

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

Form 10-K

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

For the year ended December 31, 2008

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

ATEL Capital Equipment Fund XI, LLC
(Exact name of registrant as specified in its charter)

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 94108-2733
(Address of principal executive offices)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

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

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

The number of Limited Liability Company Units outstanding as of February 28, 2009 was 5,210,507.

DOCUMENTS INCORPORATED BY REFERENCE

None.

PART I

Item 1. BUSINESS

General Development of Business

A TEL 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. Also, from time to time, the Company may purchase securities of its borrowers or receive warrants to purchase securities in connection with its lending arrangements. 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 assets 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 \$1.2 million) 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 (acquiring equipment to engage in equipment leasing, lending and sales activities). As of July 13, 2005, the Company had received subscriptions for 958,274 Units (\$9.6 million), thus exceeding the \$7.5 million 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. Net contributions of \$52.3 million were received through December 31, 2008, consisting of approximately \$52.8 million in gross contributions from Other Members purchasing Units under the public offering less rescissions and repurchases of \$532 thousand. As of December 31, 2008, 5,230,507 Units were issued and outstanding.

The Company's principal objectives are to invest in a diversified portfolio of equipment that (i) preserves, protects and returns the Company's invested capital; (ii) generates regular distributions to the Members of cash from operations and cash from sales or refinancing, with any balance remaining after certain minimum distributions to be used to purchase additional equipment during the reinvestment period ("Reinvestment Period") (defined as six full years following the year the offering was terminated), which ends December 31, 2012, and (iii) provides 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 8 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. Therefore, the financial position of the Company could change significantly.

The Company is in its acquisition phase and is making distributions on a monthly and quarterly basis. Periodic distributions commenced in June 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 only purchases equipment under pre-existing leases or for which a lease will be entered into concurrently at the time of the purchase. Through December 31, 2008, the Company had purchased equipment with a total acquisition price of \$63.4 million. The Company had also loaned \$15.1 million 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 2008 and 2007, certain lessees generated significant portions of the Company's total operating revenues as follows:

Lessee	Type of Equipment	Percentage of Total Lease Revenues	
		2008	2007
Washington Group International	Construction	12%	*
New NGC, Inc.	Materials handling	11%	*
International Paper Co.	Materials handling	10%	13%
Union Pacific	Transportation	10%	11%

* 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, type of equipment and creditworthiness of the lessee. 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 million); (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, 2008 and 2007:

Geographic area	2008	2007
United States	92%	91%
Europe	8%	9%

The business of the Company is not seasonal.

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

Equipment Leasing Activities

The Company has acquired a diversified portfolio of equipment. The equipment has been leased to lessees in various industries. The following tables set forth the types of equipment acquired by the Company through December 31, 2008 and the industries to which the assets have been leased (in thousands):

<u>Asset Types</u>	<u>Purchase Price Excluding Acquisition Fees</u>	<u>Percentage of Total Acquisitions</u>
Transportation	\$ 21,534	33.95%
Materials handling	21,957	34.63%
Construction	12,441	19.61%
Manufacturing	2,280	3.59%
Logging and lumber	2,001	3.15%
Aviation	1,658	2.61%
Marine vessels	1,415	2.23%
Office furniture	146	0.23%
	<u>\$ 63,432</u>	<u>100.00%</u>

<u>Industry of Lessee</u>	<u>Purchase Price Excluding Acquisition Fees</u>	<u>Percentage of Total Acquisitions</u>
Manufacturing	\$ 37,878	59.72%
Transportation, rail	11,924	18.80%
Transportation services	8,319	13.11%
Health care	4,967	7.83%
Electrical	344	0.54%
	<u>\$ 63,432</u>	<u>100.00%</u>

From inception to December 31, 2008, the Company has disposed of certain leased assets as set forth below (in thousands):

<u>Asset Types</u>	<u>Original Equipment Cost Excluding Acquisition Fees</u>	<u>Sale Price</u>	<u>Excess of Rents Over Expense *</u>
Transportation	\$ 201	\$ 246	\$ 7
Construction	560	472	348
	<u>\$ 761</u>	<u>\$ 718</u>	<u>\$ 355</u>

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

For further information regarding the Company's equipment lease portfolio as of December 31, 2008, see Note 6 to the financial statements, Investments in equipment and leases, net, as set forth in Part II, Item 8, Financial Statements and Supplementary Data.

