673	341,526
Other	—	43,565
Net (loss) per federal tax return (unaudited)	<u>\$ (4,849,581)</u>	<u>\$ (330,642)</u>

*Other income (loss), net:*

During the year ended December 31, 2006, other income was solely comprised of a foreign currency gain of \$73,711. There was no other income (loss) during the year ended December 31, 2005.

*Per unit data:*

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

*Organization and Offering Expenses.*

The Managing Member and its Affiliates was reimbursed for certain expenses in connection with the organization of the Company and the offering of units. Total Organization and Offering Expenses ("Syndication Costs") paid or reimbursed by the Company, including selling commissions payable directly by the Company, did not exceed 15% of offering proceeds up to \$25,000,000 and 14% of the offering proceeds in excess of \$25,000,000 (the "Cap"). Syndication Costs were recorded by the Company as a reduction of Other Members' Capital.

**ATEL CAPITAL EQUIPMENT FUND XI, 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, 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>2006</u>
Manufacturing	45%
Rail Transportation	28%
Health Care	12%
Transportation Services	11%

During 2006, three customers comprised 48% of the Company’s revenues from leases. During 2005, one customer comprised 61% of the Company’s revenues from leases.

**ATEL CAPITAL EQUIPMENT FUND XI, 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 generally are up to 120 months and bear interest at rates ranging from 8.5% to 18.7%. The notes are secured by the equipment financed. As of December 31, 2006, the minimum future payments receivable are as follows:

Year ending December 31, 2007	3,587,997
2008	3,321,155
2009	1,401,858
2010	393,128
2011	393,128
Thereafter	1,262,646
	<u>10,359,912</u>
Less: portion representing interest	(1,842,704)
	<u>8,517,208</u>
Initial direct costs, net of accumulated amortization of \$34,206	34,293
Less: reserve for impairment	(143,572)
	<u>\$ 8,407,929</u>

For the year 2006, IDC amortization expense related to notes receivable was \$29,463. Together with IDC amortization expense related to operating leases and direct finance leases (discussed in footnote 6) of \$110,460, total IDC amortization expense was \$139,923 for 2006.

For the year 2005, IDC amortization expense related to notes receivable was \$4,832. Together with IDC amortization expense related to operating leases and direct finance leases (discussed in footnote 6) of \$2,945, total IDC amortization expense was \$7,777 for 2005.

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

The Company's allowance for doubtful accounts and losses as of December 31, 2006 is shown below. The Company did not have an allowance for doubtful accounts in prior years.

	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	—	—	143,572	30,830	174,402
(Write-offs) Recoveries	—	—	—	—	—
Balance December 31, 2006	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 143,572</u>	<u>\$ 30,830</u>	<u>\$174,402</u>

**A TEL CAPITAL EQUIPMENT FUND XI, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

**6. Investments in equipment and leases, net:**

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

	<u>Balance December 31, 2005</u>	<u>Reclassifications &amp; Additions / Dispositions</u>	<u>Depreciation / Amortization Expense or Amortization of Direct Financing Leases</u>	<u>Balance December 31, 2006</u>
Net investment in operating leases	\$14,758,694	\$ 26,887,018	\$(5,020,736)	\$36,624,976
Net investment in direct financing leases	—	55,414	(524)	54,890
Initial direct costs, net of accumulated amortization of \$113,495 in 2006 and \$2,952 in 2005	167,752	453,771	(110,460)	511,063
Total	<u>\$14,926,446</u>	<u>\$ 27,396,203</u>	<u>\$(5,131,720)</u>	<u>\$37,190,929</u>

Additions to net investment in operating leases are stated at cost and include amounts accrued at December 31, 2006 and 2005 related to asset purchase obligations.

For the year 2006, IDC amortization expense related to operating and direct finance leases was \$110,460. Together with IDC amortization expense related to notes receivable (as discussed in note 4) of \$29,463 total IDC amortization expense was \$139,923 for 2006.

For the year 2005, IDC amortization expense related to operating and direct finance leases was \$2,945. Together with IDC amortization expense related to notes receivable (as discussed in note 4) of \$4,832, total IDC amortization expense was \$7,777 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 or 2005.

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 \$5,020,736 and \$211,977 for the years ended December 31, 2006 and 2005, respectively.

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

**ATEL CAPITAL EQUIPMENT FUND XI, 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
Materials handling	\$ 4,132,141	\$10,616,469	\$ —	\$14,748,610
Manufacturing	622,892	475,234	—	1,098,126
Transportation	10,215,638	10,259,589	(173,000)	20,302,227
Construction	—	3,561,702	—	3,561,702
Office furniture	—	145,907	—	145,907
Logging and Lumber	—	2,001,117	—	2,001,117
	<u>14,970,671</u>	<u>27,060,018</u>	<u>(173,000)</u>	<u>41,857,689</u>
Less accumulated depreciation	<u>(211,977)</u>	<u>(5,020,736)</u>	<u>—</u>	<u>(5,232,713)</u>
<b>Total</b>	<b><u>\$14,758,694</u></b>	<b><u>\$22,039,282</u></b>	<b><u>\$ (173,000)</u></b>	<b><u>\$36,624,976</u></b>

*Direct financing leases:*

As of December 31, 2006, investment in direct financing leases consists of manufacturing equipment. The following lists the components of the Company's investment in direct financing leases as of December 31, 2006:

	December 31, 2006
Total minimum lease payments receivable	\$ 55,922
Estimated residual values of leased equipment (unguaranteed)	<u>10,390</u>
Investment in direct financing leases	66,312
Less unearned income	<u>(11,422)</u>
<b>Net investment in direct financing leases</b>	<b><u>\$ 54,890</u></b>

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	\$ 7,752,299	\$ 9,452	\$ 7,761,751
2008	7,726,752	9,452	7,736,204
2009	5,750,039	9,452	5,759,491
2010	5,027,023	9,452	5,036,475
2011	2,676,457	9,452	2,685,909
Thereafter	<u>4,422,486</u>	<u>8,662</u>	<u>4,431,148</u>
	<b><u>\$33,355,056</u></b>	<b><u>\$55,922</u></b>	<b><u>\$33,410,978</u></b>

**ATEL CAPITAL EQUIPMENT FUND XI, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

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

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</u>
Mining	30 - 40
Marine Vessels	20 - 30
Manufacturing	10 - 20
Materials Handling	7 - 10
Transportation	7 - 10
Natural Gas Compressors	7 - 10
Office Furniture	7 - 10
Communications	3 - 5

**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 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:

	<u>Year ended</u> <u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Selling commissions, equal to 9% of the selling price of the Limited Liability Company units, deducted from Other Members’ capital	\$1,183,373	\$3,555,268
Reimbursement of other syndication costs to Managing Member, deducted from Other Members’ capital	812,912	1,859,227
Administrative costs reimbursed to Managing Member	448,508	74,733
Asset management fees to Managing Member	367,978	19,895
Acquisition and initial direct costs paid to Managing Member	1,198,851	478,257
	<u>\$4,011,622</u>	<u>\$5,987,380</u>

**ATEL CAPITAL EQUIPMENT FUND XI, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

**8. Borrowing facilities:**

The Company participates with AFS and certain of its affiliates in a financing arrangement (comprised of a term loan to AFS and a line of credit) with a group of financial institutions that includes certain financial covenants. The financial arrangement is \$75,000,000 and expires in June 2007. The availability of borrowings to the Company under this financing arrangement is reduced by the amount AFS has outstanding as a term loan.

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	(9,500,000)
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition facility	<u>(17,061,475)</u>
Total remaining available under the acquisition and warehouse facilities	<u>\$ 48,438,525</u>

Draws on the acquisition facility by any individual borrower are secured only by that borrower's assets, including equipment and related leases. Borrowings on the warehouse facility are recourse jointly to certain of the affiliated Memberships and limited liability companies, the Company and AFS. 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 \$514,428.

The credit agreement includes certain 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.

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.