Notes Receivable Activities

The Company finances a diversified portfolio of assets in diverse industries. The following tables set forth the types of assets financed by the Company through December 31, 2008 and the industries to which the assets have been financed (in thousands):

<u>Asset Types</u>	<u>Amount Financed Excluding Acquisition Fees</u>	<u>Percentage of Total Fundings</u>
Computer equipment	\$ 7,815	51.77%
Equipment and other assets	6,410	42.46%
Manufacturing	871	5.77%
	<u>\$ 15,096</u>	<u>100.00%</u>

<u>Industry of Borrower</u>	<u>Amount Financed Excluding Acquisition Fees</u>	<u>Percentage of Total Fundings</u>
Communications	\$ 3,948	26.15%
Business services	3,010	19.94%
Manufacturing	2,503	16.58%
Health care	2,833	18.77%
Technology	1,682	11.14%
Electronics	1,120	7.42%
	<u>\$ 15,096</u>	<u>100.00%</u>

From inception to December 31, 2008, assets financed by the Company that are associated with terminated loans are as follows (in thousands):

<u>Asset Types</u>	<u>Amount Financed Excluding Acquisition Fees</u>	<u>Disposition Proceeds</u>	<u>Total Payments Received</u>
Equipment and other assets	\$ 3,075	\$ 683	\$ 3,186
Computer equipment	4,682	2,843	3,640
	<u>\$ 7,757</u>	<u>\$ 3,526</u>	<u>\$ 6,826</u>

For further information regarding the Company's notes receivable portfolio as of December 31, 2008, see Note 4 to the financial statements, Notes receivable, net, as set forth in Part II, Item 8, Financial Statements and Supplementary Data.

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 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.

Holders

As of December 31, 2008, a total of 1,180 investors were Unitholders of record in the Company.

Distributions

The Unitholders of record 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 2008 operations was \$0.08 per Unit for the period from January through December 2008. Likewise, the rate for monthly distributions from 2007 operations was \$0.08 per Unit for the period from January through December 2007. The rate for each of the quarterly distributions paid in 2008 and 2007 was \$0.23 per Unit.

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

	<u>2008</u>	<u>2007</u>
Net loss per Unit, based on weighted average Unit outstanding	\$ (0.24)	\$ (0.32)
Return of investment	<u>1.16</u>	<u>1.25</u>
Distributions declared per Unit, based on weighted average Other Member Units outstanding	0.92	0.93
Differences due to timing of distributions	-	-
Actual distributions paid per Unit	<u>\$ 0.92</u>	<u>\$ 0.93</u>

Item 6. SELECTED FINANCIAL DATA

A smaller reporting company is not required to present selected financial data in accordance with item 301(c) of Regulation S-K.

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

Statements contained in this Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") and elsewhere in this Form 10-K, which are not historical facts, may be forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. In particular, the 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-K. We undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Form 10-K or to reflect the occurrence of unanticipated events, other than as required by law.

Overview

ATEL Capital Equipment Fund XI, LLC (the "Company") is a California limited liability company that was formed in June 2004 for the purpose of engaging in the sale of limited liability company investment units and acquiring equipment to generate revenues from equipment leasing, lending and sales activities, primarily in the United States.

The Company conducted a public offering of 15,000,000 Limited Liability Company Units ("Units"), at a price of \$10 per Unit. The offering was terminated in April 2006. During 2006, the Company completed its initial acquisition stage with the investment of the net proceeds from the public offering of Units. Subsequently, during the reinvestment period ("Reinvestment Period") (defined as six full years following the year the offering was terminated), the Company has reinvested cash flow in excess of certain amounts required to be distributed to the Other Members and/or utilized its credit facilities to acquire additional equipment. Throughout the Reinvestment Period, which ends December 31, 2012, the Company anticipates continued reinvestment of cash flow in excess of minimum distributions and other obligations. The Company is governed by its Limited Liability Company Operating Agreement ("Operating Agreement"), as amended.

The Company may continue until December 31, 2025. Periodic distributions are paid at the discretion of the Managing Member.

Capital Resources and Liquidity

The liquidity of the Company varies, increasing to the extent cash flows from leases and proceeds of asset sales exceed expenses and decreasing as lease assets are acquired, as distributions are made to the Members and to the extent expenses exceed cash flows from leases and proceeds from asset sales.

The primary source of liquidity for the Company is its cash flow from leasing activities. As the 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 remarketing or selling the equipment as it comes off rental.

Throughout the Reinvestment Period (as defined in the Operating Agreement), the Company anticipates reinvesting a portion of lease payments from assets owned, and/or payments received on notes receivable, in new leasing or financing transactions. Such reinvestment will occur only after the payment of all obligations, including debt service (both principal and interest), the payment of management fees to AFS and providing for cash distributions to the Members.