As of December 31, 2006, the Company had \$9,500,000 outstanding under the acquisition facility. Interest on the line of credit is based on either the thirty day LIBOR rate or the bank's prime rate. 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. Commitments:**

At December 31, 2006, there were commitments to purchase lease asset totaling approximately \$8,900,000. This amount represents contract awards which may be canceled by the prospective lessee or may not be accepted by the Company. Of the \$8,900,000 commitment at December 31, 2006, approximately \$340,000 was canceled subsequent to year-end.

**10. 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

**ATEL CAPITAL EQUIPMENT FUND XI, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

**10. Guarantees (continued):**

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.

**11. Members' capital:**

As of December 31, 2006, 5,232,607 Units were issued and outstanding. The Company terminated sales of Units effective April 30, 2006. The Company was authorized to issue up to 15,000,000 Units.

## **Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES**

None.

## **Item 8A. 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 Rules 13a-15(d) and 15(e) under the Securities Exchange Act of 1934) during and as 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 at December 31, 2006, certain controls were ineffective and thus there was a material weakness 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 of leased assets, accumulating and capitalizing costs for initiating leases ("IDC"), and properly amortizing costs associated with the initiation of a lease); b) allocation of cost reimbursements to Managing Member; c) process of identifying and estimating liabilities in the correct period; and d) financial statement close process; and 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 has taken the following steps to address the above mentioned issues:

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 financing transactions.

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 Operating Agreement.

With regard to identifying and estimating liabilities in the correct period 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.

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 9. DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The registrant is a Limited Liability Company and 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 ATEL Leasing Corporation (“ALC”), ATEL Equipment Corporation (“AEC”), ATEL Investor Services (“AIS”) and ATEL Financial Services, LLC (“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 performs 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**

Based solely on a review of Forms 3, 4, and 5, the Company is not 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 and Chief Financial and Operating Officer. The Code of Ethics is included as Exhibit 14.1 to this report.

### **Item 10. EXECUTIVE COMPENSATION**

The registrant has no officers or directors.

Set forth hereinafter is a description of the nature of remuneration paid and to be paid to ATEL and its Affiliates. The amount of such remuneration paid in 2006 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.

### **Selling Commissions**

The Company paid selling commissions in the amount of 9% of Gross Proceeds, as defined, to ATEL Securities Corporation, an affiliate of ATEL.

Through December 31, 2006, \$4,738,641 of such commissions had been paid to AFS or its affiliate. Of that amount, \$3,948,868 has been re-allowed to other broker/dealers.

### **Asset Management Fee and Carried Interest**

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 also receives, as its Carried Interest, an amount equal to 7.5% of all Company Distributions.

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.

### **Limitations on Fees**

The Fund has adopted a single Asset Management Fee plus the Carried Interest as a means of compensating the Manager for sponsoring the Fund and managing its operations. While this compensation structure is intended to simplify management compensation for purposes of investor's understanding, state securities administrators use a more complicated compensation structure in their review of equipment program offerings in order to assure that those offerings are fair under the states' merit review guidelines. The total of all Front End Fees, the Carried Interest and the Asset Management Fee will be subject to the Asset Management Fee Limit in order to assure these state administrators that Fund will not bear greater fees than permitted under the

state merit review guidelines. The North American Securities Administrators Association, Inc. (“NASAA”) is an organization of state securities administrators, those state government agencies responsible for qualifying securities offerings in their respective states. NASAA has established standards for the qualification of a number of different types of securities offerings and investment products, including its Statement of Policy on Equipment Programs (the “NASAA Equipment Leasing Guidelines”). Article IV, Sections C through G of the NASAA Equipment Leasing Guidelines establish the standards for payment of reasonable carried interests, promotional interests and fees for equipment acquisition, management, resale and releasing services to equipment leasing program sponsors. Article IV, Sections C through G of the NASAA Equipment Leasing Guidelines set the maximum compensation payable to the sponsor and its affiliates from an equipment leasing program such as the Fund. The Asset Management Fee Limit will equal the maximum compensation payable under Article IV, Sections C through G of the NASAA Equipment Leasing Guidelines as in effect on the date of the Fund’s prospectus (the “NASAA Fee Limitation”). Under the Asset Management Fee Limit, the Fund will calculate the maximum fees payable under the NASAA Fee Limitation and guarantee that the Asset Management Fee it will pay the Manager and its Affiliates, when added to its Carried Interest, will never exceed the fees and interests payable to a sponsor and its affiliates under the NASAA Fee Limitation.