In a normal economy, 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 and notes would not increase as such rates are generally fixed for the terms of the leases and notes without adjustment for inflation. In addition, if interest rates increase significantly under such circumstances, the rates that the Company can obtain on future lease or financing transactions will be expected to increase as the cost of capital is a significant factor in the pricing of leases and investments in notes receivable. Leases and notes already in place, for the most part, would not be affected by changes in interest rates.

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 participates with AFS and certain of its affiliates in a financing arrangement (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 covenants. The financial arrangement is for \$75 million. Originally scheduled to expire in June 2009, the facility was amended effective December 22, 2008 to extend the term of the agreement through June 2010. Under such amendment, the tangible net worth threshold for ATEL 12, LLC participation in the acquisition facility was reduced from \$15 million to \$7.5 million. As of December 31, 2008, ATEL 12, LLC was eligible to participate.

Borrowings under the facility as of December 31, 2008 were as follows (in thousands):

Total available under the financing arrangement	\$ 75,000
Amount borrowed by the Company under the acquisition facility	(500)
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition and warehouse facilities	<u>(8,323)</u>
Total remaining available under the acquisition and warehouse facilities	<u>\$ 66,177</u>

The Company is contingently liable for principal payments under the warehouse facility as borrowings are recourse jointly and severally to the extent of the pro-rata share of the Company's net worth as compared to the aggregate net worth of certain of the affiliated partnerships and limited liability companies of the Company and including AFS and ALC (which latter two entities are 100% liable). The Company and its affiliates pay an annual commitment fee to have access to this line of credit. As of December 31, 2008, borrowings of \$1.3 million were outstanding under the warehouse facility. The Company's maximum obligation on the outstanding warehouse balance at December 31, 2008 was approximately \$264 thousand.

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, 2008 was 3.25%.

Draws on the acquisition facility by any affiliated partnership and/or limited liability company borrower are secured by a blanket lien on 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 are added. As of December 31, 2008, the investment program participants were ATEL Capital Equipment Fund IX, LLC, ATEL Capital Equipment Fund X, LLC, the Company and ATEL 12, LLC. Pursuant to the Warehousing Trust Agreement, the benefit of the lease transaction assets, and the corresponding liabilities under the warehouse borrowing facility, inure to each of such entities based upon each entity's pro-rata share in the warehousing trust estate. The "pro-rata share" is calculated as a ratio of the net worth of each entity over the aggregate net worth of all entities benefiting from the warehouse trust estate, excepting that the trustees, AFS and ALC, are both liable for their pro-rata shares of the obligations based on their respective net worth, and jointly liable for the pro rata portion of the obligations of each of the affiliated partnerships and limited liability companies participating under the borrowing facility. Transactions are financed through this warehousing facility only until the transactions are allocated to a specific program for purchase or are otherwise disposed by AFS and ALC. When a determination is made to allocate the transaction to a specific program for purchase by the program, the purchaser repays the debt associated with the asset, either with cash or by means of the acquisition facility financing, the asset is removed from the warehouse facility collateral, and ownership of the asset and any debt obligation associated with the asset are assumed solely by the purchasing entity.

As of December 31, 2008, the full amount remaining available under the joint acquisition and warehouse facility is potentially available to the Company, subject to certain terms or agreement limitations. However, as amounts are drawn on the facility by each of the Company and the affiliates who are borrowers under the facility, the amount available to all is reduced. As the warehousing facility is a short term bridge facility, any amounts borrowed under the warehousing facility, and then repaid by the affiliated borrowers (including the Company) upon allocation of an acquisition to a specific purchaser, become available under the warehouse facility for further short term borrowing.

The financing arrangement discussed above includes certain financial and non-financial covenants applicable to each borrower. The Company and affiliates were in compliance with all covenants as of December 31, 2008.

The Company also has access to certain sources of non-recourse debt financing, which the Company will use on a transaction basis as a means of mitigating credit risk, as the credit risk is effectively transferred to the lender who retains recourse against collateralized assets. During 2008, the Company utilized such sources of non-recourse debt financing and at December 31, 2008, had \$17.4 million of non-recourse debt outstanding consisting of notes payable to financial institutions. For detailed information on the Company's debt obligations, see Notes 8 and 9 to the financial statements as set forth in Part II, Item 8, Financial Statements and Supplementary Data.

The Company commenced periodic distributions, based on cash flows from operations, beginning with the month of June 2005. Additional distributions have been consistently made through December 2008.

As of December 31, 2008, the Company had no outstanding commitments to purchase lease assets or finance loans.

Cash Flows

2008 vs. 2007

Operating Activities

Cash provided by operating activities increased by \$2.5 million, or 44%, for the year ended December 31, 2008 as compared to prior year. The net increase in cash flow was primarily attributable to improved operating results, as adjusted for non-cash revenue and expense items such as gains on sales of assets and depreciation expense, reduced payments made against accounts payable and accrued liabilities, and increased net collections of outstanding accounts receivable offset, in part, by a decline in unearned operating lease income.

The increase in operating results, as adjusted for non-cash items, benefited cash flow by \$2.6 million and was mainly due to a 17% increase in operating lease revenues. In addition, the Company also saw year over year decreases in acquisition expense, outside services and professional fees totaling 95%, 63% and 36%, respectively. These reductions in expense were offset, in part, by a 17% increase in interest expense on the Company's outstanding debt.

The net reduction in payments made against accounts payable and accrued liabilities improved cash flow by \$540 thousand. Total payments during 2007 were significantly higher primarily due to the payment of approximately \$1.5 million of 2006 accruals related to asset purchases. This was partially offset by the 2008 payment of 2007 accruals related to asset purchases and reimbursements to AFS, higher sales tax payments and a refund of a lessee overpayment during the second quarter of 2008. Similarly, the year over year increase in net collections of outstanding accounts receivable improved cash flow by \$222 thousand.

The aforementioned increases in cash flow were partially offset by a \$968 thousand decrease resulting from a decline in unearned operating lease income. The decline in unearned operating lease income was primarily due to a year over year reduction in prepayments received, combined with an increase in realized unearned rents.

Investing Activities

Cash provided by investing activities totaled \$3.1 million for 2008 compared to cash used in investing activities totaling \$18.6 million for 2007, a \$21.7 million improvement. The net improvement in cash flow was primarily a result of decreases in cash used to purchase lease assets, fund investments in notes receivable, acquire investment securities and pay for initial direct costs related to asset purchases; offset, in part, by a reduction in proceeds from both early termination of notes receivable and sales of lease assets and payments received on the Company's investment in notes receivable.

Cash used to originate and fund leases and notes receivables as well as purchase investment securities decreased by \$20.3 million, \$3.1 million and \$266 thousand, respectively. In addition, initial direct costs associated with asset purchases declined by \$189 thousand. These decreases were attributable to a decline in acquisition phase activity as the Fund has approached full investment.

Partially offsetting the aforementioned increases in cash flow were decreases of \$1.1 million, \$623 thousand and \$497 thousand resulting from reductions in proceeds from early termination of notes receivable, payments received on notes receivable and proceeds from sales of lease assets, respectively.

The decrease in proceeds from early termination of notes receivable was due to a year over year drop in prepayments of notes receivable. The decline in payments received on notes receivable was largely attributable to the drop in outstanding notes receivable as a result of maturities, prepayments and early terminations; and the reduction in proceeds from sales of lease assets was mainly due to a diminished level of lease assets available for sale resulting from a year over year decrease in terminating least assets.

Financing Activities

Net cash used in financing activities totaled \$11.9 million for 2008 compared to cash provided by financing activities of \$9.8 million for 2007, a decrease of \$21.7 million. The net decrease in cash flow was primarily due to a net reduction in proceeds from borrowings during the comparative years. The reduction in Company borrowings is consistent with the decline in acquisition phase activity.

Results of Operations

Cost reimbursements to the Managing Member are based on its costs incurred in performing administrative services for the Company. These costs are allocated to each managed entity based on certain criteria such as total assets, number of investors or contributed capital based upon the type of cost incurred.

The Operating Agreement places an annual limit and a cumulative limit for cost reimbursements to AFS and/or affiliates. Any reimbursable costs incurred by AFS and/or affiliates during the year exceeding the annual and/or cumulative limits cannot be reimbursed in the current year, though such costs may be reimbursable in future years to the extent of the cumulative limit. As of December 31, 2008, the Company has not exceeded the annual and/or cumulative limitations discussed above.

2008 vs. 2007

The Company had net losses of \$883 thousand and \$1.2 million for the years ended December, 2008 and 2007, respectively. Results for 2008 reflect increases in both total revenues and operating expenses when compared with results for prior year.

Revenues

Total revenues for 2008 increased by \$1.3 million, or 12%, as compared to the prior year. The net growth in total revenues was primarily a result of a \$1.7 million increase in operating lease revenue offset, in part, by a \$177 thousand decrease in interest income on notes receivable, a \$139 thousand decline in net gains on sales of lease assets and early terminations of notes receivable and a \$55 thousand reduction in interest income on the Company's cash deposits.