**Asset Management Fee Limit.** The Asset Management Fee Limit will be calculated each year during the Fund’s term by calculating the total fees that would be paid to the Manager if the Manager were to be compensated on the basis of the maximum compensation payable under the NASAA Fee Limitation, including the Manager’s Carried Interest, as described below. To the extent that the amount paid as Front End Fees, the Asset Management Fee, and the Carried Interest for any year would cause the total fees to exceed the aggregate amount of fees calculated under the NASAA Fee Limitation for the year, the Asset Management Fee and/or Carried Interest for that year will be reduced to equal the maximum aggregate fees under the NASAA Fee Limitation. 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 the Manager in a subsequent period, but only to the extent that the deferred compensation would be within the Asset Management Fee Limit for that later period. Any deferred fees that cannot be paid under the applicable limitations through the date of liquidation would be forfeited by the Manager at liquidation.

Under the NASAA Equipment Leasing Guidelines, the Fund is required to commit a minimum percentage of the Gross Proceeds to Investment in Equipment, calculated as the greater of: (i) 80% of the Gross Proceeds reduced by 0.0625% for each 1% of indebtedness encumbering the Fund’s equipment; or (ii) 75% of such Gross Proceeds. The Fund intends to incur total indebtedness equal to 50% of the aggregate cost of its equipment. The Operating Agreement requires the Fund to commit at least 85.875% of the Gross Proceeds to Investment in Equipment. Based on the formula in the NASAA Guidelines, the Fund’s minimum Investment in Equipment would equal 76.875% of Gross Proceeds ( $80\% - [50\% \times .0625\%] = 76.875\%$ ), and the Fund’s minimum Investment in Equipment would therefore exceed the NASAA Fee Limitation minimum by 9%.

The amount of the Carried Interest permitted the Manager under the NASAA Fee Limitation will be dependent on the amount by which the percentage of Gross Proceeds the Fund ultimately commits to Investment in Equipment exceeds the minimum Investment in Equipment under the NASAA Fee Limitation. The NASAA Fee Limitation permits the Manager and its Affiliates to receive compensation in the form of a carried interest in Fund Net Income, Net Loss and Distributions equal to 1% for the first 2.5% of excess Investment in Equipment over the NASAA Guidelines minimum, 1% for the next 2% of such excess, and 1% for each additional 1% of excess Investment in Equipment. With a minimum Investment in Equipment of 85.875%, the Manager and its Affiliates may receive an additional carried interest equal to 6.5% of Net Profit, Net Loss and Distributions under the foregoing formula ( $2.5\% + 2\% + 4.5\% = 9\%$ ;  $1\% + 1\% + 4.5\% = 6.5\%$ ). At the lowest permitted level of Investment in Equipment, the NASAA Guidelines would permit the Manager and its Affiliates to receive a promotional interest equal to 5% of Distributions of Cash from Operations and 1% of Distributions of Sale or Refinancing Proceeds until Members have received total Distributions equal to their Original Invested Capital plus an 8% per annum cumulative return on their Adjusted Invested Capital, and, thereafter, the promotional interest may increase to 15% of all Distributions.

With the additional carried interest calculated as described above, the maximum aggregate fees payable to the Manager and Affiliates under the NASAA Guidelines as carried interest and promotional interest would equal 11.5% of Distributions of Cash from Operations ( $6.5\% + 5\% = 11.5\%$ ), and 7.5% of Distributions of Sale or Refinancing Proceeds ( $6.5\% + 1\% = 7.5\%$ ), before the subordination level was reached, and 2 1.5% of all Distributions thereafter. The maximum amounts to be paid under the terms of the Operating Agreement are subject to the application of the Asset Management Fee Limit provided in Section 8.3 of the Agreement, which limits the annual amount payable to the Manager and its Affiliates as the Asset Management Fee and the Carried Interest to an aggregate not to exceed the total amount of fees that would be payable to the Manager and its Affiliates under the NASAA Fee Limitation.