The period over period increase in operating lease revenue was mainly due to the 2008 full year impact of the \$20.8 million asset additions made during 2007.

Gains on sales of lease assets and early terminations of notes receivable declined due to an absence of lease asset sales activity during 2008, when compared to 2007, and a year over year decrease in early terminations of notes, respectively. Interest income received on the notes was reduced largely due to declining notes receivable balances resulting from prepayments and run-off of the portfolio; and interest income on cash deposits decreased due to lower period over period average cash balances and the lower interest rate environment.

Expenses

Total expenses for 2008 increased by \$889 thousand, or 7%, as compared to prior year. The net increase in total expenses was primarily due to increases totaling \$1.5 million, \$326 thousand and \$191 thousand in depreciation expense, provision for credit losses and interest expense, respectively. These increases were partially offset by decreases of \$830 thousand in acquisition expense, a combined \$243 thousand in professional fees and outside services expense and \$32 thousand in other expense.

The increase in depreciation expense was mainly due to the growth in depreciable assets since December 31, 2007. The provision for credit losses increased as the Company recorded a \$496 thousand reserve related to two borrowers that have defaulted on their respective notes. This increase was offset, in part, by approximately \$91 thousand of payments received on previously reserved delinquencies. Interest expense increased mainly due to higher year-to-date 2008 average outstanding debt balances as compared to prior year.

Partially offsetting the aforementioned increases in expenses was a reduction in acquisition expense as a result of the year over year decline in asset acquisition activity as the Fund has approached full investment. In addition, professional fees and outside services decreased primarily due to the elimination of costs associated with the audit and restatement of the Company's prior years' financial statements, which were completed by the third quarter of 2007; and other expense declined primarily due to the absence of an inspection fee related to marine barges that was incurred in 2007, and a year over year decrease in income and franchise taxes.

Recent Accounting Pronouncements

In October 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FAS 157-3, "Determining the Fair Value of a Financial Asset in a Market That Is Not Active" ("FSP No. 157-3"), which clarifies the application of Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157"), when the market for a financial asset is inactive. Specifically, FSP No. 157-3 clarifies how (1) management's internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. The guidance in FSP No. 157-3 is effective immediately and was adopted by the Company on October 1, 2008. The adoption of FSP No. 157-3 did not have a significant effect on the Company's financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"), as an amendment to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 161 requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. The fair value of derivative instruments and their gains and losses will need to be presented in tabular format in order to present a more complete picture of the effects of using derivative instruments. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of adopting this pronouncement.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations" ("SFAS 141R"). SFAS 141R replaces SFAS 141 and establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. This standard is effective for fiscal years beginning after December 15, 2008. The Company does not presently anticipate the adoption of SFAS 141R to significantly impact its financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115" ("SFAS 159"). 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. The Company adopted the provisions of SFAS 159 on January 1, 2008. The adoption of SFAS 159 did not have a significant effect on the Company's financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS 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. The provisions of SFAS 157 were to be effective for fiscal years beginning after November 15, 2007. However, in February 2008, the FASB issued FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP No. 157-2"), which defers the effective date of SFAS 157 as it pertains to fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. On January 1, 2008, the Company adopted the provisions of SFAS 157 except as it applied to its investment in leases, and other nonfinancial assets and nonfinancial liabilities as noted in FSP No. 157-2. The partial adoption of SFAS 157 did not have a significant effect on the Company's financial position, results of operations or cash flows. The Company is in the process of evaluating the impact of the deferred provisions of SFAS 157.

Critical Accounting Policies and Estimates

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 of America ("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 and expected future cash flows used for impairment analysis purposes and for determination of the allowance for doubtful accounts and reserve for credit losses on notes receivable.

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. Maintenance costs associated with the Fund's portfolio of leased assets are expensed as incurred.

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.

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 off and collection experience and the collectability of specifically identified lessees and billed and unbilled receivables. Direct financing leases are written-off 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.

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 off and collection experience and the collectability of 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 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., the costs of employees' activities in connection with successful lease and loan originations) and external broker fees incurred with such originations. The costs are amortized on a lease by lease (or note by note) basis based on actual contract 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 or loan assets, 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.

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 a valuation method using discounted estimated future cash flows) of the assets and its carrying value on the measurement date.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Report of Independent Registered Public Accounting Firm, Financial Statements and Notes to Financial Statements attached hereto at pages 14 through 34.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Members
ATEL Capital Equipment Fund XI, LLC

We have audited the accompanying balance sheets of ATEL Capital Equipment Fund XI, LLC (the "Company") as of December 31, 2008 and 2007, and the related statements of operations, changes in members' capital, and cash flows for the years then ended. These financial statements are the responsibility of the Management of the Company's Managing Member. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ATEL Capital Equipment Fund XI, LLC as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Moss Adams LLP

San Francisco, California
March 26, 2009

ATEL CAPITAL EQUIPMENT FUND XI, LLC

BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

(In Thousands)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 904	\$ 1,662
Accounts receivable, net of allowance for doubtful accounts of \$178 as of December 31, 2008 and \$125 as of December 31, 2007	254	418
Notes receivable, net of unearned interest income of \$896 and allowance for credit losses of \$479 as of December 31, 2008 and net of unearned interest income of \$1,432 as of December 31, 2007	3,994	7,336
Investments in securities	421	497
Investments in equipment and leases, net of accumulated depreciation of \$23,524 as of December 31, 2008 and \$13,547 as of December 31, 2007	39,490	49,106
Due from affiliate	-	146
Other assets	36	32
Total assets	<u><u>\$ 45,099</u></u>	<u><u>\$ 59,197</u></u>
LIABILITIES AND MEMBERS' CAPITAL		
Accounts payable and accrued liabilities:		
Managing Member	\$ 121	\$ 381
Accrued distributions to Other Members	554	554
Other	326	668
Non-recourse debt	17,389	20,579
Acquisition facility obligation	500	4,000
Unearned operating lease income	695	1,388
Total liabilities	<u><u>19,585</u></u>	<u><u>27,570</u></u>
Commitments and contingencies		
Members' capital:		
Managing Member	-	-
Other Members	25,514	31,627
Total Members' capital	<u><u>25,514</u></u>	<u><u>31,627</u></u>
Total liabilities and Members' capital	<u><u>\$ 45,099</u></u>	<u><u>\$ 59,197</u></u>

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND XI, LLC

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands Except for Units and Per Unit Data)

	2008	2007
Revenues:		
Operating lease income	\$ 11,820	\$ 10,074
Direct financing leases	3	3
Notes receivable interest income	596	773
Gain on sale of assets and early termination of notes	76	215
Gain on sale of securities	54	93
Interest income	24	79
Other	42	56
Total revenues	12,615	11,293
Expenses:		
Depreciation of operating lease assets	9,976	8,510
Asset management fees to Managing Member	648	629
Acquisition expense	48	878
Cost reimbursements to Managing Member	498	523
Provision for losses and doubtful accounts	405	79
Amortization of initial direct costs	205	188
Interest expense	1,298	1,107
Professional fees	265	416
Outside services	55	147
Other	108	140
Total operating expenses	13,506	12,617
Other income, net	8	100
Net loss	\$ (883)	\$ (1,224)
Net income (loss):		
Managing Member	\$ 392	\$ 426
Other Members	(1,275)	(1,650)
	<u>\$ (883)</u>	<u>\$ (1,224)</u>
Net loss per Limited Liability Company Unit (Other Members)	\$ (0.24)	\$ (0.32)
Weighted average number of Units outstanding	5,230,507	5,231,645

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND XI, LLC
STATEMENT OF CHANGES IN MEMBERS' CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands Except for Units and Per Unit Data)

	<u>Other Members</u>		<u>Managing Member</u>	<u>Total</u>
	<u>Units</u>	<u>Amount</u>		
Balance December 31, 2006	5,232,607	\$ 38,135	\$ -	\$ 38,135
Repurchases of Limited Liability Company Units	(600)	(5)	-	(5)
Rescissions of capital contributions	(1,500)	(15)	-	(15)
Distributions to Other Members (\$0.93 per Unit)	-	(4,838)	-	(4,838)
Distributions to Managing Member	-	-	(426)	(426)
Net (loss) income	-	(1,650)	426	(1,224)
Balance December 31, 2007	5,230,507	31,627	-	31,627
Distributions to Other Members (\$0.92 per Unit)	-	(4,838)	-	(4,838)
Distributions to Managing Member	-	-	(392)	(392)
Net (loss) income	-	(1,275)	392	(883)
Balance December 31, 2008	<u>5,230,507</u>	<u>\$ 25,514</u>	<u>\$ -</u>	<u>\$ 25,514</u>

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND XI, LLC
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands)