Upon completion of the offering of Units, final commitment of offering proceeds to acquisition of equipment and establishment of final levels of permanent portfolio debt, the Manager will calculate the maximum carried interest and promotional interest payable to the Manager and its Affiliates under the NASAA Fee Limitation and compare such total permitted fees to the total of the Asset Management Fee and Manager’s Carried Interest. If and to the extent that the Asset Management Fee and Manager’s Carried Interest would exceed the fees calculated under the NASAA Fee Limitation, the fees payable to the Manager and its Affiliates will be reduced by an amount sufficient to cause the total of such compensation to comply with the NASAA Fee Limitation. The adjusted Asset Management Fee Limit will then be applied to the Asset Management Fee and Carried Interest as described above. A comparison of

the Front End Fees actually paid by the Fund and the NASAA Fee Limitation maximums will be repeated, and any required adjustments will be made, at least annually thereafter.

A Carried Interest equal to 7.5% of all Distributions of Cash from Operations and Cash from Sales or Refinancing. See Note 7 to the financial statements included in Item 7 for amounts paid.

**Managing Member’s Interest in Operating Proceeds**

AFS receives an allocation of all 7.5% of all Company net income, net loss and investment tax credits corresponding to its Carried Interest in Distributions, and the remaining 92.5% is allocated among the Members. See financial statements included in Item 7, Part I of this report for amounts allocated to AFS in 2006.

**Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

**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)	0.0011%

**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 the 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 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The responses to Item 1 of this report under the caption “Equipment Leasing Activities,” Item 7 of this report under the caption “Financial Statements and Supplemental Data - Notes to the Financial Statements - Related party transactions” at Note 7 thereof, and Item 10 of this report under the caption “Executive Compensation,” are hereby incorporated by reference.

### Item 13. EXHIBITS

The following exhibits are included with or incorporated into this report:

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1, 4.1	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 April 11, 2005, (File Number 333-120276) is hereby incorporated as Exhibits 3.1 and 4.1 to this report by this reference.
14.1	Code of Ethics
31.1	Rule 13a-14(a)/ 15d-14(a) Certification of Dean L. Cash
31.2	Rule 13a-14(a)/ 15d-14(a) Certification of Paritosh K. Choksi
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

### Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

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

	<u>2006</u>	<u>2005</u>
Audit fees	\$106,855	\$78,353
Audit related fees	67,743	—
Tax fees	4,407	18,100
Other	—	—
	<u>\$179,005</u>	<u>\$96,453</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.

## 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 17, 2007

By: ATEL Financial Corporation  
Managing Member of Registrant

ATEL Capital Equipment Fund XI, LLC (Registrant)

By: /s/ Dean 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 17, 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 17, 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-KSB, 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, Dean L. Cash, certify that:

1. I have reviewed this annual report on Form 10-KSB of ATEL Capital Equipment Fund XI, 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 17, 2007

/s/ Dean L. Cash

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Dean L. Cash

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

**RULE 13a-14(a) / 15d-14(a)**  
**CERTIFICATION**

I, Paritosh K. Choksi, certify that:

1. I have reviewed this annual report on Form 10-KSB of ATEL Capital Equipment Fund XI, 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 17, 2007

/s/ Paritosh K. Choksi

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Paritosh K. Choksi  
Executive Vice President and Chief Financial and  
Operating 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-KSB of ATEL Capital Equipment Fund XI, LLC, (the "Company") for the period ended December 31, 2004 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 17, 2007

/s/ Dean L. Cash

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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-KSB of ATEL Capital Equipment Fund XI, LLC, (the "Company") for the period ended December 31, 2004 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 17, 2007

/s/ Paritosh K. Choksi

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