	<u>2008</u>	<u>2007</u>
Operating activities:		
Net loss	\$ (883)	\$ (1,224)
Adjustment to reconcile net loss to cash provided by operating activities:		
Gain on sales of assets and early termination of notes	(76)	(215)
Depreciation of operating lease assets	9,976	8,510
Amortization of initial direct costs	205	188
Amortization of unearned income on direct finance leases	(3)	(3)
Amortization of unearned income on notes receivable	(596)	(773)
Provision for losses and doubtful accounts	(90)	79
Provision for losses on notes receivable	495	(143)
Gain on sale of securities	(54)	(93)
Changes in operating assets and liabilities:		
Accounts receivable	254	32
Prepaid expenses and other assets	(4)	(31)
Accounts payable, Managing Member	(260)	193
Accounts payable, other	(342)	(1,043)
Accounts payable, affiliates	146	(146)
Unearned operating lease income	(693)	275
Net cash provided by operating activities	<u>8,075</u>	<u>5,606</u>
Investing activities:		
Purchases of equipment on operating leases	(543)	(20,802)
Purchase of securities	(76)	(342)
Proceeds from early termination of notes receivable	1,223	2,303
Proceeds from sales of lease assets	-	497
Payments of initial direct costs	(12)	(201)
Payments received on direct finance leases	10	9
Note receivable advances	(625)	(3,725)
Proceeds from sale of securities	206	93
Payments received on notes receivable	2,904	3,527
Net cash provided by (used in) investing activities	<u>3,087</u>	<u>(18,641)</u>
Financing activities:		
Borrowings under non-recourse debt	2,738	23,121
Repayments under non-recourse debt	(5,928)	(2,542)
Borrowings under acquisition facility	3,000	13,500
Repayments under acquisition facility	(6,500)	(19,000)
Distributions to Other Members	(4,838)	(4,838)
Distributions to Managing Member	(392)	(426)
Rescissions and repurchases of capital contributions	-	(20)
Net cash (used in) provided by financing activities	<u>(11,920)</u>	<u>9,795</u>
Net decrease in cash and cash equivalents	(758)	(3,240)
Cash and cash equivalents at beginning of year	<u>1,662</u>	<u>4,902</u>
Cash and cash equivalents at end of year	<u>\$ 904</u>	<u>\$ 1,662</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	<u>\$ 1,335</u>	<u>\$ 988</u>
Cash paid during the year for taxes	<u>\$ 35</u>	<u>\$ 33</u>
Schedule of non-cash transactions:		
Distributions payable to Other Members at year-end	<u>\$ 554</u>	<u>\$ 554</u>

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. Also, from time to time, the Company may purchase securities of its borrowers or receive warrants to purchase securities in connection with its lending arrangements. 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 assets 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 \$1.2 million) 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 (acquiring equipment to engage in equipment leasing, lending and sales activities). As of July 13, 2005, the Company had received subscriptions for 958,274 Units (\$9.6 million), thus exceeding the \$7.5 million 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. Net contributions of \$52.3 million were received through December 31, 2008, consisting of approximately \$52.8 million in gross contributions from Other Members purchasing Units under the public offering less rescissions and repurchases of \$532 thousand. As of December 31, 2008, 5,230,507 Units were issued and outstanding.

The Company’s principal objectives are to invest in a diversified portfolio of equipment that (i) preserves, protects and returns the Company’s invested capital; (ii) generates regular distributions to the Members of cash from operations and cash from sales or refinancing, with any balance remaining after certain minimum distributions to be used to purchase additional equipment during the reinvestment period (“Reinvestment Period”) (defined as six full years following the year the offering was terminated), which ends December 31, 2012, and (iii) provides 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). The amount of such costs to be borne by the Company is limited by certain provisions of the Company’s Operating Agreement. The Company will pay AFS and affiliates of AFS substantial fees which may result in a conflict of interest. The Company will pay substantial fees to AFS and its affiliates before distributions are paid to investors even if the Company does not produce profits. Therefore, the financial position of the Company could change significantly.

The Company is in its acquisition phase and is making distributions on a monthly and quarterly basis. Periodic distributions commenced in June 2005.

2. Summary of significant accounting policies:

Basis of presentation:

The accompanying balance sheets as of December 31, 2008 and 2007, and the related statements of operations and changes in members’ capital and cash flows for the years then ended, have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on equity or net income.

Footnote and tabular amounts are presented in thousands, except as to Units and per Unit data.

Use of estimates:

The preparation of financial statements in conformity with 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

ATEL CAPITAL EQUIPMENT FUND XI, LLC

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

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 for determination of the allowance for doubtful accounts and reserve for credit losses on notes receivable.

Cash and cash equivalents:

Cash and cash equivalents include cash in banks and cash equivalent investments such as U.S. Treasury instruments with original and/or purchased maturities of ninety days or less.

Accounts receivable:

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

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 the majority of its cash deposits and temporary cash investments in U.S. Treasury denominated instruments with the remainder placed in financial institutions where the principal is 100% guaranteed under the Troubled Asset Relief Program Act of 2008 ("TARP"), so as to meet ongoing working capital requirements. The concentration of such deposits and temporary cash investments is not deemed to create a significant risk to the Company. 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 Note 3 for a description of lessees and financial borrowers by industry as of December 31, 2008 and 2007.

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. Maintenance costs associated with the Fund's portfolio of leased assets are expensed upon receipt of invoice.

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.

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 off and collection experience and the collectability of specifically identified lessees and billed and unbilled receivables. Direct financing leases are charged-off to the allowance as they are deemed uncollectible.

ATEL CAPITAL EQUIPMENT FUND XI, LLC

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

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.

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 off and collection experience and the collectability of 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 creditworthiness 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 \$4.0 million and \$7.3 million at December 31, 2008 and 2007, respectively.

Initial direct costs:

The Company capitalizes initial direct costs ("IDC") associated with the origination and funding of lease assets and investments in notes receivable as defined in Statement of Financial Accounting Standards ("SFAS") No. 91, "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., the costs of employees' activities in connection with successful lease and loan originations) and external broker fees incurred with such originations. The costs are amortized on a lease by lease (or note by note) basis based on actual contract 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 or loan assets, 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.

ATEL CAPITAL EQUIPMENT FUND XI, LLC

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

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 a valuation method using 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 principal decision makers are the Managing Member's Chief Executive Officer and its Chief Financial Officer and Chief Operating 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 principal decision makers do not review information based on any operating segment other than the equipment leasing transaction portfolio; c) the Company does not maintain discrete financial information on any specific segment other than its equipment financing operations; d) the Company has not chosen to organize its business around different products and services other than equipment lease financing; and e) the Company has not chosen to organize its business around geographic areas.

The primary geographic regions in which the Company seeks leasing opportunities are North America and Europe. The table below summarizes geographic information relating to the sources, by nation, of the Company's total revenues for the years ended December 31, 2008 and 2007 and long-lived assets as of December 31, 2008 and 2007 (in thousands):

	For the year ended December 31,			
	2008	% of Total	2007	% of Total
Revenue				
United States	\$ 11,632	92%	\$ 10,310	91%
United Kingdom	983	8%	983	9%
Total International	983	8%	983	9%
Total	\$ 12,615	100%	\$ 11,293	100%

	As of December 31,			
	2008	% of Total	2007	% of Total
Long-lived assets				
United States	\$ 37,074	94%	\$ 45,786	93%
United Kingdom	2,416	6%	3,320	7%
Total International	2,416	6%	3,320	7%
Total	\$ 39,490	100%	\$ 49,106	100%

ATEL CAPITAL EQUIPMENT FUND XI, LLC

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

Investment in securities:

Purchased securities

Purchased securities are generally not registered for public sale and are carried at cost. Such securities are adjusted to fair value if the fair value is less than the carrying value and such impairment is deemed by the Managing Member to be other than temporary. Factors considered by the Managing Member in determining fair value include, but are not limited to, available financial information, the issuer's ability to meet its current obligations and indications of the issuer's subsequent ability to raise capital. Management has concluded that there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the instruments and that it is not practicable to estimate the fair value of the investment because of its illiquidity. Accordingly, such investment is stated at cost. See note 13 for further discussion.

Warrants

Warrants owned by the Company are not registered for public sale, but are considered derivatives and are carried at an estimated fair value on the balance sheet at the end of the period, as determined by the Managing Member. At December 31, 2008 and 2007, the Managing Member estimated the fair value of the warrants to be nominal in amount.

Foreign currency transactions:

Foreign currency transaction gains and losses are reported in the results of operations as "other income" or "other loss" 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 risks to date have not been significant. The Company recognized net foreign currency gains of \$8 thousand and \$100 thousand for the years ended December 31, 2008 and 2007, respectively. Such net foreign currency gains are reflected as other income, net.

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, 2008 and 2007, the current provision for state income taxes was approximately \$24 thousand and \$30 thousand, respectively.

The tax bases of the Company's net assets and liabilities vary from the amounts presented in these financial statements at December 31, 2008 and 2007 as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Financial statement basis of net assets	\$ 25,514	\$ 31,627
Tax basis of net assets (unaudited)	23,274	31,286
Difference	<u>\$ 2,240</u>	<u>\$ 341</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.

